
Tarnów, 31 March 2009
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1. ABOUT THE GROUP

1.1. Description of the Group

Azoty Tarnów are the Parent of the Group. As at the end of 2009, Zakłady Azotowe w Tarnowie-Mościcach S.A. Group included the Parent – Zakłady Azotowe w Tarnowie-Mościcach S.A. and:

7 Subsidiaries (with the share in capital of more than 50%)
2 associated Companies (with the share in capital from 20% to 50%)

Organizational chart of the Group including entities which are and which are not subject to consolidation as at 31 December 2009

* PKCH Sp. z o.o. – taking up shares on 5 January 2009 (details in item 1.2).
** Regionalne Laboratorium Oceny Mleka Sp. z o.o. – purchase, on 29 July 2009, by JRCH (Subsidiary) of 91.33% of shares of the total nominal value of PLN 590 thousand
*** Tarplast Sp. z o.o. w likwidacji – removed from KRS on 8 February 2010
- disposal of shares on 2 March 2009 (details in item 1.2).

- disposal of shares on 30 November 2009 (details in item 1.2).

- disposal of shares on 29 October 2009 (details in item 1.2).

- Company not being subject to consolidation, affiliated through Subsidiaries
  - all the shares held by the Subsidiaries were sold on 9 October 2009
    (details in pt 1.2)

- disposal of shares on 28 January 2009 (details in item 1.2).

“NAVITRANS” Sp. z o.o. and PKCH Sp. z o.o. are associated entities and are subject to consolidation by the equity method.

The Companies not subject to consolidation are affiliated through Subsidiaries. They are not subject to consolidation due to insignificance.

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

The Parent was entered into the Register of Entrepreneurs of the National Court Register under No. KRS 0000075450 on 28 December 2001 pursuant to a decision of the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register of 28 December 2001.

Scope of activities: manufacturing and selling of chemicals and plastics (PKD [Polish Classification of Business Activities] 2414Z).

**Overview of subsidiaries within Azoty Tarnów Group**

„AUTOMATYKA” Sp. z o.o.

The Company was registered on 7 November 1997. It is based in Tarnów at ul. E. Kwiatkowskiego No. 8. The Company was entered in the National Court Register under No. KRS 0000085959 on 6 February 2002 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register.

Scope of activities: manufacturing of control equipment, monitoring of industry processes, designing and construction of systems, activities connected with mechanical engineering and hardware consulting (PKD 3313Z).
Biuro Projektów Zakładów Azotowych „BIPROZAT – TARNÓW” Sp. z o.o.
The Company was registered on 2 March 1994. It is based in Tarnów at ul. E. Kwiatkowskiego No. 7. The Company was entered in the National Court Register under No. KRS 0000199462 on 12 March 2004 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register.
Scope of activity: designing, preparation of documentation and organisation of supplies of systems and appliances; trade, consulting, IT activities; new technologies (PKD 7420 A).

Jednostka Ratownictwa Chemicznego Sp. z o.o.
The Company was registered on 19 November 1993. It is based in Tarnów at ul. E. Kwiatkowskiego No. 8. The Company was entered in the National Court Register under No. KRS 0000188857 on 29 January 2004 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register. The Company mainly offers services related to environmental protection.
Scope of activities: services in the area 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) as well as production of plastic products (PKD 22.2) – since 24 March 2009.

Przedsiębiorstwo Transportu Kolejowego „KOLTAR” Sp. z o.o.
The Company was registered on 7 December 1999. It is based in Tarnów at ul. E. Kwiatkowskiego No. 8. The Company was entered in the National Court Register under No. KRS 0000206663 on 12 May 2004 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register.
Scope of activities: forwarding services related to the shipment and acceptance of railway consignments; loading and unloading services; cleaning and inspections of cisterns and wagons; trade activities; maintenance of railway lines related to operation of the entity’s railway station (PKD 6010Z)

Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne „ELZAT” Sp. z o.o.
The Company was registered on 2 March 2004. It is based in Tarnów at ul. E. Kwiatkowskiego No. 8. The Company was entered in the National Court Register under No. KRS 0000205643 on 29 April 2004 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register.
Scope of activities: installation of electrical systems, manufacture of mechanical appliances and tools, metal processing, selling of waste materials and scrap, technical tests and analyses, finishing works (PKD 3110)

PROReM Sp. z o.o.
The Company was registered on 14 October 1998. It is based in Tarnów at ul. E. Kwiatkowskiego No. 8. The Company was entered in the National Court Register under No. KRS 0000095916 on 6 March 2002 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register.
Scope of activities: production and services (construction; assembly; sanitary, industrial, electrical, measuring, telecommunications and other systems), repairs and modernisation of specialised components of non-current assets (PKD 2924B)
ZWRI Sp. z o.o.
The Company was registered on 28 December 1993. It is based in Tarnów at ul. E. Kwiatkowskiego No. 8. The Company was entered in the National Court Register under No. KRS 0000074630 on 4 January 2002 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register.

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

„OKNOTAR” Sp. z o.o.
The Company was registered on 20 June 2001. It is based in Tarnów at ul. Chemiczna No. 118. The Company was entered in the National Court Register under No. KRS 0000027977 on 24 July 2002 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register.

Scope of activities: manufacture of plastics for the construction industry, manufacture of joinery and woodwork products for the construction industry, manufacture of metal parts for joinery, warehousing and storage of goods, joinery installation (PKD 2523).

Shares were sold on 2 March 2009 (details in item 1.2)

Wiezat Sp. z o.o.
The Company was registered on 6 October 1988. It is based in Tarnów at ul. E. Kwiatkowskiego No. 8. The Company was entered in the National Court Register under No. KRS 0000130185 on 13 September 2002 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register.

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

Shares were sold on 30 November 2009 (details in item 1.2)

Zakład Budowy Aparatury Chemicznej „ZBACH” Sp. z o.o.
The Company was registered on 15 November 1993. It is based in Tarnów at ul. E. Kwiatkowskiego No. 8. The Company was entered in the National Court Register under No. KRS 0000135985 on 23 October 2002 by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Division of the National Court Register.

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

Shares were sold on 29 October 2009 (details in item 1.2)

Unylon Polymers GmbH
Unylon Polymers GmbH with its registered office in Guben is one of the leading non-integrated Polyamide 6 (PA6) manufacturers in Europe. That company has 5 polymerisation lines with production capacity of up to 47,000 tons of PA6/year.

The shares were acquired on 28 January 2010 (details in item 1.2)
Associated entities

Navitrans Sp. z o. o.
The Company was registered on 29 June 1992. It is based in Gdynia at ul. Świętojańska 18/5. The Company was entered in the National Court Register under No. KRS 0000062936 on 20 November 2001 by the District Court in Gdańsk, 8th Economic Division of the National Court Register.

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

Polskie Konsorcjum Chemiczne Sp. z o.o.
The Company was registered on 23 December 2008. It is based in Warsaw, at ul. Puławska 182. The Company was entered in the National Court Register under No. KRS 0000319998 on 19 February 2009 by the District Court for the Capital City of Warsaw in Warsaw, 13th Economic Division of the National Court Register.

Scope of activities:
- operations of financial holdings (PKD 64.20.Z)
- operations of head offices and holdings, with the exclusion of financial holdings (PKD 70.10.Z), other consulting services within the scope of business operation and management (70.22.Z),
- accounting and bookkeeping activities; tax consultancy (69.20.Z)

The shares were taken up on 5 January 2009 (details in item 1.2).

The Parent also holds shares in 20 minor entities.

Share of the Parent in minority Companies as at 31 December 2009

<table>
<thead>
<tr>
<th>Name of entity</th>
<th>% of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tarnowskie Wodociągi Sp. z o.o.</td>
<td>12.55%</td>
</tr>
<tr>
<td>Tarnowski Klaster Przemysłowy S.A.</td>
<td>0.1077%</td>
</tr>
<tr>
<td>Tarnowska Agencja Rozwoju Regionalnego S.A.</td>
<td>0.05865%</td>
</tr>
<tr>
<td>Wytwórnia Salami „IGLOOMEAT” – Sokółów Sp. z o.o.</td>
<td>0.0197%</td>
</tr>
<tr>
<td>Francusko-Polskie Przedsiębiorstwo Instalacji Przemysłowych „POLSNIC” Sp. z o.o.</td>
<td>2.67%</td>
</tr>
<tr>
<td>Centrum Naukowo - Produkcyjne Materiałów Elektronicznych „CEMAT’70” S.A.</td>
<td>1.24%</td>
</tr>
<tr>
<td>CENTROZAP S.A.</td>
<td>0.01256%</td>
</tr>
<tr>
<td>POLIMEX MOSTOSTAL S.A.</td>
<td>0.052%</td>
</tr>
<tr>
<td>ENERGOAPARATURA S.A.</td>
<td>0.04%</td>
</tr>
<tr>
<td>Sportowa Spółka Akcyjna Unia Tarnów</td>
<td>8.00%</td>
</tr>
<tr>
<td>INWESTSTAR S.A.</td>
<td>0.06%</td>
</tr>
<tr>
<td>Zakłady Włókien Chemicznych „WISTOM” S.A. w Upadłości</td>
<td>9.83%</td>
</tr>
<tr>
<td>Zakłady Tworzyw Sztucznych &quot;PRONIT&quot; S.A. w Upadłości</td>
<td>0.28%</td>
</tr>
<tr>
<td>LEN S.A. w Likwidacji</td>
<td>0.289%</td>
</tr>
<tr>
<td>Tłocznia Metali &quot;PRESSTA&quot; S.A. w Upadłości Likwidacyjnej</td>
<td>0.019%</td>
</tr>
</tbody>
</table>
In the reported period the following changes took place:

  - increasing the share capital by PLN 16 thousand by means of the second issue of registered shares marked by letter “B”, resolution No. 15,
  - abandoning the intention to dissolve the Company and the process of liquidation thereof, resolution No. 17.

Therefore, the current share capital of the Company is PLN 500 thousand, and the share of the Parent decreased from 8.26% to 8%. The aforementioned changes were registered in KRS.

- **Tarnowski Klaster Przemysłowy S.A.** – Minutes of the Extraordinary General Meeting of Shareholders of 25 March 2009 (Notarial Deed Reg. A No. 1748/2009), resolution 5/2009 on increasing the Company’s share capital from PLN 17,296,400 by PLN 10,562,100, i.e. to the amount of PLN 27,858,500 by way of issuing 105,621 new shares series “F” by issuing price of PLN 100. Thus, the share of the Parent in the share capital of the Company decreased from 0.17% to 0.1077%.

- **Chłodnie “Igloopol” Sp. z o.o. w Likwidacji** - on 2 July 2009 removed from KRS.

- **CENTROZAP S.A.** – an increase in the Company’s share capital took place:
  - on 22 October up to PLN 216,158 thousand (shares series O),
  - on 23 November 2009 up to PLN 222,816,157 (shares series P),
  - on 7 December 2009 up to PLN 229,901,684 (shares series R),
  - on 8 January 2010 up to PLN 243,806,575 (shares series S),
  - on 27 January 2010 up to PLN 251,653,445 (shares series T),
  - on 1 March 2010 up to PLN 269,539,962 (shares series U),
  - on 3 March 2010 up to PLN 273,124,891 (shares series W).

Currently, the stake of the Parent in the Company’s share capital is 0.01256% (on the basis of the KRS decision on registration of shares series W).

- **IGLOOMEAT Sokółów Sp. z o.o.** – on 2 February 2010 the Ordinary Shareholders’ Meeting made a decision on the transformation of the company into the joint-stock company (resolution no. 6, Notarial Deed Reg. A No. 648/2010). In relation to the above, the Parent did not make any representation on joining the transformed Company, and at the same time, on 23 February 2010, laid a claim on the payment of the amount corresponding to the shares owned by the Parent, in accordance with the financial statements prepared for the purposes of transformation.

- **Tarnowska Agencja Rozwoju Regionalnego S.A.** – on 27 March 2010, an increase in the Company’s share capital was registered at KRS (based on the resolution of the General Meeting of Shareholders of 19 December 2008), from PLN 16,295 thousand to PLN 17,050 thousand (the current share of the Parent in the Company’s capital is 0.05865%)
1.2. Description of changes in the structure of the Group

Parent joining Polskie Konsorcjum Chemiczne Sp. z.o.o.

On 05.01.2009 – the Extraordinary Shareholders Meeting of Polskie Konsorcjum Chemiczne Sp. z.o.o (Reg. A No. 5/2009) adopted resolution no. 1 on increasing the Company’s share capital from PLN 50,000 to PLN 100,000 through the creation of 1,000 new shares with the nominal value of PLN 50 each (total value of the newly created shares: PLN 50,000).

Following the letter of intent signed on 09.10.2008 in the matter of purchasing the controlling shareholding of Anwil S.A. on 05.01.2009 the Parent joined Polskie Konsorcjum Chemiczne Sp. z.o.o, taking up 500 shares with the value of PLN 50 each for the total amount of PLN 25,000, which constitutes 25% of the Company’s share capital and entitles to 25% votes during the Shareholders’ Meeting of PKCh Sp.z.o.o (Polskie Konsorcjum Chemiczne Sp. z.o.o is therefore an associated entity of the Parent).

Statements of joining PKCh Sp. z.o.o and of taking up shares in the increased capital of the Company were drawn up in the form of notarial deeds.

The ownership structure of this entity with the share capital of PLN 100,000 is as follows: 50% - CIECH S.A., 25% - Azoty Tarnów oraz ZAK S.A. – 25% (Current report no. 1/2009 of 05.01.09.)

On 19.02.09, the District Court of the Capital City of Warsaw, 13th Commercial Division of the National Court Register registered Polskie Konsorcjum Chemiczne Sp. z.o.o under the number of KRS 0000319998. The President of the Management Board of Azoty Tarnów, Mr. Jerzy Marciniak, was appointed a Member of the Management Board of PKCh Sp. z.o.o.

PKCh Sp. z.o.o with its registered office in Warsaw is a special-purpose vehicle created by Ciech S.A. which Azoty Tarnów and Zakłady Kędzierzyn S.A entered on 05.01.2009 according to the Shareholders’ Agreement governing the principles of cooperation in the process of the future purchase of the controlling shareholding in Anwil S.A.

The purchased assets are considered financial assets with a considerable value, since the Parent purchased over 25% of the share capital of the target company. The Parent purchased the aforementioned assets with its own funds.

The sale of the shares of "OKNOTAR" Sp. z.o.o.

After the confirmation of the conditions for the sale of the shares of the OKNOTAR subsidiary, on 02.03.09 the Parent sold 100% of its shares to 14 natural persons. The subject of the transaction was 5,000 equal and indivisible shares with a nominal value of PLN 500 and the total nominal value of PLN 2,500,000. The sale price of the above-mentioned shares amounts to PLN 53 per share which gives a total amount of PLN 265,000, i.e. the carrying value of the shares held.

(The Current report no. 11/2009 of 02.03.09.)

The sale of all the shares of “Tarchem” Sp. z.o.o. by subsidiary companies

On 09.10.2009 subsidiary companies JRCH Sp. z.o.o. and “Elzat” Sp. z.o.o. sold their shares in “Tarchem” Sp. z.o.o. The amount of shares sold: JRCH Sp. z.o.o. – 20, “Elzat” Sp. z.o.o. – 25.

Disposal of shares in a subsidiary company “ZBACH” Sp. z.o.o.

On 29.10.2009 the Parent signed an agreement with PETRO Mechanika S.A., PETRO Eltech Sp. z.o.o. and PETRO Remont Sp. z.o.o. concerning the sale of 100% of shares in a subsidiary company “ZBACH” Sp. z.o.o.
The total amount of the purchase of 107,700 equal and indivisible shares of the total fair value of PLN 100 was PLN 7,850,000.

PETRO Mechanika Sp. z o.o. purchased 35,900 shares with the total value of PLN 2,616,498, PETRO Eltech Sp. z o.o. – 35,900 shares of the total value of PLN 2,616,751, and PETRO Remont – 35,900 shares with the total value of PLN 2,616,751.

Disposal of shares of a subsidiary company “WIEZAT” Sp. z o.o.

On 30.11.2009 the Parent signed an agreement with KAEFER S.A. concerning the sale of 100% of shares of Tarnowskie Przedsiebiorstwo Produkcyjno-Uslugowe “WIEZAT” Sp. z o.o. On the basis of the signed agreement the transfer of the ownership of the shares took place on 01.12.2009. The selling price of the aforementioned shares was PLN 1,700,000.

Purchase of 100% of shares of Unylon Polymers GmbH

On 18.11.2009 the Parent signed a conditional agreement with Unylon AG based in Hamburg concerning the purchase of 100% of shares of Unylon Polymers GmbH based in Guben, Germany (the company’s capital: EUR 9,000,000).

It was arranged that the agreement would enter into force after fulfillment of conditions precedent, among others obtaining the corporation consent of the General Meeting by the Parent concerning the purchase (resolution no. 4 EGMS of Zaklady Azotowe w Tarnowie-Mościcach S.A. dated 15.12.2009, Reg. A No. 515/2009), a consent of corporation bodies of the Seller (resolution of the General Meeting of Unylon AG dated 23.12.2009), a consent of the shareholders’ meeting of creditors of Unylon Polymers GmbH (resolution dated 10.12.2009), recovery plan of Unylon Polymers GmbH becoming final, the reduction of employment level in the company subject to the purchase. The sale agreement entered into force after fulfillment of certain conditions, that is the payment of the total price of purchase (EUR 1,000,000) to the Seller, financing (EUR 3,000,000) and granting a loan (EUR 6,000,000) to Unylon Polymers GmbH.

On 28.01.2010 the Management Board of the Parent received a notarized notification from Berlin, Germany, about fulfillment of the conditions of transfer of 100% of shares of Unylon Polymers GmbH based in Guben (further: Company) according to the conditional agreement, concluded on 18.11.2009. In accordance with the provisions of the aforementioned agreement concluded between the Parent (Buyer) and Unylon AG based in Hamburg (Seller), the Seller sold and transferred its shares in the company for the benefit of the Buyer. On 12.02.2010 in Berlin the General Meeting of Shareholders of the German company, by the resolution of the Owner, changed the name of the company to ATT POLYMERS GmbH, appointed a new Management Board in the company, and Mr. Krzysztof Pieńkowski, a representative of the new owner, was introduced into the Board.

Joining by Unylon Polymers GmbH the Group will enable the German company to become integrated with the manufacturer of caprolactam (CPL). Caprolactam (CPL) is a raw material for the production of Polyamide 6 (PA6).

A consent to purchase 100% of shares of Unylon Polymer GmbH by the Parent was granted by the resolution of the Extraordinary General Meeting on 15.12.2009 and constitutes a fulfillment of the commitments included in the Issue Prospectus of the Buyer, that is increase in manufacturing capacity of Polyamide 6 (PA6).
1.3. Organization or capital relations between the companies within the Group and other entities.

Shareholding of the Companies of the Group in the share capital of other entities

<table>
<thead>
<tr>
<th>AUTOMATYKA Sp. z.o.o.</th>
<th>% of holding in the share capital</th>
<th>Share capital (PLN) (in thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSA “Unia” TARNÓW</td>
<td>0.4%</td>
<td>500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JRCH Sp. z.o.o.</th>
<th>% of holding in the share capital</th>
<th>Share capital (PLN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branżowa Organizacja Odzysku S.A.</td>
<td>10.6%</td>
<td>1,000</td>
</tr>
<tr>
<td>S+R Gazy Sp. z.o.o.</td>
<td>30.0%</td>
<td>50</td>
</tr>
<tr>
<td>EKOTAR Sp. z.o.o.</td>
<td>12.0%</td>
<td>500</td>
</tr>
<tr>
<td>PETROLIA Sp. z.o.o.</td>
<td>24.0%</td>
<td>50</td>
</tr>
<tr>
<td>UNIROLL Sp. z.o.o.</td>
<td>24.0%</td>
<td>50</td>
</tr>
<tr>
<td>Przedsiębiorstwo Innowacyjno Wdrożeniowe UNISIL Sp. z.o.o.</td>
<td>24.4%</td>
<td>54</td>
</tr>
<tr>
<td>Zakłady Mięsne Ostrołęka S.A.</td>
<td>0.02%</td>
<td>31,355</td>
</tr>
<tr>
<td>Regionalne Laboratorium Oceny Mleka Sp. z.o.o.</td>
<td>91.3%</td>
<td>646</td>
</tr>
</tbody>
</table>

*) (549 shares – purchase in accordance with the decision of the District Court in Ostrołęka – based on composition proceedings with creditors – value PLN 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.

<table>
<thead>
<tr>
<th>PROReM Sp. z.o.o.</th>
<th>% of holding in the share capital</th>
<th>Share capital (PLN) (in thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EKOTAR Sp. z.o.o.</td>
<td>12.0%</td>
<td>500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ZWRI Sp. z.o.o.</th>
<th>% of holding in the share capital</th>
<th>Share capital (PLN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNIROLL Sp. z.o.o.</td>
<td>27.0%</td>
<td>50</td>
</tr>
</tbody>
</table>

1.4. Branches (plants) of the Company

The Parent has not any external branches or plants.
1.5. Employment

The average employment within the Group in 2009 amounted to 4,230 persons including:
manual workers: 2,819 persons
office workers: 1,411 persons

Staff rotation in the period from January 1, 2009 to December 31, 2009

<table>
<thead>
<tr>
<th>Specification</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of new employees hired</td>
<td>117</td>
</tr>
<tr>
<td>Number of employees dismissed</td>
<td>343</td>
</tr>
<tr>
<td>Total</td>
<td>460</td>
</tr>
</tbody>
</table>

“WIEZAT” Sp. z.o.o. and „ZBACH” Sp. z.o.o. were included until the day of the sale of shares.

Employment structure by level of education

<table>
<thead>
<tr>
<th>Item</th>
<th>Year</th>
<th>Total employment</th>
<th>Higher</th>
<th>Secondary</th>
<th>Vocational</th>
<th>Elementary</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of employees</td>
<td>2008</td>
<td>4,378</td>
<td>696</td>
<td>1,617</td>
<td>1,769</td>
<td>296</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>4,121</td>
<td>701</td>
<td>1,500</td>
<td>1,662</td>
<td>258</td>
</tr>
</tbody>
</table>

Compared with the previous year, the number of persons with elementary, vocational and secondary education was reduced, while that of persons with higher education went up.

Employment structure by seniority

<table>
<thead>
<tr>
<th>Item</th>
<th>Year</th>
<th>Up to 5 years</th>
<th>6-10 years</th>
<th>11-20 years</th>
<th>Over 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of employees</td>
<td>2008</td>
<td>482 (11.01%)</td>
<td>164 (3.74%)</td>
<td>1,280%</td>
<td>2,452%</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>382 (9.27%)</td>
<td>217 (5.26%)</td>
<td>1,071 (25.99%)</td>
<td>2,451 (59.48%)</td>
</tr>
</tbody>
</table>

Compared with the previous year, the group of employees with the longest (over 20 years) seniority was reduced by one person, and the number of employees with seniority within 11-20 and up to 5 years’ brackets was also reduced. Instead, the number of employees with seniority within the 6-10 years’ bracket grew.

2. GOVERNANCE WITHIN THE GROUP

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

Configuration of the organizational structure of the Parent reflects the divisional and team management structure described in the functional arrangement. There are three functional areas: basic activity, support of managing, and service activity. It enables clear division of functions to be introduced, in accordance with modern principles of designing work organization in large companies. Such a structure enables the Development Strategy adopted by the Parent to be
effectively implemented, and also makes it possible to adapt in a flexible way to changing external conditions.

The basic document defining the internal organization of the Parent is entitled Organizational Regulations. It defines main principles of organization and management, division of competences, rules of supervision and responsibility, and scope of activities of organizational units. Currently, the valid Organizational Regulations were adopted by Resolution No. 98/VII/2008 of the Management Board of the Parent on 27 August 2008, and entered into force by an internal order No. 34/2008 dated 26 August, 2008.

Changes in “Ownership policy – principles of supervision”:
1. Annulment of hitherto valid document and implementation of the new one with the sponsoring principles in the Group. Sponsoring principles were introduced in order to regulate the principles of sponsoring activity and as a basis for preparation of the plans of sponsoring activity by the entities constituting the Group.

The aim of Ownership Policy is adopting uniform procedures of conduct, informing the corporate bodies and participants of capital market, as well as ensuring cohesion and uniformity of periodic reports and criteria for evaluation of the organs of subsidiaries (The Board and Supervisory Board) – Resolution of the Management Board of the Parent in Tarnów-Mościce No. 232/VII/2009 dated 03.06.2009.


