



**CAPITAL GROUP
OF ZAKŁADY AZOTOWE
W TARNOWIE-MOŚCICACH S.A.**

**Management Report on activity of the Capital Group
of Zakłady Azotowe w Tarnowie - Mościcach S.A.
for the period of 12 months ending on December 31, 2008**

Tarnów, March 31, 2009

TABLE OF CONTENTS

| | | |
|-----------|---|-----------|
| 1. | GENERAL INFORMATION ON THE CAPITAL GROUP OF THE COMPANY:..... | 5 |
| 1.1. | Organization of the Capital Group of the Company..... | 5 |
| 1.2. | Description of changes in the organization of the Capital Group of the Company..... | 8 |
| 1.3. | Organization or capital relations of companies of the Capital Group of the Company with other entities | 9 |
| 1.4. | Branches (plants) of the Company | 10 |
| 1.5. | Employment | 10 |
| 2. | PRINCIPLES OF MANAGEMENT OF THE CAPITAL GROUP OF THE COMPANY | 11 |
| 2.1. | Changes in the basic principles of management of the Capital Group of the Company | 11 |
| 3. | THE AUTHORITIES OF ZAKŁADY AZOTOWE W TARNOWIE S.A. | 11 |
| 3.1. | Wages, salaries and employee benefits | 11 |
| 3.2. | Agreements between the Company and holders of executive positions, providing for compensation in the case of their resignation or dismissal without material reasons, or in situations when their recall or dismissal results from the Company's merger within a takeover | 12 |
| 4. | STOCKS AND OTHER SECURITIES OF ZAKŁADY AZOTOWE W TARNOWIE - MOŚCICACH S.A. AND MAJOR STOCKHOLDERS OF THE COMPANY | 13 |
| 4.1. | The total number and face value of the stocks of Zakłady Azotowe w Tarnowie-Mościcach S.A., stocks held by persons managing and supervising the Company, and such persons' shares in the Company's related entities. | 13 |
| 4.2. | Information of agreements, known to the Company, that may in the future result in changes in the proportions of holdings of its current stock- and bond holders | 14 |
| 4.3. | The system for controlling employee shares programs | 14 |
| 4.4. | Own shares (stocks) held by Zakłady Azotowe w Tarnowie- Mościcach S.A., the Capital Group entities, and persons acting on their behalf | 15 |
| 4.5. | Utilization of funds generated from the issue of stocks | 15 |

| | | |
|-----------|---|-----------|
| 5. | DESCRIPTION OF ACTIVITY OF THE CAPITAL GROUP OF ZAKŁADY AZOTOWE W TARNOWIE - MOŚCICACH S.A. | 17 |
| 5.1. | Basic products, goods and services | 17 |
| 5.2. | The outlets and sources of supply of materials, goods and services | 23 |
| 5.3. | Main capital investments of the Capital Group of the Company made outside the related entities group | 25 |
| 5.4. | Deposits and capital investments within the Capital Group of the Company | 26 |
| 5.5. | Material agreements | 26 |
| 5.6. | Material transactions with related entities | 29 |
| 5.7. | Major research and development achievements | 30 |
| 5.8. | Natural environment issues | 34 |
| 5.9. | Material events | 35 |
| 6. | CURRENT FINANCIAL SITUATION AND ASSETS OF THE CAPITAL GROUP OF ZAKŁADY AZOTOWE W TARNOWIE-MOŚCICACH S.A. | 37 |
| 6.1. | Major events of material impact on the activity and financial results of the Company's Capital Group | 37 |
| 6.2. | The basic economic and financial values | 38 |
| 6.3. | The structure of assets and liabilities..... | 40 |
| 6.4. | Financial ratios | 43 |
| 6.5. | Appraisal of factors and non-standard events..... | 44 |
| 6.6. | Explanation of differences between financial results and projections of results for 2008 | 44 |
| 6.7. | Substantiated appraisal of management of the financial resources; threats and activities to prevent them | 44 |
| 6.8. | Appraisal of feasibility of investment plans, capital investment included, compared to available funds, with due consideration to possible changes of sources of financing..... | 47 |
| 6.9. | Credit facilities and loans negotiated and terminated in the accounting year | 52 |
| 6.10. | Loans granted by the Company, mainly to entities related to the Capital Group..... | 53 |
| 6.11. | Warranties and guarantees issued and received, mainly by entities related to the Capital Group..... | 53 |
| 6.12. | Material non-balance sheet items | 54 |

| | | |
|------------|--|-----------|
| 6.13. | Financial instruments | 57 |
| 6.13.1 | The risk management policy | 57 |
| 6.13.2 | Instruments | 58 |
| 6.14. | Projected financial standing of the Capital Group of Zakłady Azotowe w Tarnowie - Mościcach S.A..... | 59 |
| 7. | RISKS, THREATS AND DEVELOPMENT PROSPECTS OF THE CAPITAL GROUP | 60 |
| 7.1. | Material risk factors and threats | 60 |
| 7.2. | Description of the external and internal factors material for development of the Capital Group of the Company, and description of the Company's policy with respect to the trends of development | 66 |
| 7.2.1 | Market situation as a material development factor..... | 66 |
| 7.2.2 | Internal factors material for the functioning and development of the Parent Company..... | 67 |
| 7.3. | The prospects of development of the Capital Group with market strategy elements | 68 |
| 8. | ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS | 73 |
| 9. | LEGAL PROCEEDINGS..... | 77 |
| 10. | DECLARATION OF APPLICATION OF THE CORPORATE ORDER..... | 77 |
| 10.1. | The collection of principles of corporate order binding on the Company and the place where such collection of principles is available to the general public | 77 |
| 10.2. | The scope of the Company's deviation from clauses of the collection of principles of corporate order, the clauses thus deviated from and explanation of the reasons of such deviation | 77 |
| 10.3. | Features of the internal audit and risk management systems applied..... | 79 |
| 10.4. | Stockholder structure..... | 79 |
| 10.5. | Special control powers of the holders of securities | 80 |
| 10.6. | Restrictions on the exercise of the right to vote (if any) | 80 |
| 10.7. | Restrictions on transfer of the ownership of securities..... | 80 |
| 10.8. | The principles of appointment and dismissal of members of the executive and their respective powers, including specifically the power of deciding about issue or redemption of stocks | 81 |
| 10.8.1 | The principles of appointment and dismissal of members of the executive..... | 81 |
| 10.8.2 | The right to decide of issue or redemption of stocks..... | 81 |
| 10.9. | The rules for amending the Company's Articles of Association or Memorandum..... | 82 |
| 10.10. | General Meeting – mode of operation..... | 82 |
| 10.11. | Composition, changes and description of operation of the managing and supervisory authorities | 82 |
| | LIST OF TABLES..... | 86 |

GENERAL INFORMATION ON THE CAPITAL GROUP OF THE COMPANY:

1.1. Organization of the Capital Group of the Company.

Azoty Tarnów is the Parent Company.

As at the end of 2008, it held the shares/stock of 32 commercial law companies, including:

- 10 subsidiaries (with the share in capital of over 50%),
- 1 associate company (with the share in capital of 20%-50%),
- 21 minority companies (with the share in capital of under 20%).

Table 1 Companies subject to consolidation

| Entity Name | Holding in % |
|--|--------------|
| Biuro Projektów Zakładów Azotowych "BIPROZAT" Tarnów Sp. z o.o. | 100 |
| Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne „ELZAT” Sp. z o.o. | 100 |
| Jednostka Ratownictwa Chemicznego Sp. z o.o. | 100 |
| Przedsiębiorstwo Transportu Kolejowego "KOLTAR" Sp. z o.o. | 100 |
| "OKNOTAR" Sp. z o.o. | 100 |
| "PROREM" Sp. z o.o. | 100 |
| Tarnowskie Przedsiębiorstwo Produkcyjno-Usługowe "WIEZAT" Sp. z o.o. | 100 |
| Zakład Budowy Aparatury Chemicznej "ZBACH" Sp. z o.o. | 100 |
| ZWRI Sp. z o.o. | 100 |
| "AUTOMATYKA" Sp. z o.o. | 69.73 |
| "NAVITRANS" Sp. z o.o. | 26.45 |

"NAVITRANS" Sp. z o.o. is an associated entity and is subject to consolidation under the equity method.

The Parent Company - Zakłady Azotowe w Tarnowie - Mościcach S.A.

The Company was entered in the companies' register of the National Court Register under No. KRS 0000075450 on December 28, 2001 pursuant to a decision of the District Court for Cracow-Śródmieście, XII Business Division of the National Court Register of December 28, 2001.

Scope of activity: manufacture and sales of chemicals and plastics (Polish Classification of Business Activities PKD 2414Z).

Presentation of the subsidiaries of the Capital Group of Azoty Tarnów:

"AUTOMATYKA" Sp. z o.o.

The Company was registered on November 7, 1997. Its registered office is located in Tarnów at 8 E. Kwiatkowskiego Street. The Company was entered in the National Court Register under No. KRS 0000085959 on February 6, 2002 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

Scope of activity: manufacture of controlling devices, industrial process control, system design and installation, activity related to mechanical engineering, and computer equipment advisory services (PKD 3313Z).

Biuro Projektów Zakładów Azotowych "BIPROZAT – TARNÓW" Sp. z o.o.

The Company was registered on March 2, 1994. Its registered office is located in Tarnów at 7 E. Kwiatkowskiego Street. The Company was entered in the National Court Register under No. KRS 0000199462 on March 12, 2004 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

Scope of activity: designing, preparation of documentation and organization of supplies of systems and appliances; trade, consulting, IT activities; new technologies (PKD 7420 A).

Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne "ELZAT" Sp. z o.o.

The Company was registered on March 2, 2004. Its registered office is located in Tarnów at 8 E. Kwiatkowskiego Street. The Company was entered in the National Court Register under No. KRS 0000205643 on April 29, 2004 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

Scope of activity: installation of electrical systems, manufacture of mechanical appliances and tools, metal processing, sale of waste materials and scrap, technical tests and analyses, finishing works (PKD 3110).

Jednostka Ratownictwa Chemicznego Sp. z o.o.

The Company was registered on November 19, 1993. Its registered office is located in Tarnów at 8 E. Kwiatkowskiego Street. The Company was entered in the National Court Register under No. KRS 0000188857 on January 29, 2004 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register. The Company's mainly offers environment protection-related services.

Scope of activity: services in the areas of neutralizing, recycling, recovery and storage of waste materials; sewage treatment; removal of breakdown consequences; water, air and sewage analysis; training; transport of hazardous materials; food testing; manufacture of and trade in chemical products (PKD 9001Z).

Przedsiębiorstwo Transportu Kolejowego "KOLTAR" Sp. z o.o.

The Company was registered on December 7, 1999. Its registered office is located in Tarnów at 8 E. Kwiatkowskiego Street. The Company was entered in the National Court Register under No. KRS 0000206663 on May 12, 2004 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

Scope of activity: forwarding services related to the shipment and acceptance of railway consignments; loading and unloading services; cleaning and surveys of cisterns and wagons; trade activity; running of railway lines related to operation of the entity's railway station (PKD 6010Z).

"OKNOTAR" Sp. z o.o.

The Company was registered on June 20, 2001. The Company's registered office is located in Tarnów at 118 Chemiczna Street. The Company was entered in the National Court Register under No. KRS 0000027977 on July 24, 2001 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register

Scope of activity: manufacture of plastic products for the building industry; manufacture of joinery and carpentry products for the building industry; manufacture of metal elements of construction joinery; warehousing and storage of goods; installation of construction joinery (PKD 2523).

PROReM Sp. z o.o.

The Company was registered on October 14, 1998. Its registered office is located in Tarnów at 8 E. Kwiatkowskiego Street. The Company was entered in the National Court Register under No. KRS 0000095916 on March 6, 2002 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

Scope of activity: production and services (construction; assembly; sanitary, industrial, electrical, measuring, communications and other systems), repairs and modernization of specialized fixed assets (PKD 2924B).

Wieżat Sp. z o. o.

The Company was registered on October 6, 1998. Its registered office is located in Tarnów at 8 E. Kwiatkowskiego Street. The Company was entered in the National Court Register under No. KRS 0000130185 on September 13, 2002 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

Scope of activity: repair, modernization and construction services; trade activity (PKD 4532Z).

Zakład Budowy Aparatury Chemicznej "ZBACH" Sp. z o.o.

The Company was registered on November 15, 1993. Its registered office is located in Tarnów at 8 E. Kwiatkowskiego Street. The Company was entered in the National Court Register under No. KRS 0000135985 on October 23, 2002 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

Scope of activity: manufacture of industrial appliances; industrial services; exports and imports of goods; trade; preparation of detailed design documentation (PKD 2821Z).

ZWRI Sp. z o.o.

The Company was registered on December 28, 1993. Its registered office is located in Tarnów at 8 E. Kwiatkowskiego Street. The Company was entered in the National Court Register under No. KRS 0000074630 on January 4, 2002 by the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

Scope of activity: production and services (construction; assembly; sanitary, industrial, electrical, measuring, communications and other systems – PKD 4521).

Associated entity:

Navitrans Sp. z o. o.

The Company was registered on June 29, 1992. The Company's registered office is located in Gdynia at 18 Świętojańska Street apt. 5. The Company was entered in the National Court Register under No. KRS 0000062936 on November 20, 2001 by the District Court in Gdańsk, VIII Business Division of the National Court Register.

Scope of activity: forwarding services (PKD 6340C).

Table 2 Holdings of Zakłady Azotowe w Tarnowie - Mościcach S.A in minority companies as at December 31, 2008.

| Item | Entity name | Holding in % |
|-------------|--|---------------------|
| 1 | Tarnowskie Wodociągi Sp. z o.o. | 12.55% |
| 2 | Tarnowski Klaster Przemysłowy S.A. | 0.17% |
| 3 | Tarnowska Agencja Rozwoju Regionalnego S.A | 0.06% |
| 4 | Wytwórnia Salami "IGLOOMEAT" - Sokołów Sp. z o.o. | 0.0197% |
| 5 | Francusko-Polskie Przedsiębiorstwo Instalacji Przemysłowych "POLSNIG" Sp. z o.o. | 2.67% |
| 6 | Centrum Naukowo - Produkcyjne Materiałów Elektronicznych "CEMAT70" S.A. | 1.24% |
| 7 | CENTROZAP S.A. | 0.0248% |
| 8 | POLIMEX MOSTOSTAL S.A. | 0.05% |
| 9 | ENERGOAPARATURA S.A. | 0.04% |
| 10 | Sportowa Spółka Akcyjna Unia Tarnów under liquidation* | 8.26% |
| 11 | INWESTSTAR S.A. | 0.06% |
| 12 | Zakłady Włókien Chemicznych "WISTOM" S.A. (in bankruptcy) | 9.83% |
| 13 | Zakłady Włókien Chemicznych "WISTOM" S.A. (in bankruptcy) | 0.28% |
| 14 | LEN SA. Under liquidation | 0.289% |
| 15 | Tłocznia Metali "PRESSTA" S.A. (in bankruptcy) | 0.019% |
| 16 | Chłodnie "Igloopol" Sp. z o.o. under liquidation | 0.003% |
| 17 | UNIONTEX S.A. (in bankruptcy) | 0.03% |
| 18 | Wytwórnia Silników "PZL MIELEC" Sp. z o.o. (in bankruptcy) | 0.12% |
| 19 | Zakłady Przemysłu Dziewiarskiego "KARO" S.A. under liquidation | 0.17% |
| 20 | Południowe Zakłady Przemysłu Skórzanego "Chełmek" S.A. under liquidation | 0.03% |
| 21 | Konsorcjum Rozwoju Eksploatacji Majątku Trwałego "EKSPLOSYSTEM" Sp. z o.o. | 3.36% |

* On January 8, 2009, the General Meeting of Members was held, at which it was resolved to cancel the resolution putting the Company into liquidation; until March 31, 2009, this fact was not entered in the National Court Register.

1.2. Description of changes in the organization of the Capital Group of the Company.

On October 30, 2007 the Shareholders' Meeting of the Company "NAVITRANS" Sp. z o.o. resolved (by way of a notarial deed, Repertory A No. 2459/2007) on purchase by the Company of seven of its shares with the purpose of their amortization and a reduction of its initial capital from PLN 80,000 to PLN 75,625 through amortization of the shares purchased to this aim by the Company. Consequently, the holding of Zakłady Azotowe w Tarnowie-Mościcach S.A. in the Company's initial capital increased from 25% to 26.45% , the number of shares held remaining unchanged. (Date of entry of the change in the National Court Register: April 17, 2008). On January 5, 2009, by means of joining Polskie Konsorcjum Chemiczne Sp. z o.o., the Company took up 25% of shares in the increased initial capital of PKCh, entitling to 25% of votes at the Shareholders' Meeting (for details see point 5.3).

On March 2, 2009 Azoty Tarnów sold 100% shares in its subsidiary "Oknotar" Sp. z o.o. to 14 individuals. The deal pertained to 5,000 equal and indivisible shares with the face value of PLN 500 each and the total face value of PLN 2,500 thousand. The selling price of the aforementioned

shares was PLN 53 per share, which totals to PLN 265 thousand as the balance sheet value of the holding.

1.3. Organization or capital relations of companies of the Capital Group of the Company with other entities.

AUTOMATYKA Sp. z o.o.

| Name of the Company | % of holding in the initial capital | Initial capital (PLN) |
|---------------------|-------------------------------------|-----------------------|
| SSA "UNIA" TARNÓW | 0.41% | 484,000.00 |

JRCH Sp. z o.o.

| Name of the Company | % of holding in the initial capital | Initial capital (PLN) |
|--|--|-----------------------|
| Branżowa Organizacja Odzysku S.A. | 10.5% | 1,000,000.00 |
| S+R Gazy Sp. z o.o. | 30.0% | 50,000.00 |
| EKOTAR Sp. z o.o. | 12.0% | 500,000.00 |
| PETROLIA Sp. z o.o. | 24.0% | 50,000.00 |
| PI TARCHEM Sp. z o.o. | 10.0% | 100,000.00 |
| UNIROLL Sp. z o.o. | 24.0% | 50,000.00 |
| Przedsiębiorstwo Innowacyjno Wdrożeniowe UNISIL Sp. z o.o. | 24.4% | 54,000.00 |
| Zakłady Mięsne Ostrołęka S.A. | 549 stocks (purchased under a decision of the District Court in Ostrołęka within an arrangement with creditors – value: 5,482.39). | |

Besides, JRCH Sp. z o.o. has the holding of 60% (PLN 280,000) in Eco - Technologies Consortium with registered office in Kiev, Ukraine.

ELZAT Sp. z o.o.

| Name of the Company | % of holding in the initial capital | Initial capital (PLN) |
|---------------------------------------|-------------------------------------|-----------------------|
| PI TARCHEM Sp. z o.o. | 12.5% | 100,000.00 |
| TARPLAST Sp. z o.o. under liquidation | 40.0% | 50,000.00 |

In 2008, together with JRCh Sp. z o.o., the Company valued its holding in PI TARCHEM Sp. z o.o. On the basis of that valuation, and as soon as the corporate consent is granted, the Management of ELZAT Sp. z o.o. will proceed to sell its holding, worth PLN 12,500.00. The sale is expected to be finalized by mid-2009.

On May 12, 2008 the Extraordinary Shareholders' Meeting of "Tarplast" was held, at which it was resolved to liquidate the company. On July 22, 2008 "Elzat" Sp. z o.o. received a partial refund of the initial capital.

PROReM Sp. z o.o.

| Name of the Company | % of holding in the initial capital | Initial capital (PLN) |
|---------------------|-------------------------------------|-----------------------|
| EKOTAR Sp. z o.o. | 12.0% | 500,000.00 |

ZWRI Sp. z o.o.

| Name of the Company | % of holding in the initial capital | Initial capital (PLN) |
|---------------------|-------------------------------------|-----------------------|
| UNIROLL Sp. z o.o. | 27.0% | 50,000.00 |

1.4. Branches (plants) of the Company

The Company Zakłady Azotowe w Tarnowie - Mościcach S.A. has not any external branches or plants.

1.5. Employment

The average employment of the Capital Group of the Company in 2008 amounted to 4,388 persons including:

blue collar workers: 3,043 persons
white collar workers: 1,345 persons

Table 3 Staff rotation the period from January 1, 2008 to December 31, 2008

| Specification | 2008 |
|-------------------------------|------------|
| Number of new employees hired | 179 |
| Number of employees dismissed | 205 |
| Total | 384 |

Table 4 Employment structure by level of education

| Education | Year | Total employment | Higher | Secondary | Vocational | Elementary |
|------------------|------|------------------|--------|-----------|------------|------------|
| No. of employees | 2007 | 4,395 | 677 | 1,589 | 1821 | 308 |
| No. of employees | 2008 | 4,378 | 696 | 1,617 | 1769 | 296 |

The employment restructuring now in progress results in advantageous changes in the education structure of employees of the Capital Group of the Company. Compared to the previous year, the number of persons with elementary and vocational education was reduced, while that of persons with secondary and higher education went up.

Table 5 Employment structure by length of employment

| Length of employment | Year | up to 5 years | 6-10 years | 11-20 years | Over 20 years |
|----------------------|------|-----------------|----------------|-------------------|-------------------|
| No. of employees | 2007 | 429 (9.76%) | 187 (4.26%) | 1,435 (32.65%) | 2,344 (53.33%) |
| No. of employees | 2008 | 482 (11.01%) | 164 (3.74%) | 1,280 (29.24%) | 2,452 (56.01%) |

Compared to the previous year, the groups of employees with the longest (over 20 years) and the shortest (up to 5 years) employment record grew. Instead, the number of employees with employment record within the 6-10 and 11-20 years' brackets was reduced significantly.

2. PRINCIPLES OF MANAGEMENT OF THE CAPITAL GROUP OF THE COMPANY:

2.1. Changes in the basic principles of management of the Capital Group of the Company.

The currently valid document that gathers and codifies the solutions and regulations applied within the Capital Group of ZAT S.A. pertaining to the objectives, methods and instruments of supervision is entitled “Principles of supervision – the corporate governance policy” and was approved by Resolution No. 502/VI/691 of the Management Board of ZAT S.A. on April 29, 2008.

The document presents and discusses the following sequence of issues:

- the objectives and actions undertaken within corporate governance,
- the corporate governance policy with respect to subsidiaries,
- the corporate authorities (management, supervisory board), the selection principles and criteria, the evaluation criteria,
- practical issues of corporate governance within the Capital Group of ZAT S.A.,
- the Group’s guidelines as to the preparation by the corporate authorities of materials and documents for the Ordinary Shareholders’ Meeting to close an accounting year.

The document has the following among other attachments: Privatization of subsidiaries – the procedure; Competition rules for selection of the President/Member of the Management Board in which ZAT S.A. has the holding of 100% shares.

On September 16, 2008 the Management Board of ZAT S.A. adopted the uniform Rules of remunerating members of the Management Boards of its subsidiaries (Resolution No. 57/VII/2008), introducing a variable incentive component of remuneration. On September 29, 2008 and October 8, 2008 the Management Board approved two attachments to the Regulations (by Resolutions No. 72/VII/2008 and 79/VII/2008 respectively).

3. THE AUTHORITIES OF ZAKŁADY AZOTOWE W TARNOWIE S.A.

3.1. Wages, salaries and employee benefits.

Table 6 Remuneration of Members of the Supervisory Board on account of positions held with the Company in 2008

| No. | Full name | Remuneration paid in PLN thousand | Benefits^{*)} paid in PLN thousand |
|------------|-----------------------|--|---|
| 1 | Drąg – Tatoń, Marek | 7 | - |
| 2 | Kiełkiewicz, Joanna | 5 | - |
| 3 | Lis, Ewa | 37 | 3 |
| 4 | Łączak, Czesław | 7 | - |
| 5 | Maciejuk, Dariusz | 13 | 1 |
| 6 | Molas, Małgorzata | 24 | 2 |
| 7 | Obszyński, Mariusz | 20 | - |
| 8 | Pieńkowski, Krzysztof | 33 | - |
| 9 | Piszczyk, Marzena | 29 | 2 |
| 10 | Poświata, Małgorzata | 7 | - |
| 11 | Rzążewska, Małgorzata | 5 | - |
| 12 | Skwarko, Wiesław | 22 | - |
| 13 | Teske, Armin | 13 | - |
| 14 | Wais, Jan | 34 | - |
| 15 | Wałęga, Katarzyna | 37 | - |
| 16 | Wrona, Jarosław | 7 | - |

^{*)}The benefits include refund of the costs of business travels of Members of the Supervisory Board.

Table 7 Remuneration of Members of the Management Board on account of positions held with the Company in 2008

| No. | Full name | Remuneration paid in PLN thousand | Benefits paid in PLN thousand |
|-----|-------------------------|-----------------------------------|-------------------------------|
| 1 | Marcinak, Jerzy | 119 | - |
| 2 | Hap, Monika | 116 | - |
| 3 | Szczypiński, Witold | 142 | - |
| 4 | Bernat, Franciszek | 74 | - |
| 5 | Golemo, Witold | 49 | - |
| 6 | Baranek, Irena | 18 | - |
| 7 | Wais, Jan ^{*)} | 12 | - |
| 8 | Wita, Jarosław | 65 | - |

^{*)} from February 15, 2008 to March 11, 2008 Mr Jan Wais (Member of the Supervisory Board) was delegated by the Supervisory Board to perform the function of Member of the Company's Management Board.

Table 8 Remuneration of persons managing and supervising the Company on account of their membership of the Supervisory Boards of Subsidiaries in 2008 (in PLN thousand).

| No. | Full name | Remuneration paid in PLN | Benefits paid in PLN |
|-----|---------------------|--------------------------|----------------------|
| 1 | Marcinak, Jerzy | 5 | - |
| 2 | Szczypiński, Witold | 7 | - |
| 3 | Bernat, Franciszek | 6 | - |
| 4 | Hap, Monika | 7 | - |
| 5 | Wita, Jarosław | 11 | - |
| 6 | Golemo, Witold | 6 | - |

3.2. Agreements between the Company and holders of executive positions, providing for compensation in the case of their resignation or dismissal without material reasons, or in situations when their recall or dismissal results from the Company's merger within a takeover.

The employment contracts of Members of the Management Board of ZAT S.A. include a clause providing for the severance pay of three regular monthly wages due to a member of the Management Board if the employment relationship ceases as a result of such person's dismissal before expiry of his/her term in office. However, the severance pay is not due if the member of the Management Board is dismissed due to circumstances in which the employment contract can be terminated without notice through the employee's fault pursuant to Art. 52 of the Labor Code.

The Company also concluded, with all Members of its Management Board, the agreements on non-competition upon termination of the employment. The non-competition clause remains in force for six months from the date of termination or expiration of the employment relationship. The agreement provides, among other things, for payment by the employer to the former employee, during the entire period of validity of the non-competition clause, of a compensation on that account, amounting to 100% of the regular remuneration specified in the original employment contract.

4. STOCKS AND OTHER SECURITIES OF ZAKŁADY AZOTOWE W TARNOWIE - MOŚCICACH S.A. AND MAJOR STOCKHOLDERS OF THE COMPANY.

4.1. The total number and face value of the stocks of Zakłady Azotowe w Tarnowie-Mościcach S.A., stocks held by persons managing and supervising the Company, and such persons' shares in the Company's related entities.

