Management report on the operations of the
Zakłady Azotowe w Tarnowie-Mościcach S.A. Group
for the 6 months ended 30 June 2011

Tarnów, 19 August 2011
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A. DISCUSSION OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

I. Basic financial information on the Group

During the first half of 2011 the Group generated a net profit of PLN 187,868,000, the carrying amount as at 30 June 2011 was PLN 3,853,872,000 and net cash as at the end of the period was PLN 767,876,000.

The information below presents selected financial data together with the basic financial ratios for the first half of 2011 in relation to the first half of 2010.

Selected financial data

<table>
<thead>
<tr>
<th></th>
<th>for the period from 1.1.2011 to 30.6.2011</th>
<th>for the period from 1.1.2010 to 30.6.2010</th>
<th>change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue from sales</td>
<td>1,966,124</td>
<td>748,579</td>
<td>162.65</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(1,533,485)</td>
<td>(616,493)</td>
<td>148.74</td>
</tr>
<tr>
<td>Gross profit on sales</td>
<td>432,639</td>
<td>132,086</td>
<td>227.54</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(62,250)</td>
<td>(40,074)</td>
<td>55.34</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(122,071)</td>
<td>(54,211)</td>
<td>125.18</td>
</tr>
<tr>
<td>Other operating revenue / costs</td>
<td>(10,496)</td>
<td>81</td>
<td>X</td>
</tr>
<tr>
<td>Profit on operating activities</td>
<td>237,822</td>
<td>37,882</td>
<td>527.80</td>
</tr>
<tr>
<td>Finance income / costs</td>
<td>(5,246)</td>
<td>(1,650)</td>
<td>217.94</td>
</tr>
<tr>
<td>Share of the net profit or loss of associates accounted for using the equity method</td>
<td>255</td>
<td>50</td>
<td>410</td>
</tr>
<tr>
<td>Income tax</td>
<td>(44,963)</td>
<td>(6,500)</td>
<td>591.74</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td><strong>187,868</strong></td>
<td><strong>29,782</strong></td>
<td><strong>530.81</strong></td>
</tr>
<tr>
<td>Net profit attributable to owners of the parent</td>
<td>130,554</td>
<td>29,643</td>
<td>340.42</td>
</tr>
<tr>
<td>Net profit attributable to non-controlling interests</td>
<td>57,314</td>
<td>139</td>
<td>41,133.09</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td><strong>313,733</strong></td>
<td><strong>80,675</strong></td>
<td><strong>288.89</strong></td>
</tr>
</tbody>
</table>
Revenue from sales

Net revenues from sale at the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group (the "AZOTY Tarnów Group") for the first half of 2011 amounted to PLN 1,966,124,000. In comparison to the same period of 2010, revenues had increased by PLN 1,217,545,000, i.e. by 162.65%. This is the result of the AZOTY Tarnów Group, expanded by subsidiary ZAK S.A., achieving higher sales in all operating segments.

The fertilisers segment generated the highest proportion of revenues.
## Costs

<table>
<thead>
<tr>
<th>Costs by nature</th>
<th>for the period from 1.1.2011 to 30.6.2011</th>
<th>for the period from 1.1.2010 to 30.6.2010</th>
<th>change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>75 911</td>
<td>42 793</td>
<td>77.39</td>
</tr>
<tr>
<td>Materials and energy used</td>
<td>1 248 571</td>
<td>477 025</td>
<td>161.74</td>
</tr>
<tr>
<td>Third-party services</td>
<td>75 409</td>
<td>49 140</td>
<td>53.46</td>
</tr>
<tr>
<td>Taxes and charges</td>
<td>45 941</td>
<td>20 173</td>
<td>127.74</td>
</tr>
<tr>
<td>Remuneration</td>
<td>166 119</td>
<td>81 019</td>
<td>105.04</td>
</tr>
<tr>
<td>Social security and other benefits</td>
<td>37 183</td>
<td>18 761</td>
<td>98.19</td>
</tr>
<tr>
<td>Other costs by nature</td>
<td>24 073</td>
<td>8 966</td>
<td>168.49</td>
</tr>
<tr>
<td><strong>Costs by nature</strong></td>
<td><strong>1 673 207</strong></td>
<td><strong>697 877</strong></td>
<td><strong>139.76</strong></td>
</tr>
<tr>
<td>Change in product inventory (+/-)</td>
<td>(42 339)</td>
<td>3 664</td>
<td>X</td>
</tr>
<tr>
<td>Cost of production of goods for internal use (-)</td>
<td>(4 742)</td>
<td>(2 846)</td>
<td>66.62</td>
</tr>
<tr>
<td>Distribution costs (-)</td>
<td>(62 250)</td>
<td>(40 074)</td>
<td>55.34</td>
</tr>
<tr>
<td>Administrative expenses (-)</td>
<td>(122 071)</td>
<td>(54 211)</td>
<td>125.18</td>
</tr>
<tr>
<td>Value of goods for resale and materials sold</td>
<td>91 680</td>
<td>12 083</td>
<td>658.75</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td><strong>1 533 485</strong></td>
<td><strong>616 493</strong></td>
<td><strong>148.74</strong></td>
</tr>
</tbody>
</table>

Comparison between the first half of 2011 and the same period a year earlier shows a PLN 975 330 000 increase in costs by nature, caused by the Group’s expansion through acquisition of a further subsidiary – ZAK S.A.

Differences in costs can be found below:

- materials and energy used – an increase of PLN 771 546 000, mainly due to an increase in the price of petrochemicals, natural gas, ammonia and coal,
- third-party services – an increase of PLN 26 269 000,
- taxes and charges – an increase of PLN 25 768 000,
- remuneration – an increase of PLN 85 100 000,
- social security and other benefits – an increase of PLN 18 422 000,
- other costs by nature – an increase of PLN 15 107 000.

### Sales result and operating result

During the first half of 2011, gross profit on sales amounted to PLN 432 639 000, while during the same period last year this amounted to PLN 132 086 000. The operating result was PLN 237 822 000, with PLN 37 822 000 in the comparative period.

The following factors had a positive impact on the presented results in comparison with the same period in 2010:

- beneficial deviations in the price of basic products in relation to the same period a year earlier,
- increase in caprolactam prices, the levels of which were stimulated by very high demand in the Far East and limited supply in Europe,
- increased demand for construction plastics, including Tarnamid and Tarnoform. According to ICIS, an increase in prices was noted both in these plastics and in engineering plastics,
- increase in the scale of operations and product range at the AZOTY Tarnów Group in connection with the acquisition of subsidiary ZAK S.A.,
- continuation of the growth trend in nitrate fertiliser prices.
Zakłady Azotowe w Tarnowie-Mościcach S.A. Group
Management report on the operations of the Azoty Tarnów Group for the 6 months ended 30 June 2011

The following factors had a negative impact on the presented results in comparison with the same period in 2010:

- the strengthening of PLN against EUR and USD, which makes achieving the profitability of AZOTY Tarnów exports difficult (without taking hedged currency transactions into account),
- significantly higher price levels for the commodities needed for manufacture,
- lower use of fertiliser production capacity with regard to an industrial incident which took place in Tarnów.

**Net result**

Consolidated net profit for the first half of 2011 amounted to PLN 187 868 000, of which PLN 130 554 000 was attributable to shareholders in the Parent. Net margin reached 9.56%.

**Financial results achieved in specific types of activity**

<table>
<thead>
<tr>
<th></th>
<th>for the period from 1.1.2011 to 30.6.2011</th>
<th>for the period from 1.1.2010 to 30.6.2010</th>
<th>change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit on operating activities</td>
<td>237 822</td>
<td>37 882</td>
<td>527,80</td>
</tr>
<tr>
<td>Net finance income / costs</td>
<td>(5 246)</td>
<td>(1 650)</td>
<td>217,94</td>
</tr>
<tr>
<td>Share of the net profit or loss of associates accounted for using the equity method</td>
<td>255</td>
<td>50</td>
<td>410</td>
</tr>
<tr>
<td>Income tax</td>
<td>(44 963)</td>
<td>(6 500)</td>
<td>591,74</td>
</tr>
<tr>
<td>Profit/loss on discontinued operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net profit</td>
<td>187 868</td>
<td>29 782</td>
<td>530,81</td>
</tr>
<tr>
<td>Net profit attributable to owners of the parent</td>
<td>130 554</td>
<td>29 643</td>
<td>340,42</td>
</tr>
<tr>
<td>Net profit attributable to non-controlling interests</td>
<td>57 314</td>
<td>139</td>
<td>41 133,09</td>
</tr>
</tbody>
</table>

**Assets**

As at the end of June 2011 the Group’s non-current assets amounted to PLN 2 357 108 000. In comparison to the level as at 31 December 2010, non-current assets increased in value by PLN 18 048 000 (i.e. by 0.77%). The highest level of growth was recorded in intangible assets, which had increased in value in comparison with December 2010 from PLN 2 038 415 000 to PLN 2 069 070 000.

The share of non-current assets in total assets amounted to 61.16% (with 70.59% as at the end of 2010).

The Group’s current assets as at 30 June 2011 amounted to PLN 1 496 764 000. The dominant items within current assets were: cash and cash equivalents – 51.30% of current assets, trade and other receivables – 29.70%, and inventory – 18.23%.

In comparison with the situation as at 31 December 2010, the value of current assets increased by PLN 522 417 000 (including the largest increase recorded in cash and cash equivalents by PLN 488 426 000, whereas the value of other financial assets dropped by PLN 1 162 000).

**Liabilities**

As at 30 June 2011 the Group’s current and non-current liabilities amounted to PLN 1 716 272 000, denoting a PLN 352 967 000 (25.89%) increase in comparison with the level recorded at the end of December 2010.
As at 30 June 2011 the debt ratio (current and non-current liabilities to total assets) amounted to 44.53% (as at the end of December 2010 this was 41.15%).

The current ratio, calculated as the product of total current assets and total current liabilities, amounted to 1.35 as at 30 June 2011 (as at the end of 2010 this was 1.05).

**Cash flows**

Net cash flows in the first half of 2011 amounted to PLN 488,301,000, a PLN 520,112,000 increase on the level generated in the same period the year before.

Cash flows from operating activities amounted to PLN 158,026,000, which were PLN 97,951,000 higher in relation to those generated during the period January-June 2010. The Group generated gross profit which was PLN 196,549,000 higher than in the first half of 2010.

The excess of investment expenditures over proceeds amounted to PLN 132,194,000, which was similar to the same period in 2010, when this difference amounted to PLN 61,514,000. The greatest impact on the balance of cash flows from investing activities came from the excess of expenditures on the acquisition of intangible assets, plant, property and equipment and investment property over proceeds from their sale, which amounted to PLN 130,304,000.

Net cash and cash equivalents from financing activities were positive and amounted to PLN 462,469,000. These were PLN 492,841,000 higher than in the first half of 2010. This level results mainly from the PLN 447,940,000 excess of inflows on incurrence of loans and borrowings over the costs of their repayment.

**Ratio analysis**

<table>
<thead>
<tr>
<th></th>
<th>as at 30.6.2011</th>
<th>as at 30.6.2010</th>
<th>change 2011/2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net margin</td>
<td>9.56%</td>
<td>3.98%</td>
<td>140.20%</td>
</tr>
<tr>
<td>EBIT%</td>
<td>12.10%</td>
<td>5.06%</td>
<td>139.13%</td>
</tr>
<tr>
<td>EBITDA%</td>
<td>15.96%</td>
<td>10.78%</td>
<td>48.05%</td>
</tr>
<tr>
<td>Current ratio</td>
<td>1.35</td>
<td>2.16</td>
<td>(37.50%)</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>1.11</td>
<td>1.51</td>
<td>(26.49%)</td>
</tr>
<tr>
<td>Debt ratio</td>
<td>44.53%</td>
<td>31.07%</td>
<td>43.32%</td>
</tr>
<tr>
<td>Equity to total assets</td>
<td>55.47%</td>
<td>68.93%</td>
<td>(19.53%)</td>
</tr>
</tbody>
</table>

**On-going issue objectives**
Details can be found in point A.IV of this report.

**II. Significant events in the first half of 2011**

**Return to full nitrate fertiliser production capacity**

After the completion of repair works during a planned technical down-time, since 14 July 2011 the nitrate fertiliser production lines at AZOTY Tarnów have been operating at full production capacity.

The reason for the down-time was January’s failure of a turbine set within the Nitric Acid Manufacturing Plant, which caused temporary suspension of nitrate fertiliser production (saletrosan and calcium ammonium nitrate standard), as reported on page 12 of the *condensed consolidated interim financial statements for the first quarter of 2011*. Production of nitrate fertilisers at approx. 40% capacity recommenced on 20 January. This was possible due to supplies...
of nitric acid from ZAK S.A., taking advantage of one of the main effects of synergy within the Group after the acquisition of a controlling interest in ZAK S.A. by AZOTY Tarnów. Work on increasing nitrate fertiliser production capacity as a result of allocating nitric acid reserves within the AZOTY Tarnów Group was carried out in accordance with the schedule. Irrespective of this, work on rectifying the effects of the turbine set failure was carried out. Manufacture of other nitrate fertilisers remained unaffected.

Currently, after the completion of repair works and successful tests, the turbine set is ensuring full use of technical nitric acid production capacity.

**Increase in credit limits**

As was presented in the report for the third quarter of 2010 and the annual report for 2010, the Parent (together with domestic AZOTY Tarnów Group companies) entered into an Overdraft Agreement for the Group and an Agreement on Provision of Virtual Cash Pooling Services with PKO BP S.A. on 1 October 2010, serving to balance the financial and credit surplus in current accounts in order to optimise the Group's interest revenues and costs through balancing the negative and positive balances on such accounts.

On 30 March 2011 the Parent (together with domestic AZOTY Tarnów Group companies) signed an Annex to the Overdraft Agreement for the period to 30 September 2013, which increased the credit limit from PLN 40 000 000 to PLN 100 000 000, at the same time establishing a sub-limit of PLN 55 700 000 for ZAK S.A. (subsidiary) and sub-limits totalling PLN 4 300 000 for ZAK S.A.’s subsidiaries.

In the first stage, capitalisation of the overdraft sub-limit for ZAK S.A. allowed for use of the surpluses of funds ultimately allocated to finance issue objectives, for the virtual balancing of part of ZAK S.A.’s loan liabilities and also for the transfer – with the intermediation of the bank providing the above service – of interest paid by ZAK S.A. to the Parent.

Subsequently, on 16 June 2011 the Parent (also representing other Group companies) executed Annex no. 2 to the Overdraft Agreement and Annex no. 2 to the Agreement on Provision of Virtual Cash Pooling Services, under which subsidiary ELZAT Sp. z o.o. was excluded from both agreements (with regard to the sale of all shares in this company on 1 July 2011), together with exclusion of Hotel Centralny Sp. z o.o. (a subsidiary of ZAK S.A.) and the transfer of overdraft sub-limits to the total AZOTY Tarnów Group limit.

**Organisation of ZAK S.A. (subsidiary) debt structure**

Loan agreements and complete repayment of debt to a consortium of banks: BRE Bank S.A. / Kredyt Bank S.A. / Pekao S.A. had an impact on the financial standing and result of ZAK S.A., with bridge participation of Azoty Tarnów as guarantor to financial institutions.

On 21 January 2011 ZAK S.A. entered into a loan agreement with the Parent amounting to PLN 50 million, which was allocated and used to pay liabilities under a Debt Repayment Agreement entered into with PGNiG S.A.

The loan was repaid in full on 31 May 2011.

On 23 March 2011 ZAK S.A. entered into an investment credit agreement with Raiffeisen Bank S.A., granted for refinancing credit liabilities towards a consortium of banks: BRE BANK S.A./Bank Pekao S.A./Kredyt Bank S.A. under financing for New Nitric Acid (TKV) and Water Treatment Facility (SUW) investments, amounting to PLN 17 250 000 and EUR 14 750 000 respectively.