3. BODIES OF THE PARENT

3.1. Remuneration and other benefits

Remuneration of Members of the Supervisory Board on account of position held with the Parent for the period of 12 months of 2009 (in thousand of PLN)

<table>
<thead>
<tr>
<th>Full name</th>
<th>Basic remuneration</th>
<th>Benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joanna Kiełkiewicz</td>
<td>40</td>
<td>-</td>
<td>40</td>
</tr>
<tr>
<td>Ewa Lis</td>
<td>40</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Dariusz Maciejuk</td>
<td>40</td>
<td>2</td>
<td>42</td>
</tr>
<tr>
<td>Krzysztof Pierkowski</td>
<td>40</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td>Marzena Piszczek</td>
<td>40</td>
<td>2</td>
<td>42</td>
</tr>
<tr>
<td>Małgorzata Rzążewska</td>
<td>40</td>
<td>2</td>
<td>42</td>
</tr>
<tr>
<td>Armin Teske</td>
<td>40</td>
<td>2</td>
<td>42</td>
</tr>
<tr>
<td>Jan Wais</td>
<td>40</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td>Katarzyna Wałęga</td>
<td>40</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>360</strong></td>
<td><strong>15</strong></td>
<td><strong>375</strong></td>
</tr>
</tbody>
</table>

*) The benefits include refund of the costs of business travel of Members of the Supervisory Board.
Remuneration of Members of the Management Board on account of positions held with the Company in 2009 (in thousand of PLN)

<table>
<thead>
<tr>
<th>Full name</th>
<th>Remuneration</th>
<th>Benefits**</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>159</td>
<td>-</td>
<td>159</td>
</tr>
<tr>
<td>Andrzej Skolmowski</td>
<td>119</td>
<td>-</td>
<td>119</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>155</td>
<td>62</td>
<td>217</td>
</tr>
<tr>
<td>Franciszek Bernat</td>
<td>155</td>
<td>13</td>
<td>168</td>
</tr>
<tr>
<td>Monika Hap</td>
<td>35</td>
<td>118</td>
<td>153</td>
</tr>
</tbody>
</table>

**The benefits included:
- Monika Hap – non-competition, compensation on account of dismissal from the function
- Witold Szczypiński – jubilee reward, annual reward, reward for the Member of the Board
- Franciszek Bernat – annual reward, reward for the Member of the Management Board

Remuneration of persons managing and supervising the Parent on account of their membership in the Supervisory Boards of Subsidiaries in 2009 (in PLN thousand)

<table>
<thead>
<tr>
<th>Full name</th>
<th>Basic remuneration</th>
<th>Other benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>14</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Andrzej Skolmowski</td>
<td>8</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>14</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Franciszek Bernat</td>
<td>27</td>
<td>-</td>
<td>27</td>
</tr>
<tr>
<td>Monika Hap</td>
<td>6</td>
<td>-</td>
<td>6</td>
</tr>
</tbody>
</table>

3.2. Agreements between the Parent and holders of executive positions, providing for compensation in 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 Art. 10, clause 2 (in case of Member of the Management Board elected by the staff – Art. 10, clause 3) include a clause providing for the severance pay of three regular monthly remuneration 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 of 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 Labour Code.

The Company also concluded, with all Members of its Management Board, the agreements on non-competition upon termination of the employment. The agreement provides for payment by the employer to the former employee, of a compensation amounting to 100% of the regular remuneration specified in the original employment contract for the period of 12 months. It ceases to be valid in case of violation of non-competition clause.
4. SHARES AND OTHER SECURITIES OF THE PARENT AND MAJOR SHAREHOLDERS OF THE COMPANY

4.1. The total number and face value of the shares of the Parent, shares held by persons managing and supervising the Parent and such persons’ shares in the Parent’s related entities.

Number and face value of shares

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

Statement of the shares of the Parent held by persons managing the Entity.

<table>
<thead>
<tr>
<th>Management Board</th>
<th>Number of shares/votes as at January 2009</th>
<th>Number of shares/votes as at December 31, 2009</th>
<th>Number of shares/votes as at March 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Witold Szczypiński</td>
<td>390</td>
<td>390</td>
<td>390</td>
</tr>
<tr>
<td>Franciszek Bernat</td>
<td>390</td>
<td>390</td>
<td>390</td>
</tr>
</tbody>
</table>

Statement of the shares of the Parent held by persons supervising the Entity.

<table>
<thead>
<tr>
<th></th>
<th>Number of shares/votes as at January 1, 2009</th>
<th>Number of shares/votes as at December 31, 2009</th>
<th>Number of shares/votes as at March 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan Wais</td>
<td>590</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Krzysztof Pieńkowski</td>
<td>390</td>
<td>730</td>
<td>-</td>
</tr>
</tbody>
</table>

In the period under report, there was a change in the shares held by the supervising persons of the Parent. Mr Jan Wais disposed of 590 shares held by him, and Mr Krzysztof Pieńkowski bought 340 shares of the Company.

On 15.02.2010 Mr. Krzysztof Pieńkowski handed in his resignation as a member of the Supervisory Board, which meant that he ceased to be the person supervising the Parent.

The remaining persons managing and supervising the Company as at the day of the report, i.e. March 31, 2010, were not holders of the shares of the Parent.
4.2. Information of agreements, known to the Parent, that may in the future result in changes in the proportions of holdings of its current share - and bond holders.

In view of the amendment (dated 18.12.2008) of the Commercialization and Privatization Act, and of the principles of purchasing shares from the Ministry of the Treasury by means of the process of consolidation of companies from the power sector (Journal of Laws, Dz. U. No. 13 point 70) the Ministry of Treasury made the shares available to the heirs of the entitled persons, and as a result, the number of shares of the Parent, held by the Treasury, changed. The deadline for signing agreements to take over employees’ shares by their heirs was 12.02.2010, whereas activities connected with formal registration of the aforementioned agreements in the Registry of Issue Sponsor were completed on 16.03.2010.

The structure of shareholding as at March 31, 2010

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of the shareholding capital</th>
<th>Number of votes</th>
<th>% of votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Ministry of the Treasury</td>
<td>1,349,000</td>
<td>3.45%</td>
<td>1,349,000</td>
<td>3.45%</td>
</tr>
<tr>
<td>Nafta Polska S.A. w likwidacji (under liquidation)</td>
<td>19,200,000</td>
<td>49.08%</td>
<td>19,200,000</td>
<td>49.08%</td>
</tr>
<tr>
<td>Ciech S.A.</td>
<td>2,560,000</td>
<td>6.54%</td>
<td>2,560,000</td>
<td>6.54%</td>
</tr>
<tr>
<td>PGNIG S.A.</td>
<td>4,000,001</td>
<td>10.23%</td>
<td>4,000,001</td>
<td>10.23%</td>
</tr>
<tr>
<td>Others</td>
<td>12,007,420</td>
<td>30.70%</td>
<td>12,007,420</td>
<td>30.07%</td>
</tr>
<tr>
<td>Total</td>
<td>39,116,421</td>
<td>100.0%</td>
<td>39,116,421</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

An agreement which may lead to changes in the proportions of shareholding is the agreement according to which the privatization process supervised by Nafta Polska S.A. will be continued, signed on 18.03.2009. An abbreviated content of a multilateral agreement between WSCh companies (including the Parent), Nafta Polska S.A. and its consultants, was included in current report No. 13/2009 dated 19.03.2009. Nafta Polska S.A. w likwidacji informed that on 03.02.2010 it made a decision to let the Parent – PCC SE, negotiate in the process of privatization. Exclusiveness was granted until 22.03.2010. However, the period of negotiations concerning conditions of transaction under the exclusiveness principle was prolonged to 12.04.2010. On 12.04.2010 Nafta Polska S.A. w likwidacji informed in the announcement that it received final offers from PCC SE confirming the conditions proposed by the Prospective Investor. The information about the final decision concerning the further process of privatization of the companies of I Chemical Group is to be announced immediately after it has been taken.

4.3. The system for controlling employees shares programs.

The Company does not operate a system for controlling the employees share programs.
4.4. Own shares held by the Parent, the Companies within the Group, and persons acting on their behalf.

The Companies within the Group do not hold own shares. It concerns persons acting on their behalf, as well.

Shares of the Parent held by persons acting on behalf of the Companies of the Group as at March 31, 2009.

Management Board

<table>
<thead>
<tr>
<th>Name</th>
<th>No. of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sosin, Jerzy - “BIPROZAT” Sp. z o.o.</td>
<td>270</td>
</tr>
<tr>
<td>Lipiński, Jarosław - “ELZAT” Sp. z o.o.</td>
<td>130</td>
</tr>
<tr>
<td>Łabuz, Władysław - “ELZAT” Sp. z o.o.</td>
<td>390</td>
</tr>
<tr>
<td>Oczkowicz, Stanisław - JRCh Sp. z o.o.</td>
<td>70</td>
</tr>
<tr>
<td>Woliński, Jerzy - JRCh Sp. z o.o.</td>
<td>60</td>
</tr>
<tr>
<td>Ciuruś, Andrzej - “KOLTAR” Sp. z o.o.</td>
<td>270</td>
</tr>
<tr>
<td>Kokoszka, Leszek - “PROREM” Sp. z o.o.</td>
<td>90</td>
</tr>
<tr>
<td>Pieńkowski, Krzysztof – UNYLON POLYMERS GmbH, Guben</td>
<td>30</td>
</tr>
</tbody>
</table>

Supervisory Board

<table>
<thead>
<tr>
<th>Name</th>
<th>No. of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernat, Franciszek – Supervisory Board of “AUTOMATYKA” Sp. z o.o.</td>
<td>390</td>
</tr>
<tr>
<td>Kozioł, Wiesław – Supervisory Board of “AUTOMATYKA” Sp. z o.o.</td>
<td>220</td>
</tr>
<tr>
<td>Lach, Wiesław – Supervisory Board of “BIPROZAT” Sp. z o.o.</td>
<td>280</td>
</tr>
<tr>
<td>Szczypiński, Witold – Supervisory Board of “BIPROZAT” Sp. z o.o.</td>
<td>390</td>
</tr>
<tr>
<td></td>
<td>Supervisory Board of ATT POLYMERS GmbH, Guben</td>
</tr>
<tr>
<td>Kozija, Jerzy – Supervisory Board of JRCh Sp. z o.o.</td>
<td>390</td>
</tr>
<tr>
<td>Grajdura, Józef – Supervisory Board of “KOLTAR” Sp. z o.o.</td>
<td>190</td>
</tr>
<tr>
<td>Kucharski, Józef – Supervisory Board of “PROREM” Sp. z o.o.</td>
<td>390</td>
</tr>
<tr>
<td>Kwaśniak, Jan – Supervisory Board of “ZWRI” Sp. z o.o.</td>
<td>780</td>
</tr>
<tr>
<td>Szatko, Jan – Supervisory Board of “ZWRI” Sp. z o.o.</td>
<td>190</td>
</tr>
<tr>
<td>Malec, Małgorzata – UNYLON POLYMERS GmbH, Guben</td>
<td>220</td>
</tr>
</tbody>
</table>
4.5. Utilization of funds generated from the issue of shares.

By the date of a consolidated report for 2009 the Parent utilized its revenues from the Public Offering, investing them in deposit accounts, adjusted to the expected date of the fulfilment of objectives of the issue of shares, in the following manner:

1. to cover the net costs of the offering – PLN 9,298,000
2. to finance a part of the expenditures within fulfilment of the objectives of the issue of shares – PLN 66,953,000, including:
   - for investment tasks within “Optimization of the product portfolio and sales system of nitrogenous fertilizers” – the entire amount planned in the Prospectus, i.e. PLN 38,000,000,
   - for tasks within “Modernization of the caprolactam plant, including installation of a new hydrogen generation plant” - PLN 11,506,000,
   - for “Intensification of production of the Modified Plastics Plant” – PLN 13,660,000,
   - for “Polyamide Plant II” – PLN 3,787,000.

Altogether, expenditures made until December 31, 2009 within the fulfilment of the objectives of the issue of shares were financed from the funds from the Public Offering in the amount of PLN 66,953,000. Moreover, to cover the expenditure generated after the date of the balance sheet until the date of this report, within the fulfilment of the objectives of the issue of shares in order to increase the capacity of polyamide production (Polyamide Plant II), the Parent utilized the funds from the issue in the total amount of PLN 16,057,000 (EUR 4,000,000) for the purchase of shares and capitalization of Unylon Polymers GmbH, carrying out an earlier agreement with Unylon AG, Germany, concerning The Purchase and Transfer of Shares in Unylon Polymers GmbH.

The Parent utilizes the revenues obtained from the issue of shares in accordance with the assumptions of the Issue Prospectus and with the assumptions of annual and long-term plans of activity, which take into account the adjustment of timespan and the range of fulfilment of particular investment tasks in relation to the market situation and strategic objectives of the Parent. Funds which are not utilized and which were obtained from the issue of the Company’s shares designed for further fulfilment of the objectives of the issue of shares, are kept on deposit accounts, whose maturity is adjusted to the planned timespan of investment expenditure.

Expenditure on fulfilment of objectives of the issue of shares, made until December 31, 2009 and financed fully by the date of this report.

<table>
<thead>
<tr>
<th>Task name</th>
<th>Expenditure from July 1, 2008</th>
<th>From credit facility</th>
<th>From own funds other than obtained from the issue of shares</th>
<th>From funds obtained from the issue of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanical fertilizer granulation system 1,200 t/d</td>
<td>32,073</td>
<td>6,291</td>
<td>2,802</td>
<td>22,980</td>
</tr>
<tr>
<td>Modernization of the dolomite-milling plant</td>
<td>4,199</td>
<td>-</td>
<td>1,229</td>
<td>2,970</td>
</tr>
<tr>
<td>Modernization of the fertilizer packaging and forwarding station</td>
<td>13,175</td>
<td>-</td>
<td>1,125</td>
<td>12,050</td>
</tr>
</tbody>
</table>
### Report of the Management Board on the activities of the Group for the period of 12 months ending 31 December 2009

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget 2009</th>
<th>Budget 2008</th>
<th>Budget 2007</th>
<th>Total 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total: tasks financed from the funds within the objectives of the issue of shares</td>
<td>80,239</td>
<td>6,291</td>
<td>6,995</td>
<td>66,953</td>
</tr>
<tr>
<td>Modernization of the caprolactam plant including a new hydrogen generation system</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modernization of the air compression station for the Cyclohexanone Oxidation System within o.K-54</td>
<td>2,419</td>
<td>-</td>
<td>1,240</td>
<td>1,179</td>
</tr>
<tr>
<td>Modernization of process controls within systems of the Cyclohexanone Department</td>
<td>410</td>
<td>-</td>
<td>410</td>
<td>-</td>
</tr>
<tr>
<td>Modernization of the selective phenol hydrogenation system within the Pd catalyst</td>
<td>8,661</td>
<td>-</td>
<td>60</td>
<td>8,601</td>
</tr>
<tr>
<td>Modernization and intensification of production of the Caprolactam Plant up to 101.3 thousand tons a year</td>
<td>1,822</td>
<td>-</td>
<td>96</td>
<td>1,726</td>
</tr>
<tr>
<td>Total</td>
<td>13,312</td>
<td>-</td>
<td>1,806,000</td>
<td>11,506</td>
</tr>
<tr>
<td>Development of the Modified Plastics Plant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intensification of production of the Modified Plastics Plant – stages I+II</td>
<td>13,694</td>
<td>-</td>
<td>34</td>
<td>13,660</td>
</tr>
<tr>
<td>Total</td>
<td>13,694</td>
<td>-</td>
<td>34</td>
<td>13,660</td>
</tr>
<tr>
<td>Polyamide Plant II</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modernization of the Tarnamid warehouse</td>
<td>3,786</td>
<td>-</td>
<td>-</td>
<td>3,786</td>
</tr>
<tr>
<td>Total</td>
<td>3,786</td>
<td>-</td>
<td>-</td>
<td>3,786</td>
</tr>
</tbody>
</table>
5. CHARACTERISTICS OF THE ACTIVITY OF THE GROUP

5.1. Information on core products, goods and services

**Plastics**
The primary domain of the Group is the activity consisting in production, services and trade related to structural plastics and raw materials needed for the synthesis thereof. In addition, the Group provides services as to technical research and consultancy, enabling the optimum selection and utilisation of the properties of plastics.

- **Tarnamid®** - a natural, coloured and modified polyamide (PA 6). Tarnamid® is a high-quality, structural thermoplastic obtained by polycondensation of ε-aminocaprolactam.
- **Tarnoform®** - a natural, coloured and modified acetal copolymer (polyformaldehyde, POM). Tarnoform® is a high-quality, structural thermoplastic obtained by cation polymerisation of trioxane.

**Plastics products**
- Polyamide Coatings - used as packaging for cured meat.
- Polyamide 6, 11, 12 and LDPE tubes, used as pneumatic and hydraulic conduits.

**Chemicals**
An important field of activity of the Group is the production of chemicals for the chemical industry. Those products are further used mainly in the form of raw materials necessary for producing plastics (caprolactam), finished products (e.g. carbon dioxide serves for carbonation of refreshing drinks), as well as used as components supplementing the operation of industrial systems (e.g. liquid ammonia is a refrigerant in refrigeration systems).

**Fertilisers**
The Parent is one of the largest nitrogen fertiliser manufacturers in Poland. The long presence on the market obliges to introduce changes and to continuous improvement. Therefore, since 2009 new fertilisers have been gradually placed on the market, produced in accordance with the most state-of-the-art process solutions.
Since January 2009 the granulated fertiliser, nitro-chalk 27 makro, is available on the market. The parameters of that fertiliser allow to apply it in farms having fertiliser distributors at their disposal, for which it is essential that the product is uniformly granulated and that the fertiliser’s sowing radius is large.
The other products of the new line are as follows:
- nitro-chalk with boron 27+B makro,
- ammonium nitrate 32 makro,
- saletrosan 26 makro.

The Parent produces fertilisers using two types of granulation (prilling and mechanical), therefore the individual types of fertilisers are distinguished between „standard” (prilling – finer and more diversified granulation) and „makro” (mechanical granulation – uniform).
Laboratory services

The provided laboratory services are as follows:

- environmental analyses (physical and chemical analyses of water, sewage, sewage sediments, soils, waste),
- testing of plastics,
- testing of plastic packaging materials,
- physical and chemical analyses of organic and mineral products,
- analyses of foods,
- physical and chemical testing for the purposes of the REACH system.

Other services – distribution of electricity

The Group performs sales of electricity to external recipients as an additional activity.

Production in 2009

The average use of production capacity in the Group amounted to ca 61.4% in 2009.

Production level by assortment

<table>
<thead>
<tr>
<th>Assortment</th>
<th>Production volume 2009 [t]</th>
<th>Production volume 2008 [t]</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formalin</td>
<td>10,570</td>
<td>20,216</td>
<td>52.3</td>
</tr>
<tr>
<td>Polytrioxane</td>
<td>8,681</td>
<td>10,462</td>
<td>81.6</td>
</tr>
<tr>
<td>Natural Tarnamid</td>
<td>38,083</td>
<td>38,186</td>
<td>99.7</td>
</tr>
<tr>
<td>Ammonia in total</td>
<td>179,001</td>
<td>191,158</td>
<td>93.6</td>
</tr>
<tr>
<td>Carbon dioxide</td>
<td>33,277</td>
<td>31,662</td>
<td>105.1</td>
</tr>
<tr>
<td>Concentrated nitric acid</td>
<td>41,590</td>
<td>40,233</td>
<td>103.4</td>
</tr>
<tr>
<td>Mixed acids in total</td>
<td>69,063</td>
<td>70,259</td>
<td>98.3</td>
</tr>
<tr>
<td>Mechanical granulation plant</td>
<td>151,947</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nitro-chalk 27,27B standard</td>
<td>224,442</td>
<td>362,723</td>
<td>61.9</td>
</tr>
<tr>
<td>Caprolactam total*)</td>
<td>88,030</td>
<td>90,740</td>
<td>97.0</td>
</tr>
<tr>
<td>Ammonium sulphate</td>
<td>403,947</td>
<td>398,451</td>
<td>101.4</td>
</tr>
</tbody>
</table>

Average use of production capacity

*) caprolactam, apart from selling, is processed to obtain natural Tarnamid

In 2009 – compared with 2008 – the production of the following increased the most: carbon dioxide by 5.1%, concentrated nitric acid by 3.4%, ammonium sulphate by 1.4%. The greatest decrease, in turn, was observed in the production of formalin by 47.7%, polytrioxane by 18.4%.

The basic reasons of the incomplete use of production capacity in the case of certain systems are as follows:

- ammonia – production results from low production capacity of the preceding element in chain, that is the production of the synthesis mixture in relation with the production capacity of the ammonia plant;
- polytrioxane – production tailored to selling capacities;
- carbon dioxide, mixed acids, formalin, modified tarnamid, coloured tarnoform - production tailored to selling scale;
• nitrogenous-saltpetre fertilisers - production results from the low production capacity of nitric acid in relation to the production capacity of nitro-chalk and concentrated nitric acid.

SALES IN 2009

The total revenue from the sales of products, goods and materials in the Group amounted to PLN 1,214,638 thousand in 2009 and it was lower in terms of current prices than the revenue of 2008 by PLN 153,378 thousand, that is by 11.2%.

The sales of products for export and goods supply within the EU amounted to PLN 635,018 thousand, accounting for 52.3% of the sales volume of products, services, goods and materials (in 2008 that ratio was 54.7%) and was lower – in accordance with current prices – by PLN 104,656 thousand, that is by 14.1% than the export sales in 2008.

Sales revenue structure of the Group in 2009

[Chemicals - 1.0%; Mixed acids - 2.5%; Ammonium sulphate - 15.8%; Nitro-chalk, saletrosan, saltpetre - 22.1%; Plastics - 23.7%; Liquid and crystalline caprolactam - 19.1%; The remaining sales - 15.7%]
## Sales revenues of the Group by core assortment

<table>
<thead>
<tr>
<th></th>
<th>Performance 2009</th>
<th>% share in sales 2009</th>
<th>Performance 2008</th>
<th>% share in sales 2008</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Caprolactam Centre</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caprolactam total*</td>
<td>232,086</td>
<td>19.1</td>
<td>280,939</td>
<td>20.5</td>
<td>82.6</td>
</tr>
<tr>
<td>C-nol rectif. from benzene</td>
<td>5,772</td>
<td>0.5</td>
<td>11,129</td>
<td>0.8</td>
<td>51.9</td>
</tr>
<tr>
<td>Other</td>
<td>1,980</td>
<td>0.2</td>
<td>3,410</td>
<td>0.2</td>
<td>58.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>239,838</td>
<td>19.7</td>
<td>295,478</td>
<td>21.6</td>
<td>81.2</td>
</tr>
<tr>
<td><strong>Plastics Centre</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tarnoform</td>
<td>42,511</td>
<td>3.5</td>
<td>38,986</td>
<td>2.8</td>
<td>109.0</td>
</tr>
<tr>
<td>Natural Tarnamid</td>
<td>204,810</td>
<td>16.9</td>
<td>213,675</td>
<td>15.6</td>
<td>95.9</td>
</tr>
<tr>
<td>Modified plastics</td>
<td>33,847</td>
<td>2.8</td>
<td>35,526</td>
<td>2.6</td>
<td>95.3</td>
</tr>
<tr>
<td>Other</td>
<td>6,923</td>
<td>0.6</td>
<td>49,772</td>
<td>3.6</td>
<td>13.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>288,091</td>
<td>23.7</td>
<td>337,960</td>
<td>24.7</td>
<td>85.2</td>
</tr>
<tr>
<td><strong>Fertiliser Centre</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nitro-chalk 27,+27B</td>
<td>172,102</td>
<td>14.2</td>
<td>274,376</td>
<td>20.1</td>
<td>62.7</td>
</tr>
<tr>
<td>standard</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nitro-chalk 27,+27B makro</td>
<td>50,608</td>
<td>4.2</td>
<td>0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>ammonium makro</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ammonium nitrate makro</td>
<td>43,804</td>
<td>3.6</td>
<td>3,203</td>
<td>0.2</td>
<td>1367.4</td>
</tr>
<tr>
<td>Saletrosan</td>
<td>1,774</td>
<td>0.1</td>
<td>0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Mixed acids overall</td>
<td>30,054</td>
<td>2.5</td>
<td>27,841</td>
<td>2.0</td>
<td>107.9</td>
</tr>
<tr>
<td>CO2</td>
<td>6,940</td>
<td>0.6</td>
<td>6,439</td>
<td>0.5</td>
<td>107.8</td>
</tr>
<tr>
<td>Ammonium sulphate **</td>
<td>192,133</td>
<td>15.8</td>
<td>247,726</td>
<td>18.1</td>
<td>77.6</td>
</tr>
<tr>
<td>Other</td>
<td>15,531</td>
<td>1.3</td>
<td>24,978</td>
<td>1.8</td>
<td>62.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>512,947</td>
<td>42.2</td>
<td>584,564</td>
<td>42.7</td>
<td>87.7</td>
</tr>
<tr>
<td><strong>Heat and Power Station Centre</strong></td>
<td>14,762</td>
<td>1.2</td>
<td>10,614</td>
<td>0.8</td>
<td>139.1</td>
</tr>
<tr>
<td><strong>Electricity and Water Department</strong></td>
<td>5,079</td>
<td>0.4</td>
<td>4,664</td>
<td>0.3</td>
<td>108.9</td>
</tr>
<tr>
<td><strong>Other sales</strong></td>
<td>153,921</td>
<td>12.7</td>
<td>134,736</td>
<td>9.8</td>
<td>114.2</td>
</tr>
<tr>
<td><strong>Total Sales</strong></td>
<td>1,214,638</td>
<td>100.0</td>
<td>1,368,016</td>
<td>100.0</td>
<td>88.8</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>home</td>
<td>580,320</td>
<td>47.8</td>
<td>631,968</td>
<td>46.2</td>
<td>91.8</td>
</tr>
<tr>
<td>export and ISG</td>
<td>634,318</td>
<td>52.2</td>
<td>736,048</td>
<td>53.8</td>
<td>86.2</td>
</tr>
</tbody>
</table>

* caprolactam, apart from selling, is processed to obtain natural Tarnamid.
** ammonium sulphate is transferred from Caprolactam Centre to Fertiliser Centre.
**Sales revenue of Business Centres of the Parent**

![Graph showing sales revenue of Business Centres](image)

[Products and services sales revenue of individual Business Centres; total caprolactam, ammonium sulphate, Tarnoform, natural Tarnamid, modified plastics, nitro-chalk + saltpetre, total mixed acids; accounting year 2009, accounting year 2008]

### Information on core assortment in terms of quantity (tons)

<table>
<thead>
<tr>
<th></th>
<th>Performance 2009</th>
<th>Performance 2008</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Caprolactam Centre</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caprolactam total*</td>
<td>49,835</td>
<td>53,067</td>
<td>93.9</td>
</tr>
<tr>
<td><strong>Plastics Centre</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tarnoform</td>
<td>7,500</td>
<td>7,598</td>
<td>98.7</td>
</tr>
<tr>
<td>Natural Tarnamid</td>
<td>35,970</td>
<td>34,454</td>
<td>104.4</td>
</tr>
<tr>
<td>Modified plastics</td>
<td>4,147</td>
<td>4,283</td>
<td>96.8</td>
</tr>
<tr>
<td>Formalin</td>
<td>238</td>
<td>1,160</td>
<td>20.5</td>
</tr>
<tr>
<td><strong>Fertiliser Centre</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nitro-chalk 27,+27B standard</td>
<td>229,509</td>
<td>352,396</td>
<td>65.1</td>
</tr>
<tr>
<td>Nitro-chalk 27,+27B makro</td>
<td>67,512</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ammonium nitrate AN 32 makro</td>
<td>64,398</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Saletrosan</td>
<td>3,569</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ammonium sulphate AS 21</td>
<td>415,828</td>
<td>383,965</td>
<td>108.3</td>
</tr>
<tr>
<td>Mixed acids total</td>
<td>48,108</td>
<td>46,744</td>
<td>102.9</td>
</tr>
<tr>
<td>CO2</td>
<td>32,930</td>
<td>31,146</td>
<td>105.7</td>
</tr>
</tbody>
</table>

* caprolactam, apart from selling, is processed to obtain natural Tarnamid.
Sales and profitability of core product groups

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2014z</td>
<td>Other basic organic chemicals</td>
<td>241,543</td>
<td>21.6</td>
<td>-2.8</td>
<td>297,073</td>
<td>23.4</td>
<td>1.1</td>
</tr>
<tr>
<td>2015z</td>
<td>Nitrogenous fertilisers and compounds</td>
<td>504,362</td>
<td>45.2</td>
<td>-7.3</td>
<td>566,668</td>
<td>44.7</td>
<td>15.3</td>
</tr>
<tr>
<td>2016z</td>
<td>Plastics in basic forms</td>
<td>281,188</td>
<td>25.3</td>
<td>-1.9</td>
<td>288,790</td>
<td>22.7</td>
<td>17.1</td>
</tr>
<tr>
<td>2013z,</td>
<td></td>
<td>4,390</td>
<td>0.4</td>
<td>-45.3</td>
<td>45,840</td>
<td>3.6</td>
<td>-17.0</td>
</tr>
<tr>
<td>2221z</td>
<td>Other basic product groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*(gross financial result / sales value).