Number and face value of stocks:

24,000,000 series AA stocks with the face value of PLN 5 each
15,116,421 series B stocks with the face value of PLN 5 each

Statement of the stocks of Zakłady Azotowe w Tarnowie-Mościcach S.A. held by persons managing and supervising the Company.

Table 9 As at the Prospectus approval date, i.e. May 26, 2008

| Management Board | Number of stocks / number of votes |
|---|---|
| Vice President of the Management Board - Witold Szczypiński | 390 |
| Member of the Management Board - Witold Golemo | 130 |
| Member of the Management Board - Franciszek Bernat | 390 |
| Supervisory Board | |
| Member of the Supervisory Board - Jan Wais | 390 |
| Member of the Supervisory Board – Krzysztof Pieńkowski | 390 |

Table 10 As at December 31, 2008

| Management Board | Number of stocks / number of votes |
|---|---|
| Vice President of the Management Board - Witold Szczypiński | 390 |
| Member of the Management Board - Franciszek Bernat | 390 |
| Supervisory Board | |
| Member of the Supervisory Board - Jan Wais | 590 |
| Member of the Supervisory Board – Krzysztof Pieńkowski | 390 |

In the period under report, there was a change in the stocks held by the managing persons due to resignation by Witold Golemo of his position of Member of the Management Board.

Witold Golemo, Member of the Management Board from March 14 to July 15, 2008 and currently Director of the Department of Finances, holds 130 AA series stocks.

Also the holdings of supervising persons changed. Mr. Jan Wais purchased 200 stocks in December 2008. The details of the transaction have been disclosed in the current report No. 4/2009 of January 30, 2009.

Table 11 As at March 31, 2009

| Management Board | Number of stocks / number of votes |
|---|---|
| Vice President of the Management Board - Witold Szczypiński | 390 |
| Member of the Management Board - Franciszek Bernat | 390 |
| Supervisory Board | |
| Member of the Supervisory Board - Jan Wais | 590 |
| Member of the Supervisory Board – Krzysztof Pieńkowski | 390 |

The persons managing and supervising the Company hold no shares in the Company's related entities.

4.2. Information of agreements, known to the Company, that may in the future result in changes in the proportions of holdings of its current stock- and bond holders.

There were in the period under report no agreements potentially resulting in changes in the proportions of stocks held.

Following the closing of the reporting period, on March 18, 2009, a multilateral agreement was signed that will make it possible to continue the privatization process supervised by Nafta Polska SA, consisting in actions aimed at seeking and identifying the investor or investors to purchase the stocks of Zakłady Azotowe w Tarnowie-Mościcach, Ciech SA and Zakłady Azotowe in Kędzierzyn-Koźle S.A., or the shares in the increased equity of all three entities treated jointly.

Selection of the investor and its taking up of the stocks may radically change the proportions of stocks held by the current stockholders.

The Treasury holds directly 3.48% of shares in the equity of Zakłady Azotowe w Tarnowie- Mościcach SA, and Nafta Polska SA (a company fully held by the Treasury) owns a further 49.08%, which totals to the Treasury's indirect holding of over 52% in the Company's equity. The details of the transaction have been disclosed in the current report No. 13/2009 of March 19, 2009.

4.3. The system for controlling employee shares programs.

The Company carried out the procedure of offering employee shares to the entitled persons, and handed over the complete documentation to the Ministry of the Treasury (Ministerstwo Skarbu Państwa, MSP). The Company does not operate a system for controlling the employee shares programs.

Recently, the Company was informed by MSP that in view of the amendment of the Commercialization and Privatization Act, employee shares had to be offered to some heirs of the entitled persons who had not taken up shares due to expiry of their entitlement. Currently, the Company is waiting for further MSP guidelines on this matter.

4.4. Own shares (stocks) held by Zakłady Azotowe w Tarnowie- Mościcach S.A., the Capital Group entities, and persons acting on their behalf.

In the period covered by this report, the Company made no purchases of its own stocks.

Table 12 Stocks of Zakłady Azotowe w Tarnowie-Mościcach S.A. held by persons acting on behalf of the entities of the Azoty Tarnów Capital Group as at March 31, 2009

| Management Board | No. of stocks |
|--|---------------|
| Sosin, Jerzy - "BIPROZAT" Sp. z o.o. | 295 |
| Włodarczyk, Aleksander - "BIPROZAT" Sp. z o.o. | 390 |
| Lipiński, Jarosław - "ELZAT" Sp. z o.o. | 130 |
| Łabuz, Władysław - "ELZAT" Sp. z o.o. | 390 |
| Oczkowicz, Stanisław - JRCh Sp. z o.o. | 270 |
| Woliński, Jerzy - JRCh Sp. z o.o. | 60 |
| Ciuruś, Andrzej - "KOLTAR" Sp. z o.o. | 270 |
| Kokoszka, Leszek - "PROREM" Sp. z o.o. | 390 |
| Boryczka, Piotr - "ZBACH" Sp. z o.o. | 90 |
| Zelek, Marek - "ZBACH" Sp. z o.o. | 190 |

| Supervisory Board | No. of stocks |
|---|---------------|
| Bernat, Franciszek – Supervisory Board of "AUTOMATYKA" Sp. z o.o. Supervisory Board of "PROREM" Sp. z o.o. | 390 |
| Kozioł, Wiesław – Supervisory Board of "AUTOMATYKA" Sp. z o.o. | 220 |
| Kupiniak, Jacek – Supervisory Board of "BIPROZAT" Sp. z o.o. | 60 |
| Lach, Wiesław – Supervisory Board of "BIPROZAT" Sp. z o.o. | 270 |
| Szczypiński, Witold – Supervisory Board of "BIPROZAT" Sp. z o.o. | 390 |
| Koziara, Jerzy – Supervisory Board of JRCh Sp. z o.o. | 390 |
| Grajdura, Józef – Supervisory Board of "KOLTAR" Sp. z o.o. | 19 |
| Kucharski, Józef – Supervisory Board of "PROREM" Sp. z o.o. | 390 |
| Ćwikła, Paweł – Supervisory Board of "ZBACH" Sp. z o.o. | 340 |
| Gawron, Stanisław – Supervisory Board of "ZBACH" Sp. z o.o. | 220 |
| Kwaśniak, Jan – Supervisory Board of "ZWRI" Sp. z o.o. | 780 |
| Szatko, Jan – Supervisory Board of "ZWRI" Sp. z o.o. | 190 |

4.5. Utilization of funds generated from the issue of stocks.

On June 19, 2008 the Company received funds from its Public Offering in the amount of PLN 294,770,209.50, which had been invested in interest bearing reserved deposits with DM BZ WBK and BZ WBK until July 28, 2008 or until submission of a judicial decision on registration of the capital increase on account of the issue of stocks. Starting from July 28, 2008 the amount of PLN 295 million was invested in diversified deposits at selected banks with progressive maturities of up to 15 months, matching their expected utilization for financing of investment projects within fulfillment of the objectives of the issue of stocks.

Until the end of the fourth quarter of 2008, the Company utilized its revenues from the Public Offering in the following manner:

1. to cover the net costs of the offering – PLN 9,298 thousand,
2. to finance a part of the expenditures within fulfillment of the objectives of the issue of stocks – PLN 39,293 thousand, including:
 - investment tasks within “Optimization of the product portfolio and sales system of nitrogenous fertilizers” – the entire amount planned in the Prospectus, i.e. PLN 38,000 thousand,
 - for tasks within “Modernization of the caprolactam plant, including installation of a new hydrogen generation plant” - PLN 951 thousand,
 - for “Intensification of production of the Modified Plastics Plant” – PLN 342 thousand.

Table 13 Expenditure on fulfillment of objectives of the issue of stocks, made until December 31, 2008 and financed fully by the date of this report.

| Task name | Expenditure from July 1, 2008 | From credit facility | From own funds other than obtained from the issue of stocks | From funds obtained from the issue of stocks |
|---|-------------------------------------|-------------------------|--|---|
| Mechanical fertilizer granulation system, 1,200 t/d | 29,279,074 | 6,291,000 | 8,074, | 22,980,000 |
| Modernization of the dolomite-milling plant | 2,973,420 | 0 | 3,420 | 2,970,000 |
| Modernization of the fertilizer packaging and forwarding station | 12,511,533 | 0 | 461,533 | 12,050,000 |
| <i>Total “Optimization of the product portfolio and sales system of nitrogenous fertilizers”</i> | <i>44,764,027</i> | <i>6,291,000</i> | <i>473,027</i> | <i>38,000,000</i> |
| Modernization of the air compression station for the Cyclohexane Oxidation System within ob.K-54 | 2,060,134 | 0 | 1,240,134 | 820,000 |
| Modernization of process controls within systems of the Cyclohexanone Department | 409,530 | 0 | 409,530 | 0 |
| Modernization of the selective phenol hydrogenation system within the Pd catalyst | 191,192 | 0 | 60,192 | 131,000 |
| Modernization and intensification of production of the Caprolactam Plant up to 101.3 thousand tons a year | 0 | 0 | 96,000 | 0 |
| <i>Total “Modernization of the caprolactam plant including installation of a new hydrogen generation system”</i> | <i>2,660,856</i> | <i>0</i> | <i>1,709,856</i> | <i>951,000</i> |
| Intensification of production of the Modified Plastics Plant – stages I+II | 375,745 | 0 | 33,745 | 342,000 |
| <i>Total tasks financed within the objectives of the issue of stocks</i> | <i>47,800,628</i> | <i>6,291,000</i> | <i>2,216,628</i> | <i>39,293,000</i> |

As at December 31, 2008, the amount of PLN 253 million of the funds obtained from the issue of the Company’s stocks still remained invested in fixed-term deposits. Besides, the Company had PLN 15 million for financing of its running operations kept on bank accounts and invested in one day deposits, From the fixed term deposits of funds from its Public Offering, the Company generated financial revenues on account of accrued interest of PLN 7,283 thousand in the period from June 19 to December 31, 2008 (including funds paid out to the Company: PLN 2,458 thousand).

5. DESCRIPTION OF ACTIVITY OF THE CAPITAL GROUP OF ZAKŁADY AZOTOWE W TARNOWIE - MOŚCICACH S.A.

5.1. Basic products, goods and services.

Plastics

The main activities of Azoty Tarnów include manufacture, services and trade in the area of plastic construction materials and raw materials for their synthesis.

1. **Tarnamid®** - polyamide (PA 6), natural, dyed and modified. Tarnamid® is a high quality thermoplastic construction material obtained from polycondensations of ε-aminocaprolactam.
2. **Tarnoform®** - acetal copolymer (polyoxymethylene, POM), natural, dyed and modified. Tarnoform® is a high quality thermoplastic construction material obtained from cationic polymerization of trioxane.

Plastic products

1. Polyamide casings as packaging for cured meats.
2. Polyamide 6, 11, 12 and LDPE polythene tubes used as pneumatic and hydraulic pipes.

Chemicals

An important area of activity of Azoty Tarnów is manufacture of chemicals for the chemical industry. The products are used further mainly as raw materials for the manufacture of plastics (caprolactam), finished products (e.g. carbon dioxide for carbonated soft drinks), and as supplementary products for industrial systems (e.g. liquid ammonia as the cooling agent in refrigerating systems).

Fertilizers

The Company Zakłady Azotowe w Tarnowie-Mościcach S.A. is among the largest manufacturers of nitrogenous fertilizers in Poland. Due to the 80 years of its market presence combined with the experience of its production crew, the Company manufactures fertilizers that meet all needs of modern agriculture.

We specialize in nitro-chalk, ammonium nitrate and ammonium sulphate. Liquid fertilizers, with continuously growing share in sales, complete the Company's offer.

Laboratory services

We offer the following laboratory services:

1. environmental analysis (physico-chemical analysis of water, sewage, sludge, soil, wastes)
2. tests of plastics
3. testing of plastic packaging materials
4. physico-chemical analysis of organic and inorganic products
5. food products analysis
6. physico-chemical tests for the REACH system

Other services

Within its additional activity, Azoty Tarnów sells electrical energy to third party customers.

Production in 2008

The average utilization of the Company's production capacity amounted to 84.4% in 2008.

Table 14 Production by product range

| Product range | Volume of production in 2008 [t] | Volume of production in 2007 [t] | Change [%] | Utilization of production capacity [%] |
|---|----------------------------------|----------------------------------|------------|--|
| Formalin | 20,216 | 20,714 | 97.6 | 52.2 |
| Polytrioxane | 10,462 | 11,248 | 93.0 | 74.2 |
| Tarnamid, natural | 38,186 | 17,109 | 223.2 | 84.9 |
| Chlorine, gas | 21,440 | 29,680 | 72.2 | 62.1 |
| Sodium hypochloride | 12,531 | 17,450 | 71.8 | 44.8 |
| Chlorinated lime | 442 | 570 | 77.5 | 9.8 |
| Ammonia, total | 191,158 | 195,327 | 97.9 | 63.2 |
| Carbon dioxide | 31,662 | 33,048 | 95.8 | 79.4 |
| Nitric acid concentrate | 40,233 | 43,278 | 93.0 | 92.0 |
| Mixed acids, total | 70,259 | 66,150 | 106.2 | 93.6 |
| Nitrogenous fertilizers based on nitro-chalk | 362,723 | 404,953 | 89.6 | 80.3 |
| Nitric acid, technical | 265,671 | 300,408 | 88.4 | 90.5 |
| Caprolactam, distilled | 90,740 | 94,530 | 96.0 | 94.6 |
| Ammonium sulphate | 398,451 | 407,110 | 97.9 | 95.6 |
| Cyclohexanone, benzene-derived | 25,615 | 27,323 | 93.7 | 78.3 |
| Average utilization of production capacity | | | | 86.4 |

Compared to 2007, manufacture of the following products showed the highest growth rate in 2008: natural Tarnamid – by 123.2%, total mixed acids by 6.2%. Instead, the drop in production was the biggest with respect to chlorinated lime (by 22.5%), gas chlorine (by 27.8%), polytrioxane (by 7.0%), technical nitric acid (by 11.6%) and nitric acid concentrate (by 7.0%). The big volume of natural Tarnamid production resulted from completion in 2007 of an investment project.

On the other hand, the manufacture of gas chlorine, benzene-derived cyclohexanone and ammonia involved the necessity of balancing the Company's production needs. The very low volume of production of chlorinated lime and the drop in production of other chlorine products resulted from a small external demand for such products, leading ultimately to layoffs.

The basic reasons of the underutilization of production capacities of some of the systems were as follows:

- ammonia – the production volume results from a small production capacity of the preceding link, i.e. manufacture of the mixture for synthesis, as compared to the capacity of the ammonia production system,
- polytrioxane – the production volume is adjusted to the possibilities of selling the product

- carbon dioxide, mixed acids, formalin, modified Tarnamid, dyed Tarnamid, sodium hypochloride, chlorine, chlorinated lime and Tarflen powder – production volumes adjusted to sales.
- nitric and nitro-chalk fertilizers – production volume results from small production capacity of the technical nitric acid line compared to the nitro-chalk and nitric acid concentrate capacities.

Sales in 2008

The total 2008 revenues from the sales of products, goods, materials and services amounted to PLN 1,352,156 thousand and exceeded the 2007 revenues by PLN 58,656 thousand, i.e. by 4.53%. Exports and intra-community supplies of goods amounted to PLN 740,005 thousand and accounted for 54.73% of total revenues.

Figure 1 Sales revenues structure in 2008

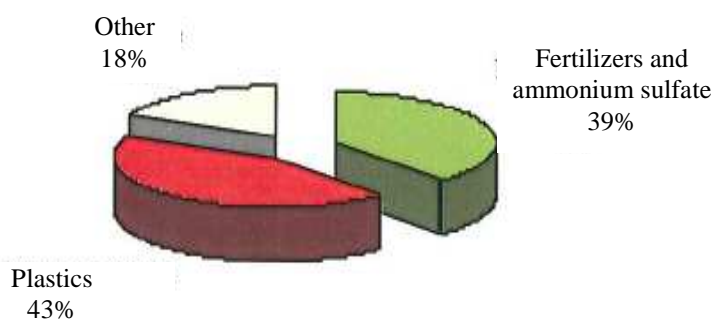


Table 15 Revenues from the sales of products and services by basic product lines

| Specification PLN thousand | Realization | % of sales | Realization | % of sales | Change % 2/4 |
|---|------------------|-------------|------------------|-------------|-----------------|
| | 2008 | 2008 | 2007 | 2007 | |
| Caprolactam Center | 543,203.8 | 40.2 | 630,950.0 | 48.8 | 86.1 |
| including: | | | | | |
| Caprolactam total | 280,939.1 | 20.8 | 454,890.4 | 35.2 | 61.8 |
| Ammonium sulphate | 247,726.0 | 18.3 | 159,681.5 | 12.3 | 155.1 |
| Other | 14,538.7 | 1.1 | 16,378.1 | 1.3 | 88.8 |
| Plastics Center | 337,960.0 | 25.0 | 283,481.8 | 21.9 | 119.2 |
| including: | | | | | |
| Tarnoform | 38,985.9 | 2.9 | 47,048.9 | 3.6 | 82.9 |
| Tarnamid, natural | 213,675.3 | 15.8 | 123,811.7 | 9.6 | 172.6 |
| Modified plastics | 35,526.4 | 2.6 | 44,151.0 | 3.4 | 80.5 |
| Soda lye | 18,645.3 | 1.4 | 21,659.0 | 1.7 | 86.1 |
| Sodium hypochloride | 4,901.9 | 0.4 | 5,787.4 | 0.4 | 84.7 |
| Other | 26,225.2 | 1.9 | 41,023.8 | 3.2 | 63.9 |
| Fertilizers Center | 336,837.5 | 25.0 | 288199.6 | 22.3 | 116.9 |
| including: | | | | | |
| Nitro-chalk | 274,376.4 | 20.3 | 208,402.1 | 16.1 | 131.7 |
| Ammonium nitrate | 3,203.4 | 0.2 | 26,754.8 | 2.1 | 12.0 |
| Mixed acids, total | 27,840.7 | 2.1 | 26,327.6 | 2.0 | 105.7 |
| Carbon dioxide | 6,354.9 | 0.4 | 6,703.9 | 0.5 | 94.8 |
| Other | 25,062.1 | 2.0 | 20,011.2 | 1.6 | 125.2 |
| Heat and Power Station | 10,614.4 | 0.8 | 9,834.3 | 0.8 | 107.9 |
| Water-power Engineering Department | 4,664.0 | 0.3 | 4,660.7 | 0.3 | 100.1 |
| Other sales | 118,876.3 | 8.7 | 76,373.6 | 5.9 | 155.7 |
| Total sales | 1,352,156 | 100 | 1,293,500 | 100 | 104.5 |

Figure 2 Revenues from the sales of products and services by basic product lines

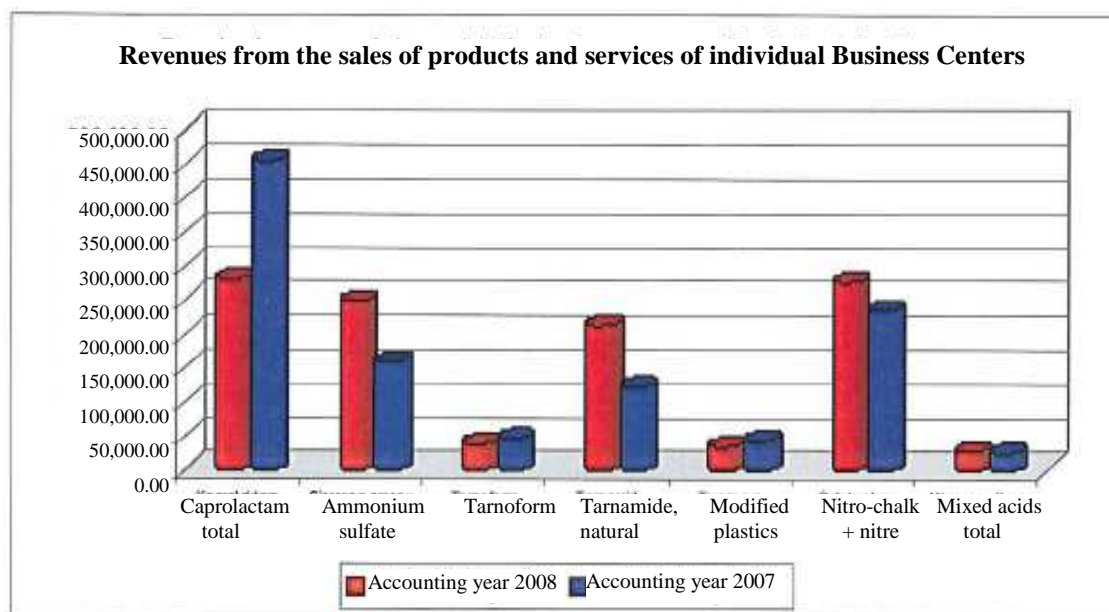


Table 16 Basic product lines in terms of production volumes

| Specification tons | Realization 2008 | Realization 2007 | Change % 2/3 |
|--|---------------------|---------------------|--------------------|
| Caprolactam Center | | | |
| Caprolactam total | 53,066.9 | 74,197.9 | 71.5 |
| Ammonium sulphate | 383,965.2 | 400,217.8 | 95.9 |
| Plastics Center | | | |
| Tarnoform | 7,597.7 | 8,275.7 | 91.8 |
| Tarnamid, natural | 34,453.7 | 17,320.2 | 198.9 |
| Modified plastics | 4,283.0 | 4,959.2 | 86.4 |
| Formalin | 1,160.3 | 1,399.6 | 82.9 |
| Fertilizers Center | | | |
| Nitro-chalk | 352,396.3 | 359,399.4 | 98.1 |
| Ammonium nitrate | 4,601.8 | 40,737.0 | 11.3 |
| Nitro-chalk+nitre based on nitro-chalk | 357,558.8 | 406,059.6 | 88.1 |
| Mixed acids, total | 46,743.5 | 46,302.5 | 101.0 |
| Carbon dioxide | 31,146.3 | 32,924.6 | 94.6 |

Table 17 Sales of and return on basic product groups

| PKD symbol | Product group after the Main Statistical Office | Sales value PLN thousand | | Structure [%] | | Rate of return [%]* | |
|-----------------|--|-----------------------------|---------|---------------|------|---------------------|-------|
| | | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| 2014z | Manufacture of other basic organic chemicals | 297,073 | 474,098 | 22.0 | 36.7 | 1.1 | 14.5 |
| 2015z | Manufacture of nitrogenous fertilizers and compounds | 566,668 | 434,745 | 41.9 | 33.6 | 15.3 | -0.1 |
| 2016z | Manufacture of basic forms of plastics | 288,790 | 220,475 | 21.4 | 17.0 | 17.1 | 6.5 |
| 2013z, 2221z | Other basic product groups | 45,840 | 57,319 | 3.4 | 4.4 | -17.0 | -11.6 |

* (gross financial result for individual product groups / value of sales).

Main products within individual groups:

2014z – caprolactam, total

2015z – nitro-chalk, nitre, ammonium sulphate, mixed acids

2016z - Tarnamids, Tarnoform

2013z – manufacture of other basic inorganic chemicals (sodium hypochlorine, liquid chlorine, sodium lye).

2221z – manufacture of plastic panels, sheets, pipes and sections

In 2008, the supply of caprolactam to the Far East markets grew (full warehouses), which led to limitation of production by Asian companies, and later on also by European manufacturers. The production of caprolactam at Azoty Tarnów was reduced by approximately 30% compared to the planned volumes.

Also the manufacture of all products related to caprolactam was reduced:

- cyclohexanone from phenol based on palladium (by 25%)
- cyclohexanone from benzene (by 25%)
- cyclohexane from benzene (by 32%)
- c-nol_c-non mixture (by 33%)
- SHA (by 30%)
- ammonium nitrite (by 30%)
- oleum from sulphur (by 25%)
- ammonium sulphate (by 24%)

The limitation of production resulted directly from the sudden drop in the demand for caprolactam and polyamide on the global markets, which took place early in the 4th quarter and progressed in the weeks that followed, and also from a breakdown of the fertilizers market in South America. The drop in raw material prices (benzene) resulting from the global crisis led to further drops in the prices of products.

Total sales of caprolactam were lower by about 22% in terms of volume and 32% in terms of value, while that of ammonium sulphate – by 32% in terms of volume and 25% in terms of value.

There was also a breakdown on the Brazilian market – the largest outlet for ammonium sulphate – where the receipts of some fertilizers, including ammonium sulphate from our Plant, were stopped altogether at the end of the 3rd quarter.

In the area of nitric fertilizer, 2008 was a year of high dynamics of demand (during quarters 1 – 3), a considerable growth in the prices of fertilizers, and a drastic growth in the prices of raw materials, i.e. ammonia, natural gas, and electrical energy. The growing production costs and the persistent extremely difficult situation in agriculture (with very low purchasing prices of the agricultural products after the harvest) led to reduced demand reported in the 4th quarter. However, analysis of the entire 2008 on the market of fertilizers shows that demand prevailed, which was caused by intensified purchases by distributors replenishing their stock of fertilizers on the basis of the 1st and 2nd quarter to get ready for the season.

The situation on the chemicals markets reflected the trends in the economy during the first three quarters of 2008. The dynamic growth in prices, resulting from increased production costs and demand for products of the ATT range, i.e. mixed acid, nitric acid, ammonia water, ammonium nitrate solution with sodium nitrate, persisted until the crisis affected the markets for the final products manufactured on the basis of the ATT range chemicals. In the 4th quarter there was a considerable drop in sales resulting of reduced production and forced technical shutdowns due to the market recession.

Table 18 Sales of selected products:

| Product | Volume (tons) | Value (PLN) | Share in total revenues (%) |
|-----------------|----------------------|--------------------|------------------------------------|
| Fertilizers | 356,458 | 277,579,762 | 20.53 |
| Mixed acid | 46,743 | 27,840,688 | 2.06 |
| Nitric acid 98% | 10,488 | 7,439,817 | 0.55 |
| Catalysts | 581 | 11,333,480 | 0.84 |
| Carbon dioxide | 31,036 | 6,354,881 | 0.47 |
| Total: | | 330,548,628 | |

5.2. The outlets and sources of supply of materials, goods and services.

Outlets

The Company's products are sold mainly to countries of the European Union, including in particular Germany, Slovakia, China and Denmark. The exports to South America involve mainly fertilizers, and those to Asia – plastics.

Zakłady Azotowe w Tarnowie- Mościcach S.A. sold its fertilizers chiefly on the domestic market. Due to the technical parameters of the Company's product range, the nitre-based fertilizers have so far been purchased mainly by Polish agricultural producers. Exports were incidental and pertained to small quantities of the products, accounting for 2.1% of total sales of fertilizers in 2008. With introduction of mechanically granulated fertilizers, development and diversification of the outlets is planned.

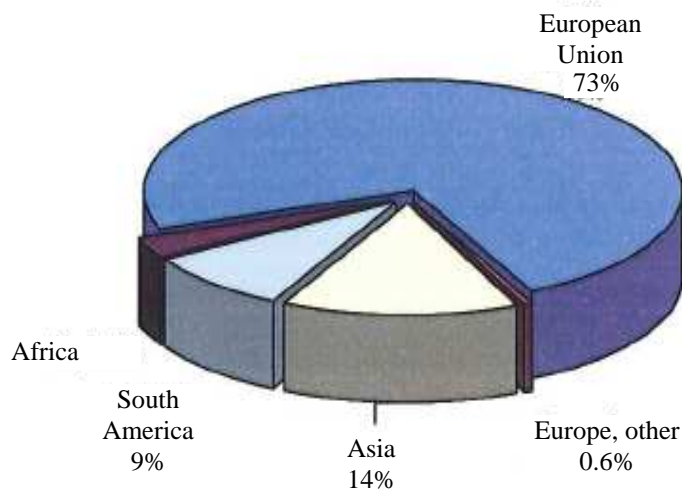
In the case of the mixed acid and 98% nitric acid, 73% of total sales are made to domestic customers, who use those products within manufacture of fuel additives, polyurethane foams and explosives. The remaining 27% are sold on foreign markets.

