ZAKŁADY AZOTOWE
W TARNOWIE-MOŚCICACH S.A.

Management report on the operations of
Zakłady Azotowe w Tarnowie-Mościcach S.A.
for the 12 months ended 31 December 2011
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1. KEY INFORMATION

1.1. Company organisation

Name: Zakłady Azotowe w Tarnowie-Mościcach Spółka Akcyjna
Trading name: Azoty Tarnów
Registered office: 33 – 101 Tarnów, ul. Eugeniusza Kwiatkowskiego 8
Duration: Indefinite

The Company was entered into the register of companies of the National Court Register (entry no. KRS 0000075450) on 28 December 2001 pursuant to a ruling of the District Court for Kraków-Śródmieście in Krakow, XII Commercial Division of the National Court Register, of 28 December 2001.

The objectives adopted in the 2012 plan are in line with the 2007-2015 development strategy and provide the Company continuous growth capacity.

During 2011 the Company’s approved product and market strategy and its core business, presented below, did not change in any significant aspect and their continuation is anticipated next year. Currently, the most significant products supplied by the Company to the Polish and foreign markets include polyamide 6, nitrate fertilisers and polyoxymethylene (POM).

The Company’s status as the largest manufacturer, employer, investor and taxpayer means that it plays a significant role in the material and socioeconomic development of the entire region. In connection with this the Company is viewed by the local community not just as an industrial facility but as a partner in solving a myriad of social problems.

Field of operations and main products

The objects of Zakłady Azotowe w Tarnowie-Mościcach S.A. are:

1. Manufacture and trade in the following product groups:
   • caprolactam (an intermediate for the manufacture of polyamide 6, with ammonium sulphate produced as a by-product), sold in the following forms:
     • liquid
     • crystalline
   • engineering plastics:
     • polyamide 6
     • polyoxymethylene
     • modified plastics
   • mineral fertilisers
     • calcium ammonium nitrate
     • ammonium nitrate
     • saletrosan®
     • ammonium sulphate
2. Generation, transmission and distribution of electricity
3. Production and distribution of heat
4. Drawing and treatment of water
1.2. Description of changes in Company structure

On 12 August 2011 an amendment to the Company’s articles of association was registered concerning an increase in issued share capital within authorised share capital (specified more precisely through the Management Board’s declaration of 1 August 2011) and the increase in the Company’s share capital from PLN 195 582 105 to PLN 320 577 220 through issue of 24 999 023 ordinary series C bearer shares of a nominal value of PLN 5 each was registered. Registration of series C shares in the securities deposit took place on 30 August 2011.

On 13 January 2012 an Extraordinary General Meeting of Shareholders of Zakłady Azotowe w Tarnowie-Mościcach S.A. took place. Shareholders decided to introduce amendments to the Company’s Articles of Association. The resolutions voted through concern amendment to provisions specifying the number of Management Board members. The articles of association had previously provided for the possibility to appoint between 2 and 5 persons to the Management Board. The new resolutions create the option for between 1 and 6 members to be appointed to the Management Board. At the same time, the changes made to the articles of association permit the Company to be represented by a single person.

1.3. Information on the Company’s organisational and equity links

Shareholding structure as at 31 December 2011 – presentation of shareholders directly or indirectly holding at least 5% of voting rights at the Company’s General Meeting.

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK</td>
<td>5 384 685</td>
<td>8.4</td>
<td>5 384 685</td>
<td>8.4</td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td>Generali OFE</td>
<td>3 245 554</td>
<td>5.06</td>
<td>3 245 554</td>
<td>5.06</td>
</tr>
<tr>
<td>Other</td>
<td>23 277 763</td>
<td>36.31</td>
<td>23 277 763</td>
<td>36.31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Indication of the holders of all securities carrying special controlling entitlements in relation to the Company*

Pursuant to the provisions of § 16, sec. 2 of the company’s articles of association, the State Treasury of Poland as shareholder is entitled to an individual authorisation to appoint and dismiss one member of the Supervisory Board.

Furthermore, in accordance with the provisions of § 43, sec. 1 point 4 of the Company’s articles of association, the General Meeting summons the Management Board of the Company at the written request of the State Treasury of Poland as shareholder, irrespective of the share in share capital, submitted at least one month before the proposed date of the General Meeting.

§ 45 sec. 4 of the company’s articles of association governing the inclusion by shareholders of specific issues in the agenda of the next General Meeting, it is stated that “a shareholder or shareholders representing at least one tenth of share capital may request the inclusion of specific issues in the agenda of the next General Meeting. This entitlement is also held by the State Treasury of Poland as shareholder, irrespective of its share in share capital.”
Table 1 Azoty Tarnów’s stake in the share capital of subsidiaries as at 31 December 2011

<table>
<thead>
<tr>
<th>Company name</th>
<th>Registered office / address</th>
<th>Share capital</th>
<th>% of shares directly attributable</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATT Polymers GmbH</td>
<td>Forster Straße 72D-03172 Guben Germany</td>
<td>EUR 9 000 000</td>
<td>100.00</td>
</tr>
<tr>
<td>KOLTAR Sp. z o.o.</td>
<td>ul. Kwiatkowskiego 8 33-101 Tarnów</td>
<td>PLN 32 760 000</td>
<td>100.00</td>
</tr>
<tr>
<td>ZAK S.A.</td>
<td>163 ul. Kuźnicka 1 47-220 Kędzierzyn-Koźle</td>
<td>PLN 285 064 300</td>
<td>93.48</td>
</tr>
<tr>
<td>Z.Ch. Police S.A.</td>
<td>72-010 Police ul. Kwiatkowskiego 8 33-101 Tarnów</td>
<td>PLN 750 000 000</td>
<td>66.00</td>
</tr>
<tr>
<td>PKCh Sp. z o.o.</td>
<td>PLN 85 630 550</td>
<td>63.27</td>
<td></td>
</tr>
</tbody>
</table>

At the beginning of 2012 the Company received a letter from ISARIOS Industriekapital AG concerning UNYLON AG’s potential alleged claims against the purchaser of UNYLON Polymers GmbH, headquartered in Guben, currently trading as ATT Polymers GmbH (hereinafter “ATT Polymers”). The letter stated that in August 2011 ISARIOS Industriekapital AG (hereinafter “ISARIOS”) became the owner of unspecified claims due to UNYLON AG against Azoty Tarnów connected with the acquisition of UNYLON Polymers GmbH. Acting on behalf of ISARIOS, Christian Schenstedt indicated that non-specified judicial proceedings are on-going at appeals level concerning the invalidity of a resolution. No specific claims were outlined in these letters, nor were specific demands made of Azoty Tarnów. Also Azoty Tarnów is not and has never been a party to any judicial or arbitration proceedings in which any claims were raised in relation to the Company concerning the ATT Polymers share acquisition transaction. Azoty Tarnów is aware that proceedings are in progress between UNYLON AG shareholders and the company concerning questions raised by some shareholders with regard to the procedural correctness of the general meeting of shareholders of UNYLON AG on 23 December 2009, where consent was expressed to the acquisition of shares in ATT Polymers by Azoty Tarnów. One of the Unlyon AG shareholders is consistently contesting challenges as to the correctness of the resolution of 23 December 2009, and the courts are in agreement with this view, issuing rulings upholding the resolution of 23 December 2009. It should be borne in mind that firstly the consent of the general meeting of shareholders for execution of the transaction was one of the conditions which Azoty Tarnów could waive, which despite the existence of the resolution of 23 December 2009 the Company took the precaution to do, and secondly that the management board of UNYLON AG declared during the ATT Polymers sale that ATT was not UNYLON AG’s only asset, and thus legally the consent of the general meeting is not a necessary (legal) condition for the validity of the transaction. Consultation with lawyers has also confirmed that the contract for acquisition of shares in ATT Polymers is valid and that there are no current circumstances which could impact on its validity. The invalidation of the contract through questioning the resolution of 23 December 2009 is thus exclusively theoretical in nature and the associated risk is low.

The Company also holds minority interests in 13 entities.
1.4. Information on branches (facilities) operated by the Company

The Company does not operate non-local branches or facilities.

1.5. Information concerning employment

Table 2 Azoty Tarnów's stake in the share capital of minority interests as at 31 December 2011

<table>
<thead>
<tr>
<th>Company name</th>
<th>% of share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tarnowskie Wodociągi Sp. z o.o.</td>
<td>12.55</td>
</tr>
<tr>
<td>Tarnowski Klaster Przemysłowy S.A.</td>
<td>0.1077</td>
</tr>
<tr>
<td>Tarnowska Agencja Rozwoju Regionalnego S.A.</td>
<td>0.05865</td>
</tr>
<tr>
<td>Franciszko-Polskie Przedsiębiorstwo Instalacji Przemysłowych POLSNIG Sp. z o.o.</td>
<td>2.67</td>
</tr>
<tr>
<td>Centrum Naukowo - Produkcyjne Materiałów Elektronicznych CEMAT'70 S.A.</td>
<td>1.24</td>
</tr>
<tr>
<td>INWESTSTAR S.A.</td>
<td>0.06</td>
</tr>
<tr>
<td>Zakłady Włókien Chemicznych „WISTOM” S.A. w Upadłości</td>
<td>9.83</td>
</tr>
<tr>
<td>Zakłady Tworzyw Sztucznych &quot;PRONIT&quot; S.A. w Upadłości</td>
<td>0.28</td>
</tr>
<tr>
<td>LEN S.A. w Likwidacji</td>
<td>0.289</td>
</tr>
<tr>
<td>Tłocznia Metali PRESSTA S.A. w Upadłości Likwidacyjnej</td>
<td>0.019</td>
</tr>
<tr>
<td>Wytwórnia Silników PZL MIELEC Sp. z o.o. w Upadłości</td>
<td>0.12</td>
</tr>
<tr>
<td>Południowe Zakłady Przemysłu Skórzanego Chelmek S.A. w Upadłości Likwidacyjnej</td>
<td>0.03</td>
</tr>
<tr>
<td>Konsorcjum Rozwoju Eksploatacji Majątku Trwałego EKSPLOSYSTEM Sp. z o.o.</td>
<td>3.36</td>
</tr>
</tbody>
</table>

Table 3 Employment level at Azoty Tarnów

<table>
<thead>
<tr>
<th>Employee group</th>
<th>As at 31 December 2011</th>
<th>As at 31 December 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>1 326</td>
<td>1 363</td>
</tr>
<tr>
<td>white collar employees</td>
<td>735</td>
<td>727</td>
</tr>
<tr>
<td>Total</td>
<td>2 061</td>
<td>2 090</td>
</tr>
</tbody>
</table>

Table 4 Average annual employment level Azoty Tarnów and employment level as at the end of 2011

<table>
<thead>
<tr>
<th>Employee group</th>
<th>Average employment</th>
<th>Employment at year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>1 357</td>
<td>1 326</td>
</tr>
<tr>
<td>white collar employees</td>
<td>734</td>
<td>735</td>
</tr>
<tr>
<td>Total</td>
<td>2 091</td>
<td>2 061</td>
</tr>
</tbody>
</table>

Table 5 Average monthly salary at the Company as at the end of 2011

<table>
<thead>
<tr>
<th>Average monthly salary [PLN]</th>
</tr>
</thead>
<tbody>
<tr>
<td>white collar employees</td>
</tr>
<tr>
<td>blue collar employees</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Table 6 Employee rotation in the period 1 January 2011 to 31 December 2011

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of new workers</td>
<td>43</td>
</tr>
<tr>
<td>Number of workers made redundant</td>
<td>69</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>112</strong></td>
</tr>
</tbody>
</table>

Table 7 Employment level by organisational unit

<table>
<thead>
<tr>
<th>Organisational unit</th>
<th>Employment level as at 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plastics Centre</td>
<td>638</td>
</tr>
<tr>
<td>Fertiliser Centre</td>
<td>418</td>
</tr>
<tr>
<td>Cogeneration Centre</td>
<td>255</td>
</tr>
<tr>
<td>Research and Analysis Centre</td>
<td>196</td>
</tr>
<tr>
<td>Catalyst Production</td>
<td>37</td>
</tr>
<tr>
<td>Other</td>
<td>517</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2 061</strong></td>
</tr>
</tbody>
</table>

Table 8 Employment by education

<table>
<thead>
<tr>
<th>Year</th>
<th>Total employment</th>
<th>Higher</th>
<th>Secondary</th>
<th>Vocational</th>
<th>Basic</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2 061</td>
<td>399</td>
<td>862</td>
<td>676</td>
<td>124</td>
</tr>
<tr>
<td>2010</td>
<td>2 090</td>
<td>364</td>
<td>859</td>
<td>714</td>
<td>153</td>
</tr>
</tbody>
</table>

In comparison to the previous year the number of employees with basic and vocational education decreased. The number of employees with secondary and higher education, however, increased.

Table 9 Employment by length of service

<table>
<thead>
<tr>
<th>Year</th>
<th>up to 5 years</th>
<th>6-10 years</th>
<th>11-20 years</th>
<th>above 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>173 (8.39%)</td>
<td>101 (4.90%)</td>
<td>560 (27.17%)</td>
<td>1 227 (59.54%)</td>
</tr>
<tr>
<td>2010</td>
<td>148 (7.08%)</td>
<td>108 (5.17%)</td>
<td>620 (29.66%)</td>
<td>1 214 (58.09%)</td>
</tr>
</tbody>
</table>

In comparison to the previous year the number of employees with the highest and lowest length of service increased. The 6-10 and 11-20 groups decreased.

**Company HR situation**

Principles relating to salaries and bonuses for Company employees are governed by the collective labour agreement, which entered into force on 24 June 2002. This agreement covers all Azoty Tarnów employees with the exception of Management Board members, the Chief Financial Officer and personnel employed on the basis of management contracts.

A bonus system is in force within the Company. The principles for awarding bonuses in 2011 were specified in Appendix no. 5 to the collective labour agreement and the regulations on award of bonuses. The basis for pay-out of bonuses was the Company generating net profit during quarterly periods. In 2011 a total of PLN 2 351 000 was paid out under bonuses.

In 2011 there was a PLN 40 increase in overtime for work in continual shifts up to PLN 450/month and for double-shift work up to PLN 240/month.
In 2011 basic pay per employee increased by an average of PLN 300.

**Events having an impact on the Company’s HR situation**

- on 12 August 2011 Additional Protocol no. 15 to the Collective Labour Agreement for employees of Azoty Tarnów was executed, amending the basic pay table, the job description table and table of qualification requirements;
- on 28 November 2011 Additional Protocol no. 16 to the Collective Labour Agreement for employees of Azoty Tarnów was executed, amending the regulations for pay-out of annual bonuses;
- on 14 December 2011 an agreement was executed between the employer and trade unions concerning working time in 2012;
- in 2011 cooperation was continued with the Business University relating to education for Company employees on bachelor’s courses in chemical and process engineering.
- Under this project, 21 employees continued bachelor’s studies at the Business University;
- in December an agreement was executed with the Provincial Labour Office in Krakow for the project "Competent Staff - Guaranteed Success", co-financed from the EFS. Total grant: PLN 1 496 000. Project duration: 1 January 2012 - 31 December 2013

**Social situation within the Company**

There were no group redundancies in 2011. The employer did not have any collective disputes with trade unions.
2. COMPANY MANAGEMENT PRINCIPLES
2.1. Azoty Tarnów organisational chart

Source: Own data
2.2. Changes in key Company management principles

- A consolidated text of the Labour Regulations was implemented on 31 March 2011.
- On 11 April 2011 a consolidated text of the Organisational Regulations was introduced, covering the previous regulations and organisational changes (merger of the Caprolactam Centre with the Plastics Centre) and separation of the Catalyst Plant from the Fertiliser Centre with direct subordination to the Company’s Management Board.
- On 1 May 2011 telecommunications infrastructure operations and functions were transferred from Azoty Tarnów to Automatyka Sp. z o.o. These included performance of maintenance works, repair works, diagnostic works and provision of technical services protecting the technical efficiency, continuity of operations and operational reliability of telecom installations and equipment.
- On 6 May 2011 a Credit Risk Management Procedure was implemented at the Company.
- Direct sales of plastics to end customers commenced on 9 May 2011 at the Plastics Centre.
- On 9 June 2011 a document entitled “Zakłady Azotowe w Tarnowie-Mościcach Group Accounting Principles (Policy)” was approved and adopted for use within the Azoty Tarnów Group.
- On 9 June 2011 a document entitled “Zakłady Azotowe w Tarnowie-Mościcach Group Accounting Principles (Policy)” was approved and adopted for use within Azoty Tarnów.
- In order to introduce unified principles for the recording, storage and processing of contract data, a “Central Contract Register” was introduced within the Azoty Tarnów Group on 30 December 2011.

Changes in management principles which occurred at the beginning of the current year:

- On 18 January 2012 the “Principles for Executing Agreements for the Supply of Energy Services and Commodities within the Azoty Tarnów Group” was introduced.
- The “Principles for Corporate Governance in IT” was implemented on 23 January 2012. This provides detailed regulation and describes the role of the IT Steering Committee, the principles for strategic planning in IT, the principles of IT management, the principles of cooperation in implementing application and infrastructure projects and in providing fixed IT services. It also regulates the principles for use of information resources, arrangement of network infrastructure modernisation and IT hardware and software purchasing policy.
- In accordance with the Personal Data Protection Act of 29 August 1997 (Polish Journal of Laws of 2002, no. 101, item 926, consolidated text as amended) and the Ordinance of the Minister of the Interior and Administration of 29 April 2004 on documenting the processing of personal data and the technical and organisational conditions to which IT equipment and systems used for the processing of personal data should correspond (Polish Journal of Laws of 2004, no. 100, item 1024), an "Information Security Policy for the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group" was implemented for use within the Azoty Tarnów Group on 3 February 2012.

2.3. Significant organisational changes

Key organisational changes implemented during 2011 include:

- On 11 November 2011 the IT Management Office, formerly a part of the Management and HR Policy Department, was made directly subordinate to the President of the Management Board - Managing Director. In order to adapt organisational structure to implemented Azoty Tarnów’s restructuring projects, from 1 November 2011 the IT Management was transformed into the Corporate Information Office. The Vice-President of the Management Board with responsibility for financial affairs directly oversees the operations of the Corporate
Information Office.

- As of 1 December 2011 tasks and functions connected with the packaging, loading and storage of fertilisers was transferred from Azoty Tarnów to Jednostka Ratownictwa Chemicznego Sp. z o.o.
- An Internal Audit Office was established on 29 December 2011. The office coordinates and carries out essential activities connected with the implementation and performance of internal audit functions within the Azoty Tarnów Group and provides substantive supervision of the organisational internal audit units currently operating and planned for the future within other Group companies. The Internal Audit Office is directly subordinate to the President of the Management Board - Managing Director.

Organisational changes which occurred at the beginning of the current year:

- On 1 January 2012 a Share Services Centre was set up within the Finance Department, directly subordinate to the Head of Accounting. The centre was formed from the previous Accounting Department and positions from other organisational units within the Finance Department were transferred to it. The tasks and functions previously performed by the Material Index Team, located within the Warehouse Management Department at the Procurement and Logistics Department were transferred to the Shared Services Centre. The Centre's principal task is to maintain accounting records (general ledger and auxiliary accounts) in order to draft financial statements for the Azoty Tarnów Group and its specific companies. The specific tasks of the centre are specified in the Shared Services Centre Regulations.
- On 23 January 2012 the “Principles for Corporate Government in IT” were introduced, as described above in the section “Changes in management principles which occurred at the beginning of the current year”.
- On 1 February 2012 the Corporate Production and Safety Department and Infrastructure Centre were created based on the previous Technical Affairs Department.
- On 1 April 2012 a decision was taken to create the Environmental Research and Analysis Department within the organisational structure of the Research and Analysis Centre, directly subordinate to the Director of the Research and Analysis Centre. The department comprises:
  - a) Technology Development Laboratory, previously part of the Plastics Centre;
  - b) Special Analysis Laboratory, previously part of the Research and Analysis Centre Quality Control Department.

Furthermore, the Energy Chemistry Laboratory has been transferred to the Research and Analysis Centre, having previously been part of the CHP Plant Centre, which will be transferred to the Quality Control Department, together with the Water Laboratory, previously part of the Utility Production and Distribution Department, which is now included within the structure of the Plastics Quality Control Laboratory. Subsequently the Scientific and Technical Information Team, previously included in the Research and Analysis Centre, will be transferred to the Development Department.

- Distribution agreements with distributors operating in the Polish market concerning the sale of natural and modified plastics (POM and PA6) manufactured by Azoty Tarnów were terminated. This sales solution was replaced with great success by direct sales. Direct sales of plastics to end customers commenced on 9 May 2011 at the Plastics Centre. Sales are handled by personnel at the Plastics Centre Sales Office from the storage facility at the former PVC Production Department and from warehouses at the Plastics Centre production units at the Company’s site.
3. INFORMATION ON THE COMPANY’S SHARES AND OTHER SECURITIES AND SIGNIFICANT SHAREHOLDERS

3.1. Total number and nominal value of Company shares, their ownership by the Company’s supervisory and management personnel and such persons’ shares in the Company’s related entities

Number and nominal value of shares as at 12 August 2011:

- 24,000,000 series AA shares with a nominal value of PLN 5 each,
- 15,116,421 series B shares with a nominal value of PLN 5 each.

The total number of shares in the Company amounts to 64,115,444 bearer shares, ISIN code PLZATRM00012.

In connection with an amendment made to the company's articles of association on 12 August 2011 concerning an increase of share capital within authorised capital, an increase in the Company's share capital from PLN 195,582,105 to PLN 320,577,220 through the issue of 24,999,023 ordinary series C bearer shares of a nominal value of PLN 5 each was registered. Registration of series C shares in the securities deposit occurred on 30 August 2011.

Current number and nominal value of shares:

- 24,000,000 series AA shares with a nominal value of PLN 5 each.
- 15,116,421 series B shares with a nominal value of PLN 5 each.
- 24,999,023 series C shares with a nominal value of PLN 5 each.

The total number of shares in the Company amounts to 64,115,444 bearer shares, ISIN code PLZATRM00012.

Azoty Tarnów shares held by the Company’s management and supervisory personnel

**Table 10 Azoty Tarnów shares by the Company’s management personnel**

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of shares / votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak – President of the Management Board, Managing Director</td>
<td>Balance as at 1.1.2011</td>
</tr>
<tr>
<td>Witold Szczypiński – Vice-President of the Management Board, Franciszek Bernat – Member of the Management Board.</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 11 Azoty Tarnów shares by the Company’s supervisory personnel**

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of shares / votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomasz Klikowicz – Member of the Supervisory Board,</td>
<td>Balance as at 1.1.2011</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ownership of Azoty Tarnów shares by management personnel was subject to change.
On 11 August 2011 Management Board Member Witold Szczypiński acquired 249 shares. The shares were acquired under exercise of series C pre-emptive rights. This was disclosed by the Company in current report no. 8 of 23 January 2012.

As a result of the dismissal of the 8th Management Board, as of 20 October 2011, Management Board Member Franciszek Bernat, owner of five shares in the Company, ceased performance of work in a management capacity.

Other management and supervisory personnel at the Company did not hold shares in the Company as at the end of the reporting period, i.e. as at 31 December 2011.

Events after the end of the reporting period

On 18 January 2012 Jerzy Marciniak, President of the Management Board and Managing Director of the Company, acquired 2000 shares in the Company.

Until the publication of this report the ownership of Azoty Tarnów shares by management and supervisory personnel did not change.

3.2. Information on agreements known to the Company which may result in a change in share ownership by existing shareholders and bondholders

On 14 July 2011, the Ministry of the Treasury announced the execution an agreement with DM PKO BP S.A. and IPOPEMA Securities S.A. as managers of the public offering of series C shares in the Company, providing for a 180-day lock-up of shares in the Company from the date on which trading in pre-emptive rights to series C shares commences on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A. – WSE).

The Ministry of the Treasury undertook that, within 180 days from the date on which trading in pre-emptive rights to series C shares commences on the WSE, it will not dispose of the shares held by it without the prior written consent of DM PKO BP and IPOPEMA, including the sale, pledge, execution of sales contracts, grant of options or execution of swap transactions. This obligation does not include disposal of all or some pre-emptive rights to series C shares to which the State Treasury is entitled in connection with possession of shares in the Company.

Furthermore, the State Treasury undertook that during the same period it will not take any steps aimed at or supporting an increase in the share capital of Azoty Tarnów through the issue of new shares or securities which could be exchangeable for shares in Azoty Tarnów; nor will it dispose or permit or authorise the disposal of the shares held by it without the prior written consent of DM PKO BP and IPOPEMA.

In connection with the end of the lock-up period, the State Treasury has expressed interest in continuation of its privatisation programme, specifying the time horizons for disposal of chemical companies as two years.

Indication of any limitations concerning transfer of the ownership of securities in Zakłady Azotowe w Tarnowie-Mościcach S.A. and any limitations concerning the execution of voting rights resulting from shares in the Company:

Limitations concerning transfer of ownership of securities resulted from the provisions of the Act on commercialisation and privatisation (Art. 38, sec. 3). The statutory disposal prohibition period for AA series shares for employees ended on 15 September 2007 and for members of the then-Management Board of the Company (holding a total of 970 series AA shares) on 15 September 2008. In connection with the Act of 18 December 2008 on amendment to the Act on commercialisation and privatisation and the Act on the principles for acquisition of shares from the State Treasury of Poland in the consolidation process of electric utilities (Polish Journal of Laws no. 13, item 70) of 12 February 2010, the process of free access of shares to inheritors of entitled persons ended.
In accordance with § 47, sec. 3 of the articles of association: "As long as the State Treasury of Poland or Nafta Polska S.A. owns shares in the Company constituting at least one fifth of the total votes available in the Company, shareholders' rights to vote shall be limited in such manner that at the General Meeting no one shareholder may exercise more than one fifth of total votes available within the Company on the day on which the General Meeting is convened. Limitation of the right to vote, as referred to in the preceding sentence, shall not concern the State Treasury of Poland and Nafta Polska S.A., or any subsidiaries of the State Treasury of Poland and Nafta Polska S.A. For the purposes of this section, exercise of the right to vote by a subsidiary is recognised as exercise thereof by its Company in the meaning of the Act of 29 July 2005 on Public Offerings and the Terms and Conditions of Admitting Financial Instruments to an Organised System of Trading and on Public Companies (the "Act on Offerings"). The terms Company and subsidiary are also understood respectively as each entity whose votes result from directly or indirectly held shares in the Company subject to accumulation with the votes of another entity or entities on the principles specified in the Act on Offerings in connection with the possession, disposal or acquisition of significant blocks of shares in the Company. A shareholder whose right to vote has been limited shall in all instances retain the right to exercise at least one vote."

