ZAKŁADY AZOTOWE W TARNOWIE-MOŚCICACH S.A.

GROUP

Management report on the operations of the
Zakłady Azotowe w Tarnowie-Mościcach S.A. Group
for the 12 months ended 31 December 2010

Tarnów, 8 March 2011
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1. BASIC INFORMATION ON THE GROUP

1.1. Description of Group organisation

As at the end of 2010, the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group (hereinafter the AZOTY Tarnów Group) established Zakłady Azotowe w Tarnowie-Mościcach S.A. – the Parent, and:

- 9 subsidiaries (with interest exceeding 50%)
- 1 associate (with interest of 26.45%)

**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 Pfenning 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.

(Details concerning acquisition of shares in point 1.2)

"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.
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 25/732a. 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).
On the date of acquiring a subsequent 50% of shares (1 September 2010), the company was transformed from an associate into a subsidiary, which caused a change from the equity method to full consolidation of PKCh Sp. z o.o.

(Details of the acquisition of additional shares can be found under point 1.2)

**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.

(Details on the subscription for shares can be found under point 1.2)

**ZWRI Sp. z o.o.**

The company was registered on 28 December 1993. The company’s registered office is located in Tarnów at ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number KRS 000074630) 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, surveying, telecommunications) – (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. 000062936) 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).
The Group diagram covers consolidated and non-consolidated entities as at 31 December 2010.
- **ATT Polymers GmbH** – on 28 January 2010 the Parent received confirmation, dated 27 January 2010, from a Notary’s Office in Berlin on fulfilment by the Parent of all contractual conditions concerning acquisition of 100% of shares in Unylon Polymers GmbH.

- **Petrolia Sp. z o.o.** – on 16 April 2010 JRCh Sp. z o.o. sold all shares held, totalling 24 and constituting 24% of share capital.

- **PKCh Sp. z o.o.** – subscription of an additional 50% of shares on 1 September 2010 (as a result of subscribing for shares in ZAK S.A. the Parent holds 100% control over the company).

- **Regionalne Laboratorium Oceny Mleka Sp. z o.o.** – on 9 November 2010 JRCh Sp. z o.o. acquired 16 shares in the company, increasing its interest in the company’s capital to 93.80%.

- **ZAK S.A.** – pursuant to a share subscription agreement executed on 20 October 2010, after payment of the increased ZAK S.A. share capital the Parent acquired 52.62% of shares.

- **UNIROLL Sp. z o.o.** – on 27 May 2010 ZWRI Sp. z o.o. sold all shares held (totalling 27) in JRCh Sp. z o.o. On 17 December 2010 JRCh Sp. z o.o. sold all shares held in UNIROLL Sp. z o.o. (totalling 51 shares).

- **Tarplast Sp. z o.o. w likwidacji** – this company, in which Elzat Sp. z o.o. held a 40% share, was removed from the National Court Register on 8 February 2010. This removal became legally binding on 24 February 2010.

Non-consolidated companies are entities connected through subsidiaries. These are not subject to consolidation due to their insignificant nature.

The Parent also holds minority interests in 16 entities.

**Parent minority shareholding in entities as at 31 December 2010**

<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 &quot;POLSNIG&quot; Sp. z o.o.</td>
<td>2.67%</td>
</tr>
<tr>
<td>Centrum Naukowo-Produkcyjne Materialów Elektronicznych &quot;CEMAT’70&quot; S.A.</td>
<td>1.24%</td>
</tr>
<tr>
<td>Sportowa Spółka Akcyjna Unia Tarnów</td>
<td>8.00%</td>
</tr>
<tr>
<td>INWESTSTAR S.A.</td>
<td>0.06%</td>
</tr>
<tr>
<td>Zakłady Włókien Chemicznych „WISTOM” S.A. w Upadłości</td>
<td>9.83%</td>
</tr>
<tr>
<td>Zakłady Tworzyw Sztucznych ”PRONIT” S.A. w Upadłości</td>
<td>0.28%</td>
</tr>
<tr>
<td>LEN S.A. w Likwicjacji</td>
<td>0.289%</td>
</tr>
<tr>
<td>Tłocznia Metali ”PRESSTA“ S.A. w Upadłości</td>
<td>0.019%</td>
</tr>
<tr>
<td>UNIONTEX S.A. w Upadłości</td>
<td>0.03%</td>
</tr>
<tr>
<td>Wytwórnia Silników ”PZL MIELEC“ Sp. z o.o. w Upadłości</td>
<td>0.12%</td>
</tr>
<tr>
<td>Zakłady Przemysłu Dziewierskiego ”KARO” S.A. w Likwicjacji</td>
<td>0.17%</td>
</tr>
<tr>
<td>Południowe Zakłady Przemysłu Skórzanego ”Chelmek” S.A. w Upadłości</td>
<td>0.03%</td>
</tr>
<tr>
<td>Likwidacyjnej Konsorcjum Rozwoju Eksplotacji Majątku Trwałego ”EKSPLOSYSTEM“ Sp. z o.o.</td>
<td>3.36%</td>
</tr>
</tbody>
</table>
The following changes occurred during the reporting period:

- **IGLOOMEAT Sokołów Sp. z o.o.** – on 2 February 2010 the Ordinary General Meeting of Shareholders in the company decided to transform the firm into a joint stock company (resolution no. 6, Notarial Deed, Notary’s Register A no. 648/2010). In connection with the above, the Parent did not submit a declaration on joining the transformed company and simultaneously on 23 February 2010 withdrew, maintaining a claim for payment of a sum corresponding to the number of shares held by the Parent in accordance with the financial statements drawn up for the purposes of the transformation. On 10 June 2010 the company was removed from the National Court Register.

- **Tarnowska Agencja Rozwoju Regionalnego S.A.** – on 27 March 2010 an increase in the company’s capital was registered in the National Court Register (pursuant to a resolution of the General Meeting of Shareholders of 19 December 2008) from PLN 16 295 000 to PLN 17 050 000 (the Parent’s share in this company’s capital currently amounts to 0.05865%).

- **LEN S.A. w Likwidacji Kamienna Góra (in liquidation)** – on 30 April 2010 the company’s receiver made a transfer to the Parent as a refund for the contribution made to the company. LEN S.A. w Likwidacji has not yet been removed from the National Court Register.

In implementing the programme for disposal of minority shareholdings, the Parent sold its shares in the following Warsaw Stock Exchange-listed companies:

- **CENTROZAP S.A.** – on 14 October 2010,
- **POLIMEX–MOSTOSTAL S.A.** – on 13, 14 and 27 October 2010,
- **ENERGOAPARATURA S.A.** – on 21 October 2010.

Under sale of the above shares, the Parent achieved revenues totalling PLN 1 064 000 net.

After the end of the reporting period, on 17 February 2011, UNIONTEX S.A. w Upadłości was removed from the National Court Register after completion of bankruptcy proceedings. As at the date of drawing up this report the removal had not yet become legally binding.

### 1.2. Description of changes in Group organisation

**Acquisition of 100% of shares in Unylon Polymers GmbH**

On 28 January 2010 the Parent’s Management Board received confirmation dated 27 January 2010 from a Notary’s Office based in Berlin, Germany, concerning fulfilment of conditions regarding subscription for 100% of shares in Unylon Polymers GmbH, with its registered office in Guben, in accordance with the provisions of the conditional agreement executed on 18 November 2009. Under the above agreement, executed between the Parent (the Purchaser) and Unylon AG, having its registered office in Hamburg (the Seller), the Seller sold and transferred its shares to the Purchaser.

Pursuant to the Owner’s resolution, the General Meeting of Shareholders of the German company, taking place on 12 February 2010 in Berlin, changed the Company’s name to ATT Polymers GmbH, appointed a new Supervisory Board and appointed a new representative of the owner, Mr Krzysztof Pieńkowski, to the Management Board.

On 26 February 2010 the District Court in Cottbus issued a ruling on ending the restructuring proceeding at Unylon Polymers GmbH, which became legally binding within 14 days of the announcement of the ruling, published on 3 March 2010.

On 19 April 2010 the General Meeting of Shareholders of ATT Polymers GmbH dismissed Mr Jörg Spies and Mr Gerd Trommer from the position of company receivers with immediate effect. At the same time Mr Gerd Trommer was appointed Managing Director of the Company.
On 27 April 2010 the Parent was registered in the HRB as the owner of ATT Polymers GmbH in Guben, the change in the company’s name from Unylon Polymers GmbH to ATT Polymers GmbH was accepted, amendments in the articles of association were registered and on 12 February 2010 the Supervisory Board was formed and Krzysztof Pieńkowski was appointed as Managing Director of the Company.

Consent for the acquisition by the Parent of 100% of shares in Unylon Polymers GmbH was adopted through a resolution of the Extraordinary General Meeting of Shareholders on 15 December 2009 and constitutes implementation of the obligations contained in the Purchaser's Issue Prospectus, i.e. increase in the production capacity of Polyamide 6 (PA6).

Acquisition of an additional 50% of shares in Polskie Konsorcjum Chemiczne Sp. z o.o.

Pursuant to the Management Board resolution of 28 May 2010, the Parent took actions aimed at accepting a majority interest in the share capital of Polskie Konsorcjum Chemiczne Sp. z o.o. through purchase of all shares owned by Ciech S.A.

In order to achieve the above, on 19 July 2010 the Parent executed a “conditional agreement for sale of shares in a limited liability company” with Ciech S.A., pursuant to which it shall purchase 1 000 shares of a value of PLN 50 000, constituting 50% of the share capital of Polskie Konsorcjum Chemiczne spółka z ograniczoną odpowiedzialnością (PKCh Sp. z o.o.), having its registered office in Warsaw.

Transfer of ownership to the above shares took place on 1 September 2010. As a result of this transaction, the Parent currently holds 1 500 shares in PKCh Sp. z o.o. of a total nominal value of PLN 75 000, constituting 75% of the share capital of PKCh Sp. z o.o.

As regards PKCh Sp. z o.o., on the date of transferring share ownership and transformation from an associate into a subsidiary, the equity method was replaced with full consolidation.

PKCh Sp. z o.o. is to be a company used for conducting further restructuring processes within the AZOTY Tarnów Group.

Subscription for shares in ZAK S.A.

On 22 July 2010 the Management Board of ZAK S.A. submitted an offer to the Management Board of the Parent concerning subscription in a private placement for 30 million shares at an issue price equal to the shares’ nominal value, i.e. PLN 5 per share. A resolution on issue of series B shares through increase in share capital by PLN 150 million was adopted by the General Meeting of ZAK S.A. on 29 June 2010, completely excluding ZAK S.A. shareholders’ priority right to subscribe for new shares.

On 27 July 2010 the Management Board of the Parent decided to analyse the profitability of the offer submitted by ZAK S.A., having its registered office in Kędzierzyn, concerning the potential subscription for shares in ZAK S.A.

After conducting a detailed audit on the basic fields of ZAK S.A.’s operations, diagnosing potential areas of synergy and subsequently quantifying these and defining project profitability both for the Group and for current and future shareholders in the Parent, the Management Board of the Parent decided to submit a formal motion to the General Meeting, which on 4 October 2010 unanimously consented to subscription by the Parent for shares in ZAK S.A.’s increased share capital.

On 20 October 2010 an agreement on subscription for shares in ZAK S.A. was executed with ZAK S.A., having its registered office in Kędzierzyn-Koźle.

After obtaining the legally required corporate consent and an opinion issued by the President of the Office of Competition and Consumer Protection, the Parent acquired 30 million series B shares in ZAK S.A. through a private placement. Partial payment of the increased ZAK S.A. share capital
was registered in the National Court Register on 16 November 2010, and was registered in full on 21 December 2010 (increase from PLN 135,064,300 to PLN 285,064,300).

After the increase in ZAK S.A. share capital, the number of shares held by the Parent company, amounting to 30 million, constitutes 52.62% of ZAK S.A.’s share capital, carrying 30 million votes at the General Meeting and constituting 52.62% of total votes at the General Meeting.

The subscription for 30 million new series B shares in ZAK S.A. constitutes the Parent’s long-term investment.

On 31 January 2010 the Supervisory Board of ZAK S.A. appointed Mr Jerzy Marciniak as President of the Management Board of ZAK S.A., effective as of 1 February 2011. Mr Jerzy Marciniak simultaneously holds the position of President of the Parent’s Management Board.

Until such time as funds are acquired to finance purchase of the aforementioned assets, the project is being financed with bank loans, making partial payment for the issued shares in the amount of PLN 50 million. An investment credit agreement amounting to PLN 120 million was executed on 29 November 2010 with PKO BP S.A., with allocation of funds for financing and/or refinancing up to 80% of expenditures connected with acquisition of the shares.