Catalysts are sold both in Poland and abroad. The customers are all manufacturers of ammonia and methanol. The number of foreign customers is growing constantly. We are present on the German, Austrian, Hungarian, Indonesian, Russian, Ukrainian, Byelorussian and Rumanian market. In 2008, exports accounted for approximately 63% of total sales of catalysts.

The strategic recipients of carbon dioxide are big distributors trading in technical gases. The target users of CO₂ are soda and mineral water manufacturers, breweries and beer canners, shipyards, foundries, greenhouses, medical institutions and slaughterhouses.

Azoty Tarnów sells CO₂ mainly to domestic customers. Exports account for 1 per mille of total CO₂ sales; they are effected as spot transactions. As regards the remaining entities of the Capital Group of Zakłady Azotowe w Tarnowie- Mościcach S.A., the whole of their 2008 sales was effected mainly on the domestic market. The main customer was Azoty Tarnów.

Figure 3 Directions of exports in 2008 by regions

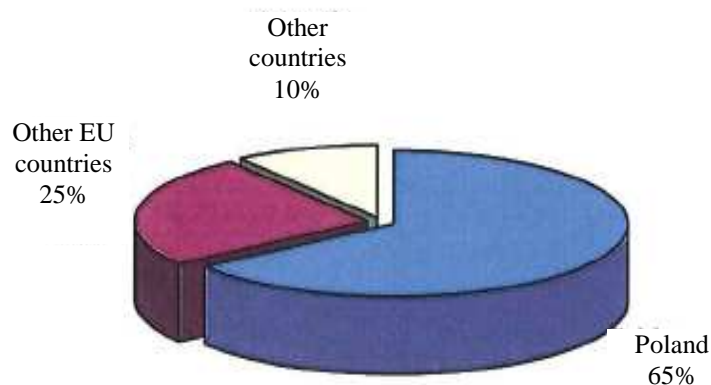


There was among the customers of Zakłady Azotowe w Tarnowie - Mościcach S.A. not a single entity whose contribution to the Company's total revenues for 2008 reached 10%.

Sources of supply of materials for production, goods and services

The Company acquires the materials, goods and services predominantly on the domestic market. Exports from the European Union are mainly those of phenol, and from other countries – of ammonia.

Figure 4 The sources of goods and materials in 2008



Among the Company's suppliers, there is one entity whose supplies of goods and services reached 10% in 2008. That supplier was Polskie Górnictwo Naftowe i Gazownictwo S.A. – PLN 137,849,449.51. (Polskie Górnictwo Naftowe i Gazownictwo S.A. is a stockholder of Zakłady Azotowe w Tarnowie - Mościcach S.A., holding a share of over 5% in the Company's equity).

The 2008 situation on the markets of raw materials was high unstable. From January to the end of the 3rd quarter of 2008, the prices grew from month to month reaching very high levels, which were the highest since a long time. The prices of ammonia exceeded USD 800 per ton, and those of sulfur grew as much as several times the prices during the 1st quarter of 2008, reaching and even exceeding the level of USD 600 per ton. The situation was similar in the case of the petrochemical raw materials, i.e. benzene and phenol. This led to considerable supply and demand fluctuations and destabilized the market. Following the sudden market breakdown in the 4th quarter, there were rapid drops in prices and drastic limitations of supply; some of the manufacturers were forced considerably to reduce production. At the end of last year, the first signs appeared of stabilization of the situation; however, due to the circumstances described above, the risk related to appropriate and timely provisions for production grew considerably for a period of time.

Despite the market difficulties, the ZAT situation as regards the raw materials was relatively stable, which was due to the supplies having been secured by long-term agreements and also to efficient purchase and logistics actions making it possible for the Company to minimize the negative market developments and to adjust the volume of supplies to its current production needs. Most of the business agreements in the area of purchases and logistics were renegotiated and thus adjusted to the changed market conditions.

5.3. Main capital investments of the Capital Group of the Company made outside the related entities group.

The funds acquired from the issue of own stocks – in the full amount of PLN 295 mln – were invested in interest-bearing reserved deposits in DM BZ WBK and BZ WBK by July 28, 2008, i.e. by the time of submitting the court decision on the registration of the increase of the capital due to the issue of stocks. As of July 28, 2008, the funds in the amount of PLN 295 mln were deposited in diversified deposits in selected banks with a maturity on gradually falling dates – up to 15 months – adjusted to their anticipated use for the funding of investments related to the execution of goals related to stock issues.

As at December 31, 2008 the amount of PLN 253 mln was invested in term deposits based on the funds acquired from the issues of Company's stocks, including the amount of PLN 190 mln in the deposits with maturity within the period of from 3 months up to 1 year and PLN 50 mln in the deposit with maturity of over 1 year.

Table 19 Specification of ZAT deposits with maturity of over 3 months.

| Bank | Amount | Deposit start date | Deposit maturity date |
|--|---------------------------|---------------------------|------------------------------|
| <i>AIG Bank Polska S.A.</i> | <i>PLN 50,000,000.00</i> | <i>July 28, 2008</i> | <i>January 28, 2010</i> |
| <i>AIG Bank Polska S.A.</i> | <i>PLN 50,000,000.00</i> | <i>July 28, 2008</i> | <i>July 28, 2009</i> |
| <i>Fortis Bank Polska S.A.</i> | <i>PLN 40,000,000.00</i> | <i>July 28, 2008</i> | <i>July 28, 2009</i> |
| <i>PKO BP S.A.</i> | <i>PLN 50,000,000.00</i> | <i>July 28, 2008</i> | <i>July 27, 2009</i> |
| <i>Raiffeisen Bank Polska S.A.</i> | <i>PLN 50,000,000.00</i> | <i>July 28, 2008</i> | <i>April 28, 2009</i> |
| Total deposits with maturity of over 3 months | PLN 240,000,000.00 | | |

1) Deposit for over 1 year.

The Company deposited a part of the funds obtained within the issue of own stocks, in the amount of PLN 50 million, with AIG Bank Polska S.A. for a period of over 1 year. The deposit was established on July 28, 2008. Its maturity date is January 28, 2010.

2) Purchase of financial assets of considerable value.

On October 9, 2008 a letter of intent was signed concerning the purchase of a controlling shareholding in Anwil S.A. The signatories of the document are: Ciech S.A., Zakłady Azotowe Kędzierzyn SA (ZAK) and Zakłady Azotowe w Tarnowie-Mościce S.A. (Azoty Tarnów). (Current report No. 42/2008 of October 9, 2008).

Following this, on January 5, 2009 the Company joined Polskie Konsorcjum Chemicznego Sp. z o.o. (PKCh Sp. z o.o. with its registered office in Warsaw is a special target vehicle created by Ciech S.A.), taking up 500 shares with the value of PLN 50 each for the total price of PLN 25 000.

The President of the Management Board of Azoty Tarnów Mr. Jerzy Marciniak was appointed as Member of the Management Board of PKCh Sp. z o.o. The ownership structure of this entity with the share capital of PLN 100 000 is as follows: 50% - CIECH S.A.; 25% - Azoty Tarnów and ZAK S.A.- 25 %.

The assets are considered financial assets with a considerable value, since the Company purchased over 20% of the share capital of the target company. The Company purchased the aforementioned assets for its own funds.

(Current report No. 1/2009 of January 5, 2009).

5.4. Deposits and capital investments within the Capital Group of the Company.

In 2008 there were deposits or capital investments within the Capital Group of the Company.

5.5. Material agreements.

There were no other material agreements, apart from those listed in in 2008.

1. Annex to Agreement no. 1/2001 for many years' supplies of sulphur concluded on July 30, 2001.

On July 1, 2008 Annex no. 14 to Agreement no. 1/2001 entered into on July 30, 2001 was concluded by Zakłady Azotowe w Tarnowie-Mościce S.A. (the Buyer) with Kopalnie i Zakłady Chemiczne Siarki "Siarkopol" with its registered office in Grzybów (the Seller).

The said agreement concerns supplies of sulphur by Kopalnie i Zakłady Chemiczne Siarki "Siarkopol" in favor of Zakłady Azotowe w Tarnowie-Mościce S.A.

Annex no. 14 to the Agreement stipulates securing supplies and prices of sulphur in the period from July 2008 to December 2009 according to the agreed schedule and business terms. The estimated value of the agreement during the term of the annex is PLN 112 mln.

The Seller reserved from January 1, 2009 the right to renegotiate the prices of sulphur in the case of material changes in the prices of sulphur in the world markets.

The signed annex meets the criterion of a material agreement, i.e. its estimated value exceeds 10% of the Company's equity.

(Current report No. 22/2008 of July 2, 2008).

On January 5, 2009 the Company (the Buyer) signed annex no. 15 to the aforementioned agreement.

The signed annex replaces annex no. 14 binding previously, signed on July 1, 2008. Annex no. 15 to the agreement provides for a correction of the prices of sulphur and the term of the agreement (January-March 2009) in relation to the stipulations of the annex binding previously.

In relation to the above, the total value of turnover between the Buyer and the Seller with an estimated value under the aforementioned agreement shall be subject to change and this agreement shall no longer meet the criteria of a material agreement.

(Current report No. 9/2009 of February 6, 2009).

2. The Agreement on the reduction of emission of nitrous oxide from the nitric acid system for the years 2008 - 2012.

On July 4, 2008 an agreement was concluded between the Company and a Japanese company Mitsubishi Corporation on the reduction of emission of nitrous oxide (N₂O) from the nitric acid system in Zakłady Azotowe w Tarnowie-Mościce S.A.

The said agreement concerns the construction of a system for catalytic reduction of emission of nitrous oxide (N₂O). The said agreement shall be executed according to the formula of joint implementation based on decision 17/CP.7 "Methods and procedures of joint implementation", specified in Article 6 of the Protocol signed in Kyoto adopted on November 10, 2001 during the seventh session of the Conference of the Members of UNFCCC. The ERU units generated as the result of the project shall be the object of marketing and sales.

The signed agreement meets the criterion of a material agreement, i.e. its estimated value of about PLN 100 mln exceeds 10% of the Company's equity.

(Current report No. 24/2008 of July 5, 2008).

3. Agreement for the sale of the products of chlorine electrolysis.

On August 27, 2008 the Company (the Seller) signed an agreement with Brenntag Polska Sp. z o.o. with its registered office in Kędzierzyn-Koźle (the Buyer).

The signed agreement concerns the sale of the products of chlorine electrolysis by Zakłady Azotowe w Tarnowie-Mościce S.A. in favor of Brenntag Polska Sp. z o.o. until the time of complete discontinuation of the chlorine production line.

The Agreement has been concluded for a specified period, i.e. since September 1, 2008 until a complete discontinuation of the chlorine production line and cannot be terminated by means of a termination notice by any of the parties.

The estimated value of the agreement is PLN 30 mln per annum. The terms of this Agreement shall ensure revenues on account of the sale of products of chlorine electrolysis to the Company in the estimated amount of PLN 30 mln per annum and the revenues in the amount of PLN 700 thousand on account of the sale of the know-how.

(Current report No. 38/2008 of August 28, 2008).

4. The Agreement concluded between the Capital Group of Zakłady Azotowe w Tarnowie-Mościce S.A., and the Capital Group of Zakłady Azotowe Kędzierzyn S.A.

On October 21, 2008 the Company (the Buyer) concluded an agreement with Zakłady Azotowe Kędzierzyn S.A. in Kędzierzyn-Koźle (the Seller).

The said agreement concerns the sale of a liquid ammonia produced by Zakłady Azotowe Kędzierzyn S.A. to Zakłady Azotowe w Tarnowie-Mościce S.A. in the period from October 1, 2008 to December 31, 2009, and its estimated value amounts to approximately PLN 95 mln.

The described agreement is the biggest agreement concluded between the Capital Group of Zakłady Azotowe w Tarnowie-Mościce S.A., and the Capital Group Zakłady Azotowe Kędzierzyn S.A. from the moment of commencing information obligation, i.e. since June 19, 2008.

The agreement was considered as material due to the fact that the estimated value of turnover with the Capital Group of Zakłady Azotowe Kędzierzyn S.A. in the period from June 19, 2008 until the time of passing the current report concerning this agreement, i.e. by October 21, 2008, exceeded 10% of the equity of Zakłady Azotowe w Tarnowie-Mościce S.A. The evaluated total value of turnover amounts to approximately PLN 110.6 mln.

(Current report No. 47/2008 of October 21, 2008).

5. Agreement for the sale of ammonium sulphate.

On November 17, 2008 a framework agreement for the sale of ammonium sulphate was concluded between the Company and Witt-Handel GmbH, Germany.

The said agreement is valid in the period from January 1, 2009 by the end of December 2013 and stipulates the sale of ammonium sulphate by AZOTY Tarnów to Witt-Handel GmbH.

The concluded agreement meets the criterion of a material agreement, i.e. its estimated net value amounts to PLN 349 mln and exceeds 10% of the Company's equity.

(Current report No. 49/2008 of November 18, 2008).

6. Agreement for the purchase of natural gas.

On December 18, 2008 Zakłady Azotowe w Tarnowie-Mościce S.A. (the Buyer) concluded with Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office in Warsaw (the Seller) the agreement for the sale of natural gas from the local deposits.

The concluded agreement meets the criterion of a material agreement, i.e. its estimated net value during the term of the agreement amounts to approximately PLN 400 mln and exceeds 10% of the Company's equity.

(Current report No. 51/2008 of December 19, 2008).

7. Annex with Kompania Węglowa S.A.

On January 22, 2009 the Company (the Buyer) concluded annex no. 4 to Agreement no. 70/KW/W/2007 (of February 8, 2007) with Kompania Węglowa S.A. with its registered office in Katowice (the Seller).

Annex no. 4 to the said agreement concerns the sale of power coal by Kompania Węglowa S.A. to Zakłady Azotowe w Tarnowie-Mościce S.A. in 2009.

The estimated value of this annex during the term of the agreement amounts to approximately PLN 89 mln net.

The Agreement with the annexes have been considered material due to the fact that the value of turnover between the Capital Group of Zakłady Azotowe w Tarnowie-Mościce S.A. with Kompania Węglowa S.A. in the period from the date of commencing the information duties, i.e. from June 19, 2008, to February 2, 2009, together with the estimated value under annex no. 4 exceeded 10% of the equity and amounts to approximately PLN 133.7 mln net.

(Current report No. 7/2009 of February 3, 2009).

8. Turnover with PKN Orlen S.A. for the value of a material agreement.

On December 27, 2008 annex no. 5 to the Agreement no. 2005/UZS/10 (signed on November 19, 2004) between the Company and Polski Koncern Naftowy Orlen S.A. with its registered office in Płock (the Seller) has been concluded.

Annex no. 5 to the said agreement concerns the sale of raw materials: phenol, benzene and liquid sulphur by PKN Orlen S.A. to Zakłady Azotowe w Tarnowie-Mościce S.A. in 2009 according to the agreed schedule and business terms. The estimated value of annex no. 5 during the term of the agreement amounts to approximately PLN 49 mln net. The Agreement with annexes have been considered material due to the fact that the value of the turnover between the Capital Group of Zakłady Azotowe w Tarnowie-Mościce S.A. with the Capital Group of PKN Orlen S.A. in the period from the date of commencing the information duties, i.e. from June 19, 2008, by April 6, 2009, together with the estimated value under annex no. 5 exceeded 10% of the Company's equity and amounts to approximately PLN 154 mln net.

(Current report No. 16/2009 of April 7, 2009).

9. Conclusion of a multilateral agreement (details in point 4.2).

(Current report No. 13/2009 of March 19, 2009)

Other material agreements.

- Agreements on insuring the Company's receivables.

The policy insuring the risk of a trade loan with an option of debt collection concluded with Towarzystwo Ubezpieczeniowe Euler Hermes S.A. on May 3, 2008 for the period from March 1, 2008 until February 28, 2009.

The subject of the policy is insurance of merchant loans, i.e. ensuring the payment of indemnity in the case of failure to receive the payment on account of the sale of goods or services due to a legally confirmed or actual insolvency of a client.

The total insurance amount is forty times the value of the premium paid for a given insurance year, which in 2008 amounts to PLN 13,968,000.

The Company extended the policy for a subsequent insurance year since March 1, 2009 until February 28, 2010.

- Agreements on insuring the Company's assets.

In 2008 agreements on insuring the Company's assets were concluded with PZU S.A. for the period from November 1, 2008 to October 31, 2009 r.:

- Policy no. CKL955K2001 - Agreement on insuring the assets against fire and other acts of God, the insurance amount – PLN 1,653,556.719, premium – PLN 1,984,268.
- Policy no. CKL95547001 - Agreement on insuring machines against damage, the insurance amount – PLN 1,020,074,130, premium – PLN 1,591,316.

On July 1, 2008 the Management Board of the Company terminated a brokerage agreement concluded on June 18, 2007 between Zakłady Azotowe w Tarnowie-Mościce S.A. and PWS Konstanta S.A. in Bielsko-Biała.

After a six-months termination period the said agreement was terminated as of January 1, 2009.

- Agreement on insuring marketing expenses of a subsidiary.

"Prorem" Sp. z o.o. under the agreement of May 26, 2008 concluded with KUKE Korporacja Ubezpieczeń Kredytów Eksportowych S.A. acquired insurance of marketing expenditures for the French market. This insurance ensures the reimbursement of marketing expenditures in the amount of 65% of costs incurred in the period of 4 years, up to the maximum amount of EUR 1 mln (i.e. PLN 3 354 200 at the average rate of 3.3542 announced by the National Bank of Poland on June 30, 2008).

- Agreements concerning the first listing on the stock exchange.
 - a) agreement dated June 9, 2008 concluded with Dom Maklerski BZ WBK S.A. for the function of an animator at the Stock Exchange;
 - b) agreement dated May 30, 2008 concluded with Dom Maklerski BZ WBK S.A. for the function of a sponsor of the issue of ZAT S.A.;
 - c) agreement dated May 28, 2008 concluded with Bank Zachodni WBK S.A. for an investment sub-issue;
 - d) agreement dated 22 kwietnia 2008 concluded with Dom Maklerski BZ WBK S.A. for keeping a Stocks Deposit.
- Contract with a Third Party Investor.

On September 12, 2008 "PROREM" Sp. z o.o. (a subsidiary) signed a contract with "PROCHEM" S.A. for the amount of PLN 7.5 mln PLN + VAT. The Agreement was concluded for the period: 4 Q of 2008 and 1 Q of 2009, whose subject is construction of Zakład Produkcji Etanolu "GOŚWINOWICE" in Głębinów (installation of pipes within a pipeline).

5.6. Material transactions with related entities.

In 2008 the Company did not conclude transactions with related entities on terms other than market terms.

5.7. Major research and development achievements.

The research works carried out in 2008 were related to the fulfillment by Zakłady Azotowe w Tarnowie-Mościcach S.A. of its assumed strategic objectives. The major part of the funds was assigned to projects related to the Company's core areas of construction plastics, caprolactam and nitre-based fertilizers. Works were also carried out aimed at further diversification of the Company's product range. In the construction plastics area, the works were related to further development of the POM production technologies and to new varieties of modified construction plastics. Basing on the findings of the Company's own research on optimizing the Tarnoform® stabilization system, and also on research projects implemented in cooperation with third parties, the polymer stabilizer composition was changed. The works led to a further improvement of the quality of Tarnoform®, as the tendency to form deposits on the surface of injection moulds could be minimized.

The works in the area of construction also included research into broadening of the product range of modified varieties of the manufactured plastics. For developing within its own research works of high-molecule polyamide plastic Tarnamid T-30 MHLS, designed for sports stadium seats, the Company won an award at the XII International Plastic Processing Fair PLASTPOL 2008 in the "Plastics and auxiliary materials in plastic processing" category. The new Tarnamid® variety is designed both for new sports stadiums and for modernized sports halls and local soccer playing fields. It features high mechanical resistance, resistance to UV radiation, and high esthetic quality of the surface. In 2008, Azoty Tarnów also extended its offer with newly developed composite products with glass and carbon fibers on the basis of polyamide 6. The new varieties of modified Tarnamid® can be used in sectors such as transport and defence. In the area of caprolactam, the works aimed at further optimization of the caprolactam production process and management of discards from the Caprolactam Plant.

In the fertilizers area, the works dealt with reduction of the costs of fertilizers' production, improvement of the quality of existing products, and further intensification of the production of fertilizers. Works performed included e.g. preparation of the technological assumptions for utilization of natural gas from the local sources at AZOTY Tarnów as well as research into improvement of the quality and further differentiation of the Company's range of mineral fertilizers.

Protection of industrial property

In the area of patent protection, Zakłady Azotowe w Tarnowie-Mościcach S.A. acquired the following patents:

BY decision of February 2008, the Patent Office of India awarded Patent No. 214 796 for "Selective cyclohexane oxidation procedure" (Polish Patent No. P-312 339 of January 15, 1996). The patented procedure was developed and implemented at Azoty Tarnów within the line for production of cyclohexane from benzene under the name "Cyklopol-bis".

By decision of May 26, 2008, the Patent Office of the Republic of Poland awarded Patent No. P-364 265 for "Trioxane removal from liquid multicomponent mixtures". Trioxane is a semi-finished product of the polyoxymethylene production process of the POM Plant within Azoty Tarnów.

Besides, on December 5, 2008, the following invention was submitted for protection to the Patent Office of the Republic of Poland: "Obtaining sodium methylate", submission No. P-386702. The information will be published 18 months after the date of submission.

In the area of development, major implementations of 2008 included the project entitled Intensification of production of the Polyamide 6 Plant up to 45 thousand tons a year. Zakłady Azotowe w Tarnowie-Mościcach S.A. finalized the project in April 2008. The intensification of the Plant's production was achieved on the basis of a license, process design and the key equipment purchased from a German company Lurgi Zimmer GmbH.

Implementation of the project strengthened the Company's position in the construction plastics sector, which is crucial for the Company. Used within the project have been new technical solutions including e.g. a two-stage polymerization process and a direct return of post-extraction waters. Implementation of the project resulted in increased production of the Polyamide 6 Plant's basic product – low-viscosity polyamide with the trade name of Tarnamid T 27. Its target market segments include e.g. the automotive industry, household appliances industry, electronics and electrical engineering.

Quality systems, HR situation in the Company, and ISO standards implemented and under implementation

The management systems implemented at Zakłady Azotowe w Tarnowie- Mościcach S.A. base on the conception of continuous improvement. The major systemic document is the Management Policy. In October 2008, the Policy was updated and approved by Resolution of the Management Board No. 91/VII/2008. The Policy was distributed to the employees. The quality management system is compliant with the international standards that follow from ISO 9001: 2000. The implemented system is directed at increasing customer satisfaction through meeting the customer's requirements and expectations. On the basis of the approved policy, activities are planned towards its implementation, and conditions are created permitting activities that are necessary within the quality management system as well verification of the effects of such activities. On the basis of periodical evaluations of the results, improvements of the adopted management system are proposed.

The environment management system compliant with the standard ISO 14001 : 2004 supports activities related to environment protection and prevention of pollution. At Azoty Tarnów, the different environmental impacts have been identified; those considered significant are subjected to supervision. The assumed supervision criteria make it possible clearly to monitor and evaluate the efficiency of individual processes. Compliance with relevant legal and other requirements is appraised on the running basis.

The management systems implemented at Zakłady Azotowe w Tarnowie Mościcach S.A. are subjected to regular appraisals. The certificates of conformity with the series 9000 and 14000 ISO standards are confirmed during consecutive audits carried out by Det Norske Veritas. In March 2008, the environment management system was re-certified; this way, validity of the ISO 14000 certificate was extended to June 14, 2011. Basing on the re-certification audit of the ISO 9001 system, validity of the ISO 9001 certificate was extended to June 24, 2009 (a further periodical audit was carried out in March 2008).

In the period covered by the report, a subsidiary of ZAT S.A. (ZWRI Sp. z o.o.) was granted the PN-EN ISO 9001:2001 certificate in the following areas:

- General construction services in the area of execution, assembly, repair and design.
- Construction, repairs and modernization of class 1, 2 and 3 steel structures, technological and transfer pipelines, permanent pressure, no pressure and low pressure tanks for poisons, corrosive and liquid inflammable materials.

- Services in the area of construction equipment,

and the PN-EN ISO 3834 - 2:2007 certificate in the following areas:

- Construction, modernization, repairs and assembly of:
 - steel structures,
 - technological pipelines,
 - industrial pipelines,
 - pressure and no pressure tanks,
 - storage tanks.

Starting from 1994, Zakłady Azotowe w Tarnowie- Mościcach S.A. has been implementing the “Responsible Care” program focused on care for the natural environment. The idea of the Program is to pursue business activity based on honest and reliable grounds of sustainable development. As an entity implementing the Program, we combine in our activities responsibility for the environment, care for the health of our employees, and process safety. In such activities, we focus on economic efficiency and social balance. In our Environmental Report published in 2008, we explicitly described our environmental impacts. The activities within the Program are voluntary, declared in public as the “Responsible Care” Program Declaration. A number of activities were carried out in 2008.

They included:

- Introduction of the HACCP system within the drinking water supply system,
- Amendment of the Management Policy,
- Verification of the process map and its extension to all business processes,
- Publication and distribution of the Company’s publication “Environmental Report”,
- Organization in Tarnów of the VI edition of the campaign “A Tree For A Bottle”,
- Co-organization of an ecological competition for Tarnów youth,
- A photographic competition for employees “Catch A Hare:”,
- Publication of an ecological extra to the “Tarnowskie Azoty” newsletter.

The initiatives permit the creation of pro-environment attitudes in the Company’s most immediate surroundings. At present, preparations for the implementation of the Responsible Care Framework Management System are in progress. The Company’s internal appraisal based on the self-appraisal questionnaire shows that the degree of satisfaction of the framework system’s requirements is very high (over 88%, which means a full implementation of the requirements).

Beside the quality management and the environment management systems, Zakłady Azotowe w Tarnowie Mościcach S.A. have implemented the HACCP food safety system within its selected production lines. The Food Safety Policy has been adopted, in which we undertake to observe the food safety rules at departments manufacturing products used within the food production chain. Threats have been analyzed at all stages of the production, storage, loading and distribution processes. In September 2008, Det Norske Veritas carried out the certification audit of conformity of the drinking water supply system with the standard ISO 22000 : 2005; the audit confirmed that Azoty Tarnów successfully implemented the food safety management system meeting the requirements of the ISO standard.

Currently in progress is the implementation of the occupational safety management system regulated by standards PN-N –18001 / OHSAS 18001. The implementation started with employee training. The existing documentation was analyzed for satisfaction of the standard requirements and integration with the existing management systems.

Actions were also undertaken to implement the requirements of the automotive industry at the Company. Task force was established to implement a quality management system compliant with the automotive industry's requirements. The basis for the implementation is the technical specification ISO/TS 16949 : 2002. Works on implementation of those specific requirements are now in progress.