3.3. Information on employee share ownership programme control systems

There is no system of controlling employee share ownership programmes within the Company.

3.4. Own shares held by the Company, Group companies and persons acting on behalf thereof

The Company does not hold own shares. This also concerns persons acting on its behalf – there is no information regarding a change in this legal status.

3.5. Use of proceeds from share issues

Up to the date of publishing the separate financial statements for 2011, the Company used funds from the Public Offering, held in fixed-term deposits adapted to the anticipated deadlines for achievement of issue objectives, in the following manner:

- for covering net share issue costs – PLN 15 981 000,
- for financing a part of expenditures under achievement of issue objectives: PLN 846 469 000, including:
  - for investments implemented under "optimisation of the production portfolio and system for selling nitrogen fertilisers" – the full amount described in the issue prospectus – PLN 38 000 000,
  - for investments implemented under "modernisation of the caprolactam plant together with construction of a new hydrogen facility" – PLN 93 525 000,
  - for "Intensification of the Modified Plastics Plant" - PLN 23 525 000
  - for the "Polyamide II Manufacturing Facility" (including the acquisition of ATT Polymers GmbH): – PLN 19 921 000.
  - for the acquisition of a 66% interest in Z.Ch. Police S.A. - PLN 569 250 000,
  - for the acquisition of 40.86% shares in ZAK S.A. from the Ministry of the Treasury - PLN 102 248 000.

In total, for financing expenditures under achievement of issue objectives up to 31 December 2011 the Company used PLN 846 469 000 in funds raised from the Public Offering, including PLN 730 099 000 on expenditures during 2011, of which PLN 19 665 000 from the publication date of the last condensed interim financial statements for Q3 2011.

The use of funds in 2011 served the achievement of issue objectives, i.e. financing the acquisition of a controlling interest in Z.Ch. Police S.A. and the remaining stake in ZAK S.A. held by the
Ministry of Treasury, as well as to complete the achievement of objectives from the previous issue, i.e. "modernisation of the caprolactam plant together with construction of a new hydrogen facility" and Expansion of the Modified Plastics Plant.

Police S.A. – PLN 26 197 000 together with PLN 76 051 000 in funds from the previous issue were used to finance the acquisition of shares in ZAK S.A. These latter funds were saved under the task "Polyamide II Plant" as a result of its alternative completion through the acquisition of 100% of shares in ATT Polymers GmbH.

Objectives from the last share issue were fully completed in 2011 in accordance with the assumptions outlined in the prospectus, and proceeds were used as designated.
Table 12 Expenditures on implementation of issue objectives incurred up to 31 December 2011, financed in full by the date of drawing up this report

<table>
<thead>
<tr>
<th>Task</th>
<th>Expenditures as at 1 July 2008</th>
<th>Bank financing</th>
<th>Own funds, other than share issue</th>
<th>Equity issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product portfolio and nitrate fertiliser sales system optimisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1200 t/d mechanical fertiliser granulation installation</td>
<td>32 092</td>
<td>6 291</td>
<td>2 821</td>
<td>22 980</td>
</tr>
<tr>
<td>Modernisation of the dolomite milling plant</td>
<td>4 199</td>
<td>-</td>
<td>1 229</td>
<td>2 970</td>
</tr>
<tr>
<td>Modernisation of the fertiliser packaging and dispatch station</td>
<td>13 798</td>
<td>-</td>
<td>1 748</td>
<td>12 050</td>
</tr>
<tr>
<td>Total</td>
<td>50 089</td>
<td>6 291</td>
<td>5 798</td>
<td>38 000</td>
</tr>
<tr>
<td>Modernisation of the caprolactam plant together with construction of a new hydrogen facility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modernisation of the air compression system for the Cyclohexane Oxidation Facility in sector K-54</td>
<td>2 419</td>
<td>-</td>
<td>1 240</td>
<td>1 179</td>
</tr>
<tr>
<td>Modernisation of process control in Cyclohexane Department installations</td>
<td>410</td>
<td>-</td>
<td>410</td>
<td>-</td>
</tr>
<tr>
<td>Modernisation of the selective phenol hydrogenation installation in the Palladium catalyst</td>
<td>8 661</td>
<td>-</td>
<td>60</td>
<td>8 601</td>
</tr>
<tr>
<td>Modernisation and Intensification of the Caprolactam Plant to 101 300 t/year</td>
<td>24 982</td>
<td>-</td>
<td>96</td>
<td>24 886</td>
</tr>
<tr>
<td>Construction of the Hydrogen Facility</td>
<td>44 826</td>
<td>17 038</td>
<td>-</td>
<td>27 789</td>
</tr>
<tr>
<td>Modernisation of the cooling system</td>
<td>1 632</td>
<td>0</td>
<td>151</td>
<td>1 480</td>
</tr>
<tr>
<td>Expansion of a switching station for the requirements of the SHA Plant</td>
<td>2 923</td>
<td>-</td>
<td>206</td>
<td>2 717</td>
</tr>
<tr>
<td>Adaptation of the loading station for phenol from cisterns on the loading ramp to TDT requirements</td>
<td>7 094</td>
<td>-</td>
<td>41</td>
<td>7 053</td>
</tr>
<tr>
<td>Adaptation of benzene loading stations to TDT requirements</td>
<td>2 769</td>
<td>-</td>
<td>34</td>
<td>2 735</td>
</tr>
<tr>
<td>Adaptation of C-non and frakol loading equipment to TDT requirements</td>
<td>2 719</td>
<td>-</td>
<td>-</td>
<td>2 719</td>
</tr>
<tr>
<td>Transfer of ammonium sulphate pumps</td>
<td>906</td>
<td>-</td>
<td>-</td>
<td>906</td>
</tr>
<tr>
<td>Upgrade of sulphuric acid plant</td>
<td>5 929</td>
<td>-</td>
<td>-</td>
<td>5 929</td>
</tr>
<tr>
<td>Adaptation of caprolactam loading equipment to TDT requirements</td>
<td>627</td>
<td>-</td>
<td>-</td>
<td>627</td>
</tr>
</tbody>
</table>
Management report on the operations of Zakłady Azotowe w Tarnowie-Mościcach S.A.
(all figures in PLN thousands unless otherwise stated)

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial</th>
<th>Final</th>
<th>Difference</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adaptation of the loading station for liquid sulphur to TDT requirements</td>
<td>1 366</td>
<td>1</td>
<td>-</td>
<td>1 366</td>
</tr>
<tr>
<td>Implementation of a computer control and AKP systems in the ammonium</td>
<td>5 108</td>
<td>-</td>
<td>-</td>
<td>5 108</td>
</tr>
<tr>
<td>sulphate plant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Means of implementing the Beckmann rearrangement process</td>
<td>430</td>
<td>-</td>
<td>-</td>
<td>430</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>112 801</strong></td>
<td><strong>17 038</strong></td>
<td><strong>2 238</strong></td>
<td><strong>93 525</strong></td>
</tr>
<tr>
<td><strong>Expansion of the Modified Plastics Facility</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intensification of the Modified Plastics Plant – phases I+II</td>
<td>23 525</td>
<td>-</td>
<td>-</td>
<td>23 525</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23 525</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
<td><strong>23 525</strong></td>
</tr>
<tr>
<td><strong>Polyamide II Plant</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modernisation of the tarnamid (polycaprolactam) storage facility</td>
<td>3 864</td>
<td>-</td>
<td>-</td>
<td>3 864</td>
</tr>
<tr>
<td>Capital expenditure – acquisition of ATT Polymers GmbH</td>
<td>16 057</td>
<td>-</td>
<td>-</td>
<td>16 057</td>
</tr>
<tr>
<td><strong>Acquisition of a 66% interest in Z.Ch. Police S.A.</strong></td>
<td>569 250</td>
<td>-</td>
<td>-</td>
<td>569 250</td>
</tr>
<tr>
<td><strong>Acquisition of ZAK S.A. shares from the State Treasury</strong></td>
<td>200 090</td>
<td>-</td>
<td>97 842</td>
<td>102 248</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19 921</td>
<td>-</td>
<td>97 842</td>
<td>102 248</td>
</tr>
<tr>
<td><strong>Total investments financed under issue objectives</strong></td>
<td>975 676</td>
<td>23 329</td>
<td>105 878</td>
<td>846 469</td>
</tr>
</tbody>
</table>
3.6. Key data concerning Azoty Tarnów shares

Azoty Tarnów debuted on the WSE on 30 June 2008. Shares in the company (symbol ATT) are listed on the WSE primary market in a continuous trading system and are included in the WiG, mWiG40 (up to 16 December 2011 sWiG80) and WiG-Chemia indices. Azoty Tarnów have also been included in the RESPECT since its creation. The WSE-managed index is CEE’s first equity index representing companies operating in accordance with the principles of corporate social responsibility. After passing a three-stage verification process conducted by auditors from the WSE, SEG and Deloitte, on 31 January 2012 the company received a certificate for the fourth time confirming the presence of Zakłady Azotowe w Tarnowie-Mościcach S.A. in the exclusive company of 23 WSE issuers included in the RESPECT Index.

All other significant information concerning AZOTÓW Tarnów shares including voting right limitations are presented in detail in the "Declaration on application of corporate governance principles" in point 10 below.

Shareholding structure

Table 13 Shareholding structure as at 31 December 2011

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK</td>
<td>5 384 685</td>
<td>8.40</td>
<td>5 384 685</td>
<td>8.40</td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td>Generali OFE</td>
<td>3 245 554</td>
<td>5.06</td>
<td>3 245 554</td>
<td>5.06</td>
</tr>
<tr>
<td>Other</td>
<td>23 277 763</td>
<td>36.31</td>
<td>23 277 763</td>
<td>36.31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Between 31 December 2011 and the publication date of this report, the Company did not receive information on any changes in the ownership of large blocks of shares.

Azoty Tarnów share performance

The Azoty Tarnów share price began 2011 at a level of PLN 33.12, continuing the growth tendency, the symptoms of which were already visible from July 2010. In the first quarter of 2011 the ATT share price exceeded the PLN 40 mark, reaching its historic maximum of PLN 40.41 on 8 March 2011. Until the end of May 2011 the share price fluctuated between PLN 34 and PLN 40, subsequently dropping to the region of PLN 30. Since during the process of issuing series C shares the pre-emptive right date was established for 8 July 2011, 6 July 2011 was the first date on which ATT shares were listed without a pre-emptive right, with share price reflecting the difference resulting from valuation of pre-emptive rights. Pre-emptive rights were listed on the WSE main market until 18 July 2011. The share price subsequently fluctuated at a level of approx. PLN 30,
dropping to its minimum level in 2011 of PLN 23.67 on 10 August, which was also the first date on which rights to shares were listed (these were listed on the WSE until 29 August 2011, while as of 30 August 2011 series C shares were registered with the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A. – KDPW) with code PLZATRM00012 and were admitted to WSE trading). After this date, in August and September the share price increased to a level of almost PLN 33. At the end of the year there was a gradual drop in the share price and a return to a level of approx. PLN 25, while from January 2012 the increasing trend recommenced and in February this returned to a level of above PLN 30. The ATT share price as at the end of 2011 was PLN 27.25.

Investors who bought ATT shares at the issue price of PLN 19.50 in 2008 and who sold them on 30 December 2011 achieved a return on investment of close to 40%. The maximum rate of return in 2011 for shares purchased at the original issue price was 107.2%. Investors who took advantage of the pre-emptive rights due to them in August 2011 and acquired shares during the series C issue had the possibility of achieving a rate of return of 13.1% at the year end.

**Figure 1 Azoty Tarnów share price from the IPO on 30 June 2008 through to 30 December 2011**

Source: Own data

**Dividend policy**

The guiding principle behind the Company's dividend policy is to make payments proportionally to the level of profit generated and the issuer's financial capabilities. In announcing proposals for pay-out of a dividend, the Management Board is guided by the necessity to guarantee that financial ratios, financial standing and equity maintain an appropriate level to ensure the further development of Azoty Tarnów. The Management Board's intention, announced during the series C share issue in 2011, is to recommend to future general meetings that resolutions be adopted on pay-out of dividends with consideration given to the factors outlined below and at a level of up to 40% of the Company's net profit for a given financial year.

The dividend policy will however be amended as required by the Management Board and a decision on this issue will be taken with consideration to a range of factors concerning the Company and Company, including the perspectives for further operations, future profits, cash
requirements, the financial situation, expansion plans and related legal requirements. The articles of association do not contain limitations on dividend pay-outs.

**Recommendations**

**Table 14 Recommendations on Azoty Tarnów shares published during the period from 1 January 2011 until publication of the report**

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Target price (in PLN)</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-02-06</td>
<td>buy</td>
<td>36.80</td>
<td>ING Securities</td>
</tr>
<tr>
<td>2012-02-02</td>
<td>buy</td>
<td>32.00</td>
<td>IPOPEMA</td>
</tr>
<tr>
<td>2011-10-21</td>
<td>hold</td>
<td>34.20</td>
<td>ING Securities</td>
</tr>
<tr>
<td>2011-09-19</td>
<td>accumulate</td>
<td>32.10</td>
<td>Millennium DM</td>
</tr>
<tr>
<td>2011-09-08</td>
<td>buy</td>
<td>43.50</td>
<td>DM IDM SA</td>
</tr>
<tr>
<td>2011-07-12</td>
<td>buy</td>
<td>40.60</td>
<td>DM IDM SA</td>
</tr>
<tr>
<td>2011-05-27</td>
<td>buy</td>
<td>46.30</td>
<td>ING Securities</td>
</tr>
<tr>
<td>2011-01-25</td>
<td>hold</td>
<td>35.80</td>
<td>DM IDM SA</td>
</tr>
</tbody>
</table>

**Investor relations**

Acting in accordance with the highest standards of capital market communications and corporate governance, Azoty Tarnów provides all capital market participants, and in particular current and potential shareholders, with exhaustive and reliable information on events taking place within Azoty Tarnów.

It has already become the norm for Azoty Tarnów to organise conferences to publish periodic reports presenting Company and Group financial results. In 2011 representatives of Azoty Tarnów also met with capital market participants during numerous one-on-one meetings as well as at conferences. Each year commencing from the IPO, representatives of Azoty Tarnów have been meeting with individual investors during the WallStreet conference organised in Zakopane by the Association of Individual Investors. In June 2011 the Management Board presented the Company's achievements and plans during a dedicated panel discussion, and representatives of Azoty Tarnów were available for shareholders during the conference and associated Shareholder Fair event.

A significant channel of communication with capital market participants is the Company's website, which includes current and period reports, together with the latest information on general meetings or analysts' recommendations and presentations of periodic results. IR activities have been highly rated by investors in the leading economic magazine *Puls Biznesu* for the active participation of Azoty Tarnów in "Investor Action", thanks to which from August 2010 the Company has had the honour to be able to use the "Answers to Investors" mark.

In communications with investors Azoty Tarnów exceeds its statutory obligations. The Company implements an open information policy in response to the high requirements of capital market participants. In 2011 the Company maintained its presence in the "10 Companies for 10 Years of the SII..." organised by the Association of Private Investors (*Stowarzyszenie Inwestorów Indywidualnych - SII*). The aim of the programme is to create and promote the highest standards of communication between stock market companies listed on the regulated market run by the WSE and investors, and to draw up the best practical solutions for investor relations, covering contact between such companies and private investors. This programme forms part of the Company's policy for excellence in communication with the market and provision of information on the principles of management and oversight, ensuring their transparency.
4. CHARACTERISTICS OF COMPANY OPERATIONS

4.1. Information on principal products, goods for resale and services

Manufacturing in 2011

Average capacity utilisation rates across the main production lines in 2011 reached 80.8%.

Table 15 Product level by product

<table>
<thead>
<tr>
<th>Product range</th>
<th>2011 production level [tonnes]</th>
<th>2010 production level [tonnes]</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calcium ammonium nitrate</td>
<td>168 561</td>
<td>250 106</td>
<td>(32.6)</td>
</tr>
<tr>
<td>Ammonium nitrate</td>
<td>29 109</td>
<td>13 458</td>
<td>116.3</td>
</tr>
<tr>
<td>Saletrosan®</td>
<td>199 447</td>
<td>182 162</td>
<td>9.5</td>
</tr>
<tr>
<td>Ammonium sulphate</td>
<td>420 565</td>
<td>407 271</td>
<td>3.3</td>
</tr>
<tr>
<td>Nitrates</td>
<td>41 470</td>
<td>50 392</td>
<td>(17.7)</td>
</tr>
<tr>
<td>Tarnoform</td>
<td>10 617</td>
<td>10 830</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Modified tarnoform</td>
<td>2 142</td>
<td>2 078</td>
<td>3.1</td>
</tr>
<tr>
<td>Natural tarnamid (polycaprolactam)</td>
<td>43 466</td>
<td>42 601</td>
<td>2.0</td>
</tr>
<tr>
<td>Modified tarnamid (polycaprolactam)</td>
<td>5 446</td>
<td>4 211</td>
<td>29.3</td>
</tr>
<tr>
<td>Cyclohexanone from phenol</td>
<td>68 712</td>
<td>67 205</td>
<td>2.2</td>
</tr>
<tr>
<td>Caprolactam</td>
<td>95 410</td>
<td>93 555</td>
<td>2.0</td>
</tr>
</tbody>
</table>

The most notable production growth in 2011 in comparison with 2010 concerned Saletrosan® (9.5%), natural Tarnamid® (2%), ammonium sulphate (3.3%) and caprolactam (2%). However the sharpest decreases were recorded in the manufacture of mixed acids, concentrated nitric acid and calcium ammonium nitrate. The cause was a failure in the turbine set within the Nitric Acid Manufacturing Plant, which caused a production stoppage from January to the end of May. During this period production took place on the basis of purchased nitric acid. After start-up of the turbine set and completion of the planned repair stoppage, acid manufacturing recommenced on 1 July 2011.

Sales in 2011

The Company’s total revenue from sale of products, goods for resale and materials for 2011 amounted to PLN 1 916 717 000 (product and service sales: PLN 1 769 764 000), which in real terms constituted a PLN 366 964 000 (23.7%) increase on 2010 revenue (product and service sales growth: PLN 340 128 000, i.e. 23.8%).
Table 16 Revenue from sales by product range

<table>
<thead>
<tr>
<th>Product range</th>
<th>2011</th>
<th>2010</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plastics and intermediates for plastics production</td>
<td>1 044 389</td>
<td>810 295</td>
<td>28.9</td>
</tr>
<tr>
<td>Chemicals</td>
<td>89 787</td>
<td>70 568</td>
<td>27.2</td>
</tr>
<tr>
<td>Nitrate fertilisers</td>
<td>393 327</td>
<td>329 693</td>
<td>19.3</td>
</tr>
<tr>
<td>Ammonium sulphate</td>
<td>236 285</td>
<td>159 808</td>
<td>47.9</td>
</tr>
<tr>
<td>Nitrates</td>
<td>29 987</td>
<td>34 425</td>
<td>(12.9)</td>
</tr>
<tr>
<td>Other</td>
<td>122 942</td>
<td>144 964</td>
<td>(15.2)</td>
</tr>
<tr>
<td><strong>Total revenue from sales</strong></td>
<td>1 916 717</td>
<td>1 549 753</td>
<td>23.7</td>
</tr>
</tbody>
</table>

Figure 2 Sales revenue structure by segment in 2011

Source: Own data
4.2. Information on sales markets and on supply sources for raw materials, goods for resale and services

Geographical structure of sales

Total export sales and sales within the EU amounted to PLN 1 292 126 000, constituting 67.4% of sales (in 2010 this ratio was 65.4%) and at current prices was PLN 279 144 000 (27.6%) higher than export sales for 2010.

Table 17 Key product groups by domestic and export sales

<table>
<thead>
<tr>
<th>Product range</th>
<th>2011 [%]</th>
<th>2010 [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>Export</td>
</tr>
<tr>
<td>Plastics and intermediates for plastics production</td>
<td>11.8</td>
<td>75.1</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Nitrate fertilisers</td>
<td>54.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Ammonium nitrates</td>
<td>12.6</td>
<td>12.2</td>
</tr>
<tr>
<td>Nitrates</td>
<td>4.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Other</td>
<td>14.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The Company's products are mainly sold to European Union countries, in particular Poland, Germany, France, the Czech Republic, Italy and Belgium. Export to Asia consists primarily of inorganic plastics, while exports to South America comprise mainly fertilisers.

Figure 3 Regional structure of sales in 2011

Source: Own data

The largest customer, accounting for 18.1% of sales revenue in 2011, is ATT Polymers GmbH. Azoty Tarnów own 100% of shares in ATT Polymers GmbH.
Figure 4 Regional structure of sales by segment in 2011

![Plastics and Fertilisers Pie Charts]

Source: Own data

Supply sources for materials for production and goods for resale and services

To a large degree the Company sources materials for manufacturing and goods and services from within Poland. A significant import from the European Union is phenol, while ammonia is imported from other countries.

Figure 5 Origin of materials and goods for resale in 2011

![Material Origin Pie Chart]

Source: Own data

The largest supplier, accounting for supplies equal to 10.4% of sales revenue, is PGNiG S.A.
STRATEGIC RAW MATERIALS SUPPLY

In 2011 market prices for raw materials such as benzene, phenol, ammonia, and methanol systematically went up. Minor price fluctuations do not change the fact that in comparison to 2010 prices are now higher. Projections for 2016-2017 estimate that the consumption of petrochemicals will rise to 53.2 million tonnes, versus the currently projected amount of 31.9 million tonnes for 2011-2012.

Natural gas

The sole domestic natural gas supplier delivers gas from both the gas system and local sources, on the basis of multi-year contracts. On 16 December 2010, the Chairman of the Energy Regulatory Office approved a change to Part A "PGNiG Tariff for Gas Fuels" and as a consequence gas prices fell. This reduction was implemented on 1 January 2011, but as a result of the new tariff, which came into effect on 15 July 2011, gas prices increased. Further increases, perhaps even double-digit, are expected in 2012.

Electricity

As of 1 January 2011, the Company changed its electricity supplier, procuring electricity from two domestic entities. The agreements were binding in 2011, with the possibility of renewal for subsequent years. Choosing a new supplier has significantly reduced the Company’s expenditures on this resource.

Steam coal

The main steam coal suppliers were two large domestic entities, whose share of supply was 55% and 38%. Deliveries took place on the basis of addendums to the existing contracts. A portion of steam coal purchases came from spot contracts.

Ammonia

In 2011 the ammonia market was dependent on the condition of the fertiliser sector, gas prices and the foreign exchange market (mainly USD). After Z.Ch. Police S.A. entered the Azoty Tarnów Group, the Group’s total production capacity of this resource exceeded 1.1 million tonnes, simultaneously insuring a steady supply for fertiliser production needs. The Company’s strategy in this area was based on deliveries within the group (from Z.Ch. Police S.A. and ZAK S.A.), and the sale of ammonia surpluses obtained from the ammonia plant to external customers. This also ensured the Group had a stable supply of ammonia for its own production needs. In light of a seasonal drop in demand for ammonia in the US and Western Europe, the world market price dropped from about USD 600/t fob (November) to around USD 490-480/t fob (December). In terms of profit margins, this made the sale of surplus ammonia by Z.Ch. Police S.A. unfavourable for the Group. However, this did not negatively affect the Company’s supply of the resource, because prices were dependent on the Polish market (fixed gas price in the second half of 2011); the materials were supplied in accordance with the plan, guaranteeing the Group a stable rate of production. Actions taken to optimise ammonia production in the long-term will better protect ammonia production programs in the future and increase the efficiency of ammonia production in the Azoty Tarnów Group.

Phenol

2011 was a difficult year for consumers of this raw material due to strong and prolonged demand coming from the Chinese market, and the coinciding limited supply in Europe. Supply-side shortages occurred due to an unstable implementation of production programs, and production plants closures in 2011. The demand was mainly driven, as in previous years, by a growing need for BPA in Asian markets. In 2011, European manufacturers continued their commercial activities
(sales), also as in previous years, which were destined for export to Asia. This happened at the expense of customers in European markets, because the higher prices increased their costs. This resulted in an even greater supply shortage in Europe. The market situation of benzene was also an important factor, where an unstable supply-demand relationship was observed. The price of phenol at the end of 2011 (contract) approached 1 000 EUR/tonne. The Company’s purchasing strategy in this area relies on two sources, namely Germany’s INEOS Phenol (the largest manufacturer in the world), and domestic suppliers, all based on long-term contracts. A number of steps will be taken to diversify suppliers, as well as optimize logistics – the practical implementation of this plan is expected to occur during the second half of 2012, which will provide the Company maximum supply security for this resource.

Benzene

Not unlike phenol, the benzene market in 2011 was in some ways dependent on Asian markets and the unstable development of production programs of the world’s biggest manufacturers. In addition, big market fluctuations were observed among the greatest consumers of this material (mainly demand from producers of ethylbenzene). However, compared to phenol, the benzene market is characterised by a smaller degree of concentration. This means a more secure supply, but is conditional to a stable supply-demand relationship of, among others, the styrene market - which trades the starting material used in the synthesis of PS, EPS, and EBS resins. The fourth quarter of 2011 was characterised by an unstable ethylbenzene market, which influenced periodic supply-side limitations, significant market turbulence, and effectively increased prices. Benzene contract prices at the end of 2011 were about 670-690 EUR/tonne. As in the case of phenol, this significantly stimulated spot contracts in Q4 2011, which could induce periodic supply shortages in the future. The Company’s purchasing strategy in this area relies on domestic and central-eastern European supplies, all of which are based on long-term contracts. Just as with other key raw materials, steps will be taken to diversify suppliers and optimise logistics.

Sulphur

For several years the market has observed a rise in sulphur supply of petrochemical origin, which significantly affects Poland’s domestic supply-demand relationship, and stabilizes prices. These prices are becoming less and less dependent on global market trading, which is currently based mainly on production costs. Due to favourable market conditions in the fertiliser sector in 2011, mainly in the North African region, sulphur prices remained at a relatively high level, exceeding USD 210-220/tonne in global markets, which reflected an increase in prices in Polish markets; furthermore, unfavourable currency exchanges for the polish sulphur market also pushed prices up. The Company’s long-term strategy and a firm base of long-term contracts enabled them to avoid price increases in December 2011 (with respect to fixed Q4 prices), but the market situation will surely impact price increases in Q1 2012. Another advantage and benefit of this area for the Azoty Tarnów Group turned out to be the entrance into a group purchasing organisation with Z.Ch. Police S.A., i.e. an optimised procurement and logistics structure within the Group. The Azoty Tarnów Group is currently the largest consumer of liquid sulphur in the Polish market.