Main products belonging to individual groups:
2014z – caprolactam total,
2015z – nitro-chalk, saltpetre, ammonium sulphate, mixed acids,
2016z – tarnamids, tarnoform,
2013z – production of other mineral chemicals (chlorinated lime, liquid chlorine, hydrochloric acid),
2221z – coatings.

The gross revenue profitability decreased by 6.9 percentage points (from 5.6% in 2008 to -1.3% in 2009).

In 2009 the results of the Group, as a producer of above all structural plastics (polyamides, polyoxymethylene, compounds), caprolactam and polyacetal plastics (POM), were connected with the situation on world markets. During the most part of the year the demand for caprolactam and polyamide on the European market was limited and European and global companies operated without using full production capacities. Many hitherto recipients of liquid caprolactam withheld or reduced their orders. Low demand coupled with higher supply resulted in caprolactam prices on European markets maintaining on a low level.

The above-mentioned situation caused that in Q1 2009 the production of caprolactam was reduced also in the Group; however, already since the third decade of March the caprolactam production volume returned to the pre-crisis level.

The upturn in demand for caprolactam, which began in Q2, was connected with a demand growth on the part of the textile and plastics markets.

In 2009 the anti-dumping customs duty on polyamide introduced by the Chinese government resulted in the upturn in demand for crystalline caprolactam. Thanks to that also the interest in the crystalline caprolactam produced in the Group offered to Asian markets increased. That situation contributed to the changes in demand structure. The unfavourable decline of demand for and prices of crystalline caprolactam in Europe and increased demand for crystalline caprolactam on the part of the Eastern market permitted achieving prices higher than European ones.

Low demand for polyamide 6 maintained for almost 12 months, particularly in the automotive industry. That fact was also reflected in the volume of sold Tarnamid, which was connected with the overall condition, and in particular a great crunch on global markets: decreased demand for plastics in all so-called consumer industries: automotive, household appliances, electrical fittings or construction. Low demand for that type of plastic contributed to a considerable price reduction. That trend maintained virtually until the end of 2009.
5.2. Information on markets and sources of supply with materials for production, with goods and services

**Markets**

The products of the Group are sold mainly to the European Union countries, in particular to Germany, Slovakia, Belgium and Slovenia. Export to South America embraces mainly fertilisers, and export to Asia - plastics.

The sale of saltpetre fertilisers was directed mainly to the domestic market. Foreign markets constituted a supplement for the sales of the nitro-chalks and ammonium nitrate produced in 2009. Ammonium sulphate was sold in 2009 to 18 markets, of which 12 were European markets. The most sulphate was directed to the South America, European Union and Middle East markets.

**Export directions divided into regions in 2009**

![Chart showing export directions](image)

[South America 6%; Africa 2%; North America 0.13%; Australia 0.019%; Rest of Europe 2%; Asia 28%; European Union 62%]

There were no entities among the recipients of the Group, whose share in 2009 accounted for 10% of the revenue in total.

The other Companies of the Group provide their services mainly on the domestic market, and the main recipient is the Parent.

**Sources of supply with materials for production, and with goods and services**

The Group provides itself with materials for production as well as with goods and services to a considerable extent in Poland. A significant part of import from the European Union embraces above all phenol, and from the other countries - ammonia.
Directions of origin of goods and materials in 2009

[Other European Union countries 17%; Other countries 10%; Poland 73%]

SUPPLY WITH STRATEGIC RAW MATERIALS

Natural gas

The sole natural gas supplier for the Parent in 2009 was PGNiG S.A. The supply of commercial gas as well as gas from local sources was carried out based on long-term agreements. Gas prices were established based on the tariff approved by the Chairman of the Energy Regulatory Office. The price gas changed in 2009 in the wake of the change of the gas tariff (the sole gas price change in 2009 took place in June).

Electricity

In 2009 the Parent took advantage of the TPA principle and divided the then valid umbrella agreement on purchase of electricity. Electricity was purchased under two agreements - agreement on sales of electricity and agreement on purchase of distribution services with the Distribution System Operator relevant for the Parent. The selection of the new vendor permitted reducing the electricity price rise in relation to the offer of the umbrella vendor. The following contributed to the increase in the purchase electricity price: producers’ price increase, change of power specified in agreement, percentage increase in share of renewable and cogenerated energy in the purchase portfolio of the end recipient.

Power coal

Power coal was supplied by two large domestic companies, whose delivery volumes accounted to 90% and 10% (in proportion). Supplied were carried out in accordance with annexes to existing agreements. Coal prices were established as a result of negotiations. The following were the reasons for the increase in coal price: producer’s price increase, change in coal quality.
Ammonia

The strategy of purchase of ammonia for the Group in 2009 was based on supplies mainly from two directions. The first one was the purchase on the domestic market (Zakłady Azotowe Kędzierzyn S.A., ANWIL S.A. Włocławek), the other one was the import from Eastern European countries (Ukraine, Russia, Belarus). The supply structure depended on the situation on the market, in particular in terms of ammonia availability and price levels in the given period; for the purpose of timely supplies and continuity of production the share of supplies from domestic producers amounted to ca 20-25% of the entire supply volume (the relatively low share of domestic sources was caused by the possibility to increase the purchase volume from cheaper Eastern sources).

The remaining part was accounted for by supplies from Eastern sources, which contributed to the optimisation of purchase costs (those supplies are partially carried out with use of own rolling stock, which minimises risk of delayed ammonia supplies).

In the case of domestic suppliers, purchase was executed in accordance with yearly agreements, the commercial terms were established pursuant to price formulas based on gas price (in accordance with the tariff).

Supplies from the Eastern Europe market were carried out mainly pursuant to yearly purchase agreements, and prices were established for month periods, which enabled optimising purchase costs and the supply structure. Prices of ammonia from Eastern sources in 2009 were competitive in relation to domestic sources, which allowed considerable reduction of purchase costs of that raw material.

Benzene

Supplies of benzene, aiming at optimising the purchase process and ensuring security of those supplies, were carried out mainly from domestic sources and from the Central and Eastern Europe region (e.g. a new contract for direct regular supplies was concluded with the leading Central and Eastern European producer). The supplies were carried out mainly pursuant to long-term and yearly purchase agreements, and the prices were established based on price formulas. In addition, the logistics of benzene supplies was optimised, which positively affected the security and timeliness of supplies, also with use of own rolling stock. The unstable supply/demand situation on the benzene market in 2009 had an adverse impact on prices, including also phenol prices, which are entirely dependent on benzene prices (in 2009 periodical considerable price fluctuations were observed, which were not directly reflected in the current market condition, e.g. on the markets of benzene-based products, e.g. plastics).

Benzene prices in Q1 2009 were at a relatively low level under (280 EUR/t), which contributed to periodical supply limitations and, as a result, production limitations of the largest manufacturers. A consequence of the situation prevailing at the beginning of 2009, beginning at Q2 of the previous year, was regular, monthly price increases up to over 650 EUR/t, which in turn resulted in a demand barrier on the part of benzene recipients, in particular at the end of Q3 2009. Thus, in Q4 2009 prices dropped to the level of ca 550 EUR/t, which stabilised the supply/demand situation to a certain extent.

The agreements on benzene supplies concluded by the company ensured timely securing of supplies of that raw material, with ensuring optimum commercial terms (using options of purchase, selecting the optimum logistics option, diversifying purchase sources, controlling the raw material stock in relation to the current market condition).

Phenol

In order to optimise the purchase process and to ensure security of supplies, phenol was purchased from several primary sources, including leading global manufacturers. In addition, actions were taken to purchase on the Russian market, however - due to strong home demand on the Russian
market - the level of offered prices was not competitive compared with offers on the domestic market and Western Europe manufacturers.
The supplies were carried out mainly pursuant to long-term and yearly purchase agreements, and the prices were established based on price formulas (based on global benzene quotations), which guaranteed securing the production and the stability of supplies in a difficult market condition.
The market condition, similarly as with benzene, was very unstable (both in terms of the offered prices and of the supply volume of that raw material), but in the case of phenol - due to very high concentration of the market - greater supply/demand fluctuations were observed than in the case of benzene. Several most important producers temporarily reduced the production volume (mainly due to incomplete provision with raw materials), which further contributed to the deterioration of the market condition. The average degree of production capacity usage of the most significant manufacturers was lower compared with the previous years, which led to temporary reductions of supply. In 2009 prices on the phenol market fluctuated analogously to those of benzene, that is: in Q1 2009 average phenol prices were close to 530-550 EUR/t, in Q2 and Q3 rises up to even ca 900 EUR/t were observed, which resulted in weakened demand and decrease to the level of ca 760-790 EUR/t in the last months of the previous year.
The agreements on phenol supplies concluded by the company guaranteed timely supplies of that raw material with ensuring optimum commercial terms (using options of purchase, selecting logistics options, optimising the most favourable purchase sources in terms of trade - applicable to domestic supplies, controlling the raw material stock, using own rolling stock).
The largest supplier, whose supply value amounted to 15.7% of sales revenue in 2009, is Polskie Górnictwo Naftowe i Gazownictwo S.A., which is a shareholder of the Parent, owning 4,000,001 shares.
No significant external suppliers cooperate with the remaining Companies of the Group.

5.3. Main domestic and foreign investments of the Group

The total investment expenses incurred by the Controlling Entity in 2009 amounted to PLN 65,327 thousand, including the investment stocks balance amounted to PLN 7,588 thousand.

In 2009 the Parent completed the largest investment undertaking in the last years - the construction of a Fertiliser mechanical granulation plant. Due to the use of synergy from the production of caprolactam and saltpetre fertilisers, the Fertiliser mechanical granulation plant project 1200 t/d will allow to strengthen the competitive position of the Company in the fertiliser sector as a result of the expansion of the assortment and the improvement of product quality. Moreover, it will improve the cost position in the caprolactam sector by increasing the value of ammonium sulphate sold in the form of ammonium nitrate sulphate. Launching the mechanical granulation plant 1200 t/d will also permit developing the export sales of fertilisers.

In addition, the following were the most important carried out investments included in the group of continued tasks:

- upgrade of potassium wash station Benfield in V RM plant,
- upgrade of A1 refrigeration system,
- upgrade of dolomite milling plant,
- upgrade of fertiliser packaging and dispatch station,
- upgrade of air compression station,
- intensification of the Modified Plastics Production Plan - stage I+II,
- incorporation of heat and energy metering,
- upgrade of selective phenol hydrogenation plant on Pd catalyst,
- upgrade and intensification of the Caprolactam Production Plant to 101,300 t/r - Technical Project,
- implementation of ERP-class integrated management system in the Parent.
The new important investment tasks, whose execution commenced in 2009, included the following:

- the construction the new gas-gas exchanger (E9) in the KDC plant,
- the upgrade of the power supply of main power supply points (GPZ) in the Parent.

In 2010 the most important new investment will be related to the improvement of the competitive position in the domain areas of the Parent, and to the accomplishment of issue goals. The largest new tasks will be the construction of the new Hydrogen Plant and the purchase of 100% shares in Unylon Polymers GmbH - the German polyamide 6 manufacturer (point 1.2) - performed already in Q1 2010.

In connection with the necessity to adapt the production installations to the applicable legal requirements, in 2010 a significant group of tasks will include investments related to the adaptation of unloading and loading stations in the Parent to the requirements of the Transportation Technical Supervision (TDT).

The remaining Companies of the Group are not implementing any important investments from the perspective of the Parent.

5.4. Main capital investments of the Group implemented outside the related entities group

Finances obtained from the share issue were initially deposited on diversified deposits in selected banks, with periods gradually maturing - up to 18 months - adjusted to the anticipated use for financing investment tasks as part of the accomplishment of issue goals.

As of 31 December 2009, the fixed-term deposits based on funds obtained from the share issue amounted to PLN 210 m, including PLN 50 m on a deposit with term of over 1 year, PLN 130 m on deposits with term of 3 to 6 months, and PLN 30 m on a deposit with term below 3 month. As of 31 December 2009, all fixed-term deposits were to be mature within 3 months, therefore all were disclosed in the financial statement in item “cash and equivalents thereof”.

**Summary of deposits of the Group based on funds obtained from the issue - as of 31 December 2009**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount (PLN thousand)</th>
<th>Deposit opening date</th>
<th>Deposit maturity date</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIG Bank Polska S.A.</td>
<td>50,000</td>
<td>2008-07-28</td>
<td>2010-01-28</td>
</tr>
<tr>
<td>AIG Bank Polska S.A.</td>
<td>23,360</td>
<td>2009-07-29</td>
<td>2010-01-29</td>
</tr>
<tr>
<td>BGŻ S.A.</td>
<td>66,640</td>
<td>2009-07-28</td>
<td>2010-01-28</td>
</tr>
<tr>
<td>PKO BP</td>
<td>40,000</td>
<td>2009-07-27</td>
<td>2010-01-29</td>
</tr>
<tr>
<td>BOŚ S.A.</td>
<td>214</td>
<td>2007-04-25</td>
<td>indefinite term</td>
</tr>
<tr>
<td>Bank Śląski S.A.</td>
<td>127</td>
<td>2008-05-20</td>
<td>indefinite term</td>
</tr>
<tr>
<td><strong>Deposits with initial term of over 3 months in total</strong></td>
<td><strong>180,341</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Raiffeisen Bank Polska S.A.</td>
<td>30,000</td>
<td>2009-12-31</td>
<td>2010-01-29</td>
</tr>
<tr>
<td><strong>Deposits with initial term of below 3 months in total</strong></td>
<td><strong>30,000</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total amount of deposited funds</strong></td>
<td><strong>210,341</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

The Parent achieved financial revenue in virtue of the charged interest from fixed-term deposits based on funds from Public Offer the amount of PLN 14,974 thousand in 2009 (while PLN 14,073 thousand were paid out in that period).
**Azoty Tarnów joins Polskie Konsorcjum Chemiczne Sp. z o.o.**
Detailed information is presented in point 1.2.

**Acquisition of 100% shares of Unylon Polymers GmbH**
Detailed information is presented in point 1.2.

### 5.5. Deposits and capital investments within the Group

The following events occurred as part of capital investments in the Group:

- Transferring tarflen processing from the Parent to Jednostka Ratownictwa Chemicznego Sp. z o.o. (subsidiary). Therefore, the articles of association of Jednostka Ratownictwa Chemicznego Sp. z o.o. were changed and its share capital increased.
  
  Upon obtaining corporate consents (resolution of the Supervisory Board NO. 134/VII/2009 of 4 March 2009), an Extraordinary Meeting of Shareholders of Jednostka Ratownictwa Chemicznego Sp. z o.o. took place 24 March 2009 (Notarial deed Rep. A No. 2929/2009), at which the articles of the association of that Company were changed by expanding the object of activity by production of plastics products (PKD 22.2) and increasing the share capital of that Company from the then current amount of PLN 14,020 thousand by PLN 1,925,500 by forming 3,851 new shares with nominal value of PLN 500 per share (from the then current number of shares amounting to 28,040 shares to 31,891 shares). Upon increasing the Company’s capital amounts to PLN 15,945,500. All new formed shares in the increased share capital were subscribed for by the Parent.

- Increasing the share capital of the Subsidiary JRCH Sp. z o.o.
  
  
  The capital was increased by forming 7,863 shares with nominal value of PLN 500 each. All new formed shares were subscribed for the Parent and covered: in kind in the form of movables being non-current assets, highly valuable materials and non-durable objects, and with cash amounting to PLN 2,006 thousand.
  
  Those changes were registered by NCR on 31 December 2009.

No capital investments are formed within the Group.

### 5.6. Significant agreements

**Azoty Tarnów joins Polskie Konsorcjum Chemiczne Sp. z o.o.**
Detailed information is presented in point 1.2.

**Annex to the agreement on long-term sulphur supplies**

On 5 January 2009 the Annex no. 15 was signed to the Agreement no. 1/2001 with Kopalnie i Zakłady Chemiczne Siarki “Siarkopol” with its registered office in Grzybów, concluded on 30 July 2001. The signed annex to the above-mentioned agreement superseded the hitherto binding annex no. 14 signed on 1 July 2008.

The Annex no. 15 to the agreement provides for an adjustment of sulphur prices and the term of agreement (January – March 2009) in relation to the provisions of the hitherto binding annex. The other provisions of the agreement no. 1/2001 remained unchanged.
Due to the change of the terms and conditions of the agreement, the total value of turnover between the Parties together with the estimated value as per the foregoing agreement was changed and the agreement does not meet the criteria of a significant agreement.

(Current report no. 9/2009 of 6 February 2009).

**Annex to agreement concluded with Kompania Węglowa S.A.**

On 22 January 2009 the Annex no. 4 was signed to the Agreement no. 70/KW/W/2007 of 8 February 2007 concluded by and between the Parent and Kompania Węglowa S.A. with its registered office in Katowice.

The Annex to the relevant agreement concerns the sales of power coal by Kompania Węglowa S.A. for the Parent in 2009 in accordance with the established schedule and commercial terms. The estimated value of the Annex no. 4 during the term of agreement amounts to ca PLN 89 m net.

The Parties to the said Annex provide for applying contractual indemnity amounting to 3% of the value of the not delivered or not received coal. The remaining terms and conditions do not depart from the market standards applied in agreements of such type.

(Current report no. 7/2009 of 3 February 2009).

**Disposing of shares of a subsidiary**

On 2 March 2009 the Parent disposed of 100% shares of the subsidiary “Oknotar” Sp. z o.o. for 14 natural persons. The subject of the transaction was 5,000 equal and indivisible shares with nominal value of PLN 500 and total nominal value of PLN 2,500 thousand. The selling price of the said shares amounted to PLN 53 per share, which amounts to PLN 265 thousand in total being the balance sheet value of the owned shares.


**Turnover with PKN Orlen S.A. with value of significant agreement – signing an annex**

On 6 April 2009 the Annex no. 5 signed on 27 December 2008 to the Agreement no. 2005/UZS/10 (concluded on 19 November 2004), concluded by and between the Parent and Polski Koncern Naftowy Orlen S.A. with its registered in Płock, was received in the registered office of the Parent.

The Annex no. 5 to the relevant agreement concerns the sales of the following raw materials: phenol, benzene and liquid sulphur by PKN Orlen S.A. for the Parent in 2009 in accordance with the established schedule and commercial terms. The estimated value of the Annex no. 5 during the term of agreement amounts to ca PLN 49 m net.

The framework agreement no. 2005/UZS/10 does not provide for charging contractual indemnity amounting to over 10% of the value of the agreement or the equivalent of the amount of 200,000 EUR denominated in PLN in accordance with the average NBP exchange rate as of the date of conclusion of the agreement, with the Parties reserving the right to claim damages on general principles, exceeding the amount of the charged contractual indemnity.

The terms and conditions of the concluded annex do not provide for additional contractual indemnity.

The remaining terms and conditions do not depart from the market standards applied in agreements of such type.

The agreement together with the annexes were acknowledged as significant due to the fact that the value of turnover between the Group and the PKN Orlen S.A. Group, together with the estimated value which results from the Annex no. 5, exceeded 10% of the Issuer equities and is estimated to amount to ca PLN 154 m net.

(Current report no. 16/2009 of 7 April 2009).
**Significant agreement on the reduction of emission of nitrogen monoxide from the nitric acid plant for the years 2008 – 2012**

On 1 June 2009 the Management Board of the Parent received information from the Japanese company, Mitsubishi Corporation (hereinafter referred to as: MC), on the conclusion of agreement on the sales of Emission Reduction Units ERU (“ERPA” agreement) by and between MC and an end-purchaser. The selling terms and conditions stipulated in the relevant agreement were approved by the Parent.

The agreement came into effect as of 1 June 2009. Pursuant to the relevant ERPA agreement, the Parent shall in concert with Mitsubishi Corporation sell the entire ERU volume generated in years 2008-2012. The estimated revenue of the Parent in virtue thereof should amount to ca PLN 135 m as of the day of the conclusion of the agreement.

(Current report no. 20/2009 of 2 June 2009).

**Turnover with PGNiG S.A. with value of significant agreement**

The total value of commercial turnover between the Parent and Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG S.A.) Group in the period between 19 December 2008 and 9 November 2009 reached the value of PLN 151.1 m net. That value exceeds 10% of the equity of the Parent, which meets the criterion to acknowledge the turnover amount as a significant value.

(Current report no. 31/2009 of 9 November 2009).

**Agreements on insuring the Company’s receivables**

The policy of risk insurance of a trade credit with the option of collection of receivables was concluded with the insurance company Towarzystwo Ubezpieczeniowe Euler Hermes S.A. on 17 March 2009 r. for the period between 1 March 2009 and 28 February 2010.

The subject of the policy is the insurance of trade credits, which means ensuring the payment of damages in the case a payment for the sold goods or services is not received as a result of a client’s actual or legally confirmed bankruptcy.

**Agreement on insuring marketing expenses of subsidiary**

Under the agreement of 26 May 2008 with KUKE Korporacja Ubezpieczeń Kredytów Eksportowych S.A., “Prorem” Sp. z o.o. obtained insurance of marketing expenses on the French market. The insurance guarantees the return of marketing expenses amounting to 65% of the incurred costs within the period of 4 years, maximally up to the mount of 1 m EUR (that is PLN 3,354,200 at the average NBP exchange rate of PLN 3.3542 as of 30 June 2008).

**SIGNIFICANT AGREEMENTS AFTER THE BALANCE SHEET DAY**

**Signing annex with PKN Orlen S.A. with value of significant agreement**

On 23 February 2010 the Annex no. 6 (dated 21 December 2009) to the Agreement no. 2005/UZS/10 (concluded on 19 November 2004) concluded by and between the Parent and Polski Koncern Naftowy Orlen S.A. with its registered office in Płock (the Seller) was concluded by persons authorised to represent the Parent. The Annex no. 6 to the relevant agreement concerns the sales of the following raw materials: phenol, benzene and liquid sulphur by PKN Orlen S.A. for the Parent in 2010 in accordance with the established schedule and commercial terms. The estimated value of the said Annex during the term of agreement amounts to ca PLN 140 m net.
The framework agreement no. 2005/UZS/10 does not provide for charging contractual indemnity amounting to over 10% of the value of the agreement or to the equivalent of EUR 200,000 denominated in PLN at the average NBP exchange rate as of the date of the conclusion of the agreement, with the Parties reserving the right to claim damages on general principles, exceeding the amount of the charged contractual indemnity. The terms and conditions of the concluded annex do not provide for additional contractual indemnity. The other terms and conditions of the annex do not depart from the market standards applied in agreements of such type, in particular with respect to restricting suspending and terminating terms or deadlines.

The signed annex meets the criterion of a significant agreement, that is its estimated value of PLN 140 m exceeds 10% of equity of the Parent.


**AGREEMENTS RELEVANT FROM THE BUSINESS POINT OF VIEW:**

- Contract of mandate of 16 February 2009 concluded by and between the Parent and Spółka Doradztwa Gospodarczego DGA S.A.;
- Agreement of 16 March 2009 concluded by and between the Parent and Deloitte Audyt Sp. z o.o. on review of the strategy of security and portfolio of derivative transactions;
- Agreement of 18 March 2009 together with 4 annexes concluded by and between Nafta Polska S.A., ZAK Kędzierzyn, Ciech S.A., Raiffeisen Investment AG, Raiffeisen Investment Polska Sp. z o.o. and the Parent on conducting the process of winning an investor, (Current report no. 13/2009 of 19.03.2009);
- Agreement of 29 May 2009 on providing support services related to the SAP system concluded by and between the Parent and S&T Services Polska Sp. z o.o.;
- Agreement of 17 August 2009 concluded by and between the Parent, Nafta Polska S.A. and Deloitte Advisory Sp. z o.o. for the construction of VDD;
- Agreement of 29 October 2009 on the sales of shares of ZBACH Sp. z o.o., concluded by and between the Parent and Petro Mechanika S.A.;
- Agreement of 25 November 2009 concluded by and between the Parent and Hewlett-Packard Polska Sp. z o.o. on IT outsourcing services;
- Agreement of 30 November 2009 on the sales of shares of WIEZAT Sp. z o.o., concluded by and between the Parent and KAEFER S.A.

5.7. Relevant transactions with related entities

In 2009, the Azoty Tarnów Group did not conclude any transactions with related entities on terms and conditions other than market terms and conditions.