To confirm the efficiency of operation of the management systems implemented at Zakładach Azotowych w Tarnowie Mościcach S.A., the essential processes within those systems were identified. A process map was drawn up and verified in October 2008. The process approach permits running supervision of the connections and mutual influences between individual processes. The identified processes are managed by their respective owners with the use of measures and monitored for the effects and efficiency of the process thus managed. Each process is scheduled in the technological instructions, and the manner of performing individual operations is described in detail in the relevant job instructions. Basing on the Analytical Control Cards, raw materials are analyzed as well as the in-process and final analyses are performed before the product can be released. For proper process control, the production departments cooperate on the running basis with the quality control laboratories. The final products are subjected to quality inspection to ensure their compliance with the requirements stated in technical questionnaires or the customer's specification. The efficiency of operation of the management systems and any possibilities of their improvement are reviewed within internal audits. A quarterly internal audit report is prepared and submitted to the Management Board and Plenipotentiary of the Management Board for Management Systems. The functioning and efficiency of the management systems is appraised comprehensively at meetings of the top executive dealing with review of those systems. Two management systems audits were carried out in 2008 (in January and October). As a result, conclusions were formulated at improvement of the management systems.

Zakłady Azotowe w Tarnowie – Mościcach S.A. carries out continuous activities involved in maintenance and improvement of the implemented management systems, and also in implementation of new systems ensuring their complete integration.

Implementation of the SAP computer system.

In the period covered by this report, works were carried out within implementation at the Company of the integrated IT system for management support mySAP ERP.

As of January 1, 2009, SAP become the leading system with the scope including the following among other modules:

- financial
- controlling
- production
- logistics
- other

JRCH Sp. z o.o. (a subsidiary of ZAT S.A.) continued in the period under report its cooperation with Ukraine in the area of advisory services with respect to utilization of a rocket fuel oxidizer, and contributed to the utilization of 215 tons of the fuel concerned. Also taken over for use was a research and development project implemented during the previous year jointly with the Wrocław Technological University within target project 274/BO/C entitled "The technology of utilization of the rocket fuel oxidizer and design assumptions for a mobile system".

In the area of technical development, "ZBACH" Sp. z o.o. (a subsidiary of ZAT S.A.) initiated the process of renovation and modernization of its machinery fleet. In view of the fact that for several years, the Company could not invest in purchase of new machines, especially welders, for lack of funds and bad financial results, the purchase has become indispensable

and required. In the period covered by this report, machines for orbit welding of pipes within perforated bottoms were purchased, and a modern pipe welding technology was implemented. Besides, the machine for hidden arc welding was modernized, and a modern method of longitudinal and girth welding of the cargos of manufactured tank-type devices was implemented.

5.8. Natural environment issues

In 2008, the fees for using the natural environment amounted to PLN 7,163,803. At the same time, Zakłady Azotowe w Tarnowie - Mościcach S.A. paid the first installment of the fee for trading in the rights to emit hothouse gases (CO₂) into the environment.

In 2008, the Company paid the fees for using the natural environment on time.

In the period covered by this report, tasks involved in the obligations under the integrated permits were performed. Pursuant to the Act of April 27, 2001: Environment Protection Law (Journal of Laws No. 62/2001 item 627), the Company adjusted its permits to the valid regulations making integrated permits obligatory.

At present, Azoty Tarnów operates on the basis of the following decisions:

- decision on permissible emission of pollutants into the air – valid until December 31, 2014,
- decision imposing obligations related to the emission of pollutants – open-ended,
- water law permit for surface water uptake – valid until December 31, 2025,
- water law permit for underground water uptake – valid until December 31, 2014,
- decision establishing an exclusion zone for water uptakes,
- water law permit for sewage disposal to the receiving body of water or into the soil – valid until December 31, 2009 (JRCh Sp. z o.o.),
- water law permit to use and maintain the water dam on the Dunajec river – valid until December 31, 2015,
- permit/license to generate, recycle, neutralize, collect and store waste – valid until February 25, 2013,
- integrated permit for the Infrastructure Park Complex – valid for the EC II system until June 30, 2016, and for the remaining systems until December 31, 2016,
- integrated permit for the Caprolactam and Polyamides Production Complex – valid until December 31, 2016,
- integrated permit for the POM Production and Compounding Complex – valid until December 31, 2016,
- integrated permit for the PTFE and Fluoric Compounds Production Complex – valid until December 31, 2016,
- integrated permit for the Nitrogenous fertilizers Production Complex – valid until December 31, 2016.

Beside works involved in obtaining the integrated permits, the following among other tasks were performed:

Reduction of the volume of stored ashes, carried out in 2008, consisted in limitation of the volume of that waste sent to the dump by means of its recycling and transfer to other entities as dry mass.

Reduction of noise emitted into the environment – the project implemented, the noise was reduced by about – the project implemented, the noise was reduced by about 8 dB, yet during an inspection carried out on July 28, 2008 by the Provincial Environment Protection Inspector

in Cracow, Tarnów Branch, noise emitted into the environment during the night was found to exceed the permissible level by 2.7 dB. This resulted in imposition of a running penalty of PLN 31.05 a day.

- o Additionally, the following activities were undertaken at Zakłady Azotowe to adjust the Company to valid legal regulations:
- o On April 2, 2007 Zakłady Azotowe applied to the Małopolska Provincial Office for establishing an Industrial Zone. On November 15, 2008, the powers to establish industrial zones were taken over by the Regional Council of Małopolskie Province pursuant to the Act of October 3, 2008 on informing about the natural environment and its protection, society's contribution to environment protection, and evaluations of the environmental impact. As a consequence, the aforementioned application for establishing the Industrial Zone needs to be updated and submitted to the Marshal of Małopolskie Province;
- o submitted to the Office of the Marshal of Małopolskie Province was documentation entitled "Application for amendment of the integrated permit for the Nitrogenous fertilizers Production Complex" to include the Nitre-based Fertilizers Mechanical Granulation System 1,200 tons a day;
- o submitted to the Office of the Marshal of Małopolskie Province was documentation entitled "Application for amendment of the integrated permit for the Caprolactam and Polyamides Production Complex at Zakłady Azotowe w Tarnowie-Mościcach S.A." The documentation will make it possible to adjust permits held by the Company to the current production volumes and environmental impacts;
- o works were in progress aimed at making it possible for the Company to trade in the permits for emission of hothouse gazes (nitrous oxide) for the years 2008-2012;
- o documentation was prepared entitled: "The program of corrective actions related to contamination of the soil and water environment at Zakłady Azotowe w Tarnowie- Mościcach S.A. and preparation of an application for adjustment of the conditions for performance of such corrective actions". The aforementioned documentation indicates the direction of recultivation of contaminated areas on the premises of Azoty Tarnów.

In 2008, JRCH Sp. z o.o. (a subsidiary of ZAT S.A.) started utilization of the newly built sector AB-2 of the waste dump across the Biała river.

5.9. Material events.

First listing on the stock exchange.

In the 2nd quarter of 2008, intensified activities took place aimed at finalizing the first listing of Azoty Tarnów. On May 26, 2008, the Polish Financial Supervision Authority approved the Prospectus of ZAT S.A. On June 3, 2008 the Supervisory Board of Azoty Tarnów, on motion of the Company's Management Board, defined the Price Range of the series B stocks at a level of PLN 18.80 to PLN 2260. The final price was defined as PLN 19.50.

Within the Public Offering started on June 5, 2008 and ended on June 17, 2008, 15.116.421 series B stocks were assigned, including:

- 4,000,000 stocks within the Individual Tranche
- 11,116,421 stocks within the Institutional Tranche

The stocks were taken up at the price equal to PLN 19.50.

Considerable holdings were purchased within the Public Offering by the following entities: CIECH S.A. - 2,560,000 stocks, corresponding to a share of 6.5446 % in the votes at the General Meeting and in the equity of Azoty Tarnów, and PGNiG S.A. with registered office in Warsaw – 4 million and 1 stocks, corresponding to 10.23% respectively.

Pursuant to resolutions of the Management Board of the National Depository for Securities, Azoty Tarnów was granted the status of participant of the Depository; 15,116,421 rights to stocks were registered under code PLZATRM00020 on June 24, 2008, and 23,999,030 stocks were registered under the code PLZATRM00012 on June 27, 2008.

On the day of the first listing, June 30, 2008, within the standard procedure, 23,999,030 series AA stocks and 15,116,421 rights to series B ordinary bearer stocks were floated.

The value of the Public Offering was PLN 294,770,209.50, while the total estimate cost of the issue of series B stocks amounted to PLN 12,727,000. The estimated average cost of the subscription per one series B stock was approximately PLN 0.84.

Major events related to the Company's listing on the stock exchange:

1. Resolving on division of stocks through reduction of their face value and increase of the number of stocks without decrease and increase of the Company's equity (split), accompanied by their conversion into bearer stocks - February 25, 2008;
2. Resolving on amendment of the Company's Articles of Association to adjust that document to requirements binding on listed companies - February 25, 2008;
3. Resolving on increase of the Company's equity by means of a public issue of stocks with exclusion of the current stockholders' right to take up such stocks - February 5, 2008;
4. Submission of the prospectus to the Polish Financial Supervision Authority - April 21, 2008;
5. Approval of the prospectus by the Polish Financial Supervision Authority - May 26, 2008;
6. Assignment of stocks within the public offering - June 18, 2008;
7. Contingent registration with the National Depository for Securities of series B stocks, rights to series B stocks, and series AA bearer stocks - June 24, 2008;
8. Admission to trade on the basic market of the Warsaw Stock Exchange of series B stocks, rights to series B stocks, and AA bearer stocks - June 26, 2008;
9. The Company's first listing on the Warsaw Stock Exchange - June 30, 2008;
10. Recording by the National Court Register of the increase of equity of Zakłady Azotowe w Tarnowie - Mościcach S.A. - July 22, 2008;
11. Registration with the National Depository for Securities of series B stocks of Zakłady Azotowe w Tarnowie- Mościcach S.A. - August 7, 2008;

12. Registration with the National Depository for Securities of 970 series AA stocks of Zakłady Azotowe w Tarnowie - Mościcach S.A. - January 30, 2009.

Activities related to restructuring.

With restructuring activities, the Tarflen Processing Department was handed over to Jednostka Ratownictwa Chemicznego Sp. z o.o. (a subsidiary) as of January 1, 2009. Therefore, under an Agreement signed by the parties pursuant to Art. 231 of the Labor Code, 36 employees were transferred.

At the same time, in view of the grant in June 2008 of the public company status (the first listing on the stock exchange) and the related new challenges as to transparency of the Company's business activity (observance of the corporate order declaration) and openness of the organization to new equity relations, it was decided at the end of 2007 and the beginning of 2009 to undertake works on redefining the management system and HR policy. The works aim at further optimization of the level and structure of employment and redefinition of the management philosophy, HR strategy and policy as well as the system of incentives. Thus prepared and implemented, the new solutions are to contribute to the Company's greater value and attraction for its current and future owners.

In 2009, within the restructuring activities, works will also be carried out involved in separation and outsourcing of areas and businesses outside of the Company's core activity and domain: the Factory Fire Brigade, IT Office, Telephone Exchange, and Catalysts Department. The main directions of restructuring actions were adopted by the Company's Management Board at a meeting on December 8, 2008 – Resolution No. 112/VII/2008 approving the 1st stage of the restructuring effort.

In 2008, on the basis of obtained corporate consents, the privatization process of the subsidiary Oknotar Sp. z o.o. was initiated. On February 20, 2009 the Company's Supervisory Board ratified the terms and conditions of sale of that asset by Resolution No. 131/VII/2009. The agreements with employees for purchase of disposed shares in Oknotar Sp. z o.o. were signed on March 2, 2009. On January 5, 2009, Zakłady Azotowe w Tarnowie - Mościcach S.A. joined the Company Polskie Konsorcjum Chemiczne.

6. CURRENT FINANCIAL SITUATION AND ASSETS OF THE CAPITAL GROUP OF ZAKŁADY AZOTOWE W TARNOWIE-MOŚCICACH S.A.

6.1. Major events of material impact on the activity and financial results of the Company's Capital Group.

Production adjustment to market possibilities.

Following a detailed analysis of the market situation the Management Board of Azoty Tarnów S.A. decided on November 19, 2008 to reduce the production by about 20% and to maintain the load of the fertilizers systems at the current level, using its stock of ammonia and adjusting the volume of production of caprolactam and construction plastics to the possibility of selling those products, and also to renegotiate the terms and conditions of its commercial and distribution agreements. Starting from the third decade of January 2009, production of nitre-based fertilizers started to grow, reaching at the end of the 1st quarter a volume higher by 6% compared to production before the restrictions. In the case of caprolactam and construction plastics, production increased gradually during the 1st quarter of 2009 to reach as at the end of March 93% (for caprolactam) and 87% (for polyamides) of the production volume of the 3rd quarter of 2008.

Material events influencing the HR and payroll situation.

In the period covered by this report, the basic wages and salaries were increased as of May 1, 2008 and September 1, 2008. Besides, the 2008 remunerations fund was also burdened with payment of the annual bonuses totaling PLN 69,377,918. As a result of those actions, the wages and salaries grew by 12.42% in 2008.

In December 2008, Zakłady Azotowe w Tarnowie-Mościcach S.A. obtained a decision on grant of a subsidy of about PLN 450,000 as additional financing for its EFS project "Raising the adaptation ability and competitive value of ZAT S.A. through development of the Company's human resources potential".

Besides, activities were also undertaken aimed at reduction of employment in 2009 by approximately 250 persons through implementation of a voluntary employee resignation program.

On January 21, 2009, an agreement was signed with the entity's union organizations pertaining to the voluntary resignation program.

Within the restructuring activities, works will also be carried out involved in separation and outsourcing of areas and businesses outside of the Company's core activity and domain:

the Factory Fire Brigade, IT Office, Telephone Exchange, and Catalysts Department.

6.2. The basic economic and financial values.

The Company's results in the accounting year

The Capital Group closed the accounting year 2008 with a net profit of PLN 74,657 thousand.

Table 20 Profit and loss account

| Specification PLN thousand | Realization | | % 2:3 |
|---|-------------|-----------|----------|
| | 2008 | 2007 | |
| <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> |
| Total revenues from sales | 1,352,156 | 1,293,500 | 104.53 |
| Cost of goods sold, cost of sales, overhead costs | 1,266,779 | 1,208,058 | 104.86 |
| Share of total costs in revenues (%) | 93.69 | 93.39 | 100.32 |
| Total gross margin | 85,377 | 85,442 | 99.92 |
| <i>Return on gross margin in %</i> | 6.3 | 6.6 | 95.5 |
| Other operating revenues | 25,691 | 22,896 | 112.21 |
| Other operating costs | 21,933 | 35,369 | 62.01 |
| Profit (loss) on operating activities | 89,135 | 72,969 | 122.15 |
| Financial revenues | 22,474 | 8,103 | 277.35 |
| Financial costs | 23,802 | 6,158 | 386.52 |
| Profit (loss) on business activity | 87,900 | 75,027 | 117.16 |
| Extraordinary profits | 0 | 0 | x |
| Extraordinary losses | 0 | 0 | x |
| Gross profit (loss) | 87,900 | 75,027 | 117.16 |
| <i>Gross return on sales in %</i> | 6.50 | 5.80 | |
| Income tax | 13,243 | 19,004 | 69.69 |
| Net profit (loss) | 74,657 | 56,023 | 133.26 |
| <i>Net return on sales in %</i> | 5.52 | 4.33 | |

Table 21 Cost structure by kind

| Specification PLN thousand | Realization | | Structure (%) | |
|---|------------------|------------------|---------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Depreciation | 72,887 | 76,948 | 5.78 | 6.36 |
| Consumption of materials and power | 819,993 | 817,631 | 65.08 | 67.63 |
| Third party services | 106,882 | 73,012 | 8.48 | 6.04 |
| Remunerations | 170,828 | 154,044 | 13.56 | 12.74 |
| Social insurance and other performances | 39,401 | 36,710 | 3.13 | 3.04 |
| Taxes and fees | 43,759 | 35,903 | 3.47 | 2.97 |
| Other costs by kind | 6,333 | 14,815 | 0.50 | 1.22 |
| Total: | 1,260,083 | 1,209,063 | 100.0 | 100.0 |

Table 22 Cost structure by function

| Specification PLN thousand | Realization | | Structure (%) | |
|---|------------------|------------------|---------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Cost of generation of products and services sold | 1,086,014 | 1,043,052 | 87.3 | 88.1 |
| Selling costs | 61,054 | 60,233 | 4.9 | 5.1 |
| Overhead costs | 97,418 | 80,369 | 7.8 | 6.8 |
| Costs of the operating activities | 1,244,486 | 1,183,654 | 100.0 | 100.0 |
| Change in the value of products | 8,344 | 13,507 | | |
| Cost of generation of products for the entity's own needs_7 253_11 902__□ | | | | |
| Total: | 1,260,083 | 1,209,063 | | |

In 2008, total costs by kind amounted to PLN 1,260,083 thousand and were higher than the previous year's costs by PLN 51,020 thousand, i.e. by 4.22%.

In the period under analysis, the following items under total costs increased: third party services (by 2.4 percentage points), remunerations (by 0.8 percentage points) and taxes and fees (by 0.5 percentage points). Instead, the following items decreased: materials and power (by 2.6 percentage points) and other costs by kind (by 0.7 percentage points).

The individual items under costs by kind are as follows:

1. consumption of materials and power PLN 819,993 thousand
This is the biggest costs item – 65.08%. Despite the actual consumption being lower in terms of volume, price increases led to the total consumption of materials and power higher by PLN 2,362 thousand.

2. depreciation PLN 72,887 thousand
It accounts for 5.78% of total costs, and was lower by 5.57% compared to last year's depreciation.

3. third party services PLN 106,882 thousand.
They account for 8.48% of costs by kind.
Their proportion went up by 2.4 percentage points, i.e. by PLN 33,870 thousand.

4. remunerations PLN 170,828 thousand
 Their share in total costs was 13.56 %, and was therefore higher by 0.82 percentage points compared to the previous year. The total costs of remunerations were higher by PLN 16,784 thousand compared to the previous year's costs.

5. social insurance and other performances PLN 39,401 thousand
 Their share in total costs was 3.13 %, and was therefore higher by 0.09 percentage points compared to the previous year. In terms of value, the increase amounted to PLN 2,691 thousand.

6. taxes and fees disclosed under costs PLN 43,759 thousand
 Their share in total costs was 3.47%, and was therefore higher by 0.5 percentage points compared to the previous year. In terms of value, the increase amounted to PLN 7,856 thousand.

7. other costs by kind PLN 6,333 thousand
 Their share in total costs was 0.50%, and was therefore lower by 0.72 percentage points compared to the previous year. In terms of value, the reduction amounted to PLN 8,842 thousand.

Extraordinary losses and profits

No extraordinary losses and profits were recorded in 2008.

6.3. The structure of assets and liabilities.

Table 23 Main items under assets

| Specification PLN thousand | Realization | | Structure (%) | |
|-----------------------------------|------------------|-----------------|---------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Fixed assets, including: | 1,047,354 | 927,859 | 65.29 | 73.84 |
| Tangible fixed assets | 924,836 | 864,249 | 57.65 | 69.29 |
| Working assets, including: | 556,892 | 328,660 | 34.71 | 26.16 |
| Inventories | 136,791 | 119,198 | 8.53 | 9.49 |
| Other financial assets | 202,466 | 0 | 16.53 | 0 |
| Trade receivables | 119,558 | 94,376 | 7.45 | 11.65 |
| Cash and cash equivalents | 45,333 | 54,413 | 2.83 | 4.33 |
| Total assets | 1,604,246 | 1256,519 | 100.0 | 100.0 |

Figure 5 Asset structure



In the accounting year 2008, the asset structure changed considerably. The biggest change in quota was the emergence of other financial assets under working assets. Concerned here is cash from the issue of stocks, invested in deposits with maturity shorter than one year from the balance sheet day.

As a result, the value of the Company's fixed assets dropped by 8.5 percentage points compared to the end of the previous accounting year, and now represents 65.3% of the Company's assets in the current period.

Instead, under working assets, there was a growth in trade receivables. It resulted from extended periods of payment under invoices. The drop in overdue receivables shows that the deadlines for payment are being observed.

Table 24 Trade receivables – overdue structure

| Specification | December 31, 2008 in PLN thousand | 31 Dec 2007 in PLN thousand | Change % |
|--------------------------------|--------------------------------------|--------------------------------|-------------|
| Net trade receivables overdue: | 29,562 | 24,817 | 119.12 |
| - up to 1 month | 17,758 | 12,958 | 137.04 |
| - over 1 and up to 6 months | 9,447 | 9,893 | 95.49 |
| - over 6 and up to 12 months | 1,406 | 160 | 878.75 |
| - over 12 months | 951 | 1,806 | 87.57 |

Table 25 Main items under liabilities

| Title PLN thousand | December 31, 2008 | | December 31, 2007 | | Change % |
|-----------------------------------|-------------------|--------------|-------------------|----------------|---------------|
| | PLN thousand | share (%) | PLN thousand | share (%) | |
| <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> | <i>6</i> |
| Equity capital (fund) | 1,157,331 | 72.14 | 808,111 | 64.3134 | 143.21 |
| Total liabilities | 446,915 | 27.86 | 448,408 | 35.6865 | 99.67 |
| Long-term liabilities | 224,365 | 13.99 | 235,387 | 18.73 | 95.32 |
| Short-term liabilities | 222,550 | 13.87 | 213,021 | 16.95 | 104.47 |
| TOTAL Assets / Liabilities | 1,604,246 | 100.0 | 1,256,519 | 100.0 | 127.67 |

In the accounting year 2008, the structure of liabilities changed considerably. Equity grew as a result of the issue of stocks and the generated profit, and accounted for 72.14% of the liabilities. To that extent, it financed the Company's assets.

The periodical half-yearly repayment of installments under the composition results in systematic drop in long-term liabilities, reducing at the same time their share in total liabilities.

Figure 6 Liabilities structure

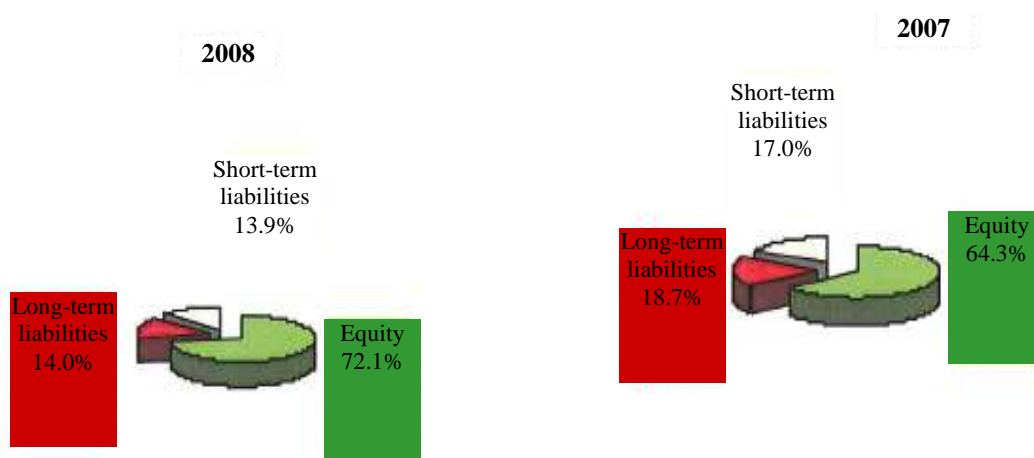


Table 26 Liabilities

| Period overdue | December 31, 2008 | | December 31, 2007 | | Change % |
|--|-------------------|--------------|-------------------|--------------|---------------|
| | PLN thousand | share (%) | PLN thousand | share (%) | |
| <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> | <i>6</i> |
| Total liabilities | 446,915 | 100.0 | 448,408 | 100.0 | 99.67 |
| short-term liabilities | 222,550 | 49.80 | 213,021 | 47.51 | 104.47 |
| including: - on account of credit facilities and loans | 21,174 | 4.74 | 5,837 | 1.30 | 363.75 |
| - trade liabilities | 61,452 | 13.75 | 82,198 | 18.33 | 74.76 |
| - other | 139,924 | 31.31 | 124,986 | 27.87 | 111.95 |
| long-term liabilities | 224,365 | 50.20 | 235,387 | 52.49 | 95.32 |
| including: - on account of credit facilities and loans | 48,889 | 10.94 | 29,252 | 6.52 | 167.13 |
| - other | 175,476 | 39.26 | 206,135 | 45.97 | 85.13 |

The volume of overdue liabilities is insignificant for the Company's balance sheet structure and solvency. The Company discharged its liabilities towards the budget without delay in 2008. Third party capital financed 27.86% of the Company's assets.

6.4. Financial ratios.

Table 27 Ratios for appraisal of business situation

| Ratio | 2008 | 2007 | Change |
|---|--------|--------|--------|
| Profitability ratios | | | |
| Return on gross margin % [gross result on sales / total revenues from sales] | 18.03 | 17.48 | 0.56 |
| Return on equity (ROE)% [net financial result / equity as at the beginning of the period] | 9.24 | 7.04 | 2.20 |
| Rate of return on invested capital % [profit (loss) before taxation / (total assets – short-term liabilities)*100] | 6.36 | 7.19 | -0.83 |
| Debt ratios | | | |
| Total debt ratio % (total liabilities / equity)*100 | 38.62 | 55.49 | -16.87 |
| Assets to liabilities ratio % [(total liabilities – equity) / total liabilities] | 27.86 | 35.69 | -7.83 |
| Liquidity ratios | | | |
| Current ratio [total working assets / short-term liabilities] | 2.50 | 1.54 | 0.96 |
| Quick ratio [(total working assets – inventories) / short-term liabilities] | 1.89 | 0.98 | 0.90 |
| Cash return on sales % [net cash from operating activities / (total revenues from sales)]*100 | 4.60 | 7.82 | -3.22 |
| Average payment period in days of provision – days [trade liabilities x 365 / cost of goods sold] | 20.24 | 28.11 | -7.87 |
| Return on fixed assets ratio % [total revenues from sales / Tangible fixed assets]*100 | 146.20 | 149.67 | -3.46 |

Table 28. Economic value added

| Specification | unit | 31.12.2008 | 31.12.2007 |
|--|-----------------|------------|------------|
| NOPAT (net operating profit after tax) | PLN thousand | 74,657 | 56,023 |
| Cost of equity | % | 9.76 | 8.19 |
| Capital (equity) invested | PLN thousand | 1,082,674 | 752,088 |
| Total invested capital | PLN thousand | 1,152,737 | 787,776 |
| EVA (NOPAT – total cost of invested capital) | PLN thousand | 54,972 | 45,233 |
| EVA (economic value) | ratio | 0.0477 | 0.0574 |

The calculation methodology is compliant with guidelines of the Ministry of the Treasury

6.5. Appraisal of factors and non-standard events.

The factors and non-standard events of influence on the result of activity and profit or loss generated have been described in the Financial Statements of Zakłady Azotowe w Tarnowie- Mościcach S.A. for 2008 (page 63).