4.3. Major domestic and foreign investments

Total capital expenditures incurred by Azoty Tarnów in 2011 amounted to PLN 190 735 000. The largest new investment commenced in 2011 at Azoty Tarnów was the project "Modernisation of the Sulphuric Acid Manufacturing Facility". The principal objective of the project is to maintain continuity of operations within the Company’s main production line and ensure the safe and failure-free operation of the facility. Implementation of this project ensures the operational continuity of a key facility within the caprolactam production process. An additional effect of this project will be an increase in the facility’s production capacity from 132 000 tonnes of oleum per
year translated into 100% H2SO4 to approx. 170 000 tonnes, together with an improvement of ecological indicators and growth in the production of steam.

The Company’s largest on-going tasks include the construction of a new Hydrogen Facility, modernisation and intensification of the Caprolactam Plant to 101 300 tonnes per year and intensification of the Modified Plastics Plant – phases I+II. Construction of a new Hydrogen Facility secures supplies of hydrogen for the manufacture of caprolactam and (together with the 5th Methane Decomposing Facility) enables the use of the full volume of natural gas with higher nitrogen content from new local sources, which in turn enables a reduction in consumption of more expensive mains gas.

The aim of the project to upgrade and strengthen the Caprolactam Synthesis Facility is to increase production output to 101 300 tonnes/year. The completion of the project will strengthen the Company’s position in the caprolactam and polyamide 6 markets. Other project benefits include additional sales revenue and a reduction in the unit cost of caprolactam synthesis.

The intensification of the Modified Plastics Plant - Phase I and II - involves the construction of two compound delivery lines for the production of modified plastics based on polyamide 6. The completion of the project will increase the capacity to produce modified Tarnamid®, allowing a further increase in modified plastics.

The largest investments completed in 2011 include:

- modernisation of the Benfield potassium wash station within the V RM installation,
- expansion of the 0.4 kV switching station for the requirements of the SHA Plant,
- adaptation of benzene loading stations to TDT requirements,
- modernisation of the fresh steam collector phases IV+V,
- modernisation of the Chemicals Centre,
- implementation of a computer control system and modernisation of on-site measurement equipment at the Ammonium Sulphate Facility,

The largest on-going investments include:

- intensification of the Modified Plastics Plant – phases I+II
- modernisation and Intensification of the Caprolactam Plant to 101 300 t/year
- construction of a technical nitrogen acid railway loading station
- adaptation of the electricity metering system to electricity market conditions,
- modernisation of power supply and main electrical substations,
- construction of an installation for comprehensive collection of ash from the boilers at power plant EC II,
- construction of a new Hydrogen Facility,
- means of implementing the Beckmann rearrangement process using reaction heat,
- modernisation of Sulphuric Acid Department,
- conversion of gate no. 6 from ul. Chemiczna and construction of a heavy goods vehicle parking area,
- launch of Azoty Tarnów Group’s Shared Services Centre - phase I,
- connecting CO2 and utilities to the Air Products CO2 purification and liquefaction installation,
- IT consolidation within the Azoty Tarnów Group,
- adaptation of caprolactam loading equipment to TDT requirements,
- adaptation of sulphur acid and oleum loading equipment to TDT requirements,
- adaptation of the loading station for liquid sulphur from railway cisterns to on the loading ramp to TDT requirements,
- adaptation of the loading station for phenol from cisterns on the loading ramp to TDT requirements,
- adaptation of the loading station for cyclohexanol, cyclohexanone, cyclohexane and frakol to
TDT requirements.
In accordance with the Development Strategy, in 2012 the most significant investments are connected with improving the Company’s competitiveness and implementing issue objectives. The largest tasks are construction of the new Hydrogen Facility and modernisation of the Sulphuric Acid Manufacturing Facility, of which one of the primary objectives is to maintain the continuity of operations within the company’s main production line – the caprolactam-polyamide line.

With the group of new investments, of key significance will be tasks connected with ensuring the continuity of manufacturing facility operations. The most important projects will also include tasks connected with lowering production costs through modernising selected installations and increasing the scale of operations in the field of modified engineering plastics. The most important new investments commencing in 2012 include projects connected with internal modernisation of the ammonia synthesis reactors, purchase and construction of a new technical hydrogen compressor for the phenol hydrogenation installation in the palladium catalyst and modernisation of the Cooling Station no. 6 refrigeration system. A significant group of new tasks are investments connected with exchange of the computer control and instrumentation systems in the Lactam Department and Ammonium Nitrate Plant.

4.4. Major equity investments

Acquisition of a controlling stake in Z.Ch. Police S.A.

Under the tender offer for purchase of 66% shares in Z.Ch. Police S.A., announced on 15 June 2011, on 19 August 2011 Azoty Tarnów purchased 49 500 000 ordinary bearer shares of Z.Ch. Police S.A. with a nominal value of PLN 10 each, denoting completion of the Company’s tender offer.

Under the tender offer, 56 191 155 shares in Z.Ch. Police S.A. were tendered, in connection with which the allocation rate was 88.09%. In accordance with the tender offer, the shares were acquired at a price equalling PLN 11.50 per share, valuing the transaction at PLN 569 250 000.

After settling the transaction, the Company acquired a total of 49 500 000 ordinary bearer shares in Z.Ch. Police S.A., representing 66% of Z.Ch. Police S.A.’s share capital and carrying 49 500 000 voting rights, i.e. 66% of all voting rights, at Z.Ch. Police S.A.’s general meeting.

Transaction financing

On 14 June 2011 the Company signed a bridge investment loan agreement with PKO BP S.A. for an amount of PLN 400 000 000, to be used to finance and provide collateral for a tender offer the Company announced to purchase 66% of shares in Z.Ch. Police S.A. The loan was granted for a period from 14 June 2011 to 31 December 2011.

On 14 June 2011 the Company executed a short-term loan agreement with ZAK S.A., providing a PLN 70 000 000 loan to finance and provide collateral for a tender offer to purchase shares in Z.Ch. Police S.A. The loan was granted for the period from 14 June 2011 to 31 May 2012.

On 15 June 2011 proceeds from the investment loan granted by PKO BP S.A., amounting to PLN 400 000 000, and from a special-purpose loan granted by ZAK S.A., amounting to PLN 70 000 000, together with PLN 99 250 000 of the Company’s own funds, i.e. PLN 569 250 000 in total, were deposited on a special-purpose account at PKO BP S.A. to be used as collateral for the tender offer to purchase shares in Z.Ch. Police S.A. representing no more than 66% of its share capital, at a price of PLN 11.50 per share.

On 18 August 2011 the Company fully repaid the PLN 400 000 000 bridge investment loan which was granted by PKO BP S.A. on 14 June 2011 to be used to finance and provide collateral for a tender offer the Company announced to purchase 66% of shares in Z.Ch. Police S.A. The loan was repaid in accordance with contractual conditions using proceeds for the Company’s share issue...
immediately after a court decision to enter into the National Court Register (KRS) the increase in the Company’s share capital through the above mentioned share issue. Also on 18 August 2011 the Company’s funds deposited in a special-purpose account at PKO BP S.A., totalling PLN 569 250 000 and comprising collateral for a tender offer the Company announced to purchase 66% of shares in Z.Ch. Police S.A., were transferred to an investment account at brokerage DM PKO BP S.A. in order to settle the tender offer and subsequently pay for purchase of 49 500 000 Z.Ch. Police S.A. shares, representing 66% of its share capital.

**Acquisition of ZAK S.A. shares from the State Treasury**

Azoty Tarnów executed an agreement with the State Treasury of Poland for the sale of 23 293 330 ordinary series AA bearer shares in ZAK S.A., constituting 40.86% of shares in ZAK S.A. with a nominal value of PLN 5 each, at a price of PLN 8.59 per share. At the same time, on 13 October 2011 the Company used PLN 200 090 000 of its own funds (including share issue proceeds) to pay for the ZAK S.A. shares purchased on the basis of the agreement. As a result of the transaction, the Company increased its majority shareholding in ZAK S.A. share capital from 52.60% to 93.46%.

On 28 August 2011 the Company fully repaid the PLN 100 million bridge investment loan to PKO BP S.A., which had been incurred on 30 November 2010 in order to co-finance acquisition through a private placement of 30 million new series B shares in ZAK S.A.

The transactions completed in 2011 strengthened the Company’s position. The Azoty Tarnów Group is currently the largest chemicals group in Poland and this part of Europe. The group includes companies with complementary product portfolios in the mineral fertiliser market. The acquisition of control over Z.Ch. Police S.A. enabled the Group to enter the NP and NPK multi-component fertiliser market, which led to a significant growth in the scale of the Group’s operations and the effectiveness of production, sales and distribution of mineral fertilisers. This resulted in the development of a chemicals group with a diverse product portfolio, operating as a manufacturer of nitrogen and multi-component fertiliser, caprolactam, engineering plastics (polyamide 6, polyoxymethylene, modified plastics), oxo alcohols, plasticisers and titanium white.

**Bank deposits**

During previous reporting periods proceeds from the Public Offerings were placed in a variety of deposits at banks of strategic importance to the Company, with maturities adapted to the expected use of the proceeds to finance investments under issue objectives. As regards the optimisation of interest income and costs, after inclusion on 7 December 2011 of Z.Ch. Police S.A. and its subsidiaries in the virtual cash-pooling service linked to the Group’s current account at PKO BP S.A., the Company maintains share issue proceeds in the current account, enabling it to earn market interest similar to the annualised WIBOR 1M rate. At the same time, Group companies using the PKO BP S.A. current account loan incur – up to the amount balanced with the Group’s cash surpluses – borrowing costs similar to the annualised WIBOR 1M rate. Given the above, as at 31 December 2011 the Company held a total of PLN 86 289 000 in bank accounts and overnight deposits, of which PLN 67 741 000 was deposited in the PKO BP S.A. current account linked to the virtual cash-pooling service. A part of this amount, PLN 34 450 000, comprised proceeds from issuance of the Company’s shares. As at 31 December 2011 all of the above funds were recognised in the financial statements under cash and cash equivalents. In 2011 the Company generated PLN 6 218 000 in interest income on fixed-term deposits and virtual cash-pooling of Public Offering proceeds (in 2011 the Company received a total of PLN 8 408 000 in interest).
### Table 18 Bank deposits as at 31 December 2011

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount</th>
<th>Commencement date</th>
<th>Maturity date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total deposits with maturities over 3 months</td>
<td>-</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Total deposits with maturities under 3 months</td>
<td>-</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Other overnight deposits</td>
<td>13 018</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Positive balance in virtual cash-pooling*</td>
<td>67 741</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td><strong>Total bank deposits</strong></td>
<td><strong>80 759</strong></td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

*Funds included in virtual cash pooling remain in the Company’s technical account, the positive balance of which is treated as an overnight deposit since its interest is calculated as per the same market interest rate (WIBOR 1M), which balances the negative balances of other Group entities.

### 4.5. Significant agreements

#### Table 19 Agreements of importance to Company operations

<table>
<thead>
<tr>
<th>Parties</th>
<th>Object</th>
<th>Date of execution</th>
<th>Current report date and number</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKO Bank Polski Spółka Akcyjna</td>
<td>Investment loan</td>
<td>14-06-2011</td>
<td>RB 44/2011 of 15 June 2011</td>
<td>400 000</td>
</tr>
<tr>
<td>Comexport Group</td>
<td>Sale of ammonium sulphate</td>
<td>24-02-2011</td>
<td>RB 36/2011 of 31 May 2011</td>
<td>226 000</td>
</tr>
<tr>
<td>Polski Koncern Naftowy Orlen S.A.</td>
<td>Sale of commodities: phenol and benzene</td>
<td>04-04-2011</td>
<td>RB 17/2011 of 5 April 2011</td>
<td>1 100 000</td>
</tr>
<tr>
<td>Mitsui &amp; Co. Deutschland Brenntag International Chemicals</td>
<td>Purchase of phenol</td>
<td>02-02-2011</td>
<td>RB 10/2011 of 3 February 2011</td>
<td>58 500</td>
</tr>
</tbody>
</table>

### 4.6. Significant transactions with related parties

Agreement no. 1, executed on 20 September 2011, between Azoty Tarnów and Z.Ch. Police S.A. constitutes a significant agreement with a related party concluded on terms other than market terms.

The transaction concerns purchase/sale of liquid ammonia during October-December 2011. The buyer provided an advance payment for the commodity and received it in accordance with a previously determined schedule by December 2011.

### 4.7. Significant R&D developments

Research and development work carried out by Azoty Tarnów in 2011 was connected with implementation of adopted strategic objectives. The main portion of funds was allocated for implementation of projects connected with the Company’s focus on manufacture of engineering
plastics, caprolactam and nitrate fertilisers. Work was also carried out on further diversification of the Company’s product portfolio and new products with regard to implementing their manufacture.

Within the field of engineering plastics, work was carried out on development of polytrioxane production technology and on newly modified engineering plastic variants. R&D work on caprolactam was focussed on improving the economic effectiveness of the process and enabling further intensification of the Caprolactam Facility and reduction of the facility’s environmental impact. Work on fertilisers was connected with the extension and development of the Company’s product portfolio in this area and, development of fertiliser production capability and further production capacity expansion.

**Protection of industrial property**

In 2011 the Patent Office of the Republic of Poland granted patents for the following solutions:

<table>
<thead>
<tr>
<th>Details</th>
<th>Announcement date</th>
<th>Announcement number</th>
<th>Exclusive right no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyclohexane oxidation reactor and means of oxidising cyclohexane</td>
<td>17 Feb 2004</td>
<td>365299</td>
<td>209834</td>
</tr>
<tr>
<td>Means of obtaining sodium metholate</td>
<td>5 Dec 2008</td>
<td>386702</td>
<td>-</td>
</tr>
</tbody>
</table>

Through the decision of the Indian Patent Office of 1 February 2011, patent no. 245775 was granted for the following invention: "Means of cyclohexanol manufacture".

### 4.8. Information concerning environmental issues

In 2011 environmental fees amounted to PLN 6 339 700.

The following tasks were implemented in 2011 with regard to technical safety and environmental protection:

- The Company was audited, which resulted in positive recommendation for the acquisition of a certificate on implementation of the Work Health and Safety Management System in accordance with the PN-ISO 18001 and BS OHSAS 18001 standards. On 7 April 2011 the Company obtained the appropriate certificates.
- Data on the emission of greenhouse gases and other substances was entered to the database of the National Centre for Balancing and Management of Emissions (implementation of the provisions of the Environmental Protection Law and Greenhouse Gases Emissions Management Law).
- A verification of the annual report on emissions of CO$_2$ from EC II for 2010 was made and a report sent to KASHUE (the National Administrator of Emissions Trading System).
- A report was prepared for the Chief Inspectorate for Environmental Protection on PRTR (The European Pollutant Release and Transfer Register – as part of implementation of the Regulation EC 166/2006 and the Environmental Protection Law, Polish Journal of Laws 129/2006, as well as the Regulation of the Minister of Environment, Polish Journal of Laws 141/2009).
- On 9 June 2011 a Decision was obtained from the Governor of the Małopolskie Province, ref. SR-IV-1.7322.1.10.2011.MG, allowing for channelling waste containing substances which are particularly harmful to the water environment to sewage equipment operated by Zakład Oczyszczalnia Ścieków Tarnowskich Wodociągów Sp. z o.o., (valid until 8 June 2015).
- A decision was obtained from the Marshal of the Małopolskie Province, ref. SR-II-1.7225.1.2.2011 dated 30 June 2011, granting permission for participation in the Community Greenhouse Gases Emissions Trading System for nitric acid, ammonia, and bulk organic
chemicals production installations using cracking, reforming, oxidation or similar processes and with production capacity exceeding 100 Mg/day, valid until 29 June 2021.

- A new integrated permit was obtained, ref.: SW.II.1.AI.7673-10/09 dated 29 July 2011, for the Technical Nitric Acid Installation, Calcium Ammonium Nitrate and Ammonium Nitrate Installation, Mechanical Nitrogen Fertiliser Granulation Installation, and Dolomite Stone Milling Installation.

- Changes in other integrated permits were implemented, including adjustment to the current organisational structure:
  - decision ref.: SR-II.1.7222.1.2.2011 of 29 July 2011 amending the permit for the Caprolactam and Polyamide Manufacturing Plants,
  - decision ref.: SR-II.1.7222.1.3.2011 of 29 July 2011 amending the permit for the Infrastructure Park Complex
  - decision ref.: SR.II.1.7222.1.1.2011 of 29 July 2011 amending the permit for POM Manufacture and Compound Complex

- All legally required reports and data were drafted and submitted to the competent authorities on time.

- Historical data from the Company introduced into the system in the settlement period beginning on 1 January 2013 were drafted and edited. Preliminary verification of the Report on Database Records for the purposes of National Execution Measures was performed by Det Norske Veritas. A final audit verifying the appropriate documentation was made by POLCARGO INTERNATIONAL Sp. z o.o. and the documentation was sent to the National Administrator of the Emissions Trading System.

- Five planned inspections were carried by the Malopolskie Province Environmental Protection Inspector at Azoty Tarnów regarding the integrated permits held by the Company, as well as four intervention inspections.

- An application for an integrated permit for a new hydrogen generation plant was filed.

4.9. **Significant events**

Significant events having a major impact on the operations of the Azoty Tarnów Group:

**Series C share issue – public offering**

In altering the company’s articles of association, through the resolutions of 18 May 2011, the ordinary general meeting granted authorisations to the Company’s Management Board to increase the company’s share capital by issuing new shares of a total nominal value not exceeding 146 686 575 shares through one or more increases in share capital within the boundaries specified above (authorised share capital). The Management Board’s authorisation to increase share capital and issue new shares within authorised share capital will expire on 31 December 2012. Issuance of new shares within authorised share capital may only occur with pre-emptive rights for existing shareholders.

Pursuant to this authorisation, the Management Board takes decisions on all issues connected with increasing issued share capital within authorised share capital, and in particular the Management Board is authorised to execute underwriting agreements or other agreements guaranteeing the success of a share issue, adopt resolutions and take other steps to dematerialise shares, pre-emptive rights and rights to shares and to execute agreements with the KDPW concerning the registration of shares, pre-emptive rights and rights to shares, together with other activities concerning issue of shares through a public offering or to apply for shares, pre-emptive rights and rights to shares to be admitted to trading on a regulated market.
Management Board resolutions concerning the increase in issued share capital within authorised share capital or establishment of the issue price within authorised share capital require the consent of the Supervisory Board.

On 26 May 2011 the Company’s Management Board adopted a resolution in the form of a notarial deed concerning an increase in issued share capital through the issue of ordinary series C shares. On 1 June 2011 the Company's Supervisory Board expressed its consent to the increase in issued share capital within authorised share capital in accordance with the Management Board resolution.

The Company’s Management Board defined and specified two primary objectives to which it plans to allocate proceeds from the issue of series C shares:

- refinancing the acquisition of a controlling interest in Z.Ch. Police S.A. through a tender offer for shares,
- acquisition from the State Treasury of Poland of 40.86% of shares in ZAK S.A. After this acquisition Azoty Tarnów will hold 93.48% of votes at the general meeting of ZAK S.A.

On 28 June 2011 the Polish Financial Supervision Authority approved the Company’s prospectus. On 4 July 2011 the Company’s Management Board, with the consent of the Supervisory Board, established the issue price for Offered Shares at PLN 24.10 per Offered Share with a nominal value of PLN 5 each.

It was additionally established that the final number of Offered Shares will be 24 999 023 ordinary series C bearer shares of a nominal value of PLN 5 each. As a result of the above, one pre-emptive right will carry the right to acquire 0.63909279941 of an Offered Share.

Beginning from 6 July 2011, the Polish Financial Supervision Authority accepted a subsequent seven annexes to the prospectus:
- Annex no. 1 on 6 July 2011,
- Annex no. 2 on 8 July 2011,
- Annex no. 3 on 14 July 2011,
- Annex no. 4 on 15 July 2011,
- Annex no. 5 on 18 July 2011,
- Annex no. 6 and Annex no. 7 on 20 July 2011.

After registration of the pre-emptive rights, in a press release of 8 July 2011, the Management Board of the WSE provided information concerning the listing of pre-emptive rights to all 39 116 421 existing shares. Commencement of pre-emptive right listings took place on 8 July 2011; the initial final listing date, established for 15 July 2011, was changed to 18 July 2011, in accordance with amendments to the issue schedule, through the Management Board decision of 14 July 2011.

On 12 July 2011 the Ministry of the Treasury published a press release on its website concerning the sale of its 20 549 000 pre-emptive rights. In a subsequent press release of 14 July 2011, the Ministry of the Treasury announced the execution an agreement with DM PKO BP S.A. and IPOPEMA Securities S.A. as managers of the public offering of Azoty Tarnów series C shares in, providing for a 180-day lock-up of Azoty Tarnów from the date on which trading in pre-emptive rights to series C shares commences on the WSE.

On 28 July 2011 the KDPW announced the results of subscriptions for the 24 999 023 ordinary series C bearer shares, of a nominal value of PLN 5 each, offered by the Company. During the subscription period, 11-21 July 2011, a total of 2 961 primary subscriptions were submitted under exercise of pre-emptive rights for 24 587 195 series C shares. At the same time 419 additional subscriptions were submitted for 52 092 197 series C shares, with the reduction rate reaching 99.21%.
On 1 August 2011 the Company’s Management Board announced that the issue was successful and 24 999 023 series C shares were allocated to buyers at the issue price of PLN 24.10. On 2 August 2011 the KDPW transferred PLN 602 833 000 in funds to the account at PKO BP S.A. indicated by the Company, which comprises the following amounts:
- PLN 602 476 454.30 in proceeds from the new share issue,
- PLN 357 010.94 in additional income from depositing funds from the new rights issue.

Total offering cost was PLN 8 198 000, including:
- preparation and management of the offering: PLN 5 802 000,
- preparation of the prospectus: PLN 1 835 000,
- promotion of the offering: PLN 561 000.

The average per share cost of issuing series C shares was PLN 0.33.

On 8 August 2011 the Management Board of the KDPW ruled to accept 24 999 023 rights to ordinary series C bearer shares into the securities depository with a nominal value of PLN 5 each. The Management Board of the WSE, pursuant to a resolution, ruled to admit 24 999 023 rights to ordinary series C bearer shares with a nominal value of PLN 5 each, to normal trading on the main market as of 10 August 2011.

On 12 August 2011 an amendment to the Company's articles of association was registered concerning an increase in issued share capital within authorised share capital (specified more precisely through the Management Board’s declaration of 1 August 2011) and the increase in the Company’s share capital from PLN 195 582 105 to PLN 320 577 220 through issue of 24 999 023 ordinary series C bearer shares with a nominal value of PLN 5 each was registered.

As at the date of publication of this report, the total number of votes carried by all outstanding shares after registration of the increase in share capital was 64 115 444, with share capital divided into 64 115 444 shares with a nominal value of PLN 5 each, of which:
- 24 000 000 ordinary series AA bearer shares, corresponding to 37.4% of share capital,
- 15 116 421 ordinary series B bearer shares, corresponding to 23.6% of share capital,
- 24 999 023 ordinary series C bearer shares, corresponding to 39.0% of share capital,

Pursuant to the resolution of 24 August 2011, the Management Board of the KDPW ruled to accept 24 999 023 rights to ordinary series C bearer shares into the securities depository with a nominal value of PLN 5 each, and to assign these code PLZATRM00012, on condition of a decision by the Management Board of the WSE to admit these shares to trading on the regulated market. Simultaneously, 29 August 2011 was established as the last day on which 24 99 023 rights to ordinary series C bearer shares were listed on the WSE. Registration of series C shares in the securities deposit took place on 30 August 2011.

In accordance with the issue objectives specified in the prospect approved by the Polish Financial Supervision Authority on 28 June 2011, up to PLN 400 000 000 of proceeds from the issue were used to repay a bridging investment loan which was incurred at PKO BP S.A. for acquisition of the controlling interest in Z.Ch. Police S.A. The above bridging loan was repaid on 18 August 2011. The remaining proceeds from the issue were used to finance acquisition of a 40.86% stake in ZAK.

**Tender offer for the sale of 66% of shares in Z.Ch. Police S.A.**

- On 15 June 2011, implementing one of the issue objectives, the Company, announced a tender offer for 49 500 000 shares in Z.Ch. Police S.A.;
- To observe legal requirements, a notification was sent to the President of the Office for Competition and Consumer Protection on intent for concentration. Through the decision of 30 June 2011, the President of the Office for Competition and Consumer Protection made notification of the instigation of anti-trust proceedings. Through decision no. DKK-77/2011 of 18 July 2011, the President of the Office for Competition and Consumer Protection issued
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(all figures in PLN thousands unless otherwise stated)

consent for concentration, consisting of the acquisition by Azoty Tarnów of control over Z.Ch. Police S.A., having its registered office in Police. The above constitutes implementation of one of the conditions announced by Azoty Tarnów in its tender offer;

- In order to observe the second of the tender offer conditions, the Company drafted and on 8 July 2011 submitted a notification to the German competition regulator on its intent for concentration. On 19 July 2011 the Company received the unconditional consent of the Bundeskartellamt (Germany’s competition regulator) for concentration, consisting of the Company’s acquisition of control over Z.Ch. Police S.A.

- On 19 August 2011 the Company completed the acquisition of 49 500 000 ordinary bearer shares in Z.Ch. Police S.A. with a nominal value of PLN 10 each, representing in total 66% of Z.Ch. Police S.A.’s share capital and carrying 49 500 000 votes, i.e. 66% of all votes, at the general meeting of Z.Ch. Police S.A. The transaction was executed as a result of the tender offer announced with the intermediation of PKO BP S.A. Oddział – Dom Maklerski PKO BP in Warsaw. In order to provide collateral at a level not lower than 100% of the value of shares - a condition of the tender announcement - the Company executed a short-term bridge investment loan agreement with PKO BP. In accordance with the agreement, the bank granted a PLN 400 000 000 loan, repayment of which was planned from share proceeds after presentation at the Bank or at Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie (DM PKO BP) of a court ruling on entry into the National Court Register of an increase in the Company’s share capital through a new share issue. The Management Board of Azoty Tarnów received this ruling on 17 August 2011. Full repayment of the loan took place on 18 August 2011 from the proceeds of the share issue in accordance with the terms and conditions of the loan agreement.