5.8. Primary achievements in research and development

The research conducted in 2009 was connected with the execution of strategic goals adopted by the Group. The major part of the funds was earmarked for the performance of subjects related to the fields of production of structural plastics, caprolactam and saltpetre fertilisers, located in the core of the Parent. In addition, works aiming at further product diversification of the Group were conducted.

In the area of structural plastics, the conducted works were related to further development of production technologies of POM, and to new variations of modified structural plastics.
The effect of the “Research for obtaining Tarnoform with small tendency to form sediments on injection moulds” conducted as part of own research is the developed plastic, Tarnoform – Low - Deposit, which was awarded a distinction of the XII International Fair of Plastics Processing PLASTPOL 2009 in Kielce.

For developing a polyamide plastic named Tarnamid T-30 MHLS for stadium seats as a result of own research, on 27 November 2009 the Parent was awarded an European Medal in a nation-wide contest organised by the Office of the Committee for European Integration BCC and the European Economic and Social Committee. Tarnamid T-30 MHLS is a modern plastic based on polyamide 6, adapted for the needs of investments related to the construction of stadiums for Euro 2012. It serves for constructing stadium seats resistant to sunrays and high temperature. It may also be applied in other economy sectors.

In the area of caprolactam the works were devoted to further optimisation of the caprolactam production process in terms of reducing production costs, and to the adaptation of the Caprolactam Production Plant to environmental requirements.

In the fertiliser area the works were devoted to further intensification of fertiliser production. In 2009 the construction of the Fertiliser mechanical granulation plant was completed, being one of the primary investment goals of the Group in the fertiliser area. The granulation plant is the largest investment undertaking executed by the Group in the last few years. The new plant with capacity of 1200 t/d enables producing mineral fertilisers of stable, uniform granulation, which is currently one of the key parameters required on the global mineral fertiliser market. The project will enable strengthening the competitive position of the Group in the fertiliser sector as a result of the expansion of assortment and improvement of product quality, and developing the export sales of fertilisers.

In May 2009 a new type of fertiliser was introduced to the market – ammonium nitrate “32 makro” of quick and effective action, useful for virtually all crops.

JRCH Sp. z o.o. (subsidiary) continued the application of the results of the research titled “Utilisation of rocket fuel oxidant” in the reporting period – by concluding an agreement with the Military Property Agency for the utilisation of 980 tons of oxidant of rocket fuel stored in Poland. Moreover, the achievements in research and development made by JRCH Sp. z o. include the following:

- launching the production of tarflen products - technology adopted from the Parent,
- launching the packaging and sales of liquid chlorine,
- launching the packaging of reagents.

**Protection of industrial property**


2. An industrial design in the form of an advertisement character “Granula Spryciula” was submitted for protection.

3. The Polish Patent Office granted the protection right for the following trademarks:
   - verbal mark “AZOTY Tarnów”, submission no. Z-337724,
   - verbal and graphical mark “AZOTY Tarnów”, submission no. Z-33772,
   - graphical mark (in the form of a styled swallow), submission no. Z-33778.

4. The Polish Patent Office forwarded protection certificates for the following trademarks to the Parent: R-218585, verbal and graphical mark “Azoty Tarnów” and R-218584 verbal mark “Azoty Tarnów” and a protection certificate for the graphical mark logo, registration no. R-220533.
5. The Chinese Patent Office confirmed the expiration of the patent granted for BASF, concerning the method of production of trioxane (patent no. ZL 03811236.1).

6. The Parent submitted the following trademarks for protection:

   - **verbal and graphical marks for fertiliser products:**
     - Tarnów saletra amonowa AN 32 \[Z-353025\] 06.03.2009 class 1,
     - Tarnów saletrzak CAN 27 \[Z-351928\] 11.02.2009 class 1,
     - Tarnów siarczan amonu AS 21 \[Z-351927\] 11.02.2009 class 1,
     - Tarnów saleetrosan ASN 26 \[Z-351929\] 11.02.2009 class 1,
     - Tarnów saletrzak z borem CAN 27 + B \[Z-351931\] 11.02.2009 class 1,

   - **verbal marks for fertiliser products:**
     - Saletrosan \[Z-351930\] 11.02.2009 class 1,
     - Granula Spryciula \[Z-353471\] 18.03.2009 class 1,

   - **graphical marks for fertiliser products:**
     - Granula \[Z-353472\] 18.03.2009 class 1,

   - **verbal marks for plastics:**
     - TARNOPROP \[Z-352238\] 18.02.2009 class 1,
     - TARNAMID A \[Z-352236\] 18.02.2009 class 1,
     - TARNODUR A \[Z-352237\] 18.02.2009 class 1.

**Actions related to management system**

Actions performed for the purpose of increasing the goodwill are effectively supported by the use of the implemented management systems, based on international standards. In 2009 the Parent received a certificate confirming that the quality management system requirements are fulfilled in accordance with the new ISO 9001:2008 standard (certificate valid until 30 June 2012). The implemented quality management system is oriented on enhancing customer’s satisfaction by fulfilling its requirements and expectations. Based on the established policy, actions aiming at execution thereof are planned and such conditions are worked out that permit implementing actions necessary in the quality management system, as well as checking the effects of the implemented actions. Actions aiming at improving the adopted management system are taken based on periodical evaluation of the achieved results.

The environmental management system implemented in the Parent is compliant with the ISO 14001: 2004 standard and supports actions related to the environmental protection and prevention of pollution (certificate valid until 14 June 2011). Environmental impacts are identified in the Parent, and those significant are supervised. The adopted supervision criteria permit transparent monitoring and evaluating the effectiveness of individual processes which affect the environment. The appraisal of compliance with relevant legal and other requirements is being performed on an ongoing basis.

Apart from the quality management system and the environmental management system, the Parent maintains an HACCP food safety system in selected plants, and the system installed in potable water system is certified (certificate valid until 21 October 2011).

Since 1994 the Parent has been carrying out the “Responsibility and Care” scheme – being a voluntary undertaking of chemical industry companies to activity ensuring the observance of the principles of eco-ethics, the improvement of work conditions, the increase in plant operation safety and continuous contact with the environment. In 2009 a system compliant with the requirements of the Responsible Care Framework Management System was implemented pursuant to the CEFIC (European Chemical Industry Council) guidelines, confirmed by a certificate (certificate valid until 31 December 2012).
The effectiveness of operation of management systems and the possibility of improvement thereof is being investigated during internal audits planned in all organisational units with frequency depending on their significance and the results of previous evaluations.

The implemented systems are continually developed, improved and regularly subject to competent evaluation, which was confirmed by positive results of external audits.

Management reviews are conducted twice a year (the last one took place on 14 December 2009). As a result of the conducted management reviews, the effectiveness of the implemented management systems was confirmed, the possibility of improving the systems was assessed, and improving actions were planned.

As a result of the management reviews, applications for improving the management systems were approved for execution. The applications are gradually executed, and the execution will be evaluated on another management review in April 2010.

In addition, actions aiming at implementing a health and safety management system in accordance with the Polish PN-N-18001 and British OHSAS 18001 standards are taken. The works are executed by an implementation team in accordance with the approved Health & Safety Management System Implementation Schedule. The evaluation of the health and safety management system implementation process was submitted to the Management Board of the Parent on a management review. After conducting effective corrective actions by organisational units, a decision will be taken to apply with a certifying body for conducting an audit certifying the health and safety management system. A significant action is the preparation for the certificate of conformity of the health and safety management system with the PN-N 18001 and BS OHSAS 18001 standards.

Furthermore, actions aiming at implementing a quality management system in accordance with the requirements of the automotive industry pursuant to the technical specification ISO/TS 16949:2002 are taken. The project is executed by a task team designated for that purpose and covers the implementation of a system for: The Faculty of Tarnoform and Formalin (production of natural Tarnoform), the Faculty of Polymerisation of Caprolactam (production of natural Tarnamid), the Faculty of Coatings and Modified Granulated Products (production of Tarnamid and modified Tarnoform), the Operational Marketing Department/Plastics Laboratory (process of designing, developing and quality control), and effecting the system certification. The tasks included in the “QMS implementation and certification schedule for the automotive industry in accordance with ISO/TS 16949:2002” approved by the Management Board of the Parent are gradually performed. It is advisable to continue the actions for implementing the automotive requirements, which will make it possible to satisfy the expectations of the automotive industry customers.

5.9. Information as to issues related to natural environment

On 24 February 2009 the Parent obtained a permission from the Marshall of the Lesser Poland Voivodeship for participation in the EU system of trade in greenhouse gas emissions for the own heat and power plant, EC II. The decision is valid until 24 February 2019.

On 7 August 2009 the Parent concluded an agreement with BIPROZAT Sp. z o.o. (Subsidiary) on preparing the following documentation: “Update of application for creating an Industrial zone on the ZAT S.A. land”. On 15 October 2009 the update of the documentation “Application for creating an Industrial zone” was submitted in the Lesser Poland Voivodeship Marshall’s Office. Currently administrative proceedings with that respect are being conducted.

At the turn of October and November 2009 the Parent purchased the IT system “Zakładowy Bank Zanieczyszczeń Środowiska” (Corporate Environment Pollution Bank). The software will allow, above all, increasing supervision over the application of standards specified in integrated permits and sector decisions.
5.10. Significant events

**Events concerning stock exchange debut (introduction of shares of the Parent to stock exchange)**

On 30 January 2009 970 shares of the Parent of AA series designated with code PLZATRM00038 were registered in the National Depository for Securities. Those shares were securities subscribed for by the former Members of the Management Board of the Parent, which could not be placed on the market within 3 years of acquisition thereof due to the existing statutory restrictions.

The Management Board of GPW S.A. in its Resolution no. 46/2009 of 28 January 2009 stated that 970 ordinary bearer shares of AA series of the Parent, with nominal value of PLN 5 (five zlotys) per share, are permitted to be placed on the market, and it decided to introduce the said shares in normal mode to the stock exchange as of 6 February 2009, provided that on 6 February the National Depository for Securities assimilates those shares with the shares of the company which are on stock exchange.

The assimilation of 970 ordinary bearer shares of the Parent under code PLZATRM00012 took place on 6 February 2009 under the Resolution no. 51/09 of the National Depository for Securities of 3 February 2009.

Since the date of assimilation on 6 February 2009, 39,116,421 ordinary bearer shares of the Parent have been designated with the code PLZATRM00012.

**Privatisation process of the Parent**

On 18 March 2009 a multilateral agreement was concluded by and between Nafta Polska S.A. in liquidation with its registered office in Warsaw (hereinafter referred to as: “Nafta Polska”), the Parent and the following Companies: Ciech S.A. (hereinafter referred to as: “Ciech”) and Zakłady Azotowe Kędzierzyn S.A. with its registered office in Kędzierzyn – Koźle (hereinafter referred to as: “ZAK”), the financial consultant of Nafta Polska S.A., Raiffeisen Investment AG with its registered office in Vienna and Raiffeisen Investment Polska sp. z o.o. with its registered office in Warsaw and the legal advisor of Nafta Polska S.A., Radzikowski, Szubielska i Wspólnicy Komandytowa with its registered office in Warsaw, aiming at the seeking and selecting an investor or investors who are going to acquire the shares of the Parent, ZAK and Ciech, and who simultaneously may subscribe for shares in the increased share capital of the said Companies. (details in the report on I half of 2009, page. 10, point A.II).

Nafta Polska S.A. in liquidation informed that on 3 February 2010 it decided to admit PCC SE to exclusive negotiations in the privatisation process of the Parent. The negotiations conducted on the exclusivity basis took place between 4 February and 22 March 2010.

The subject of the negotiations was the following in particular: price for shares, structure of the transaction and terms and conditions of share sales agreements. On 22 March 2010 Nafta Polska S.A. in liquidation received PCC SE’s modified position on the transaction, which will be analysed. At the same time Nafta Polska S.A. in liquidation conceded to the request of PCC SE for prolongation of the period of the negotiations of the terms and conditions of the transaction on the exclusivity basis to 12 April 2010. On 12 April 2010 Nafta Polska S.A. in liquidation informed in an announcement that it had received final offers from PCC SE confirming the conditions proposed by the Potential Investor. The information on the final decision on the further course of the privatisation process of the Companies of the I Chemical Group is to be forwarded immediately upon taking thereof.
**Signing letter of intent**

On 30 April 2009 the Parent, Polimex-Mostostal S.A. (PM), Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG), and Tauron Polska Energia S.A. (Tauron) signed a letter of intent as to joint execution of the undertaking consisting in the construction of a new heat and power station with power of 200 MW, producing energy based on natural gas, and in the upgrade of the existing heat and power plant with power of 65 MW, on the land of the Group.

As part of the joint undertaking, the signatories of the letter of intent were assigned the following tasks:

**The Parent:**
- preparing an analysis of the possibility to separate a power distribution company,
- preparing a concept of cooperation with the city of Tarnów as to heat reception,
- heat and electricity reception from the new constructed plant for own purposes.

**Polimex-Mostostal S.A.:**
- preparing concepts and technical assumptions,
- preparing variants of financing of the investment,
- carrying out the planned investment and the upgrade, if applicable,
- taking over the function of operator of the new heat and power station, if applicable.

**PGNiG S.A.:**
- analysing the possibility of gas supplies to the new heat and power station.

**Tauron Polska Energia S.A.:**
- preparing the conditions of reception of electricity surpluses.

The Polish power industry requires great financial outlays related to the necessity to adapt to the European Union requirements (reduction of gas emission), to increase the power generation efficiency and to increase power production. An electricity deficit is anticipated on the power market, as well as the necessity to invest in new production capacities. (Current report no. 17/2009 of 30 April 2009).

**Launching IT SAP system**

The year 2009 saw great changes in the IT area. On 1 January the full productive start of the mySAP ERP system commenced, which was implemented for 1.5 years and which covers the majority of the core modules, in particular the following:

- **FI** - financial accounting,
- **AA** - fixed asset management,
- **TR** - cash management,
- **CO** - controlling,
- **MM** - provision and material management,
- **PP** - production planning,
- **SD** - sales and distribution,
- **PM** - renovation management,
- **HR** - administration of personnel, remunerations,
- **BW** - data warehouse.

For comparison purposes, for the first three months of SAP system operation the transactions were registered in old systems, Bull and IFS. Upon confirming the correctness of the results obtained in SAP, it was decided to convert BULL and IFS systems into archival systems. The
service and ongoing upgrades of the SAP system were entrusted with the company implementing
the system.

**Commissioning outsourcing services to the business partner, Hewlett Packard**

The implementation of an integrated system as a new solution resulting in automatic attribution of
data from various areas of all organisational units of the Parent, permitting ongoing availability
thereof, implicated the further need of IT support of subsequent business topics both for the Parent
and for the entire Group.

On 25 November 2009 an Agreement on IT services outsourcing was concluded with Hewlett
Packard Polska Sp. z o.o. (HP). The Agreement provides for a six-year cooperation embracing HP’s
taking over the maintenance and development of IT systems used by the Parent, taking into
account in particular the SAP system.

HP declared that while providing the services it will use the following:

- qualified HP human resources, knowledge and technologies supported by HP with
  particular consideration for SAP,
- HP technological solutions which may support the economic activity pursued by the
  Parent as to production, logistics, supply chain management, cooperation with third
  parties,
- HP Group experience related to the ability to create, combine, restructure and upgrade
  commercial law entities and the abilities concerning modern management and budgeting
  techniques, and business analysis.

On 1 January 2010 HP acquired the rights and duties of employer towards the employees hitherto
employed in the IT Office of the Parent, since the taking over of provision of outsourcing services
was under the condition that a part of employment establishment of the Parent would be assigned
to HP within the meaning of art. 23¹ of the Labour Code.

The “Outsourcing agreement” also expresses the intention of strategic cooperation in all areas of
telecommunication and IT technology and services.

As part of the agreement, HP shall commence a range of infrastructural projects aiming at
optimising the end-user environment and transforming the IT infrastructure to create a flexible,
fully scalable and failsafe solution. This will permit executing projects leading to the development
of the SAP system in accordance with the adopted “IT strategy for years 2010-2015”.

**Actions related to restructuring**

As part of restructuring actions, as of 1 January 2009 the Faculty of Tarflen Processing was
transferred to Jednostka Ratownictwa Chemicznego Sp. z o.o. (Subsidiary). Therefore, under the
signed Agreement pursuant to art. 23¹ of the Labour Code 36 employees were transferred.
Detailed information is presented in point 5.1.

On 5 January 2009 Azoty Tarnów joined Polskie Konsorcjum Chemiczne.
Detailed information is presented in point 1.2.

As of 1 March 2009 the Faculty of Ammonia I and the Faculty of Ammonia II were combined into
one Faculty of Ammonia in the Fertiliser Centre.

As part of organisational changed in the Caprolactam Centre and the Fertiliser Centre, as of 1 June
2009 tasks and functions related to the sales of ammonia sulphate were transferred from the
Caprolactam Centre to the Fertiliser Centre, while since 1 July - the area of fractionation, storing
and dispatching. For the purpose of efficient handling of the loading and dispatching of all
fertiliser areas, a faculty named Faculty of Warehouses and Dispatching of Fertilisers was established in the Fertiliser Centre, which comprised the following:

- K-69 warehouse, hitherto located in the Faculty of Ammonia Sulphate,
- Fertiliser Packaging and Palletising Plant (ARODO),
- Carousel Packaging Machines,
- Nitrogenous Fertiliser Warehouse hitherto located in the Faculty of Fertilisers.

As of 1 July 2009 the activity related to the packaging of the following reagents was transferred to Jednostka Ratownictwa Chemicznego Sp. z o.o.: nitric acid, ammonia water, formalin, and to filling cylinders with liquid CO2, performed in the Fertiliser Centre. The foregoing was related to and resulted from the previously concluded Agreement between the Parent and the Subsidiary on the relevant issue.

In addition, as of 1 July 2009 upon the conclusion of the tendering proceedings the activity related to unloading of dolomite stone was transferred to PTK Koltar Sp. z o.o., a subsidiary.

In October 2009 the internal disposition no. 41/2009 introduced organisational changes and regulated the property issues of the Faculty of Chlorine Products, which was permanently out of operation. Property constituents and the management of the Faculty were transferred to the Technical Department, with direct subordination to the Property Liquidation Team.

In addition, as of 1 January 2010 a range of changes were introduced to the Technical, Development, Finance, and Management and Personnel Policy Departments.
6. CURRENT FINANCIAL AND ASSET SITUATION OF THE GROUP

6.1. Important events with considerable influence on the activity and financial result of the Group

The following were the most important events affecting the activity and financial result of the Company:

- crisis situation / collapse of economy,
- decrease in product prices / decrease in demand,
- end of the repayment of composition agreement proceedings,
- payout of dividend / division of net profit for 2008,
- sales of ERU,
- sales of licence.

Significant events affecting the personnel and remuneration situation


- On 17 December 2009 the Additional Protocol no. 13 to the Company’s Collective Employment Agreement was concluded, amending as of 1 January 2010 the amounts of premiums for work in continuous movement and for double-shift work. The premium for work in continuous movement amounts to PLN 410 since 1 January 2010, while the premium for double-shift work amounts to PLN 200 since 1 January 2010.

- On 17 December 2009 an agreement was concluded by and between the employer and the company’s trade union organisations as to the pay policy for the year 2010. It was established that in the pay policy for the year 2010 the increase would amount to PLN 150 per employee on average.

- On 2 December 2009 an agreement was concluded with the Voivodeship Labour Office on a subsidy for the project “Po angielsku? No problem! Podniesienie konkurencyjności ZAT S.A. poprzez rozwój kompetencji językowych” [In English? No problem! Enhancing the competitiveness of ZAT S.A. by development of language competences]. The amount of grant – PLN 1,143,967. Period of project performance - 1 March 2010 – 31 December 2011.

- In 2009 a two-stage scheme of voluntary retirement from the company plants was conducted; it was concluded on 22 January 2009 and on 22 June 2009 in an agreement by and between the employer and the company’s trade union organisations. As part of the scheme, 193 employees retired from the Parent in 2009.
6.2. Description of fundamental economic and financial values

Results of the Group in the accounting year

The accounting year 2009 ended with the Group’s net loss amounting to PLN (3,740) thousand.

Consolidated total income statement

<table>
<thead>
<tr>
<th>Performance</th>
<th>Dynamics (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales revenue</td>
<td>1,214,638</td>
</tr>
<tr>
<td>Selling costs, costs of sale, administrative expenses</td>
<td>(1,215,997)</td>
</tr>
<tr>
<td>Share of total costs in revenue (%)</td>
<td>100.11</td>
</tr>
<tr>
<td><strong>Total gross margin</strong></td>
<td>(1,359)</td>
</tr>
<tr>
<td>Gross margin profitability in %</td>
<td>(0.11)</td>
</tr>
<tr>
<td>Other operating revenue</td>
<td>15,791</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>28,785</td>
</tr>
<tr>
<td><strong>Profit (loss) on operating activity</strong></td>
<td>(14,353)</td>
</tr>
<tr>
<td>Financial revenue</td>
<td>51,301</td>
</tr>
<tr>
<td>Financial costs</td>
<td>(44,110)</td>
</tr>
<tr>
<td><strong>Net financial revenue (costs)</strong></td>
<td>7,191</td>
</tr>
<tr>
<td>Profit (loss) on shares in affiliated entities valuated with use of equity method</td>
<td>33</td>
</tr>
<tr>
<td><strong>Profit (loss) before tax</strong></td>
<td>(7,129)</td>
</tr>
<tr>
<td>Gross sales profitability in %</td>
<td>(0.59)</td>
</tr>
<tr>
<td>Income tax</td>
<td>3,389</td>
</tr>
<tr>
<td><strong>Net profit (loss)</strong></td>
<td>(3,740)</td>
</tr>
<tr>
<td>Net sales profitability in %</td>
<td>(0.31)</td>
</tr>
</tbody>
</table>
**Operating activity costs**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>80,844</td>
<td>72,887</td>
<td>6.9</td>
<td>5.8</td>
</tr>
<tr>
<td>Consumption of materials and energy</td>
<td>761,750</td>
<td>819,993</td>
<td>64.8</td>
<td>64.8</td>
</tr>
<tr>
<td>Third party services</td>
<td>67,082</td>
<td>106,882</td>
<td>5.7</td>
<td>8.5</td>
</tr>
<tr>
<td>Taxes and fees</td>
<td>43,801</td>
<td>43,759</td>
<td>3.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Remuneration</td>
<td>165,310</td>
<td>172,515</td>
<td>14.0</td>
<td>13.6</td>
</tr>
<tr>
<td>Social insurance and other performances</td>
<td>39,441</td>
<td>39,401</td>
<td>3.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Other prime costs</td>
<td>17,225</td>
<td>9,191</td>
<td>1.5</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Costs by type</strong></td>
<td><strong>1,175,453</strong></td>
<td><strong>1,262,941</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Change of product stock (+/-)</td>
<td>(20,682)</td>
<td>(8,344)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of producing benefits for unit’s own needs (-)</td>
<td>(4,567)</td>
<td>(7,253)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling costs (-)</td>
<td>(64,713)</td>
<td>(61,054)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative expenses (-)</td>
<td>(99,720)</td>
<td>(97,418)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of sold goods and materials</td>
<td>24,429</td>
<td>22,293</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1,051,564</strong></td>
<td><strong>1,112,852</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In 2009 total costs by type amounted to PLN 1,175,453 thousand and were lower than the costs in the preceding year by PLN 89,175 thousand, that is by 7.1%, with sales lower by 11.21%, that is by PLN 153,378 thousand. This means that the cost decrease rate of the given period was lower by 4.2 percentage points than the sales decrease rate.

In the analysed period, the total costs saw the increase in share of depreciation (by 1.1 percentage points), remuneration (by 0.4 percentage points), social insurance and other benefits (by 0.2 percentage points), taxes and fees (by 0.3 percentage points) and other prime costs (by 0.7 percentage points). However, the share of materials and energy and third party services decreased (by 0.04 and 2.7 percentage points, respectively).

Individual prime cost items are as follows:

1. **Consumption of materials and energy**
   
   PLN 761,750 thousand
   
   This constitutes the largest cost item – 64.8%. In total, consumption of materials and energy was lower by PLN 58,243 thousand compared with the preceding year. This was due to the price decrease in the core raw materials (phenol, benzene, ammonia, sulphur and methanol). The prices of gas, coal and energy increased, though.

2. **Depreciation**
   
   PLN 80,844 thousand
   
   Accounts for 6.9% of total costs and was greater than depreciation of the preceding year by 10.9%, which essentially resulted from the completed investments in the fertiliser area.

3. **Third party services**
   
   PLN 67,082 thousand
   
   Account for 5.7% of prime costs. Their share decreased by 2.7 percentage points, i.e. by PLN 39,800 thousand, which was a result of both renovation and transportation costs and other third party services.

4. **Remuneration**
   
   PLN 165,310 thousand
   
   The share in total costs amounted to 14.1%, i.e. by 0.4 percentage points more than in 2008. In total, remuneration costs were lower by PLN 7,205 thousand than the costs in the preceding year.
5. Social insurance and other benefits
The share in total costs amounted to 3.4%, i.e. by 0.2 percentage points more than in 2008. In the value approach, an increase by PLN 40 thousand was recorded.

6. Cost taxes and fees
The share in total costs amounted to 3.7%, i.e. by 0.3 percentage points more than in 2008. In the value approach, an increase by PLN 42 thousand was recorded.

7. Other prime costs
The share in total costs amounted to 1.5%, i.e. by 0.7 percentage points more than in the preceding year. In terms of value, an increase by PLN 8,034 thousand was recorded, and this was primarily due to the increase in costs of insurance of property and persons, and the cost of representation and advertising.