6.6. Explanation of differences between financial results and projections of results for 2008

Table 29 Statement of the actual and projected results of the Capital Group with degree of realization.

| Specification PLN thousand | Projection Jan. 1, 2008 – Dec 31, 2008 PLN thousand | Realization Jan. 1, 2008 – Dec 31, 2008 PLN thousand | Degree of realization (%) Jan. 1, 2008 – Dec 31, 2008 |
|-------------------------------|--|---|--|
| Revenues from sales | 1,326,283 | 1,352,156 | 101.95 |
| EBITDA | 160,499 | 162,115 | 101.00 |
| Profit on operating activity | 83,847 | 89,135 | 106.31 |
| Gross profit | 92,953 | 87,900 | 94.56 |
| Net profit | 73,888 | 74,657 | 101.04 |

Standpoint of the Management Board of Zakłady Azotowe w Tarnowie - Mościcach S.A. on fulfillment of the previously published projections of results for the year, in the light of the actual results disclosed in the annual report as compared to projected results.

The Management Board of the Company hereby confirms fulfillment of the financial projections for 2008. The parameters of financial projections for 2008 do not differ from the generated results by more than 10%.

6.7. Substantiated appraisal of management of the financial resources; threats and activities to prevent them.

As of June 19, 2008 Azoty Tarnów acquired funds from its Public Offering (for details see D.IV.5). As at December 31, 2008, the amount of PLN 253 million of the funds obtained from the issue of the Company's stocks still remained invested in fixed-term deposits. Besides, the Company had PLN 15 million for financing of its running operations kept on bank accounts and invested in one day deposits,

From the fixed term deposits of funds from its Public Offering, the Company generated financial revenues on account of accrued interest of PLN 7,283 thousand in the period from June 19 to December 31, 2008 (including funds paid out to the Company: PLN 2,458 thousand).

In March and September 2008 the Parent Company continued to carry out the judicial composition, which required periodical accumulation of funds for smooth payment of the composition installments. Owing to the surplus of funds on the bank deposits, the 6th and 7th installments within the composition could be paid effectively parallel to timely discharge of current liabilities.

In its current currency trade, the Parent Company uses mainly the so-called natural hedging, as its liabilities on account of imports stated in foreign currencies are discharged from its own funds kept on bank accounts. Natural hedging covers about 40-50% of EUR revenues and 25-35% of USD revenues. To optimize its currency position exposed to the currency risk, the Company continued agreements on foreign currency settlements with its selected domestic contractors – mainly suppliers of strategic raw materials, obtaining the required currency permits from the National Bank of Poland.

The instrument used to secure financial liquidity in PLN – in view of the surplus of currency revenues over expenditures – is sale of currencies as negotiable rates. Due to its long item in USD and EUR, the Parent Company also avails itself of the possibility of selling currencies from currency accounts at preferred rates. In the period covered by this report, owing to application of negotiable instead of the bank's valid purchase rates, the actual revenues in PLN increased considerably. Funds kept on the bank accounts are invested in overnight deposits; this applies to amounts of over PLN 1 million kept on PLN accounts and to funds in foreign currencies. The Company has secured the possibility of direct depositing of funds on terms negotiated with the banks' dealing rooms, at a level similar to the interbank WIBID rates. Additionally, in the case of settlements of both exports and imports with foreign contractors, mutual debts are withheld by way of compensation, as individually agreed from time to time by the parties. Another advantage of this settlement type beside the actual closing of some items in foreign currencies is reduction of the costs of banking operations.

Table 30 The Parent Company's use of credit facilities and loans during 2008

| Bank | State of credit facility as at the beginning of the year / currency | State of credit facility as at the end of the year / currency | Interest accrued during the year, PLN | | Contracting date | Contractual repayment period/date |
|---|---|---|---------------------------------------|-------------------------|--------------------|------------------------------------|
| | | | financial costs | investment costs | | |
| 1. Facilities under judicial composition (as at December 31, 2008) reported under "other liabilities"¹⁾ | | | | | | |
| 1. KfW/DZ | EUR 514,515.69 | EUR 257,257.85 | - | - | January 19, 2001 | Sept. 2005 – Sept. 2009 |
| 2. KfW/DZ | EUR 67,679.97 | EUR 33,839.98 | - | - | January 19, 2001 | Sept. 2005 – Sept. 2009 |
| 3. ING BŚK | PLN 5,621,890.62 | PLN 2,810,945.30 | - | - | June 29, 1998 | Sept. 2005 – Sept. 2009 |
| 4. Pekao S.A. | PLN 6,753,251.12 | PLN 3,376,625.54 | - | - | March 8, 1999 | Sept. 2005 – Sept. 2009 |
| 5. Pekao S.A. | PLN 2,694,724.06 | PLN 1,347,362.02 | - | - | December 24, 1999 | Sept. 2005 – Sept. 2009 |
| 6. Pekao S.A. | PLN 4,054,291.93 | PLN 2,027,145.95 | - | - | September 30, 1997 | Sept. 2005 – Sept. 2009 |
| 7. BPH S.A. | PLN 1,338,654.45 | PLN 669,327.23 | - | - | November 30, 1999 | Sept. 2005 – Sept. 2009 |
| 8. BNP Paribas S.A. | USD 9,685.09 | USD 4,842.54 | - | - | April 1, 1998 | Sept. 2005 – Sept. 2009 |
| Total facilities under composition (IAS): | PLN 22,649,772.76 | PLN 11,494,505.04 | | | | |
| 2. Current and investment facilities | | | | | | |
| 1. PKO BP S.A. | PLN 0.00 | PLN 0.00 | PLN 5,629.28 | - | July 5, 2006 | August 31, 2011 |
| 2. Raiffeisen Bank Polska S.A. | PLN 0.00 | PLN 0.00 | PLN 1,619.69 | - | September 21, 2005 | June 30, 2010 |
| 3. Raiffeisen Bank Polska S.A. | PLN 5,045,000.00 | PLN 27,000,000.00 | - | PLN 1,279,091.06 | May 24, 2006 | March 31, 2009 – December 31, 2012 |
| 4. BOŚ S.A. | EUR 2,821,426.00 + EUR 43,400.90 | EUR 1,712,230.00 + EUR 27,773.62 | PLN 264,904.98 | PLN 231,629.02 | December 8, 2005 | October 31, 2007 – April 31, 2010 |
| 5. BGŻ S.A. | EUR 3,623,936.04 + EUR 523.83 | EUR 6,400,000.00 + EUR 767.82 | - | PLN 1,003,816.71 | May 24, 2006 | March 31, 2009 – December 31, 2012 |
| Other | PLN 80.00 | PLN 141.29 | PLN 1,093.50 | - | | |
| Total facilities outside of the composition: | PLN 29,149,535.71 | PLN 61,908,583.28 | PLN 273,247.45 | PLN 2,514,536.79 | | |
| 3. Loans | | | | | | |
| 1. Mitsubishi Corporation | EUR 0.00 | EUR 200,000.00 | EUR 0.00 | EUR 0.00 | October 4, 2007 | until September 30, 2009 |
| 2. Mitsubishi Corporation | EUR 0.00 | EUR 279,003.48 | EUR 0.00 | EUR 0.00 | July 25, 2008 | until September 30, 2011 |
| Total loans: | PLN 0.00 | PLN 2,054,014.82 | PLN 0.00 | PLN 0.00 | | |
| Total credit facilities and loans | PLN 51,799,308.47 | PLN 75,457,103.14 | PLN 273,247.45 | PLN 2,514,536.79 | | |

¹⁾ the aforementioned facilities were included in a list of debts by a valid judicial decision within composition proceedings before the District Court in Tarnów as debt as at June 12, 2002 with interest accrued from the opening of the proceedings; under the terms of the Composition negotiated by the Company with its creditors on June 11, 2003 and confirmed by a decision of the District Court in Tarnów of July 10, 2003, the said liabilities are repaid following a 40% reduction in 9 equal installments, the first installment having been paid within 4 months of the date of coming into force of the decision ratifying the composition (which happened on May 19, 2005, i.e. before the Supreme Court's decision rejecting the application for cassation filed by one of the creditors). The Company timely paid further composition installments in the years 2006-2008 (two equal installments per year).

Besides, the Parent Company had the following limits of current facilities in 2008:

- multipurpose facility limit with PKO BP S.A. up to the amount of PLN 15,000,000.00;
 - debt limit with Raiffeisen Bank Polska S.A. up to the amount of PLN 10,000,000.00,
- used mainly to secure guarantees and letters of credit opened within those limits.

Additionally, in the 4th quarter of 2008, faced with strong symptoms of the growing crisis of in global economy, the Parent Company decided on an action aimed at securing short-term facility limits to finance possible shortages of funds for its current activity.

To this aim, the Company negotiated the facility terms and obtained favorable credit decisions from Raiffeisen Bank Polska S.A. and PKO Bank Polski; the terms were duly ratified by the Management Board as of December 2, 2008 and by the Supervisory Board as of December 18, 2008.

In January 2009, on the basis of the aforementioned decisions, the Company signed further credit agreements:

- 1) A revolving working facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. in the amount of PLN 23,500,000 for the period from January 7, 2009 to July 27, 2009
- 2) A revolving facility agreement with Raiffeisen Bank Polska S.A. in the amount of PLN 30,000,000 for the period from January 22, 2009 to April 28, 2009 with the possibility of extending the validity by 6 months.

Until the date of publication of this Report, the above facilities have not been used. Within implementation of a joint Nitrous Oxide Reduction Project within the Nitric Acid System at Azoty Tarnów, the Company signed two loan agreements with Mitsubishi Corporation, including:

- on October 4, 2007, a loan agreement to finance the purchase of an automated measuring system for EUR 200,000, for the period until September 30, 2009 (released fully in February 2008);
- on July 25, 2008, a loan agreement to finance the rental of the secondary catalyst system for nitrous oxide reduction for up to EUR 1,200,000 for the period until September 30, 2011 (partly released in 2008 in the amount of EUR 279,003.48).

The market situation that arose in the last quarter of 2008 forced the Company to undertake actions to impose some discipline on financial resources management. Adjusting in due time its financial resources management to the market situation, the Parent Company avoided solvency problems in the most difficult period. Also this year, the Company expects no greater threats in the area of timely discharge of its operating and investment liabilities, repayment of the last two installments under the composition proceedings included.

6.8. Appraisal of feasibility of investment plans, capital investment included, compared to available funds, with due consideration to possible changes of sources of financing.

Azoty Tarnów made no capital investments in 2008.

The policy of financing the current and planned investment projects assumes utilization – in accordance with the stock issue objectives – of the Company’s own funds generated from its Public Offering as well as retained profit assigned to development, and by way of supplementation – of investment credit facilities contracted as financing of a part of the largest investment projects. It is assumed that investment expenditures specified in the Plan for 2009 will be financed fully from the Company’s own resources.

Azoty Tarnów is solvent and creditworthy, which results from the Company's good financial standing and capital resources and, in its opinion, makes it possible to obtain on market terms external sources of financing required for full implementation of the investment projects planned for beyond 2009.

Presented below is a specification of major investment projects transferred to assets in 2008:

Table 31 Material growth in intangible and tangible fixed assets.

| Major projects transferred to assets in 2008 | Expenditures incurred (in PLN thousand) | Source of financing |
|---|--|----------------------------|
| Intensification of production of the Polyamide Plant 6 up to 45 thousand tons a year | 50,351 | Own funds |
| Reduction of noise emitted to the environment by carbon dioxide technological blow-out | 478 | Own funds |
| Modernization of the K-4 boiler carbonization system | 615 | Own funds |
| Modernization of the TDC 3000 computer system at V RM | 2,101 | Own funds |
| Reduction of nitrous oxide emission from the double pressure technical nitric acid system | 2,478 | Own funds |

Implementation of investment projects in 2008

The first version of the Capital Investment Activity Plan for 2008 mentioned PLN 106,525 thousand (including Purchase of Finished Goods for PLN 7,000 thousand). Following changes of the investment expenditure structure, the final version provided for PLN 147,205 thousand (including Purchase of Finished Goods for PLN 8,500 thousand).

The changes in the Capital Investment Activity Plan for 2008 were approved by Resolution of the Management Board of Azoty Tarnów No. 31/VII/2008 of July 31, 2008 upon motion of the Technical Director pertaining to change of the Capital Investment Activity Plan for 2008. Changed was the investment expenditure structure within the valid Capital Investment Activity Plan for 2008:

1. the value of items under Purchase of Finished Goods was increased by the total of PLN 1,500 thousand, which resulted from the need for additional purchases and from verification of the needs,
2. extension of the material scope totaling PLN 39,180 thousand.

The actual cost of implementation of the Capital Investment Activity Plan for 2008 amounted to PLN 123.6 million.

In the group of continued projects, the major pending investment projects included:

- “Modernization and intensification of production of the Caprolactam Plant up to 93.5 thousand tons a year,
- “Installation of the mechanical fertilizer granulation system, 1,200 t/d”,
- “Intensification of production of the Polyamide Plant 6 up to 45 thousand tons a year”,
- “Modernization of the air compressor station for the Cyclohexane Oxidation System within K-54”,
- “Modernization of process controls within systems of the Cyclohexanone Department”,
- “Modernization of the Dolomite-milling Plant”,
- “Modernization of the fertilizer packaging and forwarding station”,
- “Modernization of the boiler carbonization system”,
- “Reduction of nitrous oxide emission from the double pressure technical nitric acid system”,
- “Implementation of an integrated ERP class management system”.

The major new investment projects started in 2008 included:

- “Intensification of production of the Modified Plastics Plant, stages I and II”,
- “Assembly of heat and energy measuring systems”,
- “Modernization of the air compression station”,
- “Modernization of the selective phenol hydrogenation system within the palladium catalyst”,
- “Modernization of the Benfield station for purification with potassium within the V RM system”.

The projects resulted from implementation of the Company’s strategic plans and from the need for continuous production, reliability and safety of utilization of the main production lines of Azoty Tarnów. The third group included purchases of finished products within the Plan of Purchases of Finished Products for 2008. Purchased within the Plan were products for the total of PLN 8,500 thousand.

Presented below is a brief description of the major new investment tasks:

Intensification of production of the Modified Plastics Plant – stages I+II

The scope includes purchase and assembly of stamping presses for modified plastics complete with a system of feeders, the cooling and drying system as well as controls. The basic objective of this investment task is to increase the production capacity in the area of modified plastics manufactured on the basis of polyamide 6. At present, implementation of the project is much advanced; all equipment elements required have been contracted.

The basic element of the project is a plastics stamping press, the so-called Componder supplied by Coperion.

Assembly of heat and energy measuring systems

Implementation of this investment task will make it possible to add electrical energy generated within the technological steam and heating water streams to co-generated energy and to obtain the certificate of origin. The scope of the task includes the assembly of new measuring segments on the steam collectors 0.9 and 1.7 Mpa and heating water collectors, as well as the assembly of nine measuring systems on generators and lines for the entity’s internal needs. The technical design was ordered, and a tender was organized for supply of the measuring systems; the project is at the final stage of implementation.

Modernization of the air compression station

The task includes purchase and assembly of 2 air compressors for the fertilizer packaging and forwarding station and the dolomite rock milling system. Agreements were concluded: with BIPROZAT –Tarnów Sp. z o.o. for preparation of the technical design, and with COMPAIR for supply of the air compressors. The scope of works to be performed in 2008 included the laying of foundations as well as mechanical, electrical and meters’ assembly works. The foundations have been laid. The assembly works have been commissioned. The compressors complete with a system of adsorption dryers and bumper air tanks have been set on the foundations. Assembly works involved in installation of the compressors’ piping have started.

Modernization of the selective phenol hydrogenation system within the Pd catalyst

Modernization of the system is required in view of the increased demand of the Lactam Department for cyclohexanone due to the planned intensification of caprolactam production to 95,000 tons a year, and also with the purpose of improving the process parameters and making the production process reliable and failure-free.

The scope includes replacement of the worn equipment, i.e. devices and pumps, as well as installation of a new compressor of circulation hydrogen. The technical design has been ordered. Systems of this type are extremely dangerous; for this reason, worn controls will be replaced with a modern system connected to DCS, which is also to enhance the safety of operation and maintenance. At present, implementation of the project is much advanced: all elements as well as the works and services required within it have been contracted, and most of the works will be performed during the general plant shutdown in June/July.

Modernization of the Benfield station for purification with potassium within the V RM system

The scope included installation within the lye pumping station of a new pumping engine for the Benfield solution, consisting of a Benfield solution pump, a steam turbine, a toothed gear, and a lubrication system. The project will make it possible to shut down an overloaded and much worn out facility and to improve the efficiency and reliability of washing out carbon dioxide from synthesis gas under the Benfield method, and will also provide the basis for further intensification of the VKGZ capacity. The technical design has been ordered. The pump complete with the steam turbine and gear has been contracted; also this project is much advanced and a part of the works involved in its start-up will be performed during the maintenance shut down in June/July 2009. The aforementioned pump engine will be delivered in the fourth quarter of 2009.

Presented below is a summary of important investment projects (continued and newly started) to be implemented in 2009:

Table 32 Projects continued in 2009

| Major projects continued in 2009 | Description | Expenditures planned for 2009 in PLN thousand | Source of financing |
|---|--|---|---------------------|
| Mechanical fertilizer granulation system, 1,200 t/d | Starting, scheduled to be put into operation at the end of the second quarter | 1,120 | Own funds |
| Modernization of the Benfield station for purification with potassium within the V RM system | Supply of the pumping engine has been contracted, the technical design is in preparation | 5,250 | Own funds |
| Modernization of the A1 refrigerating system | An agreement has been signed with UNISERW for the supply, assembly and start-up of a fan cooler within the A1 refrigerating system | 6,870 | Own funds |
| Modernization of the dolomite-milling plant | Scheduled to be put into operation at the end of the second quarter | 1,020 | Own funds |
| Modernization of the fertilizer packaging and forwarding station | Scheduled to be put into operation at the end of the second quarter | 580 | Own funds |
| Intensification of production of the Modified Plastics Plant – stage I | Scheduled to be completed and put into operation during the third quarter | 7 500 | Own funds |
| Modernization of the Tarnamid warehouse | The scope of the task has been changed compared to the approved conception. Implementation proceeds as planned | 3,620 | Own funds |
| Assembly of heat and energy measuring systems | Scheduled to be completed and put into operation during the third quarter | 800 | Own funds |
| Modernization of the selective phenol hydrogenation system within the Pd catalyst | The design works are much advanced; the contracts and agreements for supplied have been signed | 11,000 | Own funds |
| Modernization and intensification of production of the Caprolactam Plant up to 101,300 tons a year – Technical Design | Preparation of the Technical Design | 2,000 | Own funds |
| Implementation of an integrated ERP class management system | Starting, scheduled to be put into operation during the first quarter | 1,430 | Own funds |

Table 33 New projects to be implemented in 2009

| Major new projects to be implemented in 2009 | Expenditures planned for 2009 in PLN thousand | Source of financing |
|--|---|---------------------|
| Construction of a new gas to gas exchanger (E9) within the KDC system | 5,400 | Own funds |
| Modernization of the AC – 4 absorption tower | 650 | Own funds |
| Protection of the cyclohexane oxidation system against water circulation failure | 1,100 | Own funds |
| Addition of vacuum pumps within the caprolactam crystallization station | 1,500 | Own funds |
| Adjustment of the electrical energy measuring and clearing system at Azoty to the requirements of the Electrical Energy Market | 3,940 | Own funds |

The Parent Company did not invest in domestic or foreign securities or financial instruments in 2008.

“Automatyka” Sp. z o.o. plans capital investments of PLN 850 thousand in 2009. According to assumptions, they will be financed from own resources and from external sources (leasing or investment credit facility). The investment plan is not threatened and the Company realistically appraises its feasibility.

Implementation of the investment plans of “Biprozat” Sp. z o.o. pertaining to fixed assets is conditioned upon the Company’s financial abilities in terms of own resources.

The Management Board of “Elzat” Sp. z o.o. plans to continue the reconstruction and extension of the Company’s tool base. Presented below is the list of investment purchases planned by the Company for 2009:

| Item | Specification | Method of financing | Total expenditure | Expenditure in 2009 | Own funds | Credit facility or leasing |
|------|-----------------------------------|---------------------|-------------------|---------------------|----------------|----------------------------|
| 1 | Parking and storage umbrella roof | Own funds | 140,000 | 140,000 | 140,000 | - |
| 2 | Second hand trucks, 2 units | Own funds | 100,000 | 100,000 | 100,000 | - |
| 3 | Company car | Own funds | 70,000 | 70,000 | 20,000 | 50,000 |
| 4 | Car, increase | Own funds / leasing | 140,000 | 140,000 | 40,000 | 100,000 |
| 5 | Power tools | Own funds | 50,000 | 50,000 | 50,000 | - |
| 6 | IT infrastructure | Own funds | 40,000 | 40,000 | 40,000 | - |
| 7 | Automotive batteries | Own funds | 20,000 | 20,000 | 20,000 | - |
| | Total | | 560,000 | 560,000 | 410,000 | 150,000 |

“Elzat” Sp. z o.o. plans no capital investments.

The investment plans of “Koltar” will be fully financed from the Company’s own resources; the same applies to “Wieżat” Sp. z o.o., where the planned purchases of fixed assets will be made with the Company’s own cash. “Prorem” SP. z o.o., instead, has not investment and capital investment plans.

In the 2009 investment plan of “Zbach” Sp. z o.o., the value of the planned investment expenditure is PLN 1,365 thousand. The planned projects will be financed from own working assets from depreciation in the amount of approximately PLN 365 thousand, from division of the net profit generated in 2008, and also from operating leasing. In 2009, the Management Board of “Zbach” Sp. z o.o. does not plan any capital investment projects.

“ZWRI” Sp. z o.o. has funds for implementation of its investment plans and expects no changes of the structure of their financing.

6.9. Credit facilities and loans negotiated and terminated in the accounting year.

Table 34 Loans and credit facilities negotiated in 2008

| Bank | State of credit facility as at the beginning of the year / currency | State of credit facility as at the end of the year / currency | Interest accrued during the year, PLN | | Contracting date | Contractual repayment period/date |
|---|---|---|---------------------------------------|------------------|------------------|------------------------------------|
| | | | financial costs | investment costs | | |
| 1. Current and investment facilities | | | | | | |
| 1. Raiffeisen Bank Polska S.A. | PLN 5,045,000.00 | PLN 27,000,000.00 | - | PLN 1,279,091.06 | May 24, 2006 | March 31, 2009 – December 31, 2012 |
| 2. BOŚ S.A. | EUR 2,821,426.00 + EUR 43,400.90 | EUR 1,712,230.00 + EUR 27,773.62 | PLN 264,904.98 | PLN 231,629.02 | December 8, 2005 | October 31, 2007 – April 31, 2010 |
| 3. BGŻ S.A. | EUR 3,623,936.04 + EUR 523.83 | EUR 6,400,000.00 + EUR 767.82 | - | PLN 1,003,816.71 | May 24, 2006 | March 31, 2009 – December 31, 2012 |
| 2. Loans | | | | | | |
| 1. Mitsubishi Corporation | EUR 0.00 | EUR 200,000.00 | EUR 0.00 | EUR 0.00 | October 4, 2007 | until September 30, 2009 |
| 2. Mitsubishi Corporation | EUR 0.00 | EUR 279,003.48 | EUR 0.00 | EUR 0.00 | July 25, 2008 | until September 30, 2011 |

In 2008, no credit facilities or loans granted to the Parent Company were terminated.

In 2008, Azoty Tarnów did not enter into new credit agreements; instead, as scheduled, the release ceased of its earlier investment credit facilities for implementation of the following projects:

- “Construction of the Mechanical Fertilizer Granulation Plant 1,200 tons a day” (release of EUR 2,776,063.96 within facility granted by Bank Gospodarki Żywnościowej S.A. and of PLN 21,955,000.00 within facility granted by Raiffeisen Bank Polska S.A.).
- “Extension of the Polyamides Plant up to 44 thousand tons a year (release of EUR 66,804.00 within facility granted by Bank Ochrony Środowiska S.A.).

At the same time Azoty Tarnów started to repay the aforementioned investment loan contracted from Bank Ochrony Środowiska, and paid 4 quarterly installments in 2008 in accordance with the loan agreement, in the total amount of EUR 1,176,000.00.

Within implementation of a joint Nitrous Oxide Reduction Project within the Nitric Acid System, the Company signed two loan agreements with Mitsubishi Corporation, including:

- on October 4, 2007, a loan agreement to finance the purchase of an automated measuring system for EUR 200.000, for the period until September 30, 2009 (released fully in February 2008);
- on July 25, 2008, a loan agreement to finance the rental of the secondary catalyst system for nitrous oxide reduction for up to EUR 1,200,000 for the period until September 30, 2011 (partly released in 2008 in the amount of EUR 279,003.48).

Jednostka Ratownictwa Chemicznego Sp. z o.o. contracted in 2008 (under the credit agreement of April 28, 2008) an investment credit facility from PKO BP S.A. to refinance the investment expenditure related to modernization of the AB-2 sector across the Biała river for PLN 1,389,200, to be repaid by April 30, 2014.

“Repaid” in 2008 was a working facility of PLN 500 thousand. The working facility agreement No. 270-1/4/RB/2005 of October 3, 2005 with PKO BP was extended for further years by annexes signed in 2006 and 2007. The agreement was not extended in 2008.

”Oknotar” sp. z o.o. opened in June 2008 a credit line within its current account with BOŚ S.A. for PLN 15,000.00 with June 2009 as the deadline for payment.

ZWRI Sp. z o.o. contracted on November 5, 2008 an investment credit facility with Bank Gospodarstwa Krajowego in the amount of PLN 192,000 for purchase of an excavator – the deadline for payment is October 16, 2010.

6.10. Loans granted by the Company, mainly to entities related to the Capital Group.

As at December 31, 2008, the Parent Company did not award any loans or warranties to companies related to the Capital Group.

6.11. Warranties and guarantees issued and received, mainly to entities related to the Capital Group.

In 2008, the Companies of the Capital Group issued no warranties or guarantees, nor were there any warranties or guarantees from previous years, which means that the relevant limits specified in Art. 33 of the Act of November 23, 2008 amending the Act on warranties and guarantees issued by the Treasury and specific legal persons have not been exceeded.

Table 35 Guarantees obtained by the Parent Company in 2008

| Item | Date of guarantee issue | Issuing party | Issuing bank | Guarantee amount | Currency | Valid until | Guarantee title | Type |
|------|-------------------------|--|------------------------------------|------------------|----------|--------------------|-----------------------------|---------------------|
| 1 | January 1, 2008 | MAS Trading | BRE Bank S.A. | 337,452.00 | EUR | August 6, 2008 | Advance repayment guarantee | Bank guarantee |
| 2 | May 28, 2008 | EMDE Industrie - Technik GmbH | Deutsche Bank AG, Germany | 65,164.50 | EUR | September 5, 2008 | Advance repayment guarantee | Bank guarantee |
| 3 | January 18, 2008 | Voith Turbo BHS Getriebe GmbH | Deutsche Bank AG, Germany | 59.538.60 | EUR | September 30, 2008 | Advance repayment guarantee | Bank guarantee |
| 4 | July 28, 2008 | SGL CARBON GmbH | Bayerische Hypo-und Vereinsbank AG | 73 500,00 | EUR | January 12, 2009 | Advance repayment guarantee | Bank guarantee |
| 5 | October 15, 2008 | Coperion Werner &Pfleiderer GmbH & Co.KG | Coperion GmbH, Germany | 95,000.00 | EUR | July 31, 2009 | Advance repayment guarantee | Corporate guarantee |
| 6 | July 9, 2008 | Worthington SPA | Intesa Sanpaola S.p.A | 282,000.00 | EUR | August 30, 2009 | Advance repayment guarantee | Bank guarantee |
| 7 | October 28, 2008 | AN. GL Polimers Srl. Włochy | Poliblend S.p.A. Italy | 50,000.00 | EUR | October 28, 2009 | Payment guarantee | Corporate guarantee |
| 8 | November 17, 2008 | Coperion GmbH | Coperion Capital GmbH, Germany | 23,000.00 | EUR | January 31, 2010 | Advance repayment guarantee | Corporate guarantee |
| 9 | December 22, 2008 | SGL CARBON GmbH | Bayerische Hypo-und Vereinsbank AG | 24,500.00 | EUR | June 18, 2010 | Performance guarantee | Bank guarantee |
| 10 | December 19, 2008 | Yuntianhua United Commerce Co, Ltd. | Bank of China | 5,841,000.00 | USD | June 19, 2011 | Payment guarantee | Bank guarantee |

6.12. Material non-balance sheet items.

- Contingent liabilities

Tabela 36 Contingent liabilities of the Parent Company as at December 31, 2007 and December 31, 2008.

| Item | Liability type | As at December 12, 2007 | As at 31 December 2008 |
|----------|---|-------------------------|------------------------|
| | | amount | amount |
| 1 | Total contingent liabilities, on account of: | 0.00 | 0.00 |
| a | guarantees | 0.00 | 0.00 |
| b | bills of exchange * | 0.00 | 0.00 |
| c | warranties ** | 0.00 | 0.00 |

* blank bills of exchange issued by the Company as security of balance sheet liabilities have been left out.

