Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1
00-124 Warsaw, Poland

+48 (0) 22 557 70 00
+48 (0) 22 557 70 01
warszawa@pl.ey.com
www.ey.com/pl

AUDITOR'S REPORT

For the General Meeting and the Supervisory Board of Grupa Azoty S.A.

Auditor's report on the full-year consolidated financial statements

Opinion

We have audited the full-year consolidated financial statements of the Grupa Azoty Group (the 'Group'), whose parent is Grupa Azoty S.A. (the 'Parent') with its registered office at ul. Kwiatkowskiego 8, Tarnów, Poland, comprising the consolidated statement of profit or loss and other comprehensive income for the period from January 1st 2019 to December 31st 2019, the consolidated statement of financial position as at December 31st 2019, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from January 1st 2019 to December 31st 2019, and supplementary information to the consolidated financial statements, including a description of the accounting policies and notes to the consolidated financial statements (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the Group's consolidated assets and financial position as at December 31st 2019, as well as its consolidated financial performance and consolidated cash flows for the period January 1st 2019 to December 31st 2019, in accordance with the applicable International Financial Reporting Standards as endorsed by the European Union and the adopted accounting policies;

- comply with the form and content requirements laid down in the laws and regulations applicable to the Group and the Parent's Articles of Association.

This opinion is consistent with the additional report for the Audit Committee, which we issued on April 7th 2020.

Basis

We conducted our audit in accordance with the International Standards on Auditing adopted as Polish Financial Auditing Standards by the National Council of Statutory Auditors (Krajowa Rada Biegłych Rewidentów) and in accordance with the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (the 'Act on Statutory Auditors') and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'EU Regulation'). Our responsibility under these standards is further described in the *'Auditor's responsibility for audit of the consolidated financial statements'* section of our report.

We are independent of the Group Companies in accordance with the Code of Ethics for Professional Accountants of the International Federation of Accountants (the 'IFAC Code'), adopted by resolutions of the National Council of Statutory Auditors and with other ethical requirements applicable to audits of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. During the audit, the lead auditor and the audit firm were independent of the Group Companies in accordance with the independence criteria set out in the Act on Statutory Auditors and in the EU Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those which, according to our professional judgement, were the most significant during our audit of the consolidated financial statements for the relevant reporting period. They cover the most significant assessed risks of material misstatement, including material misstatement due to fraud. We addressed those matters in the context of our audit of the consolidated financial statements as a whole and when formulating our opinion, and we also summarised our response to those risks. Where we considered it relevant, we included key observations arising with respect to the particular risks.We do not express a separate opinion on those matters.

Key audit matter	How we addressed the matter in our audit
Accounting for the acquisition of Compo Expert Holding GmbH *Why this is a key audit matter* On November 26th 2018, the Company acquired 100% of shares in Compo Expert Holding GmbH (formerly Goat TopCo GmbH) and its subsidiaries (the 'Compo Expert Group') for PLN 974m. In accordance with IFRS 3 *Business Combinations*, in the consolidated financial statements for the year ended December 31st 2019 the Group finally accounted for the acquisition of the Compo Expert Group and recognised goodwill of PLN 278m. The acquisition was identified as a key audit matter in the audit of the consolidated financial statements of the Grupa Azoty Group because of: (i) materiality of the Management Board's estimates when accounting for the acquisition; (ii) complexity of accounting for the Compo Expert Group acquisition; (iii) complexity of the adjustments intended to ensure that the Compo Expert Group's accounting policies are uniform and consistent with the policies applied by the Group; (iv) significant value of the goodwill recognised in respect of the acquisition. The Management Board's estimates and judgements related to the final accounting for the acquisition of the subsidiary covered identification and fair value measurement of the acquired assets, including assets not previously recognised in the financial statements of the Compo Expert Group, such as trademarks, customer relationships and technologies, and fair value measurement of the acquired property, plant and equipment, including the assessment of its useful life. *Reference to disclosure in the financial statements* The Group's disclosures regarding the final accounting for the acquisition of the subsidiary are contained in Note 1.2.1 "Accounting for COMPO EXPERT Holding GmbH acquisition" to the consolidated financial statements of the Group for the year ended December 31st 2019.	*Audit approach* Our audit procedures in relation to this key audit matter included: • obtaining an understanding of the transaction and its underlying rationale through discussions with the Management Board and by reading the share purchase agreement; • reviewing the share purchase agreement to identify any deferred or contingent consideration provisions, and assessing whether the fair value of the consideration determined by the Group reflected the contractual provisions; • assessment of the completeness of identification of the acquired assets and assumed liabilities, including intangible assets, such as trademarks, customer relationships and technologies, and analysis (performed with the support of our valuation experts) of the fair value measurement of these items and the acquired property, plant and equipment as at the date of the Company's acquiring control of the subsidiary; • assessment of the competencies, skills and objectivity of the third-party expert engaged by the Company's Management Board to support the measurement of the acquired net assets; • assessment of the correctness of goodwill measurement; • analysis of adjustments intended to ensure that the Compo Expert Group implements uniform accounting policies, consistent with the policies applied by the Group, including adjustments related to the application of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*; • assessment of the adequacy of disclosures concerning the acquisition of the Compo Expert Group, in the light of IFRS 3 *Business Combinations*, in the Group's consolidated financial statements.