On 29 March 2011 ZAK S.A. entered into a loan agreement with PKO BP S.A, Regional Corporate Branch in Katowice, with the loan in the form of a multi-purpose limit of PLN 100 million to refinance loan liabilities towards a consortium of banks: BRE BANK S.A./Bank Pekao S.A./Kredyt Bank S.A. under a renewable loan and for financing current operations.
In addition, as referred to in the point Increase of credit limit above, on 30 March 2011 ZAK S.A. signed Annex no. 1 to the Overdraft Agreement and Annex no. 1 to the Agreement on Provision of Virtual Cash Pooling Services with PKO BP S.A., Regional Corporate Branch in Katowice, concerning grant of a PLN 55 700 000 overdraft facility for ZAK S.A. and PLN 4 300 000 facility for ZAK S.A. subsidiaries.

The conclusion of these agreements organised the company’s debt structure which, with relation to removal of the necessity to incur high interest costs on overdue debt, allows the company to improve its financial results.

Change in the Parent’s shareholding structure
(see point B.IV of this report, page 35)

Increase in the Parent’s share capital through a share issue
(details under point A.VII of this report – Issue, buyback and repayment of debt and equity securities – p. 22)

Acquisition of shares in Z.Ch. Police S.A.

In connection with the intention to acquire shares in Zakład Chemiczne Police S.A., on 15 June 2011 the Parent, with the intermediation of Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie (the Offeror) announced a tender offer for 49 500 000 shares in Z.Ch Police S.A., carrying 66% of votes at the general meeting of Zakład Chemiczne Police S.A. The price in the tender offer was established as PLN 11.50 per share. Subscriptions commenced on 6 July and ended on 16 August 2011 at 4pm. The minimum threshold for the tender offer is submission for sale of at least 38 250 000 shares in Z.Ch. Police S.A., constituting 51% of the total number of votes at the general meeting.

The objectives and anticipated synergies of the acquisition of Z.Ch. Police S.A. were presented on p. 52 of the issue prospectus, approved by the Polish Financial Supervision Authority on 28 June 2011.

Z.Ch. Police S.A. is a public company, therefore acquisition of a controlling interest occurs through a tender offer. In accordance with the Act on Public Offerings, announcement of a tender offer takes place after establishing collateral amounting to a minimum of 100% of the value of the shares covered by the tender offer. In order to establish this collateral, on 14 June 2011 the Parent executed a short-term investment loan agreement with PKO BP S.A. The loan agreement was recognised as fulfilling the criterion of a significant agreement and is described in point A.III of this report – Significant agreements executed in the first half of 2011.

The remaining amount necessary to establish the collateral is sourced from the short-term special-purpose loan agreement executed on 14 June 2011 with subsidiary ZAK S.A., providing a PLN 70 000 000 loan (granted for the period from 14 June 2011 to 31 May 2012). Loan interest rates were established on market terms and conditions, i.e. WIBOR 1M + lender’s margin), together with the Parent’s own funds.

On 15 June 2011 funds from the PLN 400 000 000 investment loan granted by PKO BP S.A., PLN 70 000 000 granted by ZAK S.A. under the special-purpose loan and PLN 99 250 000 of the Parent’s own funds, i.e. a total figure of PLN 569 250 000 were deposited in a special-purpose account held with PKO BP S.A. for collateral under the tender offer for shares in Z.Ch. Police S.A., representing at least 66% of total votes at a price of PLN 11.50 per share.

In a communiqué issued on 7 July 2011, the Ministry of the Treasury announced that it intends to sell its block of shares in Z.Ch. Police S.A. in the tender offer announced by the Parent.
On 18 July 2011 the President of the Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK) issued unconditional consent for concentration, consisting of the acquisition by AZOTY Tarnów of control over Z.Ch. Police S.A. Issue of consent by the President of the UOKiK was one of the legal conditions contained in the tender offer for shares in Z.Ch. Police S.A.

On 19 July 2011 Germany’s competition regulator (Bundeskartellamt) issued unconditional consent for concentration, meaning that the second and final legal condition contained in the tender offer for shares had been fulfilled.

According to data received on 17 August 2011 from the entity intermediating in the tender offer for shares in Z.Ch. Police S.A., subscriptions submitted under the tender offer by 4pm on 16 August 2011 covered 56 191 155 shares, carrying a total of up to 56 191 155 votes at the general meeting and constituting 74.92% of the total votes at the general meeting of Z.Ch. Police S.A.

In connection with the above, the Management Board of the Parent announced that the condition referred to in point 6 of the tender offer had been fulfilled, i.e. that as at the end of the tender offer validity period tenders covered at least 38 250 000 votes in Z.Ch. Police S.A., carrying 38 250 000 votes at the general meeting and constituting 51% of all votes at the general meeting of Z.Ch. Police S.A., after achievement of which the Parent undertook to acquire the shares covered by the tender offer.

On 19 August 2011 a transaction was executed for acquisition by the Parent of 49 500 000 ordinary bearer shares in Z.Ch. Police S.A. of a nominal value of PLN 10 each. Under the tender offer, 56 191 155 shares in Z.Ch. Police S.A. were tendered, in connection with which the allocation rate was 88.09%. In accordance with the tender offer, the shares were acquired at a price equalling PLN 11.50 per share, valuing the transaction at PLN 569 250 000.

The acquisition of shares was cleared within the deadline indicated in the tender offer. After clearance of the share acquisition transaction, the Parent will be in possession of a total of 49 500 000 ordinary bearer shares in Z.Ch. Police S.A., corresponding to 66% of Z.Ch. Police S.A.’s share capital and carrying a total of 49 500 000 voting rights, constituting 66% of total votes at the general meeting of Z.Ch. Police S.A. Before publication of the tender offer, the Parent did not hold any shares in Z.Ch. Police S.A. The acquired shares are admitted to trading on the regulated market managed by Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) and are assigned code PLZCPLC00036.

Acquisition of the shares by the Parent under the tender offer is a long-term equity investment. The carrying amount of the shares in AZOTY Tarnów’s accounts after their inclusion will be PLN 569 250 000.

**Privatisation**

On 7 July 2011 the Ministry of the Treasury published a communiqué on its website stating that it will respond to the tender offer for Z.Ch. Police S.A. At the same time the Ministry of the Treasury decided to sell pre-emptive rights to new issue shares in AZOTY Tarnów, and in the event that investors do not acquire all offered pre-emptive rights at a satisfactory price, the ministry declared that it will consider acquiring the series C shares to which it is entitled. Furthermore, the ministry is implementing a process to sell a minority shareholding in ZAK S.A. to AZOTY Tarnów.

The Ministry of the Treasury will respond to the tender offer published on 15 June 2011 by AZOTY Tarnów for sale of shares in Z.Ch. Police S.A. After analysing the tender offer price and bearing other aspects in mind, including the internal situation of both companies, assessment of the market and achievement of synergy effects increasing the value and competitiveness of the group, the Ministry of the Treasury will tender 44 556 840 shares in Z.Ch. Police S.A. held by it, constituting 59.41% of the company’s share capital.
At the same time the Ministry of the Treasury is implementing a process for sale of a minority interest in ZAK S.A. (40.88%) to majority shareholder AZOTY Tarnów. The ministry’s intention is to execute the transaction without delay.

Furthermore, in connection with the issue of 24,999,023 series C shares by AZOTY Tarnów through a public offering and the resulting pre-emptive rights, the Ministry of the Treasury intended to dispose of all of its 20,549,000 pre-emptive rights. In the event that the Ministry of the Treasury does not sell all pre-emptive rights at a satisfactory price, it will consider the possibility to acquire the shares. ING Securities S.A. was the bookrunner for the State Treasury. The Minister of the Treasury has stated that an improving economic situation in the chemicals industry is the appropriate time for further changes in the sector, and that a consolidation process conducted in this manner constitutes preparation for full privatisation of this part of the chemicals sector.

On 12 July 2011 the Ministry of the Treasury published a communiqué on its website concerning successful completion of the book-building process for the 20,549,000 pre-emptive rights to new issue shares in the Parent held by the State Treasury. The price was set at PLN 3 per pre-emptive right. According to press releases, all pre-emptive rights were acquired by financial institutions, of which the largest group are Polish pension funds.

On 14 July 2011 another communiqué was published on the Ministry of the Treasury’s website concerning execution by the ministry of a lock-up agreement on shares in the Parent. The agreement was executed with DM PKO BP S.A. and IPOPEMA Securities S.A. as managers of the public offering of series C shares in the Parent for a 180-day lock-up of shares in AZOTY Tarnów from the date on which trading in pre-emptive rights to series C shares commences on the Warsaw Stock Exchange.

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

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

**Subsidiary ZAK S.A.’s investment**

The main investment project implemented at subsidiary ZAK S.A. under the approved investment plan for 2011 was continuation of the commissioning of the New TKV Nitric Acid Facility. On 16 March 2011 a provisional acceptance certificate (PAC) was signed for the nitric acid facility.

**Trade in CO2 emission allowances**

On 13 May 2011 the Parent executed a swap transaction (SWAP EUA/CER) with Gazprom Marketing & Trading Ltd., consisting of the exchange of 426,000 EUA ERUs for 426,000 alternative CER carbon credits, with the exchange date set for 22 March 2013.

The higher market price of ERUs over the market price of CERs as at the transaction execution date resulted in a PLN 6,386,000 surplus of the Parent’s deferred revenue over expenses (i.e. the equivalent of EUR 1,849,000). Payment of the above surplus resulting from the transaction was made to the Parent’s account on 17 May 2011.
The Parent exchanged carbon credits at the permitted CER proportion level. It will be able to redeem these to cover its own CO₂ emissions throughout the entire 5-year settlement period (2008-2012), instead of ERUs.

**Awards and distinctions**

In 2011, for the second time AZOTY Tarnów was included in the elite group of 16 listed companies included in the RESPECT Indeks portfolio – companies managed in a responsible and sustainable manner. This took place for the first time in January during the second edition of the project and again on 14 July, when the results of the third edition were announced.

In obtaining a high rating assessment in research carried out by Deloitte, in 2009 AZOTY Tarnów was qualified, as one of 16 companies listed on the Warsaw Stock Exchange, to the first stock market index of socially responsible companies in Poland.

In February 2011 AZOTY Tarnów received a Grand Prix award in the "Chemical Products" category at EXPOCHEM International Chemicals Industry Fair and Conference 2011 in Katowice for developing fire retardant non-halogen Tarnamid as a result of its own R&D work.

At the AGROTECH 2011 agricultural fair, which took place on 11 - 13 March 2011 in Kielce, AZOTY Tarnów received a Gold Medal for nitrate and sulphur fertilisers. The product group which won the award includes four nitrate fertilisers with various nitrogen and sulphur contents. Creation of the product range was possible due to the commissioning of a new 1 200t/d mechanical granulation installation at AZOTY Tarnów in 2009 (one of the issue objectives identified in 2008) and the acquisition of a controlling interest in ZAK S.A. in 2010.

At the 9th edition of the Polish Fertilisers awards, which took place on 15 April 2011, the Diamond Statuette was awarded to: AZOTY Tarnów for Saletrason® 26 macro and Kędzierzyńska Saletra Amonowa® (ammonium nitrate with magnesium and calcium).

Also, the AZOTY Tarnów Group (ZAK S.A. and AZOTY Tarnów) received the main award in the innovative product category for "Nitrate-Sulphur Product Range". The range includes the following fertilisers: Saletrason® macro, Ammonium Sulphate AS21, Salmag® with sulphur and Kędzierzyńska Saletra Amonowa® (ammonium nitrate with magnesium and calcium). This is a wide range of fertilisers with various nitrate and sulphur contents, providing a comprehensive selection of products for the needs of Polish agriculture.

**III. Significant agreements executed in the first half of 2011**

**Execution of a significant agreement by subsidiary ZAK S.A.**


The annex is to be in force during the period from 1 January 2011 to 31 December 2011 and provides for purchase by Polnyt S.p.A from ZAK S.A. of ethylhexanol during the above period, according to the established schedule and commercial terms and conditions.

The executed annex, the estimated value of which amounts to approx. PLN 64.7 million, is the highest value agreement amongst those executed between the AZOTY Tarnów Group and the Polnyt Group during the last year. The total value of trade between the AZOTY Tarnów Group and the Polnyt Group during this period, together with the estimated value resulting from the annex signed on 17 January 2011, amounts to approx. PLN 116.5 million net, which exceeds 10% of the Parent’s equity and constitutes a criterion for recognising the sum of agreements as a significant amount.

(Current report no. 5/2011 of 18 January 2011)
Execution of a significant agreement by the Parent

On 19 January 2011 an agreement for purchase of phenol was executed between the Parent and Brenntag International Chemicals of Germany (hereinafter the Seller).

The agreement is to be in force for the period from 1 January 2011 to 31 December 2011 and provides for purchase from the Seller of phenol during the above period, according to the schedule and commercial terms and conditions.

The executed agreement fulfils the criterion of a significant agreement, i.e. its estimated net value is PLN 146.9 million and exceeds 10% of the Parent’s equity. This is simultaneously the highest value agreement executed by the Parent with the Seller (and between the AZOTY Tarnów Group and the Brenntag Group) during the last year.

The total value of trade between the AZOTY Tarnów Group and the Brenntag Group during this period, together with the estimated value resulting from the above agreement, amounts to approx. PLN 232.6 million, which also constitutes a criterion for recognising the sum of agreements as significant, whereas only the agreement of 19 January 2011 independently fulfils the above criterion of a significant agreement.

(Current report no. 7/2011 of 19 January 2011)

Trade with Mitsui

On 2 February 2011 an agreement for purchase of phenol was executed between the Parent and Mitsui & Co. Deutschland of Germany.

The agreement in question is to be in force for the period from 1 January to 31 December 2011 and provides for purchase by the Parent from the Seller of phenol during the above period, according to the schedule and commercial terms and conditions.

The estimated net value resulting from the executed agreement amounts to approx. PLN 58.5 million. This is simultaneously the highest value agreement amongst those executed by the Parent with Mitsui & Co. (and between the AZOTY Tarnów Group and the Mitsui Group) during the last 12 months. The total value of trade between the AZOTY Tarnów Group and the Mitsui Group during this period, together with the estimated value resulting from above agreement, amounts to approx. PLN 115.6 million net, which exceeds 10% of the issuer’s equity and constitutes a criterion for recognising the sum of agreements as significant.

(Current Report no. 10/2011 of 3 March 2011)

Trade with PGNiG S.A.

Up to 8 February 2011 (i.e. until publication of a current report on the subject), the total value of AZOTY Tarnów Group’s commercial trade with Grupa Kapitałowa Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG S.A.) during the period from 13 August 2010 amounted to PLN 219.8 million net. The above value exceeds 10% of the Parent’s equity, which constitutes a criterion for recognising the amount of trade as significant.

Subsequently, during the period from 8 February 2011 to 6 May 2011 (i.e. the date on which a current report on the subject was published), the total value of commercial trade between the AZOTY Tarnów Group and the Polskie Górnictwo i Gazownictwo S.A. (PGNiG S.A.) Group amounted to PLN 168.8 million net. The above value exceeds 10% of the Parent’s equity, and for this reason the amount of trade was recognised as significant.

Also, during the period from 6 May 2011 to 12 August 2011, the total value of commercial trade between the AZOTY Tarnów Group and the Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG S.A.) Group amounted to PLN 117.34 million net.

The above amount exceeds 10% of the Parent’s equity, which constitutes a criterion for recognising the amount of trade as significant.
Establishment of a pledge on ZAK S.A. shares

In relation to current reports no. 26/2010, 30/2010 and 36/2010, on 14 February 2011 the Management Board of the Parent received information concerning receipt of a notification from the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division, Register of Pledges, of establishment for PKO BP S.A., Regional Corporate Branch in Krakow, of a registered pledge on the Parent’s 30 000 000 series B bearer shares in ZAK S.A. The shares being the subject of the pledge are a long-term capital expenditure. An entry in the register of pledges was made on 2 February 2011. The pledge was established as collateral for the agreement concerning an investment loan granted by PKO BP S.A. allocated for purchase of the above shares in ZAK S.A. The highest level of collateral amounts to PLN 138 624 000. The book value of the shares being the subject of the pledge in the accounts is PLN 150 million. The assets on which the above registered pledge was established for Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, Regional Corporate Branch in Krakow, were acknowledged as significant with regard to the fact that their value exceeds 10% of the Parent’s equity.