The loan was granted for the period from 29 November 2010 to 14 November 2011. Payout of funds under the loan may occur in tranches, and on 30 November 2010 the loan was used to make full payment for the issued ZAK S.A. shares, amounting to PLN 100 million. The final deadline for potential use of the remaining funds is 31 March 2011. Repayment of the loan should be made once in full on the maturity date, i.e. 14 November 2011. Early repayment of the debt under the loan is provided for after the bank has been informed three working days before the planned repayment, without the necessity to incur additional fees.

The facility is a bridge loan. Ultimately, refinancing of the subscription for ZAK S.A. shares is anticipated from funds acquired through re-issue of own shares or from issue of bonds convertible to shares. The final finance variant will be specified after detailed analysis of the costs of acquiring finance from each source and after obtaining the consent of corporate bodies.

Acquisition of the above assets is aimed at increasing the scale of operations in the fertiliser and plastics markets using synergy in areas including operational efficiency, creation of a competitive fertiliser product portfolio with an increase in production effectiveness, the profitability of fertiliser sales and distribution and optimisation of ammonia and nitric acid production capacity.

(Current report no. 18/2010 of 27 July 2010)
(Current report no. 21/2010 of 7 September 2010)
(Current report no. 25/2010 of 4 October 2010)
(Current report no. 26/2010 of 20 October 2010)
(Current report no. 30/2010 of 17 November 2010)
(Current report no. 36/2010 of 30 November 2010)

**Intent to acquire a stake in Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o.**

Being interested in purchasing shares in Zakłady Nawozów Fosforowych Fosfory Sp. z o.o., on 13 May 2010 the Parent signed a *Letter of Intent* with Ciech S.A., declaring its will to cooperate and conduct negotiations in good faith aimed at preparing a bid and executing a share purchase project.

Despite conducting activities in the meantime aimed at potential acquisition of the shares, in December 2010 the Parent withdrew from continuation of the project after release of a Ciech S.A. communiqué on execution of a conditional agreement with Zakłady Azotowe “Puławy” S.A., based in Puławy, concerning sale of the shares in which the Parent was interested.
### AUTOMATYKA Sp. z o.o.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Share in capital (%)</th>
<th>Share capital amount (in PLN thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.S.A. &quot;UNIA&quot; TARNÓW</td>
<td>0.04%</td>
<td>500</td>
</tr>
</tbody>
</table>

### JRCH Sp. z o.o.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Share in capital (%)</th>
<th>Share capital amount (in PLN thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branżowa Organizacja Odzysku S.A.</td>
<td>10.66%</td>
<td>1 000</td>
</tr>
<tr>
<td>S+R Gazy Sp. z o.o. w likwidacji</td>
<td>30.0%</td>
<td>50</td>
</tr>
<tr>
<td>EKOTAR Sp. z o.o.</td>
<td>12.0%</td>
<td>500</td>
</tr>
<tr>
<td>Przedsiębiorstwo Innowacyjno</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wdrożeniowe UNISIL Sp. z o.o.</td>
<td>24.44%</td>
<td>54</td>
</tr>
<tr>
<td>Zakłady Mięsne Ostrołęka S.A. *)</td>
<td>0.02%</td>
<td>31 355</td>
</tr>
<tr>
<td>Regionalne Laboratorium Oceny</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mleka sp. z o.o.</td>
<td>93.81%</td>
<td>646</td>
</tr>
</tbody>
</table>

* (549 shares – acquisition in accordance with the ruling of the District Court in Ostrołęka – arrangement with creditors – totalling PLN 5 482.39)

Furthermore JRCH Sp. z o.o. holds a 60% interest (PLN 280 000) in Konsorcjum Eko-Technologies, having its registered office in Kiev, Ukraine.
PROReM Sp. z o.o.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Share in capital (%)</th>
<th>Share capital amount (in PLN thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EKOTAR Sp. z o.o.</td>
<td>12.0%</td>
<td>500</td>
</tr>
</tbody>
</table>

ZAK S.A.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Share in capital (%)</th>
<th>Share capital amount (in PLN thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASTER ZAK Sp. z o. o.</td>
<td>100.00%</td>
<td>1 369</td>
</tr>
<tr>
<td>ZAK SERWIS Sp. z o.o.</td>
<td>100.00%</td>
<td>1 552</td>
</tr>
<tr>
<td>&quot;REKOM&quot; Sp. z o.o.</td>
<td>100.00%</td>
<td>4 461</td>
</tr>
<tr>
<td>&quot;CHEMZAK&quot; Sp. z o.o.</td>
<td>100.00%</td>
<td>3 797</td>
</tr>
<tr>
<td>PTS &quot;AUTOZAK&quot; Sp. z o.o.</td>
<td>100.00%</td>
<td>13 867</td>
</tr>
<tr>
<td>Hotel &quot;AZOTY&quot; Sp. z o.o.</td>
<td>100.00%</td>
<td>8 080</td>
</tr>
<tr>
<td>ZAKSA S.A.*</td>
<td>50.00%</td>
<td>1 000</td>
</tr>
<tr>
<td>CTL Chemkol Sp. z o.o.</td>
<td>49.00%</td>
<td>4 000</td>
</tr>
<tr>
<td>Polskie Konsorcjum Chemiczne Sp. z o.o.</td>
<td>25.00%</td>
<td>100</td>
</tr>
</tbody>
</table>

Company in liquidation

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Share in capital (%)</th>
<th>Share capital amount (in PLN thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZPL &quot;Lenwit&quot; Sp. z o.o. w likwidacji*</td>
<td>24.50%</td>
<td>9 827</td>
</tr>
</tbody>
</table>

Current financial assets

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Share in capital (%)</th>
<th>Share capital amount (in PLN thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel Centralny Sp. z o.o.</td>
<td>100.00%</td>
<td>6 290</td>
</tr>
<tr>
<td>&quot;LINOPŁYT&quot; S.A. w likwidacji*</td>
<td>20.24%</td>
<td>250</td>
</tr>
</tbody>
</table>

The following companies were excluded from consolidation due to their insignificance:

- ZAKSA S.A.,
- ZPL "Lenwit" Sp. z o.o. w likwidacji,
- "LINOPŁYT" S.A. w likwidacji.

1.4. Information on branches (facilities) owned by the Parent

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

1.5. Information concerning employment

Average employment within the Group in 2010 – 6 141 persons, of which:

- blue collar employees: 4 163 persons,
- white collar employees: 1 978 persons.

The significant increase in employment in comparison with the previous year results from the acquisition of two companies: ATT Polymers GmbH and ZAK S.A.

(Details can be found in point 1.2 of this report)
### Employee rotation in the period 1 January 2010 to 31 December 2010

<table>
<thead>
<tr>
<th>Details</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of new workers</td>
<td>126</td>
</tr>
<tr>
<td>Number of workers made redundant</td>
<td>348</td>
</tr>
<tr>
<td>Total</td>
<td>474</td>
</tr>
</tbody>
</table>

### Employment by education

<table>
<thead>
<tr>
<th>Details</th>
<th>Year</th>
<th>Total employment</th>
<th>Higher</th>
<th>Secondary</th>
<th>Vocational</th>
<th>Basic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>2010</td>
<td>6 141</td>
<td>1 104</td>
<td>2 444</td>
<td>2 181</td>
<td>412</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2009</td>
<td>4 121</td>
<td>701</td>
<td>1 500</td>
<td>1 662</td>
<td>258</td>
</tr>
</tbody>
</table>

### Employment by length of service

<table>
<thead>
<tr>
<th>Details</th>
<th>Year</th>
<th>up to 5 years</th>
<th>6-10 years</th>
<th>11-20 years</th>
<th>Above 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>2010</td>
<td>576 (9.38%)</td>
<td>454 (7.39%)</td>
<td>1 257 (20.47%)</td>
<td>3 854 (62.76%)</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2009</td>
<td>382 (9.27%)</td>
<td>217 (5.26%)</td>
<td>1 071 (25.99%)</td>
<td>2 451 (59.48%)</td>
</tr>
</tbody>
</table>
2. GROUP MANAGEMENT PRINCIPLES

2.1. AZOTY Tarnów Group organisational chart
2.2. Changes in the main principles of Group management

The Parent’s organisational structure is multi-divisional and is presented in functional format. Three functional areas are singled out: core operations, management support and services. This allows for the introduction of a clear division of functions which is in accordance with modern principles for designing operational organisation in large corporations. This structure allows for effective implementation of the Development Strategy adopted by the Parent and enables flexible adaptation to changing external conditions.

The principal document defining the internal organisation of the Parent is the Organisational Regulations. This specifies the main principles for organisation and management, division of competences, principles for supervision and responsibility and the fields of organisational unit operations. The Organisational Regulations currently in force were adopted by the Management Board of the Parent on 22 July 2008, passed by the Supervisory Board through Resolution no. 98/VII/2008 of 27 August 2008 and introduced through internal directive no. 34/2008 of 26 August 2008.

The issue of Group management, and in particular exercise of ownership supervision, has been included in the “Ownership Policy” document adopted by the Parent’s Management Board through resolution no. 502/VI/2008 of 29 April 2008 and in subsequent amendments.

Amendments to the “Ownership Policy – Supervision Principles” in 2010:


2.3. Organisational amendments within the Parent in 2010

Activities connected with restructuring

As of 1 January 2010 a wide range of amendments were introduced in the Technical, Development, Finance and HR departments.

Decommissioning of the tar purification installation

On 30 April 2010 decommissioning of the tar purification installation located at the Plastics Centre in the Caprolactam Polymerisation Department took place. On 1 May 2010 management and the property elements of this installation were transferred to the Technical Department with direct subordination to the Property Liquidation Team.

Combination of the Plastics Department and the Caprolactam Department

On 1 July 2010 the Plastics Department and Caprolactam Department were merged into one centre – the Materials Centre, which is directly subordinate to the President of the Management Board. This constitutes a subsequent phase in restructuring the Parent and is aimed at optimising the production and sale of caprolactam and plastics into one natural chain through correlating the processing of caprolactam as an intermediate product for manufacture of PA 6 and also as a market-ready end product.

Transfer from Jednostka Ratownictwa Chemicznego Sp. z o.o. (a subsidiary) of functions connected with chemical emergency management

On 12 July 2010 tasks and functions were transferred from a subsidiary – Jednostki Ratownictwa Chemicznego Sp. z o.o. – to the Site Fire Service connected with chemical, ecological and technical emergency management. These actions are to lead to streamlining of chemical emergency management organisation, which will be located within one organisational unit.

Separation of the Catalyst Plant

Through a decision of the Parent’s Management Board of 4 October 2010, the Catalyst Plant was separated from the Fertiliser Centre and is directly subordinate to the Company’s Management Board.

Amendments concerning the organisation of corporate management

In connection with the execution of the agreement on 20 October 2010 concerning subscription for the increased share capital of ZAK S.A. through a private placement and the resolutions of the Parent’s Management Board of 2 November 2010, amendments were made in organisational structure concerning organisation of corporate management as a newly established Group. On 1 December 2010 a Corporate Management Office was formed within the Management and HR Department, combining the former Organisation and Management Office and Corporate Supervision Department. Furthermore, the Tenders Team was separated from the Organisational and Management Office, with the former being directly subordinate to the Director of the Management and HR Department.

Transfer from Jednostka Ratownictwa Chemicznego Sp. z o.o. (a subsidiary) of sewage treatment operations

On 1 January 2011 sewage treatment operations and 4 employees were transferred from Jednostka Ratownictwa Chemicznego Sp. z o.o. to the Parent.
Activities connected with restructuring, including formation of companies

Work will be performed on improving internal organisational structure. This is connected with separating the Parent’s non-core operations and functions, including: the Catalyst Plant, Site Fire Service, management of protective clothing, loading and transport of fertilisers, repair and maintenance of telecommunication cable networks and others. The process of privatising subsidiaries will also be continued based on corporate consent.