6.3. Characteristics of assets and liabilities structure

**Main assets items**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>989,463</td>
<td>62.6</td>
<td>1,047,354</td>
<td>65.3</td>
</tr>
<tr>
<td>Current assets, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>180,874</td>
<td>11.4</td>
<td>136,791</td>
<td>8.5</td>
</tr>
<tr>
<td>Receivables from deliveries and services and other</td>
<td>340</td>
<td>0.0</td>
<td>202,466</td>
<td>12.6</td>
</tr>
<tr>
<td>Receivables from income tax</td>
<td>5,394</td>
<td>0.3</td>
<td>4,107</td>
<td>0.3</td>
</tr>
<tr>
<td>Cash and equivalents thereof</td>
<td>246,485</td>
<td>15.6</td>
<td>45,333</td>
<td>2.8</td>
</tr>
<tr>
<td>Other assets</td>
<td>9,361</td>
<td>0.6</td>
<td>5,634</td>
<td>0.3</td>
</tr>
<tr>
<td>Non-current assets available for sale</td>
<td>613</td>
<td>0.0</td>
<td>7</td>
<td>0.0</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,581,318</td>
<td>100.00</td>
<td>1,604,246</td>
<td>100.00</td>
</tr>
</tbody>
</table>

In the accounting year 2009 total assets were reduced in relation to the preceding year by PLN 22,928 thousand; also significant changes in their structure occurred.

Non-current assets were decreased by 2.7 percentage points in relation to the end of the preceding year and account for 62.6% of the company’s assets in the current period.

In that group, property, plant and equipment were reduced by PLN 22,197 thousand.

The greatest change of amount in current assets was recorded in other financial assets, which saw a decrease by PLN 202,126 thousand. This resulted from the reclassification of fixed-term bank deposits, whose date of maturity was to be due within 3 months after the balance sheet day.
**Assets structure**

![Assets structure diagram](image)

[2009: Current assets 37.4%, Non-current assets 62.6%; 2008: Current assets 34.7%, Non-current assets 65.3%]

Simultaneously, the cash and equivalents thereof increased, on which the said deposits were presented as of the last balance sheet day.

In addition, in current assets the inventories level increased by PLN 44,083 thousand, which resulted from recognising further ERUs, and the receivables from deliveries and services decreased, as well as the overdue receivables.

**Ageing analysis of receivables in virtue of deliveries and services**

<table>
<thead>
<tr>
<th></th>
<th>As of 31.12.2009</th>
<th>As of 31.12.2008</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not yet overdue</td>
<td>77,950</td>
<td>88,987</td>
<td>12.4</td>
</tr>
<tr>
<td>Overdue up to 60 days</td>
<td>23,234</td>
<td>17,758</td>
<td>30.8</td>
</tr>
<tr>
<td>Overdue from 60 to 180 days</td>
<td>3,300</td>
<td>9,447</td>
<td>65.1</td>
</tr>
<tr>
<td>Overdue from 180 to 360 days</td>
<td>1,148</td>
<td>1,406</td>
<td>18.3</td>
</tr>
<tr>
<td>Overdue over 360 days</td>
<td>1,478</td>
<td>951</td>
<td>55.4</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>107,110</strong></td>
<td><strong>118,549</strong></td>
<td><strong>9.7</strong></td>
</tr>
</tbody>
</table>

**Main liabilities items**

<table>
<thead>
<tr>
<th></th>
<th>As of 31.12.2009</th>
<th>As of 31.12.2008</th>
<th>Share (%)</th>
<th>Share (%)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>1,113,295</td>
<td>1,155,644</td>
<td>70.4</td>
<td>72.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Liabilities (total)</td>
<td>468,023</td>
<td>448,602</td>
<td>29.6</td>
<td>28.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>199,778</td>
<td>226,052</td>
<td>12.6</td>
<td>14.1</td>
<td>11.6</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>268,245</td>
<td>222,550</td>
<td>17.0</td>
<td>13.9</td>
<td>20.5</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>1,581,318</strong></td>
<td><strong>1,604,246</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
<td><strong>1.4</strong></td>
</tr>
</tbody>
</table>

In the accounting year 2009 the liabilities structure was slightly changed. Due to achieving net loss for the year 2009 and to the payout of dividend on profit from 2008, the equity decreased and accounted for 70.4% of liabilities. It financed the assets of the Group to that extent. Liabilities were greater by 4.3% in relation to the preceding year. In their group, long-term liabilities decreased while short-term liabilities increased. The rise in short-term liabilities resulted from the conversion of long-term credits, the increase in value of short-term credits, and the deferment of invoice due dates.
Liabilities structure

<table>
<thead>
<tr>
<th></th>
<th>As of 31.12.2009</th>
<th>Share (%)</th>
<th>As of 31.12.2008</th>
<th>Share (%)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term liabilities</td>
<td>199,778</td>
<td>42.7</td>
<td>226,052</td>
<td>50.4</td>
<td>(11.6)</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in virtue of loans and credits</td>
<td>29,446</td>
<td>6.3</td>
<td>48,889</td>
<td>10.9</td>
<td>(39.8)</td>
</tr>
<tr>
<td>other</td>
<td>170,332</td>
<td>36.4</td>
<td>177,163</td>
<td>39.5</td>
<td>(3.9)</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>268,245</td>
<td>57.3</td>
<td>222,550</td>
<td>49.6</td>
<td>20.5</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in virtue of loans and credits</td>
<td>110,201</td>
<td>23.6</td>
<td>21,174</td>
<td>4.7</td>
<td>420.5</td>
</tr>
<tr>
<td>in virtue of deliveries and services and other</td>
<td>143,372</td>
<td>30.6</td>
<td>161,294</td>
<td>36.0</td>
<td>(11.1)</td>
</tr>
<tr>
<td>other</td>
<td>14,672</td>
<td>3.1</td>
<td>40,082</td>
<td>8.9</td>
<td>(63.4)</td>
</tr>
<tr>
<td>Liabilities (total)</td>
<td>468,023</td>
<td>100.00</td>
<td>448,602</td>
<td>100.00</td>
<td>4.3</td>
</tr>
</tbody>
</table>
6.4. Financial ratios

**Economic rating ratios**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross margin profitability %</td>
<td>13.43</td>
<td>18.65</td>
<td>(27.99)</td>
</tr>
<tr>
<td>Return on equity (ROE) %</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[net financial result/equities at the beginning of period]*100</td>
<td>(0.32)</td>
<td>9.03</td>
<td>-</td>
</tr>
<tr>
<td>Rate of return on invested capital %</td>
<td>(0.54)</td>
<td>6.24</td>
<td>-</td>
</tr>
<tr>
<td>[profit (loss) before tax/(total assets–short-term liabilities)]*100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Indebtedness ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General indebtedness ratio %</td>
<td>42.04</td>
<td>38.82</td>
<td>8.29</td>
</tr>
<tr>
<td>(total liabilities/equity)*100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets to liabilities ratio %</td>
<td>29.60</td>
<td>27.96</td>
<td>5.87</td>
</tr>
<tr>
<td>[(total liabilities-equity)/total liabilities]*100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liquidity ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity ratio I - times</td>
<td>2.21</td>
<td>2.50</td>
<td>(11.60)</td>
</tr>
<tr>
<td>[total current assets / short-term liabilities]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity ratio II - times</td>
<td>1.53</td>
<td>1.89</td>
<td>(19.05)</td>
</tr>
<tr>
<td>[(total current assets -inventories)/ short-term liabilities]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Activity ratio</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales cash efficiency %</td>
<td>(3.56)</td>
<td>4.54</td>
<td>-</td>
</tr>
<tr>
<td>[net cash from operating activity/(Total sales revenue)]*100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average due date in days of supply – days</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[liabilities in virtue of deliveries and servicesx365/cost of sales]</td>
<td>31.70</td>
<td>20.16</td>
<td>57.24</td>
</tr>
<tr>
<td>Non-current assets productivity ratio %</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Total sales revenue/Property, plant and equipment]*100</td>
<td>134.57</td>
<td>147.92</td>
<td>(9.03)</td>
</tr>
</tbody>
</table>

**Economic value added**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NOPAT (net operating profit after tax)</td>
<td>thousand.</td>
<td>33,423</td>
<td>122,662</td>
</tr>
<tr>
<td>Equity cost</td>
<td>%</td>
<td>8.04</td>
<td>9.76</td>
</tr>
<tr>
<td>Invested capital (equity)</td>
<td>thousand.</td>
<td>1,117,035</td>
<td>1,082,674</td>
</tr>
<tr>
<td>Total invested capital</td>
<td>thousand.</td>
<td>1,256,682</td>
<td>1,152,737</td>
</tr>
<tr>
<td>EVA (NOPAT – total cost of invested capital)</td>
<td>thousand.</td>
<td>(26,411.79)</td>
<td>79,771.20</td>
</tr>
<tr>
<td>EVA ratio</td>
<td>ratio</td>
<td>(0.0210)</td>
<td>0.0692</td>
</tr>
</tbody>
</table>

Calculation methodology in accordance with the guidelines of the Ministry of State Treasury.
6.5. Evaluation of factors and unusual events

**General environment**

The economic results indicate that the recession in the global economy is beginning to subside. The signs are ambiguous, though, and it is difficult to assess at this stage whether it is a beginning of a clear and permanent boom on the market. The events observed in the recent years reveal that the global economy entered a new economic era - an economy of unpredictable fluctuations and uncertainty. The following may be counted as positive signs: improved situation in key segments of the financial market and certain alleviation of hitherto very stringent credit requirements, first upturn of business cycle ratios resulting to a certain extent from a better assessment of the future economic situation, signs of stability of the situation on real estate markets in certain countries, as well as express reduction of the decrease in the global trade turnover. Those factors were confirmed by data concerning GDP dynamics, which are better than anticipated in the primary world economies, including in the eurozone and its greatest economies, i.e. Germany and France. The clearest signs of improved economic conditions are visible particularly in Asian countries. Many factors suggest, though, that the dynamics of improved economic condition in the global economy, including in the eurozone, will be rather moderate in the next quarters. The considerably milder perseverance of the Polish economy during the crisis than of the other EU Member States does not mean that there was no crisis. The increase and free production capacities still maintaining on high level, low profitability level of enterprises, higher and still increasing unemployment rate and the resulting low rate of income growth at the disposal of households, as well as high level of public debt will impede a greater upturn of the domestic demand. The signals proving that the recession is subsiding do not change the fact that during the entire 2009 a profound decrease in activity on the primary export markets in Poland occurred. It is anticipated that in 2010 the eurozone will record a slightly positive economic growth rate, which should gradually accelerate in the next 2-3 years to the level established by the last decade average (i.e. ca 2%). In line with the eurozone’s recovering from the recession, also the economic condition in the Central Eastern European countries will improve. The global economy outlook, including the situation on the Polish export markets, is exceptionally uncertain, although the risk balance seems to be more sustained than assessed several months ago.

According to the published forecasts of the European Commission, the economic crisis put a stamp on the economy of the entire European Union, whose GDP decreased by almost 4.2% in 2009. The year 2010 is supposed to be more favourable with this respect, because it is anticipated that as a result of the slow economic upturn process, particularly in Western Europe countries, the EU economy will manage to take a favourable turn and achieve a positive growth rate, which is to oscillate between 0.7 and 0.8%. The European Commission forecasts that in 2010 Poland will achieve the GDP growth rate level of 1.8%, Poland owes good results above all to strong economic foundations, and the improvement of economic ratings of the European market will have a positive impact on the further improvement thereof.

According to the most recent estimates by the International Monetary Fund, the economic growth worldwide will amount to ca 3.1%. Last July that estimate was considerably lower and assumed growth level of 2.5%. In addition, the International Monetary Fund anticipates that in 2010 the eurozone economy will grow by 0.3%, and the European emerging countries are to develop at the rate of 1.8%. Gradual recovering from the crisis will not allow quick overcoming of all problems. It is necessary to reconstruct the global financial system, at the same time maintaining the supporting macro-economic policy until the upturn is permanent.

All developed countries worldwide will record a slight economic growth - as forecast by the Organisation for Economic Cooperation and Development (OECD). According to the latter, the GDP in the eurozone will increase by 0.9%, and in Poland by 2.5%. OECD anticipates that in the 30
most developed countries of the world the next year will be the beginning of a recovery from the global recession. The relatively optimistic forecast results above all from the improved economic condition in the USA and the eurozone, which are the two main driving forces of the global economy. OECD explains the favourable forecast with the improvement of the condition on the financial markets and the boost in global trade. The report emphasises, though, that a stronger economic growth should be awaited in 2011.

**Microenvironment**

**Chemical market**

The year 2009 was a time of ongoing recession. The global economy, which woke up several times, announced the end of downturn, but the raw material price rises exceeding the demand growth warned several times against another “raw material bubble”.

The G20 group undertook to introduce new regulations aiming at protecting the global system from recurring of a similar crisis. The Ministers of Finance of the European Union countries passed a set of decisions on establishing new bodies of European financial supervision, which are to give the EU an answer to the issue of the causes of the current crisis. A European Systemic Risk Council (ESRC) is to be established with participation of the heads of 27 central banks. The council is supposed to analyse the financial stability and respond effectively by giving specific recommendations to countries, groups of countries or the entire EU, as to appropriate actions as part of the so-called macro-prudential oversight.

Despite attempts to improve the situation, the European chemical market still feels the results of the crisis. The sales decline put chemical companies in a difficult situation, forcing them to radical decisions of reducing costs and employment. Currently they are at the beginning of the path to achieve the sales level from the beginning of 2008. The chemical market in Europe benefits from governmental schemes, which subsidise other industry sectors.

Recession was also felt by the Polish heavy chemical industry. The volume of orders decreased, particularly from the following sectors: automotive, construction and agricultural. An adverse impact on the condition of companies in 2009 was also exerted by the consequences of the performed currency security, i.e. currency options offered by Polish banks. Currently despite the still difficult economic condition companies focus on the strategy oriented on restructuring, investments in new technologies, and development of new products.

Analysts believe that we enter the year 2010 with great doubts as to how it will look like. The global economy is slowly recovering from the crisis, but the prolonged economic downturn results in all forecasts being very cautious and the risk of economic changes being still high.

Looking at GDP, it can be stated that the previous year, despite being difficult for all, was successful for the Polish economy, of course compared with the economies of the other European Union Member States. However, it is beyond all doubt that the greatest crisis after the World War II weakened all economies. The Polish economy also felt the crisis, above all by the increased budget deficit, unemployment rate and public debt, and the further results of the crisis will be noticeable not only in 2010, but also in the subsequent years.

**Plastics market**

The demand will be shaping the polymer market for the next 1-2 years. Therefore, the consumption of plastics in the automotive industry will not drive the development. In favourable conditions, the automotive industry may achieve the production volume characteristic for the year 2008 as late as in 2012-13 and there are no reasons to believe otherwise, as far as the consumption of plastics in the automotive industry is concerned. According to the available information, the year 2009 brought a 20-30 percent drop in that industry, and no growth is anticipated in 2010, but rather stagnation.

**Fertiliser market**
In the 2008/2009 season, the actual increase in demand for agricultural produce proved to be considerably lower than the forecast demand. This resulted in an adjustment of grain buying price and disturbance of the demand equilibrium (October 2008). The stagnation on the market lasted for about 6 months. Due to large stocks of fertilisers accumulated in warehouses of dealer chains, the manufacturers maintained the price, while the farmers awaited price decreases. In order to reduce costs, farmers reduced the acreage of sowing and the number of fertiliser planting to the absolutely necessary minimum, which as a consequence considerably impaired the demand for fertilisers, still felt in the second half of 2009. Important in impeding the nitrogenous fertilisers sales in Poland were fertiliser offers from manufacturers from Slovakia, Hungary, Lithuania and from outside the European Union.

The reduction of fertiliser prices in Poland results from the global decline of demand for fertilisers with simultaneously growing supply and decreased profitability of plant production. Since November the prices for feed crops on the Polish market have systematically, albeit slowly, increased, which may be translated into an increase in fertiliser purchase. Since October a trend aiming at restoring the demand stability has been observed.

According to the forecasts of Strategie Grains (SG) for Poland of 16 December 2009, the cultivation area of the majority of primary crops in the season 2010/2011 will be slightly reduced, similarly to the average crop yield. If such a situation should happen, a change in demand for fertilisers should be anticipated on the market. A possible increase in demand for fertilisers may change the bigger demand for industrial crops of e.g. rape and maize intended for biofuels.

**Situation on raw material markets in 2009.**

The raw material and chemical semi-finished product market is characterised by high concentration and relatively high specialisation. Therefore, the company provides itself to a considerable extent with materials for production and goods and services on the domestic market and in the European Union countries. Deliveries from the countries of the former Commonwealth of Independent States (CIS) account for a significant part of the supply (mainly in the area of strategic raw materials). In addition, specialised purchase is performed outside Europe, mainly of materials and supplementary semi-finished products for plastics production.

In 2009 considerable fluctuations of prices of primary production raw materials, mainly benzene and phenol, as well as ammonia, were observed. The prices of the said raw materials are determined based on price formulas, which are, in turn, based on monthly benzene quotations on global markets (formulas for phenol are based on benzene prices). Due to the unstable market condition in 2009 and given the relatively high concentration of the market of the said raw materials (particularly phenol), considerable price fluctuations were observed last year, which were not reflected in the price of benzene- and phenol-based products. In the common opinion of the market participants, those were speculation fluctuations resulting from an unstable supply/demand relation. Nevertheless, the diversification strategy adopted by the Company based to a great extent on supplies from more stable domestic sources and competitive in terms of trade enabled minimising the unfavourable market trends.

The situation in the area of liquid ammonia purchase looked similar. The Parent is the traditional, the largest importer of that raw material from the CIS market in Poland. The said market is characterised by large volatility, even in short periods (e.g. quarters). The strategy of purchase of that raw material pursued by the Company fully permits minimising threats and market risk, the more so that the concentration of the ammonia market is considerably lower than in the case of benzene and phenol (the possibility to use rich domestic sources in the case of price increases of ammonia from the Eastern sources) and purchase options guaranteed in contracts are activated in line with the market condition.
Situation on product markets of the Group in 2009

Nitrogenous fertilisers
The season 2007/2008 (autumn/spring) was the culmination of a great bull fertiliser market and in the entire agricultural sector. This resulted from the good economic condition and high raw material prices as well as forecasts of rapid increase in demand for food worldwide. However, the actual increase in demand for agricultural produce proved to be considerably lower than the forecast. This led to an adjustment of grain buying price and disturbance of demand equilibrium of farmers (October 2008) and the situation was exacerbated by the PLN exchange rate. The financial crisis also contributed to the decreased use of fertilisers in global scale, by having an adverse impact on the access to external financing sources. The stagnation on the market lasted for about 6 months.

Due to large stocks of saltpetre fertilisers accumulated in warehouses of dealer chains, in Q1 2009 producers and dealers strived to maintain prices on the domestic market, while farmers expected price adjustments. Therefore, in Q2 the demand for fertilisers considerably decreased, totally contrary to the previous years. In addition, the demand change value was affected by the smaller acreage of sowing and the reduced number of saltpetre fertiliser planting. Farmers reduced their costs to the necessary minimum in order to minimise them. In such a market condition also dealers considerably reduced the amount of received fertilisers. The behaviour on the market led to price reductions.

In the second half of 2009, despite lower prices the fertiliser manufacturers still had problems with selling their products. An additional factor impeding the sales of nitrogenous fertilisers was cheaper fertilisers offered by manufacturers from Slovakia, Hungary, Lithuania and countries outside the European Union.

The decreased economic growth rate, the costs of recession of the global economy, the unstable price of petroleum and other raw materials (including gas, ammonia and sulphur) may result in fluctuations on the fertiliser market. In the era of global economy the freight rates and shipping costs gain greater importance.

The policy of countries which introduce considerable import limitations in order to protect their home markets is becoming a significant threat for the fertiliser market.

Plastics
The situation in the plastics sector was favourable until mid-2008, while by autumn of that year the demand decreased. The crisis caused that in a relatively short period the market rapidly collapsed. According to many sources, from January to June 2009 the production in the European Union plunged compared with the analogous period of 2008. Signs of a slight upturn on the market appeared as late as in Q2 2009. A varied reaction was observed with respect to the production of plastics as raw materials. The demand on the part of the automotive sector declined by as much as 40%, and a serious decrease in demand was recorded also in the construction industry. The entire plastics industry saw restructuring actions and the introduction of production limitations. In September 2009 signs of reversing of the decreasing trend of demand for plastics and products appeared. The limited demand for polyamide on the European market was partially consumed by the Chinese market in 2009.

The current forecasts indicate that the structural plastics market will grow, while the textile and fibre market will become smaller. The demand for plastics is growing very slowly and the level from before the recession will be achieved by the sector probably only in a few more years.

The relation of caprolactam prices to the petroleum-derivative materials remained visible, while the prices of polyamide 6 were characterised by lower dynamism, due to the clear impact of
demand and greater time-shift in relation to raw material prices, which enabled a reaction with lower amplitude. A different situation was observed in the case of polyoxymethylene, since the market price maintained at a stable level and showed a very limited dynamism – which is confirmed by available quotations. The methanol price, in turn, was characterised by large dynamism resulting from the variable demand and macro-economic situation influencing the global raw material prices.

It is anticipated that the key growth factor will be the extension of usages to embrace new applications, mainly in the direction of medicine and sport.

Hence the consumption of plastics in the automotive industry will not be the driving force of the development.

**Caprolactam**

The crisis on the European market persisting since 2008 became more visible in the largely reduced demand for caprolactam and polyamides in 2009. As a consequence, production experienced limitations and the low demand coupled with greater supply of caprolactam resulted in caprolactam prices in Europe maintaining on a low level.

The upturn commencing in Q2 2009 was caused by increased demand on the part of the textile and plastics processing markets. The growing demand coupled with limited stocks of caprolactam in Europe led to an increase in price levels, which was noticeable in the trends of phenol and benzene in time-shift.

Q2 saw a slowdown of the decreasing trend of price quotations and their gradual increase until the end of Q3, and another decrease from October on. As a result, the liquid caprolactam prices in Europe did not reach even 50% of the level from before the crisis during the year.

At the same time the Asian market recorded increased demand for crystalline caprolactam with a simultaneous price growth. The lack of equilibrium in benzene supply on that market strengthened the high price level of crystalline caprolactam.

In 2010 new investments might influence the caprolactam market, 75% of which are located in China. The policy of the Chinese government might prove a certain threat, since it will apply restrictive measures in order to protect its market, similarly to the case of polyamides by levying e.g. initial anti-dumping taxes.

6.6. **Explanation of differences between financial results and projections of results for 2009**

No projections of financial results for the year 2009 were published.

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

On 19 June 2008, the Parent obtained funds from the Public Offering. As at 31 December 2009, the amount of PLN 210,000,000 of funds obtained from the issue of shares was invested in term deposits. Moreover, in bank accounts and one-day deposits of the Company remained the amount of PLN 17,498,000 that was used for financing of current operations, and the Company was entitled to interest calculated on deposits and not paid in the amount of PLN 8,152,000.

From term deposits of funds from the Public Offering, the Company generated for 2009 financial revenue from accrued interest in the amount of PLN 14,974,000 (whereas within the period PLN 14,073,000 was paid to the Company).
In March and September 2009, the Parent paid two last instalments arising from the Court Agreement in the total amount of PLN 31,192,000, which required the accumulation of funds in order to ensure smooth payments of instalments arising from the Agreement. On 31 March 2010, the Court issued a decision on conclusion of the composition proceedings in accordance with the prior request filed by the Parent that became final by the date of publication hereof.

Furthermore, the Parent executed the resolution of the GMS on distribution of net profit for the period from 1 January 2008 to 31 December 2008 and allocation of the amount of PLN 39,899,000 for a dividend for shareholders which was paid in two tranches in the amounts of PLN 13,300,000 in August 2009 and PLN 26,596,000 in November 2009.

In order to make the abovementioned payments, in the second half-year of 2009 the Parent used free limits of the working capital loans under loan agreements signed previously, and did not deplete funds on deposits obtained from the Public Offering which were kept for further execution of objectives of the issue.

Moreover, in the second half-year of 2009 the Parent used financial instruments which enabled it to obtain funds earlier, i.e. factoring and letter of credit discount, within the scope of foreign receivables with the maturity over 45 days.

In the current trade in foreign currency, the Parent uses in the first place the so-called natural hedging because import liabilities expressed in foreign currency are paid from own resources in bank accounts. Natural hedging covers about 40-50% of revenue in EUR and 25-35% of revenue in USD.

The instrument used to ensure current financial liquidity in PLN – in view of the surplus of currency revenue over expenses – is the sale of currencies at negotiable exchange rates. In view of the long positions in USD and EUR, the Parent also uses the possibility of selling currencies from currency accounts at preferential negotiable exchange rates, which enables it to generate additional revenue from financing activities.

Funds in bank accounts are invested in overnight deposits which are negotiable or automatic in case of smaller amounts. The Company has secured the possibility of direct depositing of funds on terms negotiable with the banks’ dealing-rooms, which in the period of reduced liquidity of the financial market enabled the Company to obtain rates at the level of WIBOR or above. Additionally, in the case of settlements of both exports and imports with foreign contracting parties, mutual debts are withheld by way of compensation, as individually agreed from time to time by the parties. Another advantage of such settlement type, besides actual closing of some positions in foreign currencies, is the reduction of costs of banking operations.

**List of Parent’s credits and loans as at 31 December 2009**

<table>
<thead>
<tr>
<th>Currency</th>
<th>Total (PLN ’000)</th>
<th>Date of maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment credit facility at BOŚ SA</td>
<td>EUR 2,292</td>
<td>31 Oct. 2007 to 30 Apr. 2010</td>
</tr>
<tr>
<td>Investment credit facility at RB PL S.A.</td>
<td>PLN 20,250</td>
<td>31 Dec. 2012</td>
</tr>
<tr>
<td>Working capital facility at PKO BP</td>
<td>PLN 40,000</td>
<td>25 Jan. 2011</td>
</tr>
<tr>
<td>Investment loan at Mitsubishi Corp.</td>
<td>EUR 2,708</td>
<td>30 Sep. 2011</td>
</tr>
<tr>
<td>Multipurpose loan at PKO BP (in form of an overdraft)</td>
<td>PLN 9,354</td>
<td>31 Aug. 2011</td>
</tr>
</tbody>
</table>
facility)

<table>
<thead>
<tr>
<th>Facility</th>
<th>Amount (PLN)</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multipurpose loan at PKO BP (working capital)</td>
<td>5,000</td>
<td>31 Aug. 2011</td>
</tr>
<tr>
<td>Revolving credit at RB PL S.A.</td>
<td>30,000</td>
<td>30 Oct. 2010</td>
</tr>
<tr>
<td>Total credit facilities and loans</td>
<td>134,337</td>
<td></td>
</tr>
<tr>
<td>Adjustment on account of SCN for long-term loans</td>
<td>(889)</td>
<td></td>
</tr>
<tr>
<td>Fair value of credits and loans</td>
<td>133,448</td>
<td></td>
</tr>
</tbody>
</table>

As at 31 December 2009, the available credit limit amounted to PLN 1,072,000 (as at 31 December 2008 - PLN 12,261,000).