**Acquisition of a 40.86% stake in ZAK S.A.**

- On 28 September 2011 the Management Board of Azoty Tarnów held negotiations with the Ministry of the Treasury concerning establishment of a sales price for shares in ZAK S.A.

- During the negotiations the parties agreed a total price of PLN 200 089 704.70 for 23 293 330 shares constituting 40.86% of share capital – i.e. PLN 8.59 per share,

- On 5 October 2011 the Supervisory Board consented to the acquisition of non-current asset elements not being real estate, perpetual usufruct or shares in real estate of a market value exceeding PLN 2 million in the form of 23 293 330 shares in ZAK S.A., constituting 40.86% of share capital, for a total price of PLN 200 090 000, i.e. PLN 8.59 per share (resolution no. 101/VIII/2011 of the Supervisory Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. of 5 October 2011),

- On 13 October 2011 an agreement was executed between the State Treasury of Poland and Azoty Tarnów to sell shares in ZAK S.A.

- The acquisition by Azoty Tarnów of shares in ZAK S.A. belonging to the State Treasury was one of the issue objectives presented in the Prospectus approved by the Polish Financial Supervision Authority on 27 June 2011,

- As a result of this process, the stake held by Azoty Tarnów in ZAK S.A. increased from 52.62% (acquisition of increased capital - 30 million shares at PLN 5 each) to 93.48%. The majority shareholding enables further integration and as a consequence ensures better use of synergy within the Group.

**Polskie Konsorcjum Chemiczne Sp. z o.o.**

On 20 October 2011, the Extraordinary General Meeting of shareholders in subsidiary PKCh Sp. z o.o. increased the company’s share capital by PLN 85 531 000 from its previous level of PLN 100 000 through the creation of 1 710 611 shares with a nominal value of PLN 50 each.
All of the newly created shares were acquired by existing shareholders (i.e. Azoty Tarnów and ZAK S.A.) and were paid for in the following manner:

- an in-kind contribution by Azoty Tarnów of 100% of shares in the following entities: Biuro Projektów Zakładów Azotowych Biprozat – Tarnów Sp. z o.o., Jednostka Ratownictwa Chemicznego Sp. z o.o., Prorem Sp. z o.o., ZWRI Sp. z o.o. and a 72.17% stake in Automatyka Sp. z o.o.
- an in-kind contribution by ZAK S.A. of 100% of shares in the following entities: ASTER ZAK Sp. z o.o., ZAK SERWIS Sp. z o.o., REKOM Sp. z o.o., CHEMZAK Sp. z o.o.;

as well as cash contributions by both of the Shareholders.

The share capital of Polskie Konsorcjum Chemiczne Sp. z o.o. amounts to PLN 85 631 000 after its increase. The increased share capital was entered into the National Court Register on 23 November 2011.

Privatisation of Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne ELZAT Sp. z o.o.

On 1 July 2011 Azoty Tarnów sold 100% of shares (13 318 shares with a nominal value of PLN 100 each) in Zakład Produkcyno-Remontowo Energetyki JEDLICZE Sp. z o.o.

Other significant events during the reporting period

Information on manufacturing quality systems and ISO standards implemented or being implemented

A series of actions significant to management systems were implemented in 2011. External audits carried out at Azoty Tarnów were completed with positive results, including four audits supervised by Det Norske Veritas (DNV).

In January 2011 the Company was subjected to certification audits relating to occupational health and safety management system compliance with norms PN-N 18001:2004 and BS OHSAS 18001:2007.

Det Norske Veritas conducted a detailed audit, which was completed with a positive result. Azoty Tarnów obtained certificates confirming the compliance of its occupational health and safety management system with the above standards. The certificates are valid until 31 January 2014.

In turn audits were carried out in April 2011: periodic audit under ISO 9001:2008 connected with a re-certification audit on compliance with ISO 14001:2004, which confirmed the high quality of the systems previously implemented, and Azoty Tarnów had its certificate for the ISO 14001:2004 system extended for a subsequent three years. The ISO 14001:2004 certificate is valid until 14 June 2014, while the ISO 9001:2008 certificate is valid until 30 June 2012. These certificates constitute confirmation for the Company’s customers and partners that Azoty Tarnów fulfils legal and customer requirements, prevents pollution and ensures continuing organisational improvement.

Due to the positive result of the re-certification audit carried out by DNV, in 2011 Azoty Tarnów obtained an extension of the certificate for the food safety management system (HACCP) through to 31 October 2014.

In 2011 eleven audits were also carried out at suppliers and companies located within the Azoty Tarnów site. All of the audited companies obtained positive results.

Actions are taken systematically to supervise and improve the implemented management systems.

Where the environmental management system is concerned, in order to guarantee on-demand access to requirements under administrative decisions and rulings an intranet has been made available with electronic versions of documents. Assessments of compliance with binding legal and other requirements were also improved using the “Site Environmental Pollutant Bank”.
Taking into consideration the requirements of the implemented occupational health and safety management system, issues connected with occupational risk assessment were successively dealt with.

**Joint Implementation Project to reduce nitrogen oxide emissions**

On 29 May 2011, after start-up of the dual pressure nitric acid installation, generation of ERUs in the sixth measurement period (first half of 2011) recommenced. The seventh measurement period under performance of the joint implementation project commenced on 28 December 2011.

**Energy-related events**

The certification entity and the President of the Energy Regulatory Office expressed positive opinions on confirmation of production by the CHP plant of electricity under highly efficient cogeneration. The effect was acquisition of the property rights under certificates of origin as referred to in art. 91, sec. 1, point 2 of the Energy Law of 10 April 1997 as amended.

The President of the Energy Regulatory Office approved tariffs for electricity – sale to the company’s consumers concerning provision of distribution services and application of prices for trade in electricity for households – the tariff was introduced from 26 June 2011 for a term of one year.

Redemption of CO₂ emission units used for 2010 was conducted by the end of April 2011. For 2011 the audit unit verified settlement of CO₂ emissions and by the end of April 2012 Azoty Tarnów will redeem these in the National Emissions Trading Scheme Register.

**Unscheduled technological downtime**

On 5 January 2011 an air compressor failed within the Technical Nitric Acid Manufacturing Plant. This caused suspension of own manufacture of technical nitric acid and limited the manufacture of nitrate fertilisers (saletrosan, calcium ammonium nitrate) and chemicals for a period of approximately 14 days. However, with regard to their different raw material base, manufacture of other fertilisers – ammonium nitrate and its grades: macro, crystalline, standard, selected – was continued without interruption. The direct cause of failure was suspension of nitrate fertiliser production (saletrosan and calcium ammonium nitrate) for a 14-day period. Production of nitrate fertilisers at approx. 40% capacity recommenced on 20 January. This was possible due to supplies of nitric acid from ZAK S.A., taking advantage of one of the main synergy effects within the Group after the acquisition by Azoty Tarnów of a controlling interest in ZAK S.A.

It was possible to minimise the effects of the failure due to purchase by Azoty Tarnów of assets - shares in ZAK S.A. in October 2010 and the possibility to implement synergy effects, i.e. using excess technical nitric acid at ZAK S.A. for the manufacture of nitrate fertilisers in Tarnów and designating own manufacture of ammonia to increase the production of technical nitric acid at ZAK S.A.

The Dual-Pressure Nitric Acid Installation was subject to a scheduled downtime until 25 May 2011. Repair was completed on the rotor and compressor stator, together with an inspection of other machinery within this facility’s turbine set. A range of improvements were made in this facility to provide a higher level of reliability. Mechanical tests on the turbine set were carried out on 25-28 May 2011 with a positive result. The turbine set was started up on 29 May 2011, and on 20 May to 20 June 2011 test operations were conducted at the installation with a positive result.

After accumulating the required reserve of technical nitric acid (during test operations), the KDC installation was shut down in accordance with the current downtime schedule, during which the
planned replacement of the R1-C boiler, maintenance of the R1-C oxidiser cone and exchange of N2 cooling water collectors were completed.

During the night of 11 August 2011 at approx. 3:34-3:37am a leak occurred at Zakłady Azotowe w Tarnowie-Mościcach S.A. during the loading of mixed acid (a mixture of concentrated nitric and sulphuric acids) to the auto-cistern, which led to a locally-contained fire breaking out. A Company employee died during the incident.

The mixed acid leak caused a chemical incident.

The incident itself was localised in nature and did not result in environmental contamination. Internal protection systems (emergency tanks) caught all of the acid solutions arising during the extinguishing of the fire and rinsing of the area with water.

After the fire was extinguished, at approx. 6:11am a level II chemical alarm was raised and representatives of the police, public prosecutor, State Fire Service in Kraków, State Labour Inspectorate and Provincial Environmental Protection Inspectorate were involved in investigating the incident. Actions were also taken by the Post-Accident Team and Emergency Committee.

The immediate effect of the incident was temporary shut-down of the mixed acid facility, while the operations of other facilities continued normally.

**REACH-related information**

In 2011, in accordance with the requirements of the REACH Regulation (EC) no. 1907/2006 and the CLP Regulation (EC) no. 1272/2008, the Company changed the rules for preparing Material Safety Data Sheet and marking and labelling of dangerous substances have changed. Also, new information about substances obtained during registration process in 2010 caused the necessity to classify and mark some products (e.g. ammonium nitrate).

In 2011, Azoty Tarnów took numerous steps aimed at meeting the above legal requirements. New Material Safety Data Sheets and new labels for all substances produced by the Company were developed.

Also, in 2011 Azoty Tarnów took steps aimed at meeting the requirements of point 58 of Attachment VII of the REACH Regulation concerning trade in ammonium nitrate. Legal analyses prepared by Azoty Tarnów helped resolve interpretational doubts concerning these requirements. This allowed inspection authorities to adopt a legal interpretation according to which Azoty Tarnów is in full compliance with requirements concerning trade in ammonium nitrate.

In 2011, steps were taken to register one product (since the threshold of 1 tonne/year was exceeded) and initial work was carried out to register six products during the second REACH registration deadline in 2013, including cyclohexanone oxime, which is produced only by Azoty Tarnów.

According to the European Chemicals Agency (ECHA), complex and supplementary information concerning cyclohexanol – a transported intermediate product – was drafted and submitted to the agency (this requirement applied to all the European companies registering the substance).

In the fourth quarter of 2011, a process of consolidation and closer cooperation between the REACH departments at the three main Group facilities (Azoty Tarnów, ZAK S.A., Z.Ch. Police S.A.) commenced.

**Disposal of non-core real property**

In accordance with the approved “Programme for Disposal of Non-Core Real Property at Zakłady Azotowe w Tarnowie-Mościcach S.A.” - resolution no. 37 of the Ordinary General Meeting of Zakłady Azotowe w Tarnowie-Mościcach S.A. of 23 June 2009 and the expanded “Programme for Disposal of Non-Core Real Property at Zakłady Azotowe w Tarnowie-Mościcach S.A.” - resolution no. 29 of the Ordinary General Meeting of Shareholders of Azoty Tarnów of 23 June 2010, and
based on resolution no. 60/VII/2011 of the Management Board of Azoty Tarnów of 1 August 2011 on re-commencement of the procedure for sale of real property, among the three real properties covered by the above legal regulations:

1. **a tender procedure was implemented for the sale of:**
   right of perpetual usufruct together with right of ownership to a building located on plot no. 1/144, cadastral unit 203 - a sales contract in the form of a notarial deed will be signed in the first quarter of 2012 and the financial transaction will be settled (in 2011 an advance invoice against acquisition of the real property was issued in an amount equal to the bid bond paid by the purchaser)

2. **the following was not sold:**
   - right of perpetual usufruct to undeveloped plots no. 1/18 and 4/73, cadastral unit 208, since no participant took part in the tender procedure through public bidding for purchase of the above real property.
5. CURRENT FINANCIAL SITUATION AND ASSET POSITION OF THE COMPANY

5.1. Significant events having considerable impact on the operations and financial results of the Company

Overall situation

Azoty Tarnów’s financial situation was and continues to be influenced by global political and economic factors.

2011 saw a series of events in Africa referred to as the Arab Spring, beginning in January with the resignation of Tunisia’s president, the downfall of Libyan dictator Muammar Gaddafi’s regime, ending with the withdrawal of US troops from Iraq in December. These events caused the average price of Brent oil in 2011 to reach USD 111 per barrel, exceeding USD 100/bbl for the first time in history. Oil price instability had an impact on the pricing of oil-derivative commodities used by Azoty Tarnów, which followed oil prices.

In 2012 the oil market will face many problems – mostly due to the conflict between Iran and the United Nations over the Iranian nuclear programme, the decline noted in demand for oil caused by the euro zone crisis and increased demand for petroleum in Japan following the 2011 earthquakes.

External factors - agricultural and fertiliser markets

Weather conditions continue to be a significant threat. According to the Institute of Agricultural and Food Economics, 2011 proved to be a third successive good year for agriculture. Within 12 months, compared to December 2011, purchasing prices for fundamental agricultural raw materials rose by 18.6%, significantly overtaking increases in retail prices of production means - by 8.4%, as against December 2010.

According to Poland’s Central Statistical Office, the production of phosphorous fertilisers from January to December 2011 amounted to 530 000 tonnes, with 1 762 000 tonnes of nitrogenous fertilisers manufactured. It was assessed that the production of phosphorous fertilisers increased in 2011 by 10.8% compared to the previous year, while the level for nitrogen fertilisers reached 8.1%. Poland is amongst the top ten European Union countries in terms of mineral fertiliser use, which amounts to 100kg per hectare of arable land, and only the countries of the “old” EU, such as Belgium, the Netherlands and Germany consume more, where the consumption of mineral fertilisers per unit significantly exceeds that of Poland. The consumption of fertilisers in Poland amounts to approximately 1.87 million tonnes and comprises over 11% of total European mineral fertiliser consumption. As regards Europe, Poland uses less nitrogen, but more phosphorous and potassium. The respective shares of the main fertiliser components are 58% for nitrogen and 22% for phosphorous and 20% for phosphate.

The high EURPLN exchange rate in 2011 had a negative impact on imports. Exchange rate changes may trigger shifts in the trading policy of national producers and lead to price adjustments and market re-balancing. The policy of other fertiliser producers, their access to cheaper raw materials and elements of the marketing mix may have an impact on the fertiliser market.

Russia’s anticipated membership of the World Trade Organisation (WTO) may influence price stability, especially during a period of direct subsidies. A drop in fertiliser prices cannot be ruled out, as production costs in Russia are much lower than in Poland.
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(all figures in PLN thousands unless otherwise stated)

Figure 6  Average monthly ammonia prices in 2011

USD/t

400 450 500 550 600 650 700
sty 11 lut 11 mar 11 kwi 11 maj 11 cze 11 lip 11 sie 11 wrz 11 paź 11 lis 11 gru 11

FOB Yuzhny
CFR NWE

Source: ICIS – LOR.

Until November 2011 successive increases in ammonia prices were recorded, after which these dropped sharply on the back of weak demand. Despite decreases at the end of the year, ammonia prices achieved one of their highest levels in history during 2011. Average annual ICIS-LOR ammonia prices were USD 517/tonne, compared to the level of USD 356/tonne observed in the previous year. The maximum ammonia price recorded at Baltic ports was USD 635/tonne.

Figure 7  Average monthly calcium ammonium nitrate (blue) and ammonium nitrate (red) prices in 2011

EUR/t

200 220 240 260 280 300 320 340 360 380 400
sty 11 lut 11 mar 11 kwi 11 maj 11 cze 11 lip 11 sie 11 wrz 11 paź 11 lis 11 gru 11

Saletrzak Niemcy, CFR imp inland Fertecon
Saletra amonowa AN 33,5% gran del France Fertecon

Source: FERTECON

Average annual ammonium nitrate quoted prices in 2011 were higher than in the preceding year. Calcium ammonium nitrate prices increased from a level of EUR 194/tonne in 2010 to EUR 270/tonne in 2011, whereas ammonium nitrate grew from its 2010 level of EUR 247/tonne to EUR 345/tonne. All of these increases were caused by the situation in the agricultural and commodities markets.
Figure 8 Average monthly ammonium sulphate prices in 2011

Source: FERTECON

As with other fertilisers, average annual ammonium sulphate quoted prices were more beneficial in 2011 than in 2010 from manufacturers’ viewpoints. These amounted to USD 188/tonne and USD 116/tonne respectively and resulted from the situation in the agricultural markets and conditions for application.

Plastics market

In 2011 the European plastics industry continued to exit recession. In the second half of the year a slowdown in the growth rate was observed, which resulted from dwindling stocks and uncertainty over the further development of European economies.

The European market still has the potential for growth and the chance to return to the quantities seen since 2007, when the market reached 41 million tonnes. In recent years, recovery in demand has been disturbed by data on the low availability of raw materials and price volatility, as well as continuously price increases for plastics between December 2009 and June 2011. Consumption of plastics per capita in 2011 amounted to 74kg, compared to over 82kg per capita in 2007. In the long-term an increase in use of plastics is still predicted – not just with consideration to GDP growth, but also the development of new applications in which plastics may replace other materials. In the long-term on a global scale, a 4% increase in use of plastics per capita is forecast.

The processing industry feels significant pressure from countries with lower manufacturing costs. According to forecasts, over 2010-2018 significant growth in the global economy will occur, particularly BRIC countries (Brazil, Russia, India and China).

Figure 9 Average monthly phenol (red) and benzene (blue) prices in 2011
Source: ICIS

The 2011 benzene prices remained relatively high, especially during Q1, and exceeded those of the previous year. During Q2 listed benzene prices decreased, displaying the floating nature of the overall trend, only to reach the levels below the previous year’s average in November and December. The annual average contractual prices were EUR 738 per tonne in 2010 and EUR 1 394 per tonne in 2011.

In the phenol market, the 2011 price float was similar to that of benzene. There was a price increase at the end of 2010, whereas at the end of 2011 there were signs of a decrease. However, the downward trend did not drop below the 2010 average. Average listed prices for phenol were EUR 1 250 per tonne in 2010 and EUR 1 394 per tonne in 2011.

**Figure 10** Average monthly liquid caprolactam (blue), crystalline caprolactam (dashed blue) and polyamide (red) prices in 2011

Source: ICIS

Through June 2011 the average monthly price of liquid caprolactam grew steadily. Price fluctuations were recorded in the second half of the year, with a sharp drop in October, and by the end of December an average monthly price level of EUR 2 477 per tonne was reached due to weakening demand and a price decrease within the polyamide production chain. Annual average contractual prices for liquid caprolactam were EUR 1 858 per tonne in 2010, rising to EUR 2 324 per tonne in 2011. Monthly average contractual prices for crystalline caprolactam in Asian markets throughout 2011 followed the liquid caprolactam price trend. Annual average contractual prices for crystalline caprolactam were USD 2 532 per tonne in 2010 and USD 3 288 per tonne in 2011.

The drop in use of caprolactam during the last months of 2011 was caused by unbeneﬁcial macroeconomic conditions and the traditional reduction in stocks at year-end. The majority of sources state that in January the caprolactam market will again begin to develop, particularly in the Asian market. Short-term forecasts anticipate caprolactam price growth with regard to the high costs of commodities, particularly crude oil and thus also benzene prices (the commodities used for its production), together with on-going demand and the shortage of caprolactam in the Asian market.

The trend in liquid caprolactam pricing was also followed by the prices for polyamide 6. In comparison with the previous year, monthly average prices were EUR 1 983 per tonne in 2010, growing to EUR 2 469 per tonne in 2011.
The primary material used to manufacture polyoxymethylene (POM) is methanol. As with other commodities, average price listings grew in comparison with the previous year. In 2011 these increased to EUR 308 per tonne from EUR 255 per tonne the year before. Traditionally, trends in this commodity fluctuate around a straight line and demonstrate rare variations during the year. The average annual price listing for polyoxymethylene in 2011 grew to EUR 2,469 per tonne as opposed to the level of EUR 2,396 per tonne seen in 2010. The European market for polyacetics suffered from over-supply, with the existing commodity surplus resulting from large inventories built up during the first three quarters of 2011. The launch of new Ticona POM production facility and the growing imports from Asia caused excessive growth in supply during Q4 of 2011. Polyoxymethylene consumption remained stable throughout December, but the prognosis is that during Q1 2012 any increase in consumption will depend on developments in the construction and automotive sectors.
5.2. Key economic and financial figures

5.2.1. Financial performance

The Company ended 2011 with EBITDA of PLN 322 468 000 and PLN 207 875 000 in net profit. These results are an improvement on the 2010 figures of PLN 177 938 000 and PLN 147 219 000 respectively.

Table 20 Financial performance

<table>
<thead>
<tr>
<th>Details</th>
<th>2011</th>
<th>2010</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue from sales</td>
<td>1 916 717</td>
<td>1 549 753</td>
<td>366 964</td>
<td>23.7</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(1 428 982)</td>
<td>(1 270 191)</td>
<td>(158 791)</td>
<td>12.5</td>
</tr>
<tr>
<td>Gross profit on sales</td>
<td>487 735</td>
<td>279 562</td>
<td>208 173</td>
<td>74.5</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(69 841)</td>
<td>(71 423)</td>
<td>1 582</td>
<td>(2.2)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(122 752)</td>
<td>(96 962)</td>
<td>(25 790)</td>
<td>26.6</td>
</tr>
<tr>
<td>Net profit on sales</td>
<td>295 142</td>
<td>111 177</td>
<td>183 965</td>
<td>165.5</td>
</tr>
<tr>
<td>Other operating revenue / expenses</td>
<td>(36 897)</td>
<td>(35 281)</td>
<td>(1 616)</td>
<td>x</td>
</tr>
<tr>
<td>EBIT</td>
<td>258 245</td>
<td>75 896</td>
<td>182 349</td>
<td>240.3</td>
</tr>
<tr>
<td>Depreciation</td>
<td>64 223</td>
<td>68 634</td>
<td>(4 411)</td>
<td>(6.4)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>322 468</td>
<td>144 530</td>
<td>177 938</td>
<td>123.1</td>
</tr>
<tr>
<td>Finance income / costs</td>
<td>1 376</td>
<td>1 242</td>
<td>134</td>
<td>10.8</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>259 621</td>
<td>77 138</td>
<td>182 483</td>
<td>236.6</td>
</tr>
<tr>
<td>Income tax</td>
<td>(51 746)</td>
<td>(16 482)</td>
<td>(35 264)</td>
<td>214.0</td>
</tr>
<tr>
<td>current income tax:</td>
<td>(48 817)</td>
<td>(21 562)</td>
<td>(27 255)</td>
<td>126.4</td>
</tr>
<tr>
<td>deferred income tax:</td>
<td>(2 929)</td>
<td>5 080</td>
<td>(8 009)</td>
<td>(157.7)</td>
</tr>
<tr>
<td>Net profit</td>
<td>207 875</td>
<td>60 656</td>
<td>147 219</td>
<td>242.7</td>
</tr>
</tbody>
</table>

A negative result of PLN (36 897 000) was recorded on other operating activity. The key impact on this result came from the creation of provisions for the reclamation, demolition and organisation of property, incurrence of accident removal costs, losses on sale of non-current non-financial assets and the recognition of impairment charges on assets. During the same period a year earlier the result in this area was also negative, standing at PLN (35 281 000). In 2011 the balance of finance income to costs was positive and amounted to PLN 1 376 000. Gain on financing activities is the difference between dividends and share in profit received, interest received and the proceeds from selling subsidiaries, associates and jointly controlled entities over the level of interest paid on loans and borrowings. During the same period last year the result on financing activities was also positive, totalling PLN 1 242 000.
5.2.2. Financial results by business segment

Table 21 EBIT by business segment in 2011

<table>
<thead>
<tr>
<th>Details</th>
<th>Fertilisers</th>
<th>Plastics</th>
<th>Other activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue from sales</td>
<td>714 398</td>
<td>1 151 010</td>
<td>51 309</td>
</tr>
<tr>
<td>share [in %]</td>
<td>37.3</td>
<td>60.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Profit on sales</td>
<td>92 492</td>
<td>193 063</td>
<td>9 587</td>
</tr>
<tr>
<td>share [in %]</td>
<td>31.3</td>
<td>65.4</td>
<td>3.2</td>
</tr>
<tr>
<td>EBIT</td>
<td>84 653</td>
<td>190 673</td>
<td>(17 081)</td>
</tr>
<tr>
<td>share [in %]</td>
<td>32.8</td>
<td>73.8</td>
<td>(6.6)</td>
</tr>
</tbody>
</table>

Sales results on Azoty Tarnów products are primarily determined by the market situation in the fertilisers, plastics and oxo alcohol segments. 2011 also saw revenues in the plastics segment increase by 28% y/y to PLN 1 151 010 000. The largest increase in revenue from sales was recorded in the plastics product group - a 29% increase on the previous year. In 2011, revenue from sales in the fertilisers segment amounted to PLN 714 398 000, a 23% increase on the previous year. The highest growth in revenue from sales was recorded in the ammonium sulphate and calcium ammonium nitrate fertiliser product groups, with 48% and 19% growth respectively on the results for the previous year. Other activity was the only segment where the Company recorded a drop (25%) in relation to 2010. Primarily the higher revenue from sales was achieved due to an increase in sales prices for the Company’s principle products.

Sales

Figure 12 Revenue by product range

Source: Own data

Key items in the Company’s revenue are sale of plastics products (55% share) and fertilisers (21%).
Within the revenue structure a slight improvement was noted in the share of ammonium sulphate in comparison with 2010 (from 10% to 12%), together with plastics products (from 52% to 55%), whereas there was a slight drop in calcium ammonium nitrate fertilisers (from 21% to 20%).

**Plastics segment**

In 2011 revenue from sales in the plastics segment reached PLN 1 151 010 000 and accounted for 60% of Azoty Tarnów's total sales revenue. A significant increase in fertiliser product sales revenue compared to 2010 was recorded in exports (by 32%), along with a decrease in domestic sales (by 9%).

Sales volumes dropped by 29% in the domestic market for the plastics segment, with a simultaneous 6.5% increase in sales levels in the export market.

In 2011 the advantageous conditions on the plastics market continued, which contributed to increasing sales volumes. 120 000 tonnes of plastics products were sold (a 1.4% increase), together with 16 000 tonnes of chemicals (13% growth) in comparison with the preceding year. A total of 126 000 tonnes were sold in the export market, constituting 92% of sales volumes for principle plastics segment products (89% plastics products and 11% chemicals). At the same time 10 000 tonnes of principle plastics segment products were sold in the domestic market (74% plastics products and 26% chemicals).

The beneficial pricing situation continued in 2011, which led to an increase in revenue from sales to PLN 1 151 010 000 (28% improvement on 2010).