The effects of projects optimising organisational structure will lead to cost rationalisation in coming years.
3. AUTHORITIES OF THE PARENT

3.1. Level of salaries and additional benefits

*Supervisory Board Members’ compensation for engagement with the Parent for 2010 (in PLN thousands)*

<table>
<thead>
<tr>
<th>Name</th>
<th>Base salary</th>
<th>Additional benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agnieszka Doroszkiewicz</td>
<td>18</td>
<td>–</td>
<td>18</td>
</tr>
<tr>
<td>Joanna Kielkiewicz</td>
<td>23</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>Tomasz Klikowicz</td>
<td>1</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Jacek Lewandowski</td>
<td>18</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Ewa Lis</td>
<td>41</td>
<td>2</td>
<td>43</td>
</tr>
<tr>
<td>Dariusz Maciejuk</td>
<td>23</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>Jacek Obłękowski</td>
<td>18</td>
<td>–</td>
<td>18</td>
</tr>
<tr>
<td>Zbigniew Paprocki</td>
<td>1</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Krzysztof Pierkowski</td>
<td>8</td>
<td>–</td>
<td>8</td>
</tr>
<tr>
<td>Marzena Piszczek</td>
<td>41</td>
<td>1</td>
<td>42</td>
</tr>
<tr>
<td>Mirosław Potulski</td>
<td>18</td>
<td>–</td>
<td>18</td>
</tr>
<tr>
<td>Małgorzata Rzążewska</td>
<td>23</td>
<td>–</td>
<td>23</td>
</tr>
<tr>
<td>Armin Teske</td>
<td>23</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>Jan Wais</td>
<td>25</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>Katarzyna Wałęga</td>
<td>23</td>
<td>–</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>304</strong></td>
<td><strong>8</strong></td>
<td><strong>312</strong></td>
</tr>
</tbody>
</table>

*) Additional benefits cover refund of business travel expenses

*Management Board Members’ compensation for engagement with the Parent for 2010 (in PLN thousands)*

<table>
<thead>
<tr>
<th>Name</th>
<th>Base salary</th>
<th>Additional benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>166</td>
<td>28</td>
<td>194</td>
</tr>
<tr>
<td>Witold Szczypński</td>
<td>162</td>
<td>–</td>
<td>162</td>
</tr>
<tr>
<td>Franciszek Bernat</td>
<td>162</td>
<td>–</td>
<td>162</td>
</tr>
<tr>
<td>Andrzej Skolmowski</td>
<td>162</td>
<td>–</td>
<td>162</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>652</strong></td>
<td><strong>28</strong></td>
<td><strong>680</strong></td>
</tr>
</tbody>
</table>

*Compensation for persons managing and supervising the Parent for engagement with subsidiaries for 2010 (in PLN thousands)*

<table>
<thead>
<tr>
<th>Name</th>
<th>Base salary</th>
<th>Additional benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>20</td>
<td>–</td>
<td>20</td>
</tr>
<tr>
<td>Witold Szczypński</td>
<td>91</td>
<td>–</td>
<td>91</td>
</tr>
<tr>
<td>Franciszek Bernat</td>
<td>29</td>
<td>–</td>
<td>29</td>
</tr>
<tr>
<td>Andrzej Skolmowski</td>
<td>134</td>
<td>–</td>
<td>134</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>274</strong></td>
<td>–</td>
<td><strong>274</strong></td>
</tr>
</tbody>
</table>
3.2. Agreements executed between the Parent and management personnel providing for compensation in the event of their resignation or dismissal from the position held without valid cause or if their dismissal or redundancy occurs as a result of a merger.

Management Board Members’ employment contracts include a point (art. 10, sec. 2; and in the case of a Management Board Member appointed by staff – art. 10, sec. 3) referring to a gratuity to which Management Board members are entitled, amounting to three times the fixed monthly salary in the event of employment being terminated as a result of dismissal from the Management Board before the end of its term. This gratuity is not due if the reason for dismissal from the Management Board results from circumstances justifying termination of the employment contract without notice for reasons attributable to the employee under art. 52 of the Polish Labour Code.

Furthermore, pursuant to the non-competition agreement, after termination of employment Members of the Management Board are entitled to compensation amounting to 100% of monthly salary, paid out over a period of 12 months. This right expires on violation of the competition prohibition.
4. INFORMATION ON THE PARENT’S SHARES AND OTHER SECURITIES AND SIGNIFICANT SHAREHOLDERS

4.1. Total number and nominal value of shares in the Parent, their possession by the Parent’s supervisory and management personnel and such persons’ shares in the Parent’s related entities

**Number and nominal value of shares**

24 000 000 series AA shares of a nominal value of PLN 5 each.
15 116 421 series B shares of a nominal value of PLN 5 each.
The total number of shares in the Parent amounts to 39 116 421 bearer shares, ISIN code PLZATRM00012.

**Presentation of shares in the Parent held by management personnel**

<table>
<thead>
<tr>
<th>No. of shares / no. of votes</th>
<th>Standing as at 1 January 2010</th>
<th>Standing as at 31 December 2010</th>
<th>Standing as at 8 March 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Witold Szczypiński</td>
<td>390</td>
<td>390</td>
<td>390</td>
</tr>
<tr>
<td>Franciszek Bernat</td>
<td>390</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

**Presentation of shares in the Parent held by supervisory personnel**

<table>
<thead>
<tr>
<th>No. of shares / no. of votes</th>
<th>Standing as at 1 January 2010</th>
<th>Standing as at 31 December 2010</th>
<th>Standing as at 8 March 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Krzysztof Pieńkowski</td>
<td>730</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Tomasz Klikowicz</td>
<td>–</td>
<td>190</td>
<td>–</td>
</tr>
</tbody>
</table>

On 22 November 2010 Mr Franciszek Bernat, Member of the Management Board, disposed of 385 shares.
(Current report no. 4 of 18 January 2011)

The number of shares held in the Parent was also subject to change in the case of supervisory personnel. On 15 February 2010 Mr Krzysztof Pieńkowski tendered his resignation from the Supervisory Board and simultaneously ceased supervisory functions within the Parent. Mr Tomasz Klikowicz was appointed to the 8th Supervisory Board on 19 November 2010. As at the date of drawing up this report, i.e. as at 8 March 2011, other management and supervisory personnel within the company did not hold shares in the Parent.
4.2. Information on agreements known to the Parent under which change may occur in the proportions of shares held by current share- and bondholders

**Shareholder structure as at 8 March 2011**

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>No. of shares</th>
<th>% of share capital</th>
<th>No. of votes</th>
<th>% of votes</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.</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>3 000 000</td>
<td>7.67%</td>
<td>3 000 000</td>
<td>7.67%</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>11 567 420</td>
<td>29.57%</td>
<td>11 567 420</td>
<td>29.57%</td>
</tr>
<tr>
<td>Other shareholders</td>
<td>39 116 421</td>
<td>100.0%</td>
<td>39 116 421</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

In connection with the adoption of a resolution on 1 January 2010 by the Extraordinary General Meeting of Nafta Polska S.A. concerning dissolution of the company and the commencement of its liquidation, shares held by Nafta Polska S.A. in liquidation will be transferred to the State Treasury of Poland in 2011.

Pursuant to press releases issued by the Ministry of the Treasury, a return to the privatisation of the major state-owned chemical companies can be expected in 2011 and a decision concerning re-initiating privatisation of companies in the sector will be adopted at the end of the first quarter after completion of the Nafta Polska S.A. liquidation process and development of a new share ownership structure.

**Indication of all limitations concerning transfer of ownership rights to securities in Zakłady Azotowe w Tarnowie-Mościcach S.A. and all limitations concerning exercise of the right to vote carried by shares in the company**

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

On 22 December 2010, the Extraordinary General Meeting of the Parent adopted resolution no. 4, altering the Parent's Articles of Association and amending the individual entitlements due to certain shareholders through adding point 3 to § 47, worded as follows:

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

Limitations concerning transfer of ownership of securities resulted from the provisions of the Act on commercialisation and privatisation (Art. 38, sec. 3). The statutory disposal prohibition period for AA series shares for employees ended on 15 September 2007 and for members of the then-Management Board of the Parent (holding a total of 970 series AA shares) on 15 September 2008. In connection with the Act of 18 December 2008 on amendment to the Act on commercialisation and privatisation and the Act on the principles for acquisition of shares from the State Treasury of Poland in the consolidation process of electric utilities (Polish Journal of Laws no. 13, item 70) of 12 February 2010, the process of free access of shares to inheritors of entitled persons ended, whereas activities connected with the formal registration of the above agreements in the Issue Sponsor’s Register ended on 16 March 2010.

There are no transfer limitations relating to series B shares.

4.3. Information on the system of controlling employee share ownership programmes

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

4.4. Own shares held by the Parent, Group companies and persons acting on behalf thereof

Group companies do not hold own shares. This also concerns persons acting on their behalf.

**Shares held in the Parent by persons acting on behalf of Group entities as at 8 March 2011**

<table>
<thead>
<tr>
<th>Management Board</th>
<th>No. of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Witold Mijał – &quot;BIPROZAT&quot; Sp. z o.o.</td>
<td>220</td>
</tr>
<tr>
<td>Jerzy Sosin – &quot;BIPROZAT&quot; Sp. z o.o.</td>
<td>291</td>
</tr>
<tr>
<td>Jarosław Lipiński – &quot;ELZAT&quot; Sp. z o.o.</td>
<td>130</td>
</tr>
<tr>
<td>Władysław Łabuz – &quot;ELZAT&quot; Sp. z o.o.</td>
<td>390</td>
</tr>
<tr>
<td>Stanisław Oczkowicz – JRCh Sp. z o.o.</td>
<td>270</td>
</tr>
<tr>
<td>Jerzy Woliński – JRCh Sp. z o.o.</td>
<td>60</td>
</tr>
<tr>
<td>Jerzy Koziara – PKCh Sp. z o.o.</td>
<td>390</td>
</tr>
<tr>
<td>Krzysztof Pierkowski – ATT POLYMERS GmbH, Guben</td>
<td>387</td>
</tr>
</tbody>
</table>
4.5. Use of the funds raised through the issue

Up to the date of publishing the consolidated financial statements for 2010, 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 net costs of the share issue – PLN 9 298 000,
- for financing a part of expenditures under achievement of issue goals:
  - 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 39 954 000,
  - for “Capacity Expansion at the Manufacturing of Modified Plastics” – PLN 18 495 000,
  - for the “Polyamide II Manufacturing Facility” – PLN 19 921 000.

In total for financing expenditures borne up to 31 December 2010 under achievement of issue goals, the Parent used PLN 116 370 000 in funds acquired from the Public Offering.

The Parent uses proceeds from issue of shares in accordance with Issue Prospectus assumptions together with annual assumptions and long-term operational plans which take into consideration adaptation of time scales and the scope of specific investment tasks to the market situation and the Parent's strategic objectives.

Unused funds acquired from issue of shares and allocated to further achievement of issue objectives are held by the Parent in fixed-term deposits whose maturity is adjusted to the planned time scale of investment expenditures.
Expenditures for achievement of issue objectives borne up to 31 December 2010 financed in their entirety up to the date on which this report was drawn up (in PLN thousands)

<table>
<thead>
<tr>
<th>Task name</th>
<th>Expenditures from 1 July 2008</th>
<th>From loans</th>
<th>From own non-issue related funds</th>
<th>From issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimisation of the product portfolio and nitrogen fertiliser sales system</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1200 t/d mechanical fertiliser granulation installation</td>
<td>32 092</td>
<td>6 291</td>
<td>2 821</td>
<td>22 980</td>
</tr>
<tr>
<td>Modernisation of the dolomite milling plant</td>
<td>4 199</td>
<td>–</td>
<td>1 229</td>
<td>2 970</td>
</tr>
<tr>
<td>Modernisation of the packing and fertiliser freight forwarding centre</td>
<td>13 798</td>
<td>–</td>
<td>1 748</td>
<td>12 050</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50 089</strong></td>
<td><strong>6 291</strong></td>
<td><strong>5 798</strong></td>
<td><strong>38 000</strong></td>
</tr>
<tr>
<td>Modernisation of the caprolactam plant together with construction of a new hydrogen facility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modernisation of the air compression system for the Cyclohexane Oxidation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facility in sector K-54</td>
<td>2 419</td>
<td>–</td>
<td>1 240</td>
<td>1 179</td>
</tr>
<tr>
<td>Modernisation of process control in Cyclohexane Department installations</td>
<td>410</td>
<td>–</td>
<td>410</td>
<td>–</td>
</tr>
<tr>
<td>Modernisation of the selective phenol hydrogenation installation in the Palladium catalyst</td>
<td>8 661</td>
<td>–</td>
<td>60</td>
<td>8 601</td>
</tr>
<tr>
<td>Modernisation and Intensification of the Caprolactam Plant to 101 300 t/year</td>
<td>20 565</td>
<td>–</td>
<td>96</td>
<td>20 469</td>
</tr>
<tr>
<td>Construction of the Hydrogen Facility</td>
<td>11 253</td>
<td>2 752</td>
<td>–</td>
<td>8 500</td>
</tr>
<tr>
<td>Modernisation of the cooling system</td>
<td>1 023</td>
<td>0</td>
<td>151</td>
<td>872</td>
</tr>
<tr>
<td>Expansion of the 0.4 kV switching station for the requirements of the SHA Plant</td>
<td>396</td>
<td>–</td>
<td>206</td>
<td>190</td>
</tr>
<tr>
<td>Adaptation of the loading station for phenol from cisterns on the loading ramp to TDT requirements</td>
<td>184</td>
<td>–</td>
<td>41</td>
<td>143</td>
</tr>
<tr>
<td>Adaptation of benzene loading stations to TDT requirements</td>
<td>34</td>
<td>–</td>
<td>34</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>44 945</strong></td>
<td><strong>2 752</strong></td>
<td><strong>2 238</strong></td>
<td><strong>39 954</strong></td>
</tr>
<tr>
<td>Expansion of the Modified Plastics Plant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intensification of the Modified Plastics Plant – phases I+II</td>
<td>18 495</td>
<td>–</td>
<td>–</td>
<td>18 495</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18 495</strong></td>
<td>–</td>
<td>–</td>
<td><strong>18 495</strong></td>
</tr>
<tr>
<td>Polyamide II Plant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modernisation of the tarnamid storage facility</td>
<td>3 864</td>
<td>–</td>
<td>–</td>
<td>3 864</td>
</tr>
<tr>
<td>Capital expenditures – acquisition of ATT Polymers GmbH</td>
<td>16 057</td>
<td>–</td>
<td>–</td>
<td>16 057</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19 921</strong></td>
<td>–</td>
<td>–</td>
<td><strong>19 921</strong></td>
</tr>
<tr>
<td><strong>Total finance tasks under issue objectives</strong></td>
<td><strong>133 450</strong></td>
<td><strong>9 043</strong></td>
<td><strong>8 036</strong></td>
<td><strong>116 370</strong></td>
</tr>
</tbody>
</table>
5. CHARACTERISTICS OF GROUP OPERATIONS

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

**Plastics**

The main area of Group operations is production, services and commercial activity concerning construction plastics and raw materials for their synthesis. Furthermore the Group provides research and technical consultancy services enabling optimal selection and use of plastics.