Impairment of intangible assets, goodwill and property, plant and equipment, including property, plant and equipment under construction, related to the Polimery Police Project	
Why this is a key audit matter	*Audit approach*
In the consolidated financial statements for the year ended December 31st 2019, the Group recognised: • intangible assets of PLN 985m, including those with indefinite useful lives of PLN 269m, • goodwill of PLN 309m, • property, plant and equipment of PLN 8.1bn, representing approximately 61% of total assets. In accordance with IAS 36 *Impairment of Assets*, the Group tests goodwill and intangible assets with indefinite useful lives for impairment annually, while other intangible assets subject to amortisation and property, plant and equipment are tested only if an indication of impairment has been identified. The assessment of potential impairment is based on estimates concerning the planned future use of existing assets and is part of the Group management's professional judgement. As indications of impairment of some of those assets arising from market conditions were identified as at December 31st 2019, the Group performed impairment tests and estimated the recoverable amount of the relevant cash-generating units. Impairment tests largely depend on the Management Board's estimates, including the forecast revenue and expenses, planned capital expenditure, weighted average cost of capital, and the marginal growth rate, Which are largely forward-looking and therefore subject to a significant risk of change due to changing market conditions. Given the embedded uncertainty as to the future realisation of material assumptions and the materiality of those assets, we considered the "Analysis of impairment of intangible assets, goodwill and property, plant and equipment, including property, plant and equipment under construction, related to the Polimery Police Project" as a key audit matter. *Reference to disclosure in the financial statements*	Our audit procedures in relation to this key audit matter included: • identification, understanding and assessment of the impairment testing process, including internal controls implemented by the Group; • assessment of the identification of cash-generating units, allocation of goodwill to individual cash-generating units and analysis of impairment indicators by the Group; • assessment of the assumed level of weighted average cost of capital and the applied growth rate, with our valuation experts' support; • assessment of the underlying financial forecasts and macroeconomic assumptions by comparing key assumptions against the previously reported revenue streams, costs, margins and cash flows, while accounting for foreign-exchange rate and foreign-currency cash flow projections; • verification of the mathematical correctness of the DCF models and reconciliation of source data with the operational budgets adopted by the management of Group companies, • discussion with the Management Board of the Parent and Management Board of Grupa Azoty Zakłady Chemiczne Police S.A. ('ZA Police') of the current and target results, in particular the financial model of Grupa Azoty Polyolefins S.A. used by the Management Board of ZA Police as an estimate of the recoverable amount of assets involved in the project for impairment testing purposes, • discussion with the Management Board of the Parent and Management Board of ZA Police of key assumptions adopted in the financial model of Grupa Azoty Polyolefins S.A., including assumptions concerning the timetable and ability to raise financing for the Polimery Project; as well as receipt of statements on their validity and completeness, • receipt and discussion with the Management Board of the Parent and Management Board of ZA Police of an external adviser's report (held by ZA Police) concerning verification of selected methodology aspects of the Grupa Azoty Polyolefins S.A. financial model,