Execution of a loan agreement by subsidiary ZAK S.A.

On 23 March 2011 subsidiary ZAK S.A. (the Borrower) entered into a loan agreement with Raiffeisen Bank Polska S.A. (the Bank) concerning a EUR 14 750 000 loan.

As at the date of publishing a current report on this subject (i.e. as at 23 March 2011), the estimated value of the above loan agreement was the equivalent of PLN 56.5 million according to the average EUR/PLN exchange rate published by the National Bank of Poland.

Funds from the loan are allocated for refinancing of an investment loan granted to ZAK S.A. by a consortium of banks to finance an investment consisting of the construction of a TK V nitric acid facility together with a ”New TK V Nitric Acid” neutralisation installation.

Aside from the liability for due commission and interest, the Borrower’s unpaid liability will be treated as an overdue debt. In the event that the Borrower defaults on the provisions of the agreement, the Bank has the right to terminate it. The amounts of the loan in a foreign currency used in PLN will be converted into the loan currency according to the purchase rate in force at the Bank on the date of submitting the order for pay-out from the loan. The Borrower has the right to make early repayment of the entirety or part of the loan. Commission for early repayment will be collected against the amount of early repayment at the level specified in the agreement.

Repayment of the loan will be made quarterly from 30 March 2012 to 31 March 2016. The EURIBOR rate for three-month deposits in EUR has been adopted as the interest on credit used in EUR.

The remaining provisions of the agreement do not differ from standards adopted in this type of agreement.

Collateral for repayment of the loan is provided by a temporary surety granted by the Parent according to civil law on 23 March 2011 and covering repayment of all the Borrower’s liabilities under the above agreement, together with a power of attorney to ZAK S.A.’s current account. The agreement provides for the establishment of future collateral in the form of transfer of a debt claim confirmed through assignment of receivables from commercial contracts and mortgages up to the amount of EUR 22 125 000 on the right to perpetual usufruct of land, transfer of rights under insurance policies on the above mortgage, a registered pledge on non-current assets being part of the TK V nitric acid facility together with neutralisation installation and assignment of rights under an insurance policy covering machinery and equipment.
The above loan agreement is the highest value agreement entered into by the AZOTY Tarnów Group with Raiffeisen Bank Polska S.A. within the last 12 months. The total value of agreements executed by the AZOTY Tarnów Group with Raiffeisen Bank Polska S.A. during the last 12 months amounts to approx. PLN 123.8 million, which exceeds 10% of the Parent’s equity and constitutes a criterion for recognising the amount of these agreements as significant.

(Current report no. 15/2011 of 23 March 2011)

**Trade with PKO BP S.A.**

During the period from 30 November 2010 to 30 March 2011 (i.e. up to the date of publishing a current report on this subject), the total value of agreements executed by the AZOTY Tarnów Group with the PKO BP S.A. Group amounted to PLN 160 million (one hundred and sixty million Polish zloty).

The above amount exceeds 10% of the Parent’s equity, which constitutes a criterion for recognising the amount of trade as significant.

The highest value agreement is a loan agreement constituting a multi-purpose PLN 100 million (one hundred million Polish zloty) credit limit, executed between ZAK S.A. (subsidiary) and Powszechna Kasa Oszczędności Bank Polski S.A. on 29 March 2011.

Together with the above agreement, on 30 March 2011 an annex to the overdraft facility agreement was signed with Powszechna Kasa Oszczędności Bank Polski S.A. concerning expansion of virtual cash-pooling services within the AZOTY Tarnów Group and ZAK S.A. Group by PLN 60 million. The service allows for benefits to be obtained in connection with virtual balancing of negative and positive balances in the current accounts of AZOTY Tarnów Group companies, elimination of bank margin between the interest rates of deposits offered and the credit, and settlement of interest calculated on the basis of a unified WIBOR rate within the Group.

(Current report no. 16/2011 of 30 March 2011)

**Conclusion of an agreement by the Parent with PKN Orlen S.A.**

On 4 April 2011 a long-term cooperation agreement was executed between the Parent and Polski Koncern Naftowy Orlen S.A., having its registered office in Płock. The subject of the agreement concerns the sale of raw materials: phenol and benzene by PKN Orlen S.A. to the Parent according to the established schedule and commercial terms and conditions.

The long-term agreement fulfils the criterion of a significant agreement, i.e. its estimated net value over 5 years amounts to approx. PLN 1.1 billion and exceeds 10% of the Parent’s equity. This is also the highest value agreement executed by the Parent with Polski Koncern Naftowy Orlen S.A. (and between the AZOTY Tarnów Group and the Orlen Group) over the last 12 months. The total value of trade between the AZOTY Tarnów Group and the Orlen Group during this period, together with the estimated value resulting from the above agreement, amounts to approx. PLN 1.3 billion, which also constitutes a criterion for recognising the amount of agreements as significant.

(Current report no. 17/2011 of 5 April 2011)

**Conclusion of a significant agreement by a subsidiary**

On 25 May 2011 subsidiary ZAK S.A. (the Purchaser) executed an agreement with Polski Koncern Naftowy Orlen S.A. (the Seller) for purchase of o-Xylene. This agreement was executed for an undefined period of time and provides for purchase by ZAK S.A. from the Seller of o-Xylene according to the established schedule and commercial terms and conditions.

The agreement, the estimated value of which over five years is approx. PLN 269 million, is the highest value agreement executed between the AZOTY Tarnów Group and the Orlen Group within the period from 5 April 2011 to the publication date of this report. The total value of trade between the AZOTY Tarnów Group and the Orlen Group during this period, together with the
estimated value of the agreement executed on 25 May 2011, amounts to approx. PLN 291.4 million net, which exceeds 10% of the issuer’s equity and constitutes a criterion for recognising the amount of agreements as significant.

(Current report no. 33/2011 of 26 May 2011)

Conclusion of an agreement by the Parent with the Comexport Group

On 30 May 2011 the Parent (the Seller) received the original of a framework agreement executed on 24 February 2011 between the Parent and Comexport Group of Brazil (the Purchaser).

This agreement concerns the sale of ammonium sulphate according to an established schedule and commercial terms and conditions.

The agreement fulfils the criterion of a significant agreement, i.e. its estimated net value over 5 years amounts to approx. PLN 226 million and exceeds 10% of the issuer's equity. This is simultaneously the highest value agreement executed between the issuer and the Purchaser (and between the AZOTY Tarnów Group and the Comexport Group) within the last 12 months. The total value of trade between the AZOTY Tarnów Group and the Comexport Group during this period, together with the estimated value resulting from the above agreement, amounts to approx. PLN 267.2 million, which also constitutes a criterion for recognising the amount of agreements as significant.

(Current report no. 36/2011 of 31 May 2011)

Execution of an investment loan agreement between the Parent and PKO BP S.A.

On 14 June 2011 a bridging investment loan was executed between the Parent and PKO BP S.A. (the Bank).

Pursuant to the agreement, the Bank granted a PLN 400 000 000 loan to the Parent in order to provide collateral for a tender offer for shares in Z.Ch. Police S.A., which the Parent announced in connection with the intention to acquire shares in Z.Ch. Police S.A. (details of the tender offer can be found in current report no. 43/2011 of 15 June 2011).

The loan was granted for the period from 14 June 2011 to 31 December 2011. The final deadline for use of the loan expires on 30 August 2011. The loan will be repaid on a one-off basis on 31 December 2011, however not later than within 3 working days from the date of presentation at the Bank or at Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie (DM PKO BP) of a court ruling on entry into the National Court Register of an increase in the Parent's share capital through a new share issue.

It is planned that the loan will be repaid with funds acquired from a planned share issue, maintaining pre-emptive rights, conducted pursuant to resolution no. 2 of the Parent’s Management Board of 26 May 2011, which was notified in current report no. 35/2011.

The loan was paid out after establishment of the following collateral for the Bank’s receivables under the agreement: (i) an in-blancio promissory note together with promissory note declaration, (ii) the possibility to deduct the Bank’s receivables against the company under the agreement from the company’s receivables against the Bank under applicable current account agreements, and (iii) a block on PLN 100 million of the company’s funds held in a deposit account or accounts or fixed-term deposits at the Bank, together with fulfilment of other terms and conditions for pay-out of the loan as provided for in the agreement. Additional collateral for the Bank’s receivables under the agreement will be provided by: (i) a registered pledge on shares in Z.Ch. Police S.A., which will be acquired by the Parent as a result of the tender offer, and (ii) an irrevocable block on shares in Z.Ch. Police S.A. in the Parent's securities account held at DM PKO BP until such time as the registered pledge is successfully established.
In the event that the Bank views dividends planned for pay-out during the term of the agreement as a threat to timely repayment of liabilities towards the Bank and the Parent neither takes the Bank’s opinion into account nor changes the level of planned pay-out, or if in the Bank’s opinion the level of dividends actually paid out constitutes a threat to timely repayment of the Parent’s liabilities towards the Bank, the Bank may terminate the agreement.

The remaining provisions of the agreement do not differ from the terms and conditions generally applicable for this type of agreement. The value of finance made available to the Parent pursuant to the agreement exceeds 10% of the Parent’s equity, which constitutes a criterion for recognising the agreement as significant.

(Current report no. 44/2011 of 15 June 2011)

IV. Achievement of issue objectives

Optimisation of the product portfolio and nitrate fertiliser sales system

a) 1 200 t/d mechanical fertiliser granulation installation
   The investment was completed in 2009.

b) Modernisation of the dolomite milling plant
   The objective was achieved, the task completed and commissioning took place in 2009 in accordance with the plan.

c) Modernisation of the fertiliser packaging and dispatch station
   The task was completed and commissioning took place in 2010.

Modernisation of the caprolactam plant together with construction of a new hydrogen facility

a) Modernisation of the air compression system for the Cyclohexane Oxidation Facility in sector K-54.
   The task was completed and fully commissioned in 2009.

b) Modernisation of process control in Cyclohexane Department installations
   The task was completed and fully commissioned in 2009.

c) Modernisation of the selective phenol hydrogenation installation in the Palladium catalyst
   The task was completed and fully commissioned in 2009.

d) Modernisation and Intensification of the Caprolactam Plant to 101 300 t/year
   At the current time the task is being implemented in accordance with the schedule. All task objectives designated for 2010 were completed and performance of all essential work on the final phase of the task has been commissioned. The task will be commissioned in 2011.

e) Construction of the Hydrogen Facility
   The 5th Methane Decomposing Facility was readied for interaction with the hydrogen facility and the first deliveries are being made in accordance with the schedule. The foundations are currently being prepared. The technical project in its final phase. The investment is progressing in accordance with the adopted schedule.

f) Modernisation of the M cooling system
   Construction and installation work was completed in the fourth quarter of 2010. Extensive testing has been conducted. The chamber of the cooling system has been commissioned into trial use. The task is being commissioned into full-time use.

g) Expansion of the 0.4 kV switching station for the requirements of the SHA Plant
A technical project was drawn up and performance of construction and electrical works has been commissioned. The work is being completed in accordance with the schedule. The task is currently being commissioned into full-time use. This task may be treated as completed, meaning that a significant objective has been met. The equipment purchased and installed under the task is operating as planned.

h) Adaptation of the loading station for phenol from cisterns on the loading ramp to TDT requirements

Task on-going. In accordance with the Investment Activity Plan, completion is planned for 2011. Deliveries, implementation and project works have been contracted. An external supplier of metal arms has been selected, whereas implementation (installation and design) has been entrusted to Group entities.

i) Adaptation of the loading station for cyclohexanol, cyclohexanone, cyclohexane and frakol to TDT requirements

This task is implemented jointly with the task "Adaptation of the loading station for phenol from cisterns on the loading ramp to TDT requirements", where these will both be connected after completion.

j) Adaptation of benzene loading stations to TDT requirements

Task on-going. In accordance with the Investment Activity Plan, completion is planned for 2011. "Turnkey" implementation has been executed with an external design company.

k) Transfer of ammonium sulphate pumps from the electricity switching station to facility C-187

A technical project has been drawn up and performance of construction and installation works has been commissioned. In accordance with the Investment Activity Plan, completion is planned for 2011.

l) Implementation of a computer control and AKP systems in the ammonium sulphate plant

On-going. Supplies have been contracted, and installation and configuration works have been commissioned, together with the preparation of documentation. In accordance with the Investment Activity Plan, completion is planned for 2011.

**Expansion of the Modified Plastics Plant**

a) Intensification of the Modified Plastics Plant – phases I+II

The technical start-up of line no. 4 has been completed, the line is being used. The completion of line no. 5 is in progress. Arrangements have been made with the supplier of the line concerning the date of the function test and technical start-up. Installation is currently planned for August, with mechanical and technical start-up in September. Completion of technical start-up and operational line testing is planned for the end of the third quarter of this year, and transfer of the line to assets is forecast for December 2011.

b) Modernisation of the tannamid storage facility

The task was completed and commissioning took place in 2009.

**Polyamide II (Pa 6) 55 000 t/year plant**

Within implementation of this issue objective – an increase in polyamide manufacture – the Parent purchased 100% of shares in Unylon Polymers GmbH (currently: ATT Polymers GmbH), with its registered office in Guben, Germany.

The Parent’s acquisition of a 100% interest in ATT Polymers allowed for vertical integration with the caprolactam manufacturer, which guarantees the supply of its key raw material, and horizontal integration with a PA6 manufacturer, which significantly enhances its market position.
ATT Polymers GmbH has 5 polymerisation lines with production capacity of up to 47 000 tons of PA6 per year.

Investment completed in Q1 2010.

V. Seasonality

Seasonality results from periodic fluctuations in supply and demand throughout the agricultural market and is also significant in the development of fertiliser sales trends. This occurs mainly in artificial fertilisers, particularly nitrate fertilisers such as calcium ammonium nitrate, Saletrosan® and ammonium nitrate. Demand for these products results from the date on which agro-technical procedures are carried out, the agricultural production technique and crop vegetation. The height of the season in the domestic market is seen in the first quarter (depending on weather conditions this occurs in either February or March). At the end of the year – the beginning of the fourth quarter – increased demand is again observed, but this is weaker than in the spring and mainly results from farmers and distributors accumulating fertilisers before the spring. In the summer, when demand for fertilisers from end consumers (farmers) drops, this is usually a period of technical inspections, repairs and works to modernise facilities, and commercial activity is conducted in out-of-season conditions.

In order to reduce the impact of seasonality on operations, the product portfolio is being diversified and current assets are managed so as to avoid loss of liquidity, while effective sales management is ensured throughout the year through agreements with dealers. In cooperation with BGŻ S.A., the Parent is implementing a programme to finance sales with extended payment terms under a factoring agreement for leading fertiliser dealers. This programme is aimed at establishing a comfortable payment period for the above customer group while at the same time obtaining a higher fertiliser sales price.

The Parent is also diversifying geographically through selling ammonium sulphate in the South American market, where the height of the season falls during a period of decreased demand for fertilisers amongst Polish farmers, together with diversifying product sales and expanding the artificial fertiliser segment through extended product ranges and sales markets.

In the case of other Group companies, seasonality has the same impact at ZAK as at the Parent concerning all artificial fertilisers.

Sales of other products are not subject to seasonal fluctuations, which is why the impact of seasonality on AZOTY Tarnów sales results is relatively small.

VI. Type and amount of non-typical items having an impact on assets, liabilities, equity, net financial result or cash flows

During the first half of 2011 there were no unusual items from the point of view of type, amount or impact which affected assets, liabilities, equity, net financial result or cash flows.

However, a significant item is the bridging investment loan granted by PKO BP S.A. for the financing and collateral for a tender offer for shares in Z.Ch. Police S.A. A PLN 400 000 000 loan is to be repaid on a one-of-basis by 31 December 2011.

(details of the loan agreement can be found in point A.III of this report – “Significant agreements executed in the first half of 2011” on page 19 – Execution of an investment loan agreement between the Parent and PKO BP S.A.)
VII. Issue, buyback and repayment of debt and equity securities

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

Pursuant to this authorisation, the Management Board takes decisions on all issues connected with increasing share capital within authorised capital, and in particular the Management Board is authorised to execute underwriting agreements or other agreements guaranteeing the success of the share issue, adopt resolutions and take other steps to dematerialise shares, pre-emptive rights and rights to shares and to execute agreements with Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository for Securities) concerning the registration of shares, pre-emptive rights and rights to shares, together with other activities concerning issue of shares through a public offering or to apply for shares, pre-emptive rights and rights to shares to be admitted to trading on a regulated market.