- **Tarnamid®** – a natural, coloured and modified polyamide (PA 6). Tarnamid® is a high quality thermoplastic construction material manufactured through condensation polymerisation of ε-aminocaprolactam.

- **Tarnoform®** – a natural, coloured and modified acetal copolymer (polyformaldehyde, POM). Tarnoform® is a high quality thermoplastic construction material manufactured through cationic polymerisation of trioxane.

- **Caprolactam**

**Plastic goods**

- Polyamide sleeves – used as packaging for sliced meats.
- Piping made from polyamide 6, 11, 12 and LDPE polyethylene, used as pneumatic and hydraulic cables.

**Chemicals**

A significant area of the Group's operations is the manufacture of chemicals for the chemical industry. These products are used mainly in the form of raw materials necessary for manufacture of plastics (caprolactam), finished goods (e.g. carbon dioxide used to carbonate sparkling drinks) and are also used as elements in the operation of industrial installations (e.g. liquid ammonia is used as a coolant in refrigeration installations).

Furthermore the Group also manufactures other chemicals which are the product of organic and non-organic synthesis, including maleic anhydride, phthalic anhydride, aldehydes, ammonia and also nitric acid, hydrogen and carbon dioxide.

In 2010 a new product was added to the portfolio which is manufactured in its entirety using ZAK S.A. installations. The product was previously known as an aqueous urea solution for reducing NOx. From 2010 (after obtaining a licence) it has been sold as AdBlue®.

**Fertilisers**

The Parent and ZAK S.A. are some of the largest nitrogen fertiliser manufacturers in Poland. Their long-term market presence requires them to make changes and constantly strive for perfection. In connection with this, the following products were introduced in 2009: granulated calcium ammonium nitrate 27 macro fertiliser manufactured by the Parent, together with calcium ammonium nitrate with boron 27+B macro, ammonium nitrate 32 macro and saletrosan 26 macro.

Also, the Fertiliser Business Unit has been separated within the structure of ZAK S.A. This is responsible for the manufacture and sale of nitrogen fertilisers and several other non-fertiliser products including ammonia and nitric acid.

**Oxo alcohols and plasticisers**
Subsidiary ZAK S.A. is the only manufacturer of oxo alcohols in Poland. It has one of the most technologically advanced oxo installations in Europe, which is integrated with other installations to provide effective use of energy in relation to production capacity and manufacturing flexibility.

The company manufactures three products: 2-ethylhexanol, isobutanol and n-butanol. Octanol F is also on offer, together with butanal. These products are exported to many countries around the world giving the company a comparatively high share in the global market for these products, together with a leading position domestically. They are used as an additive to oils and as a solvent in the manufacture of paints, polishes and other industrial processes. ZAK S.A. uses oxo alcohols for the production of plasticisers, which are also sold by the company.

ZAK S.A. is the only company in Poland to be equipped with a diisobutyl phthalate installation (OXOPLAST® IB) and Poland’s largest (by production capacity) dioctyl phthalate production facility (OXOPLAST® O). OXOPLAST® PH, a new plasticiser, has been manufactured and sold since June 2010. This is manufactured on the basis of purchased 2–propylheptyl alcohol.

Chemically, Oxoplast® products are bis(2-ethylhexyl)phthalate (DEHP), diisobutyl phthalate (DIBP) and di(2-Propyl Heptyl) phthalate (DHP), categorised as the so-called higher phthalates. As plasticisers, they are widely used in the plastics industry, particularly for the plasticity of PVC, which is subsequently used for production of cable isolation, flooring, footwear, wallpaper, furniture, plastic wrapping, garden hose-pipes, roofing and tarpaulins and is also used in the automotive industry. The Oxoplast Business Unit at ZAK S.A. is responsible for the manufacture and sale of phthalate plasticisers, oxo alcohols and other organically and non-organically synthesised products.

**Other activity**

Under other activity, the Parent sells electricity to external consumers.

Operations at ZAK S.A. are also supported by the Energy Business and Services Unit, whose operations cover production of electricity for the requirements of the ZAK S.A. Group and heating energy for the Group and the town of Kędzierzyn-Koźle, water and sewage treatment relating to the production of water and collection and treatment of sewage and also transmission and distribution of heat and electricity, water, coke-oven gas, pressurised air and nitrogen for purging systems, in particular within the ZAK S.A. Group.

Furthermore, within the organisational structure of ZAK S.A. the following have been separated on the auxiliary level:

- a *Services Unit*, whose principal operations cover provision of services such as telecommunications services; diagnostic and control services concerning material testing and management of common and redundant site property including lease of premises, buildings and areas; a mail service for the site; photocopying; on-site archive support; landscaping; cleaning of social and office areas; waste collection; maintenance of roadways, pavements and paved areas during the winter period; administration of residential buildings and also geodetic services, provision of oversight for implementation of investment tasks and assistance for the Business Unit in the supervision of maintenance works requiring authorisations under construction law,

- a *Laboratory Services Unit* providing services for the Business Units connected with analytical support for technological processes and their impact on the environment, and providing a full range of research and testing connected with monitoring the work environment.

Within the Parent, laboratory services include:

- environmental analysis (physical and chemical analysis of water, sewage, sewage deposits, soil and waste),
- testing of plastics,
testing of packaging materials made from plastics,
- physical and chemical analysis of organic and non-organic products,
- analysis of foodstuffs,
- physical and chemical analysis for the requirements of the REACH system.

MANUFACTURING IN 2010

Level of production within the Parent by product range

<table>
<thead>
<tr>
<th>Product range</th>
<th>Level of production in 2010 [t]</th>
<th>Level of production in 2009 [t]</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formalin</td>
<td>13 085</td>
<td>10 570</td>
<td>123.8</td>
</tr>
<tr>
<td>Polytrioxane</td>
<td>10 830</td>
<td>8 681</td>
<td>124.8</td>
</tr>
<tr>
<td>Natural tarnamid</td>
<td>42 601</td>
<td>38 083</td>
<td>111.9</td>
</tr>
<tr>
<td>Total ammonia</td>
<td>190 855</td>
<td>179 001</td>
<td>106.6</td>
</tr>
<tr>
<td>Carbon dioxide</td>
<td>33 991</td>
<td>33 277</td>
<td>102.1</td>
</tr>
<tr>
<td>Concentrated nitric acid</td>
<td>43 225</td>
<td>41 590</td>
<td>103.9</td>
</tr>
<tr>
<td>Total mixed acid</td>
<td>50 393</td>
<td>48 108</td>
<td>104.7</td>
</tr>
<tr>
<td>Calcium ammonium nitrate 27,+27B standard</td>
<td>250 106</td>
<td>224 442</td>
<td>111.4</td>
</tr>
<tr>
<td>Calcium ammonium nitrate 27,+27B macro</td>
<td>42 172</td>
<td>68 255</td>
<td>61.8</td>
</tr>
<tr>
<td>Ammonium nitrate AN 32 macro</td>
<td>13 458</td>
<td>64 566</td>
<td>20.8</td>
</tr>
<tr>
<td>Saletrosan</td>
<td>182 162</td>
<td>6 763</td>
<td>2693.5</td>
</tr>
<tr>
<td>Total caprolactam *</td>
<td>93 555</td>
<td>88 030</td>
<td>106.3</td>
</tr>
<tr>
<td>Ammonium sulphate</td>
<td>407 271</td>
<td>403 957</td>
<td>100.8</td>
</tr>
</tbody>
</table>

* aside from sales, caprolactam is processed into natural Tarnamid

In 2010 – in comparison with 2009 – the largest growth in production was saletrosan by 1 693.5%, natural Tarnamid by 11.9% and polytrioxane by 24.8%. However the largest drop was seen in the production of calcium ammonium nitrate macro by 38.2% and ammonium nitrate by 79.2%.

The principal reasons for not having fully used production capacity in the case of several installations are:

- ammonia – production results from small-scale production capacity of the preceding link in the manufacturing chain, i.e. production of a synthetic mixture in relation to the ammonia installation’s production capacity,
- polytrioxane – production adapted to sales capacity,
- carbon dioxide, mixed acid, formalin, modified Tarnamid, coloured Tarnoform – production adapted to sales requirements,
- calcium ammonium nitrate fertilisers – production results from the small-scale production capacity of technical nitric acid in relation to the production capacity for calcium ammonium nitrate and concentrated nitric acid.

Events connected with force majeure also had an impact on non-use of production capacity, including unplanned technical stoppages (incident at the Caprolactam Plant, point 5.10).
Level of production at ZAK S.A. (subsidiary) by product range during the period from 20 November to 31 December 2010

<table>
<thead>
<tr>
<th>Product range</th>
<th>Level of production from 20.11.2010 to 31.12.2010 [t]</th>
<th>Level of revenues in PLN thousands</th>
<th>% share in revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitrogen fertilisers</td>
<td>108 336</td>
<td>99 658</td>
<td>34.62</td>
</tr>
<tr>
<td>Kędzierzyńska Saletra Amonowa® [Ammonium nitrate with magnesium and calcium]</td>
<td>28 401</td>
<td>26 460</td>
<td>9.19</td>
</tr>
<tr>
<td>46% granulated urea</td>
<td>21 215</td>
<td>21 743</td>
<td>7.55</td>
</tr>
<tr>
<td>Calcium ammonium nitrate</td>
<td>11 897</td>
<td>10 035</td>
<td>3.49</td>
</tr>
<tr>
<td>Salmag® – total</td>
<td>45 456</td>
<td>40 593</td>
<td>14.10</td>
</tr>
<tr>
<td>“Miksal”</td>
<td>1 368</td>
<td>826 107</td>
<td>0.29</td>
</tr>
<tr>
<td>Plasticisers (phthalates)</td>
<td>6 893</td>
<td>38 986</td>
<td>13.54</td>
</tr>
<tr>
<td>Oxoplast® IB (diisobutyl phthalate)</td>
<td>374</td>
<td>2 262</td>
<td>0.79</td>
</tr>
<tr>
<td>Oxoplast® PH (C10 alcohols iso-phthalate)</td>
<td>421</td>
<td>2 668</td>
<td>0.93</td>
</tr>
<tr>
<td>Oxoplast® O (dioctyl phthalate)</td>
<td>6 099</td>
<td>34 057</td>
<td>11.83</td>
</tr>
<tr>
<td>Oxo alcohols</td>
<td>20 214</td>
<td>90 545</td>
<td>31.45</td>
</tr>
<tr>
<td>2-ethylhexanol</td>
<td>14 276</td>
<td>66 964</td>
<td>23.26</td>
</tr>
<tr>
<td>Isobutanol</td>
<td>2 020</td>
<td>8 466</td>
<td>2.94</td>
</tr>
<tr>
<td>N-butanol</td>
<td>3 919</td>
<td>15 115</td>
<td>5.25</td>
</tr>
<tr>
<td>Base chemicals, including:</td>
<td>9 289</td>
<td>16 019</td>
<td>5.56</td>
</tr>
<tr>
<td>Total aldehydes</td>
<td>797</td>
<td>3 135</td>
<td>1.09</td>
</tr>
<tr>
<td>Ammonia</td>
<td>7 914</td>
<td>9 902</td>
<td>3.44</td>
</tr>
<tr>
<td>Maleic anhydride</td>
<td>578</td>
<td>2 982</td>
<td>1.04</td>
</tr>
</tbody>
</table>

SALES IN 2010

Total revenues from sale of products, goods for resale and materials within the Group for 2010 amounted to PLN 1 901 784 000 and were higher in current prices than revenues for 2009 by a total of PLN 687 146, i.e. 56.57%.

The highest level of sales was recorded in the Plastics segment at PLN 929 486 000, which constitutes 48.9% of total revenues.