For the Group's disclosures concerning the impairment tests performed, see: • Note 10 "Property, plant and equipment", • Note 13 "Intangible assets" to the consolidated financial statements of the Group for the year ended December 31st 2019.	• assessment of the adequacy of disclosures regarding the impairment tests, including assessment of the sensitivity analysis in view of the requirements of IAS 36 *Impairment of Assets* and IAS 1 *Presentation of Financial Statements*, in the Group's consolidated statements.
Measurement and assessment of the recoverable amounts of deferred tax assets *Why this is a key audit matter* In the consolidated financial statements for the year ended December 31st 2019, the Group recognised deferred tax assets of PLN 490m, including unused state aid in the form of a PLN 28m exemption from corporate income tax in respect of business activities conducted in a Special Economic Zone. As at each reporting date, the Group prepares projections of the Group companies' taxable income and assesses the recoverability of deferred tax assets. This requires numerous estimates and professional judgement to be made by the Group's management. Such estimates are largely forward-looking and are subject to a risk of change due to changing market conditions. Given uncertainty inherent in the key assumptions and materiality of the deferred tax assets, we consider the measurement of the assets and assessment of their recoverability a key audit matter. *Reference to disclosure in the financial statements* For the measurements, estimates and assumptions disclosed by the Group with respect to the recoverable amounts of deferred tax assets, see Note 7.4 "Deferred tax assets and liabilities" to the consolidated financial statements of the Group for the year ended December 31st 2019.	*Audit approach* Our audit procedures in relation to this key audit matter included: • evaluation of the accounting policies and procedures, including controls, applied in the measurement and recognition of deferred tax assets, • assessment of key assumptions and estimates made by the Group companies with respect to projected sales volumes and profit margins, as well as with respect to temporary and permanent differences on the basis of which the forecast accounting result is adjusted to taxable income, • assessment of key assumptions underlying the projections, including their verification against historical data and comparison of short-term assumptions against budgets adopted by the management of Group companies, • analysis and assessment of the calculations of discounted eligible expenses incurred by the reporting date, taking into account the levels of state aid received, • assessment whether the disclosures made in the Group's consolidated financial statements with regard to the deferred tax assets are adequate.

Responsibility of the Management Board and Supervisory Board of the Parent for the consolidated financial statements

The Management Board of the Parent is responsible for the preparation of consolidated financial statements which give a true and fair view of the Group's consolidated assets, financial position and financial performance in accordance with the International Financial Reporting Standards as endorsed by the European Union, the adopted accounting policies, the laws applicable to the Group and the Articles of Association of the Parent, as well as for the internal control that the Management Board of the Parent deems necessary to enable the preparation of consolidated financial statements that are free of any material misstatement, whether due to fraud or error.

When preparing consolidated financial statements, the Management Board of the Parent is responsible for assessing the ability of the Group (including of the Parent and other material Group entities) to continue as going concerns, for disclosing, if applicable, any issues pertaining to their continuation as going concerns, and for adoption of the going concern basis of accounting, except where the Management Board of the Parent intends either to liquidate the Group (the Parent or other material Group entities) or to discontinue its business, or if there is no viable alternative to such liquidation or discontinuation.

The Management Board of the Parent and members of its Supervisory Board are also required to ensure that the consolidated financial statements comply with the requirements set forth in the Accounting Act of September 29th 1994 (the 'Accounting Act'). Members of the Parent's Supervisory Board are responsible for supervising the financial reporting process.

Auditor's responsibility for audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Polish Financial Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

According to International Standard of Auditing 320.5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the auditor's opinion. Accordingly, all opinions and statements contained in the audit report are made taking into account the qualitative and quantitative materiality levels determined in accordance with the auditing standards and the auditor's professional judgement.

The scope of the audit does not include assurance as to the future viability of the audited Group or on the efficiency or effectiveness with which the Parent's Management Board has conducted or will conduct the affairs of the Group.