**Table 22 Key Plastics segment product sales**

<table>
<thead>
<tr>
<th>Details</th>
<th>Unit of measure</th>
<th>2011</th>
<th>2010</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>tonne</td>
<td>136 695</td>
<td>133 113</td>
<td>2.7</td>
</tr>
<tr>
<td>Revenue</td>
<td>PLN thousands</td>
<td>1 134 176</td>
<td>880 863</td>
<td>28.8</td>
</tr>
</tbody>
</table>

Favourable market conditions permitted the Group to consistently raise prices of most plastics products.
Fertiliser segment

In 2011 revenue from sales in the Fertiliser segment reached PLN 714 398 000 and amounted to 37% of Azoty Tarnów's total sales revenue. A significant increase in revenue from sales compared to 2010 was recorded in terms of both the domestic market (28%) and exports (14%). Sales volumes decreased in the fertilisers segment, both in the domestic market (12%) and export markets (11%). In 2011, 399 000 tonnes of fertilisers were sold (down 18%), together with 306 000 tonnes of ammonium sulphate (down 1%) and 41 000 tonnes of nitrates (down 18%). A total of 487 000 tonnes was sold in the domestic market, counting for 65% of fertiliser sales volumes (of which 71% was calcium ammonium nitrate, 21% ammonium sulphate and 8% nitrates). At the same time 259 000 tonnes of fertilisers were exported (of which 20% was sale of calcium ammonium nitrate fertilisers, 79% ammonium sulphate and 1% nitrates).

The beneficial price situation in the market continued in 2011, which led to an increase in revenue from sales to PLN 714 398 000 (23% improvement on 2010). An improvement in the profitability of agricultural production and positive pricing trends for grain had a significant impact on the purchasing tendencies of farmers and thus also on the Company’s results.
Table 23 Key Fertiliser segment product sales

<table>
<thead>
<tr>
<th>Details</th>
<th>Unit of measure</th>
<th>2011</th>
<th>2010</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>tonne</td>
<td>746 003</td>
<td>844 115</td>
<td>(11.6)</td>
</tr>
<tr>
<td>Revenue</td>
<td>PLN thousands</td>
<td>659 599</td>
<td>523 926</td>
<td>25.9</td>
</tr>
</tbody>
</table>

Favourable market conditions allowed the Company to raise prices across most of its fertiliser portfolio.

Figure 16 Fertiliser segment sales value

Source: Own data

Figure 17 Fertiliser segment sales volume

Source: Own data
5.2.3. Expenses by nature

In 2011 expenses by nature reached PLN 1 520 057 000, i.e. PLN 189 613 000 higher than in the preceding year. A significant increase of PLN 152 617 000 was reported under the largest expense item, consumption of raw materials and energy, of which 78% (PLN 119 518 000) related to increasing prices of basic raw materials, whereas the remainder resulted from intensified consumption related to the larger scale of production in the plastics segment and higher prices on other materials.

Table 24 Expenses by nature

<table>
<thead>
<tr>
<th>Details</th>
<th>2011</th>
<th>2010</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>64 223</td>
<td>68 634</td>
<td>(4 411)</td>
<td>(6.4)</td>
</tr>
<tr>
<td>Use of raw materials and energy</td>
<td>1 049 241</td>
<td>896 625</td>
<td>152 616</td>
<td>17.0</td>
</tr>
<tr>
<td>Third-party services</td>
<td>204 859</td>
<td>193 209</td>
<td>11 650</td>
<td>6.0</td>
</tr>
<tr>
<td>Remuneration, margin and other benefits</td>
<td>147 167</td>
<td>119 518</td>
<td>27 649</td>
<td>23.1</td>
</tr>
<tr>
<td>Taxes and fees</td>
<td>38 736</td>
<td>35 622</td>
<td>3 114</td>
<td>8.7</td>
</tr>
<tr>
<td>Other expenses by nature</td>
<td>15 830</td>
<td>16 836</td>
<td>(1 006)</td>
<td>(6.0)</td>
</tr>
</tbody>
</table>

Cost of raw materials and energy use

The cost of raw materials and energy used was 17% or PLN 152 616 000 higher in 2011 in comparison with the previous year. An increase in the price of basic raw materials, including mainly petrochemicals, accounted for approx. 78% of this change, the absolute value of which was PLN 41 092 000 in the case of phenol and PLN 16 713 000 for benzene. These values in the case of other basic raw materials were as follows: ammonia PLN 20 063 000, natural gas PLN 18 334 000, coal PLN 9 526 000, sulphur PLN 9 532 000 and methanol PLN 4 045 000. An 8% price drop was noted in the case of electricity with simultaneous increase in purchases, which ended with PLN 9 624 000 growth in the level procured. The variation in costs of materials and energy used was also affected by failure-driven additional purchases of nitric acid from processing and lower purchases of ammonia. In addition significant quantitative deviations refer to the consumption of dolomite stones (reduced production of calcium ammonium nitrate fertilisers) as well as coal and electricity (more intensive purchases of energy to the detriment of on-site coal-based production).

Other expenses by nature

In 2011 other expenses by nature constituted 31% of operating expenses, down from 32.6% in the comparative period.

Table 25 Other expenses by nature [in %]

<table>
<thead>
<tr>
<th>Details</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>13.6</td>
<td>15.8</td>
</tr>
<tr>
<td>Third-party services</td>
<td>43.5</td>
<td>44.5</td>
</tr>
<tr>
<td>Remuneration, margin and other benefits</td>
<td>31.3</td>
<td>27.6</td>
</tr>
<tr>
<td>Taxes and fees</td>
<td>8.2</td>
<td>8.2</td>
</tr>
<tr>
<td>Other expenses by nature</td>
<td>3.4</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
The following should be noted following an analysis of changes in the structure of individual items under other expenses:

- A decreasing importance of depreciation and amortisation in the global structure of expenses is a consequence of extending the useful life of non-current assets,
- A reduction in the share of third party services results from its relatively low growth compared to rises in other expense items. However, the value of third party services increased by PLN 11 650 000 during the analysed period. This variation is due to the PLN 17 857 000 growth in overhaul services, an unchanged level for transport services and lower remaining third party services, mainly due to the fact that the year 2010 saw higher expenses for expert opinions in association with acquisitions of shares in companies,
- The increase in the costs of work results from the annual bonus for 2010, paid out in 2011 (there was no bonus for 2009) and variations in the levels of provisions,
- A drop in the share of miscellaneous expenses by type reflects lower property and personal insurance costs.

5.3. Description of asset and liability structure

In 2011 the Company’s assets increased by 58% to PLN 2 476 415 000 from PLN 1 564 487 000 as at 31 December 2010. As at 31 December 2011 non-current assets were valued at PLN 1 973 543 000, with current assets at PLN 502 872 000.

Changes on the asset side of the balance sheet in 2011:
- Increase in non-current assets by PLN 911 556 000 or 86%,
- Increase in current assets by PLN 372 000 or 0.1%,
- Increase in property, plant and equipment by 139 807 000 or 18% as a result of higher capital expenditures compared to depreciation,
- Increase in investments in subsidiaries, associates and jointly controlled entities by PLN 773 959 00 or 352% resulting from the purchase of shares in ZAK S.A. and Z.Ch. Police S.A.,
- Increase in inventory and receivables compared to 2010 as a result of the Company’s trading operations,
- Increase in cash and cash equivalents, which was PLN 86 289 000 as at 31 December 2011 and decreased by PLN 85 902 000 compared to the same period last year.

<table>
<thead>
<tr>
<th>Details</th>
<th>2011</th>
<th>2010</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>916 912</td>
<td>777 105</td>
<td>139 807</td>
<td>18.0</td>
</tr>
<tr>
<td>Investment property</td>
<td>12 622</td>
<td>12 159</td>
<td>463</td>
<td>3.8</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>27 395</td>
<td>20 763</td>
<td>6 632</td>
<td>31.9</td>
</tr>
<tr>
<td>Investments in subsidiaries, associates and jointly controlled entities</td>
<td>993 757</td>
<td>219 798</td>
<td>773 959</td>
<td>352.1</td>
</tr>
<tr>
<td>Available-for-sale investments</td>
<td>12 204</td>
<td>15 552</td>
<td>(3 348)</td>
<td>(21.5)</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>10 653</td>
<td>14 310</td>
<td>(3 657)</td>
<td>(25.6)</td>
</tr>
<tr>
<td>Non-current receivables</td>
<td>0</td>
<td>2 300</td>
<td>(2 300)</td>
<td>x</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td><strong>1 973 543</strong></td>
<td><strong>1 061 987</strong></td>
<td><strong>911 556</strong></td>
<td><strong>85.8</strong></td>
</tr>
<tr>
<td>Inventory</td>
<td>177 422</td>
<td>172 832</td>
<td>4 590</td>
<td>2.7</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>5 326</td>
<td>5 858</td>
<td>(529)</td>
<td>(4.6)</td>
</tr>
<tr>
<td>Income tax receivables</td>
<td>2 453</td>
<td>1 947</td>
<td>506</td>
<td>26.0</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>225 148</td>
<td>145 749</td>
<td>79 399</td>
<td>54.5</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>86 289</td>
<td>172 191</td>
<td>(85 902)</td>
<td>(49.9)</td>
</tr>
</tbody>
</table>
Details | 2011 | 2010 | change | % change
--- | --- | --- | --- | ---
Other assets | 6 109 | 4 071 | 2 038 | 50.1
Non-current assets held for sale | 125 | 125 | - | x
Current assets | 502 872 | 502 500 | 372 | 0.1
Total assets | 2 476 415 | 1 564 487 | 911 928 | 58.3

Significant changes on the liability side of the balance sheet in the audited period:
- an increase in Company equity by PLN 803 366 000 (72%) due to proceeds from the series C share issue and net profit reported in 2011,
- a PLN 108 562 000 (25%) increase in total liabilities,
- an increase in non-current liabilities of PLN 19 246 000 (15%) as a result of increasing provisions for pension benefits and other provisions,
- a PLN 89 316 000 (29%) increase in the carrying amount of current liabilities,
- an increase in financial liabilities, resulting from inclusion under this item of invoices covered by factoring and forfeiting,
- an increase in trade and other payables results from changes in the structure of and an increase in revenue generated by the Company as compared to 2011,

Table 27 Equity and liability structure

| Details | 2011 | 2010 | change | % change |
--- | --- | --- | --- | ---
**Equity** | 1 925 589 | 1 122 223 | 803 366 | 71.6 |
Liabilities due to borrowings | 30 135 | 30 855 | (720) | (2.3) |
Provisions for employee benefits | 32 931 | 24 924 | 8 007 | 32.1 |
Other provisions | 25 289 | 20 228 | 5 061 | 25.0 |
Government grants | 902 | 300 | 602 | 200.7 |
Provisions for deferred income tax | 54 403 | 52 937 | 1 466 | 2.8 |
Financial liabilities | 6 246 | 1 416 | 4 830 | 341.1 |
**Non-current liabilities** | 149 906 | 130 660 | 19 246 | 14.7 |
Liabilities due to borrowings | 92 997 | 118 354 | (25 357) | (21.4) |
Trade and other payables | 230 832 | 179 021 | 51 811 | 28.9 |
Provisions for employee benefits | 2 420 | 2 254 | 166 | 7.4 |
Other provisions | 16 191 | 10 911 | 5 280 | 48.4 |
Government grants | 18 | 21 | (3) | (14.3) |
Deferred income | 16 | 8 | 8 | 100.0 |
Financial liabilities | 58 446 | 1 035 | 57 411 | 5 547.0 |
**Current liabilities** | 400 920 | 311 604 | 89 316 | 28.7 |
Total liabilities | 550 826 | 442 264 | 108 562 | 24.5 |

Total equity and liabilities | 2 476 415 | 1 564 487 | 911 928 | 58.3 |
5.4. Financial ratios

5.4.1. Profitability

The good situation in the chemical products market in 2011 is reflected in the annual financial results. Although financial ratios deteriorated year on year, profitability ratios calculated in relation to revenues, assets and equity indicate that the Company generates satisfactory revenues from all types of activities and generates profits for investors.

**Table 28 Profitability ratios**

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on sales</td>
<td>10.85%</td>
<td>3.91%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>13.47%</td>
<td>4.90%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>16.82%</td>
<td>9.33%</td>
</tr>
<tr>
<td>Return on assets (ROA)</td>
<td>10.29%</td>
<td>4.03%</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>12.10%</td>
<td>5.71%</td>
</tr>
</tbody>
</table>

*Ratio definitions:*

- **Return on sales** = net profit / revenue from sales
- **EBIT margin** = operating profit (EBIT) / revenue from sales
- **EBITDA margin** = operating profit (EBIT) + depreciation and amortisation / revenue from sales
- **Return on assets (ROA)** = net profit (loss) / total assets (opening balance + closing balance)/2
- **Return on equity (ROE)** = net profit (loss) / equity excluding current year profit

5.4.2. Liquidity

The Company’s financial situation is closely dependent on events occurring outside its market environment. These have a direct impact on the capability to meet current liabilities.

In 2011 the Company enjoyed growth in almost all liquidity ratios which was caused by a dynamic increase in current assets (in particular inventory), with a concurrent decrease in current liabilities.

**Table 29 Liquidity ratios**

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity ratio I</td>
<td>1.25</td>
<td>1.61</td>
</tr>
<tr>
<td>Liquidity ratio II</td>
<td>0.81</td>
<td>1.06</td>
</tr>
<tr>
<td>Liquidity ratio III</td>
<td>0.22</td>
<td>0.55</td>
</tr>
</tbody>
</table>

*Ratio definitions:*

- **Liquidity ratio I** = current assets / current liabilities
- **Liquidity ratio II** = (current assets – inventory) / current liabilities
- **Liquidity ratio III** = (cash and cash equivalents + financial derivatives) / current liabilities

As a result of the change in current assets and current liabilities described above, as at 31 December 2011 working capital amounted to PLN 101 952 000. As at 31 December 2010 working capital amounted to PLN 190 896 000.
5.4.3. Inventory, receivables and payables turnover

In 2011 the inventory turnover ratio decreased by five days, following increased cost of sales in 2011 compared to 2010, with a simultaneous stabilisation of the average inventory balance at nearly unchanged levels. Receivables turnover dropped by two days year on year. This was caused by lower growth in the average level of receivables in relation to the revenue dynamic. Trade receivable turnover was significantly decreased (by six days), chiefly as a result of a higher average balance of trade payables.

Table 30 Inventory, receivables and payables turnover ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover in days</td>
<td>44</td>
<td>49</td>
</tr>
<tr>
<td>Receivables turnover in days</td>
<td>35</td>
<td>33</td>
</tr>
<tr>
<td>Liabilities turnover in days</td>
<td>52</td>
<td>46</td>
</tr>
</tbody>
</table>

*Ratio definitions:

Inventory turnover = [(opening + closing) balance of inventory for the period / 2 * number of days in the period] / [manufacturing costs of products sold + value of materials and goods for resale sold]

Receivables turnover = [(opening + closing) balance of trade receivables for the period / 2 * number of days in the period] / net revenue from sales of products, goods for resale and materials

Liabilities turnover = [(opening + closing) balance of trade liabilities the period / 2 * number of days in the period] / [manufacturing costs of products sold + value of goods for resale and materials sold]

5.4.4. Debt

In 2011 the Company’s total liabilities increased by PLN 108 562 000 (25%), while equity and liabilities increased by PLN 911 928 000 (58%). In 2011 the Company generated PLN 207 875 000 in net profit, which led to an increase in the nominal value of equity in relation to 2010. As a result of a higher growth dynamic in equity over total equity and liabilities, the debt ratio and debt-to-equity ratio decreased. At the same time the equity-to-assets ratio grew slightly.

Table 31 Debt ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt ratio</td>
<td>22.24%</td>
<td>28.27%</td>
</tr>
<tr>
<td>Equity-to-debt ratio</td>
<td>28.61%</td>
<td>39.41%</td>
</tr>
<tr>
<td>Equity-to-assets ratio</td>
<td>77.76%</td>
<td>71.73%</td>
</tr>
</tbody>
</table>
**Ratio definitions:**

- **Total debt ratio** = total liabilities / total equity and liabilities
- **Equity-to-debt ratio** = total liabilities / equity
- **Equity-to-assets ratio** = equity / total assets

**5.5. Explanation of differences between the actual and estimated financial results for 2011**

The Company did not publish financial forecasts for 2011.

**5.6. Financial resources and asset management**

In 2011 the Company effectively financed all important investment projects, which was possible mainly due to the use of proceeds from the share issues carried out in 2008 and 2011. In addition, in 2011 the Company generated significant operating surpluses which permitted to reduce its total credit and loan liabilities from PLN 149,209,000 to PLN 123,132,000.

More importantly, the Company maintains a high surplus of cash (PLN 86,289,000 as of 31 December 2011) so the risk of any liquidity loss is very limited. Furthermore, the Company has overdraft and multi-purpose facility limits available (totalling PLN 61,537,000 as of 31 December 2011), which additionally mitigates the risk.

In 2011 the Company observed all maturity dates and other conditions for repayment of its liabilities, the default under which could result in those liabilities being called for an early repayment.

The Company is fully able to repay its current and loan liabilities and is highly rated by its strategic lenders so even considering a possible deterioration of the macro picture there are no threats of a deterioration or loss of liquidity.

Moreover, under subsequent stages of the ZAK S.A. and Z.Ch. Police S.A. integration process, further objectives in the Group’s financing strategy are being reached:

- ensuring uniform financing conditions adapted to the Group’s standing and potential in the entire Azoty Tarnów Group,
- ensuring optimal financial liquidity of all Azoty Tarnów Group companies.

So far the foregoing Azoty Tarnów objectives are pursued through the following activities:

- refinancing previously restructured loan liabilities – the process is completed in ZAK S.A. and is in ending stages in Z.Ch. Police S.A. – with the banks of strategic importance for the Azoty Tarnów Group,
- effectively financing bridge repayments of Z.Ch. Police S.A. liabilities to PGNiG S.A. under a respective agreement from the Group’s cash surpluses and finally from new limits of overdraft and working capital facilities granted to Z.Ch. Police S.A.,
- extending virtual cash-pooling services combined with an overdraft for Azoty Tarnów Group first by ZAK S.A. with its subsidiaries and then by Z.Ch. Police S.A. with its subsidiaries in order to further optimise the Group’s cash flows and financing costs,
- overdraft sub-limits under a global limit extended by PKO BP for Azoty Tarnów Group being managed by the Company and being flexibly adjusted to the needs of the Group’s companies,
- negotiating and implementing uniform standards, conditions for credit limits and other credit-related instruments (leasing, factoring) based on the Group’s potential and standing for all Azoty Tarnów Group’s companies,
- the Company maintaining cash surpluses to be used for pursuing strategic objectives set forth in the prospectus.
Table 32 Borrowings used by the Company in 2011

<table>
<thead>
<tr>
<th>Bank</th>
<th>Credit balance as at year start / currency in thousands</th>
<th>Credit balance as at year end / currency* in thousands</th>
<th>Interest accrued during the year in PLN</th>
<th>Agreement execution date</th>
<th>Contractual repayment period / deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance costs</td>
<td>Investment costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PKO BP S.A.</td>
<td>-</td>
<td>-</td>
<td>147</td>
<td>-</td>
<td>05-07-2006</td>
</tr>
<tr>
<td>Raiffeisen Bank Polska S.A.</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>21-09-2005</td>
</tr>
<tr>
<td>BGŻ S.A.</td>
<td>EUR 3 200</td>
<td>EUR 2 004</td>
<td>297</td>
<td>-</td>
<td>24-05-2006</td>
</tr>
<tr>
<td>Raiffeisen Bank Polska S.A.</td>
<td>EUR 4 966</td>
<td>EUR 3 724</td>
<td>598</td>
<td>-</td>
<td>16-12-2009</td>
</tr>
<tr>
<td>Raiffeisen Bank Polska S.A.</td>
<td>-</td>
<td>EUR 881</td>
<td>0</td>
<td>40</td>
<td>21-09-2010</td>
</tr>
<tr>
<td>Raiffeisen Bank Polska S.A.</td>
<td>USD 910</td>
<td>USD 4 368</td>
<td>0</td>
<td>177</td>
<td>21-09-2010</td>
</tr>
<tr>
<td>PKO BP S.A.</td>
<td>PLN 14</td>
<td>-</td>
<td>73</td>
<td>-</td>
<td>01-10-2010</td>
</tr>
<tr>
<td>PKO BP S.A.</td>
<td>PLN 100 000</td>
<td>-</td>
<td>3 597</td>
<td>-</td>
<td>29-11-2010</td>
</tr>
<tr>
<td>PKO BP S.A.</td>
<td>-</td>
<td>PLN 1 607</td>
<td>5 097</td>
<td>-</td>
<td>14-06-2011</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total credits (in PLN thousands)</strong></td>
<td>149 599</td>
<td>53 393</td>
<td>10 427</td>
<td>217</td>
<td>-</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZAK S.A.</td>
<td>-</td>
<td>PLN 70 000</td>
<td>2 482</td>
<td>0</td>
<td>14-06-2011</td>
</tr>
<tr>
<td><strong>Total loans (in PLN thousands)</strong></td>
<td>-</td>
<td>70 000</td>
<td>2 482</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total credits and loans in PLN thousands</strong></td>
<td>149 599</td>
<td>123 393</td>
<td>12 908</td>
<td>217</td>
<td>-</td>
</tr>
</tbody>
</table>

* loans presented at nominal value as at the end of the reporting period; PLN equivalents of EUR loans given as per the lead bank’s ask rate, i.e. as at 31 December 2011 EURPLN = 4.5106 and USDPLN = 3.485. Unless otherwise stated, amounts presented in PLN thousands.
In 2011 the Company was not refused credit and no notice was served on credit agreements.

Asset changes

Table 33  Changes in Company assets in 2011

<table>
<thead>
<tr>
<th>No.</th>
<th>Type change</th>
<th>Object of disposal</th>
<th>Legal basis for disposal</th>
<th>Means of disposal</th>
<th>Revenue from sales [PLN thousands]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Plot number cadastral unit</td>
<td>Building</td>
<td>Plot</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4/86</td>
<td>208</td>
<td>1. Resolution no. 64/VII/2009 of the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. of 23 February 2009</td>
</tr>
<tr>
<td>1.</td>
<td>Sale of perpetual usufruct to an undeveloped plot together with share in an access road (plot no. 4/87, cadastral unit 208)</td>
<td></td>
<td>845.5</td>
<td>-</td>
<td>2. Resolution no. 165/VII/2009 of the Supervisory Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. of 21 May 2009</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4. Resolution no. 212/VII/2010 of the Supervisory Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. of 13 April 2010</td>
</tr>
<tr>
<td>2.</td>
<td>Termination of the right to perpetual usufruct of a plot of land constituting part of the Świerczkowski Trench</td>
<td></td>
<td>650.0</td>
<td>-</td>
<td>1. Resolution no. 28/VIII/2011 of the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. of 30 June 2011</td>
</tr>
</tbody>
</table>
Management report on the operations of Zakłady Azotowe w Tarnowie-Mościcach S.A.  
(all figures in PLN thousands unless otherwise stated)

Lease of property

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of lessees</th>
<th>Annual lease fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>76</td>
<td>6 456 600</td>
</tr>
</tbody>
</table>

Total property rental income in 2011 amounted to PLN 6 456 600, of which income from external lessees totalled PLN 2 829 900.

Rent income fully covers property maintenance costs and the surplus lowers the company-wide amount allocated to maintaining the Company’s infrastructure.

Social and accommodation facilities

A holiday and leisure complex in the coastal town of Mielenko is owned by Zakłady Azotowe w Tarnowie-Mościcach S.A.

It is located on the following land:
- 5 804m² - plot of land - perpetual usufruct
- 3 443m² - plot of land - perpetual usufruct
- 3 971m² - plot of land owned by Azoty Tarnów

Total: 13 218m² of usable area

The holiday and leisure complex comprises the following buildings and facilities:
- multi-storey building housing kitchen and storage space, a canteen, lounge, 13 rooms for staff and an isolation room,
- a building housing washing facilities with hot water,
- a portable building - accommodation for teaching personnel, doctor’s surgery, nurse’s room and management offices,
- equipment storage building,
- sports facilities (basketball, volleyball courts, etc.).

The complex is connected to the gas mains, has a sewage system, is fenced off and is well lit.

The complex is seasonal and can accommodate approx. 500 children and young people aged between 12 and 18 in tents. Two 21-day camps are organised during the summer, which last from the end of the school year to 10 August. The complex is used by the children of employees and pensioners of Azoty Tarnów and its subsidiaries. If there are free places, the Company sells these to external persons or institution.

After this time, employees’ families and pensioners from subsidiaries stay in the 13 rooms and mobile building (54 places) pursuant to annually calculated costs per night (without food) and, if free places are available, these are sold to persons from outside the Company.
5.7. Assessment of the capacity to achieve investment objectives, including capital expenditures, in relation to the available capital, with consideration to potential alterations in the financing structure for these operations

In 2011 the Company used a total of PLN 730 099 000 in proceeds raised from equity offerings (allocated to implementation of issue objectives) to fund investments and capital expenditures, supplemented by a PLN 400 000 000 bridge investment loan used to finance the acquisition of a majority interest in Z.Ch. Police SA and other investment and special-purpose loans totalling PLN 84 285 000.

As at 31 December 2011 the Company had unused investment loans totalling PLN 16 437 000, allocated for further execution of planned capital expenditures on the construction of a new Hydrogen Facility.

The Company has the capacity to finance its planned investments both from the existing and projected operating surplus of own funds and from new investment borrowings, if necessary. The acceptable levels of financial ratios, as agreed with the strategic lenders, leave room for the Company to significantly increase leverage without risking a breach of any existing covenants.

The largest investments planned for commencement in 2012 include:

- Modernisation of the Cooling Station no. 6 refrigeration system,
- Modernisation of the selective phenol hydrogenation installation in the Palladium catalyst,
- Exchange of the computer control and instrumentation systems in the Lactam Department,
- Exchange of the oleum pipeline from the Sulphuric Acid Manufacturing Facility to the Lactam Department,
- Distillation of residue from palladium-cyclohexanine rectification,
- Exchange of the computer control and instrumentation systems at the Ammonium Nitrate Plant,
- Intensification of the Modified Plastics Plant – phase III
- Modernisation of the interior of ammonia synthesis reactors.

5.8. Information on credit and loan agreements executed and terminated during the financial year

Overdraft facility at PKO BP S.A.