Structure of revenues from sale in specific Group segments
5.2. Information on sales markets and on supply sources for raw materials, goods for resale and services

Sales markets
AZOTY Tarnów Group products are mainly sold to EU countries, in particular to Germany, Belgium, Italy and the Czech Republic. Export to the EU and Asia is mainly plastics, oxo alcohols and plasticisers, whereas to South America this is fertilisers.

Exports for 2010 by region

Amongst AZOTY Tarnów Group customers there was no one customer whose share in total revenues in 2010 reached 10%.

Amongst AZOTY Tarnów Group suppliers, Polskie Górnictwo Naftowe i Gazownictwo S.A.’s share in 2010 amounted to 13%.
SUPPLIES OF STRATEGIC RAW MATERIALS

Natural gas
The sole supplier of natural gas for the Group in 2010 was PGNiG S.A. Gas from the gas network and from local sources was supplied pursuant to long-term agreements. Within the Parent, gas prices were established based on the PGNiG Tariff for Gas Fuels approved by the President of the Energy Regulatory Office. During 2010 these prices changed twice: on 1 June and 1 October 2010; both changes concerned an increase in natural gas prices.

Another significant fact is that on 16 December 2010 the President of the Energy Regulatory Office approved an amendment to Part A of the "PGNiG S.A. Tariff for Gas Fuels", as a result of which natural gas prices fell. The decrease was introduced for application from 1 January 2011.

Electricity
As of 1 January 2010 the Parent changed its electricity supplier. The agreement was binding in 2010 with the possibility for it to be extended for subsequent years. Choice of the new supplier allowed for a significant decrease in the purchase price.

Steam coal
Two large domestic companies supplied steam coal, deliveries of which were balanced 80-20. Supplies were made on the basis of annexes to existing agreements. As a result of negotiations, a decrease in coal prices was achieved, in force throughout 2010.

Ammonia
The ammonia purchasing strategy for the Group in 2010 was based on supplies mainly from two sources. The first of these is purchase on the domestic market (mainly from ZAK S.A.), while the second is import from Eastern European countries (Ukraine, Russia, Belarus). The supply structure was dependent on market conditions, particularly with regard to the availability and price levels of ammonia during the given period. To ensure timely supplies and continuity of production, the share of supplies from domestic suppliers amounted to approx. 25-30% of the total (the relatively low share of domestic sources was caused by the option to increase purchases from cheaper Eastern sources).

The remaining quantity was supply from Eastern sources, which impacted on purchase cost optimisation. In the case of domestic suppliers purchases were made based on annual agreements and commercial terms and conditions were established pursuant to price formulae based on gas prices (according to the tariff).

Supplies from the Eastern European market were made in the majority of cases on the basis of annual purchase agreements and prices were established for monthly periods, which made it possible to optimise purchasing costs and the structure of supplies. In 2010 prices of ammonia from Eastern sources were less competitive in comparison with domestic sources than in previous years. This fact was caused by an increase in demand for ammonia on global markets and an increase in consumption in the most important sales markets (including in North America and South East Asia). Equity ties between the Parent and ZAK S.A. have a profound impact on optimising the ammonia balance since significant amendment in the structure of supplies is planned, increasing the share of ammonia from ZAK S.A. for the Parent's production purposes.

Benzene
In order to optimise the purchasing process and ensure benzene supply security, supplies were chiefly procured from domestic sources and the CEE region. Supplies were mainly made on the
basis of long-term and annual purchase agreements and prices were established pursuant to price formulae. The logistics of benzene supply were also optimised, which had a positive impact on the security and timeliness of supplies, also using the company’s own rail transport. The unstable demand and supply situation on the benzene market in 2010 had a negative impact on the price levels, including phenol prices. In 2010 there were periodic but serious fluctuations in prices which were not directly reflected in the on-going market situation, including on markets for products manufactured on the basis of benzene, e.g. plastics, particularly in the fourth quarter of 2010. The market situation was dependent on the situation in Asian markets and the stable implementation of production programmes by the largest global manufacturers. Benzene prices held at a relatively high level (exceeding EUR 700/t), while at the end of 2010 a significant increase in demand by the largest consumers was observed. In addition, the situation on the crude oil market and exchange rates had further impact on benzene prices. With consideration to the above facts, subsequent increases in benzene prices are forecast in the first quarter of 2011. In the long-term (from the second quarter of 2011) more market stability and a drop in prices is forecast with regard to the fact that the largest manufacturers in the CEE region are signalling the activation of additional production capacity (probably in the second half of 2011), which should have a positive impact on the availability of raw materials. The purchasing strategy in this field is based on domestic supplies and supplies from CEE.

Agreements entered into for the supply of benzene guaranteed timely supply together with ensuring optimal commercial terms and conditions (use of purchase options, selection of an optimal logistics option, diversification of sources, control of stocks appropriate to the on-going market situation).

Phenol

In order to optimise the purchasing process and ensure security of supplies, purchases of phenol were made from several main sources, including from the leading global manufacturers. Furthermore, actions were taken to procure phenol from the Russian market, however with regard to strong domestic demand in that area the offered price level was not competitive in comparison with offers from domestic and Western European manufacturers.

Supplies were mainly made on the basis of long-term and annual purchase agreements and prices were established on the basis of price formulae (pursuant to global benzene listings), which guaranteed production security continuity and stability of supplies in a difficult market situation.

As is the case with benzene, the market situation was highly unstable (both concerning offered prices and with regard to the level of demand for this material), however in the case of phenol – with regard to the high market concentration – larger supply and demand fluctuations were noted than in the case of benzene. Some of the largest manufacturers temporarily limited production capacity (mainly with regard to the lack of complete raw material supply security), which additionally caused a worsening of the market situation. The average production capacity usage levels at the most significant manufacturers were lower than in previous years, which caused periodic supply limitations. Price fluctuations on the phenol market in 2009 were the same as in the case of benzene – at the end of 2010 and beginning of 2011 a significant increase in prices was observed, mainly caused by a sudden increase in demand in the Chinese market (automotive industry) and acceptance of significantly higher price levels than in European markets, and furthermore, as in the case of benzene, the situation on the crude oil market and exchange rates had an impact on price. As a result, delta levels between benzene and phenol decreased in 2011.

Agreements entered into for the supply of phenol guaranteed timely supply together with ensuring optimal commercial terms and conditions (use of purchase options, selection of an optimal logistics option, optimisation of the most beneficial commercial sources of purchase – concerning domestic supplies, inventory control, use of the company’s own rail transport).
Propene

Alongside o-xylene and liquid phthalic anhydride, this is the main raw material used by one of the ZAK S.A. business units – the Oxoplast Business Unit. The main suppliers of propene in 2010 were: Aectra S.A. (15.8%) and Bewerma (15.8%), supplying the raw material from the German manufacturer PCK Schwedt, Basell Polyolefine GmbH – a German manufacturer (13.9%), Citco Waren – Handelsgesellschaft m.b.H. (11.8%) – raw materials from Russia and Helm AG (10.6) – supplying propene from Germany.

o-Xylene

The second of the main raw materials used by the Oxoplast Business Unit was supplied mainly by Aectra S.A. (64.3%) and PKN Orlen S.A. (21.8%). Due to the maintenance and investment stoppage in Płock, a large part of o-xylene purchases were made on the non-contract market, where suppliers were commercial companies including Aectra S.A., which is also a supplier of o-xylene from Germany (on framework agreement terms and conditions).

Liquid Phthalic Anhydride

This was mainly supplied from two manufacturers – Kemiplas from Slovenia (63.5%) and Atmosa Petrochemie GmbH from Austria (18.0%).

5.3. Main Group investments – both domestic and international

Total investment expenditures borne by the Parent in 2010 amounted to PLN 65 991 500, of which PLN 370 000 was invested in inventory.

In 2010 implementation of the largest on-going investment task was commenced – the Hydrogen Facility. Implementation of the project to construct a new Hydrogen Facility of 8 000 Nm3/h production capacity will strengthen the Parent's competitive position and is an element in implementation of one of the issue objectives – "Modernisation of the Caprolactam Plant together with construction of a new Hydrogen Facility". The principal aim of this project is to increase the scale of operations conducted, achieve stable caprolactam production capacity at a level of approx. 1 000 tons/year and lower the unit costs of caprolactam production. Construction of the new Hydrogen Facility with production capacity of 8 000 Nm3/h, being closely connected with modernisation of the Caprolactam Plant, will increase the reliability of the Caprolactam Plant, decrease the costs of production and increase the use of natural gas with a higher nitrate content from local sources.

The Parent’s main investments completed in 2010 include:

- protection of the cyclohexane oxidation installation in the event of a loss of circulating water,
- use of vacuum pumps in the caprolactam crystallisation node,
- modernisation of the copper and iron-chromium catalyst drying system,
- construction of a heat exchange station in order to increase sales of heat in heating water for MPEC up to 30 MW,
- intensification of the c-non purification system,
- big-bag and palette warehouse.

Furthermore, the most important investments continued in the Group were:

- modernisation of the Benfield potassium wash station within the V RM installation,
- modernisation of the A1 cooling system,
- modernisation of the dolomite milling plant,
- modernisation of the fertiliser packaging and dispatch station,
- modernisation of the air compression system,
- intensification of the Modified Plastics Plant – phases I+II,
• construction of heat and energy measurement equipment,
• modernisation of the selective phenol hydrogenation installation in the Palladium catalyst,
• modernisation and Intensification of the Caprolactam Plant to 101 300 t/year – Technical Project,
• implementation of an integrated ERP-class management system within the Parent.

5.4. Main Group investments outside related parties

Funds obtained from the Public Offering are placed in diversified investments with banks having strategic significance for the Parent and with maturity periods adapted to their anticipated use as financing for investment tasks under implementation of issue objectives.

As at 31 December 2010, a total of PLN 170.7 million was invested in fixed-term and overnight deposits, including the unused part of funds obtained from issue of shares, amounting to PLN 169.1 million. As at 31 December 2010, all bank deposits matured within a period of up to 3 months, in connection with which the entire sum was recorded in the financial statements under "cash and cash equivalents”.

**Presentation of Parent bank deposits as at 31 December 2010**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount (PLN thousands)</th>
<th>Deposit commencement date</th>
<th>Deposit maturity date</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKO BP</td>
<td>40 000</td>
<td>29 July 2010</td>
<td>25 January 2011</td>
</tr>
<tr>
<td>Total deposits with initial maturity exceeding 3 months</td>
<td>40 000</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>BOŚ S.A.</td>
<td>30 000</td>
<td>30 November 2010</td>
<td>31 January 2011</td>
</tr>
<tr>
<td>PKO BP</td>
<td>40 000</td>
<td>30 November 2010</td>
<td>31 January 2011</td>
</tr>
<tr>
<td>BGŻ S.A.</td>
<td>10 000</td>
<td>30 November 2010</td>
<td>31 January 2011</td>
</tr>
<tr>
<td>Raiffeisen Bank Polska S.A.</td>
<td>6 000</td>
<td>17 December 2010</td>
<td>7 January 2011</td>
</tr>
<tr>
<td>Raiffeisen Bank Polska S.A.</td>
<td>10 000</td>
<td>29 December 2010</td>
<td>12 January 2011</td>
</tr>
<tr>
<td>PKO BP</td>
<td>10 000</td>
<td>27 December 2010</td>
<td>7 January 2011</td>
</tr>
<tr>
<td>Other fixed-term deposits</td>
<td>4 021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total deposits with initial maturity of less than 3 months</td>
<td>110 021</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other overnight deposits</td>
<td>20 698</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total amount in bank deposits</td>
<td>170 719</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Under fixed-term deposits of funds from the Public Offering, in 2010 the Parent generated finance income under interest calculated amounting to PLN 7 619 000 (however during the period PLN 14 882 000 was credited to the Parent’s account).

Furthermore, under a EUR 6 000 000 loan granted in 2010 by the Parent to ATT Polymers GmbH, during the period March to December 2010 the borrower made on-time repayment of 10 monthly instalments, which meant as at 31 December 2010 EUR 4 966 000 was still to be repaid to the Parent, constituting the equivalent of PLN 19 080 000. In 2010 the Parent generated finance income under interest on debt servicing amounting to PLN 1 234 000.

**Acquisition of 100% of shares in Unylon Polymers GmbH**

Detailed information is presented in point 1.2.

**Acquisition of 52.62% of shares in ZAK S.A.**
5.5. Capital expenditures within the Group

Acquisition of an additional 50% of shares in Polskie Konsorcjum Chemiczne Sp. z o.o. took place under capital investments within the Group.

5.6. Significant agreements

Signing of an annex with PKN Orlen S.A. in an amount constituting a significant agreement

On 23 February 2010 the Parent signed Annex 6 ( dated 21 December 2009) to Agreement no. 2005/UZS/10, executed on 19 November 2004 between the Parent and Polski Koncern Naftowy Orlen S.A., headquartered in Płock. Annex 6 to the agreement in question concerns sale of raw materials: phenol, benzene and liquid sulphur by PKN Orlen S.A. to the Parent in 2010 as per the established schedule and commercial terms and conditions. The estimated value of the above annex during the term of the agreement amounts to approx. PLN 140 million net.