** guarantees issued by banks at the Company's request as security of balance sheet liabilities have been left out

The Parent Company does not disclose as contingent liability the claim of Bank Pekao S.A. in the amount of PLN 8,108,583.89 with statutory interest from March 29, 2007, resulting from

the Bank's action for damages, as the Company considers that claim unfounded. This position is likely to be pertinent in view of the fact that on May 20, 2008 the Court in the first instance dismissed the action of Bank Pekao S.A. Nest, following the Bank's appeal, the Court in the second instance referred to case for re-examination. The Regional Court appointed the next hearing for March 2009; however, it was transferred to April 2009.

The Company treats the claim as completely unfounded, for which reason it has established no provision for the case of losing the legal dispute.

Under legal disputes, beside the dispute with Bank Pekao S.A., a dispute between Azoty Tarnów and Polchemika Sp. z o.o. in bankruptcy is also disclosed as material; a provision has been established for claims under that dispute, which are therefore not reported either as non-balance sheet liabilities.

Table 37 Contingent liabilities of subsidiaries as at December 31, 2007 and December 31, 2008.

| Specification | On account of | Currency | as at | |
|-----------------------|--|----------|-------------------|-------------------|
| | | | December 31, 2008 | December 31, 2007 |
| Automatyka Sp. z o.o. | Performance guarantee for the bank guarantee period | | 47 thousand | 185 thousand |
| JRChem sp. z o.o. | Liability to the Office of the Marshal on account of unpaid fee for utilization of the environment | PLN | - | 172 thousand |
| Oknotar sp. z o.o. | Guarantee of proper removal of faults and defects | PLN | - | 35 thousand |
| ZWRI sp. z o.o. | Performance guarantee with respect to an agreement for construction works within a "Research Station" construction project | PLN | - | 259 thousand |
| | Bill of exchange for the Liquid Fuels Logistic Operator | PLN | 102 thousand | - |
| | Bill of exchange for ZAT | PLN | 66 thousand | - |

On June 13, 2008 JRCH discharged its liability toward the Office of the Marshal with due interest, in the total amount of PLN 246,968.63, disclosed in the 2007 financial statements in the principal amount of PLN 172,000.00 as a contingent liability. Appellate proceedings are pending in the case.

As regards "ZWRI" Sp. z o.o., a bank guarantee issued to Ośrodek Badawczo-Rozwojowy Zakładów Mechanicznych in the amount of PLN 259 thousand expired on January 1, 2008; besides, a bill of exchange was issued to the Liquid Fuels Logistics Operator for up to PLN 102 thousand as well as bills of exchange to ZAT 3 for up to the total of PLN 66 thousand.

- Bills of exchange

Table 38 Own bills of exchange issued by the Parent Company by way of guarantee of its liabilities as at December 31, 2008

| Bill of exchange issue date | Bill of exchange issue to: | State of liability guarantee as at December 31, 2008 | Guarantee of: | Comments |
|-----------------------------|---|--|---|--|
| December 2001 | Zakład Energetyczny Tarnów S.A. (now: ENION Tauron S.A.)* | PLN 27,488,080 | liabilities under unpaid invoices in the case of cessation of payment for electrical energy | 1 blank bill of exchange for up to PLN 4,000,000 |
| September 9, 2004 | PKN Orlen S.A. | PLN 3,457,784 | liabilities on account of purchased goods and services | 1 blank bill of exchange for up to PLN 14,000,000 |
| Januarz 26, 2005 | Polimex-Mostostal Siedlce S.A. | PLN 0 | liabilities resulting from an advance repayment guarantee for contract with CNCCC China | 1 blank bill of exchange for up to PLN 590,000 |
| December 8, 2005 | Bank Ochrony Środowiska S.A. Tarnów Branch | EUR 1,740,004 | investment credit agreement No. 118/05/I/W/203 of December 8, 2005 | 1 weksel in blanco do kwoty 3,230,000 EUR |
| October 4, 2007 | Mitsubishi Corporation Japan | EUR 279,003 | loan agreement to finance the casing and rental of catalyst of July 25, 2008 | 1 blank bill of exchange for up to EUR 1,200,000 with interest |
| October 4, 2007 | Mitsubishi Corporation Japan | EUR 200,000 | loan agreement for purchase of an automated measuring system AMS of October 4, 2007 | 1 own bill of exchange for EUR 200,000 with interest |

Total amount of guarantees pertaining to liabilities: PLN 39,264,794**

* the bill of exchange was returned to the Company and cancelled in February 2009

** the liabilities in EUR was converted into PLN at the leading bank's sale rate of EUR/PLN of December 31, 2008, amounting to 4.2881

- Guarantees

Table 39 Guarantees given in 2008 upon order of the Parent Company.

| Date awarded | Guarantee beneficiary | Guarantee issuer | Guarantee amount | State of liability secured with the guarantee | Currency | Valid until | Purpose of amounts guaranteed |
|-------------------|---------------------------|-----------------------------|------------------|---|----------|------------------|-------------------------------|
| January 28, 2008 | GATX | Raiffeisen Bank Polska S.A. | 80,000 | 1,654.36 | PLN | January 30, 2009 | Rent payment guarantee |
| September 4, 2008 | Yunitanhua UC Co. Ltd. *) | PKO BP S.A. | 2,466,200 | 0 | USD | May 28, 2010 | Advance repayment guarantee |

*** Total: PLN 12,738,903 PLN 183,328.36**

*) The guarantee amount of USD 2,446,200 was converted into PLN at the leading bank's sale rate as at December 31, 2008, amounting to 3.065; by the date of this report, the guarantee has been fully reduced.

The guarantees issued by Banks upon request of Azoty Tarnów, as well as the blank bills of exchange issued by the Company, secure its balance sheet liabilities, for which reason such bills of exchange and guarantees are not disclosed as non-balance sheet liabilities.

Instead, Azoty Tarnów was not party to any compositions with creditors pertaining to the Company's material debts and claims in 2008.

The amount of debt due for repayment under the composition performed by Azoty Tarnów is also disclosed in the Company's balance sheet.

6.13. Financial instruments.

The Capital Group's subsidiaries have no financial instruments.

The following information on risks and the adopted objectives and methods of financial risk management pertains to the Parent Company.

6.13.1 The risk management policy:

- Credit risk

In view of its low credit involvement, the Parent Company was not significantly exposed to the interest rate risk. For this reason, it used not hedging instruments against credit risk. Besides, most of its facilities have been and still are stated in EUR, which means that their balance reduces the long item for that currency.

- The risk of disturbed cash flows and liquidity

In 2008, there were no disturbances in the current financing of the Parent Company. Throughout the period covered by this report, the Company had a free cash limit and could thus timely discharge its financial liabilities.

In its current currency trade, the Parent Company uses mainly the so-called natural hedging, as its liabilities on account of imports stated in foreign currencies are discharged from its own funds kept on bank accounts. Natural hedging covers about 40-50% of EUR revenues and 25-35% of USD revenues. To optimize its currency position exposed to the currency risk, the Company continued agreements on foreign currency settlements with its selected domestic contractors – mainly suppliers of strategic raw materials, obtaining the required currency permits from the National Bank of Poland.

The instrument used to secure financial liquidity in PLN – in view of the surplus of currency revenues over expenditures – is sale of currencies as negotiable rates. Due to its long item in USD and EUR, the Parent Company also avails itself of the possibility of selling currencies from currency accounts at preferred rates. In the discussed period, due to the use of negotiable exchange rates instead of the bank's valid purchase rates, the actual revenues in PLN could be increased considerably.

The funds on bank accounts are invested in overnight deposits; this applies to deposits of over 1 million in the case of PLN accounts, and to funds in foreign currencies. The Parent Company has secured the possibility of direct depositing of funds on terms negotiated with the banks' dealing rooms, at a level similar to the interbank WIBID rates. Additionally, in the case of settlements of both exports and imports with foreign contractors, mutual debts are withheld by way of compensation, as individually agreed from time to time by the parties. Another

advantage of this settlement type beside the actual closing of some items in foreign currencies is reduction of the costs of banking operations.

6.13.2 The instruments, objectives and method of currency risk management.

The hedging derivatives are to ensure the Company's optimum cash flows. The currency derivatives used by Azoty Tarnów are not exactly to generate profit but rather to minimize the impact of the currency market's fluctuations on financial results.

The basic sources of exposure to the EUR and USD currency risk include contracts for sale of products and for purchase of raw materials, as well as financial liabilities contracted by the Company, i.e. credit facilities and loans.

The Parent Company has a long net currency exposure, as its planned and realized revenues on account of sales denominated in or indexed at the exchange rate of foreign currencies exceed the expenditures incurred in those same period for purchases of raw materials whose prices depend on foreign currency exchange rates. Besides, due to the high proportion of receivables and liabilities stated in foreign currencies, there is the risk of a disadvantageous change in their value in relation to the local currency. Both assets and liabilities are valued for accounting purposes at exchange rates in force at the moment of the transaction, while the rate in force at the moment of receipt of the funds from contractors may generate considerable exchange rate differences, negative and positive alike.

In 2008, the hedging instruments used most frequently by the Parent Company against the impact of the currency market fluctuations on the financial results generated from a planned net currency exposure included composite options structures (consisting in a combination of the put and call options on currency sale and of barrier options excluding a part or the whole of the options structure) at zero cost (the costs of purchase and revenues from the sale of options were mutually compensated). Entering into the aforementioned transactions, Azoty Tarnów availed itself of the positive shift of the hedging instrument's quota above the current market rate, thus achieving the planned exchange rate for revenues from exports. In turn, in the case of hedging of a realized currency exposure resulting from its operating activity, the Company availed itself in 2008 mainly of the forward transactions adjusted to the dates of currency flows of the hedged items.

In 2008, the total value of composite options structures and forward transactions realized amounted to USD 27 million (44% of the realized net exposure in that currency) and EUR 26 million (30% of the realized net exposure in that currency).

In 2008, the currency market fluctuations per particularly marked with respect to USD/PLN and EUR/PLN currency pairs; during the early half-year, PLN was strengthened in relation to EUR by 12% and in relation to USD by 27% (due to the parallel strengthening of EUR position vis a vis USD), which was a continuation of a long-term appreciation trend and, in the opinion of the financial market analysts, was related to fundamental factors resulting from the good condition of Polish economy.

On that basis, the Company concluded derivative currency transactions intended in accordance with the assumed policy, to secure up to 50% of the planned net currency for up to 1 year.

During the late half of 2008, instead, there was a rapid, unexpected (in the opinion of the aforementioned financial market analysts) and chiefly speculative weakening

of PLN with respect to EUR by 24% and with respect to USD by as much as 40%, which led to negative exchange rate differences within hedging transactions effected by the Company in that period.

As a consequence, the Company's total result on the currency hedging transactions effected in 2008 was negative and amounted to PLN -7.6 million, the positive exchange rate differences on such transactions effected in the period of PLN appreciation amounting to PLN +3.2 million, while the negative exchange rate differences effected during depreciation amounting to PLN -10.8 million.

Instead, the results generated by the Parent Company in 2008 on realized exchange rate differences resulting from non-hedged currency flows largely compensated the results on the hedging transactions. As a result, the Company generated PLN +4.3 million on account of realized exchange rate differences in 2008, and an additional balance sheet valuation of the settlement of non-hedged items as at December 31, 2008 amounted to PLN +7.0 million.

From October 1, 2008, the Parent Company uses hedge accounting under the International Accounting Standard No. 39 to secure its future cash flows exposing it to the currency risk.

The Company applies the aforementioned principles of hedge accounting to a part of concluded derivative currency transactions and to contracted credit facilities and loans meeting the specific criteria defined in IAS 39, through calculation of the effective value of the hedge and its transfer to the revaluation capital.

As at December 31, 2008, the Parent Company disclosed under its revaluation capital, basing on the hedging accounting criteria set in accordance with IAS 39, the so-called effective part of the hedging, resulting from:

- concluded derivative transactions in USD in the amount of PLN -2,995 thousand
- credit facilities and loans in EUR in the amount of PLN -6,761 thousand.

The fair value as at December 31, 2008 of the currency derivative transactions for which no securing links have been set was PLN -23,025 thousand. The fair value valuation of derivatives has been disclosed in the profit and loss account respectively under costs in the amount of PLN 23,049 thousand and under financial revenues in the amount of PLN 25 thousand.

As of the beginning of 2009, a procedure for currency risk management was implemented in the Company, describing the entire hedging policy.

6.14. Projected financial standing of the Capital Group of Zakłady Azotowe w Tarnowie - Mościcach S.A.

The year 2009 is expected to be a period of global economy's recovery from the economic and financial crisis. Development of the microeconomic situation of entities operating in the heavy chemistry sector, Azoty Tarnów include, will follow. As shown by analysis of historical data as well as the assumptions and projection for 2009, there are no circumstances indicating the need for limitation of activity and a threat to the Company's going concern.

A broader description of Company's surroundings, the impact of the market factors on its economic and financial standing, and the activities undertaken in 2009 is contained in the analysis of threats, risks and development prospects.

7. RISKS, THREATS AND DEVELOPMENT PROSPECTS OF THE CAPITAL GROUP

7.1. Material risk factors and threats.

Opportunities

- A relatively low cost of money
- Favorable perception of Poland by investors
- Good prospects for the mineral fertilizers market in Poland, resulting among other things from the currently implemented biofuels program
- The possibility of inclusion of the Parent Company in the processes of consolidation of the Polish and European chemical industry, and the resulting increase of its growth potential (bigger scale of operations, access to new markets, raw materials, competencies, technologies and financial resources, and introduction of new elements of organization and culture)
- Market availability of some of the technologies crucial for the Parent Company

Threats

- The global economic crisis causing instability of the global market and a marked drop in the dynamics of economic growth in USA and the EURO Zone
- Very high fluctuation of the currency market, resulting in rapid changes of PLN rate to EUR and USD, and thus in increase of the exchange rate risk
- Poland's weak position in negotiations pertaining to natural gas imports, resulting in limitation of supplies and growing prices of that raw material
- Unstable situation at the Warsaw Stock Exchange
- The change of phase of the business cycle and the resulting downturn on the chemicals and plastics market
- Progressing processes of concentration (with no contribution on part of the Parent Company) of capital as well as the production, research and trade potential in the global chemical industry
- The dropping competitive value of the European chemical industry (especially vis a vis Asia), resulting from new legal regulations and the costs of energy and labor.
- Aggressive actions of global competitors and growing intensity of competitive struggle within the sector
- The ever smaller demand for imported chemicals in Asia and the growing exports activity of manufacturers in that region, resulting from expansion of their production capacity.

In greater detail, the risks and threats faced by the Capital Group are as follows:

- risks and threats related to operating environment

The risk of the Company becoming dependent of the macroeconomic situation in Poland and elsewhere

The Company's financial standing is affected by global macroeconomic factors. The chemical industry supplies raw materials, semi-finished products as well as finished products to many other industries. Thus the overall economic situation in the world has an impact on results reported by the global chemical sector. Polish economy, in turn, is sensitive to the global economic situation, especially the situation in the European Union. This arrangement of ties

results in a situation where a rapid economic breakdown materially affects the Company's financial results. The important macroeconomic factors, influencing the entire economy and thus also the chemical sector and specifically the present Company's situation, include e.g. the level and growth rate of the gross national product, inflation and unemployment rate, as well as society's purchasing power.

The risk of changes of the market prices of raw materials

Azoty Tarnów is the manufacturer of chemicals, the prices of which are strongly dependent on raw materials prices. This is particularly true in the case of products based on natural gas and petrochemicals, where the demand fluctuates strongly. To reduce the risk, the Company undertakes actions aimed at diversification of the sources of supply of strategic raw materials; an activity aimed at reducing the risk resulting from fluctuations of petrochemicals prices is introduction of pricing formulas that related the price of the product to that of the raw material.

The risk of limitation of natural gas supplies

The sole supplier of natural gas to the Company is PGNiG, whose basic source of supply is the Russian monopolist Gazprom. Any disturbances in gas supplies, not necessarily resulting from economic reasons, may lead to limitations of the natural gas supplies to the Company, and thus to deterioration of its financial standing.

To limit the impact of the aforementioned risk on the Company's results, Azoty Tarnów signed on December 18, 2008 an agreement with PGNiG S.A. in Warsaw for sale of natural gas from local deposits, delivered by PGNiG directly and not through Gaz-System S.A. The physico-chemical parameters of gas from local sources prevent its use within the national network, while such gas is sufficient for the Company's production needs owing to modification of its systems.

The risk of periodicity of product markets

The Company operates on markets where demand fluctuates periodically, which influences the prices and return on sales of specific products; as a result, margins obtained by the Company also show considerable fluctuations and respond with particular intensity to weak market periods. This leads to uncertainty of some financial projections. The Company reduces this risk by means of control of the operating costs, which are kept low, and by means of expansion of production capacity and diversification of the product portfolio. Also the lengthening of caprolactam processing and extension of the polyamides line offer possibilities for flexible control of the manufacture and sales of products within that technological line.

Seasonal risk

The seasonal nature of the sales of some products during the calendar year, which is characteristic of the chemical sector, affects the Company's financial liquidity. The chemical sector's seasonality is particularly marked in the case of artificial fertilizers, where the sales depend on the calendar of crops and the changing weather conditions. To reduce the impact of this phenomenon, the Company diversifies its product portfolio, minimizing the proportion of seasonal products.

Exchange rate risk

For many years now, the Company has been involved both in exports and purchases of raw materials for production with foreign currencies (especially USD and EUR). As a consequence, it is exposed to the exchange rate risk, which may specifically lead to higher costs of supplies or lower effective revenues from sales

calculated in PLN. Azoty Tarnów secures its currency standing with such instruments and actions as e.g. natural hedging, forward transactions and complex options structures where the cost of option purchase is balanced with revenues from the sales of that option at the moment of the transaction. From October 1, 2008, the Company uses hedge accounting under the International Accounting Standard No. 39 to secure its future cash flows exposing it to the currency risk. As a consequence, hedging transactions effected by the Company after that date meet the requirements specified in the aforementioned hedge accounting standards. Moreover, to shorten the currency items, the Company avails itself of the possibility of making payments in contractual currencies to residents.

The risk of legal changes

Incessant changes of both the EU and domestic law produce the risk that the need to adjust to the new regulations to the Company's disadvantage might lead to costs and thus affect the financial results.

- risk and threats related to activity

The risk related to burden on the natural environment

The Company's business activity is noxious and burdensome for the natural environment. For this reason, the Company needs relevant permits to use the natural environment, and also secure the appropriate levels of environment protection and chemical rescue services in case of failures.

The Company acquired all permits needed within its activity, including the integrated permits to use the natural environment, granted to systems covered by IPPC requirements.

- The risk of tightening the requirements related to permits to use the natural environment

The Company acquired all permits needed within its activity, including the integrated permits to use the natural environment, granted to systems covered by IPPC requirements. The permits, which were awarded to the Company in different periods (the most recent change is dated 2009) are usually valid for 10 years from their date of issue. However, the environmental requirements may be tightened, and legal provisions may shorten the validity of any previously granted permits. As a consequence, it may also happen that ZAT S.A. may be forced to incur considerable costs of becoming adjusted to any newly introduced requirements, which may significantly affect its financial results.

All systems utilized by the Company, for which the integrated permits have been issued, meet the requirements of the BAT criteria as specified by provisions of the Environment Protection Act. However, some technologies used by ZAT S.A. may no longer be considered the market's best in the light of today's knowledge.

To reduce this risk, the Company modernizes its technological processes and systems in succession and invests in the latest technologies only.

The costs of any possible adjustment of the systems to newly introduced legal regulations cannot be estimated.

- The risk related to a possibility of imposing on ZAT S.A. new obligations related to air protection

Due to a qualification made based on the regulations of the Environment Protection Law concerning protection of the air quality ZAT S.A. is located in the "Tarnów City" zone for which admissible levels of harmful substances emissions are specified for the sake of health.

The "Tarnów City", according to classification for the health protection criterion due to PM10 dust pollution of which the Company is a significant source, has been classified to C class. Classifying the "Tarnów City" zone to a general C class forces the public authorities to elaborate an air protection program the element of which is specifying basic directions and scopes of activities necessary to restore levels of admissible substances in the air. This may influence the financial results, mainly due to a possibility of imposing on a Company the obligation to fund activities aiming at limiting the emissions of PM10 dust.

It is not possible to estimate the costs due to the unknown scope of activities and a degree of potential reduction of the size of emissions.

- *The risk related to a possibility of imposing on the Company the obligations within the scope of water management*

The quality of waters in the Dunajec and Biała Tarnowska rivers, being either the source of water supply for the Company or a container of waste from the Company, shall result in introducing to the water management plans (which in compliance with the requirements of a Framework Water Directive shall come into effect in 2010) investment plans allowing for a significant improvement of waters in those rivers. These plans may have a direct or indirect impact on the obligations of ZAT S.A., and in consequence on the costs of adjustment activities, which may influence financial results. The costs of any possible adjustment of the systems to newly introduced legal regulations cannot be estimated.

- *The risk related to increasing the costs of land recultivation*

Based on the conducted research the land environment pollution on the area of 1.13 hectares (of a general area of over 400 ha) was stated reaching the depth of 3-4 meters. Due to a possibility of permeating of the pollution to underground waters and their possible spreading, the law imposes on ZAT S.A. the obligation of monitoring the pollution and preventing its spreading. In case pollution is found in underground waters this may imply the necessity to conduct securing and recultivation activities the costs of which may be considerable.

ZAT S.A. conducts a periodical monitoring of underground waters. The conducted exams do not show pollution of underground waters with mercury. One cannot exclude that, in the result of the new information acquired from the monitoring of pollution, a need arises to extend the scope, frequency of sampling and marking particular types of pollution, which may result in additional financial costs for the Company.

The estimated costs of land recultivation is PLN 1 million (based on the Ecological Review of Zakłady Azotowe w Tarnowie - Mościcach S.A. conducted by Ekoekspert Sp. z o.o).

- *The risk related to production of chlorine and soda lye*

The Company utilized the mercury electrolysis technology for the production of chlorine and soda lye. This technology was highly encumbersome for the environment, since mercury is the source of contamination of the land and buildings. The system for the production of chlorine and soda lye has been excluded from the operation. The Company holds an integrated permit for the system of mercury electrolysis valid until 2016. The decision on the physical liquidation shall imply the necessity of bearing the costs of demolition and „post-demolition” waste management and the necessity of recultivating the land on which the system is installed. For his purpose the Company established due provisions.

The estimated cost of storage of the debris from demolition of the electrolysis plants and of the soil underneath amounts to PLN 32 million (pursuant to Annex No. 2 – September 2008 update of the Ecology and environment conditions of withdrawal from the chlorine business and the related costs).

- *The risk of insufficient emission quota*

The Company emits CO₂ (carbon dioxide). CO₂ emission is involved in both the Company's basic activity and generation of energy (electricity as well as heat energy in the form of water steam – which media are produced by the Company for its own needs and for sale). So far, the Company did not utilize all of the emission quota that were granted to it, and could sell the surplus of such quota on the active emission market. In 2008, the surplus amounted to 32,414 Mg. The emission quota are not transferable between periods. Quota that are not utilized or sold on the market expire. It is probable that the Company will have to purchase CO₂ emission rights, having been granted too low limits itself. Other solution to the problem of the Company's growing demand for electrical energy might be purchase of energy on the market; in view of the expected increase in energy prices and power shortages in Poland, the prices of electrical energy needed by the Company may grow. As the potential volume required cannot be estimated, no cost projection can be provided in this respect.

The risk of excessive noise emission into the environment

The V Methane Decomposition Plant (V RM) is among the sources of the noise emitted into the environment. Running next to the Plant along the western fence of ZAT S.A. is Chemiczna Street. On July 28, 2008, the Provincial Environment Protection Inspectorate in Cracow, Tarnów Branch, took the test measurements of noise emitted into the environment by the V Methane Decomposition Plant and stated that the admissible upper emission limit during the night was exceeded by 2.7 dB. The above statement of excess noise emission resulted in imposition of a "running" penalty of PLN 31.05 per day.

Risk related to introduction of obligatory registration of chemical products

Poland is a Member State of the European Union. For many years now, works have been carried out within the Union to introduce registration of products of the chemical industry (substances). Adopted on December 18, 2008 was Regulation (EC) No. 1907/2006 of the European Parliament and of the Council concerning Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) and Commission Regulation (EC) No. 1488/94, as well as Council Directive 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC. The Regulation entered into force on June 1, 2008, while the obligation of registration of substances arose as of June 1, 2008 and lasted until December 1, 2008. This was a so-called preliminary registration, which involved no greater costs for the Company. The Regulation establishes a specialized agency of the European Union – the European Chemicals Agency. In the following years, the Company will be forced to incur the costs of relevant registration procedures with respect to already marketed products, which involves the risk of costs of obtaining the test results for those substances.

The REACH registration procedures and the related restrictions will also apply to the basic raw materials for production, which may affect the Company's financial result in the case of raw materials (ammonia or methanol) acquired on non-EU markets.

Risk related to non-performance of the composition

Until the end of 2008, the Company timely performed its obligations under the composition proceedings; however, it cannot be excluded that the Company might no longer be able to execute the composition clauses if its financial standing deteriorates considerably. The last two installments are still outstanding, both payable in 2009. Cessation of performance of the obligations under the composition may result in a judicial decision quashing

the composition. In such case, the originally reduced debts would become payable, which would mean a drastic deterioration of the Company's financial standing.