Additionally, as at 31 December 2008, the Parent had credit decisions of banks on granting credit limits in the amount of PLN 53,500,000, and the credit agreements were concluded in January 2009. Furthermore, on 16 December 2009 the Parent concluded an Investment Loan Agreement in the amount of EUR 6,000 for financing of the borrowing granted to Unylon Polymers GmbH in the process of acquisition of this Company; the borrowing was released in January 2010.
6.8. Appraisal of feasibility of investment plans, including capital investments, compared to available funds, taking into consideration possible changes in the structure of financing of this activity

In 2009, the Parent started preparations for the acquisition of 100% of shares of the company Unylon Polymers GmbH – German manufacturer of polyamide 6 which ended in the 1st quarter of 2010 with the takeover of the abovementioned shares and the control over the mentioned Company, which was financed from own resources obtained from the stock exchange in the course of accomplishment of the purpose of share issue – the increase in polyamide production capacity.

The policy of financing currently accomplished and planned investment projects assumes utilisation of the Company’s own resources generated from its Public Offering – in accordance with the share issue objectives – as well as from the profit retained in the Parent and assigned for development purposes, and supplementary obtaining of investment loans and subsidies contracted as financing of a part of the largest investment projects.

It is assumed that the investment expenditure scheduled in the Plan for 2010 will be financed from the Company’s own resources and from a certain part of subsidies.

The Parent has solvency and borrowing capacity – resulting from good financial standing and owned capital resources – which in its opinion allows to acquire external sources of financing which may be necessary for full accomplishment of investment projects scheduled after 2010.

A significant increase in non-monetary assets and property, plant and equipment in 2009, and predictions for the next years

In 2009, the Parent completed the largest investment project in the last years – the construction project of a mechanical fertilizer granulation system.

The other major investments transferred to assets in 2009 included:

- Modernisation of the A1 cooling system,
- Modernisation of the dolomite-milling plant,
- Modernisation of the fertilizer packaging and forwarding station,
- Modernisation of the air compression station,
- Modernisation of the Tarnamid warehouse,
- Assembly of heat and energy measuring system,
- Modernisation of the selective phenol hydrogenation system within the Pd catalyst,
- Implementation of an integrated ERP class management system at ZAT,
- Construction of a new gas to gas exchanger (E9) within the KDC system.

The major investments started or to be started in 2010 include:

- Modernisation of the Benfield station for purification with potassium within the V RM system,
- Intensification of production of the Modified Plastics Plant - stages 1 + 2,
- Modernisation and intensification of production of the Caprolactam Plant up to 101 300 t/year,
- Protection of the Cyclohexane Oxidation System against water circulation failure,
- Modernisation of the mass drying station within the copper and iron-chromium catalyst,
- Modernisation of the power supply system for the GPZ (main power supply stations) at the Parent,
- System for complex ash removal from EC II boilers,
- Construction of a heat exchanger station in order to increase the sale of heat in the heating water for MPEC (municipal heating company) up to 30 MW,
• Modernisation of the mechanical draft cooling tower of the M refrigerating cycle,
• Extension of the 0.4 kV switching station for the needs of SHA Production Plant,
• Adaptation of the station for unloading phenol from tanks on the unloading ramp to the requirements of the TDT (Technical Inspection of Transport),
• Adaptation of the benzene unloading stations to the requirements of the TDT,
• Hydrogen generation system,
• Adaptation of the liquid ammonia loading and unloading stations to the regulations of the TDT,
• Modernisation of the live steam collector, stages 4 and 5,
• Acquisition of 100% of shares of Unylon Polymers GmbH.

6.9. Information about agreements on credit facilities and loans contracted and terminated in the accounting year

Credit facilities and loans contracted or extended by an annex in 2009 by the Parent as at 31 December 2009

<table>
<thead>
<tr>
<th>Date of agreement</th>
<th>Currency</th>
<th>Total (PLN '000)</th>
<th>Date of maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital credit facility at PKO BP S.A.</td>
<td>07.01.2009</td>
<td>(03.11.2009)</td>
<td>PLN</td>
</tr>
<tr>
<td>Multipurpose loan at PKO BP (in form of an overdraft facility)</td>
<td>05.07.2006</td>
<td>PLN</td>
<td>9,354</td>
</tr>
<tr>
<td>Multipurpose loan at PKO BP (in form of a working capital credit facility)</td>
<td>05.07.2006</td>
<td>PLN</td>
<td>5,000</td>
</tr>
<tr>
<td>Revolving credit at RB PL S.A.</td>
<td>22.01.2009</td>
<td>PLN</td>
<td>30,000</td>
</tr>
</tbody>
</table>

The above list presents loans granted under agreements signed in 2009 or annexes to loan agreements concluded before that year.

• Revolving working capital credit facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. in the amount of PLN 23,500,000 for the period from 7 January 2009 to 27 July 2009 the validity of which was extended to 26 January 2010 under the Annex of 31 July 2009. Afterwards, on 3 November 2009, the Parent signed an Annex to the abovementioned Agreement in order to increase the credit limit amount to PLN 40,000,000. After the balance sheet date, i.e. on 26 January 2010, a further annex to the above loan agreement was signed in order to extend the loan agreement to 25 January 2011.

• Annex to the Debt Limit Agreement with Raiffeisen Bank Polska S.A. of 21 September 2005 to the amount of PLN 10,000,000 concluded on 29 October 2009 under which the period of validity of the limit was extended to 30 June 2011.

• Annex to the Credit Agreement in form of a multipurpose loan with Powszechna Kasa Oszczędności Bank Polski S.A. of 5 July 2006 in the total amount of PLN 15,000,000,
concluded on 14 September 2009 under which a separate sublimit of the working capital credit facility was agreed in the amount of PLN 5,000,000.

- Revolving Credit Facility Agreement with Raiffeisen Bank Polska S.A. in the amount of PLN 30,000,000 for the period from 22 January 2009 to 28 April 2009 with the possibility of renewal by 6 months. On 27 April 2009 an Annex to the abovementioned Agreement was signed which extended the final repayment date to 30 October 2009, and on 29 October 2009 an Annex which extended its validity to 30 October 2010.

- Credit Agreement with Raiffeisen Bank Polska S.A in the amount of EUR 6,000,000 concluded on 16 December 2009 for the period from coming into effect of the Agreement on the Acquisition and Transfer of Shares in Unylon Polymers GmbH to 31 December 2014, allocated for granting a borrowing to Unylon Polymers GmbH, for the purpose of one-off repayment of secured financial creditors on conditions of the Restructuring Plan adopted on 10 December 2009 by the creditors in the course of restructuring proceedings of the Company to be taken over.

Credit agreements contracted in 2009 in the subsidiaries of the Group

Jednostka Ratownictwa Chemicznego Sp. z o.o. (subsidiary) obtained a working capital credit facility under Agreement No. 676/2009/00001464/00 of 17 August 2009 at ING Bank Śląski for current operations. The limit of funds in the current account to be used is PLN 2,000,000. The interest rate on the credit facility is WIBOR + 2.10% per annum.

PROREM Sp. z o.o. (subsidiary) contracted a working capital credit facility at Bank Spółdzielczy Rymanów under the Agreement of 10 November 2009 for the period of 1 year with the date of repayment 9 November 2010. The credit facility amounts to PLN 1,500,000, and the interest rate is WIBOR 1M+1%.

ZWRI Sp. z o.o. (subsidiary) extended, by the Annex of 23 November 2009, the Agreement on working capital credit facility in the current account at BOŚ (of 26 November 2008) with a limit of PLN 500,000 allocated for financing of current needs. The date of repayment is 22 November 2010, and the interest rate amounts to 8.27 % per annum.

In 2009, no credit facility or loan agreement of the Parent or other Group Companies was terminated.

6.10. Information about borrowings granted by the Company, mainly to entities affiliated to the Group

Within the accounting year, the Parent did not grant any borrowings to companies affiliated to the Group.

After the balance sheet date, on 7 January 2010, the Parent signed with Unylon Polymers GmbH the Loan Agreement amounting to EUR 6,000,000 for the period to 31 January 2014, for the purpose of one-off repayment of financial creditors within the scope of the Restructuring Plan for Unylon Polymers GmbH. The funds were released on 21 January 2010, after the approval of conditions precedent of the Agreement on the Acquisition and Transfer of Shares in Unylon Polymers GmbH of 18 November 2009 concluded with Unylon AG.
6.11. Information about sureties and guarantees issued and received, mainly to entities affiliated to the Group

In 2009, the Group Companies did not issue any sureties or guarantees, and no sureties or guarantees from previous years were present, which means that the relevant limits specified in article 33 of the Act of 23 November 2002 amending the Act on sureties and guarantees issued by the Treasury and specific legal persons have not been exceeded.

**Guarantees obtained by the Parent in 2009**

<table>
<thead>
<tr>
<th>Date of issue of guarantee</th>
<th>Issuing party</th>
<th>Issuing bank</th>
<th>Guarantee amount</th>
<th>Currency</th>
<th>Validity date</th>
<th>Guarantee title</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 January 2009</td>
<td>Agrochem Sp. z o.o.</td>
<td>Fosfory Sp. z o.o.</td>
<td>1,000,000</td>
<td>PLN</td>
<td>for an indefinite period</td>
<td>Payment guarantee</td>
<td>Surety agreement</td>
</tr>
<tr>
<td>25 February 2009</td>
<td>Schultheis GmbH &amp; Co.</td>
<td>Deutsche Bank AG, Germany</td>
<td>21,060</td>
<td>EUR</td>
<td>20 July 2009</td>
<td>Advance payment return guarantee</td>
<td>Bank guarantee</td>
</tr>
<tr>
<td>14 May 2009</td>
<td>Osadkowski Raiffeisen</td>
<td>Osadkowski S.A. Petrochemia - Blachownia S.A. Kędzierzyn Koźle</td>
<td>1,000,000</td>
<td>PLN</td>
<td>for supplies to 28.05.2009</td>
<td>Payment guarantee</td>
<td>Surety agreement</td>
</tr>
<tr>
<td>20 May 2009</td>
<td>Borsodchem Zrt Hungary</td>
<td>A. Schulman Plastics, China</td>
<td>644,000 to the amount of liabilities</td>
<td>EUR</td>
<td>for an indefinite period</td>
<td>Letter of comfort</td>
<td>Letter of comfort Corporate guarantee</td>
</tr>
<tr>
<td>17 June 2009</td>
<td>A. Schulman GmbH</td>
<td>Poliblend S.p.A. Italy Deutsche Bank AG,</td>
<td>50,000</td>
<td>EUR</td>
<td>31 January 2010</td>
<td>Payment guarantee</td>
<td></td>
</tr>
<tr>
<td>30 October 2009</td>
<td>Sp. z o.o. Oblaczkowo</td>
<td>Bierutów</td>
<td>1,000,000</td>
<td>PLN</td>
<td>for an indefinite period</td>
<td>Payment guarantee</td>
<td>Surety agreement</td>
</tr>
<tr>
<td>30 October 2009</td>
<td>Osadkowski Raiffeisen</td>
<td>Osadkowski S.A.</td>
<td>1,000,000</td>
<td>PLN</td>
<td>31 December 2010</td>
<td>Payment guarantee</td>
<td>Surety agreement</td>
</tr>
<tr>
<td>02 December 2009</td>
<td>A. Remisiewicz</td>
<td>PKO BP S.A.</td>
<td>150,000</td>
<td>PLN</td>
<td>31 December 2010</td>
<td>Payment guarantee</td>
<td>Bank guarantee</td>
</tr>
<tr>
<td>Date of issue of guarantee</td>
<td>Issuing party</td>
<td>Issuing bank</td>
<td>Guarantee amount</td>
<td>Currency</td>
<td>Validity date</td>
<td>Guarantee title</td>
<td>Type</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------------</td>
<td>--------------</td>
<td>------------------</td>
<td>---------</td>
<td>--------------</td>
<td>----------------</td>
<td>------</td>
</tr>
<tr>
<td>03 December 2009</td>
<td>PKP CARGO S.A</td>
<td>BRE Bank S.A.</td>
<td>300,000</td>
<td>PLN</td>
<td>29 January 2010</td>
<td>Bid bond payment guarantee (in a tender)</td>
<td>Bank guarantee</td>
</tr>
<tr>
<td>03 December 2009</td>
<td>DB Schenker Rail Polska S.A.</td>
<td>BRE Bank S.A.</td>
<td>300,000</td>
<td>PLN</td>
<td>29 January 2010</td>
<td>Bid bond payment guarantee (in a tender)</td>
<td>Bank guarantee</td>
</tr>
<tr>
<td>03 December 2009</td>
<td>Rhenus Port Logistics Sp. z o.o.</td>
<td>WestLB Bank Polska S.A.</td>
<td>300,000</td>
<td>PLN</td>
<td>29 January 2010</td>
<td>Bid bond payment guarantee (in a tender)</td>
<td>Bank guarantee</td>
</tr>
<tr>
<td>07 December 2009</td>
<td>Sp. z o.o. Przedsiębiorstwo Spedycyjne Trade-Trans</td>
<td>Bank Handlowy S.A.</td>
<td>300,000</td>
<td>PLN</td>
<td>29 January 2010</td>
<td>Bid bond payment guarantee (in a tender)</td>
<td>Bank guarantee</td>
</tr>
<tr>
<td>07 December 2009</td>
<td>CTL Logistics Sp. z o.o. Speed North Speed</td>
<td>ING Bank Śląski S.A.</td>
<td>300,000</td>
<td>PLN</td>
<td>29 January 2010</td>
<td>Bid bond payment guarantee (in a tender)</td>
<td>Bank guarantee</td>
</tr>
<tr>
<td>15 December 2009</td>
<td>America INC</td>
<td>France Monofilament Poliamide</td>
<td>400,000</td>
<td>EUR</td>
<td>for an indefinite period</td>
<td>Payment guarantee</td>
<td>Corporate guarantee</td>
</tr>
<tr>
<td>18 December 2009</td>
<td>Polytrade SPA</td>
<td>Risparmio Di Prato SPA</td>
<td>500,000</td>
<td>EUR</td>
<td>31 December 2010</td>
<td>Payment guarantee</td>
<td>Bank guarantee</td>
</tr>
</tbody>
</table>
6.12. Description of material off-balance sheet items

**Contingent liabilities**

**Contingent liabilities of subsidiaries**

<table>
<thead>
<tr>
<th>Itemisation</th>
<th>Title</th>
<th>Currency</th>
<th>Granting date</th>
<th>Validity date</th>
<th>Value (PLN ‘000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatyka Sp. z o.o.</td>
<td>Performance bond for the work issued by a bank, granted to the company</td>
<td>PLN</td>
<td>February 2009</td>
<td>February 2010</td>
<td>68</td>
</tr>
<tr>
<td>Koltar Sp. z o.o.</td>
<td>On the assets of the Company has been created a bank lien relating to a loan granted by Emerson Management Sp. z o.o. in Warsaw</td>
<td>PLN</td>
<td>1998</td>
<td></td>
<td>17,034</td>
</tr>
</tbody>
</table>

Automatyka Sp. z o.o. has an off-balance sheet register of low-value assets. Gross value as at 31 December 2009 – PLN 482,000

**Promissory notes**

**Promissory notes issued by the Parent as collateral for liabilities as at 31 December 2009 (in PLN ‘000)**

<table>
<thead>
<tr>
<th>Date of issue of promissory note</th>
<th>Promissory note issued for the benefit of:</th>
<th>As security for</th>
<th>Security for liabilities</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>09 Sep. 2004</td>
<td>PKN Orlen S.A.</td>
<td>PLN 10,760</td>
<td></td>
<td>1 blank promissory note up to the amount of PLN 14,000,000</td>
</tr>
<tr>
<td>26 Jan. 2005</td>
<td>Polimex-Mostostal Siedlce S.A.</td>
<td>PLN 0</td>
<td></td>
<td>1 blank promissory note up to the amount of USD 590,000</td>
</tr>
<tr>
<td>08 Dec. 2005</td>
<td>Bank Ochrony Środowiska S.A. O/Tarnów</td>
<td>PLN 0</td>
<td>€ 540</td>
<td>1 blank promissory note up to the amount of EUR 3,230,000</td>
</tr>
<tr>
<td>04 Apr. 2007</td>
<td>Mitsubishi Corporation Japan</td>
<td>PLN 0</td>
<td>€ 638</td>
<td>1 blank promissory note up to the amount of EUR 1,200,000 along with interest</td>
</tr>
<tr>
<td>21 Dec. 2009</td>
<td>Director of the Customs Chamber in Cracow</td>
<td>PLN 0</td>
<td></td>
<td>3,500,000</td>
</tr>
</tbody>
</table>

The liabilities in EUR were converted into PLN at the leading bank’s selling rate of EUR/PLN of 31 Dec. 2009 amounting to 4.2459.

**Total amount of security for liabilities**

PLN 15,760,000
## Guarantees

### Guarantees issued or extended in 2009 by order of the Parent

<table>
<thead>
<tr>
<th>Date of issue</th>
<th>Guarantee beneficiary</th>
<th>Guarantor</th>
<th>Guarantee amount</th>
<th>Currency</th>
<th>Validity period</th>
<th>Purpose of amounts guaranteed</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Jan. 2008</td>
<td>Raiffeisen Bank Polska</td>
<td>GATX</td>
<td>80,000 PLN</td>
<td>PLN</td>
<td>29 Jan. 2010</td>
<td>Rental fee payment guarantee</td>
</tr>
<tr>
<td>(08 Jan. 2009)</td>
<td>Raiffeisen Bank Polska</td>
<td>GATX</td>
<td>42,000 PLN</td>
<td>PLN</td>
<td>15 Mar. 2010</td>
<td>Rental fee payment guarantee</td>
</tr>
</tbody>
</table>

Guarantees issued by banks by order of the Parent and blank promissory notes issued by the Company secure the balance sheet liabilities, and for that reason the Parent has not presented these promissory notes and guarantees as off-balance sheet liabilities.

### 6.13. Financial instruments – risk management policy, instruments, objectives and methods

Presented information concerning the risk as well as adopted financial risk management objectives and methods pertains to the Parent because the financial risk in affiliated entities is insignificant.

Moreover, the Group Subsidiaries do not hold derivative financial instruments.

The risks to which the Parent is exposed include credit, liquidity and market risks (including particularly the currency risk and the interest rate risk) which occur in the course of normal activity of the Parent. The objective of financial risk management is to minimise the impact of market factors, such as exchange rates and interest rates, on basic financial parameters approved in the Company’s budget for a given year (financial result, amount of cash flow) using natural hedging and derivative instruments.

Within the scope of the Financial Risk Management Policy, the Parent has identified the following risks and has adopted the following risk management objectives and methods.

#### Credit risk

The risk of incurring financial losses by the Parent as a result of failure of a contracting party or customer being a party to a financial instrument to fulfil its contractual obligations. The credit risk is related primarily to receivables of the Company from customers and to financial investments.

The credit risk at the Parent relates primarily to trade receivables and fixed-term bank deposits. Except for deposits at banks with high financial rating, taking into account the procedures applicable in the Company and the diversified customer portfolio, in our opinion the concentration of credit risk is not significant.

The Parent carries out ongoing assessment of the credit rating of customers along with their ongoing monitoring by using reports of business intelligence agencies and bad debtors registers, and demands appropriate securities if deemed necessary.

The trade receivables of the Parent are secured by the Trade Credit Insurance Policy issued by Towarzystwo Ubezpieczeń Euler Hermes S.A., and supplementary by the insurance policy issued by Korporacja Ubezpieczeń Kredytów Eksportowych S.A., which reduce the credit risk to the level of co-
payment (from 5% to 15% of the value of receivables insured). These insurance policies provide ongoing monitoring of the financial standing of contracting parties as well as debt collection if deemed necessary, and in case of actual or legal insolvency of a contracting party, the payment of compensation in the amount of 85-95% of receivables insured.

Furthermore, 16% of trade receivables of the Parent are secured by letters of credit, guarantees and collection by the bank, and are excluded from the insurance. Additionally, 2% of receivables are secured by sureties of entities having satisfactory financial standing.

Contracting parties that are not able to present a positive cooperation history with the Parent or are occasional buyers, and it is not possible to obtain an insured credit limit for them, make purchases on advance payment. Moreover, trade credit limit is granted to customers based in the first place on a decision of the insurance company and additionally based on a positive cooperation history and credit rating determined on the basis of reports of business intelligence agencies, financial statements and payment history of the customer. The exposure to credit risk is defined as all outstanding receivables that are monitored on an ongoing basis by the internal financial department of the Parent (individually in relation to each customer), and in the case of receivables covered by an insurance, at the same time by credit risk analysts of the insurance companies.

**Cash flow risk and liquidity risk**

A risk of losing financial liquidity is the risk of occurrence of inability to repay financial liabilities by the Company when they are due. Activities aiming at the limitation of the abovementioned risk include proper management of financial liquidity accomplished by correct assessment of the level of cash resources in various time horizons. In consequence of the share issue carried out in the previous accounting period, the Parent has considerable financial surplus, therefore, the liquidity risk is very low. In 2009, no significant violations of the terms of payment or other conditions of liabilities occurred that could result in the demand of an early repayment of such liabilities.

**Market risk**

**Currency risk**

The Parent is exposed to currency risk in view of the net currency exposure in EUR and USD arising from the balance of turnover in foreign currencies from trade activity and supply as well as from trade, financial and investment receivables and liabilities.

The aim of currency risk management is to reduce planned net currency exposure in EUR and USD arising from cash flow in foreign currencies and resulting in hedging its variability.

It is assumed that the optimal level of currency hedging transactions is hedging up to 50% of planned net currency exposure for a period of 6 months at maximum from the date of conclusion of a transaction and up to 25% of planned currency exposure for a period over 6 to 12 months from the date of conclusion of a transaction. Exceeding of the levels of currency hedging specified above requires an acceptance in writing of the Member of the Management Board responsible for the area of finance.

Currency hedging transactions are concluded in such a way as to reduce the planned net currency exposure of the Parent and they constitute an instrument hedging the cash flow in accordance with the principles of hedge accounting. The nominal value of currency engaged in the transactions cannot by higher than the item hedged in this currency.

In order to hedge the currency surplus in EUR and USD, the Parent uses in the first place the natural hedging consisting in increasing the value of future liabilities in EUR and USD by concluding supply, investment and financial agreements in these currencies.
The remaining net currency exposure is reduced by concluding transactions constituting the following closed catalogue, including:

- foreign currency forward transactions,
- foreign currency swap being a transaction of periodic exchange of currencies with a bank – for the purpose of current optimisation of a short-term maladjustment of the currency structure,
- moreover, it is possible to conclude symmetrical currency option structures of the „currency corridor” type or other symmetrical assumptions for put option purchase as well as currency call option sale.

The settlement of currency hedging transactions is effected principally by physical delivery of the currency at the date of maturity.

The Parent concludes hedging transactions for up to 12 months if hedging of the exchange rate of EUR or USD to PLN above the planned budget rate is possible and for up to 3 months if hedging of the exchange rate at which the sales was realized in the currency is possible, but below the budget exchange rate.

The Parent concludes currency hedging transactions exclusively with banks with which it previously concluded a general agreement that comprehensively regulates the principles of conclusion and settlement of transactions of this type.

The conclusion of currency hedging transactions in the time horizon over 12 months or exceeding the principles defined in the Currency Risk Management Policy requires an approval of the Management Board.

**Interest rate risk**

The Parent is exposed to the interest rate risk arising from financial liabilities (mainly loans) in PLN and EUR which are based on market-driven variable interest rates as well as financial assets (mainly bank deposits) in PLN which are based on market-driven variable and fixed interest rates.

The exposure of the Parent to interest rate fluctuations concerns primarily cash, cash equivalents, financial assets as well as bank loans, credit facilities and leasing based on variable interest rate based on WIBOR + mark-up and EURIBOR or LIBOR + mark-up in case of credit facilities and loans in EUR, respectively.

The objective of interest rate risk management is to optimise the level of interest rates with regard to:

- minimisation of costs of interest rates on debt capital;
- ensuring of the highest accessible profitability of financial assets with the maintenance of security of their allocation.

The accomplishment of the abovementioned objective takes into account obtaining an optimal structure and financing cost of investments using the capital acquired from the issue of shares and from borrowings as well as ensuring the optimal working capital level.

The Parent uses in the first place natural hedging based on the use of a common interest rate base for loans and financial assets kept in PLN.

The remaining exposure to the interest rate risk can be hedged by concluding transactions mentioned below, which constitute a closed catalogue:

- Forward Rate Agreements (FRA),
- Interest Rate Swaps (IRS),
- Cross-Currency Interest Rate Swaps (CIRS).

An interest rate risk hedging transaction can be concluded, provided that a reduction of planned financial cost of the underlying instrument is ensured, besides, it requires an approval of the Member of the Management Board responsible for the area of finance.
The conclusion of interest rate hedging transactions in the time horizon over 12 months or exceeding the principles defined in the Interest Rate Risk Management Policy for 2010 will require an approval of the Management Board.

**Price risk**

In view of the fact that appropriate financial instruments for hedging of the price risk of the main materials and products of the Parent do not occur or no significant correlation between the development of prices of such hedging instruments and the contract prices of materials and products was found, the Company has not planned to use them as hedging against price volatility.

The objective of the Parent is to reduce the price variability risk by natural hedging consisting in connecting the largest possible part of purchase and sale turnover – (especially the main production process: phenol, benzene, caprolactam, poliamide) in concluded general contracts with changes of prices in ICIS pricing for the underlying material.