Framework agreement no. 2005/UZS/10 does not provide for imposition of contractual penalties exceeding 10% of the contractual amount or the equivalent of EUR 200 000 expressed in PLN according to the average National Bank of Poland exchange rate as at the agreement execution date. The parties to the agreement do however reserve the right to seek compensation on general principles exceeding the level of imposed contractual penalties. The terms and conditions of the annex signed do not provide for additional contractual penalties. The other terms and conditions of the annex do not diverge from market standards applied in agreements of this type, particularly concerning stipulation of terms and conditions or deadlines for suspension and termination.

The annex signed fulfils the criterion of a significant agreement, i.e. its estimated value of PLN 140 million exceeds 10% of the Parent’s equity.

Trade with PGNiG S.A. in an amount constituting a significant agreement

The total value of commercial trade with Grupa Kapitałowa Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG S.A.) during the period from 10 November 2009 to 12 August 2010 amounted to PLN 136.1 million net.

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

Purchase of assets with significant value

Pursuant to an agreement executed on 2010 October 2010 with ZAK S.A., with registered office in Kędzierzyn-Koźle, the Parent acquired 30 million new series B shares of nominal value of PLN 5 each, with a total value of PLN 150 million, through a private placement for a price corresponding to the nominal value of shares.

The value of shares subscribed for exceeds 10% of the Parent’s equity, which constitutes the criterion for recognising the amount as significant.
Investment loan agreement

In relation to the information contained in point 1.2 of this report concerning subscription for shares in ZAK S.A., the investment loan agreement executed was recognised as significant. This is the largest loan agreement executed by the Parent with PKO BP in the last 12 months.

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

On 30 November 2010 subsidiary ZAK S.A. entered into an agreement with Futura Chemical Trading PTE.LTD of Singapore for purchase of propene.

The agreement’s term is to be from 1 January to 31 December 2011 and provides for purchase by ZAK S.A. of propene during the above period according to the established schedule and commercial terms and conditions.

The executed agreement fulfils the criterion of a significant agreement, i.e. its estimated net value is PLN 127 million and exceeds 10% of the Parent’s equity. The final value of the agreement is dependent on the purchased quantity and contractual price of propene.

On 22 December 2010 the Parent received information concerning delivery to its registered office of an agreement entered into by subsidiary ZAK S.A. with Aectra S.A. of Switzerland (the Seller) for purchase of propene.

The agreement in question, executed on 20 December 2010, is to be in force for the period from 1 January 2010 to 31 December 2012 and provides for purchase by ZAK S.A. from the Seller of propene 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 184.5 million and exceeds 10% of the Parent’s equity. The final value of the agreement is dependent on the purchased quantity and contractual price of propene.

The total value of trade between the AZOTY Tarnów Group and Aectra S.A. during the last 12 months, together with the estimated value resulting from the agreement executed on 20 December 2010, amounts to approx. PLN 204.4 million, which also constitutes a criterion for recognising the sum of agreements as a significant value. However, only the agreement of 20 December 2010 independently fulfils the above criterion of a significant agreement.

SIGNIFICANT AGREEMENTS AFTER THE END OF THE REPORTING PERIOD

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


The annex in question is to be in force during the period from 1 January 2011 to 31 December 2011 and provides for purchase by Polynt 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 Polynt Group during the last year. The total value of trade between the AZOTY Tarnów Group and the Polynt 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. 5/11 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. 7/11 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 a significant amount.

(Current Report no. 10/2011 of 3 March 2010)

**Trade with PGNiG S.A. in an amount constituting a significant agreement**

Up to 8 February 2011 (i.e. until publication of the 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 the criterion for recognising the amount of trade as a significant value.

(Current report no. 11/2011 of 8 February 2011)

**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.

(Current report no. 12/2011 of 14 February 2011)

SIGNIFICANT AGREEMENTS FROM A BUSINESS VIEWPOINT:

- agreement for acquisition of an additional 50% of shares in Polskie Konsorcjum Chemiczne Sp. z o.o.,
- agreements for insurance of receivables:
  On 4 March 2010 a commercial credit risk insurance policy was executed with Towarzystwo Ubezpieczeń Euler Hermes S.A. with debt recovery option, no. 2004 NR 701027, for the period from 1 March 2010 to 28 February 2011. The maximum amount of insurance amounts to 25-times the premium paid for a given insurance year.
- property insurance agreements,
  On 30 October 2010 a property insurance agreement was executed with PZU S.A. for the period from 1 November 2010 to 31 October 2011:
    - Policy no. 0KRA1170008 – agreement concerning property insurance against fire and other random occurrences for corporate clients.
      Amount of insurance: PLN 1 705 296 413.73
    - Policy no. 0KRA1170009 – agreement concerning insurance for machinery against damage.
      Amount of insurance: PLN 1 030 442 578.00
    - Policy no. 0KRA1170011 – agreement concerning civil liability insurance for corporate clients
      Amount of guarantee: PLN 20 000 000.00
- agreement with Mennica Metale Szlachetne [Noble Metals Mint], based in Warsaw, for supply of platinum and catalyst netting for the ammonium nitrate installation,

5.7. Significant transactions with related entities

In 2010 the AZOTY Tarnów Group did not execute transactions with related entities on terms and conditions other than market terms and conditions.

5.8. Significant R&D achievements

Research and development work carried out by the Parent in 2010 was connected with implementation of adopted strategic objectives. The main portion of funds was allocated for implementation of projects connected with the Parent’s focus on manufacture of construction plastics, caprolactam and nitrate fertilisers. Work was also carried out on further diversification of the Parent’s product portfolio and new products with regard to implementing their manufacture.

Within the field of construction plastics, work was carried out on development of polytrioxane production technology and on newly modified construction plastic variants. R&D work on
caprolactam was focused on improving the economic effectiveness of the process and enabling further intensification of the Caprolactam Plant. Work on fertilisers was connected with the extension and development of the Parent’s product portfolio in this area and with enabling further product diversification.

The wide range of goods and technology developed at the Parent has been recognised at numerous trade events. In January 2010 the Parent was presented with an award at the 8th Polish Fertiliser Awards, i.e. for the new fertiliser “Calcium Ammonium Nitrate 27 Macro”.

In March 2010 the Parent was presented with the main award – the Golden Medal at the 16th “AGROTECH” Agricultural Technology Fair in Kielce for the new fertiliser “Saletrosan 26 Macro”, introduced in 2009, and in July 2010 was presented with a Special Award at the 23rd International Agro-Tech Agricultural and Industrial Fair in Minikowo in the category “European Standard Product”. Amongst other things, the new fertiliser fulfils market requirements concerning supplementation of sulphur deficiency in the ground.

New fertiliser products were introduced to the market as a result of the 2009 commissioning of the largest investment in recent years – the 1200 t/d Mechanical Fertiliser Granulation Installation. The new installation allows for the manufacture of mineral fertilisers with stable, homogeneous granulation, which is currently one of the key parameters required on the global mineral fertiliser market. The Parent was also awarded Innovation of the Year 2010 by Forum Biznesu for the innovative mechanical granulation installation.

At ZAK S.A., work was continued from previous periods and a wide range of research and development studies were drawn up. The company collaborates with numerous research institutes and engineering companies, counting the following as its most important achievements in 2010:

- In the field of chemical and energy process and technology assessment essential in determining further development at ZAK S.A.:
  - an inspection of technology used from the point of view of its development potential and technical level with regard to Best Available Technology (BAT) requirements through drawing up initial feasibility studies for the following complexes: acrylic, maleic, methanolic and LPC,
  - an energy audit of the facilities' electricity systems,
  - use of coke-oven gas as a chemical raw material at ZAK S.A.,
  - use of propene-propylene fraction as a raw material for the oxo alcohol installation.

- In the field of implementing new products:
  - feasibility study for coal gasification for the production of heating energy and electricity and syngas for the production of methanol, with detection, transport and storage of CO2,
  - application research on a new plasticiser, i.e. DIOCH – hydrogenated dioctyl phthalate and technical concepts for manufacture of DIOCH,
  - a feasibility study for manufacture of terephthalate dioctyl at ZAK S.A.

**Protection of industrial property**

1. Through the decision of 29 December 2009, the Patent Office of the Republic of Poland granted a patent to the Parent for a solution entitled: "Means of manufacturing cyclohexanol and cyclohexanone", ref. no. P 358357, and on 17 June 2010 was issued with patent document pat. no. PL205510.


5. Through the decision of the Patent Office of the Republic of Poland of 24 March 2010, a patent was granted for a solution entitled: "Means of obtaining cupric catalysts for low-temperature carbon monoxide conversion", announcement ref. no. P-371302, patent no. PL206338, to which the Institute of Artificial Fertilisers in Puławy and the Parent are entitled.

6. Through the decision of the Patent Office of the Republic of Poland of 27 September 2010, a patent was granted for a solution entitled: "Means of manufacturing methylal", ref. no. P-381308, patent no. PL207823, to which the BLACHOWNIA Institute of Heavy Organic Synthesis and the Parent are entitled.

7. The Patent Office of the Republic of Poland granted protective rights and provided protection certificates for the following trademarks:

   - names and graphics for the following fertiliser products:
     - Tarnów saletra amonowa AN 32 R–227189 [ammonium nitrate]
     - Tarnów saletrzak CAN 27 R–227176 [calcium ammonium nitrate]
     - Tarnów siarczan amonu AS 21 R–227175 [ammonium sulphate]
     - Tarnów saletrzosan ASN 26 R–227177 [ammonium sulphate nitrate]
     - Tarnów saletrzak z borem CAN 27 + BR–227179 [calcium ammonium nitrate with boron]

   - names for the following fertiliser products:
     - Saletrzosan R–227178
     - Granula Spryciula R–227864

   - graphics for the following fertiliser products:
     - Granula R–227865

   - names for the following plastics:
     - TARNOPROP R–227033
     - TARNAMID A R–227031
     - TARNODUR A R–227032

8. The Patent Office of the Republic of Poland granted registration rights and provided a registration certificate for the industrial design "Maskotka" [Mascot] – registration right no. 15800. The industrial design concerns a mascot used in a fertiliser advertising campaign run by the Parent.

9. An appeal was lodged with the Patent Office of the Republic of Poland against grant of a patent for a solution entitled: "Means of lowering the concentration of aldehydes in a mixture containing cyclohexanone and one or more aldehydes", patent no. PL205629, granted to DSM IP ASSETS B.V., Herlen, The Netherlands.

5.9. Information concerning environmental issues

In 2010 fees for use of the natural environment for the Parent amounted to PLN 7 383 401. The Parent systematically paid fees for use of the natural environment. Through the decision of 17 January 2011, the Małopolski Province Environmental Protection Inspector, established a penalty for 2010 amounting to PLN 33.18/day for exceeding the permitted level of noise pollution during night time by 2.7 dB.

In 2010 the Parent implemented activities connected with requirements under integrated permits, together with amendments to the binding provisions and corporate structure. It currently operates pursuant to the following decisions:
- Decision of the Governor of the Małopolski Province of 16 February 2007 on grant of an integrated permit for Zakłady Azotowe w Tarnowie-Mościcach for an Infrastructure Park Complex;
- Decision of the Governor of the Małopolski Province of 17 April 2007 on grant of an integrated permit for Zakłady Azotowe w Tarnowie-Mościcach for a POM Manufacture and Compounding Complex;
- Decision of the Governor of the Małopolski Province of 7 May 2007 concerning grant of an integrated permit for Zakłady Azotowe w Tarnowie-Mościcach for a Nitrogen Fertiliser Manufacturing Complex concerning the Dolomite Stone Milling Installation and a decision concerning the Mechanical Fertiliser Granulation Installation;
- Decision of the Governor of the Małopolski Province of 22 March 2007 on grant of an integrated permit for Zakłady Azotowe w Tarnowie-Mościcach for a PTFE and Flouride Compound Complex;
- Decision of the Marshall of the Małopolski Province of 1 December 2010 on grant of an integrated permit for Zakłady Azotowe w Tarnowie-Mościcach for a Caprolactam and Polyamide Manufacturing Complex;
- Decision of the Governor of the Małopolski Province of 25 January 2005 on grant of a permit for release of gases and fluids into the atmosphere for Zakłady Azotowe w Tarnowie-Mościcach;
- Decision of the Governor of the Małopolski Province of 3 August 2006 on amendment to the decision of the Governor of the Małopolski Province, ref. ŚR.XIV.JI.6610-6-04 of 25 January 2005 on grant of a permit for release of gases and fluids into the atmosphere for Zakłady Azotowe w Tarnowie-Mościcach;
- Decision of the Marshall of the Małopolski Province of 24 February 2009 on grant of a permit for participation in the common system for trade in rights to emission of heating gases for the combined heat and power plant located within Zakłady Azotowe w Tarnowie-Mościcach;
- Decision of the Governor of the Małopolski Province of 29 December 2004 on specific use of waters concerning the collection of underground water from an intake located in Tarnów-Mościc;  
- Decision of the Governor of the Małopolski Province of 29 December 2005 on specific use of waters concerning the collection of surface water from the Dunajec river;
- Decision of the Governor of the Małopolski Province of 11 June 2007 for channelling waste from the Parent's facilities containing substances which are particularly harmful to the water environment to sewage equipment operated by Zakład Oczyszczania Ścieków Tarnowskich Wojewody Małopolskiego Sp. z o.o.;
- Decision of the Marshall of the Małopolski Province of 25 November 2010 transferring obligations resulting from the decision of the Governor of the Małopolski Province, ref. SR.IV.ZW.6811-65-06 of 11 June 2006 from JRCh Sp. z o.o. (subsidiary) to the Parent;
- Decision of the Marshall of the Małopolski Province of 17 December 2009 on channelling waste to surface waters from the Parent’s facilities;
- Decision of the Marshall of the Małopolski Province of 29 November 2010 transferring obligations resulting from points 2 and 4 of the Decision of the Marshall of the Małopolski Province of 17 December 2009 from JRCh Sp. z o.o. (subsidiary) to the Parent;
- Decision establishing the protection zone for water intakes;
- Water law permit for the use and conservation of the weir in the Dunajec river;
- Decision of the Marshall of the Małopolski Province of 22 December 2010 on a permit for the Parent for the generation and recycling of waste;
Aside from work connected with obtaining integrated permits, the following tasks were implemented amongst others:

1. On 25 October 2010 the Parent was again presented with a silver award for safe working conditions. This award was presented in recognition for achievements in the field of improving workplace health and safety and for cooperation under the Polish Technological Platform “Safe Work in Industry”, together with participation in the programmes implemented by the Chief Labour Inspector.