Management Board resolutions concerning the increase in share capital within authorised capital or establishment of the share issue price within authorised capital require the consent of the Supervisory Board.

The amendment to the articles of association providing for the Management Board’s authorisation to increase the company's share capital within authorised capital is aimed at granting the Management Board legal instruments necessary to provide the company with financial resources for implementation of its investment and acquisition plans. Within authorised capital the Management Board is authorised to decide on the level of capital increase and the time at which such increase is to occur. In particular, authorised capital will ensure the necessary speed and flexibility in the case of issuing shares through a public offering.

Acting pursuant to the authorisation granted by the general meeting, on 26 May 2011 the Parent’s Management Board adopted a resolution in the form of a notarial deed concerning an increase in share capital through the issue of ordinary series C shares.

On 1 June 2011 the Parent’s Supervisory Board expressed its consent to the increase in share capital within authorised capital in accordance with the Management Board resolution.

The Parent’s Management Board specified two principal goals to which proceeds from the issue will be allocated. The first goal is to refinance the transaction for acquisition of a controlling interest in Z.Ch. Police S.A. through a tender offer for shares. The second objective is acquisition from the State Treasury of Poland of 40.86% of shares in ZAK S.A. After this acquisition the Parent will hold 93.48% of votes at the general meeting of ZAK S.A.

On 28 June 2011 the Polish Financial Supervision Authority approved the issue prospectus drawn up in connection with issue of series C shares with pre-emptive rights (the “Offered Shares”) through a public offering, together with application for the admission and introduction of pre-emptive rights to the Offered Shares and rights to the Offered Shares on the Warsaw Stock Exchange main market.

On 4 July 2011 the Parent’s Management Board, with the consent of the Supervisory Board, established the issue price for Offered Shares at PLN 24.10 per Offered Share with a nominal value of PLN 5 each.
It was additionally established that the final number of Offered Shares will be 24,999,023 ordinary series C bearer shares of a nominal value of PLN 5 each. As a result of the above, one pre-emptive right will carry the right to acquire 0.6390279941 of an Offered Share.

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

The Management Board of Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository for Securities – KDPW) informed the Parent's Management Board that pre-emptive rights to ordinary series C bearer shares had been registered in the KDPW on 8 July 2011. In the event that the conditions for dematerialisation of pre-emptive rights to series C shares do not occur, the right to perform registration activities aimed exclusively at supporting exercise of the priority rights to acquisition of series C shares is reserved.

In its communiqué of 8 July 2011, the Management Board of the Warsaw Stock Exchange provided information concerning the listing of pre-emptive rights to ordinary series C bearer shares in the Parent of a nominal value of PLN 5 each. Pre-emptive rights to all 39,116,421 existing shares were assigned the abbreviated name AZOTYTARNOW-PP (abbreviated as ATTP) and code PLZATRM00046.

The pre-emptive rights began trading on 8 July 2011; the initial final listing date, established for 15 July 2011, was changed to 18 July 2011, in accordance with amendments to the issue schedule, through the Management Board decision of 14 July 2011.

On 12 July 2011 the Ministry of the Treasury published a communiqué concerning successful completion of the book-building process for the 20,549,000 pre-emptive rights to new issue shares in the Parent held by the State Treasury. In a subsequent communiqué of 14 July 2011, the Ministry of the Treasury announced the execution a lock-up agreement on shares in the Parent with DM PKO BP S.A. and IPOPEMA Securities S.A. as managers of the public offering of series C shares in the Parent, providing for a 180-day lock-up of shares in AZOTY Tarnów from the date on which trading in pre-emptive rights to series C shares commences on the Warsaw Stock Exchange.

On 28 July 2011 Krajowy Depozyt Papierów Wartościowych S.A. announced the results of subscriptions for the 24,999,023 ordinary series C bearer shares, of a nominal value of PLN 5 each, offered by the Parent. During the subscription period, 11-21 July 2011, a total of 2,961 primary subscriptions were submitted under exercise of pre-emptive rights for 24,587,195 series C shares. At the same time 419 additional subscriptions were submitted for 52,092,197 series C shares.

On 1 August 2011 the Parent’s Management Board announced that, in connection with the performance of resolution no. 2 of the Parent’s Management Board of 26 May 2011 concerning the increase in share capital within authorised capital through issue of ordinary series C bearer shares of a nominal value of PLN 5 each, the issue was successful and 24,999,023 series C shares were allocated to buyers.

On 2 August 2011 Krajowy Depozyt Papierów Wartościowych S.A. transferred PLN 602,833,000 in funds to the account indicated by the Parent, which comprises the following amounts:

1. PLN 602,476,454.30 in proceeds for the new share issue,
2. PLN 357,010.94 in additional revenue connected with depositing funds from the new rights issue.
Funds acquired from the issue remain deposited in an interest-bearing special-purpose account at PKO BP S.A. until such date as a court ruling is obtained concerning entry of the increase in the issuer's share capital, performed through issue of series C shares, in the National Court Register. Subsequently, in accordance with the issue objectives specified in the prospect approved by the Polish Financial Supervision Authority on 2 June 2011, up to PLN 400,000,000 of these funds will be used to repay a bridging investment loan which was incurred at PKO BP S.A. for the acquisition of a controlling interest in Z.Ch. Police S.A.

Rights to series C shares will be listed in the continuous trading system under the abbreviated name “AZOTYTARNOW-PDA” and the designation “ATTA.”

In connection with the completion of subscriptions for series C shares, the Parent published the following information:

1. Date for commencement of subscriptions in exercise of pre-emptive rights and additional subscriptions: 11 July 2011,
2. Date for completion of subscriptions in exercise of pre-emptive rights and additional subscriptions: 21 July 2011,
3. Share allocation date: 1 August 2011,
4. Number of shares covered by the subscription: 24,999,023 series C shares,
5. Rate of reduction under additional subscriptions: 99.21%,
6. Number of shares for which subscriptions have been submitted:
   a. under exercise of pre-emptive rights: 24,587,195 series C shares,
   b. under additional subscriptions: 52,092,197 series C shares,
7. Number of shares allocated under the subscription: 24,999,023 series C shares,
8. Issue price at which shares were acquired: PLN 24.10,
9. Number of persons who submitted subscriptions for shares and the number of people to whom shares were allocated under the subscription:
   a. under exercise of pre-emptive rights a total of 2,961 subscriptions for series C shares were submitted,
   b. under additional subscriptions a total of 419 subscriptions for series C shares were submitted.

With regard to the possibility for one investor to submit several subscriptions, the Parent does not hold information concerning how many investors submitted subscriptions under exercise of pre-emptive rights or how many investors submitted additional subscriptions,

10. Names of underwriters who acquired shares under performance of underwriting agreements: Series C shares were not acquired by underwriters – the Parent did not execute any underwriting agreements,
11. Value of the offering (constituting the product of the number of shares subject to subscription and the issue price per share): PLN 602,476,454.30
12. The estimated costs of issuing series C shares have been specified in the issue prospectus in the section “Proceeds from the Offering” (p. 45). As at 1 August 2011 the costs of the issue, calculated pursuant to invoices received and accepted by the Parent, was: PLN 1,641,852.91, of which:
   a. preparation and performance of the offering: PLN 753,349.51,
   b. preparation of the issue prospectus: PLN 533,482.90,
c. promotion of the offering: PLN 355 020.50.

The Parent will draw up and publish a current report containing information on the final costs of the series C share issue after the receipt and acceptance of all invoices from entities involved in work on the preparation and performance of the series C share issue.

Method of accounting settlement and inclusion in the financial statements: the costs of issuing series C shares, adjusted by income tax decreasing equity from the share premium (surplus of share issue price over nominal value) up to the total value of such equity. A potential excess of issue costs over share premium will be depicted in the profit and loss statement.

13. According to expenses as at 1 August 2011, the average cost of issuing series C shares per share included in the subscription is PLN 0.07.

14. A total of PLN 602 833 465.24 was credited to the account indicated by the Parent under proceeds from the new share issue and deposit of funds from issue of shares with pre-emptive rights.

Pursuant to the resolution of 5 August 2011, the Management Board of Krajowy Depozyt Papierów Wartościowych S.A. ruled to accept 24 999 023 rights to ordinary series C bearer shares into the securities depository at a nominal value of PLN 5 each, as issued pursuant to the Management Board resolution of 26 May 2011 concerning an increase in share capital within authorised capital, and to assign these code PLZATRM00061.

The Management Board of Giełda Papierów Wartościowych w Warszawie S.A., pursuant to a resolution, ruled to admit 24 999 023 rights to ordinary series C bearer shares (the "Rights to Series C Shares"), of a nominal value of PLN 5 each, to regular trading on the main market as of 10 August 2011.

On 17 August 2011 the Parent's Management Board received the ruling of the District Court for Krakow-Śródmieście in Krakow, 12th Commercial Division of the National Court Register, pursuant to which on 12 August 2011 an amendment to the Parent's articles of association was registered concerning an increase in share capital within authorised capital (specified more precisely through the Management Board’s declaration of 1 August 2011) and the increase in the Parent's share capital from PLN 195 582 105 to PLN 320 577 220 through issue of 24 999 023 ordinary series C bearer shares of a nominal value of PLN 5 each was registered.

As at the date of publication of this report, the total number of votes carried by all shares issued in the Parent after registration of the increase in share capital was 64 115 444, with share capital divided into 64 115 444 shares of a nominal value of PLN 5 each, of which:

- 24 000 000 ordinary series AA bearer shares corresponding to 37.4% of share capital,
- 15 116 421 ordinary series B bearer shares corresponding to 23.6% of share capital,
- 24 999 023 ordinary series C bearer shares corresponding to 39.0% of share capital,


VIII. Use of proceeds from the share issue

Up to the date of publishing the financial statements for the first half of 2011, the Parent used funds from the Public Offering, held in fixed-term deposits adapted to the anticipated deadline for achievement of issue objectives, in the following manner:
• for covering the net costs of share issue – PLN 9 298 000,
• for financing a part of expenditures under achievement of issue objectives – PLN 134 820 000, including:
  • for investment tasks implemented under "optimisation of the production portfolio and system for selling nitrogen fertilisers" – the full amount described in the issue prospectus – PLN 38 000 000,
  • for tasks implemented under "modernisation of the caprolactam plant together with construction of a new hydrogen facility" – PLN 58 315 000,
  • for "intensification of the modified plastics plant" – PLN 18 524 000,
  • for increasing polyamide production capacity, the "Polyamide II Plant" – PLN 19 921 000 (including the acquisition of ATT Polymers GmbH).

In total, for financing expenditures under achievement of issue objectives, the Parent used PLN 134 820 000 in funds acquired from the Public Offering, including PLN 18 450 000 used during the first half of 2011.

The use of funds from the issue from the date of publishing the last interim report almost completely served financing payments under performance of the planned issue objective, i.e. "modernisation of the caprolactam plant together with construction of a new hydrogen facility".

Expenditures for implementation of issue objectives incurred up to 30 June 2011 completely financed until the date of drawing up this report (in PLN thousands)

<table>
<thead>
<tr>
<th>Task</th>
<th>expenditures as at 1 July 2008</th>
<th>from loan</th>
<th>from own funds, other than share issue</th>
<th>from share issue</th>
<th>of which: expenditures from 1 Jan to 31 Mar 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modernisation of the caprolactam plant together with construction of a new hydrogen facility</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modernisation of the air compression system for the Cyclohexane Oxidation Facility in sector K-54</td>
<td>2 419</td>
<td>-</td>
<td>1 240</td>
<td>1 179</td>
<td></td>
</tr>
<tr>
<td>Modernisation of process control in Cyclohexane Department installations</td>
<td>410</td>
<td>-</td>
<td>410</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Modernisation of the selective phenol hydrogenation installation in the Palladium catalyst</td>
<td>8 661</td>
<td>-</td>
<td>60</td>
<td>8 601</td>
<td></td>
</tr>
<tr>
<td>Modernisation and intensification of the Caprolactam Plant to 101 300 t/year</td>
<td>24 263</td>
<td>-</td>
<td>96</td>
<td>24 167</td>
<td>3 699</td>
</tr>
<tr>
<td>Construction of the Hydrogen Facility</td>
<td>23 036</td>
<td>7 934</td>
<td>-</td>
<td>15 102</td>
<td>6 602</td>
</tr>
<tr>
<td>Modernisation of the cooling system</td>
<td>1 292</td>
<td>-</td>
<td>151</td>
<td>1 141</td>
<td>269</td>
</tr>
<tr>
<td>Expansion of the 0.4 kV switching station for the requirements of the SHA Plant</td>
<td>2 048</td>
<td>-</td>
<td>206</td>
<td>1 842</td>
<td>1 652</td>
</tr>
<tr>
<td>Adaptation of the loading station for</td>
<td>814</td>
<td>-</td>
<td>41</td>
<td>773</td>
<td>630</td>
</tr>
</tbody>
</table>
### Management report on the operations of the Azoty Tarnów Group for the 6 months ended 30 June 2011

**Task** | **Expenditures as at 1 July 2008** | **From Loan** | **From Own Funds, Other Than Share Issue** | **From Share Issue** | **Of Which: Expenditures from 1 Jan to 31 Mar 2011**
--- | --- | --- | --- | --- | ---

<table>
<thead>
<tr>
<th>Task</th>
<th><strong>Exc. as at 1 July 2008</strong></th>
<th><strong>From Loan</strong></th>
<th><strong>From Own Funds, Other Than Share Issue</strong></th>
<th><strong>From Share Issue</strong></th>
<th><strong>Of which: Expenditures from 1 Jan to 31 Mar 2011</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>phenol from cisterns on the loading ramp to TDT requirements</td>
<td>1 318</td>
<td>-</td>
<td>34</td>
<td>1 284</td>
<td>1 284</td>
</tr>
<tr>
<td>Adaptation of benzene loading stations to TDT requirements</td>
<td>392</td>
<td>-</td>
<td>-</td>
<td>392</td>
<td>392</td>
</tr>
<tr>
<td>Sulphuric acid pumps relocation</td>
<td>824</td>
<td>-</td>
<td>-</td>
<td>824</td>
<td>824</td>
</tr>
<tr>
<td>Modernisation of sulphuric acid department – base project</td>
<td>342</td>
<td>-</td>
<td>-</td>
<td>342</td>
<td>342</td>
</tr>
<tr>
<td>Implementation of a computer control and AKP systems in the ammonium sulphate plant</td>
<td>2 659</td>
<td>-</td>
<td>-</td>
<td>2 659</td>
<td>2 659</td>
</tr>
<tr>
<td>Means of implementing the Beckmann rearrangement process</td>
<td>9</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>68 487</td>
<td>7 934</td>
<td>2 238</td>
<td>58 315</td>
<td>18 362</td>
</tr>
</tbody>
</table>

**Optimisation of the product portfolio and nitrogen fertiliser sales system**

<table>
<thead>
<tr>
<th>Task</th>
<th><strong>Exc. as at 1 July 2008</strong></th>
<th><strong>From Loan</strong></th>
<th><strong>From Own Funds, Other Than Share Issue</strong></th>
<th><strong>From Share Issue</strong></th>
<th><strong>Of which: Expenditures from 1 Jan to 31 Mar 2011</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1200 t/d mechanical fertiliser granulation installation</td>
<td>32 092</td>
<td>6 291</td>
<td>2 821</td>
<td>22 980</td>
<td>-</td>
</tr>
<tr>
<td>Modernisation of the dolomite milling plant</td>
<td>4 199</td>
<td>-</td>
<td>1 229</td>
<td>2 970</td>
<td>-</td>
</tr>
<tr>
<td>Modernisation of the packing and fertiliser freight forwarding centre</td>
<td>13 798</td>
<td>-</td>
<td>1 748</td>
<td>12 050</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>50 089</td>
<td>6 291</td>
<td>5 798</td>
<td>38 000</td>
<td>-</td>
</tr>
</tbody>
</table>

**Polyamide II Plant**

<table>
<thead>
<tr>
<th>Task</th>
<th><strong>Exc. as at 1 July 2008</strong></th>
<th><strong>From Loan</strong></th>
<th><strong>From Own Funds, Other Than Share Issue</strong></th>
<th><strong>From Share Issue</strong></th>
<th><strong>Of which: Expenditures from 1 Jan to 31 Mar 2011</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Modernisation of the tarnamid storage facility</td>
<td>3 864</td>
<td>-</td>
<td>-</td>
<td>3 864</td>
<td>-</td>
</tr>
<tr>
<td>Capital expenditures – acquisition of ATT Polymers GmbH</td>
<td>16 057</td>
<td>-</td>
<td>-</td>
<td>16 057</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19 921</td>
<td>-</td>
<td>-</td>
<td>19 921</td>
<td>-</td>
</tr>
</tbody>
</table>

**Expansion of the Modified Plastics Plant**

<table>
<thead>
<tr>
<th>Task</th>
<th><strong>Exc. as at 1 July 2008</strong></th>
<th><strong>From Loan</strong></th>
<th><strong>From Own Funds, Other Than Share Issue</strong></th>
<th><strong>From Share Issue</strong></th>
<th><strong>Of which: Expenditures from 1 Jan to 31 Mar 2011</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intensification of the Modified Plastics Plant – phases I-II</td>
<td>18 584</td>
<td>-</td>
<td>-</td>
<td>18 584</td>
<td>88</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>18 584</td>
<td>-</td>
<td>-</td>
<td>18 584</td>
<td>88</td>
</tr>
</tbody>
</table>

**Total tasks financed under issue objectives**

<table>
<thead>
<tr>
<th><strong>Exc. as at 1 July 2008</strong></th>
<th><strong>From Loan</strong></th>
<th><strong>From Own Funds, Other Than Share Issue</strong></th>
<th><strong>From Share Issue</strong></th>
<th><strong>Of which: Expenditures from 1 Jan to 31 Mar 2011</strong></th>
</tr>
</thead>
</table>
Unused proceeds from the issue are held in diversified deposits at banks of strategic importance to the Parent with regard to achieving the highest level of profitability and their projected use for financing investment tasks in implementation of issue objectives.