On 30 March 2011 the Company (jointly with the domestic subsidiaries of Azoty Tarnów Group) executed an Amendment to the Overdraft Facility Agreement for the period ending on 30 September 2013. The amendment increased the overdraft limit from PLN 40 000 000 to PLN 100 000 000 and established a new sub-limit of PLN 55 700 000 for ZAK S.A. and individual sub-limits totalling PLN 4 300 000 for ZAK S.A. subsidiaries.

Also on 30 March 2011 the Company (jointly with the domestic subsidiaries of Azoty Tarnów Group) executed an Amendment to the Virtual Cash-Pooling Agreement. The agreement serves the purpose of virtual offsetting of the surpluses and overdrafts in current accounts in order to optimise the gains on and costs of interest for the Azoty Tarnów Group through virtual balancing.

Then on 16 June 2011 the Company (also representing other Azoty Tarnów Group companies) executed Amendment 2 to the Overdraft Facility Agreement as well as Amendment 2 to the Virtual Cash-Pooling Agreement. The Amendments were made to exclude the subsidiary company Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne „ELZAT” Sp. z o.o. from participation in both agreements (in view of the subsequently concluded sale of 100% interest in the subsidiary), to include the subsidiary company Hotel Centralny Sp. z o.o. and to shift the sub-limits within the overall overdraft facility granted to Azoty Tarnów Group.

Moreover, on 7 December 2011 the Company (representing other Azoty Tarnów Group
companies) executed an Amendment to the Overdraft Facility Agreement for the period ending on 30 September 2014. The amendment increased the overdraft limit from PLN 100 000 000 to PLN 250 000 000 and established a new sub-limit of PLN 141 100 000 for Z.Ch. Police S.A. and individual sub-limits totalling PLN 8 900 000 for Z.Ch. Police S.A. subsidiaries.

**Multi-purpose revolving credit line at PKO BP S.A.**

On 31 August 2011 the Company executed an Amendment to the Multi-Purpose Revolving Credit Agreement of PLN 25 000 000 for the period from 5 July 2006 to 31 August 2014. The Amendment increased the overall credit limit by PLN 10 000 000 for the purpose of covering any LCs and guarantees, and extended the agreement life by another three years.

Information concerning credits and loans incurred to finance the acquisition of shares in ZAK S.A. and Z.Ch. “Police” S.A. is presented in point 4.4., with a description of the means of financing these transactions.

**Table 34 Credit and loan facilities incurred or amended in 2011**

<table>
<thead>
<tr>
<th>Credit, loan</th>
<th>Agreement date</th>
<th>Annex date</th>
<th>Currency</th>
<th>Amount</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account overdraft - PKO BP S.A.</td>
<td>01-10-2010</td>
<td>30.3.2011; 16.6.2011; 07.12.2011</td>
<td>PLN</td>
<td>PLN 250 000 000 limit for the Azoty Tarnów Group, including a PLN 30 000 000 sublimit for the Company</td>
<td>30-09-2014</td>
</tr>
<tr>
<td>Multi-purpose loan - PKO BP S.A.</td>
<td>05-07-2006</td>
<td>31-08-2011</td>
<td>PLN</td>
<td>25 000 000</td>
<td>31-08-2014</td>
</tr>
<tr>
<td>Special-purpose loan to acquire shares in Z.Ch. Police S.A. - ZAK S.A.</td>
<td>14-06-2011</td>
<td></td>
<td>PLN</td>
<td>400 000 000</td>
<td>repaid</td>
</tr>
<tr>
<td>Current account overdraft - PKO BP S.A.</td>
<td>14-06-2011</td>
<td></td>
<td>PLN</td>
<td>70 000 000</td>
<td>31-05-2012</td>
</tr>
</tbody>
</table>

**5.9. Information on loans granted**

On 21 January 2011 the Company, executed a PLN 50 000 000 short-term loan agreement with ZAK S.A. for the period ending on 31 May 2011, serving repayment of the debtor’s liabilities towards PGNiG S.A. under the "Debt Repayment Agreement". Interest on the loan has been agreed on the arm’s-length basis, i.e. WIBOR 1M + Company’s margin.

The loan was secured with a transfer of title to the ammonia inventories of ZAK S.A. The loan was repaid as agreed, i.e. in five equal instalments of PLN 10 000 000 paid at the end of each subsequent month between January and May 2011 together with the interest accrued during each month.
Table 35 Loans granted by the Company as at 31 December 2011

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Starting loan amount / currency</th>
<th>Ending loan amount / currency</th>
<th>Interest charged during the year</th>
<th>Date of origination</th>
<th>Contractual period / repayment period</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATT Polymers GmbH</td>
<td>EUR 4 965 500</td>
<td>EUR 3 724 100</td>
<td>1 116.2</td>
<td>07-01-2010</td>
<td>31-03-2010 - 31-12-2014</td>
</tr>
<tr>
<td>ZAK S.A.</td>
<td>-</td>
<td>-</td>
<td>543.2</td>
<td>21-01-2011</td>
<td>31-01-2011 - 31-05-2011</td>
</tr>
</tbody>
</table>

In January 2010 the Company granted its subsidiary ATT Polymers GmbH a loan of EUR 6 000 000. During the period January to December 2011 the borrower made a timely repayment of another 12 monthly instalments, which meant that as at 31 December 2010 the amount remaining unpaid to the Company was still EUR 3 724 000, constituting the equivalent of PLN 15 979 000. During 2011 the Company generated financial income from the interest accruing on loans granted amounting to PLN 1 116 000.

5.10. Information on guarantees and sureties granted and received

Guarantees and sureties granted by the Company

During 2011 the Company granted the following sureties on the liabilities of Azoty Tarnów Group companies:

1. On 23 March 2011 the Company granted a surety on the investment credits granted to ZAK S.A. by Raiffeisen Bank Polska S.A. to refinance the credit liabilities towards a bank consortium of BRE BANK S.A./Bank Pekao S.A./Kredyt Bank S.A. - related to financing the construction of Nitric Acid Facility (TKV) and Water Treatment Facility (SUW), in the amounts of PLN 17 250 000 and EUR 14 750 000, at the same time submitting itself to collection procedures up to 125% of the said credit values, i.e. up to PLN 21 562 500 and EUR 18 437 000 respectively for the period ending on 31 March 2019.

Both sureties were released by Raiffeisen Bank Polska S.A. on 30 December 2011 upon meeting in full the contractual obligations, i.e. upon establishing the target sureties on ZAK S.A. assets and upon the debtor’s and Azoty Tarnów Group’s meeting the financial criteria for two calendar quarters of year as agreed.

2. On 29 March 2011 the Company granted a surety on the multi-purpose revolving credit extended to ZAK S.A. by PKO BP S.A. to refinance the credit liabilities towards a bank consortium comprising BRE BANK S.A./Bank Pekao S.A./Kredyt Bank S.A. - arising from the revolving credit and the operating credit, totalling PLN 100 000 000.

The surety was released by PKO BP S.A. on 30 September 2011 upon meeting in full the contractual obligations, i.e. upon establishing the target sureties on ZAK S.A. assets and upon the debtor’s and Azoty Tarnów Group’s meeting the financial criteria as agreed.
<table>
<thead>
<tr>
<th>Type</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Date issued</th>
<th>31.12.2011</th>
<th>31.12.2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surety / Zakłady Azotowe w Tarnowie - Mościcach S.A.</td>
<td>Envia Mitteldeutsche Energie AG Germany</td>
<td>Security for payment of ATT Polymers GmbH liabilities</td>
<td>EUR</td>
<td>2010-05-24</td>
<td>1 000</td>
<td>1 000</td>
</tr>
<tr>
<td>Surety / Zakłady Azotowe w Tarnowie - Mościcach S.A.</td>
<td>Envia THERM GmbH</td>
<td>Security for payment of ATT Polymers GmbH liabilities</td>
<td>EUR</td>
<td>2010-04-29</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6 766</td>
<td>6 118</td>
</tr>
</tbody>
</table>

* liability in EUR translated into PLN at the EURPLN bid rate of the lead bank as at 31 December 2010 = 4.0788 and of 30 December 2011 - 4.5106

Azoty Tarnów Group related parties did not provide sureties or guarantees to the Company.
Guarantees provided at the request of the Company in 2011

On 14 December 2011 PKO BP S.A. issued a PLN 1 600 000 guarantee to the Director of the Customs Chamber in Krakow as collateral for customs procedures in 2012.

Table 37 Guarantees provided within credit limits at the request of the Group as at 31 December 2011

<table>
<thead>
<tr>
<th>Type</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Date issued</th>
<th>31.12.2011</th>
<th>31.12.2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantee / Raiffeisen Bank Polska S.A.</td>
<td>Director of the Customs Chamber in Krakow</td>
<td>Collateral for customs procedures</td>
<td>PLN</td>
<td>2005-11-15</td>
<td>1 600</td>
<td>1 600</td>
</tr>
<tr>
<td>Bank guarantee / PKO BP S.A.</td>
<td>Director of the Customs Chamber in Krakow</td>
<td>Collateral for customs procedures</td>
<td>PLN</td>
<td>2011-12-24</td>
<td>1 600</td>
<td>-</td>
</tr>
<tr>
<td>Bank guarantee / Raiffeisen Bank Polska S.A.</td>
<td>GATX Rail Poland Sp. z o.o. Warsaw</td>
<td>Guarantee of lease payments</td>
<td>PLN</td>
<td>2008-01-29</td>
<td>143</td>
<td>112</td>
</tr>
<tr>
<td>Bank guarantee / Raiffeisen Bank Polska S.A.</td>
<td>GATX Rail Poland Sp. z o.o. Warsaw</td>
<td>Guarantee of lease payments</td>
<td>PLN</td>
<td>2009-03-26</td>
<td>120</td>
<td>44</td>
</tr>
</tbody>
</table>

|                      |                                                   |                                  |          |             | 3 463      | 1 756      |
5.11. Description of significant off-balance-sheet items

Table 38 Contingent liabilities*

<table>
<thead>
<tr>
<th></th>
<th>As at 31.12.2011</th>
<th>As at 31.12.2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantees, sureties</td>
<td>6 766</td>
<td>6 118</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>6 766</td>
<td>6 118</td>
</tr>
</tbody>
</table>

* The Group does not recognise either in blanco promissory notes issued by the Group as collateral for payables recognised in the balance sheet or guarantees issued by banks at the Group’s request as collateral for liabilities recognised in the balance sheet.

5.12. Financial instruments

In line with its financial risk management policy, the Company identifies the following risks, risk objectives and risk management methods.

Currency risk management:

- Currency risk identification
  The Company is exposed to currency risk on its net currency exposure in EUR and USD, resulting from the balance of foreign currency-denominated sales and procurement as well as trade, finance and investment receivables and payables.
- Currency risk management objective
  Reducing the Company’s planned net currency exposure in EUR and USD resulting from foreign exchange cash flows, with the aim to hedge their volatility.
- Currency hedging limits
  The optimal currency hedging position provides for up to 50% of planned net currency exposure to be hedged for a maximum period of six months from the transaction date and up to 25% of planned currency exposure for periods between six and 12 months from the transaction date.
  Exceeding the above currency hedging limits requires a written acceptance from the Management Board member responsible for finance.
- Rules for entering into currency hedging transactions
  Currency hedging transactions are entered into in a manner allowing to limit the Company’s planned net currency exposure and constitute a cash flow hedge in accordance with the hedge accounting principles. The nominal amount of a currency involved in the transaction may not exceed the amount of the position hedged in this currency.

In order to hedge a currency surplus in EUR and USD, the Company initially uses natural hedging by increasing the value of future EUR- and USD-denominated liabilities through the execution of procurement, investment and financing agreements in these currencies.

Hedging other exposure may be implemented through executing only the following transactions:
- forward rate agreements
- currency swaps, i.e. a transaction entailing an exchange of currency with a bank over a specific period of time – used for on-going optimization of short-term currency structure mismatches.
- It is also possible to create symmetrical options structures such as corridors or options spreads with put-call symmetry
The settlement of currency hedging transactions generally should occur through the physical delivery of a currency upon maturity.

The Company executes hedging transactions with a 12-month timeframe if it is possible to hedge EUR or USD against PLN above the planned assumed rate and within a 3-month timeframe if it is possible to hedge the exchange rate at which foreign currency sales were made, however below the assumed exchange rate.

The execution of hedging transactions within a timeframe exceeding 12 months or exceeding the principles specified in the Currency Risk Management Policy requires Management Board acceptance.

**Interest rate risk management**

The Company is exposed to interest rate risk on its financial liabilities - chiefly loans and borrowings denominated in PLN and EUR based on floating interest rates, and financial assets - mainly bank deposits denominated in PLN which are based on variable and fixed market interest rates.

The objective of interest rate risk management is optimisation of interest rates in terms of:

- reducing the cost of external financing;
- generating the highest rate of return on financial assets, while maintaining their safe allocation.

In achieving the above objective, the Company takes into consideration the optimal structure and cost of financing investments using proceeds from equity issues and bank financing, together with assuring sufficient working capital.

The Company initially uses natural hedging based on a common interest base for loans and financial assets denominated in PLN.

Hedging other interest rate exposure may be implemented through executing only the following transactions:

- Forward Rate Agreements,
- Interest Rate Swaps,
- Currency Interest Rate Swaps.

The execution of interest rate hedging transactions may occur if the planned finance cost of the underlying instrument is limited and requires acceptance from the Management Board member responsible for finance.

The execution of hedging transactions within a timeframe exceeding 12 months or exceeding the principles specified in the Currency Risk Management Policy requires Management Board acceptance.

**Pricing risk management policy**

Taking into consideration the fact that adequate financial instruments for hedging the pricing risk connected with the Company’s main products and commodities do not exist or no significant correlation was identified between this type of hedging instruments and commodity and product derivative prices, the Company does not expect to use them to hedge pricing volatility.

The Company’s objective is to limit pricing volatility risk through natural hedging by matching the largest part of procurement and sales turnover (primarily the main production line: phenol, benzene, caprolactam, polyamide) under framework agreements with changes in ICIS quotes for the underlying commodity.
Credit risk management policy

- Identified credit risks
  The Company is exposed to credit risk due to:
  a) allocating cash or other cash assets at banks,
  b) extending credit limits to counterparties in connection with product and service sales.

- Credit risk management objective
  To minimise the risk of losing financial assets such as loans, receivables, cash and other cash assets.

- Cash allocation limits and cap on credit limits:
  a) The total limit on allocation of the Company’s cash or other cash assets should not exceed:
     - PLN 100 000 000 – at a bank of strategic significance to the Company, with low credit risk and strong financial standing,
     - PLN 50 000 000 – at a bank of operational significance to the Company, with low credit risk and strong financial standing,
     - PLN 10 000 000 – at other financial institutions with at least average credit risk and at least good financial standing.
  b) The total cap on a credit limit extended to a counterparty by the Company should not exceed:
     - Insurance cap on the credit limit,
     - Market value of collateral provided by the client,
     - Cap on the credit limit extended by the Company based on an assessment of the counterparty’s financial standing.

- Principles of credit risk management in the area of:
  a) entering into transactions allocating cash or other cash assets,
     - the Company allocates cash through selecting the best quoted deposit rates obtained from at least three banks, with consideration of allocation limits, except for overnight deposits which may be entered into with a bank in which a cash surplus is accumulated,
     - exceeding the allocation limit and/or entry into a deposit with a maturity of over one year requires approval from the Management Board member responsible for finance or the President of the Management Board.
  b) extending credit limits,
     - the Company specifies the cap on a credit limit on the basis of an application from the personnel responsible for the sales transaction,
     - a credit limit cap does not require separate acceptance if it is insured or collateral is provided by a bank or other institution with a strong financial standing,
     - in all other instances a decision on the credit limit cap requires approval of the Finance Department (for credit limit amounts of up to PLN 300 000), the Credit Risk Committee (PLN 1 000 000) and for amounts in excess of PLN 1 000 000 - the Management Board member responsible for finance or the President of the Management Board.

Upon identification of a default situation resulting in impairment charges, the Company immediately takes amicable, recovery or court enforcement actions aimed at recovering the financial asset at risk or the collateral provided therefor.
5.13. Anticipated financial standing of the Company

Azoty Tarnów’s financial standing is characterised by full payment capability and creditworthiness, both in relation to the Company and to other leading Group companies. This means the Group's capability to make timely repayment of its liabilities and to hold and generate a surplus on operations activity, allowing for further payment within payment deadlines. The Company has free overdraft limits connected with the structure of virtual cash pooling, which the Company may use in situations of changing need for funds amongst Group companies and supplementary free multi-purpose loan limits within subsidiaries. The Company fulfils unified covenants under loan agreements, in accordance with which it has the capability to make significant increases in the scale of financial liabilities as required.

In the view of strategic credit providers, the Group's financial standing is high and there are no threats or risks to this standing in the future.

Expanded description of the Company’s market environment, the impact of market factors on its economic and financial situation and actions taken in 2011, including analysis of hazards, risks and development perspectives.
6. RISKS, THREATS AND PROSPECTS FOR COMPANY DEVELOPMENT

6.1. Significant risk factors and threats

Risk factors and threats facing Azoty Tarnów are as follows:

**Risk connected with the capital market and equity trading**

- Risk connected with changes in control over the Company as a result of the sale of shares by the State Treasury of Poland
- According to State Treasury information, the sale of shares in the largest Polish chemicals companies may be expected within the next 20 months.
- Risk associated with an increase in the supply of Shares connected with the exercise by the State Treasury of commitments resulting from the acts adopted by Polish government or agreements concluded with the State Treasury’s creditors.
- Risk connected with the suspension of trading in shares or rights to shares or their exclusion from trading on the WSE
- Risk connected with administrative sanctions imposed by the Polish Financial Supervision Authority

**Risk connected with public offerings and equity ownership**

- Risk faced by foreign owners of the Company connected with fluctuations in the PLN exchange rate
- Risk of suspension in share trading on the WSE
- Risk connected with the exclusion of rights to shares or shares from trading by the Polish Financial Supervision Authority or the WSE
- Risk connected with regulations concerning the acquisition of significant stakes in public companies
- Risk connected with the publication of reports concerning the Company or negative changes in analysts’ recommendations

**Risk connected with the exclusion of rights to shares or shares from trading by the Polish Financial Supervision Authority or the WSE**

In the event of non-performance or undue performance of obligations or orders or the violation of prohibitions imposed or provided for in the appropriate provisions of the Act on Public Offerings, the Act on Trade in Financial Instruments or Ordinance no. 809/2004 or actions contrary to the obligations contained in such legislature, the Polish Financial Supervision Authority may:

- issue a decision on exclusion of the securities from trading on the regulated market for a defined period of time or indefinitely,
- bearing in mind the specifics of the financial situation in which the entity being fined is found, impose a fine of up to PLN 1 000 000, or
- both of the above concurrently.

Furthermore, in accordance with art. 20, sec. 3 of the Act on Trade in Financial Instruments, at the request of the Polish Financial Supervision Authority, the entity managing the regulated market excludes securities specified by the Polish Financial Supervision Authority or other financial instruments from trading in the event that their trade constitutes a serious threat to the correct operation of the regulated market or to the security of trade on such market or results in the violation of investors' interests.

Similarly, in accordance with § 31, sec. 1 of the WSE Regulations, the WSE Management Board excludes financial instruments from stock market trading:
Management report on the operations of Zakłady Azotowe w Tarnowie-Mościcach S.A.
(all figures in PLN thousands unless otherwise stated)

- if their disposability becomes limited,
- at the request of the Polish Financial Supervision Authority filed in accordance with the Act on Trade in Financial Instruments,
- in the event that their dematerialisation is annulled, or
- in the event that they are excluded from trading on the regulated market by a competent supervisory authority.

Furthermore, the WSE Management Board may exclude financial instruments from trading in accordance with § 31, sec. 2 of the WSE Regulations:
- if they have ceased to fulfil conditions for admission to trade on a given market other than the condition concerning limitation on disposability,
- if the issuer persistently violates the regulations in force at the exchange,
- at the issuer's request,
- as a result of announcement concerning the issuer's bankruptcy or if a court hands down a motion on announcement of bankruptcy due to the fact that funds from the issuer's assets are insufficient to cover the costs of proceedings,
- if it acknowledges that this is necessary for the interest and security of trading participants,
- as a result of the adoption of a decision to merge the issuer with another entity, its division or transformation,
- if within the last 3 months no stock market transactions have been executed on a given financial instrument,
- as a result of the performance by the issuer of illegal activity, or
- as a result of the issuer's liquidation.

Risk of a drop in share price in the event of a share issue by the Company or the notion that such issues will take place

After the expiry of contractual limitations on the issue or disposal of shares in the Company (under lock-up agreements), the Company will be able to issue new shares, including share issues with pre-emptive rights, which is possible with the consent of the general meeting expressed through a resolution passed by an 80% majority of votes and which may result in the dilution of current shareholders' stakes. There is no certainty as to whether the Company will want to issue new shares or dispose of existing shares in the future. The market price of shares may drop significantly if, after expiry of the above limitations, the Company issues new shares or disposes of a significant number of existing shares. The issue or disposal of a significant number of shares in the Company in the future or the conviction that such issue or disposal may take place may have a negative impact on the market price of the shares and also the Company's ability to raise capital through a public offering or private placement of shares or other securities.

Risk connected with regulations concerning the acquisition of significant stakes in public companies

In Poland, the acquisition of large stakes in public companies is governed by legal regulations and in particular may be linked to the obligation to announce a tender offer for the sale of shares. Limitations concerning the acquisition of significant stakes in public companies may have a negative impact on the liquidity and price of the Company's shares and may discourage potential purchasers, whose planned acquisition of shares in the Company would be perceived as beneficial for shareholders in the Company.

Risk connected with the publication of reports concerning the Company or negative changes in analysts' recommendations

Reports concerning the Company published by stock market analysts have an impact on the market price and liquidity of shares in the Company. Furthermore, if one or more stock market analysts ceases to take the Company into consideration or regularly publish reports concerning
the Company, interest in the Company on the capital market may drop, which in turn may cause a decrease in the market price and liquidity of the shares. If one or more stock market analysts change their recommendations to negative, the Company’s share price may be subject to a significant drop.

**Risk of dependence on the macroeconomic situation in Poland and other countries**

Global macroeconomic factors have impact on the Group's financial situation. The chemical industry is a supplier of raw materials, intermediate products and goods to many other industries. Thus the global economic situation has an impact on results in the global chemical sector. In turn the Polish economy is sensitive to the global economic situation and in particular within the European Union. This arrangement of links means that a sudden economic downturn – as confirmed by the global economic crisis of 2008 – has a significant and negative impact on the Group's financial results. The significant macroeconomic factors impacting on the situation of the entire economy, the chemical sector and thus on the Group’s situation include the level and rate of net gross domestic production, inflation rate, unemployment rate, situation on financial and raw materials markets and consumer purchasing power.

**Risk of changes in raw material market prices**

The Company is a manufacturer of chemicals which are heavily dependent on the prices of raw materials. In particular this concerns products based on natural gas and petrochemicals, demand for which is subject to significant fluctuations. In order to limit risk, the Company takes actions aimed at diversifying sources of supply for strategic commodities. Price formulae, which link product price with raw material price, are used as a step aimed at limiting risk resulting from petrochemical price variability.

**Risk of changes in electricity prices**

Price projections for electricity in the power industry to 2015 and beyond indicate a significant increase in manufacture costs by approx. 20-40%, resulting from implementation of the LCP directive (lowering of emissions into the atmosphere from large combustion plants) and the introduction of purchase in CO₂ emission units. In such conditions the optimum competitive solution implemented by business is modernisation of companies’ own sources of heat and electricity generation.

**Risk of limitations in natural gas supply**

Potential interruptions in gas supplies, not necessarily caused by economic factors, may result in the introduction of limitations in supplies of gas for the Group, which subsequently worsen its financial situation.

The Group’s sole supplier of natural gas is PGNiG, whose principal source of supply is the Russian monopoly Gazprom. In order to limit the impact of the risk described above on results, the Group invests in the capability to use gas from local sources in the production process.

**Competition risk and risk connected with the situation in key strategic markets**

Based on past experience, in order to avoid the negative impact of changes in market trends, Azoty Tarnów strives to ensure maximum diversification of its sales markets and customer base to achieve a greater level of independence and the possibility to compensate slower sales in one area with growth in another through specific sales scheduling.

The Group markets mass-manufactured products and their price levels are decided chiefly by the European and global economic situation and development in global relations between supply and demand. This concerns in particular fertiliser products, including those manufactured on the basis of natural gas, phosphorites and potassium salt (urea, NPK and NP fertilisers). Product pricing and demand are subject to significant volatility.
Liberalisation of fertiliser trade protections
The anticipated entry of Russia to the WTO may stabilise prices, especially during the period of direct subsidies. Prices may decrease, due to the fact that Russian manufacture is much less expensive than Polish.

Cyclic risk in product markets
The cyclical aspect derives from periodic supply and demand fluctuations in the development of product sales dynamics. Azoty Tarnów is active in markets which exhibit cyclical fluctuations in demand, which has an impact on development of price levels and the profitability of specific products.
In order to decrease this risk, the Company diversifies its product portfolio and manages current assets to avoid a loss of financial liquidity through effective management of sales and acquisition of new markets.

Seasonality risk
At Azoty Tarnów, the seasonality of sales within the chemicals industry mainly concerns mineral fertilisers, where sales are dependent on the agricultural cultivation calendar and changeable weather conditions.
In avoiding this risk, Azoty Tarnów manages current assets and protects itself against loss of liquidity through dealership agreements which ensure effective sales management throughout the year. In cooperation with BGŻ S.A., the Company is implementing a programme to finance sales with extended payment terms under a factoring agreement for leading fertiliser dealers. This programme is aimed at establishing a comfortable payment period for the above customer group while at the same time obtaining a higher fertiliser sales price.
The Company is also diversifying geographically through selling ammonium sulphate in the South American market, where the height of the season falls during a period of decreased demand for fertilisers among Polish farmers, together with diversifying product sales and expanding the artificial fertiliser segment through extended product ranges and sales markets.

Customs duty risk
In February 2011 antidumping customs duties became effective for the export of caprolactam to China from Europe and the US. Azoty Tarnów received a customs duty of 20.4%. In October 2011 this was reduced to 4.9%.
In addition, China - one of the biggest global producer and exporter of nitrogen fertilisers - has introduced export duties at a level of 110% for urea and phosphorous fertilisers. The steps taken by the Chinese government are aimed at providing a sufficient supply of fertilisers in the internal market in 2012, however they have also impacted developments in demand in the global market, which in turn impacts price levels.