In auditing financial statements in accordance with the Polish Financial Auditing Standards, we apply professional judgement and maintain professional scepticism, as well as:

- identify and assess risks of material misstatement of the consolidated financial statements, whether due to fraud or error, plan and perform audit procedures adequate to the identified risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control,

- obtain understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,

- evaluate the appropriateness of the accounting policies applied and the reasonability of the accounting estimates and related disclosures made by the Parent's Management Board,

- draw a conclusion as to the appropriateness of application of the going concern basis of accounting by the Parent's Management Board and, based on the audit evidence obtained, a conclusion as to whether any material uncertainty exists related to any events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that such material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the consolidated financial statements, including all disclosures, and assess whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for directing, supervising and carrying out the Group's audit, and we remain solely responsible for our audit opinion.

We provide the Parent's Audit Committee with information on, among other things, the planned scope and timing of the audit, as well as on significant audit findings, including findings of any significant deficiencies in internal control that we have identified during the audit.

We also provide the Parent's Audit Committee with a statement that we have complied with the relevant ethical requirements, including those relating to independence, and that we will communicate to the Audit Committee all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Parent's Audit Committee, we determined those matters that were of most significance in the audit of the consolidated financial statements for the relevant reporting period and were therefore considered key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report on the Group's operations

Other information includes the Directors' Report on the Group's operations in the period from January 1st to December 31st 2019 which forms a part of the Directors' Report on the Operations of Grupa Azoty S.A. and the Grupa Azoty Group for the 12 months ended December 31st 2019 (the 'Directors' Report'), together with the statement of compliance with corporate governance standards, included in that report as its separate section (jointly 'Other Information').

Responsibility of the Management and Supervisory Boards of the Parent

The Management Board of the Parent is responsible for preparing Other Information in accordance with the law.

The Management Board of the Parent and members of its Supervisory Board are also required to ensure that the Directors' Report on the Group's operations and its specific sections comply with the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the audited consolidated financial statements does not cover Other Information. In connection with our audit of the consolidated financial statements, it is our responsibility to read Other Information and consider whether it is not materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of Other Information, we are required to report that fact. In accordance with the Act on Statutory Auditors, our responsibility is also to issue an opinion on whether the Directors' Report on the Group's operations was prepared in accordance with applicable laws and whether it is consistent with the information included in the consolidated financial statements.

In addition, we are required to express an opinion on whether the Parent has included the required information in the statement of compliance with corporate governance standards.

Opinion on the Directors' Report on the Group's operations

Based on the work we have performed as part of our audit, we believe that the Directors' Report on the Group's operations:

- was prepared in accordance with Art. 49 of the Accounting Act and Par. 71 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (the 'Regulation on Current Information'),
- contains information consistent with information disclosed in the consolidated financial statements.

We further represent that, based on our knowledge of the Group and its environment obtained during the audit, we did not identify any material misstatements in the Directors' Report.

Opinion on the statement of compliance with corporate governance standards

In our opinion, in the statement of compliance with corporate governance standards, the Group included the information specified in Par. 70.6.5 of the Regulation on Current Information.

Furthermore, in our opinion, the information specified in Par. 70.6.5.c–f, h and i of the Regulation, contained in the statement of compliance with corporate governance standards, complies with the applicable regulations and is consistent with the information contained in the financial statements.

Non-financial statement

In accordance with the requirements of the Act on Statutory Auditors, we state that in the Directors' Report on the Group's operations the Parent included information on the preparation of a separate non-financial statement, referred to in Art. 55.2c of the Accounting Act, and that the Parent did prepare such separate statement.

We did not perform any assurance work regarding the separate non-financial statement and we do not give any assurance about it.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we hereby represent that the non-audit services that we have provided to the Group are compliant with the applicable laws and regulations in Poland and we have not provided any non-audit services that are prohibited under Article 5(1) of the EU Regulation or Art. 136 of the Act on Statutory Auditors. The non-audit services that we provided to the Group in the audited reporting period are specified in the Directors' Report.

Appointment of audit firm

We were first appointed to audit the consolidated financial statements of the Group pursuant to the Parent Supervisory Board's resolution of March 28th 2017. We have audited the Group's consolidated financial statements starting from the financial year ended December 31st 2017, i.e. for three consecutive years.

Warsaw, April 7th 2020

Lead Auditor	Partner
Piotr Chęciek Auditor registered under No. 13253	Leszek Lerch

acting on behalf of:
Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.

Rondo ONZ 1, 00-124 Warsaw, Poland
entered in the register of audit firms under No. 130