As at 30 June 2011, PLN 100 million was invested in fixed-term deposits with maturity of up to 3 months from the end of the reporting period.

Financial revenues totalling PLN 2.65 million were generated in the first half of this year through fixed-term deposits of funds from the share issue.

IX. Dividend

During the first half of 2011 the Parent did not pay out a dividend and on 14 June 2011 the general meeting of shareholders adopted a resolution on non-pay-out of a dividend and allocation of profit from the previous year to supplementary capital.

However, subsidiary ZAK S.A. paid out PLN 14 191.20 for a dividend not collected in 2007. As at 30 June 2011 the amount of the dividend not collected was PLN 222 751. The above amounts result from the fact that individual shareholders did not come forward for collection of due dividends. This is commonly caused by problems in establishing rights carried by shares resulting from incomplete inheritance cases.

X. Information concerning related parties

Information concerning significant transactions with related parties

a) Information on significant transactions executed by the Group with related parties on terms and conditions other than market terms and conditions

During the 6 months ended 30 June 2011 there were no transactions executed with related parties on terms and conditions other than market terms and conditions.

b) Transactions with members of the Management Board and Supervisory Board of the Parent, their spouses, family, ancestors, descendants or other closely related persons

During the 6 months ended 30 June 2011 the Group did not grant any advances, loans, borrowings, guarantees or sureties to management and supervisory personnel or persons closely related to them, nor did it enter into any agreements with them to provide benefits to the Group.

c) Significant agreements entered into by the Group with related parties

In connection with the intention to acquire shares in Z.Ch. Police S.A. and the necessity to provide collateral for the tender offer (as referred to in the point Acquisition of shares in Z.Ch. Police S.A. on page 9 of this report), the Parent executed a PLN 70 000 000 short-term loan agreement with subsidiary ZAK S.A. The loan was granted for the period from 14 June 2011 to 31 May 2012 and loan interest was established on market terms and conditions, i.e. WIBOR 1M + lender’s margin.

The remaining sum necessary for establishment of the collateral was sourced from the PLN 400 000 000 short-term investment loan agreement executed on 14 June 2011 with PKO BP S.A. and from the Parent’s own funds.
B. OTHER INFORMATION

I. Description of Group structure

The Parent is Azoty Tarnów.

As at the 30 June 2011, the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group (hereinafter the AZOTY Tarnów Group) comprised Zakłady Azotowe w Tarnowie-Mościcach S.A. – the Parent, and:

- 10 subsidiaries (with interest exceeding 50%),
  including: subsidiary ZAK S.A., together with the ZAK S.A. Group
- 1 associate (26.4% interest).

On 1 July 2011 AZOTY Tarnów sold 100% of shares in one of its subsidiaries – Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne "ELZAT" Sp. z o.o. – to Zakład Produkcyjno-Remontowy Energetyki "JEDLICZE" Sp. z o.o.

Parent – Zakłady Azotowe w Tarnowie-Mościcach S.A.

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

Field of operations: manufacture and sale of chemicals and plastics (PKD–Polish Classification of Business Activity – 2014Z).

Presentation of AZOTY Tarnów Group subsidiaries

ATT Polymers GmbH

Entered into the Commercial Register of the District Court in Cottbus on 2 February 2006, entry number HRB 7461 CB. On 27 January 2010 the Parent became sole shareholder in the company, which was confirmed by Notary Public Dr Gero Pfennig on 29 January 2010. The company’s share capital amounts to EUR 9 million and is fully paid-in.

Field of operations: manufacture and trade in plastics (polymers), their intermediate products and derivative products.

“AUTOMATYKA” Sp. z o.o.

The company was registered on 7 November 1997. Its registered office is located in Tarnów, ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number KRS 0000085959) on 6 February 2002 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.

Field of operations: operation, installation and start-up of industrial measurement and control systems, manufacture of controllers and computer control systems, process visualisation, network installation and computer software. Repair, calibration and inspection of measurement and control equipment (PKD 3313Z).

Biuro Projektów Zakładów Azotowych “BIPROZAT – TARNÓW” Sp. z o.o.

The company was registered on 2 March 1994. Its registered office is located in Tarnów at ul. E. Kwiatkowskiego 7. The company was entered into the National Court Register (entry number KRS 0000199462) on 12 March 2004 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.

Field of operations: design, document creation, organisation of apparatus and equipment delivery, trade, consulting and IT activity, new technologies (PKD 7112Z).
Jednostka Ratownictwa Chemicznego Sp. z o.o.
The company was registered on 19 November 1993. Its registered office is located in Tarnów at ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number KRS 0000188857) on 29 January 2004 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register. The principal field of this company’s operations covers services connected with environmental protection.
Field of operations: services related to decontamination, recycling, waste recovery and storage, sewage treatment, repair of damage caused by industrial incidents, analysis of water, air and waste, training, transport of hazardous materials, food testing, manufacture and trade in chemical products (PKD 3700Z).

Przedsiębiorstwo Transportu Kolejowego "KOLTAR" Sp. z o.o.
The company was registered on 7 December 1999. Its registered office is located in Tarnów at ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number KRS 0000206663) on 12 May 2004 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.
Field of operations: freight support connected with the handover and acceptance of rail transport freight, loading services, cleaning of tanks and wagons and inspection thereof, trade, maintenance of railway lines connected with operating a rail loading station (PKD 4920Z).

Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne "ELZAT" Sp. z o.o. - included in the AZOTY Tarnów Group until 30 June 2011.
The company was registered on 2 March 2004. Its registered office is located in Tarnów at ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number KRS 0000205643) on 29 April 2004 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.
Field of operations:
- electrical installation (PKD 4321Z),
- manufacture of mechanical equipment and tools (PKD 2824Z),
- treatment and coating of metals (PKD 2561Z),
- sale of waste and scrap (PKD 4677Z),
- technical testing and analysis (PKD 7120B),
- completion and finishing works (PKD 4339Z).

Polskie Konsorcjum Chemiczne Sp. z o.o.
The company was registered on 23 December 2008. Its registered office is located in Krakow, ul. Lubicz 25/372a. The company was entered into the National Court Register (entry no. KRS 0000319998) on 19 February 2009 by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register.
Field of operations:
- activities of financial holding companies (PKD 6420Z),
- activities of head offices and holding companies with the exception of financial holding companies (PKD 7010Z),
- business and other management consultancy activities (PKD 7022Z),
- accounting, bookkeeping and auditing activities; tax consultancy (PKD 6920Z),
- repair of fabricated metal products (PKD 3311Z).
In the near future changes are planned concerning an increase in the share capital of subsidiary PKCh Sp. z o.o., amendments concerning the field of operations and issue of a new consolidated text of the company’s articles of association.
The planned increase in the share capital of subsidiary PKCh. Sp. z o.o. is to occur through the transfer as a contribution-in-kind of shares held by the Parent in subsidiaries. The companies whose shares are to be transferred as a contribution-in-kind operate in the fields of investment execution, operational continuity, maintenance and repair services. In connection with this, the Parent’s Management Board has filed a motion with corporate authorities (motion filed with the Supervisory Board on 26 July 2011). Implementation of the project is connected with AZOTY Tarnów Group restructuring processes and is to lead to an improvement in efficiency and streamline the management of the Parent’s and ZAK S.A.’s subsidiaries, strengthen the performance potential of these entities, eliminate internal competition and as a consequence lead to an increase in their value.

The Parent assumes that the first phase of consolidation – transfer of the companies’ assets to PKCh Sp. z o.o. – will occur by the end of 2011.

**PROReM Sp. z o.o.**
The company was registered on 14 October 1998. Its registered office is located in Tarnów, ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number KRS 0000095916) on 6 March 2002 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.

Field of operations: manufacture and provision of services (construction, installation, sanitary, industrial, electrical, surveying, telecommunications, etc.), repair and modernisation of specialist fixed asset elements (PKD 3312Z).

**ZAK S.A.**
The company was entered into the register of companies of the National Court Register held by the District Court in Opole, VIII Commercial Division of the National Court Register, entry no. KRS 0000008993. The company has its registered office in Kędzierzyn-Koźle at ul. Mostowa 30A. Since 24 April 2009 the company has traded as ZAK Spółka Akcyjna.

The company’s primary activity is the manufacture of fertilisers and nitrogen compounds, organic and non-organic chemicals and other chemical products.

**ZWRI Sp. z o.o.**
This company was registered on 28 December 1993. Its registered office is in Tarnów at ul. E. Kwiatkowskiego 8. The company was registered in the National Court Register, entry no. 0000074630, on 4 January 2002 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.

Field of operations: manufacture and provision of services (construction, installation, sanitary, industrial, electrical, measurement and ICT fittings) - PKD 4120Z

**Associate**

**Navitrans Sp. z o.o.**
The company was registered on 29 June 1992. Its registered office is in Gdynia at ul. Świętojańska 18/5. The company was entered into the National Court Register (entry no. 0000062936) on 20 November 2001 by the District Court in Gdansk-Północ, VIII Commercial Division of the National Court Register.

Field of operations: other transport agency activities (PKD 6340C).
Graphical representation of the Group including consolidated and non-consolidated entities as at 30 June 2011
*) on 9 February 2011 the Parent purchased an additional 168 shares in AUTOMATYKA Sp. z o.o. (subsidiary) In connection with this, it became the owner of a total of 4,976 shares, constituting 72.17% of its equity.
This change was entered into the National Court Register on 11 April 2011.

**) on 1 July 2011 the Parent sold 13,318 shares, constituting 100% of the share capital of ELZAT Sp. z o.o. to Zakład Produkcyjno-Remontowy Energetyki “JEDLICZE” Sp. z o.o.

***) as referred to above in the description of Group structure, in the near future changes are planned at PKCh Sp. z o.o. (a subsidiary) concerning an increase in share capital, change in the field of operations and issue of a new consolidated text of the company’s articles of association.

Companies not subject to consolidation are entities connected through subsidiaries. They are not subject to consolidation due to their insignificant nature.
The Parent also holds minority interests in 14 entities.

**Parent minority shareholding in entities as at 30 June 2011**

<table>
<thead>
<tr>
<th>Company name</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>Francusko-Polskie Przedsiębiorstwo Instalacji Przemysłowych “POLSNIG” Sp. z o.o.</td>
<td>2.67%</td>
</tr>
<tr>
<td>Centrum Naukowo - Produkcyjne Materialów Elektronicznych “CEMAT’70” S.A.</td>
<td>1.24%</td>
</tr>
<tr>
<td>INWESTSTAR S.A.</td>
<td>0.06%</td>
</tr>
<tr>
<td>Zakłady Włókien Chemicznych “WISTOM” S.A. w Upadłości</td>
<td>9.83%</td>
</tr>
<tr>
<td>Zakłady Tworzyw Sztucznych &quot;PRONIT&quot; S.A. w Upadłości</td>
<td>0.28%</td>
</tr>
<tr>
<td>LEN S.A. w Likwidacji</td>
<td>0.289%</td>
</tr>
<tr>
<td>Tłocznia Metali &quot;PRESSTA&quot; S.A. w Upadłości Likwidacyjnej</td>
<td>0.019%</td>
</tr>
<tr>
<td>Wytwórnia Siłników “PZL MIELEC” Sp. z o.o. w Upadłości</td>
<td>0.12%</td>
</tr>
<tr>
<td>Zakłady Przemysłu Dziewiarskiego “KARO” S.A. w Likwidacji</td>
<td>0.17%</td>
</tr>
<tr>
<td>Południowe Zakłady Przemysłu Skórzanego “Chelmek” S.A. w Upadłości Likwidacyjnej</td>
<td>0.03%</td>
</tr>
<tr>
<td>Konsorcjum Rozwoju Eksplatacji Majątku Trwałego “EKSPLOSYSTEM” Sp. z o.o.</td>
<td>3.36%</td>
</tr>
</tbody>
</table>

On 17 February 2011 UNIONTEX S.A. w Upadłości was removed from the National Court Register in connection with completion of bankruptcy proceedings (the removal from the National Court Register is legally effective as of 29 March 2011). The Parent held 488 shares in the company, constituting 0.03% of its equity).

On 21 June 2011 the Parent sold the 40 shares held by it, constituting 8% of the share capital of Unia Tarnów Sportowa S.A., having its registered office in Tarnów, to Stowarzyszenie Klub Sportowy ”ZKS UNIA” Tarnów.
II. Changes in the structure of economic entities, including as a result of mergers, acquisitions or sale of Group companies, long-term investments, division, restructuring and discontinued operations

Purchase of additional shares in a subsidiary
On 9 February 2011 the Parent purchased an additional 168 shares in AUTOMATYKA Sp. z o.o. (subsidiary) from 17 natural persons. In connection with this, the Parent became the owner of a total of 4,976 shares in the subsidiary, constituting 72.17% of its equity. This change was entered into the National Court Register on 11 April 2011.

Sale of subsidiary ELZAT Sp. z o.o.
On 1 July 2011 the Parent sold 13,318 shares, constituting 100% of the share capital of ELZAT Sp. z o.o., to Zakład Produkcyjno-Remontowy Energetyki "JEDLICE" Sp. z o.o.

The sale of this company is a successive phase in the organisational plan of the AZOTY Tarnów Group in accordance with the plan presented in the issue prospectus of 2008. As a result of implementing this plan, the AZOTY Tarnów Group has so far withdrawn from the following companies: Oknotar Sp. z o.o, Zbach Sp. z o.o. and Wiezat Sp. z o.o.

III. Management Board position concerning achievement of forecasts
In connection with the fact that forecasts for financial results in 2011 were not published, we cannot present the Parent Management Board’s position on achievement of forecast results.