The risk related to the claim of Bank Polska Kasa Opieki S.A. - Pekao S.A. Group in Warsaw

On December 6, 2007 Bank Polska Kasa Opieki S.A. - Pekao S.A. Group in Warsaw (hereinafter in this point: "Bank" or "Pekao") filed a petition to the District Court in Tarnów, V Business Division, for compensation in the amount of PLN 10,135,730 (ten million, one hundred and thirty-five thousand and seven hundred thirty) with statutory interest calculated for the period from March 29, 2007 to the date of payment. Azoty Tarnów applied for dismissal of the whole of the claim. In the first instance, by judicial decision of May 20, 2008, the Bank's claim was dismissed. In July 2008, Bank PKO S.A. appealed against the aforementioned decision. The Court of Appeal in Cracow, by a decision of September 19, 2008, quashed the decision of the first instance court and referred the case for re-examination. The next hearing was scheduled for March 2009 by the District Court. In view of the payment of Azoty Tarnów of further installments under the composition, the Bank withdrew a part of its claim. At present, it only maintains the claim as to the amount of PLN 8,108,583.89.

In the opinion of Azoty Tarnów, the Bank's claim is unfounded and constitutes a continuation of the Bank's actions against the Company at the time of negotiating the composition. Azoty Tarnów argued mainly that the claim became prescribed. Besides, the Company also challenges the merits of Pekao's claim on many points.

Resolution of the dispute with the Bank to the Company's disadvantage will materially affect its financial results. The Company treats the claim as completely unfounded, for which reason it has established no provision for the case of losing the legal dispute. On the other hand, the resolution to the Company's disadvantage will have no bearing on the terms and conditions of the judicial composition and its performance.

The risk related to the activity of Subsidiaries becoming dependent on the Parent Company

Despite the slight decrease in the Subsidiaries' dependence on orders from the Parent Company, reported since 2007, their activity is still very much dependent on the economic standing of Azoty Tarnów.

- related to the capital market and trade in the stocks

The risk of disposal of the stocks by Nafta Polska S.A.

As stated in the Prospectus, in view of the fact that series AA stocks held by Nafta Polska S.A. have been listed, it is possible that Nafta Polska S.A. might apply for and obtain the consent of the Council of Ministers for the sale of its holding of the series AA stocks within session deals.

According to information obtained from the Ministry of the Treasury, the Treasury intends to continue privatization of the chemical sector.

The risk of increased supply of the stocks

related to performance by the Treasury of its obligations resulting from acts adopted by the Parliament (Sejm) of the Republic of Poland and from agreements with creditors of the Treasury.

The risk of suspending trade in the Stocks or PDAs or their exclusion from trade on the Stock Exchange.

The Management Board of the Warsaw Stock Exchange may suspend the trade in stocks if it finds that the interest of safety or participants of the trade so require, or if the Stock Exchange regulations are infringed.

In specific cases, the Management of the Warsaw Stock Exchange may exclude securities or instruments from trade if such trade takes place in circumstances suggesting a possible threat

to proper functioning of the controlled market or to trade safety or that the investor's interest has been infringed.

Risks related to administrative sanctions

imposed by the Polish Financial Supervision Authority in cases of non-performance or improper performance of obligations under the Trade Act.

7.2. Description of the external and internal factors material for development of the Capital Group of the Company, and description of the Company's policy with respect to the trends of development.

7.2.1 Market situation as a material development factor

According to the International Monetary Fund estimates, the global growth in GNP dropped to 3.4% compared to 5.2% in 2007. In the EUR zone, the 2008 growth in GNP amounted to a mere 1% compared to 2.6% in 2007. The situation was more favorable in Poland. According to estimates of the Main Statistical Office, GNP grew by 4.8% in 2008 in Poland. However, the good Polish results were caused mainly by a good macroeconomic situation during the early half of the year.

The prospects are worse for 2009, when the crisis effects will be felt in the entire economy of Poland and other EU countries, i.e. the main markets of Azoty Tarnów. The projected global GNP growth in 2009 will be a mere 0.5%. The European Commission expects that GNP will drop in 2009 in most EU countries and in the Union as a whole by about 1.8 %. Nevertheless, as estimated by the World Bank, Poland treated individually may achieve the economic growth of about 2%.

The chemical industry supplies raw materials, semi-finished products as well as finished products to many other industries. For this reason, the results of the chemical sector are influenced by the global economic situation. The present global crisis that started in the late half of 2008 leads to a drop in global demand. The crisis affected sectors that are the target recipients of products of the chemicals and plastics industries, as e.g. the automotive, electronics and household appliances industries. Due to the breakdown of demand, the recipients reduce their production volumes and purchases. According to CEFIC, the total volume of production of the chemical industry dropped in 2008 in the European Union by 1,7 %. According to some projections, improvement of the market situation cannot be expected before 2010.

The changing market and economic recession caused by the global financial crisis affecting the national economies and market sectors in 2008 had a radical impact on the demand for products. To avoid losses resulting from the lack of demand, the Company followed the example of other entities and partly reduced the caprolactam production on temporary basis.

The objective factors that may affect the development of the Capital Group in the future include:

- slowdown of the Polish economy and growing unemployment rates,
- the threat of inflow of cheaper fertilizers and products following the possible admission of Russia to the World Trade Organization (WTO),
- limitation of imports resulting from support to domestic producers and protection of markets by governments (as e.g. the ammonium sulphate market in Brasil),
- unexpected actions of the competition – e.g. new acquisitions by YARA by means of purchase of stocks (the offer of purchase of nitre-based fertilizers through purchase of the stocks of ZAK).

The projected results of chemical companies for 2009 are getting worse due to the growing risk of a more intense slowdown of global economy. This is particularly noticeable in the production and processing of plastics, a considerable proportion of which is utilized by the automotive industry. The demand for cars in Europe, reduced as a result of the financial crisis among other factors, led to limitations in the production volumes at: Opel (Germany, Poland, United Kingdom and Spain), Fiat (Italy), Skoda (Czech Republic – three factories), Seat and Ford as well as the Tatra truck manufacturer (Czech Republic). The European automobile concerns have announced the intention to dismiss about 20 thousand employees. Governments of the European countries, and also the US government, are developing support programs for the automotive among other sectors.

7.2.2 Internal factors material for the functioning and development of the Parent Company

Strong points

- High quality of most products, accepted by the market
- High technological and technical level of some of the production systems
- Stabilization of the distribution channels for bulk products
- High degree of capacity utilization within main production lines
- Own caprolactam and polyoxymethylene technologies
- The basic environment protection problems resolved in accordance with valid regulations
- Experienced and qualified technical staff with high professional competency
- The Company's good image as well as its experience and tradition of several dozen years' standing in the chemical sector
- Participation in the organized public trade system
- Funds from additional stocks issue to guarantee the implementation of a development program
- Full creditworthiness and solvency, with surplus of the working capital and free credit facility limits
- High degree of coverage of the deals with the facility limit insurance

Weak points

- Low scale of operations compared to the Company's main competitors, limiting its possibility of competing
- A relatively low technological and technical standards of some of the systems
- No stable access to the basic petrochemicals, significantly limiting development in the sector of bulk organic chemicals and plastics
- Low competency in operating on markets of highly processed products addressed at broad groups of recipients
- Limited possibilities of obtaining prices at the level of prices dictated by the leading competitors
- High employment and relatively low wages and salaries
- High depreciation of assets resulting in the need for spending relatively big amounts on modernization and restoration.
- Lack of experience in application of the external growth mechanisms
- Limited amount of funds for development and limited freedom of ownership transformations resulting from the judicial composition
- Lack of effective incentive systems.

Other events of 2008 influencing the image and functioning of the Parent Company

- Zakłady Azotowe w Tarnowie - Mościcach S.A. were first listed on the Warsaw Stock exchange on June 30, 2008, which made it possible to acquire investment funds for the Company's development.
- On July 5, 2008 Azoty Tarnów signed an agreement with Mitsubishi Corporation, Japan on reduction of hothouse gas emission and sale of ERU units with the estimated value of PLN 100 million on the global emission market. Nitrous oxide reduction is an important element of the environment protection strategy pursued with additional advantages to the Company. Pursuant to the Ordinance of the Council of Ministers on adoption of the National Plan for Distribution of Rights to emit carbon dioxide for 2008-2012, the yearly average number of the CO₂ emission permits of Azoty Tarnów is 853,195 tons.
- With its first listing on the stock exchange, the Company launched its new trade name "Azoty Tarnów". The modern logo replaced the traditional "swallow", which had been the symbol of the Company and its products for several dozen years.

7.3. The prospects of development of the Capital Group with market strategy elements

The main factor that shapes the Capital Group's development activities in 2009 is the current global economic crisis, which started in the later half of 2008.

In view of the unstable economic situation, the Parent Company limited the scope of its new investment projects in 2009. The major part of investment expenditures will be related to continuation of already started projects and to the Company's core production areas of construction plastics, caprolactam and nitre-based fertilizers. The new investment projects started in 2009 will be related mainly to the need for ensuring continuous operation of production systems and for adjusting those systems to valid legal requirements. The exception will be implementation of highly effective fast return projects.

However, the plan for 2009 also includes a group of contingent projects to be launched during the year if the financial standing is improved and the conditions are stabilized in the Parent Company's surroundings.

Expected for 2009 is completion of the biggest investment project of recent years – construction of the "Mechanical fertilizers' granulation system". The "Mechanical fertilizers' granulation system 1,200 tons a day", due to its synergy with the caprolactam and nitre-based fertilizers production lines, will strengthen the Company's competitive position in the fertilizers sector through extension of its product range and improved quality of the products, and will also improve the cost item in the caprolactam sector through increased value of ammonium sulphate sold as nitrous ammonium sulphate. The start of the mechanical granulation system 1,200 tons a day will also be conducive to development of the exports of fertilizers. Planned for 2009 is the technological start-up of the system; the project is scheduled for completion in the 2nd quarter of 2009.

Besides, the following important projects will be continued in 2009: Modernization of the fertilizers packaging and forwarding station; Modernization of the selective phenol hydrogenation system within the Pd catalyst; Intensification of production of the Modified Plastics Plant – Stage I; Implementation of an integrated ERP class management system; and Modernization of the dolomite-milling plant.

In the group of new investment projects, the major projects will be related to ensuring continuity of production lines combined with adjustment

of those lines to valid legal requirements. Beside projects of that group, implementation of a fast return project "The use of vacuum pumps for caprolactam crystallization" is also planned.

Works to be carried out in 2009 in the area of preparation of projects will be related to implementation by Azoty Tarnów of its assumed strategic plans and pursuit of its stock issue objectives. New projects will be prepared in the area of caprolactam, construction plastics and fertilizers production, as well as works involved in modernization of the factory heat and power plant. Besides, works on further product diversification will be continued.

The Parent Company's strategic assumptions for the next few years

IN 2009-2015 the Parent Company will focus on opportunities within its immediate surroundings and on strengthening of its competencies that are crucial for its competitive position, including specifically:

- Increased scale of operations within the Company's domain
- Reduced sensitivity to the changing phases of the market cycles and to the prices of natural gas and petrochemical products, by means of lengthening of the product chains
- Reduced costs of production due to modernization of the main production lines
- Building of stable and effective ties with trade partners and optimization of distribution channels
- Optimization of organizational solutions
- Improved efficiency of crucial processes and accumulation of the intellectual resources
- Incessant adjustment of product quality to the customers' requirements
- Moderate relative diversification using the synergy effect with elements of the current product range
- Using market opportunities arising from the crisis-related market restructuring.

The process of increasing the Company's value will be effected through both internal development and strategic alliances. In favorable market conditions, Azoty Tarnów will actively contribute to consolidation of the region's chemical sector. The basic objective of the Company's actions in the area of external development will be to put the Company or elements thereof into larger integrated structures securing improved competitive position and the conditions for its permanent development.

Continued in 2009-2015 will be works involved in further moderate and relative product diversification of the Company. As provided for in the adopted development plan, such activities will focus on the following sectors: construction plastics, organic chemicals, and products for agriculture.

The principles of sustainable development will be observed, accompanied by limitation, within an economically rational scope – of the production's environmental impact and by due consideration to the needs of the local community.

Strategic plans in the basic product and market areas.

Caprolactam

The Caprolactam Plant will continue as the key element of the Company's main production line – the caprolactampolyamide line. The basic objective will be to increase the scale of operations and to reduce the unit costs of caprolactam production.

During the first stage before 2010, it is planned to increase the capacity of the Caprolactam Plant to about 100 thousand tons a year and fully to integrate it backwards with cyclohexanone production. Implemented parallel will be modernization projects aimed

at reducing the unit production costs, maintaining high technical reliability, and further increasing production capacity through removal of bottlenecks.

Polyamide 6

The polyamide 6 sector will be one of the areas of the Company's expansion. The plan of intensification of production of the Polyamide 6 Plant from 6 to 45 thousand tons a year was prepared in 2008. Geographically, the target market for such intensified production of the Polyamide Plant will be the European Union.

It is planned to further develop the polyamide 6 production capacity in Tarnów to about 100 thousand tons a year. The activities will further shift the Company's center of gravity toward construction plastics.

The basic areas of building competitive advantage will be low production costs resulting from vertical backward integration, the scale of operations, and relatively high technological standards.

Polyoxymethylene

The polyoxymethylene area will be among the key areas of the Company's expansion. It is planned to increase production capacity in the discussed period to 45-50 thousand tons a year through installation of a new Plant with the capacity of 30 thousand tons a year and stabilization of the existing Plant's capacity at 15-20 thousand tons a year.

Parallel to that, modernization projects will be implemented, aimed mainly at improvement of the technical condition and thus increase of reliability of the existing Plant, reduction of the costs of production, and adjustment of production volume to the customers' changing demand.

Modified plastics

Modified plastics will remain an element of the Company's domain, and will be subjected to intense expansion. The objectives in this area will include an increase of production capacity to about 30 thousand tons a year and extension of the product range with plastics manufactured on the basis of polymers not produced within the Company.

In this area, competitive advantage building will base not only on integration of the source polymers in the production process, but also on direct reaching of the end customers, adjustment to their needs, and high quality of services.

Nitre-based fertilizers, nitric acid concentrate, mixed acids

The area of nitre-based fertilizers will remain an element of the Company's domain. The key element of the strategy in this area will be to strengthen the Company's competitive market position by means of extension of the offered product range with mechanically granulated nitro-chalk and nitre sulphate of ammonium. Activities will also be undertaken further to diversify the product range of mechanically granulated multicomponent fertilizers. Own production of nitre sulphate of ammonium will make it possible to increase the value of ammonium sulphate manufactured by the Caprolactam Plant. The objectives summarized above will be achieved through installation in 2009 of the Mechanical Granulation System with production capacity of 1,200 tons/day.

To reduce the purchases of ammonia and secure hydrogen for the caprolactam line, it is planned to start before 2010 a new Hydrogen and Synthesis Gas Plant utilizing the local deposits of nitrified natural gas. The project will aim at keeping the fertilizers and caprolactam production costs at a competitive level, and making the Plants reliable.

Chlorine and chlorine products

The Company uses the mercury electrolysis technology, which is highly noxious to the environment and affects the meeting of legal requirements in this respect. The Company has an integrated permit for the mercury electrolysis system, valid until 2016. Nevertheless, the manufacture of chlorine and soda lye is being wound up due to economic conditions.

Catalysts

The production of catalysts will be separated from the plant. Actions will be taken aimed at winning a strategic partner for the separated Catalysts Plant to improve the competitive position and increase the value of the business.

Power engineering

During the next few years, the existing heat and power plant EC II will continue as the Company's main source of heat and power. In the future, the plant will be radically modernized within a joint venture with an industrial strategic investor. In the remaining areas of the power infrastructure, the Company will focus on modernization and adjustment of the infrastructure to current needs. In economically justified cases, outsourcing will be introduced.

Directions of development of the Subsidiaries

Automatyka Sp. z o.o.

Advantageous factors prevailed in the company's surroundings and resources for several years. At present, this situation will change due to the weak market. The limitation of investment and repair projects will make the winning of new assignments much more difficult; on the other hand, modernity and high quality of the product, together with the big performance potential, will be helpful in this respect.

To implement its assumed strategy and to reach the planned sales volume (15% lower compared to 2008), the Company will intensify its direct marketing activities. The sales and marketing departments will be extended, and marketing outlays will focus on creation of the Company's professional image and on direct marketing. Besides, the Company plans to extend and strengthen its cooperation with its long-time business associates and customers with significant position in the industry.

Biuro Projektów Zakładów Azotowych "BIPROZAT" TARNÓW Sp. z o.o.

The basic strategic objective for 2009 and beyond will be to reorganize the Company as an engineering office with a competitive offer of a full range of products within the construction design services.

2009 will be the starting year of the building of the Company's human and materials resources required to implement a new product: complete supplied for the Company's main partner – the Parent Company – and for third party customers.

2009 will also be the year of intense marketing activities aimed at seeking and winning new customers for the extended product range.

Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne „ELZAT” Sp. z o.o.

In view of the fact that Azoty Tarnów is the main recipient of the Company's services, one should bear it in mind that the Parent Company's business and financial situation will continue to exert a strong impact on the "Elzat" Company's financial standing.

The Company's strong point is the high standard of its services, confirmed by the ISO certificate. The 2009 activities of the Management Board and marketing department will be directed mainly at third party customers.

Jednostka Ratownictwa Chemicznego Sp. z o.o.

The Company's prospects of development in and beyond 2009 include: installation of a system for household waste segregation; construction of a composting plant; development of activity in the area of recycling of plastic discards – it is planned to purchase a PET crushing line; extension of activity in the area of utilization of the rocket propellant (participation in OSCE's tender procedure for utilization in Ukraine and in a tender procedure announced by Agencja Mienia Wojskowego for utilization in Poland).

Internal factors that are material for the Company's development include advantageous terms and conditions of cooperation with the Parent Company as regards the pricing of services and mutual performances. The external factors include mainly the permit for construction of the waste segregation station and the composting plant, as well as utilization of developed technologies, especially that of rocket propellant utilization.

Przedsiębiorstwo Transportu Kolejowego "KOLTAR" Sp. z o.o.

Directions of development of the KOLTAR Company for the nearest future:

- increase of the volume of licensed goods carriage using the PKP PLK lines,
- insulation of wagons for transporting sodium hydroxide,
- the use of the grinding chamber and the drying and varnish cabin within services provided to third parties.

"PROReM" Sp. z o.o.

PROReM Sp. z o.o. is a typical service company, which makes it difficult precisely to project the development of its activity. Unexpected events may take place. Such reservations notwithstanding, it is assumed that upon implementation of the restructuring plan and the Integrated Management System, the Company's performance will grow by 51%, employment will be reduced by 5%, and equity will exceed the initial capital.

The main directions of development include:

- stress on improvement of the Company's financial resources (improvement of the business and financial standing),
- development of marketing activities,
- building of the Company's position on external markets (improvement of product and service lines),
- reduction of costs, maintaining competitive advantage in the area of maintenance services provided to the Parent Company.

"Wieżat" Sp. z o.o.

In 2009, the Company will focus on consolidating the favorable phenomena and activities initiated in 2007. The Company will continue to provide timely and high quality services to Azoty Tarnów pursuant to the annual framework agreement for repairs. It is planned further to promote the Company through participation in tender procedures, both public and those organized by private investors, and thus to create the Company's image and to make it recognizable for both its customers and potential competitors.

Zakład Budowy Aparatury Chemicznej "ZBACH" Sp. z o.o.

The basic directions of the Company's policy of further development and winning new outlets on the domestic and international market include:

- continued strategy of establishing cooperation with the leaders of the following industries on the domestic market:
 - energy – companies such as ZREW Warsaw, KOKSOPROJEKT S.A. Cracow, BIPROTECH Cracow,
 - mining, natural gas and fuels – companies such as PROCHEM Warsaw, ORLEN PROJEKT Płock, SIARKOPOL s.a. Grzybów, petroleum refineries,
 - heavy chemistry – e.g. POLIMEX Mostostal Warsaw, ANWIL S.A. Włocławek.
- international market – directions of activity:
 - continued cooperation with the German company LOITHERMPROCESS Essen,
 - incessant quest for new foreign customers,
 - presentation of ZBACH Sp. z o.o. on the European market through generally accessible media; direct participation e.g. in international fairs,
 - seeking commercial agents – organizations or individuals – operating on such markets.

"ZWRI" Sp. z o.o.

An important factor for the Company's further development is its planned cooperation with road construction companies, aimed at participation in infrastructure-building projects, as well as extension of its area of activity.

8. ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS

2008

1. Agreement with Deloitte Audyt Sp. z o.o. of November 28, 2008 for audit of the individual and consolidated financial statements and the consolidation package, and for audit of documents under the full method for the period of 12 months ending on December 31, 2008. Remuneration – PLN 175,000.
2. Agreement with KPMG Audyt Sp. z o.o. of July 21, 2008 for review of the condensed mid-term financial statements of the Company and condensed mid-term financial statements of the Capital Group for the period from January 1, 2008 to June 30, 2008. Remuneration – PLN 70,000.

2007

1. Agreement No. 1965/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of November 19, 2006 for audit of the financial statements for the period from January 1 to December 31, 2007, and of the consolidated financial statements of the Capital Group for the period from January 1 to December 31, 2007. Remuneration – PLN 137,000.
2. Agreement 2026/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of November 15, 2007 for consultation on complications related to the financial statements for the years 2004-2007 within preparation of the Prospectus.

Remuneration – PLN 60,000 and refund of additional costs of up to PLN 6,000.

3. Agreement No. 1848/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of August 7, 2007, pertaining to:
- review of individual and consolidated historical data for 2004, prepared in accordance with the Polish Accounting Standards
 - review of individual and consolidated historical data for the years 2005-2006 and as at June 30, 2007 prepared in accordance with IAS/IFRS and of comparable data as at June 30, 2006
 - audit of the financial projection for 2008
 - preparation of the financial part of the Prospectus.

Remuneration – PLN 297,000 and refund of additional costs of up to 15% of total remuneration.

4. Annex No. 1 to Agreement No. 1848/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of August 7, 2007, signed on April 17, 2008 and pertaining to refund of the additional costs of the audit of the financial projection for 2008 – PLN 3,000.
5. Agreement No. 1847/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of August 3, 2007, pertaining to:
- verification of differences between the Polish Accounting Standards and IAS/IFRS in the financial statements for 2005-2006
 - review of historical data for 2004 and 2005, prepared in accordance with the Polish Accounting Standards
 - review of historical data for 2005-2006 and confirmation of the consolidation packages prepared in accordance with IAS/IFRS
 - audit of the financial statements prepared as at June 30, 2007 in accordance with IAS/IFRS and of comparable data as at June 30, 2006, and issue of the opinion
 - the aforementioned works were carried out at the 10 Subsidiaries.

Remuneration – PLN 257,600 and additional settlement of HLB staff involvement at hourly rates.

6. Agreement No. 1742/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of April 24, 2007, pertaining to implementation of the International Accounting Standards/International Financial Reporting Standards. Remuneration – PLN 43,000 plus additionally PLN 4,500 per day of training, as well as additional settlement of HLB staff involvement at hourly rates.
7. Annex No. 1 to Agreement No. 1742/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of April 24, 2007, signed on May 7, 2007 and pertaining to refund of costs up to PLN 1,500.
8. Annex No. 2 to Agreement No. 1742/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of April 24, 2007, signed on July 6, 2007 and pertaining to refund of costs up to PLN 1,700.
9. Annex No. 3 to Agreement No. 1742/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of April 24, 2007, signed on July 18, 2007 and pertaining to refund of costs up to PLN 3,500.
10. Annex No. 4 to Agreement No. 1742/10 with HLB Frąckowiak i Wspólnicy Sp. z o.o. of April 24, 2007, signed on October 23, 2007 and pertaining to refund of costs up to PLN 700.

Table 40 **Entities auditing the financial statements of subsidiaries in 2008**

| Company | Auditing entity | Tax Identification Number NIP | Agreement No. | Agreement date | Agreement term | Remuneration (net) |
|-----------------------|--|-------------------------------|---|--|---|--------------------|
| <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> | <i>6</i> | <i>7</i> |
| Automatyka Sp. z o.o. | LEXUS Audit Sp. z o.o. 30-084 Kraków 23 Bronowicka Street apt. 6 Office in Tarnów 1 Mickiewicza Street apt. 4 33-100 Tarnów | 873-10-13-197 | - | November 14, 2008 | until March 31, 2009 | 13,000 |
| Biprozat Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 19/2008 | November 5, 2008 | until February 28, 2009 | 13,000 |
| Elzat Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 18/2008 | November 5, 2008 | until 15.03.09 | 8,500 |
| JRCH Sp. z o.o. | POLINVEST-AUDYT Sp. z o.o. 1 Łukaszczyca Street 31-429 Kraków | 676-20-61-598 | 28/12/B/08 | December 18, 2008 | until February 28, 2009 | 21,000 |
| Koltar Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 23/2008 | November 14, 2008 annex – January 20, 2009 | from February 2, 2009 to February 28, 2009: | 13,500 |
| Oknotar Sp. z o.o. | LEXUS Audit Sp. z o.o. Office in Tarnów 1 Mickiewicza Street apt. 4 33-100 Tarnów | 873-10-13-197 | The auditing entity was selected. However, due to the pending sale of the company and disposal of its shares, on March 2, 2009 "Oknotar" Sp. z o.o. was released from the duty to have its statements audited, and the agreement with the auditor was not signed. | | | |
| Prorem Sp. z o.o. | Ryszard Krzoska "Audytorski" Audit and Advisory Services 33-100 Tarnów 24 Długa Street, apt. 195 | 873-000-29-90 | - | November 28, 2008 | until March 10, 2009 | 13,500 |
| Wieżat Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 25/2008 | November 14, 2008 | until February 28, 2009 | 7,500 |
| ZBACH Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 11/2008 | October 20, 2008 | March 27, 2009 – February 27, 2009 | 10,000 |
| ZWRI Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 24/2008 | November 14, 2008 | February 28, 2009 | 10,300 |
| Navitrans Sp. z o.o. | Not applicable | | | | | |

Table 41 **Entities auditing the financial statements of subsidiaries in 2007**

| Company | Auditing entity | Tax Identification Number NIP | Agreement No. | Agreement date | Agreement term | Remuneration (net) |
|-----------------------|---|--------------------------------------|----------------------|------------------------------------|---|---------------------------|
| <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> | <i>6</i> | <i>7</i> |
| Automatyka Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 18/2007 | November 5, 2007 | until March 31, 2008 | 8,000 |
| Biprozat Sp. z o.o. | Certified Auditor Witold Polański 33-100 Tarnów, 35 Reymonta Street, apt. 9 | 873-020-29-38 | 3/2007 | December 11, 2007 | until March 30, 2008 | 11,000 |
| Elzat Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 17/2007 | November 5, 2007 | until the end of March 2008 | 6,200 |
| JRCH Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 23/2007 annex | 14.11.200 25.03.2008 | until March 31, 2008 until April 4, 2008 | 11,500 |
| Koltar Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. in Tarnów 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 22/2007 annex | November 14, 2007 April 3, 2008 | until the end of March 2008 | 8,000 4,000 |
| Oknotar Sp. z o.o. | Certified Auditor Witold Polański 33-100 Tarnów, 35 Reymonta Street apt. 9 | 873-020-29-38 | 2/2007 | November 9, 2007 | until the end of March 2008 | 7,500 |
| Prorem Sp. z o.o. | LEXUS Audit Sp. z o.o., Cracow 23 Bronowicka Street apt. 6 | 873-10-13-197 | | November 15, 2007 | until the end of March 2008 | 8,900 |
| Wieżat Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 19/2007 | November 12, 2007 | until the end of March 2008 | 6,700 |
| ZBACH Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 20.2007 | November 12, 2007 | until March 15, 2007 | 6,800 |
| ZWRI Sp. z o.o. | Biuro Biegłych Rewidentów Sp. z o.o. 5 Piłsudskiego Street, 33-100 Tarnów | 873-00-13-309 | 21/2007 | November 14, 2007 | until March 31, 2008 | 6,500 |
| Navitrans Sp. z o.o. | Not applicable | | | | | |

9. LEGAL PROCEEDINGS

No legal proceedings pertaining to liabilities or debts are pending against Companies of the Capital Group with the unit or total value of 10% of the equity of Azoty Tarnów and thus meeting the significance criteria specified in § 91 clause 5 point 5 of the Ordinance of the Minister of Finance on running and periodical information of February 19, 2009.