Currency risk
For many years the Company has been active both in export sales and the purchase of the commodities needed for production, making payments in foreign currencies (in particular USD and EUR). In connection with this, the Company is exposed to currency risk, which in particular may appear as an increase in the cost of supplies or a drop in effective revenues from sale, denominated in PLN. Azoty Tarnów uses a range of instruments and activities to hedge foreign currency positions, including natural hedging and forward contracts. Furthermore, in order to reduce its foreign currency positions, the Company takes advantage of the option to make payments in contractual currencies to entities residing abroad. The Company has been using hedge accounting since 2008. In order to limit net foreign currency exposure and its impact on the
Company’s financial results, the Company also executes purchase agreements in PLN which are indexed to EUR and USD, together with factoring and forfaiting in EUR.

Risk connected with changes in legal regulations

Changes in legal regulations, both EU and Polish, pose a risk connected with the necessity to adapt to such new legislation – in as far as they would have a negative effect – and may lead to expenses, and as such have a negative impact on financial performance.

Environmental risk

The Company’s business activity covers operations which are dangerous and harmful to the environment. In connection with this, it must hold appropriate permits for use of the natural environment and must ensure an appropriate level of environmental protection and chemical emergency management in the event of an incident.

The Company holds all permits necessary for its operations, including integrated environmental permits for installations covered by Z.Ch. Police S.A. requirements.

Risk connected with changes in environmental regulations is significant for the Company’s operations. Environmental risk management consists of the constant monitoring of and reaction to the introduction of new legal regulations. Factors having a significant impact on Azoty Tarnów’s operations include the following:

- planned change to the ordinance on fees for landfilling of waste - change in the classification of waste and new (higher) fees for landfilling,
- waste management bill - new regulation (implementation of an EU directive), introducing a range of amendments in waste management, including through the introduction of new definitions,
- implementation of the Industrial Emissions Directive (IED) - introduction of new regulations concerning protection of soil and groundwater, specification of new requirements as mandatory standards and a new approach to integrated permits pursuant to BAT conclusions,
- change to the European Commission decision concerning installations for the manufacture of ammonia in the event of the detection of carbon dioxide, resulting in the necessary to acquire additional greenhouse gas emission units.

Industrial accident risk

In principle, the nature of the Company’s operations exposes it to a certain degree of risk. Small failures in production lines requiring production stoppages for their removal may impact on sales results. During such periods there may be a drop in supply of products and an increase in costs connected with repairs and maintenance, causing a temporary drop in the profitability of some products.
6.2. Description of external and internal factors having a significant impact on Company operations and development

6.2.1. External factors

Global GDP, as estimated by the International Monetary Fund (IMF), grew 3.8% in 2011, versus 5.2% in 2010. In 2011 GDP in the euro zone reached 1.6%, versus 1.9% in 2010. In Poland the increase was higher, and according to Central Statistical Office estimates, GDP in Poland grew by 4.5% in 2011 against 3.9% the preceding year. Gross added value in the national economy in 2011 increased by 4.0% in relation to 2010, and gross added value in industry increased by 6.3%.

Global economic growth forecasts for 2012-2013 are moderate. Global GDP growth will slow slightly this year and according to the most recent IMF estimates will amount to approx. 3.3%, while in 2013 this figure will increase to approx. 3.9%. According to the same source, in 2012 the euro zone will enter a “mild recession” and will end the year with a 0.5% drop in GDP, while in 2013 economic growth in the euro zone is expected to amount to 0.8%. According to OECD and World Bank estimates, Poland is capable of 2.5% economic growth in 2012. According to Poland’s BZ WBK bank, this result will be one of the highest growth rates throughout Europe and will be based on private consumption, investments and improvement in balance of foreign trade. Support for national GDP will come from continuation of public investments, investments in infrastructure and those connected with EURO 2012, as well as private investments.

According to CEFIC data, the chemical sector in the European Union in 2011 recorded a 2% increase in production against the preceding year. 2012 can be expected to deliver further manufacturing growth in the EU, although the rate of growth in the chemical industry may fall slightly to approximately 1.5% (this projection does not include the pharmaceutical industry).

**Opportunities**

- direct EU subsidies for agriculture resulting in higher purchasing power in this sector,
- development of road infrastructure both in Poland and the CEE region,
- market availability of key technology for the Group,
- Group development in the process of consolidating the Polish and European chemicals industries and as a consequence an increase in development potential / economies of scale, synergies, access to new markets, raw materials, competences, technology, funds and the introduction of new organisational and cultural elements,
- maintenance of positive stable growth trends for Group product target markets,
- maintenance of positive trends in the Polish economy, including stable growth in GDP and the level of corporate investment and funding by financial markets.

**Threats**

- increased risk of financial difficulties within the EU caused by some European economies maintaining high deficit levels,
- lower-than-expected economic growth in Poland and in commercial partner countries,
- political and economic conditions translating into limitations in supplies of natural gas and price increases for this commodity,
- successive expansion of production capacity in Asian countries, translating into increasingly lower demand for the import of chemical products,
- on-going processes concentrating production, research and commercial potential and also concentration of capital in the global chemicals industry,  
- the aggressive activity of global competitors and the increasing intensity of sector competition,
- escalation of social unrest in Arab countries, which could have a negative impact on energy supply stability and price.
6.2.2. Internal factors

Strengths

- high, market-accepted quality in the majority of products,
- high technical level and production facility technology,
- stable distribution channels for a high quantity of products,
- experienced and qualified technical personnel with a high level of professional competences,
- own caprolactam and polyoxymethylene technology,
- fundamental environmental protection problems resolved on the conditions of currently binding legal regulations,
- good Group image, in particular the Company, decades of experience in the chemicals industry,
- presence in an organised public trading system,
- capital raised from equity issues, guaranteeing implementation of the development programme.

Weaknesses

- relatively low technology levels in some facilities,
- high employment rate and relatively low salary level,
- lack of stable access to basic petrochemicals, which significantly limits development possibilities in the large-scale organic chemicals and plastics sectors,
- limited possibilities to achieve prices at the price levels of leading competitors,
- limited level of competence in operating in the market for highly processed products aimed at a broad groups of customers,
- high level of property depreciation causing the necessity to allocate a relatively large amount of funds to modernisation and reconstruction.

6.3. Development prospects with consideration to market strategy

2011 turned out to be a very good year for the chemicals industry. The European Union noted 2% growth in chemicals industry production in relation to 2010. The rate of production growth in the polymers sector was close to the average (approx. 2%), while the petrochemicals sector recorded 1.5% growth.

2012 should see further growth in consumption, although at a level slower than in the preceding year and diversified depending on geographical regions and sectors.

It is expected that further strengthening of Asia (mainly China and India) in the position of leader in chemicals sector manufacturing will take place in 2012. Within the euro zone, the region’s future fiscal and monetary policy is a factor which could impact on the sector’s development.

Azoty Tarnów’s growth vectors have been outlined in the Company’s Development Strategy 2007-2015 and the objectives specified in the Prospectus, anticipating the Group’s concentration of expenditure in the following sectors:

- advanced materials technology, in particular engineering plastics,
- organic chemicals, in particular caprolactam,
- agricultural products, in particular mineral fertilisers.

These sectors will constitute the key areas for development. The Company’s objective is to become a leading European manufacturer of caprolactam and engineering plastics, with simultaneous strengthening of its competitive position in the agricultural sector.
In its operations the Company will concentrate on taking advantage of chances in the operational environment and strengthening core competences having a key impact on its competitiveness through the following initiatives:

- increasing the scale of operations in specific areas,
- decreasing sensitivity to changes in general economic cycles and natural gas and petrochemical commodity prices through extending product chains,
- lowering manufacturing costs through modernising key production lines,
- nurturing stable and effective relationships with commercial partners and optimising distribution channels,
- optimising organisational solutions,
- improving the effectiveness of key processes and unlocking intellectual capital,
- continuous tailoring of product quality to customer requirements,
- moderate related diversification using synergy with elements of the current product portfolio.

Increase in the value of the Company is possible through organic growth as well as strategic alliances and mergers and acquisitions In the event that favourable market conditions occur, the Group Company intends to play an active role in the process of consolidating the chemicals sector in the region. The core objective of inorganic growth will be the development of a larger, integrated structure which will provide the Group with lasting improvement in its competitive position and the conditions for stable growth.

The 2012 Investment Plan is in line with the Development Strategy 2007-2015 and issue objectives specified in the prospectus. In accordance with the Development Strategy, the most significant investments listed in the Investment Plan for 2012 are connected with improving competitive positioning and implementing issue objectives.

The most important new tasks where implementation will commence in 2012 include projects connected with internal modernisation of the ammonia synthesis reactors, purchase and construction of a new technical hydrogen compressor for the phenol hydrogenation installation in the palladium catalyst and modernisation of the Cooling Station no. 6 refrigeration system. A significant group of new tasks are investments connected with exchange of the computer control and instrumentation systems in the Lactam Department and Ammonium Nitrate Plant.

Work carried out in 2012 on investment preparation will be connected with the implementation by Azoty Tarnów of adopted strategic objectives. Work will be carried out on new projects relating to the manufacture of caprolactam, engineering plastics, mineral fertilisers and work connected with modernising the on-site combined heat and power plant. Work will also be carried out on further diversification of the company’s products.

The process of creating Group value is also achieved through inorganic growth. The aim of activities implemented under inorganic growth is to create a larger, integrated structure ensuring improvement in its competitive position and the conditions for stable growth.

In 2011 Azoty Tarnów took control of Z.Ch. Police S.A., acquiring 66% of shares, and after acquiring 40.86% of shares increased its stake in ZAK S.A. to 93.48%. The Group’s expansion to include ZAK S.A. and Z.Ch. Police S.A., two of the largest chemical companies in Poland, allowed for a significant increase in the scale of operations and the creation of a major business organisation in the region. A strong chemicals group with wide range of products was created as a result – a significant manufacturer of nitrate and multi-component fertilisers, caprolactam, construction plastics (polyamide 6, polyoxymethylene, modified plastics), oxo alcohols, plasticisers and titanium white.
7. ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS

Deloitte Audyt Sp. z o.o. is the entity authorised to review the 2011 interim financial statements and 2011 annual financial statements.

On 5 April 2011 an annex to the agreement of 20 May 2009 was signed.

Other services, concerning the principles for recognition of EUA/CER swaps, are performed on the basis of an agreement of 25 July 2011.

In connection with the preparation of a prospectus for the new share issue, the auditor performed additional services, i.e. preparation of pro forma information and an assurance letter.

Table 39 Entity auditing the financial statements

<table>
<thead>
<tr>
<th>Details</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of the separate and consolidated annual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>financial statements of the Company (Group)</td>
<td>210</td>
<td>287</td>
</tr>
<tr>
<td>Review of the separate and consolidated annual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>financial statements of the Company (Group)</td>
<td>130</td>
<td>75</td>
</tr>
<tr>
<td>Prospectus-related services</td>
<td>330</td>
<td>-</td>
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<tr>
<td>Other services</td>
<td>22</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>692</strong></td>
<td><strong>362</strong></td>
</tr>
</tbody>
</table>
8. COURT PROCEEDINGS

There are no proceedings on-going within Group companies concerning liabilities or debt claims, the value of which could individually or in total constitute 10% of the Company’s equity, i.e. which could constitute the criterion of significance specified in § 91, point 5, 5 p. par. 5 of the Ordinance of the Minister of Finance concerning current and periodic information of 19 February 2009. The following table presents the legal disputes involving the Company exceeding PLN 50 000 in value.

Table 40 Azoty Tarnów legal disputes exceeding PLN 50 000 in value

<table>
<thead>
<tr>
<th>Parties to the dispute</th>
<th>Date on which lawsuit filed</th>
<th>Subject of dispute</th>
<th>Value of the subject of dispute</th>
<th>Current case status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Krzysztof Jadach vs. Zakłady Azotowe w Tarnowie-Mościcach S.A. and Prorem Sp. z o.o.</td>
<td>5 July 2010</td>
<td>on payment of damages and supplementary benefits</td>
<td>198</td>
<td>Krzysztof Jadach summoned Azoty Tarnów and Prorem Sp. z o.o. to pay PLN 150 000 in damages for injury sustained and the award of fixed supplementary benefits amounting to PLN 1 500 per month for the rest of his life. He also filed a claim for establishment of liability for injuries capable of arising in the future. In justifying his claim, the plaintiff pointed to his long-term employment in conditions exposing him to the harmful effects of mercury and chlorine vapours. The defendants motioned for complete dismissal of the suit. The case is on-going. The court appointed an expert witness in order to assess the plaintiff’s health. The plaintiff motioned for the court to commission a supplementary opinion. The date of the next hearing has not been set.</td>
</tr>
<tr>
<td>Zakłady Azotowe w Tarnowie-Mościcach S.A. vs. Paweł Koszewski Roman Piątek</td>
<td>29 October 2010</td>
<td>on payment under art. 299 of the Polish Commercial Companies Code</td>
<td>95</td>
<td>On 31 January 2012, the District Court in Chorzów (case ref. no. I C 378/11) issued a ruling granting the suit filed by Zakłady Azotowe w Tarnowie-Mościcach S.A. The ruling is not legally binding.</td>
</tr>
</tbody>
</table>
9. AUTHORITIES OF THE COMPANY

MANAGEMENT BOARD

Composition of the Management Board as at 31 December 2011:
- Jerzy Marciniak – President of the Management Board
- Krzysztof Jałosiński – Vice-President
- Andrzej Skolmowski – Vice-President
- Witold Szczypiński – Vice-President

SUPERVISORY BOARD

Composition of the Supervisory Board as at 31 December 2011:
- Marzena Piszczek – Chairperson of the Supervisory Board
- Ewa Lis – Vice-Chairperson
- Jan Waś – Secretary
- Tomasz Klikowicz – Member
- Artur Kucharski – Member
- Marek Mroczkowski – Member
- Jacek Oblękowski – Member
- Zbigniew Paprocki – Member
- Ryszard Trepczyński – Member

Composition changes taking place during the year are presented in the “Report on application of corporate governance principles”.

9.1. Value of remuneration and additional benefits

In 2011 a total of PLN 108 364 000 was paid out from the remuneration fund, with PLN 2 351 000 paid out as bonuses. In addition, in 2011 employees were paid PLN 10 553 000 in annual bonuses for 2010 and advance payments for 2011.

Table 41 Supervisory Board Members’ compensation for work at the Company in 2011

<table>
<thead>
<tr>
<th></th>
<th>Base salary</th>
<th>Other benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marzena Piszczek</td>
<td>58</td>
<td>-</td>
<td>58</td>
</tr>
<tr>
<td>Ewa Lis</td>
<td>55</td>
<td>2</td>
<td>57</td>
</tr>
<tr>
<td>Jan Waś</td>
<td>55</td>
<td>1</td>
<td>56</td>
</tr>
<tr>
<td>Agnieszka Doroszkiewicz</td>
<td>23</td>
<td>-</td>
<td>23</td>
</tr>
<tr>
<td>Jacek Lewandowski</td>
<td>35</td>
<td>2</td>
<td>37</td>
</tr>
<tr>
<td>Jacek Oblękowski</td>
<td>53</td>
<td>-</td>
<td>53</td>
</tr>
<tr>
<td>Miroslaw Potulski</td>
<td>35</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>Tomasz Klikowicz</td>
<td>53</td>
<td>1</td>
<td>54</td>
</tr>
<tr>
<td>Zbigniew Paprocki</td>
<td>53</td>
<td>1</td>
<td>54</td>
</tr>
<tr>
<td>Artur Kucharski</td>
<td>16</td>
<td>-</td>
<td>16</td>
</tr>
<tr>
<td>Marek Mroczkowski</td>
<td>16</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td>Ryszard Trepczyński</td>
<td>16</td>
<td>1</td>
<td>17</td>
</tr>
</tbody>
</table>

|                          | 468         | 10             | 478    |
### Table 42 Management Board Members’ compensation for work at the Company in 2011

<table>
<thead>
<tr>
<th>Name</th>
<th>Base salary</th>
<th>Other benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>300</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Krzysztof Jałosiński</td>
<td>81</td>
<td>-</td>
<td>81</td>
</tr>
<tr>
<td>Andrzej Skolmowski</td>
<td>298</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>312</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Franciszek Bernat</td>
<td>226</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 036</td>
<td>181</td>
<td>1 217</td>
</tr>
</tbody>
</table>

### Table 43 Compensation of Members of the Company’s Supervisory Board for work at subsidiaries for 2011

<table>
<thead>
<tr>
<th>Name</th>
<th>Base salary</th>
<th>Other benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ewa Lis</td>
<td>17</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>Zbigniew Paprocki</td>
<td>6</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Mirosław Potulski</td>
<td>12</td>
<td>-</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>35</td>
<td>0</td>
<td>35</td>
</tr>
</tbody>
</table>

### Table 44 Compensation of Members of the Management Board for work at subsidiaries in 2011

<table>
<thead>
<tr>
<th>Name</th>
<th>Base salary</th>
<th>Other benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>347</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>260</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Franciszek Bernat</td>
<td>23</td>
<td>-</td>
<td>23</td>
</tr>
<tr>
<td>Andrzej Skolmowski</td>
<td>283</td>
<td>-</td>
<td>283</td>
</tr>
<tr>
<td>Krzysztof Jałosiński</td>
<td>616</td>
<td>378</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 529</td>
<td>379</td>
<td></td>
</tr>
</tbody>
</table>
9.2. Agreements executed between the Company and management personnel providing for compensation in the event of their resignation or dismissal from the position held without valid cause or if their dismissal or redundancy occurs as a result of a merger

Jerzy Marciniak
2. Employed full-time as President of the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A.
3. Salary, comprising:
   • fixed monthly base salary of PLN 80,000, also including salary for work as a member of the Management Board or member of the Supervisory Board at a subsidiary of the Azoty Tarnów Group,
   • variable part of salary dependent on results,
   • additional benefits for employment.
4. Permanent contract.
5. Notice period: six months.
7. The non-compete clause is in effect for 12 months from termination of employment.
8. Non-compete compensation amounts to 100% of monthly salary of a given employee, specified in the employment agreement.

Witold Szczypiński
2. Employed full-time as Vice-President of the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A.
3. Salary, comprising:
   • fixed monthly base salary of PLN 70,000, also including salary for work as a member of the Management Board or member of the Supervisory Board at a subsidiary of the Azoty Tarnów Group,
   • variable part of salary dependent on results,
   • additional benefits for employment.
4. Permanent contract.
5. Notice period: six months.
7. The non-compete clause is in effect for 12 months from termination of employment.
8. Non-compete compensation amounts to 100% of monthly salary of a given employee, specified in the employment agreement.

Andrzej Skolmowski
2. Employed full-time as Vice-President of the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A.
3. Salary, comprising:
   • fixed monthly base salary of PLN 70,000, also including salary for work as a member of the Management Board or member of the Supervisory Board at a subsidiary of the Azoty Tarnów Group,
   • variable part of salary dependent on results,
   • additional benefits for employment.
4. Permanent contract.
5. Notice period: six months.
7. The non-compete clause is binding for twelve months after the termination or expiry of the employment relationship.
8. Non-compete compensation amounts to 100% of the employee’s fixed remuneration as specified in the employment contract.
9. The non-compete clause is in effect for 12 months from termination of employment.
10. Non-compete compensation amounts to 100% of monthly salary of a given employee, specified in the employment agreement.

Krzysztof Jalośński

2. Employed full-time as Vice-President of the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A.
3. Salary, comprising:
   • fixed monthly base salary of PLN 70 000, also including salary for work as a member of the Management Board or member of the Supervisory Board at a subsidiary of the Azoty Tarnów Group,
   • variable part of salary dependent on results,
   • additional benefits for employment.
4. Permanent contract.
5. Notice period: six months.
6. Post-employment non-compete agreement executed on 9 November 2011.
7. The non-compete clause is in effect for 12 months from termination of employment.
8. Non-compete compensation amounts to 100% of monthly salary of a given employee, specified in the employment agreement.
10. DECLARATION ON APPLICATION OF CORPORATE GOVERNANCE

In accordance with par. 29, sec. 5 of the Byelaws of the WSE, the Management Board of the Company, acting pursuant to resolution no. 1013/2007 of the WSE Management Board, hereby presents this report concerning application by the company in 2010 of the principles for corporate governance contained in the document "Best Practices for Companies Listed on the WSE" (Appendix to the Resolution of the Stock Exchange Council no. 17/1249/2010 of 19 May 2010).

10.1. Indication of the corporate governance principles to which the Company is subject together with the location where the text concerning such principles is publically available

Declaring operations in accordance with the highest capital market communication standards and principles of corporate governance, the Company applies the principles of "Best Practices for Companies Listed on the WSE", drawn up by the WSE. The code in effect in 2011 constituted an appendix to Resolution of the Stock Exchange Council no. 17/1249/2010 of 19 May 2010. As of 1 January 2012 a new version of Best Practices, adopted through Resolution of the Stock Exchange Council no. 20/1287/2011 of 19 October 2011.

In order to adapt internal regulations to the code for good practice, there are Organisational Regulations of 22 July 2008 (as amended) in force at the Company, which contain corporate governance principles.

In 2011 the Company continued to participate in the programme "10 companies for 10 years of the SII", organised by the SII. The aim of the programme is to create and promote the highest standards of communication between stock market companies listed on the regulated market run by the WSE and investors, and to draw up the best practical solutions for investor relations, covering contact between such companies and private investors. This programme is entered into the company’s policy for excellence in communication with the market and provision of information on the principles of management and oversight, ensuring their transparency.

In January 2011 the Company was again categorised as being in the group of 16 companies listed on the WSE within the RESPECT index. The Company was recognised for its engagement in fulfilling tasks in accordance with CSR principles as one of the companies with the highest standards in corporate governance, information policy and investor relations, as well as in managing ecological, social and employee matters. Following a successful three-step audit conducted by the WSE, SEG and Deloitte, on 31 January 2012 Azoty Tarnów received its fourth certificate confirming the Company’s inclusion in the elite group of 23 issuers comprising the RESPECT Index.

10.2. Scope in which the Company diverged from the corporate governance principles, indication of such principals and explanation of the reasons for such divergence

Beginning from its stock market debut in 2008, the Company’s aim is to observe best practice for corporate governance, which was expressed in the declaration of the Company’s Management Board contained in the 2008 and 2011 Prospectuses.

The Company currently observes all corporate governance principles specified in the Best Practices for Companies Listed on the WSE.

In previous experience in applying corporate governance, the Company has informed of exclusion of principle 8 of sec. III of Best Practices, i.e. the requirement to appoint independent members of the Supervisory Board in the audit committee in accordance with Annex I to Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies (...). The Company informed of this exclusion at the time of IPO in current report no. 20/2008 of 30 June 2008 and in prospectuses.

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Management report on the operations of Zakłady Azotowe w Tarnowie-Mościcach S.A.
(all figures in PLN thousands unless otherwise stated)
Violation of this principle ceased on 9 November 2011 when Marek Mroczkowski, an independent member of the Supervisory Board, was delegated to the Audit Committee to fill the position left vacant by the resignation of Agnieszka Doroszkiewicz from the Supervisory Board on 14 June 2011.

From 9 November 2011 until the drafting of this report there are two independent members of the Supervisory Board: Jacek Oblękowski and Marek Mroczkowski, together with a member of the Supervisory Board elected by employees: Tomasz Klikowicz.

10.3. Internal control and risk management features

On 4 January 2011, through Resolution no. 22/VIII/2011, the Supervisory Board appointed an Audit Committee in order to streamline the work of the Board and improve control over the Company and Group. The Committee constitutes a consultancy body working jointly within the structure of the Supervisory Board. The following Board members form its composition:

- Jacek Oblękowski,
- Agnieszka Doroszkiewicz,
- Tomasz Klikowicz.

In order to fill the position on the Audit Committee left vacant by the resignation of Agnieszka Doroszkiewicz from the Supervisory Board, tendered on 14 June 2011, Member of the Supervisory Board Marek Mroczkowski was delegated to the Audit Committee on 9 November 2011 through Resolution of the Supervisory Board no. 115/VIII/2011.

The current composition of the Audit Committee is as follows:

- Jacek Oblękowski,
- Marek Mroczkowski,
- Tomasz Klikowicz.

The Committee's tasks include in particular:

- monitoring the financial reporting process,
- monitoring the effectiveness of internal control, internal audit and risk management systems existing within the Company,
- monitoring financial audit,
- monitoring the independence of the statutory auditor and entity authorised to audit the Company’s financial statements,
- monitoring the audit of the annual and consolidated financial statements,
- monitoring the work of the internal audit team,
- monitoring the work and reports of the independent statutory auditor,
- auditing selected economic events significant for the Company’s operations.

The specific principles for Audit Committee operations are defined in the Committee Byelaws drawn up with consideration to the content of annex I, sec. 4 (Audit Committee) to the European Council Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, which was adopted by the Company’s Supervisory Board.

Guidelines for risk management at the Company are specified in the Market Risk Management Policy, defining the following areas:

- management of currency risk,
- management of interest rate risk,
- management of price risk,
- management of credit risk.
The market risk management process is controlled and supervised by the Risk Committee, whereas the currency risk management process is managed by the Member of the Management Board for financial affairs. On 1 January 2009 the Company introduced a procedure for managing currency risk, the objective of which is to hedge currency flows against unfavourable exchange rate shifts.

On 1 January 2009 the Company introduced a procedure for managing currency risk, the objective of which is to hedge currency flows against unfavourable exchange rate shifts.

The subject of the procedure is to specify actions to be taken within the process of managing currency risk, covering issues such as identification and evaluation of currency risk sources, adoption of a general currency risk management policy, forecasting of future cash flows and estimation of currency positions, definition of the level and range of hedging against currency risk, selection and implementation of a hedging strategy and hedging instruments, and control and assessment of the effects of actions performed.

Beginning from its stock market debut in 2008, internal procedures have been in force at the Company regulating the preparation, approval, publication and allocation of separate and consolidated periodic reports for the Group. The Company also implements an information policy which is unified for the entire Group.

"Standards for the Performance and Documentation of Economic Control at Zakłady Azotowe w Tarnowie-Mościcach S.A." have been introduced at the Company. The aims of the internal control procedure include analysis of the risk faced by the Company, together with indication of the areas of unfavourable phenomena in the current and future operations of specific units and business teams. The impact of the institutional business control system is to develop the Company’s operations, in particular in all functional and business fields, i.e. technical, maintenance, production, investment, economic, financial, organisational, administrative, HR, commercial, marketing and others.