2. Over the period 2009-2010 the Parent implemented a workplace health and safety management system in accordance with norms PS-ISO 18001/BSOHSAS 18001. In January 2011 this was audited by auditors DNV. The auditors recommended that the Parent receive an applicable certificate.

3. Through the Parent’s efforts, an Industrial Zone was established within the site. The zone covers a total area of 231 ha 28.86 a, on which there are 276 plots of land included in land and mortgage registers.

4. Through the decision of 22 December 2010, the Marshal of the Małopolski Province revoked the previously binding decision of the Governor of the Małopolski Province concerning generation of waste and permitted the generation of waste with consideration to the performance of recycling and decontamination of waste in the scope covered by the submitted motion.

5. On 1 December 2010 the Marshall of the Małopolski Province issued a decision taking into consideration amendments in use of the natural environment, amongst others for intensifying production of caprolactam.

6. The Parent cooperated with the Oil and Gas Institute in Krakow to conduct laboratory research on railway sleepers dismantled within the Parent’s site with regard to their harmfulness to the natural environment. Previous waste had been classified as unsafe and the only method for its removal from the Parent’s site was to transfer it to a specialist company for recycling. Thanks to the research carried out it became possible to pre-classify waste into categories other than unsafe waste, which may then be introduced to the secondary market for re-use (for example wood used for construction purposes).

7. The Parent requested that the Marshal of the Małopolski Province transfer the rights and obligations under water law permits granted to JRCh Sp. z o.o. (subsidiary) to the Parent. Through the decision of 25 November 2010 and of 29 November 2010, the Marshal of the Małopolski Province granted permits for the channelling of industrial waste containing substances particularly harmful to the water environment to sewage equipment operated by Zakład Oczyszczania Ścieków Tarnowskich Wodociągów Sp. z o.o. and for the channelling of industrial waste decontaminated at the Main Sewage Treatment Plant site to the Biała Tarnowska river.

8. Halfway through 2010 the Parent took part in administrative proceedings aimed at amending the integrated permit for the Caprolactam and Fertiliser Production Facilities at the Parent’s site through submitting appropriate explanations and supplementation of documentation to the Office of the Marshal of the Małopolski Province.

9. In the first half of 2010 the “On-site Environmental Decontamination Bank” IT system was implemented at Business Centres. This software allows for an increase in supervision of the use of norms proscribed in the integrated permits and sector decisions.

10. The Parent was the organiser / host of the National Convention of Signatories to the System of Assistance in Transport of Hazardous Materials, which took place on 10-11 June 2010.

11. The Company requested that the Małopolski Commander extend the deadline for implementation of the decision concerning update of the Safety Report for the Parent until 31 December 2010 in connection with the reorganisation of rescue services (the initial deadline was 31 August 2010). The decision was implemented in December 2010. The updated report was sent to the Commander of the Regional Fire Service in Krakow.
12. In the first half of the year a report on the level of heating gas emissions from additional operations for the following installations was drawn up: ammonia, nitric acid, hydrogen and syngas, the incineration installation of nominal power less than 20 MW and the caprolactam installation. After verification by an independent auditor from DNV, the report was sent to the National Centre for Balancing and Management of Emissions.

13. A decrease in the quantity of stored ash introduced in the first half of 2010 consisted of limiting the amount of this waste transferred for storage through its sale from the dry ash intake in boilers no. 3 and 5, amongst others to the “Nowiny” Cement Works, where ash is used as a filler in the manufacture of cement, together with other consumers of ash dealing with the manufacture of concrete goods (including paving blocks).

5.10. Significant events

Approval of proceedings for an arrangement

On 4 February 2010, after prior preparation of a set of documentation confirming implementation of an arrangement for creditors, the Parent submitted a motion to the court on confirmation that proceedings for an arrangement had been completed.

On 19 March 2010 a court session took place at the District Court in Tarnów to examine the motion. During the proceedings the Parent’s attorneys submitted a declaration on full repayment of the arrangement pursuant to previously submitted documents. None of the Parent’s creditors included in the court arrangement came forward at the hearing, meaning that there are no reasons why the court would not pronounce completion of the arrangement. The judge presiding over the proceedings did however state that, due to technical issues, no notification of the case in progress had been made in the newspaper Rzeczpospolita by the court prior to the date of the hearing. For this reason the judge postponed issue of a ruling on pronouncement that the arrangement had been completed until an additional hearing arranged for 31 March 2010. On this date the District Court in Tarnów pronounced completion by the Parent of the arrangement concluded with creditors, and the court stated that the proceedings had been closed.

Privatisation

In relation to information included in the annual report for 2009 (p. 40, point 5.10 – Significant Events), Nafta Polska S.A. w likwidacji announced in a communiqué of 13 May 2010 that under the process of privatising companies categorised as so-called 1st group chemical firms a decision on completion of the process without decision had been adopted. It was also announced that the privatisation of major state-owned chemical companies will be continued.

Within the 1st chemical group, after analysing final offers received from the investor – PCC SE – confirming the proposed terms and conditions for purchase of ZAK S.A. and Zakłady Azotowe w Tarnowie-Mościcach S.A., it was recognised that the proposals presented by the potential investor were unsatisfactory for the seller and diverged from expectations, concerning both the terms and conditions of price and transaction structure, and the amounts allocated for the increase in capital. In addition, other offers submitted under the process did not provide a basis for continuation of negotiations and receipt of satisfactory offers.

The Ministry of Treasury currently plans to define the privatisation strategy for specific chemical industry entities at the end of the first and beginning of the second quarters after completing liquidation of Nafta Polska S.A. and development of a new share ownership structure. The timing of the decision is dependent on the processes taking place within the companies.

Court proceedings with Polchemica
On 31 March 2010, a ruling of the Regional Court in Katowice completely dismissed the action brought by the official receiver of Polchemica Sp. z o.o. in Katowice for payment by the Parent of PLN 846 000 in contractual penalties for undue performance of the provisions of a cooperation agreement. The plaintiff appealed against the ruling. In September 2010 the Appeals Court in Katowice overruled the ruling of the Regional Court and transferred the case for re-examination.

**Outsourcing of IT services**

2010 is the first year of full IT service outsourcing, covering maintenance and development of IT systems, in particular SAP, provided by Hewlett-Packard Polska Enterprise Services pursuant to a 6-year outsourcing agreement executed on 25 November 2009.

Covering supervision of the Parent’s IT system, HP simultaneously employed personnel of the IT Office, creating a Competence Centre for the Parent and other industrial companies. A team of IT specialists were employed and trained by HP in accordance with ITSM/ITIL principles applied for the requirements of IT environment management at the Parent. At the same time the principles of IT Governance were established, concerning collaboration between companies and corporate business units.

During the 12 months from the commencement of IT services, HP has conducted several significant standardising projects. The first and key project was the ITSM/ITIL-compliant start-up of the Help Desk – the first point of call for all IT users at the Parent. Subsequent projects concerned issues including virtualisation of the equipment platform and applications used, supply and implementation of a Microsoft platform for e-mail and group work and data archiving. 5 key business projects were implemented, including creation of a Business Intelligence environment (including planning, budgeting and management information optimisation), introduction of electronic document and invoice circulation, management of investments and repair works. Pursuant to expansion of cooperation with HP, a cycle of advanced training sessions for SAP users was conducted, together with an innovative project covering a concept for the operations of a Shared Services Centre at the AZOTY Tarnów Group.

**Renewal of the trade credit risk insurance policy**

On 4 March 2010 the Parent renewed its trade credit risk insurance policy with debt recovery option, concluded with Euler Hermes S.A., up to 28 February 2011. The subject of the policy was trade credit insurance, which means providing payout of compensation in the event of non-receipt of payment for sale of goods or services as a result of a legally confirmed or actually insolvent client.

(Report for the first quarter of 2010, point I.1, p. 13)

Under the policy, the Parent received the following payouts:

- on 12 April 2010 – PLN 2 926 000 for unpaid receivables,
- on 21 May 2010 – PLN 379 000 for receivables not paid by a foreign customer.

From 1 March 2011 all trade credit insurance within the Group is covered by KUKE S.A. insurance for the period to 28 February 2012.

**Other property insurance agreements**

- policy covering insurance against fire and other random events for corporate clients executed on 30 October 2010 for the period from 1 November 2010 to 31 October 2011 – amount of insurance: PLN 1 705 million,
- policy covering insurance of machinery against damage executed with PZU S.A. on 30 October 2010 for the period from 1 November 2010 to 31 October 2011 – amount of insurance:
Zakłady Azotowe w Tarnowie-Mościcach S.A. Group

Management report on the operations of the Group for the 12 months ended 31 December 2010

PLN 1,030 million,

- policy covering civil liability insurance for corporate clients executed with PZU S.A. on 30 October 2010 for the period from 1 November 2010 to 31 October 2011 – guarantee amount: PLN 20 million.

Joint Implementation project based on Kyoto Protocol mechanisms

In 2010 the Joint Implementation Project for reduction of nitrogen oxide emissions from the dual pressure nitric acid installation under the Kyoto Protocol.

On 19 March 2010 the Ministry of the Environment provided Mitsubishi Corporation Japan with emission reduction units – ERUs, generated for the 1st and 2nd measurement periods (i.e. for the second half of 2008 and first half of 2009) under the joint implementation project, i.e. an agreement on reduction of nitrogen oxide emissions from the nitric acid installation at Azoty Tarnów executed between the Parent and Mitsubishi Corporation. These units were subsequently provided by Mitsubishi Corporation to the final customer on 31 March 2010. On 10 May 2010 the Parent received cash payment for sale of the above ERUs, amounting to EUR 6.2 million, and deducted EUR 0.8 million for repayment of the loan granted by Mitsubishi Corporation. Furthermore, on 12 August 2010 the Ministry of the Environment, pursuant to the decision adopted on 20 July 2010, transferred ERUs generated for the 3rd measurement period (i.e. the second half of 2009) to Mitsubishi Corporation. On 24 September 2010 the Parent received a EUR 3.4 million cash payment for sale of the above units to the final customer. The second half of 2010 (4th measurement period) is currently being verified by independent verification entity Det Norske Veritas.

Energy-related events

The certification entity and the President of the Energy Regulatory Office expressed positive opinions on confirmation of production by the combined heat and power plant of highly efficient electricity. The effect was acquisition of the Proprietary Rights under Certificates of Origin as referred to in art. 91, sec. 1, point 2 of the Energy Law of 10 April 1997 as amended.

The President of the Energy Regulatory Office approved tariffs for electricity – sale to the company’s consumers concerning provision of distribution services and application of prices for trade in electricity for households – the tariff was introduced from 21 March 2010 for a term of one year.

Redemption of CO2 emission units used for 2009 was conducted by the end of April 2010. For 2010 the audit unit verified settlement of CO2 emissions and by the end of April 2011 the Parent will redeem these in the National Emissions Trading Scheme Register.

Anti-dumping proceeding

In May 2010, at the request of the Ministry of Trade of the People's Republic of China dated 22 April 2010, an investigation into anti-dumping proceedings concerning supplies of caprolactam sent to China over the period 1 January 2007 to 31 December 2009 commenced.