10. DECLARATION OF APPLICATION OF THE CORPORATE ORDER

Pursuant to § 29 clause 5 of the Rules of Procedure of Giełda Papierów Wartościowych w Warszawie S.A. [Warsaw Stock Exchange], the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. acting upon Resolution No. 1013/2007 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A., hereby submits this report on application by the Company in 2008 of the principles of corporate order contained in the document entitled “Good Practices of companies listed at GPW” (Attachment to Resolution No. 12/1170/2007 of the Board of the Stock Exchange of July 4, 2007).

The sequence of information thus provided is compliant with § 1 clause 1 of the aforementioned Resolution No. 1013/2007 of the Board of Giełda Papierów Wartościowych w Warszawie S.A.

10.1. The collection of principles of corporate order binding on the Company and the place where such collection of principles is available to the general public.

On July 22, 2008 the Management Board adopted the Rules of Organization containing the principles of corporate order and resolved by the Supervisory Board of the Company by Resolution No. 98/VII/2008 of August 27, 2008. The current Rules of Organization were made effective by an internal order No. 34/2008 of August 26, 2008.

The collection of principles of corporate order binding on the Company is available to the general public on the Company’s website under “Investors Relations”, bookmark: “Corporate Order”.

10.2. The scope of the Company’s deviation from clauses of the collection of principles of corporate order, the clauses thus deviated from and explanation of the reasons of such deviation.

The Company applies the good practices of corporate governance binding on companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych, GPW). To this aim, the Management Board of the Company made a due declaration in the Prospectus (see point 26.3.1), reading as follows:

“It is the Company’s intention to apply in its daily operation all of the good practices of corporate governance binding on companies listed at the Stock Exchange (“Good Practices of Companies listed at GPW”, Annex to resolution No. 12/1170/2007 of the Board of the Stock Exchange of July 4, 2007, hereinafter: “Good Practices”), with the following reservations:

- The Treasury, through its holding in the equity of Nafta Polska S.A. (100% of the stocks of that Company being held by the Treasury) has a majority holding in this Company. Therefore, the Treasury as an indirect and direct stockholder is entitled, pursuant to provisions of the law, to privileged access to information from the Company, also through its representative’s direct participation in the Supervisory Board. This results in an infringement of recommendation 8, chapter I of the Good Practices. In view of the legal restrictions related to the activity and role of the Treasury, the Treasury and Nafta Polska S.A. are not and will not be active participants of the market of the Company’s stocks.

- At the moment of confirmation of the Prospectus, no member of the Supervisory Board meets the criteria of independence specified in principle 6, chapter III of the Good Practices. The Articles of Association of the Company provide for supplementation of the composition of the Supervisory Board with two members during the next General Meeting convened after the stocks are admitted to trade on the controlled market.
- Being an entity controlled by the Treasury, the Company does not apply principle 8, chapter III of the Good Practices pertaining to the minimum number of members of a commission of the supervisory board (the audit committee). A commission (audit committee) formed within the supervisory board normally consists of three members. Within the Company, the commission (audit committee) has two members. Another requirement that has not been met is that the commission (audit committee) should be composed of at least two independent members of the supervisory board. There is one independent member of the supervisory board in the composition of the commission (audit committee). As a result of the composition of the Supervisory Board of the Company established pursuant to the provisions of the Commercialization and Privatization Act, and of the fact that only two members of the Supervisory Board probably satisfy the criteria of independence as specified in clauses of the Good Practices, it is next to impossible to meet the requirement of participation in the audit committee of a majority of independent members. The Supervisory Board has the following four groups of members: (1) members of the Supervisory Board elected by the General Meeting, in which the company “Nafta Polska SA” has today and will have in foreseeable future the majority of votes ; (2) representatives of the Company’s employees; (3) independent members of the Supervisory Board; and (4) a representative of the Ministry of the Treasury.

Apart from the deviations from the Good Practices as stated and explained above, it is the Company’s intention to follow all principles of corporate governance specified in the “Good Practices of Companies listed at GPW”.

Azoty Tarnów has been awarded the status of a listed company by Resolution of the GPW Management Board No. 518/2008 of June 27, 2008 on introduction to trade on the GPW Main Market of ordinary series AA bearer stocks and rights to ordinary series B bearer stocks of Zakłady Azotowe w Tarnowie-Mościcach S.A. as of June 30, 2008. Once the status of a listed company was awarded pursuant to § 29 clause 3 of the Rules of Procedure of GPW, the obligation arose of publication of a current report containing information about principles that are not applied or have not be applied. On June 30, 2008 the relevant current report No. 20/2008 was duly published.

With reference to the content of that report it has to be stated as follows:

The exclusion of the provision on infringement of recommendation 8, chapter I pertaining to the stockholders’ privileged position as regards executed deals and agreements pertaining to the situation before the first listing on the stock exchange. The recommendations contained in the first part of the Good Practices are not subject to the “comply or explain” rule, for which reason the Company renounced current reporting of infringements as to the stockholders’ privileges.

The infringement of principle 6, chapter III of the Good Practices ceased once two members of the Supervisory Board were selected who satisfy the criteria of independence. By Resolutions 6 and 7 of the Extraordinary General Meeting of July 31, 2008 (Notarial deed, Repertory A No. 10.540/2008), Mr. Dariusz Maciejuk and Mr. Armin Teske were appointed. The relevant information of the Management Board of the Company on changes in the composition of the Supervisory Board, together with the new members’ CVs, as well as the update of exclusions pertaining to non-application of the Good Practices, was published in current report No. 34/2008 on August 1, 2008.

Zakłady Azotowe w Tarnowie-Mościcach intends to observe all principles of corporate order stated in the Good Practices of Companies listed at GPW to the exception of principle 8, chapter III of the Good Practices.

10.3. Features of the internal audit and risk management systems applied.

On March 4, 2009, by Resolution No. 136/VII/2009, the Supervisory Board established the Audit Committee within the Company to raise the efficiency of the Board's operations and to increase the control over the Company and the Capital Group. The Committee is a collegiate advisory body operating within the structure of the Supervisory Board. The Supervisory Board delegated its representatives to the Committee:

1. Mr. Armin Teske,
2. Ms. Małgorzata Rzążewska.

In particular, the Committee's tasks include: monitoring of the financial reporting process; monitoring of efficiency of the Company's internal control, internal audit and risk management systems; monitoring of the audit of the annual and consolidated financial statements; monitoring of the work of the internal audit department; monitoring of the work and reports of the independent certified auditor; and review of selected economic events essential for the Company's operation. The detailed principles of functioning of the Audit Committee are defined in its Rules of Procedure, prepared with due consideration to the content of Schedule I clause 4 (Audit Committee) of the Recommendation of the European Commission of February 15, 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the supervisory board and adopted by the Supervisory Board of the Company.

10.4. Stockholder structure.

| <i>Stockholder</i> | As at December 31, 2008 | | | | As at March 31, 2009 (date of the report) | | | |
|---|--------------------------------|------------------------|---------------------|-----------------------------|--|------------------------|---------------------|-----------------------------|
| | <i>No. of stocks</i> | <i>Share in equity</i> | <i>No. of votes</i> | <i>Share in total votes</i> | <i>No. of stocks</i> | <i>Share in equity</i> | <i>No. of votes</i> | <i>Share in total votes</i> |
| Nafta Polska SA | 19,200,000 | 49.08% | 19,200,000 | 49.08% | 19,200,000 | 49.08% | 19,200,000 | 49.08% |
| CIECH SA | 2,560,000 | 6.54% | 2,560,000 | 6.54% | 2,560,000 | 6.54% | 2,560,000 | 6.54% |
| Polskie Górnictwo Naftowe i Gazownictwo | 4,000,001 | 10.23% | 4,000,001 | 10.23% | 4,000,001 | 10.23% | 4,000,001 | 10.23% |
| The Treasury | 1,359,600 | 3.48% | 1,359,600 | 3.48% | 1,359,600 | 3.48% | 1,359,600 | 3.48% |
| Other stockholders | 11,996,820 | 30.67% | 11,996,820 | 30.67% | 11,996,820 | 30.67% | 11,996,820 | 30.67% |
| Total | 39,116,421 | 100.00% | 39,116,421 | 100.00% | 39,116,421 | 100.00% | 39,116,421 | 100.00% |

10.5. Special control powers of the holders of securities.

In the light of the provisions of § 16 clause 2 of the Articles of Association of the Company, the Treasury as stockholder individually empowered to appoint and dismiss one member of the Supervisory Board.

At the same time, § 34 clause 3 provides that: “Appointed within the Company, from among members of the Supervisory Board delegated to individually perform specific supervisory functions, may also be the Audit Committee (of the Supervisory Board). A resolution appointing members of the Supervisory Board to individually perform supervisory functions within the Audit Committee should state the procedure for performance and the scope of such functions. The powers exercised jointly by the delegated members of the Supervisory Board within the Audit Committee should be defined in accordance with the provisions of Annex I clause 4 (Audit Committee) to the Recommendation of the European Commission of February 15, 2005 on the role of non-executive or supervisory directors of listed companies and on committees of the (supervisory) board (Official Journal of the European Union L 52/52 of 2005). Members of the Supervisory Board delegated to individual perform supervisory functions within the Audit Committee must meet the criteria of independence defined in Annex II to the aforementioned Recommendation of the European Commission, with the reservation that until the Treasury and Nafta Polska S.A. together hold over 50% of stocks of the Company, the criteria stated in clause 1 letter “d” of that Annex shall not be applicable”.

Moreover, according to the provisions of § 43 clause 1 point 4, the General Meeting convenes the Management Board of the Company upon written demand of the Treasury as stockholder, irrespective of its actual share in the equity, made at least one months before the proposed date of the General Meeting.

45 clause 4, which regulates the issue of addition by the stockholders of specific items to the agenda of the next General Meeting, provides that: “The stockholder or stockholders who represent at least one-tenth of the equity may demand additional of specific items to the agenda of the next General Meeting. This power is also vested in the Treasury as stockholder irrespective of its share in the equity”.

10.6. Restrictions on the exercise of the right to vote (if any).

The Articles of Association of the Company provide for no such restrictions. Pursuant to § 47 clause 2 of the Articles of Association, one stock entitles its holder to one vote at the General Meeting.

10.7. Restrictions on transfer of the ownership of securities.

The restrictions on transfer of the ownership of securities follow from provisions of the Commercialization and Privatization Act (Art. 38 clause 3). The statutory period on the ban on disposal of series AA stocks by employees expired on September 15, 2007, and by members of the then Management Board of the Company (who held the total of 970 series AA stocks) – on September 15, 2008.

The freedom of transfer of series B stocks is not restricted in any manner.

10.8. The principles of appointment and dismissal of members of the executive and their respective powers, including specifically the power of deciding about issue or redemption of stocks.

10.8.1 The principles of appointment and dismissal of members of the executive:

The Management Board of the Company

Pursuant to § 24 of the Articles of Association, Members of the Management Board or the entire Management Board – subject to the provisions of § 25 and the following of the Articles of Association – are appointed and dismissed by the Supervisory Board.

Each Member of the Management Board may be dismissed or suspended by the Supervisory Board or the General Meeting (§ 24 clause 2 of the Articles of Association of the Company).

As long as the Company has the average yearly employment of over 500, the Supervisory Board appoints one person elected by the employees to the position of Member of the Management Board for the term in office of the Management Board. (§ 25 clause 1 of the Articles of Association of the Company).

Supervisory Board:

Pursuant to § 35 clause 1 of the Articles of Association, the Supervisory Board consists of 5 to 9 members, appointed by the General Meeting subject to § 16 clause 2 (“The Treasury as stockholder shall be individually empowered to appoint and dismiss one member of the Supervisory Board”) and § 36 of the Articles of Association (“A part of the composition of the Supervisory Board shall be members elected by employees of the Company pursuant to Art. 14 of the Commercialization and Privatization Act”).

10.8.2 The power to decide on issue or redemption of stocks.

In view of the increase of the Company’s equity through a public issue of series B stocks and their offering on the controlled market, the General Meeting of the Company, by Resolution No. 6/NWZ/2008 of February 25, 2008, authorized the Management Board to:

- conclude the agreement for investment or service underwriting;
- decide on the composition of the brokers’ consortium to offer the stocks;
- conclude agreements with the brokers;
- decide on the subscription opening and closing dates;
- decide on the dates and terms of subscription to series B stocks;
- make shifts between tranches;
- assign stocks;
- declare by way of a notarial deed the amount of equity taken up within the public subscription before entering the increase of equity in the register;

and to undertake all actual and legal actions aimed at introducing the Company into the controlled market at Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).

Under the aforementioned Resolution, the Supervisory Board was authorized to define:

- the principles of assignment of stocks within tranches;
- the principles of accepting subscriptions to stocks within the Individual and Institutional Tranche;
- the stock issue price range for the public offering on the basis of the Management Board’s proposal approved by the Offering Party;
- the minimum and maximum volumes of subscriptions to stocks within specific tranches;
- the final stock issue price within the public offering, within limits specified in a resolution of the Supervisory Board.

Fulfillment of the above:

1. Definition of the principles of accepting subscriptions to stocks within the Individual and the Institutional Tranche, and of assigning stocks offered within the two tranches – Resolution of the Management Board No 458/VI/2008 of March 14, 2008; Resolution of the Supervisory Board No. 55/VII/2008 of March 17, 2008.
2. Cancellation of the series A registered stock certificates of the Company Zakłady Azotowe w Tarnowie - Mościcach S.A. – Resolution of the Management Board No. 512/VI/2008 of May 12, 2008.
3. Definition of the issue price range within the public offering (Resolution of the Management Board No. 522/VI/2008 of June 3, 2008; Resolution of the Supervisory Board 69/VII/2008 of June 3, 2008).
4. Definition of the final issue price of series B stocks within the public offer – Resolution of the Supervisory Board No. 87/VII/2008 of June 11, 2008.
5. Assignment of series B stocks – Resolution of the Management Board No. 525/VI/2008 of June 18, 2008.
6. Declaration of increase of the Company's equity – Resolution of the Management Board No. 1/VII/698 of June 27, 2008.

10.9. The rules for amending the Company's Articles of Association or Memorandum.

Pursuant to § 51 clause 22 of the Company's Articles of Association, amendment of those Articles of Association and change of the area of activity of the Company are among exclusive competencies of the General Meeting.

10.10. General Meeting – mode of operation.

The General Meeting of the Company operates under the *Rules of Procedure of the General Meeting of Stockholders of Zakłady Azotowe w Tarnowie – Mościcach S.A.* adopted by the Management Board and approved by the Supervisory Board of the Company, and then ratified by the Extraordinary General Meeting by way of Resolution No. 5 of November 28, 2007. The Company's Articles of Association having been changed, the Rules of Procedure do not meet the requirements imposed on public companies. The Rules of Procedure will be adjusted to the current wording of the Company's Articles of Association and the valid legal provisions.

10.11. Composition, changes and description of operation of the managing and supervisory authorities.

All authorities that manage, supervise or administer the Company operate on the basis of generally binding legal regulations and also of internal regulations, i.e. Rules of Procedure adopted and approved by the relevant corporate authorities;

- Rules of Procedure of the General Meeting of Stockholders, approved by Resolution No. 5 of the Extraordinary General Meeting of November 28, 2007
- Rules of Procedure of the Supervisory Board of the Company, approved by Resolution No. 8 of the Extraordinary General Meeting of July 31, 2008
- Rules of Procedure of the Management Board of the Company, approved by Resolution of the Supervisory Board of the Company No. 97/VII/2008 of August 27, 2008.

The composition of the aforementioned authorities, as changed during the accounting year 2008 and until the date of this report, is as follows:

MANAGEMENT BOARD OF THE COMPANY

Composition of the Management Board as at January 1, 2008:

1. Mr. Jarosław Wita – President of the Management Board – Managing Director
2. Ms. Irena Baranek – Member of the Management Board
3. Mr. Witold Szczypiński – Member of the Management Board

During 2008, the composition of the Management Board changed as follows:

- 1) On February 15, 2008, under resolutions of the Supervisory Board, the following persons were removed from the Management Board: Mr. Jarosław Wita (Resolution No. 33/VII/2008) and Ms. Irena Baranek (Resolution No. 34/VII/2008), while Secretary of the Supervisory Board Mr. Jan Wais was appointed acting Member of the Management Board (Resolution No. 36/VII/2008).
- 2) On February 22, 2008, the Supervisory Board appointed Mr. Witold Szczypiński acting President of the Management Board until completion of the qualification procedure to fill the position of President of the Management Board of the Company (Resolution No. 38/VII/2008).
- 3) On March 11, 2008, as a result of completion of the qualification procedure to fill the position of President and Members of the Management Board, the Supervisory Board appointed the Management Board of the Company in the following composition:
 - ✓ Mr. Jerzy Marciniak – President of the Management Board,
 - ✓ Mr. Witold Szczypiński – Vice President of the Management Board in charge of technology, development and production,
 - ✓ Mr. Witold Golemo – Member of the Management Board in charge of business and financial matters,
 - ✓ Ms. Monika Hap – Member of the Management Board in charge of sales.

At the same time, in view of completion of the qualification procedure, the appointment of Mr. Jan Wais as acting Member of the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. was withdrawn. All of the aforementioned Resolutions became final and valid on March 14, 2008.

- 4) On June 11, 2008, the Supervisory Board appointed the Management Board of the Company in the VII term in the following composition:
 - ✓ Mr. Jerzy Marciniak – President of the Management Board (Resolution No. 80/VII/2008)
 - ✓ Mr. Witold Szczypiński – Vice President of the Management Board (Resolution No. 81/VII/2008)
 - ✓ Ms. Monika Hap – Member of the Management Board (Resolution No. 82/VII/2008)
 - ✓ Mr. Witold Golemo – Member of the Management Board (Resolution No. 83/VII/2008)
 - ✓ Mr. Franciszek Bernat – Member of the Management Board (Resolution No. 84/VII/2008).

The aforementioned Resolutions became final and valid on June 27, 2008, i.e. on the following day after the Ordinary General Meeting of Members of the Company confirming the Company's financial statements for 2007.

- 5) On July 15, 2008 Mr. Witold Golemo resigned the position of Member of the Management Board, for which reason from July 16, 2008 to March 26, 2009 the Management Board of the Company operated in the following composition:
 - ✓ Mr. Jerzy Marciniak – President of the Management Board
 - ✓ Mr. Witold Szczypiński – Vice President of the Management Board
 - ✓ Ms. Monika Hap – Member of the Management Board
 - ✓ Mr. Franciszek Bernat – Member of the Management Board.

As at December 31, 2008, the composition of the Management Board was as follows:

- ✓ Mr. Jerzy Marciniak – President of the Management Board
- ✓ Mr. Witold Szczypiński – Vice President of the Management Board
- ✓ Ms. Monika Hap – Member of the Management Board
- ✓ Mr. Franciszek Bernat – Member of the Management Board.

- 6) On March 26, 2009, by Resolution No. 138/VII/2009, the Supervisory Board removed Ms. Monika Hap from the Management Board and, by Resolution No. 139/VII/2009, appointed Mr. Andrzej Skolmowski Vice President of the Management Board of the Company.

The current composition of the Management Board as at the date of this report is as follows:

- ✓ Mr. Jerzy Marciniak – President of the Management Board
- ✓ Mr. Witold Szczypiński – Vice President of the Management Board
- ✓ Mr. Andrzej Skolmowski – Vice President of the Management Board
- ✓ Mr. Franciszek Bernat – Member of the Management Board.

SUPERVISORY BOARD

Composition of the Supervisory Board as at January 1, 2008

- ✓ Marek Drąg-Tatoń - Chair
- ✓ Jarosław Wrona – Vice Chair
- ✓ Jan Wais - Secretary
- ✓ Ewa Lis
- ✓ Czesław Łączak
- ✓ Małgorzata Poświata
- ✓ Katarzyna Wałęga

During 2008, the composition of the Supervisory Board changed as follows:

1. On January 14, 2008, under a resolution of the General Meeting of Members, Mr. Krzysztof Pieńkowski (nominated by the employees) was appointed Member of the Supervisory Board.
2. On February 15, 2008, under resolutions of the General Meeting of Members, the following persons were removed from the composition of the Supervisory Board in the VII term:
 - ✓ Marek Drąg-Tatoń
 - ✓ Czesław Łączak
 - ✓ Małgorzata Poświata
 - ✓ Jarosław Wrona,and the following persons were appointed instead:
 - ✓ Wiesław Skwarko (who was at the same time appointed Chairman)
 - ✓ Małgorzata Molas
 - ✓ Mariusz Obszyński
 - ✓ Marzena Piszczek

On that same day, by Resolution of the Supervisory Board No. 36/VII/2008, Secretary of the Supervisory Board Jan Wais was appointed acting Member of the Management Board, which position he duly held until March 14, 2008 (the Resolution of the Supervisory Board No. 52/VII/2008 on withdrawal of the appointment was adopted on March 11, 2008 as effective as of March 14, 2008). During the delegation of Mr. J. Wais to the Company's Management Board, the functions of Secretary of the Supervisory Board were performed by Mr. Krzysztof Pieńkowski.

3. On June 30, 2008, Mariusz Olszyński resigned his membership of the Supervisory Board.
4. On July 31, 2008, by Resolutions of the General Meeting of Members, Mr. Dariusz Maciejuk and Mr. Armin Teske were appointed Members of the Supervisory Board.
5. On September 15, 2008, Wiesław Skwarko resigned his membership of the Supervisory Board.

6. On October 10, 2008, Małgorzata Molas resigned her membership of the Supervisory Board.

On that same day, by Resolutions of the General Meeting of Members of the Company, Ms. Małgorzata Rzążewska and Ms. Joanna Kielkiewicz were appointed Members of the Supervisory Board, and Ms. Marzena Piszczek was appointed Chair of the Supervisory Board.

7. At a meeting of the Supervisory Board on November 12, 2008, the function of Vice Chair was given to Ms. Małgorzata Rzążewska (Resolution of the Supervisory Board No. 113/VII/2008).

As a result of the aforementioned changes, the composition of the Supervisory Board as at December 31, 2008 was as follows:

- ✓ Marzena Piszczek - Chair
- ✓ Małgorzata Rzążewska – Vice Chair
- ✓ Jan Wais - Secretary
- ✓ Joanna Kielkiewicz – Member
- ✓ Ewa Lis – Member
- ✓ Katarzyna Wałęga – Member
- ✓ Dariusz Maciejuk – Member
- ✓ Armin Teske – Member
- ✓ Krzysztof Pieńkowski - Członek

8. On March 4, 2009, by Resolution No. 136/VII/2009, the Supervisory Board delegated Mr. Armin Teske and Ms. Małgorzata Rzążewska to individually perform supervisory functions within the newly appointed Audit Committee.

As at the day of publication of this report, composition of the Supervisory Board remained the same as on December 31, 2008.

LIST OF TABLES

| | | |
|-----------|---|----|
| Table 1 | Companies subject to consolidation..... | 5 |
| Table 2 | Holdings of Zakłady Azotowe w Tarnowie - Mościcach S.A. in minority companies as at December 31, 2008..... | 8 |
| Table 3 | Staff rotation the period from January 1, 2008 to December 31, 2008..... | 10 |
| Table 4 | Employment structure by level of education | 10 |
| Table 5 | Employment structure by length of employment..... | 10 |
| Table 6 | Remuneration of Members of the Supervisory Board on account of positions held with the Company in 2008..... | 11 |
| Table 7 | Remuneration of Members of the Management Board on account of positions held with the Company in 2008..... | 12 |
| Table 8 | Remuneration of persons managing and supervising the Company on account of their membership of the Supervisory Boards of Subsidiaries in 2008 (in PLN thousand) | 12 |
| Table 9 | As at the Prospectus approval date, i.e. May 26, 2008 | 13 |
| Table 10 | As at December 31, 2008..... | 13 |
| Table 11 | As at March 31, 2009..... | 14 |
| Table 12 | Stocks of Zakłady Azotowe w Tarnowie-Mościcach S.A. held by persons acting on behalf of the entities of the Azoty Tarnów Capital Group as at March 31, 2009 | 15 |
| Table 13 | Expenditure on fulfillment of objectives of the issue of stocks, made until December 31, 2008 and financed fully by the date of this report | 16 |
| Tabela 14 | Production by product range..... | 18 |
| Table 15 | Revenues from the sales of products and services by basic product lines | 20 |
| Table 16 | Basic product lines in terms of production volumes..... | 21 |
| Table 17 | Sales of and return on basic product groups | 21 |
| Table 18 | Sales of selected products: | 22 |
| Table 19 | Specification of ZAT deposits with maturity of over 3 months..... | 25 |
| Table 20 | Profit and loss account..... | 38 |
| Table 21 | Cost structure by kind | 39 |
| Table 22 | Cost structure by function..... | 39 |
| Table 23 | Main items under assets | 40 |
| Table 24 | Trade receivables – overdue structure | 41 |
| Table 25 | Main items under liabilities | 41 |
| Table 26 | Liabilities | 42 |
| Table 27 | Ratios for appraisal of business situation..... | 43 |
| Table 28 | Economic value added | 44 |

Capital Group of Zakłady Azotowe w Tarnowie-Mościcach S.A.
Management Report on the activity of the Capital Group for the period of 12 months ending on December 31, 2008

| | | |
|-----------|--|----|
| Table 29 | Statement of the actual and projected results of the Capital Group with degree of realization | 44 |
| Table 30 | The Parent Company's use of credit facilities and loans during 2008..... | 46 |
| Table 31 | Material growth in intangible and tangible fixed assets..... | 48 |
| Table 32 | Projects continued in 2009..... | 50 |
| Table 33 | New projects to be implemented in 2009..... | 51 |
| Table 34 | Loans and credit facilities negotiated in 2008..... | 52 |
| Table 35 | Guarantees obtained by the Parent Company in 2008 | 54 |
| Table 36 | Contingent liabilities of the Parent Company as at December 31, 2007 and December 31, 2008. .. | 54 |
| Table 37 | Contingent liabilities of subsidiaries as at December 31, 2007 and December 31, 2008 | 55 |
| Table 38 | Own bills of exchange issued by the Parent Company by way of guarantee of its liabilities as at December 31, 2008 | 56 |
| Tabela 39 | Guarantees given in 2008 upon order of the Parent Company. | 56 |
| Table 40 | Entities auditing the financial statements of subsidiaries in 2008 | 75 |
| Table 41 | Entities auditing the financial statements of subsidiaries in 2007 | 76 |

This Consolidated Report on the Activity of the Capital Group of Zakłady Azotowe w Tarnowie-Mościcach S.A. for 2008 contains 88 pages.

Signatures of members of the Management Board

/-/ illegible signature

Jerzy Marciniak
President of the Management Board

/-/ illegible signature

Witold Szczypiński
Vice President of the Management Board

/-/ illegible signature

Andrzej Skolmowski
Vice President of the Management Board

/-/ illegible signature

Franciszek Bernat
Member of the Management Board