10.4. Shareholding structure

Shareholding structure as at 21 March 2011 (2010 annual report publication date), with consideration to shareholdings directly or indirectly holding at least 5% of votes at the Company’s general meeting:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>1 349 000</td>
<td>3.45</td>
<td>1 349 000</td>
<td>3.45</td>
</tr>
<tr>
<td>Nafta Polska S.A. w likwidacji</td>
<td>19 200 000</td>
<td>49.08</td>
<td>19 200 000</td>
<td>49.08</td>
</tr>
<tr>
<td>PGNiG S.A.</td>
<td>4 000 001</td>
<td>10.23</td>
<td>4 000 001</td>
<td>10.23</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK</td>
<td>3 000 000</td>
<td>7.67</td>
<td>3 000 000</td>
<td>7.67</td>
</tr>
<tr>
<td>Other</td>
<td>11 567 420</td>
<td>29.57</td>
<td>11 567 420</td>
<td>29.57</td>
</tr>
<tr>
<td></td>
<td><strong>39 116 421</strong></td>
<td><strong>100</strong></td>
<td><strong>39 116 421</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

On 1 April 2011 the Ordinary General Meeting took place of Nafta Polska S.A. w likwidacji, having its registered office in Warsaw, during which resolutions were adopted on issues including division of its property, as a result of which the sole shareholder, the State Treasury of Poland, acquired 19 200 000 bearer shares in the Company, of a nominal value of PLN 5 each and a total nominal value of PLN 96 000 000, pursuant to an agreement on transfer of shares executed on 7
April 2011 between Nafta Polska S.A. w likwidacji, having its registered office in Warsaw, and the State Treasury of Poland, represented by the Minister of the Treasury.

Prior to the change, the State Treasury of Poland held 1 349 000 shares in the Company, i.e. 3.45% of its share capital. The shares carried 1 349 000 votes and comprised 3.45% of overall votes. The State Treasury currently holds 20 549 000 shares in Azoty Tarnów, which constituted a 52.53% share in equity. Such shares carry 20 549 000 votes, constituting a 52.53% share in the total number of votes.

Furthermore, on 15 April 2011 the Company’s Management Board received information provided by PGNiG S.A. concerning a transaction for disposal of shares held in the Company. Prior to the transaction PGNiG S.A. held 4 000 001 shares constituting 10.23% of share capital (issued shares), carrying 4 000 001 voting rights at the general meeting, i.e. 10.23% of all voting rights.

After execution of the transaction PGNiG does not hold any shares in the Company.

### Shareholding structure as at 15 April 2011

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>52.53%</td>
<td>20 549 000</td>
<td>52.53%</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK</td>
<td>3 000 000</td>
<td>7.67%</td>
<td>3 000 000</td>
<td>7.67%</td>
</tr>
<tr>
<td>Other</td>
<td>15 567 421</td>
<td>39.80%</td>
<td>15 567 421</td>
<td>39.80%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39 116 421</td>
<td>100.00%</td>
<td>39 116 421</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

The shareholding structure was subject to change as a result of the series C secondary share issue; the number of shares and number of votes shown below in table below should be understood as the total number of series AA and B shares, together with rights to series C shares.

On 12 August 2011 an increase in the Company’s share capital from PLN 195 582 105 to PLN 320 577 220 through the issue of 24 999 023 ordinary series C bearer shares with a nominal value of PLN 5 each was registered.

The total number of votes carried by all shares issued in the Company after registration of the increase in share capital was 64 115 444, with share capital divided into 64 115 444 shares of a nominal value of PLN 5 each.

### Shareholding structure as at 12 August 2011

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights*</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05%</td>
<td>20 549 000</td>
<td>32.05%</td>
</tr>
<tr>
<td>ING OFE</td>
<td>5 891 212</td>
<td>9.19%</td>
<td>5 891 212</td>
<td>9.19%</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK</td>
<td>5 384 685</td>
<td>8.40%</td>
<td>5 384 685</td>
<td>8.40%</td>
</tr>
<tr>
<td>Other</td>
<td>32 290 547</td>
<td>50.36%</td>
<td>32 290 547</td>
<td>50.36%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64 115 444</td>
<td>100.00%</td>
<td>64 115 444</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

On 30 August 2011, 24 999 023 ordinary series C bearer shares were registered at the National Depository for Securities under code PLZATRM00012. In connection with this, on 30 August 2011 series C shares were admitted to trading on the WSE main market.

On 26 September 2011 the Management Board of the Company received a notification dated 23 September 2011 on acquisition by ING OFE of shares in Azoty Tarnów. As a result of this market transaction, cleared on 20 September 2011, the Fund became the owner of shares in the Company exceeding 10% of votes at the general meeting of shareholders.
Before the acquisition the Fund held 6 407 351 shares in the Company, constituting 9.99% of share capital and carrying 6 407 351 votes at the general meeting of shareholders, constituting 9.99% of all votes.

On 23 September 2011 ING OFE held a total of 6 730 751 shares, constituting 10.5% of share capital. These shares carry 6 730 751 votes at the general meeting of shareholders, constituting 10.5% of all votes.

### Shareholding structure as at 23 September 2011

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>6 730 751</td>
<td>10.50</td>
<td>6 730 751</td>
<td>10.50</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK</td>
<td>5 384 685</td>
<td>8.40</td>
<td>5 384 685</td>
<td>8.40</td>
</tr>
<tr>
<td>Other</td>
<td>31 451 008</td>
<td>49.05</td>
<td>31 451 008</td>
<td>49.05</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On 31 October 2011 the Company’s Management Board received a notification from Powszechny Zakład Ubezpieczeń S.A. (PZU S.A.) of 28 October 2011, confirming that PZU S.A., together with subsidiary PZU Życie S.A., had exceeded 5% of total votes at the Company’s general meeting, which occurred on 30 August 2011 as a result of converting 2 388 626 rights to shares into ordinary shares in the Company.

Before the change, the number of shares held by PZU S.A., together with subsidiary PZU Życie S.A., was 985 574, constituting a 1.54% stake in share capital and carrying 985 574 votes at the general meeting - i.e. 1.54% of all votes.

After the change, the number of shares held by PZU S.A., together with subsidiary PZU Życie S.A., was 3 374 200, constituting a 5.26% stake in the Company’s share capital. These shares carry 3 374 200 votes at the general meeting of shareholders, constituting 5.26% of all votes.

### Shareholding structure as at 31 October 2011

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>6 730 751</td>
<td>10.50</td>
<td>6 730 751</td>
<td>10.50</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK</td>
<td>5 384 685</td>
<td>8.40</td>
<td>5 384 685</td>
<td>8.40</td>
</tr>
<tr>
<td>PZU S.A.</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td>Other</td>
<td>28 076 808</td>
<td>43.79</td>
<td>28 076 808</td>
<td>43.79</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On 29 December 2011 the Company’s Management Board received a notification from ING Powszechne Towarzystwo Emerytalne S.A., having its registered office in Warsaw, that as a result of acquiring shares in Azoty Tarnów on the WSE (transaction cleared on 22 December 2011), ING OFE had increased its shareholding in Azoty Tarnów. Before the share acquisition ING OFE held 7 964 286 shares, constituting 12.42% of share capital and carrying 7 964 286 votes at the general meeting of shareholders, constituting 12.42% of all votes.
On 28 December 2011, 8 284 242 shares in Azoty Tarnów were held in the securities account of ING OFE, constituting 12.92% of share capital and carrying 8 284 242 votes at the general meeting of shareholders, constituting 12.92% of total votes.

**Shareholding structure as at 28 December 2011**

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK PZU S.A. (including PZU Życie S.A.)</td>
<td>5 384 685</td>
<td>8.40</td>
<td>5 384 685</td>
<td>8.40</td>
</tr>
<tr>
<td>Other</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td></td>
<td>26 523 317</td>
<td>41.37</td>
<td>26 523 317</td>
<td>41.37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On 29 December 2011 the Company’s Management Board received a notification from Warsaw-based Generali OFE that it held over 5% of total votes at the General Meeting as a result of clearing a transaction for purchase of shares in Azoty Tarnów on 27 December 2011. The number of shares held by Generali OFE before the change in shareholding amounted to 3 195 554, constituting 4.98% of share capital and 4.98% of votes at the General Meeting. These shares carried 3 195 554 votes at the General Meeting of Shareholders. The number of shares held by Generali OFE after the change in shareholding amounted to 3 245 554, constituting 5.06% of current share capital and 5.06% of votes at the General Meeting of Shareholders. These shares carried 3 245 554 votes at the General Meeting of Shareholders.

**Shareholding structure as at 31 December 2011**

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
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<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK PZU S.A. (including PZU Życie S.A.)</td>
<td>5 384 685</td>
<td>8.40</td>
<td>5 384 685</td>
<td>8.40</td>
</tr>
<tr>
<td>Other</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td></td>
<td>23 277 763</td>
<td>36.31</td>
<td>23 277 763</td>
<td>36.31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

From 31 December 2011 until the date of drafting this report the Company did not receive information on changes in the ownership structure of significant blocks of shares.

**10.5. Special control authorisations of holders of securities**

Pursuant to the provisions of § 16, sec. 2 of the company’s articles of association, the State Treasury of Poland as shareholder is entitled to an individual authorisation to appoint and dismiss one member of the Supervisory Board.

Furthermore, in accordance with the provisions of § 43, sec. 1 point 4 of the Company’s articles of association, the General Meeting summons the Management Board of the Company at the written request of the State Treasury of Poland as shareholder, irrespective of the share in share capital, submitted at least one month before the proposed date of the General Meeting.
§ 45 sec. 4 of the company’s articles of association governing the inclusion by shareholders of specific issues in the agenda of the next General Meeting, it is stated that "a shareholder or shareholders representing at least one tenth of share capital may request the inclusion of specific issues in the agenda of the next General Meeting. This entitlement is also held by the State Treasury of Poland as shareholder, irrespective of its share in share capital.

10.6. Indication of any voting restrictions

In accordance with § 47, sec. 2 of the Company’s articles of association, one share carries one vote at the General Meeting.

On 22 December 2010, the Extraordinary General Meeting of Zakłady Azotowe w Tarnowie-Mościcach S.A. adopted resolution no. 4, altering the company’s Articles of Association and amending the individual entitlements due to certain shareholders through adding point 3 to § 47, worded as follows:

§ 47 sec. 3. sec. 3 of the articles of association: "As long as the State Treasury of Poland or Nafta Polska S.A. owns shares in the Company constituting at least one fifth of the total votes available in the Company, shareholders’ rights to vote shall be limited in such manner that at the General Meeting no one shareholder may exercise more than one fifth of total votes available within the Company on the day on which the General Meeting is convened. Limitation of the right to vote, as referred to in the preceding sentence, shall not concern the State Treasury of Poland and Nafta Polska S.A., or any subsidiaries of the State Treasury of Poland and Nafta Polska S.A. For the purposes of this section, exercise of the right to vote by a subsidiary is recognised as exercise thereof by its Company in the meaning of the Act of 29 July 2005 on Public Offerings and the Terms and Conditions of Admitting Financial Instruments to an Organised System of Trading and on Public Companies (the "Act on Offerings"). The terms Company and subsidiary are also understood respectively as each entity whose votes result from directly or indirectly held shares in the Company subject to accumulation with the votes of another entity or entities on the principles specified in the Act on Offerings in connection with the possession, disposal or acquisition of significant blocks of shares in the Company. A shareholder whose right to vote has been limited shall in all instances retain the right to exercise at least one vote."

10.7. Indication of any limitations concerning transfer of securities ownership

Limitations concerning transfer of ownership of securities resulted from the provisions of the Act on commercialisation and privatisation (Art. 38, sec. 3). The statutory disposal prohibition period for AA series shares for employees ended on 15 September 2007 and for members of the then-Management Board of the Company (holding a total of 970 series AA shares) on 15 September 2008.

In connection with the Act of 18 December 2008 on amendment to the Act on commercialisation and privatisation and the Act on the principles for acquisition of shares from the State Treasury of Poland in the consolidation process of electric utilities (Polish Journal of Laws no. 13, item 70) of 12 February 2010, the process of free access of shares to inheritors of entitled persons ended. On 14 July 2011 the Ministry of the Treasury announced the execution an agreement with DM PKO BP S.A. and IPOPEMA Securities S.A. as managers of the public offering of series C shares in the Company, providing for a 180-day lock-up of shares in the Company from the date on which trading in pre-emptive rights to series C shares commences on the WSE.

On 14 July 2011 the Ministry of the Treasury executed an agreement with DM PKO BP S.A. and IPOPEMA Securities S.A. as managers of the public offering of series C shares in the Company, providing for a 180-day lock-up of shares in Azoty Tarnów from the date on which trading in pre-emptive rights to series C shares commences on the WSE.
The Ministry of the Treasury undertook that, within 180 days from the date on which trading in pre-emptive rights to series C shares commences on the WSE, it will not dispose of the shares held by it without the prior written consent of DM PKO BP and IPOPEMA, including the sale, pledge, execution of sales contracts, grant of options or execution of swap transactions. This obligation does not include disposal of all or some pre-emptive rights to series C shares to which the State Treasury is entitled in connection with possession of shares in the Company. Furthermore, the State Treasury undertook that during the same period it will not take any steps aimed at or supporting an increase in the share capital of Azoty Tarnów through the issue of new shares or securities which could be exchangeable for shares in the company; nor will it dispose or permit or authorise the disposal of the shares held by it without the prior written consent of DM PKO BP and IPOPEMA.

10.8. Description of principles concerning the appointment and dismissal of management personnel and their entitlements, in particular the right to take decisions on the issue or buy-back of shares

Principles concerning the appointment and dismissal of management personnel

Management Board

In accordance with § 24 of the company’s articles of association, Members of the Management Board or the entire Management Board are appointed and dismissed by the Supervisory Board with consideration to the provisions of § 25 and subsequent of the articles of association. Each member of the Management Board may be appointed or suspended from duties by the Supervisory Board of General Meeting (§ 24, sec. 2 of the company's articles of association). As long as the Company employs an annual average of above 500 employees, the Supervisory Board appoints one person elected by Company employees to the Management Board for the term of such Board (§ 25, sec. 1 of the company's articles of association).

Supervisory Board

In accordance with § 35, sec. 1 of the company’s articles of association, the Supervisory Board comprises between 5 and 9 members, appointed by the General Meeting subject to the provisions of § 16, sec. 2 (“the State Treasury of Poland as shareholder has the individual entitlement to appoint and dismiss one member of the Supervisory Board”) and § 36 of the articles of association ("Part of the Supervisory Board's composition constitutes members elected by Company employees in accordance with art. 14 of the Act on Commercialisation and Privatisation").

Right to take decisions on issue or buy-back of shares

In accordance with § 51, sec. In accordance with § 51, points 13 – 16 of the company's articles of association, the General Meeting’s competences include:

- increasing and decreasing the Company’s share capital,
- issuing convertible bonds, bonds with priority right and subscription warrants,
- purchase of own shares in the situation specified in art. 362, § 1, point 1 of the Polish Commercial Companies Code, 362 § 1 pkt.
- mandatory buy-back of shares appropriate to the provisions of art. 418 of the Polish Commercial Companies Code.

In accordance with §10, point 1 of the company's articles of association, share capital may be increased through a resolution of the general meeting through the issue of new shares or through increasing the value of existing shares. On 18 May 2011 the general meeting passed an amendment to the company’s articles of association, pursuant to §10, point 3 of which the
Management Board of Azoty Tarnów is authorised to increase the company's share capital through the issue of new shares with a total nominal value not exceeding PLN 146 686 575 through one or more increases in issued share capital within the boundaries specified above. The Management Board's authorisation to increase share capital and to issue new shares within authorised share capital expires on 31 December 2012. Issue of new shares within authorised capital may only occur with pre-emptive rights for current shareholders, with stipulation that Management Board resolutions concerning an increase in issued share capital within authorised share capital or establishment of the share issue price within authorised capital require the consent of the Supervisory Board.

The amendment to the articles of association authorising the Management Board's to increase the company's issued share capital within authorised share capital is aimed at giving the Management Board the legal instruments necessary to provide the company with financial resources for implementation of its investment and acquisition plans, guaranteeing the speed and flexibility essential in the case of share issues through public offerings.

10.9. Description of the principles for amending the Company's articles of association

In accordance with § 51, sec. 22 of the company's articles of association, amendment to the articles and change of the Company's business activity are issues which remain at the sole discretion of the General Meeting.

10.10. General Meeting – means of operation

In accordance with § 51 of the Company's articles of association, the General Meeting's competences include:

- review and approval of the financial statements for the previous financial year and the Management Board report on the Company's operations,
- granting a vote of approval to members of the Company's authorities for fulfilment of their duties,
- distribution of profit or coverage of loss,
- definition of the date for establishment of rights to dividends and the dividend pay-out date, and also offset of dividend pay-out in instalments,
- review and approval of the Group's consolidated financial statements for the previous financial year and the Management Board's report on the Group's operations if the obligation for preparation of this results from the Accounting Act,
- appointment and dismissal of Supervisory Board members elected by the General Meeting, including the Chairperson of the Supervisory Board, subject to the provisions of § 16, sec. 2 and § 36,
- establishment of the principles for and amount of remuneration for members of the Supervisory Board,
- expression of consent for the disposal or lease of the Company's business or an organised part thereof and establishment of limited proprietary rights thereon,
- expression of consent for the purchase of real property, perpetual usufruct or shares in real property of a market value exceeding PLN 2 000 000,
- disposal of and the establishment of limited proprietary rights on real property, perpetual usufruct or shares in real property of a market value exceeding PLN 200 000,
- expression of consent for the purchase, disposal or establishment of limited proprietary rights on elements of fixed assets other than real property, perpetual usufruct or shares in real property of a market value exceeding PLN 10 000 000,
- execution by the company of agreements for loans, borrowings, sureties or other similar agreements with a member of the management board, supervisory board, commercial
representative, receiver or on behalf of any such person,

- increasing and decreasing the Company's share capital,
- issuing bonds convertible to shares, bonds with priority right and subscription warrants,
- purchase of own shares in the situation specified in art. 362, § 1, point 2 of the Polish Commercial Companies Code,
- mandatory buy-back of shares appropriate to the provisions of art. 418 of the Polish Commercial Companies Code,
- the creation, use and liquidation of reserve capital,
- use of the capital reserve,
- rulings concerning claims for rectification of damage caused in the formation of the company or exercising of management or supervision,
- merger, restructuring and division of the Company,
- amendment to the articles of association and amendment of the subject of the Company’s operations,
- winding-up and liquidation of the Company,
- disposal of shares with specific conditions and the means of disposal with the exception of:
  - disposal of shares which are publically traded securities,
  - disposal of shares which the Company holds in quantities not exceeding 10% of the share capital of a company,
  - disposal of shares covered by the Company’s debt under bankruptcy or arrangement proceedings,
- expression of consent for the grant of licences or other disposal of intellectual property rights initially held by the Company,
- review of the Supervisory Board reports referred to in § 33, sec. 1, points 8, 20, 21 and 22.

10.11. Composition, alteration and description of the operations of management and supervisory bodies

Management Board

On 18 March 2011, through resolutions 47-49/VIII/2011 the Supervisory Board appointed the Management Board of Azoty Tarnów for a subsequent three-year term in the following composition:

- Jerzy Marciniak – President of the Management Board, Managing Director
- Andrzej Skolmowski – Vice-President of the Management Board
- Witold Szczyński – Vice-President of the Management Board

On 10 May 2011 the Supervisory Board adopted a resolution (no. 73/VIII/2011) on the appointment of Franciszek Bernat - elected by the employees of the Company - to the Company’s Management Board. The first round of elections took place on 14-23 March 2011, while the second round took place on 4-13 April 2011.

On 14 June 2011 during the ordinary general meeting, the Company’s Management Board was granted a vote of approval on their work in 2010. On 15 June 2011 a new Management Board term of office commenced, with the following composition:

- Jerzy Marciniak – President of the Management Board, Managing Director
- Andrzej Skolmowski – Vice-President of the Management Board,
- Witold Szczyński – Member of the Management Board
- Franciszek Bernat – Member of the Management Board elected by employees of the Company

In connection with the expansion of the Azoty Tarnów Group and the necessity to develop a new corporate governance framework, including in particular specification of a new organisational
structure and new areas of supervision, on 20 October 2011 the Supervisory Board dismissed the 8th term Management Board, comprising:

- Jerzy Marciński – President of the Management Board, Managing Director
- Andrzej Skolmowski – Vice-President of the Management Board
- Witold Szczypiński – Member of the Management Board
- Franciszek Bernat – Member of the Management Board

The resolution on this issue came into force on the date of its adoption.

Through a subsequent resolution of 20 October 2011, the Supervisory Board specified the number of Management Board Members for the new 9th term as 5.

On the same day, the Supervisory Board appointed Jerzy Marciński as President of the Management Board - 9th term - Managing Director. Furthermore, at the request of the President of the Management Board - Managing Director, the remaining members of the Board were appointed as follows:

- Andrzej Skolmowski – Vice-President of the Management Board responsible for finance and trade at the Azoty Tarnów Group,
- Krzysztof Jałosiński – Vice-President of the Management Board responsible for the strategy and development of the Azoty Tarnów Group,
- Witold Szczypiński – Vice-President of the Management Board responsible for production and safety at the Azoty Tarnów Group.

On 25 November 2011 the Supervisory Board of the Company adopted a resolution (no. 120/VIII/2011) on holding elections for the Member of the Management Board's 9th term elected by employees of the Company. First round elections took place on 19-29 December 2011, while the second round was held on 5-13 January 2012.

On 17 February 2012 the Supervisory Board of the Company adopted resolution no. 138/VIII/2012 on appointment of Artur Kopeć to the Management Board of the Company as the Management Board member elected by employees.

**Competences of persons managing the Company**

The detailed division of competences amongst Members of the Company’s Management Board, 9th term, governed by the Resolution of the Management Board of the Company, no. 1/IX/2011 of 25 October 2011, can be found in the Condensed consolidated interim financial statements for the three and nine month periods ended 30 September 2011, point 8.2.

**Supervisory Board**

Composition of the Supervisory Board as at 1 January 2011:

- Marzena Piszczer – Chairperson of the Supervisory Board
- Ewa Lis – Vice-Chairperson
- Jan Wais – Secretary
- Agnieszka Doroszkiewicz – Member
- Jacek Lewandowski – Member
- Jacek Oblekowsky – Member
- Miroslaw Potulski – Member
- Tomasz Klikowicz – Member
- Zbigniew Paprocki – Member

On 4 January 2011, through Resolution no. 22/VIII/2011, the Supervisory Board appointed an Audit Committee in order to streamline the work of the Board and improve control over the Company and Group. The Committee constitutes an advisory body working jointly within the structure of the Supervisory Board. The following Board members form its composition:
Management report on the operations of Zakłady Azotowe w Tarnowie-Mościcach S.A.
(all figures in PLN thousands unless otherwise stated)

- Jacek Obłękowski,
- Agnieszka Doroszkiewicz,
- Tomasz Klikowicz.

On 14 June 2011 the Company’s Management Board received the resignation of Agnieszka Doroszkiewicz, Member of the Company’s Supervisory Board, without stating her reasons.
On 18 October 2011 Jacek Potulski and Jacek Lewandowski turned in their resignations as Members of the Supervisory Board, without stating their reasons.
On the same day, the following persons were appointed to the Supervisory Board pursuant to resolutions of the Company’s General Meeting: Artur Kucharski, Marek Mroczkowski and Ryszard Trepczyński.

Composition of the Supervisory Board as at 14 November 2011:
- Marzena Piszczek – Chairperson
- Ewa Lis – Vice-Chairperson
- Jan Wais – Secretary
- Tomasz Klikowicz – Member
- Artur Kucharski - Member
- Marek Mroczkowski- Member
- Jacek Obłękowski – Member
- Zbigniew Paprocki – Member
- Ryszard Trepczyński – Member

On 9 November 2011, through resolution no. 115/VIII/2011 Supervisory Board Member Marek Mroczkowski was delegated to the Audit Committee in order to replace Agnieszka Doroszkiewicz, who resigned from the Supervisory Board on 14 June 2011.
Currently the Audit Committee comprises the following:
- Jacek Obłękowski,
- Marek Mroczkowski,
- Tomasz Klikowicz.

Marzena Piszczek resigned as Member of the Supervisory Board on 13 January 2012, after the end of the reporting period. Marzena Piszczek, who was also Chairperson of the Supervisory Board, did not provide a reason for her resignation.
On 13 January 2012 the Extraordinary General Meeting of Azoty Tarnów appointed Monika Kacprzyk-Wojdyga as Member of the Supervisory Board, simultaneously entrusting her with the function of Chairperson of the Company’s Supervisory Board. The resolution entered into force on the date of its adoption.
The composition of the Supervisory Board as at the date of drafting these financial statements is as follows:
- Monika Kacprzyk – Wojdyga – Chairperson
- Ewa Lis – Vice-Chairperson
- Jan Wais – Secretary
- Tomasz Klikowicz – Member
- Artur Kucharski - Member
- Marek Mroczkowski – Member
- Jacek Obłękowski – Member
- Zbigniew Paprocki – Member
- Ryszard Trepczyński – Member
The Supervisory Board acts pursuant to:

- the provisions of the Act of 15 September 2000 – the Polish Commercial Companies Code (Polish Journal of Laws no. 94, item 1037 as amended),
- the Act on Commercialisation and Privatisation (...),
- the Accounting Act,
- the company's articles of association,
- the Byelaws for the Supervisory Board of Zakłady Azotowe w Tarnowie-Mościcach S.A.

On 4 January 2011, through Resolution no. 22/VIII/2011, the Supervisory Board appointed an Audit Committee in order to streamline the work of the Board and improve control over the Company and Group. Composition of the Audit Committee is presented in point 10.3 hereof.

Audit Committee tasks are presented in point 10.3.

The specific principles for Audit Committee operations are defined in the Audit Committee Byelaws drawn up with consideration to the content of annex I, sec. 4 (Audit Committee) to the European Council Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board and art. 86, sec. 1 of the Act of 7 May 2009 on Statutory Auditors (...) (Polish Journal of Laws no. 77 of 2009, item 649), and adopted by the Supervisory Board of Azoty Tarnów.
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Management Board signatures

...........................................  ...........................................
Jerzy Marciniak                        Krzysztof Jałosiński
President of the Management Board     Vice-President of the Management Board

...........................................  ...........................................
Andrzej Skolmowski                    Witold Szczypiński
Vice-President of the Management Board Vice-President of the Management Board

...........................................
Artur Kopeć                           
Member of the Management Board

Tarnów, 6 March 2012