IV. Indication of shareholders directly or indirectly through subsidiaries holding at least 5% of total votes at the general meeting as at the date of publishing this report, with indication of the number of shares held by such entities, their share in capital, the number of votes carried thereby and their share in the total number of votes at the shareholder meeting, together with indication of changes in the ownership of significant stakes in the parent from the publication date for the previous annual report

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>1,349,000</td>
<td>3.45%</td>
<td>1,349,000</td>
<td>3.45%</td>
</tr>
<tr>
<td>Nafta Polska S.A. w likwidacji</td>
<td>19,200,000</td>
<td>49.08%</td>
<td>19,200,000</td>
<td>49.08%</td>
</tr>
<tr>
<td>PGNiG S.A.</td>
<td>4,000,001</td>
<td>10.23%</td>
<td>4,000,001</td>
<td>10.23%</td>
</tr>
<tr>
<td>Aviva Otwarty Fundusz Emerytalny</td>
<td>2,667,859</td>
<td>6.82%</td>
<td>2,667,859</td>
<td>6.82%</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>11,899,561</td>
<td>30.42%</td>
<td>11,899,561</td>
<td>30.42%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39,116,421</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>39,116,421</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

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

Before this change, the State Treasury of Poland held 1 349 000 shares in AZOTY Tarnów, which constituted a 3.45% share in equity. Such shares carried 1 349 000 votes, constituting a 3.45% share in the total number of votes.

The State Treasury of Poland currently holds 20 549 000 shares in AZOTY Tarnów, which constituted a 52.53% share in equity. Such shares carry 20 549 000 votes, constituting a 52.53% share in the total number of votes.

Furthermore, on 15 April 2011 the Parent’s Management Board received information provided by Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG") concerning a transaction for disposal of shares held in the Parent.

Before execution of the transaction PGNiG held 4 000 001 shares, constituting 10.23% of share capital (issued shares), carrying 4 000 001 votes at the General Meeting, which constituted 10.23% of total votes.

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

In connection with the above, the shareholding structure as at the end of the reporting period is as follows:

### Shareholding structure as at 30 June 2011

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>52.53%</td>
<td>20 549 000</td>
<td>52.53%</td>
</tr>
<tr>
<td>Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK</td>
<td>3 000 000</td>
<td>7.67%</td>
<td>3 000 000</td>
<td>7.67%</td>
</tr>
<tr>
<td>Other</td>
<td>15 567 421</td>
<td>39.80%</td>
<td>15 567 421</td>
<td>39.80%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39 116 421</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>39 116 421</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Pursuant to the ruling of the District Court for Krakow-Śródmieście in Krakow, 12th Commercial Division of the National Court Register, on 12 August 2011 registration was made of the increase in the Parent’s share capital from PLN 194 582 105 to PLN 320 577 220 through issue of 24 999 023 ordinary series C bearer shares of a nominal value of PLN 5 each.

As at the date of publication of this report, the total number of votes carried by all shares issued in the Parent after registration of the increase in share capital was 64 115 444, with share capital divided into 64 115 444 shares of a nominal value of PLN 5 each.

The shareholding structure was subject to change as a result of the series C share issue; the number of shares and number of votes at the general meeting should be understood as the total number of series AA and B shares, together with rights to series C shares:
Management report on the operations of the Azoty Tarnów Group for the 6 months ended 30 June 2011

Shareholding structure as at 19 August 2011

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

*Total number of shares and pre-emptive rights

V. Shares held in Zakłady Azotowe w Tarnowie-Mościcach S.A. by the company’s management and supervisory personnel

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of shares as at 21 March 2011</th>
<th>Change</th>
<th>Number of shares as at 30 June 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice-President of the Management Board Witold Szczypiński</td>
<td>390</td>
<td>-</td>
<td>390</td>
</tr>
<tr>
<td>Member of the Management Board Franciszek Bernat</td>
<td>5</td>
<td>-</td>
<td>5</td>
</tr>
</tbody>
</table>

There was no change in the shares held by management and supervisory personnel from the date of publishing the annual report for 2010 to the date on which this report was drawn up.

Other management and supervisory personnel at the Parent did not hold shares in the Parent as at the end of the reporting period, i.e. as at 30 June 2011.

VI. Court proceedings

There are no proceedings on-going within Group companies concerning liabilities or receivables, the value of which could individually or in total constitute 10% of the Parent’s equity, i.e. which could constitute the criterion of significance specified in § 91, point 5, par. 5 of the Ordinance of the Minister of Finance concerning current and periodic information of 19 February 2009.

VII. Loan or borrowing guarantees or sureties issued

On 23 March 2011 the Parent issued a surety for repayment of investment credit granted to ZAK S.A. (subsidiary) by Raiffeisen Bank Polska S.A. for refinancing credit liabilities towards a
Zakłady Azotowe w Tarnowie-Mościcach S.A. Group

Management report on the operations of the Azoty Tarnów Group for the 6 months ended 30 June 2011

consortium of banks: BRE BANK S.A. / Bank Pekao S.A. / Kredyt Bank S.A. under finance for Nitric Acid Installation (TKV) and Water Treatment Facility (SUW) investments, amounting to PLN 17,250,000 and EUR 14,750,000 respectively, simultaneously submitting itself to enforcement of up to 125% of the value of the above loans, i.e. up to PLN 21,562,500 and EUR 18,437,000 for the period to 31 March 2019.

The above sureties are valid for an indefinite period and may be used in the event of non-performance of obligations by the borrower, however in accordance with the above loan agreements, Raiffeisen Bank Polska S.A. should release these on condition that collateral is established on elements of ZAK S.A.‘s assets and that established financial ratios are fulfilled during two calendar quarters by the borrower and the AZOTY Tarnów Group.

Furthermore, on 29 March 2011 the Parent granted a surety for repayment of a loan in the form of a multi-purpose credit limit granted to ZAK S.A. (subsidiary) by Raiffeisen Bank Polska S.A. to refinance loan liabilities against a consortium of banks – BRE Bank S.A. / Bank Pekao S.A. / Kredyt Bank S.A. – under a revolving loan and financing for current operations amounting to PLN 100,000,000.

The above surety is irrevocable and may be used in the event of non-performance of obligations by the borrower, however in accordance with the above loan agreement, PKO Bank Polski should release these on condition that collateral is established on elements of ZAK S.A.‘s assets and that established financial ratios are fulfilled by the borrower and the AZOTY Tarnów Group.

VIII. Other information essential for assessing the HR, property, financial situations, the financial result and their changes at the company and its group and also information essential for assessing the capability for the company and its group to perform obligations

1. Foreign exchange volatility

During the first half of 2011, increased volatility in EURUSD exchange rates was observed, alongside a simultaneous strengthening of EUR vs. USD.

The Polish currency was subject to weakening in subsequent months due to an increase of global risk resulting from on-going conflicts in the Arab world and the earthquake in Japan, together with the sovereign debt problems affecting some EU member states. On the other hand, the Polish currency’s strengthening against the USD and EUR was contributed to by forex transactions on the market by BGK and large privatisation processes implemented by the government in cooperation with the Warsaw Stock Exchange, together with a series of increases in the national interest rate implemented by the Monetary Policy Council in the first half of 2011.

In total during the first half of 2011, PLN followed the EURUSD trend and as a result strengthened by approx. 7.2% against the USD and weakened by approx. 0.7% against the EUR in relation to the levels recorded as at 31 December 2010. Maintenance of relatively good macroeconomic indicators coupled with the tightening of national monetary policy eased the negative impact of the above-mentioned growth in risk within the global economy.

From the point of view of the Polish economy, there is still space for further appreciation of PLN against USD and EUR in the long-term, however with relation to the second half of 2011 it is anticipated that the Polish currency’s trend towards appreciation may be subject to periodic correction due to a worsening of credit ratings amongst further EU states and the prospect of upcoming parliamentary elections in Poland.

Based on the "Market Risk Management Policy" within the plan for 2011 and in accordance with the internal guidelines of the Foreign Exchange Risk Committee, in the first quarter of 2011 the
Parent hedged up to 50% of planned currency exposure under contracts executed, within a time scale of up to 6 months from the date on which the hedge was originated.

During the first half of 2011 the Parent executed hedges in the form of forward contracts on future exchange of EUR (over 86.5%) and USD (almost 13.5%) into PLN in proportion to planned net exposures in both these currencies.

Currency swap transactions were used as a supplementary tool to adapt the maturity date of instruments to changes in current currency exposure.

The result on executed hedging transactions for the first half of 2011 amounted to PLN 2,532,000, with a simultaneous loss of PLN 175,000 on revaluation of hedging instruments (constituting the difference in valuation of open financial instruments between 31 December 2010 and 30 June 2011).

In parallel, the remaining part of non-hedged net currency exposure during the reporting period amounted to a positive result on executed currency differences of PLN 69,000, with a simultaneous negative valuation of currency settlements amounting to PLN (760,000).

In total during the first half of 2011 at the Parent, the net balance of finance income and costs from exchange differences and derivative currency transactions (with consideration to the revaluation as at the end of the reporting period) amounted to: PLN 1,666,000 (with realised exchange differences and currency hedging transactions at PLN 2,601,000 and unrealised items valued at negative PLN 935,000).

At ZAK S.A. work is in progress on implementing and unifying policies, procedures and hedge accounting.

Since 1 October 2008 the Group has applied the principles of hedge accounting pursuant to IAS 39 in order to hedge future cash flows exposed to currency risk. The Group currently applies the above principles in relation to currency loans and borrowings for which the level of effective hedging has been indicated. The Group applies the above hedge accounting principles to currency loans and borrowings with designated effective hedge amounts.

Revenue from sales decreased by PLN 473,000 in the first half of 2011 as a result of the settlement of hedge relationships concerning currency loans and borrowings.

As at 30 June 2011, the Parent posted a so-called effective hedge amount relating to EUR currency loans and borrowings in its revaluation provision (in accordance with the hedge accounting policies). The amount in question was PLN 1,388,000. Over the first half of 2011 negative capital from revaluation of the above successful hedging decreased by PLN 378,000 with regard to the settlement of hedging relationships with a slight increase in the negative valuation of other loans covered by these relationships.

As at June 2011, open hedging positions concerned exclusively forward contracts entered into during the preceding 6 months. Outstanding assets relating to measurement of currency hedging derivative positions as at 30 June 2011, amounted to PLN 630,000. No hedging positions were designated in this group.

In connection with the net foreign currency exposure generated by the Group during the first half of this year (mainly in EUR) with a high level of volatility in EURPLN and USDPLN exchange rates, a positive result was achieved on foreign exchange differences and hedging transactions settled, which compensated for the slightly negative valuation of open hedging transactions.

2. Composition of management and supervisory authorities

On 18 March 2011 the Parent's Supervisory Board adopted Resolution no. 47-49/VIII/2011 on the appointment of the Parent's Management Board for a new three-year term as follows:

- Jerzy Marciniak – President of the Management Board, Managing Director
- Andrzej Skolmowski – Vice-President of the Management Board
Furthermore, on 10 May 2011 the Supervisory Board adopted a resolution (no. 73/VIII/2011) on the appointment of Franciszek Bernat – elected by the employees of the Parent – to the Parent's Management Board. The first round of elections took place on 14-23 March 2011, while the second round took place on 4-13 April 2011.

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

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

The following changes in the composition of the Supervisory Board took place during the reporting period:

- On 14 June 2011 the Parent’s Management Board received the resignation of Agnieszka Doroszkiewicz, Member of the Parent’s Supervisory Board.

The composition of the Supervisory Board as at 30 June 2011 is as follows:

- Marzena Piszczek – Chairperson of the Supervisory Board,
- Ewa Lis – Vice-Chairperson of the Supervisory Board,
- Jan Wais – Secretary of the Supervisory Board,
- Jacek Lewandowski – Member of the Supervisory Board,
- Jacek Obłękowski – Member of the Supervisory Board,
- Mirosław Potulski – Member of the Supervisory Board,
- Tomasz Klikowicz – Member of the Supervisory Board,
- Zbigniew Paprocki – Member of the Supervisory Board,

3. Competences of persons managing the Parent

The detailed division of competences amongst persons managing the Parent is governed by Resolution of the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. no. 16/VIII/2011 of 30 June 2011. At the same time resolution no. 190/VII/2009 of 8 April 2009 becomes invalid.

The competences of the President of the Management Board – General Director of the Group, include:

a) Convening and chairing meeting of the Company’s Management Board and managing its work,

b) Fulfilling the obligations of Company employer in the meaning of the Polish Labour Code,

c) Performing legal activities in relation to other board members within the scope of competences specified in the Company’s articles of association.

d) Managing the AZOTY Tarnów company and group and supervising the operations of companies being part of the Group, together with managing the Company and Group.

e) Initiating and managing the process of developing Company strategies and supervising and coordinating the creation of Group strategies,

f) Leading development and implementation efforts relating to the corporate social responsibility strategy,

g) Raising issues to be discussed by Committees (Boards) established by the Company’s Management Board, and supervising their operations,
h) Supervising the work of the internal auditor and external auditors and controllers regarding the Company and Group,
i) Managing processes and projects connected with an appropriate corporate identity and advertising strategy for the Company and Group,
j) Overseeing processes connected with structural and ownership changes within the Company and Group,
k) Developing and managing Company and Group information policy,
l) Coordinating and controlling work connected with the investor relations management process and communication with capital market analysts and participants,
m) Representing the Company in all judicial and non-judicial cases in accordance with the principles for representation specified in the Company's articles of association,
n) Managing processes connected with implementing Company and Group HR strategies and policy and taking HR-related decisions in issues not reserved for corporate authorities in the companies' articles of association,
o) Unilateral approval of programmes and plans in fields specified in the Company organisational regulations and other internal provisions and regulations,
p) Supervising initiatives and inspecting the results of initiatives of organisational units subject to the President of the Management Board's direct control,
q) General supervision over management systems implemented at the Company.

The President of the Company's Management Board – General Director of the Group is responsible for:

a) Initiating and coordinating the development and implementation of Company and Group strategies, multi-annual and annual operational plans for the Company's business,
b) Rational organisation of the Company's business,
c) Corporate social policy, including HR issues as employer in the meaning of the Polish Labour Code,
d) Creating the conditions for the Company and Group to achieve optimal economic, production and technical results and ratios through supervising the work of the Business Centres and operational departments in cooperation with the directors of these organisational units and the corporate authorities of Group companies,
e) Overseeing the implementation of designated strategic and operational objectives by the Company's specific organisational units and Group companies,
f) Preparing and implementing the corporate social responsibility strategy and inspecting its implementation,
g) Supervising, coordinating and implementing the Company's policy concerning management systems,
h) Coordinating and overseeing processes and activities under these processes concerning the creation of a Company and Group identity and brand prestige,
i) Inspiring and creating an information policy for the Company and Group in accordance with the activities specified in the articles of association of specific Group companies,
j) Implementing resolutions, decisions and recommendations of the Company's Management Board in accordance with the Company's strategic interests and legal regulations,
k) Inspecting the implementation of the resolutions of the corporate authorities of Group companies,
l) Representing the Company and Group before shareholders and statutory authorities, as well as government bodies and state and local authority institutions,
m) Cooperating with trade union bodies operating within the Company and other organisations statutorily operating within the Company's business in the field specified in legislature or internal regulations and agreements,

The competences of the Vice-President of the Company's Management Board include:
a) Formulating guidelines for financial strategy and coordinating the development of related documentation, both within the Company and the Group,
b) Formulating guidelines for Company and Group commercial and marketing strategies and coordinating the development of related documentation,
c) Managing and overseeing Company and Group financial policy,
d) Supervising the preparation of financial statements within statutory deadlines (separate statements for the Company and subsidiaries and consolidated statements for the Group),
e) Organising and coordinating the development of multi-annual and annual budget plans,
f) Organising and developing multi-annual and annual sales plans under the commercial and marketing policy strategy adopted by the Company’s Management Board.
g) Managing processes connected with financial and foreign currency risk within the Company and Group,
h) Managing Company and Group cash flows,
i) Coordinating and supervising the implementation of Company and Group strategies in the fields of finance, sales, purchasing and logistics,
j) Initiating the preparation and reviewing implementation of Company and Group credit policy,
k) Supervising, coordinating and inspecting the correct operation of planning and control, accounting, reporting and information management systems for the requirements of the Company’s corporate authorities,
l) Overseeing preparation of an account policy and financial policy and coordinating their operation within the Company and Group,
m) Supervising the operation of organisational units implementing tasks in the fields of finance, accounting, trade, logistics and internal control,
n) Representing the Company in all judicial and non-judicial cases in accordance with the principles for representation specified in the Company’s articles of association,
o) Overseeing the Committees (Boards) established by the Company’s Management Board and raising issues to be discussed by them in the fields of finance, accounting, IT and others created,
p) Coordinating work connected with the opening of a Shared Services Centre covering the Group,
q) Coordinating initiatives and supervising work connected with the creation and optimisation of the Group’s product portfolio.