**Derivative instruments**

**Currency derivative instruments**

As at 31 December 2009, the nominal value of unrealised currency derivative instruments (forwards) of the Parent amounted in total to EUR 2.0 million, with maturity dates in January and February 2010, and USD 3 million, with maturity dates in January, February and March 2010.

The Parent measures derivative instruments at fair value, based on valuations made by the banks with which it cooperates and using data coming from online news websites. The transactions are concluded with credible banks only, under master agreements. All transactions concluded are reflected in physical transactions resulting from foreign currency cash flows. Forward and derivative currency transactions are concluded in accordance with net currency exposure of the Parent and are aimed at the limitation of influence of the variability of currency exchange rates on the financial result.

Since 1 October 2008, the Parent has applied hedge accounting based on the International Accounting Standard No. 39 in order to hedge future cash flows from which the exposure to currency risk results.

In 2009, the Parent applied the above hedge accounting principles in relation to a portion of concluded derivative transactions in USD (for which the settlements of hedging relationships were finished by 30 June 2009) as well as to contracted currency borrowings and loans which meet the criteria specified in IAS No. 39 by calculating the effective value of the hedge and its allocation to revaluation capital.

As a result of settlement of hedging relationships concerning derivative currency transactions in USD, in 2009 the sales revenue was decreased through revaluation capital by the amount of PLN 4,610,000, and in case of settlement of hedging relationships concerning currency credit facilities and loans the sales revenue was reduced by the amount of PLN 3,040,000.

**Fair value of instruments hedged**

As at 31 December 2009, the Parent recognised in the revaluation capital the so-called effective portion of the hedge determined based on the hedge accounting criteria pursuant to IAS 39, arising from currency credit facilities and loans in EUR in the amount of PLN (3,812,000).

The valuation of unrealised hedging transactions as at 31 December 2009 amounted to PLN 334,000, which represented the total fair value of derivative instruments recognised in the Financial Assets item. No hedging relationships have been established for these transactions.

In the opinion of analysts, the world economy is slowly coming out of the crisis, however, because of prolonged economic collapse, all forecasts are very circumspect and the risk of economic changes is still very high.

The scenario of moderate optimism resulting in stable market activation and restoration by the end of 2010 of the level of economically justified market balance is assumed.

The analysis of historical data as well as the assumptions and projections for 2010 show that there are no circumstances indicating the need for limitation of activity or the threat to the Group’s going concern.

A broader description of the Group’s surroundings, the impact of market factors on its economic and financial standing as well as the measures taken in 2010 is contained in the analysis of threats, risks and development prospects.
7. RISKS, THREATS AND DEVELOPMENT PROSPECTS OF THE GROUP

7.1. Material risk factors and threats

The Polish economy is sensitive to the economic situation in the world, in particular in the European Union. The overall economic situation in the world influences the results of the global chemical sector.

Significant macroeconomic factors – which are essential from the point of view of the Group – are the level and the rate of growth of the gross domestic product, the level of inflation, the rate of unemployment and the level of the purchasing power of the people.

The economic depression on the chemical market and on the market of target customers had a significant negative impact on financial results of the Company in 2009. The following sectors shall be recognised as target markets: agriculture, consumption industry, such as the automotive industry, production of household articles, electrical and electrotechnical, construction, textile and carpet industries.

Opportunities

- Growth of the dynamics of global economic development connected with national economies coming out of recession.
- Development of the road infrastructure in the region.
- EU direct subsidies for the agriculture influencing an increase in the purchasing power of this sector.
- Market availability of some of the technologies crucial for the Group.
- The possibility of inclusion of the Parent in the processes of consolidation of the Polish and European chemical industry, and the resulting increase in its development potential /larger scale of operations, access to new markets, raw materials, competencies, technologies and financial resources as well as introduction of new elements of organisation and culture/.

Threats

- Lower than expected economic growth home or in the economies of trade partners.
- Poland’s weak position in negotiations concerning the natural gas import, resulting in limitations of supplies and growing prices of that raw material.
- Expansion of production capacities in Asian countries resulting in lower and lower demand in that region for imported chemical industry products.
- Progressing processes of concentration (without contribution on the part of the Group) of the production, research and trade potential, and concentration of capital in the global chemical industry.
- Aggressive actions of competitors operating on global scale as well as growing intensity of competitive struggle within the sector.
The risks and threats to which the Group is exposed are as follows:

**Risks and threats related to the operating environment**

*The risk of becoming dependent on the macroeconomic situation in Poland and in other countries*

The financial standing is influenced by global macroeconomic factors. The chemical industry supplies raw materials, semi-finished products as well as products for many other industries. Therefore, the overall economic situation in the world has an impact on results of the global chemical sector. Polish economy, in turn, is sensitive to global economic situation, especially to the situation in the European Union. This system of links results in a situation where a rapid economic breakdown has a considerable negative effect on financial results of the Group, and particularly of the Parent. Important macroeconomic factors influencing the situation of the entire economy, and thus also of the chemical sector, including the situation of the Company, include among other things: the level and rate of growth of the gross domestic product, the rate of inflation, the rate of unemployment and the level of purchasing power of the people.

*The risk of changes in market prices of raw materials*

The Group is for the most part a manufacturer of chemicals the prices of which are strongly dependent on prices of raw materials. Considerable fluctuations of prices of main raw materials for production (benzene, phenol and ammonia) should be pointed out. The prices of these raw materials are fixed on the basis of price formulas based on monthly quotations of benzene on the global markets (the formulas for phenol are based on the prices of benzene). With regard to the unstable market situation in 2009 and in view of the relatively high degree of concentration of the market of the abovementioned raw materials (in particular phenol), considerable price fluctuations in the previous year were observed, which periodically adversely affected the fulfilment of planned tasks (plan) and was not reflected in prices of products made on the basis of benzene and phenol. In unanimous opinion of the market participants, the fluctuations were of a speculative nature, and resulted from unstable supply/demand relationship. However, the diversification strategy adopted by the Group, based to a great extent on supplies from domestic sources - more stable and competitive in commercial respect – enabled it to minimise unfavourable market trends. Therefore, the abovementioned threat can be described as insignificant.

The situation in the area of liquid ammonia purchasing was similar. The Parent is the traditional, Poland’s biggest importer of that raw material from the market of former Commonwealth of Independent States (CIS). That market is characterised by high volatility, even in short periods (e.g. quarters). The purchasing strategy for that raw material pursued by the Parent enables it to fully minimise the market threats and risk, all the more because the degree of concentration of the ammonia market is considerably lower than in the case of benzene and phenol (the possibility of using rich domestic sources in case of growth of prices of ammonia from Eastern sources), and the purchase options guaranteed in contracts are used according to the market situation. Therefore, also the abovementioned threat can be described as small.

*The risk of limitation of natural gas supplies*

The sole supplier of natural gas to the Group is PGNiG S.A. 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 natural gas supplies to the Group, and thus to a deterioration of its financial standing. In order to reduce the abovementioned risk, the Group is parallel supplied with gas from local sources.

On 18 December 2008, the Parent signed an additional new agreement with PGNiG S.A. based in Warsaw on the sale of natural gas from local deposits. The physiochemical parameters of gas from
local deposits prevent its use within the national network, while such gas is sufficient for the Parent’s production needs owing to the modification of its systems.

**The risk of seasonality**

The seasonality of sales of some products in the course of the calendar year occurring in the chemical industry affects the liquidity of the Group. Artificial fertilizers are characterised by a particular level of seasonality in the chemical industry; their sales is dependent on the agricultural calendar of cultivation as well as the changing weather conditions. In order to counteract this phenomenon, in 2009 the Parent eliminated the seasonality of fertilizer consumption by concluding contracts ensuring the level of minimal purchases.

**Exchange rate risk**

The exchange rate risk of the Group is related to transactions settled by the Parent in foreign currencies, encompassing about 2/3 of its revenue and about 1/3 of its liabilities. Exchange rate fluctuations affect the amount of sales revenue and the cost of purchasing raw materials. Strengthening of the domestic currency has a negative effect on the profitability of export and the domestic sales denominated in foreign currencies, in turn, weakening of the domestic currency has a positive effect on the abovementioned profitability. Changes in export revenue and in domestic sales valuated on the basis of market quotations which are caused by exchange rate fluctuations are partly compensated by changes in costs of raw material imports, which reduces to a great extent the exposure of the Parent to the risk of exchange rate fluctuations.

The Parent reduces the existing risk arising from the net currency exposure by using selected instruments and actions related to hedging against the foreign exchange risk based on current and planned net currency exposure. For hedging of the foreign currency position within the accounting period, the Parent used in the first place the natural hedging, and supplementary forward transactions.

**The risk of legal changes**

Permanent changes in both EU and domestic regulations of the law bring about the risk that the need to adjust to new regulations, if they are disadvantageous for the Group, might result in costs, and thus adversely affect the financial results.

**Risks and threats related to the activity**

**The risk related to the burden on the natural environment**

The Group’s business activity is noxious and burdensome for the natural environment. For this reason, the Group needs relevant permits to use the natural environment, moreover, it has to provide the appropriate levels of environmental protection and chemical rescue services in case of failures.

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

The Parent has all permits necessary for its activity, including the integrated permits to use the natural environment granted for systems covered by IPPC requirements. The permits, which were awarded to the Company in different periods (the most recent change is dated 2009), are all valid for 10 years from the date of issue. However, the requirements regarding environmental protection may be tightened, and the legal regulations may shorten the validity of previously granted permits. It can take place as a result of an analysis performed by Urząd Marszałkowski [Marshal’s Office] according to articles 216-217 of the Environment Protection Act. As a consequence, it may also happen that the Parent and other Group Companies may be forced to incur a considerable expenditure in order to adjust to newly introduced requirements, which may significantly affect the financial results.

All systems used within the Group, for which the integrated permits have been issued, meet the requirements of the BAT criteria as specified in provisions of the Environment Protection Act.
However, some technologies used may no longer be regarded as currently the best on the market in the light of today’s knowledge.

In order to reduce this risk, the technological processes and systems are successively modernised, and the Company invests in the most modern technologies only.

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

The risk related to the possibility of new obligations related to air protection being imposed on the Parent

Due to a qualification made pursuant to regulations of the Environment Protection Law concerning the protection of air quality, the Parent is located in the „Tarnów City” zone for which admissible emission levels of harmful substances with regard to health protection are specified.

The „Tarnów City” zone, according to classification for the health protection criterion, due to PM10 dust pollution of which the Parent is the source, has been classified to the C class. The fact that the „Tarnów City” zone has been classified to the general C class forces the public authorities to elaborate an air protection programme including the specification of basic directions and scopes of activities necessary to restore admissible levels of substances in the air. This may affect the financial results, mainly due to the possibility of the obligation to finance the activities aiming at the limitation of PM10 dust emissions being imposed on the Parent. In 2009, the Parent took action aiming at the determination of the extent of its environmental impact within PM10.

At present, it is not possible to estimate the costs due to unknown scope of activities and degree of potential reduction of emissions.

The risk related to the possibility of obligations within the scope of water management being imposed on the Parent

The quality of waters in the Dunajec and Biała Tarnowska rivers, being either the source of water supply or the receiving body of water from the Group, will result in introducing to the Water Management Plans (which in compliance with the requirements of the Framework Water Directive came into effect in 2010) of investment projects aiming at a significant improvement of the quality of waters in these rivers. These projects may have a direct or indirect impact on the obligations of the Parent, and in consequence on the costs of adjustment activities, which may affect the financial results.

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

The risk related to the cost of land restoration being borne by the Parent

Based on the conducted research, the land environment pollution on the area of 1.13 ha (out of a general area of over 400 ha) reaching the depth of 3-4 m was found. Due to the possibility of permeating of the pollution to underground waters and their possible spreading, the law imposes the obligation to monitor this pollution and prevent its spreading. In case the pollution is found in underground waters, it may imply the necessity to take protective and restoration measures the costs of which may be considerable.

The Parent conducts a periodical monitoring of underground waters. Conducted investigations have not shown mercury pollution of underground waters. It cannot be excluded that as a result of new information obtained from the pollution monitoring a need arises to extend the scope and frequency of sampling and marking specific types of pollution, which may result in an additional financial cost.

The estimated cost of land restoration is about 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 the removal of chlorine and soda lye production

The Parent utilised the mercury electrolysis technology for the production of chlorine and soda lye. This technology was highly burdensome for the environment, since mercury is a source of contamination of land and buildings. The system for the production of chlorine and soda lye has been withdrawn from use. The Parent holds an integrated permit for the system for mercury electrolysis valid until 2016. The decision on the physical removal of the system implies the necessity of bearing the costs of demolition and “post-demolition” waste management as well as the necessity of restoration of the land on which the system is installed. The Parent created appropriate provisions for this purpose.

The estimated cost of storage of the debris from demolition of the electrolysis plants and of the soil underneath amounts to PLN 32 million (according to Annex No. 2 – September 2008 update of the „Ecological and environmental conditions for withdrawal from the chlorine business and the related costs”).

The risk of insufficient emission quotas

The Parent emits CO2 (carbon dioxide). CO2 emission is involved in the case of both the core activity and the production of energy (electricity and heat energy in form of water steam – these energy carriers are produced by the Company for its own needs and for sale). So far, the Parent did not make use of granted emission quotas fully, and could sell the surplus of such quota on the emissions market. In 2009, the surplus amounted to 71 668 Mg. It is probable that in future the Parent will have to purchase CO2 emission rights because of the limits it received being too low. Another solution to the problem of growing demand for electrical energy may be to purchase the energy on the market, which in view of the expected increase in energy prices and the expected power shortages in Poland may bring about a rise in prices of the electrical energy supply. As the potential volume required cannot be estimated, no cost forecast can be provided in this respect.

The risk of excessive noise emission in the environment

The V Methane Decomposition Plant (V RM) is one of the sources of noise emitted in the environment. Next to the Plant along the western fence of the Parent’s premises runs the Chemiczna Street. On 28 July 2008, the Provincial Environment Protection Inspectorate in Cracow – Tarnów Branch, made the test measurements of noise emitted in the environment by the V Methane Decomposition Plant and stated that the admissible limit during the night was exceeded by 2.7 dB. As a result of the above statement of excessive noise emission, a „running” penalty was imposed. The total penalty for 2009 amounted to PLN 11,045.

The risk related to introduction of obligatory registration of chemical products

The activities aiming at the registration of chemicals being the objects of sale and import arising from the Regulation (EC) No. 1907/2006 of the European Parliament and The European Council (so-called REACH) have been conducted for several years.

A possible failure to register the products and import in the course provided for in the REACH Regulation would result in a ban on their sale and import.

In December 2008, the Parent registered preliminary 41 substances, of which currently about 26 substances are expected to require proper registration, including 16 by 1 December 2010.

The year 2009 was full of activities aiming at ensuring the proper registration by participation in registration consortia or by the so-called letter of access (a permit to use common registration). A way of registration for each substance was established.

The activities in the Consortium for the Registration of Caprolactam Products were continued, and in the 1st quarter of 2009 a consortium agreement was signed.
The Parent joined the European Sulphuric Acid Association (ESA) and within this organisation nitric acid and sulphur trioxide have been registered (by the Letter of Access).

Furthermore, the Parent joined the UPS Polska consortium which registers cinders and slag, and declared the will to join the consortium registering formalin (Rorma Care Consortium).

In case of fertilising products (ammonium nitrite, sodium nitrite, nitric acid, ammonium sulphate, ammonia and ammonia solution) was agreed that the registration will be made by a Letter of Access granted by the FARM Consortium.

It was arranged that trioxane would be registered by accession in April 2010 to the consortium led by BASF and TICONA.

Cyclohexane will be registered based on a Letter of Access made available by the LOA Consortium.

The way of registration of cyclohexanol is being analysed. The registration of this substance as a transported semi-finished product is provided, and the legal possibility of registration of this substance also as a product in the tonnage up to 1000 t/year is being confirmed.

In the case of other substances the registration is required in the later period (by 2013 or by 2018), but in most cases the way of registration, e.g. in which consortium they will be registered, has been already determined.

It is expected that the registration procedures of the REACH programme will generate in 2010 costs estimated at about PLN 2.5 million.

To sum up: the activities conducted in 2009 brought Azoty Tarnów considerably closer to the fulfilment of requirements concerning the registration of substances in the REACH system, and currently no necessity of abandonment or limitation of production in view of the provisions of this Regulation is anticipated with regard to key products, i.e. products or semi-finished products manufactured in the quantity >1000 tons / year and registered in 2010.

The risk related to the activity of Subsidiaries being dependent on the Parent

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

7.2. Description of external and internal factors essential for the development of the Group, and description of the policy with respect to the trends of development

External factors

According to estimates of the International Monetary Fund, in 2009 the world GDP dropped to –0.8 % compared to 3.0 % in 2008. In the EUR zone, the change of the GDP in 2009 amounted to (3.9) % compared to 0.6 % in 2008. The situation in Poland was more favourable. According to estimates of the Central Statistical Office, the Gross Domestic Product in 2009 grew in Poland by 1.7% compared to nearly 5% in the previous year. The added value in the industry grew in Poland by 1.1%. According to the International Monetary Fund, Poland owes its good results, against the background of other countries, primarily to the large internal market which makes the results of the economy independent from export as well as the stable bank system.

The prospects for economic growth in 2010 are better. Towards the end of 2009, the global economy began coming out of recession. According to the recent estimates of the International Monetary Fund, expected growth of the world GDP will amount to about 4%. According to the IMF and the European Commission, the projected GDP growth for the EUR zone does not exceed 1%. According to the same estimates, Poland alone can achieve the economic growth of about 2.75%.

The results of the chemical sector, which is a supplier of raw materials, semi-finished products as well as products for many other industries, are influenced by the global economic situation. In 2009, a drop
in production of the chemical industry by about 12% compared to the previous year was reported in Europe. According to CEFIC, in 2010, a higher growth can be expected for the chemical industry than for the economy in general, and the expected growth for the chemical industry in Europe amounts to about 5% (the forecast does not take into account the pharmaceutical industry). In view of the great production capacity surplus and low energy prices, no considerable rise in prices of chemicals is expected.

**Market situation – a material factor for development**

**Chemical and raw material market**

In 2009, the European chemical market still felt the effects of the 2008 crisis, despite of the attempts to restrain it. A drop in sales put the chemical companies in a difficult situation and forced them to drastic decisions on cost cutting and employment reduction. At present, they are at the outset of the path to achieve the sales level from the beginning of 2008. The chemical market in Europe benefited from the government programmes subsidising other branches of industry.

**Caprolactam market**

The prolonged crisis of 2008 on the European market became apparent in 2009 in a strongly limited demand for caprolactam and polyamides. This resulted in limitations of production, and the low demand with larger supply of caprolactam caused that the prices of caprolactam in Europe remained on a low level.

The recovery which started in Q2 of 2009 was caused by an increase in demand on the part of the textile and plastic processing markets. Growing demand with limited reserves of caprolactam in Europe brought about a rise in the level of prices which was apparent with a delay also in the trends of raw materials, phenol and benzene.

In Q2, the downward trend of price quotations stopped and the prices began to grow gradually until the end of Q3, and to drop again beginning from October. As a result, throughout the year the prices of liquid caprolactam in Europe have not reached the level from before the crisis even in 50%.

At the same time, an increase in demand for crystal caprolactam on the Asian market was reported with simultaneous rise in the level of prices. The fact of the lack of balance in supply of benzene in this market strengthened the high level of crystal caprolactam prices.

In 2010, new investments may have an impact on the caprolactam market; 75% of them are located in China. A certain danger may be posed by the policy of this government that will apply restrictive measures in order to protect its market, as it has done in case of polyamides by imposing e.g. antidumping duties.

**Plasctics market**

The situation in the plastics sector looked favourably in the half-year of 2008, but since autumn of that year a drop in demand began. The crisis brought about a sudden breakdown of the market in a relatively short time. According to many sources, from January to June 2009 the production in the European Union dropped compared to the same period of 2008. Signs of a slight recovery of the market appeared only in Q2 of 2009. With respect to the production of plastics as raw materials, a different reaction was observed. The demand on the part of the automotive sector dropped by no less than 40%, a considerable drop in demand was recorded also in the construction industry. Restructuring measures have been taken and production limitations have been introduced in the entire plastics industry. In September 2009 the signs of reversal of the downward trend of demand for plastics and plastic products appeared. The limited demand for polyamide on the European market in 2009 was partly consumed by the Chinese market.
The current forecasts show that the market of construction plastics will grow, while the textile and fibre market will shrink. The growth in demand for plastics is very slow, and the sector will need probably several more years to reach the level from before the recession.

The relationship between the prices of caprolactam and the prices of petrochemical materials remained apparent, and the prices of polyamid 6 showed a lower dynamics due to a distinct impact of the demand and a greater delay in time in relation to the prices of raw materials, which gave the possibility of reaction with smaller amplitude. A different situation occurred in case of polyoxymethylene because the market price remained on a stable level and showed a very limited dynamics – which has been confirmed by available quotations. On the other hand, the price of methanol was characterised by great dynamics resulting from the changing supply and macroeconomic situation influencing the global prices of raw materials.

It is anticipated that the key development factor will be the extension of line of business, primarily towards medicine and sport.

**Fertilizers market**

The season 2007/2008 (autumn/spring) was the peak of a great boom in the fertilizers market, but also in the entire agricultural sector. It was a result of prosperous economy and a consequence of high prices of raw materials as well as forecasts of a rapid increase in demand for food in the world. Meanwhile the actual increase in demand for agricultural products turned out to be considerably lower than in the forecast. It caused an adjustment in the purchase prices of grain and the loss of demand balance by farmers (October 2008), and the situation was additionally worsened by the PLN exchange rate. The financial crisis, which adversely affected the access to external sources of financing, had also an effect on the limitation of the use of fertilizers on the global scale. The stagnation on the market lasted for about 6 months.

On the domestic market in Q1 2009, in view of a large reserve of stocked nitro-chalk fertilizers in the storehouses of dealer networks, the manufacturers and dealers sought the maintenance of prices, while the farmers expected their adjustment. In this context, in Q2, completely differently than in the previous years, a considerable limitation of demand for fertilizers occurred. Additionally, the level of change in demand was influenced by the smaller acreage of crops as well as the limitations of the quantity of nitro-chalk fertilizers sown. The farmers minimised their costs and limited them to the necessary minimum. In such market situation, also the dealers considerably limited the purchases of fertilizers. The behaviour of the market resulted in price reductions.

In the 2nd half of 2009, despite the lower price ceiling, the manufacturers of fertilizers continued to report problems with the sale of products. An additional factor impeding the sales of nitrogenous fertilizers in Poland were cheaper fertilizers of manufacturers from Slovakia, Hungary, Lithuania and countries outside of the EU.

The drop in prices of fertilizers in Poland was a result of the global decline in demand for fertilizers with simultaneously growing supply and reduced profitability of plant production. Since October 2009, a trend towards the restoration of supply balance was observed. The growth in demand for fertilizers in 2010 will result from several premises, primarily from the seasonal increase in demand, the improvement of profitability of grain production and the easier access to external sources of financing.

The drop in the economic growth rate, costs of the global economy recession, unstable price of petroleum and other raw materials (including gas, ammonia and sulphur) in consequence can bring about turbulences on the fertilizers market. In the era of global economy, fright rates and transport costs become more and more important.

A substantial threat to the sale of fertilizers becomes the policy of states that impose considerable restrictions on imports in order to protect their internal market.
Internal factors important for the functioning and development of the Group

Strong points

- high quality of the most products, accepted by the market,
- high technological and technical level of some of the production systems,
- stabilisation of the distribution channels for bulk products,
- high degree of capacity utilisation within main production lines,
- experienced and qualified technical staff with high professional competencies,
- own caprolactam and polyoxymethylene technologies,
- basic environmental protection problems solved in accordance with legal regulations currently in force,
- good image of the Group, and in particular of the Parent, as well as its experience and tradition of several dozen years’ standing in the chemical sector,
- participation in the organised public trading system,
- funds obtained from share issue which guarantee the implementation of the development programme.

Weak points

- low scale of operations compared to main competitors, which limits the possibility of competing,
- relatively low technological and technical standards of some of the systems,
- high employment and relatively low wages and salaries,
- no stable access to basic petrochemicals, which significantly limits the development possibilities in the sector of organic commodity chemicals and plastics,
- limited possibilities of obtaining prices at the level of prices dictated by leading competitors
- low competencies in operating on markets of highly processed products addressed to broad groups of customers,
- high depreciation of assets resulting in the need for spending relatively large financial means on modernisation and restoration.

7.3. Prospects for the development of activities of the Group with market strategy elements

The directions of development of the Parent arise from the adopted Company Development Strategy for the years 2007-2015 as well as the objectives defined in the prospectus which assume the concentration of expenditure on the sectors:

- Organic chemicals sector, in particular caprolactam,
- Sector of technologically advanced materials, in particular construction plastics,
- Sector of products for the agriculture, in particular mineral fertilizers.

The abovementioned sectors will be the main areas of development of the Parent. The objective is to build the position of a major manufacturer of caprolactam and construction plastics in Europe with simultaneous strengthening of the competitive position in the sector of products for the agriculture.

The year 2009 turned out to be very difficult for the chemical industry which has been seriously affected by the global economic crisis. In Europe, a drop in production in the chemical industry was reported by about 12 % compared to 2008. Such decrease in the volume of production was caused by the decline in demand for practically all products of the chemical industry, especially those related to the construction and automotive industry.

In 2010, according to most forecasts, an increase in consumption is expected; however, it will be diversified depending on geographical regions and sectors, related among other things to
replenishment of stocks the level of which was strongly reduced near the end of 2008 and in the 1st half of 2009.

The factor having a negative impact on the development of the sector will be the occurring excess of production capacity related to the adjustment in consumption in 2009 and new production capacities, which may cause an increase in intensity of the competitive struggle, especially on the part of manufacturers from the Asian and Middle East regions.

The most important investment projects that will be implemented in 2010 are related to the improvement of the competitive position in areas of the domain of the Parent as well as the implementation of objectives of the share issue. In 2010, a significant group of projects will constitute investments related to the adaptation of production systems to applicable legal requirements as well as projects aiming at ensuring the continuity of operation of production systems. The biggest project in the group of new investments will be the construction of a new Hydrogen Generation System.