The Vice-President of the Management Board is responsible for:

a) Initiating and coordinating development of Company and Group operational (sector) strategies in the scope of functions and fields of supervision, in particular relating to finance, accounting, trade, logistics and marketing,
b) Verifying and overseeing the implementation of strategies in the fields specified in point a),
c) Supervising the application of accounting principles within the Company and Group in accordance with International Financial Reporting Standards and current legal regulations,
d) Managing Company and Group financial risk,
e) Overseeing processes connected with trade in financial instruments, in particular the Company’s securities (shares),
f) Coordination and supervision concerning the implementation of tasks connected with periodic stock marketing reporting,
g) Organising economic inspections and inventories,
h) Ensuring the correct circulation, inspection and archiving of documents depicting the Company’s separate and consolidated financial reporting,
i) Supervising Company economic management in accordance with the principles in force, with particular regard to:
  ● observing of the principles for cash settlement and ensuring due protection of cash assets,
• observing binding tax regulations and ensuring timely payment between the Company and local and central government tax authorities,

j) Overseeing the correct budgeting of specific Company organisational units and the inspection and settlement of planned budget performance,

k) Coordinating and overseeing the settlement of tasks adopted by the Company’s Management Board for its specific business units,

l) Overseeing and inspecting financial settlements under purchase and sales agreements,

m) Correctly drawing up the Company’s and Group’s separate and consolidated financial statements for specific settlement and reporting periods,

n) Performing correct financial settlement, in particular cash and foreign currency settlements,

o) Coordinating work connected with implementing the IT policy and IT management systems within the Company and Group,

p) Coordinating work connected with timely implementation of the Shared Services Centre schedule,

q) Timely preparation of opinions from supervised Committees (Boards) for the requirements of the Management Board,

r) Implementing resolutions, decisions and recommendation of the Company’s Management Board in accordance with the Company’s strategic interests and legal regulations,

s) Representing the Company in relations with its business partners.

The competences of the Member of the Management Board responsible for technical and production issues include:

a) Initiating and coordinating operational strategies connected with the area supervised,

b) Managing and coordinating manufacturing processes within the Company and Group,

c) Managing and coordinating repairs and technical down-times at Company and Group manufacturing plants,

d) Managing the development of specific technological processes within the Company and Group,

e) Managing and coordinating work connected with energy production and distribution of energy utilities,

f) Managing and coordinating work connected with infrastructure,

g) Managing and coordinating work connected with environmental protection, technical safety and workplace health and safety,

h) Coordinating and overseeing the protection of the Company’s intellectual and industrial property,

i) Inspecting and coordinating the operations of business units and entities assisting business units within the fields supervised,

j) Coordinating processes connected with implementing tasks contained in the Company’s development programmes and plans,

k) Coordinating the implementation of production, investment and R&D tasks in accordance with the operational strategies approved by the Company’s Management Board,

l) Coordinating and supervising the implementation of tasks relating to technology, R&D, modernisation, environmental protection and workplace health and safety, fire protection, crisis management and chemical rescue services,

m) Supervising the Committees (Boards) and raising issues to be discussed by them concerning technology and production,

n) Creating and designating policy concerning protection of industrial property, licensing policy and supervising implementation of the above tasks,

o) Representing the Company in all judicial and non-judicial cases in accordance with the principles for representation specified in the Company’s articles of association.

The Member of the Management Board supervising technology and production is responsible for:

a) Developing and implementing development strategies and plans and R&D plans,
b) Developing and providing supervision over the implementation of the product, repair and technical down-time plans for specific facilities,
c) Supervising coordination of production, technical and technological operations while observing conditions for workplace health and safety, technical safety, fire prevention, environmental protection, chemical rescue services and crisis management tasks,
d) Timely development of operational rescue, fire prevention and other plans ensuring the operational safety of specific facilities and support for employees working on them,
e) Developing planned production tasks concerning specific products or product groups and also fulfilling planned commodity, material and energy utility use indicators,
f) Supervising the planning, organisation and implementation of development programmes and projects, investment and modernisation ventures and R&D projects,
g) Timely preparation of opinions from supervised Committees (Boards) for the requirements of the Management Board,
h) Implementing the licence, patent and industrial property protection policy,
i) Implementing resolutions, decisions and recommendations of the Company’s Management Board in accordance with the Company’s strategic interests and legal regulations,
j) Representing the Company in relations with its business partners.

The competences of the Member of the Management Board elected by employees include:

a) Coordinating and supervising the Company’s operations concerning the creation of industrial, technological and infrastructure parks, industrial and economic zones and infrastructure connected with non-manufacturing property,
b) Representing the Company in all judicial and non-judicial cases in accordance with the principles for representation specified in the Company’s articles of association,
c) Supervising implementation of the Workplace Social Benefits Funds within the Company and coordinating and supervising the Employee Pension Scheme within the AZOTY Tarnów Group,
d) Coordinating and supervising selected infrastructure projects implemented within the AZOTY Tarnów Group, including issues surrounding CO₂ emissions,
e) Other tasks assigned by the Management Board through a separate resolution.

The Member of the Management Board elected by employees is responsible for:

a) Initiating and coordinating the implementation of strategies concerning the Company’s participation in operational industrial and technological parks and industrial and economic zones,
b) Maintaining and developing good relations with the Company’s stakeholders,
c) Implementing resolutions, decisions and recommendations of the Company’s Management Board in accordance with the Company’s strategic interests and legal regulations,
d) Implementing selected infrastructure projects resulting from the Group’s strategies and policy,
e) Creating and implementing an Employee Pension Scheme,
f) Representing the Company in relations with its business and social partners.

4. Significant organisational changes

As of 1 January 2011 AZOTY Tarnów accepted transfer of operations connected with waste purification from Jednostka Ratownictwa Chemicznego Sp. z o.o. (a subsidiary). This transaction was connected with purchase from the above company of a part of its assets and also acquisition by AZOTY Tarnów of 4 employees.

In connection with the merger of the Caprolactam Department and the Plastics Department on 1 July 2010 (details can be found in the consolidated financial statements for 2010, published on 8 March 2011, point 2.3 on page 18), through internal resolution no. 9/2011 of 11 April 2011 the Organisational Regulations entered into force, covering the previous text of the original
regulations, introduced through internal resolution no. 34/2008, together with organisational changes introduced through internal resolution no. 27/2010 of 24 June 2011 and internal resolution no. 46/2010 of 26 October 2010 concerning separation of the Catalyst Plant from the Fertiliser Centre with direct subordination to the Parent’s Management Board.

On 1 May 2011 tasks and functions connected with support for telecommunications infrastructure were transferred from AZOTY Tarnów do Automatyka Sp. z o.o. (a subsidiary). These tasks and functions included performance of maintenance works, repair works, diagnostic works and provision of technical services protecting the technical efficiency, continuity of operations and operational reliability of telecommunications installations and equipment. In accordance with the agreement executed for purpose, 4 employees were transferred to Automatyka Sp. z o.o.

5. Other

Energy-related events

The Parent holds guarantee of origin certificates for energy, awarded by the President of the Energy Regulatory Office (ERO). In January 2011 an audit was conducted in order to obtain an opinion concerning confirmation of the correctness of data contained in the report submitted to the President of the ERO for issue of certificates of origin from co-generation for energy produced at the on-site CHP plant. On 16 February 2011 the President of the ERO awarded Proprietary Rights to AZOTY Tarnów under Certificates of Origin for electricity produced through highly efficient co-generation. The certificates will be sold on the Polish Power Exchange at the end of the second quarter.

Sale of emission reduction units (ERUs)

On 7 March 2011 the Minister of the Environment, pursuant to a previously adopted decision, transferred entitlements under ERUs generated for the fourth measurement period (i.e. the first half of 2010) to Mitsubishi Corporation Japan under a joint implementation project pursuant to the “Agreement on Reduction of Nitrogen Oxide at the AZOTY Tarnów Nitric Acid Installation”, entered into between the Parent and Mitsubishi Corporation.

On 18 April 2011 the Parent received EUR 3 440 000 in payment for sale of the above ERUs to the final purchaser.

Proceeds from generation of the above ERUs had already been included in the results for the respective previous periods which they concern.

Furthermore, in the first half of 2011 the Parent recorded PLN 353 000 in revenues from sale of ERUs, while the remaining PLN 9 760 000 concerns revenues generated by the ZAK Group.

The failure of the turbine set at the Nitric Acid Facility and related limitation in the production of nitric acid directly contributed to a decrease in revenues from sale of ERUs at the Parent during the first half of the year.

IX. Factors impacting on results achieved over the perspective of at least the next 6 months

Proceeds from the new share issue and result of the tender offer for shares in Z.Ch. Police S.A.

As has been referred to in point A.II of this report – Significant events in the first half of 2011 – the Parent is awaiting the results of the tender offer made on 15 June 2011 for shares in Z.Ch. Police S.A. and proceeds from the new series C share issue.

The inclusion of Z.Ch. Police S.A. in the Group’s structure will enable the creation of Poland’s largest and a significant European chemicals group, thanks to which the Group will obtain a wide range of competitive advantages towards domestic and international groups with regard to the
scale of operations and the complementary nature of its products and services. Furthermore, execution of the Z.Ch. Police S.A. acquisition will enable the Group to obtain benefits from optimising supplies of raw materials, the manufacturing process, sales and support.

Proceeds from the issue will be allocated to the implementation of planned objectives according to the sequence corresponding to the Parent’s priorities. The main aim is to refinance the transaction for acquisition of shares in Z.Ch. Police S.A. described above.

The second issue objective is acquisition from the State Treasury of shares in ZAK S.A., constituting 40.86% of ZAK S.A.’s share capital. Increase of the Group’s shareholding in ZAK S.A. through the acquisition of an additional block of shares will enable deeper integration and as a consequence will facilitate better use of synergy. After acquisition of the above shares, the Parent will hold 93.48% of votes at the general meeting of ZAK S.A., enabling it to exercise full corporate control over ZAK S.A. and take key corporate decisions such as amendment to the articles of association or increase in share capital. Furthermore, this will lead to an increase in the share of ZAK S.A.’s consolidated net profit assigned to the Parent through decreasing the net profit due to minority shareholders, and as a result this will lead to an increase in credit worthiness.

**Income from deposits of share issue proceeds**

Finance income totalling PLN 2.4 million was achieved in the first quarter of this year through fixed-term deposits of funds from the share issue, without accounting for potential interest income to be generated on the funds the Parent intends to raise the Series C share issue.

**Seasonality**

Information concerning seasonality can be found in point A.IV. of this report.

**Exchange rates**

Regarding further development of the currency market in the second half of 2011, a stabilising influence should be provided by the possibility, signalled by the National Bank of Poland, of intervening to limit volatility in the currency market, together with relatively good fundamental factors for the national economy, which will have a positive effect on investor confidence and should neutralise the negative impact of external factors such as the sovereign debt crisis amongst some European economies and the possibility of a downgrade in the USA’s credit rating.

In the short-term increased EURPLN volatility is expected, but within a limited bracket and mainly due to changing moods in global markets.

However in the medium-term – i.e. the second half of 2011 – the development of currency trends will be dependent on continuation by the government of activities limiting the scale of future budget deficits and the results of activities aimed at countering the effects of deteriorating default and rating perspectives within the at-risk economies of the EU and in the USA. An increase in uncertainty here may result in continued high volatility and adjustment of the trend of appreciation in the Polish currency which has been noted for two years. On the other hand, a lack of negative signals from global markets should support PLN’s appreciation against USD and EUR.

The scale of PLN’s appreciation against USD and EUR should not threaten achievement of the results planned in 2011 in relation to AZOTY Tarnów Group’s net foreign currency exposure.

**Domestic interest rates**

In the first half of this year the Monetary Policy Council conducted a cycle of interest rate increases in the wake of growing inflationary pressure resulting both from economic growth and an excess of cash on the global market as an effect of the liberal policies of central banks to stimulate economic growth during the financial crisis.
However, since a drop in inflation was noted in the second quarter of this year, together with a limitation of wage pressures and symptoms of a slow-down in economic growth, there is the chance that domestic interest rates may remain unchanged until the end of 2011.

Regarding inflationary pressure on the global market and lowering of the long-term rating for US debt, it appears that the United States will also be forced to commence a cycle of interest rate increases. However, with regard to the weakening rate of global economic growth, potential increases will be introduced with caution as is the case in the EU.

Thus in the perspective up to the end of 2011 Polish interest rate levels are expected to be maintained and those in EUR and USD should see limited growth of 25-50 basis points.

In relation to market rates, it is anticipated that a fixed spread will be maintained between loan margins and the deposits offered to the AZOTY Tarnów Group. The level of finance income generated by the Group from interest on fixed-term deposits will thus compensate to a large degree for the costs of external finance.

Situation in the agricultural market

In 2011 high food prices are forecast, together with an improvement in the agricultural market situation, and their continuation will translated into increased demand, i.e. fertiliser consumption. In addition, weather conditions may have an impact on demand in the fertiliser market as these also have an impact on the level and quality of crops. Of particular detriment to the market situation are abnormal weather conditions, natural disasters and bacterial contamination. In the first half of 2011 the governments of some European countries and Russia blocked the sale of vegetables throughout Europe, causing a panic amongst consumers and losses for producers, including in Poland. These events generated losses which limited producers’ profits and had a negative impact on their future purchasing power.

Commodity prices

The price levels for basic raw materials (coal, energy, petroleum products, sulphur, etc.) are still factors which have an impact on the Group’s final result. Crude oil pricing mechanisms – changes in oil prices have a delayed impact on prices of natural gas, benzene and phenol – remain a significant element in the market. Oil price forecasts vary, with some predicting that in 2012 prices may rise as high as USD 170 a barrel since global demand is increasing and production output is falling.

EU regulations

In April 2011 the European Commission announced the formal adoption of a decision on the establishment of transitional principles concerning the harmonised allocation of free emission rights throughout the EU (in accordance with art. 10a of directive 2003/87/EC) relating to the principles for calculation of the number of free-of-charge CO\textsubscript{2} allowances over the period 2013 - 2020.

X. Threats and risks connected with the remainder of the financial year

Opportunities

- continuation of beneficial global economic development dynamics observed after the exit of domestic economies from the recession caused by the economic crisis,
- direct EU subsidies for agriculture contributing to an increase in the purchasing power of this sector,
- road infrastructure development in Poland and the region,
- the market availability of technologies of key significance to the Group,
the inclusion of the Parent in the processes of consolidating the Polish and European chemicals industry and as a consequence an increase in development potential (growth in the scale of operations with use of synergy, access to new markets, commodities, competences, technologies, funds and the introduction of new organisational and cultural elements),
continuation of positive stable growth trends in the target markets for Group products,
continuation of positive trends in Poland’s economy, including stable growth in GDP and the level of corporate investments and their funding by the financial market.

**Threats**

- increased risk of financial crises within the European Union with regard to the high deficit levels of some European economies,
- lower-than-expected economic growth in Poland or in trade partner economies,
- Poland’s weak position in negotiations concerning the import of natural gas translates into limitation of supply and price growth for this commodity,
- successive expansion of production capabilities in Asian countries translates into ever lower demand in this region for import of chemical industry products,
- the on-going concentration of production, R&D and commercial potential and also concentration of capital within the global chemicals industry,
- the aggressive actions of competitors operating on a global scale and the increasing intensity of competition within the sector,
- civil unrest in Arab countries, which may have a negative impact on the stability of energy supplies and their prices.

There are also many risk factors and threats to which the Group is exposed. This issue has been described in depth on page 20 of the issue prospectus – **RISK FACTORS**. The majority of these have been presented in current reports published to date.

**Risks concerning issuer and Group operations**

- Risk of interruptions in production processes or the occurrence of serious industrial incidents,
- Risk of changes in the market prices for commodities and energy utilities,
- Risk connected with dependence on suppliers,
- The risk of earlier substitution of 4 alcohol and 8 carbon phthalate plasticisers by 9 alcohol and 10 carbon phthalate plasticisers or other plasticisers, including bio plasticisers,
- Risk of insufficient issue proceeds,
- Risk connected with protection of the air,
- Risk connected with pollution of land, groundwater and the incurrence of higher-than-projected reclamation costs,
- Risk of environmental and safety regulations becoming stricter,
- Risk connected with the possibility of water management requirements being imposed on the Group,
- Risk connected with the obligation to register chemical products,
- Risk connected with the decisions of competition and consumer protection authorities,
- Risk of interruptions or increased costs of internal rail transport and marshalling yard costs,
- Risk connected with outsourcing the manufacture of oxygen and nitrogen for the Company,
- Risk connected with the use of third-party intellectual property (in particular patents and know-how),
- Risk of insufficient insurance coverage,
- Risk connected with the majority shareholder,
- Risk connected with changes in control over the Company as a result of the sale of shares by the State Treasury of Poland,
- Risk connected with dividends,
- Risk connected with the possibility for the Group to employ, train or retain sufficiently qualified personnel,
- Risk of interruptions in continuity of operations as a result of trade union activity,
- Risk connected with workplace accidents and occupational health problems,
- Risk connected with performing concession operations,
- Risk of IT system failures,
- Risk connected with adjustments to financial data.

**Risks connected with the industry in which the Group operates and with macroeconomic conditions**

- Risk of dependence on the macroeconomic situation in Poland and other countries,
- Risk connected with the cyclical nature of product markets and seasonality,
- Risk connected with competition,
- Risk of abolishing trade barriers on products from countries with lower production costs,
- Currency risk,
- Risk of an increase in the costs of financing,
- Risk of unclear interpretation and change to the legal regulations of countries where the Group operates,
- The interpretation of tax law regulations in countries where the Group operates may be unclear and tax regulations applicable with regard to the Group may be subject to change.

**Risks connected with strategic objectives and the transaction for acquisition of Z.Ch. Police S.A.**

- Risk connected with the implementation of strategic goals,
- Risk connected with the non-implementation or amendment of issue objectives,
- Risk connected with the business and economic objectives of the transaction for acquisition of shares in Z.Ch. Police S.A.,
- Risk related to information concerning the acquired company,
- Risk connected with clauses on change of control in agreements executed by Z.Ch. Police S.A.,
- Risk connected with the Group's participation in consolidation of the chemicals industry,
- Risk connected with the integration and consolidation of subsidiaries,
- Risk of non-achievement or delays in implementation of investment plans,

**Risks connected with the Share Issue and ownership of shares**

- Risk of a prohibition on the admission or introduction of series C shares into trading,
- Risk connected with the potential non-admission or non-introduction of series C shares to trading on the Warsaw Stock Exchange main market,
- Risk of volatility in the trading in rights,
- Risk faced by foreign owners of the Parent connected with fluctuations in the PLN exchange rate,
- Risk of suspension in the trade of rights to shares or shares on the Warsaw Stock Exchange,
- Risk of the exclusion of rights to shares or shares from trading by the Polish Financial Supervision Authority or the Warsaw Stock Exchange,
- Risk of a drop in share price in the event of a share issue by the Parent or the belief that such issues will take place,
- Risk connected with regulations concerning the acquisition of significant stakes in public companies,
- Risk connected with the publication of reports concerning the Parent or negative changes in analysts’ recommendations.

With regard to the last share issue (series C), it is worth paying particular attention to:

**Risk connected with strategic objectives and the transaction for acquisition of Z.Ch. Police S.A.**
Risk connected with the implementation of strategic goals

The Group’s strategy mainly focuses on becoming one of the leading manufacturers of mineral fertilisers in the European Union, regarded in Europe as an integrated manufacturer of construction plastics and caprolactam, and a significant European manufacturer of OXO alcohols and plasticisers. Implementation of the strategy is dependent on a wide range of factors, including those which are outside the Group’s control, in particular the market situation, economic conditions and the operations of principal competitors. In this situation the Group may not be in a position to implement the adopted directions for development or its specific objectives with regard to obstacles relating to market difficulties, an unfavourable economic situation and strong competition from its principal competitors.

Risk connected with the non-achievement of or amendment to issue objectives

Risk connected with significant unforeseen events which may occur concerning the Group's operations or the market situation or other factors not attributable to the Group which could force amendment to some or all issue objectives, as a result of which it may emerge as necessary to change the use of proceeds obtained from the issue.

In the event that any of the issue objectives are not implemented, the Parent does not rule out changing the issue objectives, in particular through the selection of other acquisition goals from the Group's operational area.

Risk connected with the business and economic objectives of the acquisition of shares in Z.Ch. Police S.A.

The Group will continue to implement the adopted strategy thanks to the use of synergies resulting from the transaction for acquisition of shares in Z.Ch. Police S.A., in particular concerning an increase in production capacities in the mineral fertiliser segment, an increase in the portfolio of products offered in the mineral fertiliser segment and provision of raw materials to the Group.

A wide range of factors will have impact on implementation of the business and economic objectives of the transaction, including those beyond the Group's control, in particular the economic situation on the market in which the Group and the acquired company operate and the actions of Group and Z.Ch. Police S.A. competitors.

The Group’s operations will also expand significantly with regard to the markets in which the Group operates, which will be linked with the necessity for the Group to take steps aimed at integrating the acquired company into the Group and to reorganise the company’s operations through their adaptation to the Group’s operations. It cannot be ruled out that this integration and reorganisation within the Group will not be full or will take longer than anticipated or that the costs associated with such integration may emerge as higher than anticipated, or that the expected synergy effects and increase in the Group’s operating results will not be achieved, will differ from those expected or will be generated at a later date or in a manner other than anticipated, which may have a significant negative impact on the operations, financial situation, results or perspectives of the Group.

Risk related to information concerning the acquired company

In analysing the operations of Z.Ch. Police S.A., its financial results and the compatibility of its operations with those of the Group, and subsequently in deciding to take steps aimed at acquiring the company, the Parent was guided by publicly available information concerning the company, its operations and financial situation and such information as was made available during the due diligence process.

It cannot be ruled out that this information may turn out to be false, unreliable or incomplete in such scope as could have a negative impact on the results of the analysis carried out. In connection with this, in taking the decision to execute the transaction, the Parent could potentially not have been in possession of all significant information necessary to carry out a comprehensive assessment
of the effects of the transaction on the operations, financial situation or results of the Group. Furthermore, the Parent may not have been able to identify all risks, correctly assess costs, the level of debt, requirements for working capital and the possibilities for integration within the Group, and may have erroneously assumed the expected synergies.

The occurrence of any of the above circumstances could have a significant negative impact on the operations, financial situation, results or perspectives of the Group.

Risk connected with clauses on change of control in agreements executed by Z.Ch. Police S.A.

It cannot be ruled out that significant agreements executed by Z.Ch. Police S.A., including in particular financial agreements, contain standard provisions concerning change in control over the company or clauses causing change in the terms of these agreements in the event of change in the company’s shareholding structure.

In connection with the above, the acquisition of Z.Ch. Police S.A. may make it necessary for the Group to renegotiate the agreements executed by the acquired company with its current clients and contractors. It cannot be ruled out that the company’s existing clients and contractors will not be interested in further cooperation with Z.Ch. Police S.A. after the acquisition and will use their entitlements to terminate the agreements, or that the conditions proposed by such clients and contractors will be less beneficial than the terms and conditions on which the agreements were executed. In this situation it cannot be guaranteed that Z.Ch. Police S.A. will be able to negotiate and execute agreements on similar terms and conditions with other clients and contractors.

Risk connected with the Group’s participation in consolidation of the chemicals industry

In accordance with its strategy, both at the current time and in the future the Group intends to seek and make use of the possibilities to acquire other businesses within the chemicals industry, enter into strategic alliances and take part in joint ventures. However, it cannot be guaranteed that it will identify or make effective use of these potential opportunities, negotiate beneficial terms and conditions for such transactions, finance them on beneficial terms and conditions or achieve the assumed synergies and benefits as a result of such transactions. Potential integration processes may also bring unforeseeable operational or regulatory difficulties and costs, and may divert the attention of the Parent's Management Board from the Group's current operations. Furthermore, as a result of future acquisitions, strategic alliances or joint ventures, the Parent may be required to issue additional shares (after expiry of the limitations under lock-up agreements limiting the issue or disposal of shares in the Parent), which may result in the dilution of shareholder stakes, incur significant finance costs, increase the debt level or incur contingent liabilities, which may have a significant negative impact on the operations, financial situation or operating results of the Group.

Risk connected with the integration and consolidation of subsidiaries

One element of the Group's strategy is the integration and consolidation of subsidiaries, which is aimed at increasing the effectiveness and transparency of operations, separating core operations from non-core and as a consequence decreasing the Group's fixed costs. Within this activity the Group is currently integrating the ZAK Group and manufacturing support companies (covering design, transport and other support services, with the exception of rail transport). Shares in manufacturing support companies are to be transferred to subsidiary Polskie Konsorcjum Chemiczne Sp. z o.o.

There is a risk that the integration and consolidation process will not bring about the anticipated results or will be impossible within the projected time frame, which may have a significant negative impact on the operations, financial situation or operating results of the Group.

Risk of non-achievement or delays in implementation of investment plans

One of the significant elements essential for further development of the Company's operations are technological investments, including in particular the modernisation of the caprolactam plant and the construction of a new hydrogen facility, together with modernisation of the sulphuric acid and

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oleum manufacturing facility. Delays in implementing planned technological investments or their non-performance may prevent the achievement of assumed operational objectives within the projected time frame.

Risk connected with the Issue and ownership of shares

Risk of a prohibition on the admission or introduction of series C shares into trading

In accordance with art. 17 of the Act on Public Offerings, in the event of violation or justified suspicion of the violation of legal regulations in connection with the application for admission or introduction of securities to trading on a regulated market within the Republic of Poland by the issuer or an entity operating on behalf or at the request of the issuer, or justified suspicion that such violation may occur, the Polish Financial Supervision Authority may:

- order the suspension of application for the admission or introduction of securities to trading on the regulated market for a period not exceeding ten working days,
- prohibit application for the admission or introduction of securities to trading on the regulated market, or
- publish, at the issuer’s cost, information concerning the illegal actions connected with the application for admission or introduction of securities to trading on the regulated market.

In accordance with art. 18 of the Act on Public Offerings, the Polish Financial Supervision Authority may also make use of the resources referred to in art. 17 in the event that the content of documents or information submitted to the Polish Financial Supervision Authority or published shows that:

- the public offering, subscription or sale of securities performed on the basis of the offering or their admission to trading on the regulated market would significantly violate the interests of stakeholders,
- there are circumstances that, in the light of the provisions of law, could lead to the cessation of the issuer's legal existence,
- the issuer's operations were or are conducted with gross violation of the law and such violation may have a significant impact on valuation of the issuer's securities or in the light of legal regulations may lead to cessation of the issuer's legal existence or its bankruptcy, or
- the legal status of the securities is at variance with legal regulations and in the light of such regulations there is a risk that the securities will be recognised as non-existent or burdened with legal defects having a significant impact on their valuation.

In accordance with art. 20, sec. 1 of the Act on Trade in Financial Instruments, in the event that the security of trading on the regulated market requires so or if the interests of stakeholders are threatened, the entity managing the regulated market will, at the request of the Polish Financial Supervision Authority, suspend the admission to trading on such market or the commencement of trading in securities or financial instruments indicated by the Polish Financial Supervision Authority for a period not exceeding ten days.

Risk connected with the potential non-admission or non-introduction of series C shares to trading on the Warsaw Stock Exchange main market

The admission of series C shares to trading on a regulated stock market (the Warsaw Stock Exchange main market) requires the fulfilment of conditions specified in the Ordinance on Markets and issuers and the Regulations of the Warsaw Stock Exchange (WSE) and requires the consent of the WSE Management Board and a decision from the National Depository for Securities of acceptance of series C shares into the depository. The issuer cannot ensure that the above consents will be acquired or that the Offered Shares will be admitted and introduced to trading on the WSE main market.
One of the criteria to be fulfilled by the Offered Shares to be admitted to trading on a regulated stock market is sufficient free float to ensure liquidity. In the case of the Offered Shares, their admission to stock market trading is connected with the prior acquisition of court registration concerning the increase in share capital. The Offered Shares will be admitted to trading pursuant to § 19 of the WSE Regulations, provided that an application on their admission to stock market trading is submitted, their disposability is not limited, their issuance was in accordance with the principles for the public nature of stock market trading referred to in § 35 of the WSE Regulations and the terms and conditions for admission as specified in the Ordinance on Markets and issuers have been fulfilled.

**Risk of volatility in the trading in rights**

Securities issued by public companies periodically experience significant changes in their prices and trading volumes, which can have a significant negative impact on listing of rights and shares. As at the date of this report no stabilisation initiatives are projected in relation to rights and shares.

Furthermore, the admission and introduction of rights and series C shares to trading on the WSE does not guarantee their liquidity. The non-achievement or inability to maintain an appropriate volume in shares and rights to shares may exert a significant negative effect on the liquidity or prices of rights to shares and shares. Furthermore, even if the appropriate volume in rights to shares and shares is achieved and maintained, their market price may be lower than the issue price.

**Risk faced by foreign owners of the Parent connected with fluctuations in the PLN exchange rate**

The listing currency for shares and rights to shares is PLN. All payments connected with the shares or rights to the shares, including amounts paid out as dividends on the shares and the sales price of the shares or rights to the shares on the regulated market, will be made in PLN. The Polish currency’s appreciation against foreign currencies may negatively impact the foreign currency equivalent of the amount paid out in connection with the shares or rights to shares, including the amount paid out for a share dividend and the share sales price on the regulated market.

**Risk of suspension in the trade in rights to shares or shares on the Warsaw Stock Exchange**

In accordance with art. 20, sec. 2 of the Act on Trade in Financial Instruments, in the event that trade in specific securities or other financial instruments is performed in circumstances indicating the possibility of a threat to the correct operation of the regulated market or the security of trading on the market or violation of investors’ interests, at the request of the Polish Financial Supervision Authority, the entity managing the regulated market suspends trade in these securities or instruments for a period not exceeding one month.

In accordance with § 30, sec. 1 of the WSE Regulations, at the request of the issuer or if the Management Board of the WSE considers that the issuer is violating regulations in force on the WSE or if required by the safety of trade participants, the WSE Management Board may suspend trade in financial instruments for a period of up to three months. In accordance with § 30, sec. 2 of the WSE Regulations, the WSE Management Board suspends trade in financial instruments for a period not exceeding one month at the request of the Polish Financial Supervision Authority filed in accordance with the Act on Trade in Financial Instruments.

**Risk of the exclusion of rights to shares or shares from trading by the Polish Financial Supervision Authority or the Warsaw Stock Exchange**

In the event of non-performance or undue performance of obligations or orders or the violation of prohibitions imposed or provided for in the appropriate provisions of the Act on Public Offerings, the Act on Trade in Financial Instruments or Ordinance no. 809/2004 or actions contrary to the obligations contained in such legislature, the Polish Financial Supervision Authority may:
• issue a decision on exclusion of the securities from trading on the regulated market for a
defined period of time or indefinitely,
• bearing in mind the specifics of the financial situation in which the entity being fined is found,
impose a fine of up to PLN 1 000 000, or
• both of the above concurrently.

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

Similarly, in accordance with § 31, sec. 1 of the WSE Regulations, the WSE Management Board
excludes financial instruments from stock market trading:

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

Furthermore, the WSE Management Board may exclude financial instruments from trading in
accordance with § 31, sec. 2 of the WSE Regulations:

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

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

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

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

Risk connected with the publication of reports concerning the Parent or negative changes in analysts’ recommendations

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

Management signatures:

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Jerzy Marciniak Andrzej Skolmowski
President of the Management Board Vice-President of the Management Board

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Witold Szczypiński Franciszek Bernat
Member of the Management Board Member of the Management Board

Tarnów, 19 August 2011.