The commencement of the project entitled Hydrogen Generation System has been scheduled for Q2 of 2010, and the completion is scheduled before the end of 2012. The implementation of that project will make a reduction of the scale of ammonia purchasing possible and ensure the provision of hydrogen for the caprolactam line using natural gas from local deposits.

In 2010, the continuation of implementation of several projects commenced in the previous years is scheduled. The most important task in this group will be to complete the 2nd stage of Intensification of Production of the Modified Plastics Plant. Furthermore, in 2010, the work on intensification of caprolactam production capacities up to the level of about 100,000 t/year will be continued. The investment is scheduled to be completed in 2011. Among other important projects of the group of continued investments which are scheduled to be implemented in 2010 are: adaptation of the energy measurement and settlement system to the conditions of the electricity market, modernisation of the power supply system for the GPZ (main power supply stations), building of the System for complex ash removal from EC II boilers.

The work on investment preparation carried out in 2010 will be related to the implementation by the Parent of adopted strategic projects and the fulfillment of objectives of the share issue. Preparatory work on new projects within the area of production of caprolactam and construction plastics as well as work related to the modernisation of the factory’s heat and power station will be carried out. Furthermore, the work on further Parent’s product diversification will be continued.

**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, the situation will change due to the slump in the economy. The limitations of investment and repair projects will make soliciting of new orders much more difficult; on the other hand, modernity and high quality of the product along with a great performance potential will be helpful in this respect.

The Company has planned to generate in 2010 sales at the level about 18 % lower than in 2009. The sales in that volume will ensure the maintenance of the present economic potential of the Company (necessary replacement of assets, maintenance of professional staff) giving the Company broader possibilities of growth in the future.

In order to implement the sales plan, the Company has to intensify direct marketing activities (keep the customers informed about the company and its products) and strengthen the cooperation with present customers.
Biuro Projektów Zakładów Azotowych „BIPROZAT” – TARNÓW Sp. z o.o.

The Company intensifies action aiming at soliciting new orders, including orders for new products – delivery picking and investment implementation. Thus, the Company commences work on implementation of the development strategy; the aim is to establish – in cooperation with the Owner – an organisation being an engineering office.

The work related to the extension of the Company’s domain, building of resources and competencies in the area of new products, adaptation of the management structure and system to new tasks, implementation of modern design assistance systems (Smart Plant) are the basic directions of the Company’s development scheduled to be implemented in 2010 and in the following years.

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

The Management Board has not planned to change the core domain of the Company’s activity in 2010. However, some changes have been introduced within the scope of the trade in goods. Towards the end of April 2010, the sale of CO₂ will be discontinued (the share of this sale in the total sales volume was small).

The core domain of the Company’s activity will remain the operation in the area of electrical services in a broad sense. The goal of the Company is to maintain the present level of services as well as to keep present customers and acquire new ones by efficient marketing.

Jednostka Ratownictwa Chemicznego Sp. z o.o.

The priority goal of the Company is to build the processing line for customising of fertilizers in packaging of the type „big bag”, the line for municipal waste segregation and the PET waste processing line (in specific outside conditions).

These investments should bring measurable economic benefits to the Company through lower charges for waste storage, making receiving of a larger quantity of waste possible, sale of recycled materials and a new range of products.

Additionally, in the area of the waste disposal grounds and sewage treatment plants, the Company plans to:

- obtain a permit and build a new asbestos waste disposal site,
- preliminary modernise the Biological Sewage Treatment Plant – within the scope of saving the electrical energy consumption and improvement of its operational safety,
- continue the restoration of filled sectors of the waste disposal grounds
- start efforts to build a new municipal waste disposal site
- within the scope of laboratory services the company plans to:
  - obtain accreditation for the Water and Wastewater Testing Laboratory at the Specialist Laboratory Office (for 10÷15 methods),
  - extend the scope of accreditation for the Veterinary Diagnostics and Food Testing Laboratory in Nowy Sącz (to include further 3÷5 methods),
  - implement the animal feed analysis,
  - extend the scope of accreditation for the Food Testing Laboratory in Tarnów (to include 2 methods),
  - implement the soil analysis.

Przedsiębiorstwo Transportu Kolejowego „KOLTAR” Sp. z o.o.

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

- expansion of the activity with simultaneous maintenance of attractive prices of its services,
- modernisation and leasing of the rolling stock to third parties,
- execution of obtained orders for licensed transports of dolomite rock.
„PROReM” Sp. z o.o.
Further diversification of the market up to the level of 30% outside the Group

„ZWRI” Sp. z o.o.
Despite existing threats, the present financial standing of the Company as well as the human resources and the equipment base allow to state that the continuation of the Company’s activity is not in danger. If the situation in the construction market stabilises, it is possible to avoid a decrease in the profitability index.
8. ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS

Parent 2009

Agreement with Deloitte Audyt Sp. z o.o. concluded on 20 May 2009 for:

- the audit of individual financial statements for the period of 12 months ending on: 31 December 2009, 31 December 2010 and 31 December 2011, prepared in keeping with the International Financial Reporting Standards,
- the audit of consolidated financial statements for the period of 12 months ending on: 31 December 2009, 31 December 2010 and 31 December 2011, prepared in keeping with International Financial Reporting Standards,
- the audit of consolidation packages for the period of 12 months ending on: 31 December 2009, 31 December 2010 and 31 December 2011, prepared in keeping with the guidelines and for the consolidation purposes of Nafta Polska S.A.,
- the review of individual (full) financial statements for the period of 6 months ending on: 30 June 2009, 30 June 2010 and 30 June 2011 prepared in keeping with International Financial Reporting Standards,
- the review of consolidated financial statements for the period of 6 months ending on: 30 June 2009, 30 June 2010 and 30 June 2011 prepared in keeping with International Financial Reporting Standards,

Remuneration – PLN 260 000 in each year of validity of the Agreement

Parent 2008

1. Agreement with Deloitte Audyt Sp. z o.o concluded on 28 November 2008 on the audit of individual and consolidated financial statements as well as the consolidation package, and for the audit of documents under the full consolidation method for the period of 12 months ending on 31 December 2008. Remuneration – PLN 175 000.

## Entities auditing the financial statements of the Subsidiaries for 2009

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<tr>
<th>Company</th>
<th>Auditing entity</th>
<th>Tax ID (NIP)</th>
<th>Agreement No.</th>
<th>Agreement date</th>
<th>Agreement term</th>
<th>(Net) Remuneration</th>
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### Entities auditing the financial statements of the Subsidiaries for 2008

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<td>Elzat Sp. z o.o.</td>
<td>33-100 Tarnów Biuro Biegłych Rewidentów Sp. z o.o.</td>
<td>873-00-13-309</td>
<td>18/2008</td>
<td>5 Nov. 2008</td>
<td>to 15 Mar. 2009</td>
<td>8,500</td>
</tr>
<tr>
<td>JRCH Sp. z o.o.</td>
<td>31-429 Kraków Biuro Biegłych Rewidentów Sp. z o.o.</td>
<td>676-20-61-598</td>
<td>28/12/B/08</td>
<td>18 Feb. 2008</td>
<td>to 28 Feb. 2009</td>
<td>21,000</td>
</tr>
<tr>
<td>Koltar Sp. z o.o.</td>
<td>33-100 Tarnów Biuro Biegłych Rewidentów Sp. z o.o.</td>
<td>873-00-13-309</td>
<td>14 Nov. 2008</td>
<td>annex-20 Jan.</td>
<td>from 02 Feb. 2009</td>
<td>13,500</td>
</tr>
<tr>
<td>Oknotar Sp. z o.o.</td>
<td>33-100 Tarnów Biuro Biegłych Rewidentów Sp. z o.o.</td>
<td>873-10-13-197</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wiezat Sp. z o.o.</td>
<td>33-100 Tarnów Biuro Biegłych Rewidentów Sp. z o.o.</td>
<td>873-00-13-309</td>
<td>25/2008</td>
<td>14 Nov. 2008</td>
<td>to 28 Feb. 2009</td>
<td>7,500</td>
</tr>
<tr>
<td>ZWRI Sp. z o.o.</td>
<td>33-100 Tarnów Biuro Biegłych Rewidentów Sp. z o.o.</td>
<td>873-00-13-309</td>
<td>24/2008</td>
<td>14 Nov. 2008</td>
<td>28 Feb. 2009</td>
<td>10,300</td>
</tr>
</tbody>
</table>

The auditing entity was selected. However, due to the pending process of sale of the Company and the disposal of its shares on 2 March 2009, the Company was released from the obligation to have its financial statements audited, and the agreement with the auditor was not signed.
9. LEGAL PROCEEDINGS

No legal proceedings are pending concerning the Group Companies pertaining to liabilities or receivables with the individual or total value amounting to 10% of the equity of Azoty Tarnów, i.e. meeting the significance criteria defined in § 91 clause 5 item 5 of the Ordinance of the Minister of Finance on Current and Periodical Information of 19 February 2009.

10. STATEMENT ON APPLICATION OF THE CORPORATE GOVERNANCE

Pursuant to § 29 clause 5 of the Regulations of Giełda Papierów Wartościowych w Warszawie S.A., the Management Board of the Parent acting pursuant to resolution No. 1013/2007 of the Executive Board of Giełda Papierów Wartościowych w Warszawie S.A. hereby submits the report on application by the Company in 2009 of the principles of corporate governance contained in the document „Good Practice of Companies Listed at the WSE” (Appendix to Resolution No. 12/1170/2007 of the Stock Exchange Board of 4 July 2007).

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

The Parent, declaring operation in accordance with the highest standards of capital market communication and the principles of corporate governance, abides by the collection of principles „Good Practice of Companies Listed at the WSE” developed by the Warsaw Stock Exchange. The code constitutes an appendix to Resolution No. 12/1170/2007 of the Stock Exchange Board of 4 July 2007.

In order to adjust internal regulations to the Code of Good Practice, in the Parent are in effect Rules of Organisation of 22 July 2008 containing the principles of corporate governance.

In March 2010, the Parent was invited to the programme „10 companies for 10 years of SII…” organised by the Association of Individual Investors. The objective of the programme is to create and promote the highest standards in the area of communication between stock exchange companies listed on the regulated market run by Giełda Papierów Wartościowych w Warszawie S.A. and investors and to work out the best practical solutions in the area of investor relations, including contacts of such companies with individual investors. This programme is an integral part of the policy aiming at the improvement of communication of the Company with the market and conveying of information about the principles of management and supervision by ensuring transparency.

10.2. The scope in which the Parent departed from the provisions of the collection of principles of corporate governance, indication of such provisions and explanation of reasons for such departure

Beginning from the stock exchange debut in 2008, the intention of the Parent is to abide by the good practice of corporate governance; to this end, the Company’s Management Board made a declaration submitted in the Prospectus (see item 26.3.1).

The intention of the Parent is to abide by all principles of corporate governance specified in the Code of Good Practice of Companies Listed at the WSE, with the exception of principle 8 section III of the Code of Good Practice. The Management Board informed about the exclusion of application of this principle in the Prospectus and at the time of the stock exchange debut in Current Report No. 20/2008 of 30 June 2008.

The Parent, as an entity controlled by the Treasury, will not abide by principle 8 section III of the Code of Good Practice regarding the obligation to ensure the majority of independent members of the Supervisory Board in the audit committee. The composition of the Supervisory Board formed
pursuant to the regulations of the Commercialisation and Privatisation Act and the fact that only two members of the Supervisory Board meet the criteria of independence defined in the provisions of the Code of Good Practice cause that meeting of the requirement of participation of a majority of independent members in the audit committee becomes almost impossible. The Supervisory Board is composed of the following four groups of members (1) member of the Supervisory Board elected by the General Meeting at which the company „Nafta Polska S.A.” is entitled to a majority of votes; (2) representatives of the Company’s employees; (3) independent members of the Supervisory Board and (4) representative of the Minister of Treasury.

At present, the Audit Committee acting as an advisory body within the structure of the Supervisory Board of the Parent has two members, and one of the members is independent.

10.3. Characteristics of the internal control and risk management systems applied

On 4 March 2009, by Resolution No. 136/VII/2009, the Supervisory Board appointed the Audit Committee in the Parent in order to facilitate the operations of the Supervisory Board and to strengthen control over the Parent and the Group. The Committee is a collegial advisory body operating within the structure of the Supervisory Board of the Parent.

The Committee’s representatives:

- Mr. Armin Teske,
- Ms. Małgorzata Rzążewska.

In particular, the Committee’s tasks include: monitoring of financial reporting, monitoring of the efficiency of the Parent’s internal control, internal audit and risk management systems, monitoring of annual audits and consolidated financial statements, monitoring of the work of the internal audit department, monitoring of the work and the reports of independent certified auditor, and review of selected economic events essential for the Parent’s operation. The detailed principles of operation of the Audit Committee are defined in the Committee Regulations prepared in accordance with the content of Schedule I clause 4 (Audit Committee) of the Recommendation of the European Commission of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and the committee of the supervisory board that was adopted by the Supervisory Board of the Parent.

Beginning from the stock exchange debut in 2008, the Parent has applied internal procedures regulating the preparation, approval, publication and purpose of individual and consolidated periodic reports for the Group. Moreover, the Parent pursues an information policy that is uniform for the entire Group.

Beginning from 1 January 2009, the Parent implemented the Currency Risk Management Procedure for the purpose of hedging the currency cash flow against unfavourable exchange rate changes.

The object of the Procedure is to determine the course of action within the process of currency risk management including i.a. the identification and evaluation of sources of the exchange rate risk, adoption of a general currency risk management policy, projection of future cash flow and estimation of currency position, determination of the level and the horizon of currency risk hedges, selection and implementation of the hedging strategy and hedging instruments as well as the control and evaluation of effects of action taken.

The Currency Risk Committee was appointed in order to implement the foreign exchange risk management process that is supervised by the Member of the Management Board responsible for the area of finance.

On 10 June 2009, in order to adjust internal rules and legal regulations regarding internal control to the standards in this respect which are currently in force, the Parent implemented „Standards for auditing and its documentation at Zakłady Azotowe w Tarnowie – Mościcach S.A.”.
The objective of the internal control procedures is i.a. to analyse the risk faced by the Parent as well as to point out the areas of unfavourable phenomena in the current and future activity of particular organisational units and sections. The object of activity of the institutional auditing system is the entire scope of operation of the Parent, including in particular all functional and economic spheres, i.e. technological and repairing, investment, economic, financial, organisational, administrative, personnel, commercial, marketing and other areas.

10.4. Shareholder structure

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of stock capital</th>
<th>Number of votes</th>
<th>% of votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury</td>
<td>1,354,160</td>
<td>3.46%</td>
<td>1,354,160</td>
<td>3.46%</td>
</tr>
<tr>
<td>Nafta Polska</td>
<td>19,200,000</td>
<td>49.08%</td>
<td>19,200,000</td>
<td>49.08%</td>
</tr>
<tr>
<td>Ciech</td>
<td>2,560,000</td>
<td>6.54%</td>
<td>2,560,000</td>
<td>6.54%</td>
</tr>
<tr>
<td>PGNIG</td>
<td>4,000,001</td>
<td>10.23%</td>
<td>4,000,001</td>
<td>10.23%</td>
</tr>
<tr>
<td>Other</td>
<td>12,002,260</td>
<td>30.69%</td>
<td>12,002,260</td>
<td>30.69%</td>
</tr>
<tr>
<td></td>
<td>39,116,421</td>
<td>100.0%</td>
<td>39,116,421</td>
<td>100.0%</td>
</tr>
<tr>
<td>31 March 2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury</td>
<td>1,349,000,</td>
<td>3.45%</td>
<td>1,349,000,</td>
<td>3.45%</td>
</tr>
<tr>
<td>Nafta Polska</td>
<td>19,200,000,</td>
<td>49.08%</td>
<td>19,200,000,</td>
<td>49.08%</td>
</tr>
<tr>
<td>Ciech</td>
<td>2,560,000,</td>
<td>6.54%</td>
<td>2,560,000,</td>
<td>6.54%</td>
</tr>
<tr>
<td>PGNIG</td>
<td>4,000,001,</td>
<td>10.23%</td>
<td>4,000,001,</td>
<td>10.23%</td>
</tr>
<tr>
<td>Other</td>
<td>12,007,420,</td>
<td>30.70%</td>
<td>12,007,420,</td>
<td>30.70%</td>
</tr>
<tr>
<td></td>
<td>39,116,421,</td>
<td>100.0%</td>
<td>39,116,421,</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

A change in the number of shares of the Parent held by the Treasury resulted from the completion of granting, free of charge, of employee shares to the heirs of entitled persons.

10.5. Special control powers of the holders of securities

Pursuant to the provisions of § 16 clause 2 of the Company’s Statutes, the Treasury as Shareholder is individually empowered to appoint and dismiss one member of the Supervisory Board.

Moreover, pursuant to the provisions of § 43 clause 1 item 4 of the Parent’s Statutes, the General Meeting is convened by the Management Board of the Parent on a written request of the Treasury as shareholder, irrespective of its share in the registered capital, submitted at least one month before the proposed date of the General Meeting.

§ 45 clause 4 of the Company’s Statutes, which regulates the issue of putting by the shareholders of particular items on the agenda of next General Meeting, provides that „A stockholder or stockholders representing at least one-tenth of the registered capital may demand particular items to be put on the agenda of the next General Meeting. This power is also vested in the Treasury as shareholder, irrespective of its share in the registered capital”.

A change in the number of shares of the Parent held by the Treasury resulted from the completion of granting, free of charge, of employee shares to the heirs of entitled persons.
10.6. Restrictions on the exercise of the right to vote (if any)

No such restrictions are provided for in the Company’s Statutes. Pursuant to § 47 clause 2 of the Statutes, 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 arise from provisions of the Commercialisation and Privatisation Act (article 38 clause 3). The statutory period of the ban on disposal of shares series AA by employees expired on 15 September 2007, and by members of the then Management Board of the Parent (who held in total 970 shares series AA) – on 15 September 2008.

In view of the Act of 18 December 2008 on amendment of the Commercialisation and Privatisation Act and the Act on Principles of Acquisition of Shares from the Treasury in the Process of Consolidation of Companies from the Electrical Power Engineering Sector (Dz. U. [Polish Journal of Laws] No. 13 item 70), the process of granting, free of charge, of shares to the heirs of entitled persons was completed on 12 February 2010.

The freedom of transfer of Shares Series B is not restricted in any way.

10.8. The principles of appointment and dismissal of members of the executive bodies and their respective powers, in particular the power to decide on the issue or redemption of stocks

Principles regarding the appointment and dismissal of members of executive bodies

The Management Board of the Company

Pursuant to § 24 of the Company’s Statutes, Members of the Management Board or the entire Management Board – subject to the provisions of § 25 and the following of the Statutes– 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 Company’s Statutes).

As long as the Parent has the average annual employment of over 500, the Supervisory Board appoints one person elected by the employees of the Parent to the position of Member of the Management Board for the term of office of the Management Board (§ 25 clause 1 of the Company’s Statutes).

Supervisory Board

Pursuant to § 35 clause 1 of the Company’s Statutes, the Supervisory Board is composed of 5 to 9 members appointed by the General Meeting, subject to the provisions of § 16 clause 2 (“The Treasury as Shareholder shall be individually empowered to appoint and dismiss one member of the Supervisory Board”) and § 36 of the Statutes (“Some of the members of the Supervisory Board are persons elected by employees of the Company pursuant to article 14 of the Commercialisation and Privatisation Act”).
The power to decide on issue or redemption of shares

Pursuant to § 51 items 13 – 16 of the Statutes, the powers of the General Meeting include:

- increase in and reduction of the share capital of the Parent,
- issue of bonds convertible to shares, preference bonds and subscription warrants,
- acquisition of own shares in the situation defined in article 362 § 1 item 2 of the Code of Commercial Partnerships and Companies [Ksh],
- compulsory redemption of shares pursuant to the provisions of article 418 Ksh.

10.9. The rules for amending the Statutes or Articles of Association of the Parent

Pursuant to § 51 clause 22 of the Statutes, amendment of the Statutes and change of the objects of activity of the Parent are among exclusive powers of the General Meeting.

10.10. General Meeting – rules of procedure

Pursuant to § 51 of the Statutes, the powers of the General Meeting include in particular:

- examination and approval of the financial statements for the prior accounting year and the Management Report on the activities of the Parent,
- granting a vote of acceptance to the members of the bodies of the Parent,
- distribution of profit or covering of loss,
- fixing of the date of determining the rights to dividend and the date of dividend payment as well as arranging of dividend payment in instalments,
- examination and approval of the consolidated financial statements of the Group for the prior year and the Management Report on the activities of the Group, if the duty of its preparation arises from the Accountancy Act,
- appointment and dismissal of members of the Supervisory Board selected by the General Meeting, including the Chairman of the Supervisory Board, subject to the provisions of § 16 clause 2 and § 36,
- establishing of principles and amount of remuneration of members of the Supervisory Board,
- approval of the disposal and leasing of the Company’s enterprise or its organised part and establishing of limited property right on them,
- approval of the purchase of real estate, right of perpetual usufruct or interests in real estate of the market value exceeding PLN 2 000 000 (two million),
- disposal of real estate, right of perpetual usufruct or interests in real estate of the market value exceeding PLN 200 000 (two hundred thousand) and encumbering them with limited property rights,
- approval of the acquisition and encumbering with limited property rights of property, land and equipment other than real estate, right of perpetual usufruct or interests in real estate of the market value exceeding PLN 10 000 000 (ten million),
- conclusion by the Company of a credit facility, loan, surety or other similar agreement with a member of the Management Board, the Supervisory Board, an authorised representative, a liquidator or for the benefit of any of these persons,
- increase and reduction of share capital of the Parent,
- issue of bonds convertible to shares, preference bonds and subscription warrants,
- acquisition of own shares in the situation defined in article 362 § 1 item 2 of the Code of Commercial Partnerships and Companies,
- compulsory redemption of shares pursuant to the provisions of article 418 of the Code of Commercial Partnerships and Companies,
- creation, use and release of capital reserves,
- use of supplementary capital,
decisions regarding claims for compensation for damages caused when forming the company or exercising the executive or supervisory duties,

merger, transformation and demerger of the Parent,

amendment to the Statutes and change of the objects of activity of the Parent,

dissolution and liquidation of the Parent,

disposal of shares, with determination of conditions and procedure of their disposal, except:
  • the disposal of publicly traded shares,
  • the disposal of shares held by the Parent in the amount not exceeding 10% of share in the capital of individual companies,
  • the disposal of shares taken up for claims of the Parent within composition or arrangement proceedings,

approval of granting of licences or other disposal of intellectual property rights to which the Parent was originally entitled,

examination of reports of the Supervisory Board mentioned in § 33 clause 1 items 8, 20, 21 and 22.

10.11. Composition, changes and description of the activities of the executive and supervisory bodies

MANAGEMENT BOARD OF THE PARENT

Composition of the Management Board as at 1 January 2009:

• 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.

On 26 March 2009, Ms. Monika Hap was dismissed by the Supervisory Board from the position of Member of the Management Board, and Mr. Andrzej Skolmowski was appointed to the position of the Vice-President of the Management Board. In view of the above, the composition of the Management Board was as follows:

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

The composition of the Management Board remained unchanged by the date of preparation hereof.

The powers and duties of the Management Board of the Parent and of the members of the Management Board are defined in the regulations of the Code of Commercial Partnerships and Companies, the Commercialisation and Privatisation Act of 30 August 1996 as amended, the Act of 29 July 2005 on Initial Public Offering and Conditions for Introduction of Financial Instruments into the Organised Trading System and on Public Companies, the Act of 29 July 2005 on Trading in Financial Instruments, the regulations of executive orders issued pursuant to the above acts as well as the provisions of the Statutes (§19 - §210).

SUPERVISORY BOARD

The composition of the Supervisory Board within the accounting year 2009 was as follows:

- Marzena Piszczeck – Chairwoman,
- Małgorzata Rzążewska – Vice Chairwoman,
- Jan Wais – Secretary,
- Joanna Kiełkiewicz – Member,
- Ewa Lis – Member,
- Katarzyna Walęga – Member,
- Dariusz Maciejuk – Member,
- Armin Teske – Member,
- Krzysztof Pieńkowski – Member.

On 15 February 2010, Mr. Krzysztof Pieńkowski resigned as member of the Supervisory Board, the resignation was submitted directly to the President of the Management Board. (Current Report No. 5/2010 of 15 February 2010).

The Supervisory Board acts pursuant to:

- the regulations of the Act of 15 September 2000 – Code of Commercial Partnerships and Companies (Journal of Laws Dz. U. No. 94, item 1037 as amended),
- the Commercialisation and Privatisation Act (...),
- the Accountancy Act,
- the Statutes,
- The Regulations of the Supervisory Board of Zakłady Azotowe w Tarnowie – Mościcach S.A.

On 4 March 2009, by Resolution No. 136/VII/2009 the Supervisory Board appointed the Audit Committee as advisory body acting collegially within the structure of the Supervisory Board. Members of the Committee became Mr. Armin Teske and Ms. Małgorzata Rzążewska.

Pursuant to Resolution No. 136/VII/2009, the tasks of the Audit Committee include in particular:

- monitoring of the financial reporting process,
- monitoring of the effectiveness of the Company’s internal control systems,
- internal audit and risk management,
- monitoring of auditing of annual and consolidated financial statements,
- monitoring of the work of the internal audit department,
- monitoring of the work and the reports of independent certified auditor,
- review of selected economic events essential for the Parent’s operation.

The detailed principles of operation of the Audit Committee are defined in the Audit Committee Regulations adopted by the Supervisory Board by Resolution No. 160/VII/2009 of 21 May 2009.

Signatures of members of the Management Board

...........................................  ...........................................
Jerzy Marciniak  Witold Szczypiński
President of the Management Board  Vice-President of the Management Board

...........................................  ...........................................
Andrzej Skolmowski  Franciszek Bernat
Vice-President of the Management Board  Member of the Management Board

Tarnów, 31 March 2010.