As a result of the proceedings, provisional anti-dumping customs duty was introduced for the Parent’s caprolactam, amounting to 20.4%. This customs duty is in force from 25 January 2011.

Project support from the National Fund for Environmental Protection and Water Management

On 5 February 2010 the National Fund for Environmental Protection and Water Management published a ranking of projects recommended for support under activity 4.2 of the Operational Programme Infrastructure and Environment. The project submitted by the Parent entitled "Making Business Use of Ash at Zakłady Azotowe w Tarnowie-Mościcach S.A." obtained the highest
number of points and was recommended for support. The recommended amount of funding is PLN 4,588,357.71. The Parent obtained essential corporate consent for full implementation of the project in accordance with the submitted finance application, execution of the agreement on financing of the project by the National Fund for Environmental Protection and Water Management and for provision of a promissory note to the National Fund for Environmental Protection and Water Management in order to provide collateral for refund of the funding (the agreement on project funding was executed on 12 April 2010).

**Incident at the Caprolactam Plant**

Damage to the sulphur incineration combustion chamber of the hydroxylamine sulphite installation at the Caprolactam Plant occurred on 17 July 2010, which led to a temporary stoppage in the caprolactam production line beginning from 20 July 2010. The damage caused several days' complete stoppage in manufacture of caprolactam, while on 24 July 2010 production of caprolactam had resumed to approx. 70% of production capacity and on 3 August 2010 production capacity had returned to a level of 95%.

The company recorded a decrease in caprolactam production volume by 3,076 tons and ammonium sulphide by 13,380 tons, which constitutes approx. 3.16% of annual production capacity.

The above event also caused a decrease in production of natural tarnamid as a result of our obligations to send caprolactam to external consumers and the necessity to maintain operations at the facility in Guben.

Removal of the incident's effects and a return to full production capacity occurred in accordance with the schedule. The event was covered by the fixed asset insurance policy.

(Current report no. 17/2010 of 20 July 2010)
(Current report no. 19/2010 of 4 August 2010)

**Temporary stoppage in the manufacture of nitrate fertilisers**

On 5 January 2011 an air compressor failed at the Technical Nitric Acid Manufacturing Plant. The compressor is one of the four machines in the turbine set. As a result, production of nitrate fertilisers was temporarily halted for approx. 14 days. After the emergency outage, the Nitrate Fertilisers Manufacturing Plant was restarted on 20 January. The Plant is currently working at a capacity aligned with the supply of technical nitric acid. In order to exploit synergies of the ZAK S.A. acquisition, the nitric acid inventory was allocated to the AZOTY Tarnów Group, facilitating a gradual increase in the use of this input. Activities aimed at utilising the production capacity in respect of nitrate fertilisers more fully are being performed as scheduled. Full capacity will likely be reached mid-May this year, depending on whether nitric acid production can be restored at the Tarnów Plant. This incident, with its impact on the Group's financial results, was disclosed by the Parent in reports no. 3/2011 of 6 January 2011 and no. 8/2011 of 21 January 2011. The temporary outage of the plant triggered a drop in the Parent’s production volume of nitrogen fertilisers estimated at around 13% compared to the same period the previous year. However the decrease in nitrogen fertilisers within the AZOTY Tarnów Group is estimated at approx. 5% of annual production capacity. Other fertilisers are being manufactured without interruption.

**Disposal of non-essential real property**

In accordance with the approved and expanded "Programme for disposal of non-essential ZAT property" (Resolution no. 29 of the Ordinary General Meeting of Zakłady Azotowe w Tarnowie-Mościcach of 23 June 2010) – the following were sold from amongst thirteen properties covered by the above Resolution:
right of perpetual usufruct together with ownership right to buildings located on plots of land numbered: 1/15 cadastral unit 203; 1/286 cadastral unit 203; 1/149 cadastral unit 203; 1/314 cadastral unit 203; 1/155 cadastral unit 203; 1/316 cadastral unit 203;
right to perpetual usufruct of non-developed plots of land numbered: 4/89 cadastral unit 208; 4/84 cadastral unit 208; not sold;
right of perpetual usufruct together with ownership right to buildings located on plots of land numbered: 1/144 cadastral unit 203; 1/318 cadastral unit 203; 1/184 cadastral unit 203;
right to perpetual usufruct of a non-developed plot of land no. 4/73 cadastral unit 208;
no participant in tender proceedings through public auction for purchase of the above property came forward;
rights to perpetual usufruct of non-developed plot of land no. 1/193, cadastral unit 203, with regard to the invalidation of the verbal tender through public auction for the sale of this property.
6. CURRENT FINANCIAL SITUATION AND ASSET POSITION OF THE GROUP

6.1. Significant events having considerable impact on the operations and financial results of the Group

The significant factors affecting the results achieved by the Group in 2010 include:

- economic recovery fuelled by exports and a rebound in private and public consumption and restoration of reserves,
- an increase in product prices,
- an increase in the basic prices of raw materials with lower coal and electricity prices,
- completion of arrangement proceeding repayments,
- sale of ERUs,
- acquisitions,
- reorganisation within the Parent,
- increase in the scale of production,
- unplanned technological stoppages.

Events having an impact on the Parent’s HR situation:

- Within the HR policy for 2010, pursuant to agreements signed between the employer and local trade union organisations, an average pay rise for each employee of PLN 150 was established.
- From 1 January 2010, pursuant to additional protocol no. 13 to the Corporate Collective Labour Agreement, the amount of bonuses for work in a round-the-clock system and in a two-shift system was altered. The bonus for work in a round-the-clock system amounted to PLN 410, while the bonus for work in a two-shift system amounted to PLN 200.
- On 3 December 2010 a subsequent additional protocol, no. 14, to the Corporate Collective Labour Agreement was signed, altering the level of bonus for work in a round-the-clock system and in a two-shift system by PLN 40 from 1 January 2011. The bonus for work in a round-the-clock system now amounts to PLN 450, while the bonus for work in a two-shift system amounts to PLN 240. This protocol also amended the following provisions: Appendix no. 4 (the amount of additions to employee salaries in the Site Fire Service was subject to slight alteration), Appendix no. 6 (the change consists of excluding white collar workers from a bonus for work in hazardous conditions to their basic pay) and Appendix no. 14 was removed (concerning award of recuperation leave).
- Negotiations which commenced in November 2010 concerning the HR policy for 2011 have not yet reached their final arrangements.
- In addition, on 3 December 2010 an agreement concerning change in the Working Regulations regarding working hours was signed – an agreement concerning working hours for 2011 was executed.
- In 2010 the project “English? No problem! Raising the competitiveness of ZAT S.A. by developing the language competence of its employees” was continued pursuant to the agreement signed with the Provincial Labour Office on 2 December 2009 for project finance. Level of finance: PLN 1 143 967. Project implementation period – 1 March 2010 – 31 December 2011.
- Cooperation was initiated with the Business College concerning education for Parent employees in engineering – chemical and process engineering. Under this venture, 23
employees have commenced engineering studies.

- There were no group redundancies in 2010. The employer had no disputes with trade unions.
- During the reporting period the process of making shares available to the inheritors of entitled persons was completed in accordance with the Act of 18 December 2008 on amendment of the act on commercialisation and privatisation and the Act on acquisition of shares from the State Treasury in the consolidation process of electric utilities (Polish Journal of Laws no. 13, item 70).

6.2. Discussion of principal economic and financial figures

Group results during the financial year

The Group's net profit at the end of the 2010 financial year amounted to PLN 400 758 000.

Consolidated statement of comprehensive income (in PLN thousands)

<table>
<thead>
<tr>
<th></th>
<th>Total 2010</th>
<th>Total 2009</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue from sales</td>
<td>1 901 784</td>
<td>1 214 638</td>
<td>56.57</td>
</tr>
<tr>
<td>Cost of sales, distribution costs, administrative expenses</td>
<td>(1 778 250)</td>
<td>(1 215 997)</td>
<td>46.24</td>
</tr>
<tr>
<td>Share of total costs in revenues (%)</td>
<td>93.50</td>
<td>100.11</td>
<td>(6.60)</td>
</tr>
<tr>
<td><strong>Total gross margin</strong></td>
<td><strong>123 534</strong></td>
<td><strong>(1 359)</strong></td>
<td><strong>x</strong></td>
</tr>
<tr>
<td>Gross sales margin in %</td>
<td>6.50</td>
<td>(0.11)</td>
<td>x</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>391 040</td>
<td>15 791</td>
<td>2 376.35</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>(92 368)</td>
<td>(28 785)</td>
<td>220.89</td>
</tr>
<tr>
<td><strong>Profit (loss) on operating activities</strong></td>
<td><strong>422 206</strong></td>
<td><strong>(14 353)</strong></td>
<td><strong>x</strong></td>
</tr>
<tr>
<td>Finance income</td>
<td>11 919</td>
<td>51 301</td>
<td>(76.77)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(17 282)</td>
<td>(44 110)</td>
<td>(60.82)</td>
</tr>
<tr>
<td><strong>Net finance revenues (costs)</strong></td>
<td>(5 363)</td>
<td>7 191</td>
<td>x</td>
</tr>
<tr>
<td>Profit (loss) on shares in associates measured under the equity method</td>
<td>164</td>
<td>33</td>
<td>396.97</td>
</tr>
<tr>
<td><strong>Profit (loss) before tax</strong></td>
<td><strong>417 007</strong></td>
<td><strong>(7 129)</strong></td>
<td><strong>x</strong></td>
</tr>
<tr>
<td>Gross profit margin in %</td>
<td>21.93</td>
<td>(0.59)</td>
<td>x</td>
</tr>
<tr>
<td>Income tax</td>
<td>(16 249)</td>
<td>3 389</td>
<td>x</td>
</tr>
<tr>
<td><strong>Net profit (loss)</strong></td>
<td><strong>400 758</strong></td>
<td><strong>(3 740)</strong></td>
<td><strong>x</strong></td>
</tr>
<tr>
<td>Net profit margin in %</td>
<td>21.07</td>
<td>(0.31)</td>
<td>x</td>
</tr>
</tbody>
</table>
**Operating costs (in PLN thousands)**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Structure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010 2009</td>
<td>2010 2009</td>
</tr>
<tr>
<td>Depreciation</td>
<td>92 328  80 844</td>
<td>5.6 6.9</td>
</tr>
<tr>
<td>Materials and energy used</td>
<td>1 100 685 761 750</td>
<td>66.7 64.8</td>
</tr>
<tr>
<td>Third-party services</td>
<td>157 519 67 082</td>
<td>9.5 5.7</td>
</tr>
<tr>
<td>Taxes and charges</td>
<td>47 455 43 801</td>
<td>2.9 3.7</td>
</tr>
<tr>
<td>Remuneration</td>
<td>187 429 165 310</td>
<td>11.4 14.0</td>
</tr>
<tr>
<td>Social security and other benefits</td>
<td>42 100 39 441</td>
<td>2.5 3.4</td>
</tr>
<tr>
<td>Other costs by nature</td>
<td>22 947 17 225</td>
<td>1.4 1.5</td>
</tr>
</tbody>
</table>

**Costs by nature**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Structure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 650 463 1 175 453</td>
<td>100.0 100.0</td>
</tr>
</tbody>
</table>

In 2010 total costs by nature amounted to PLN 1 650 463 000 and were PLN 475 010 000 higher than the previous year, i.e. by 40.41% with sales higher by 56.57%, i.e. by PLN 687 146 000. This means that the rate of increase in costs for a given period was 16.16 percentage points lower than the rate of increase in sales.

In the same period, materials and energy used increased within total costs (by 1.9 percentage points), with third-party services increasing by 3.8 percentage points. However, decreases were noted in depreciation (by 1.3 percent), taxes and charges (by 0.8 percent), remuneration (by 2.6 percent), social security and other benefits (by 0.9 percentage points) and other costs by nature (by 0.1 percent).

Specific items of costs by nature are presented as follows:

**Materials and energy used**

This group of costs constitutes the largest cost item – 66.7%. Total materials and energy used was PLN 338 935 000 higher in relation to the previous year. This is a result of increased production scale and an increase in the price of base raw materials (phenol, benzene, ammonia, methanol, propene, orthoxylene and natural gas, with a lower price of coal and electricity.

1. **Third-party services**

These constitute 9.5% of costs by nature. Their share increased by 3.8 percentage points, i.e. by PLN 90 437 000, caused by increases in maintenance and transport costs together with other third-party services.

2. **Depreciation**

Depreciation constitutes 5.6% of total costs and its share increased in relation to the previous year by 1.3%. An increase of PLN 11 484 000 was noted, with significant impact coming from the acquisition of a new company in 2010 – ATT Polymers GmbH.
3. Taxes and charges  PLN 47 455 000
The share in total costs amounted to 2.9%, i.e. 0.8 percentage points lower than in 2009. By value an increase of PLN 3 654 000 was noted, which is mainly a result of increased excise duty.

4. Remuneration  PLN 187 429 000
The share in total costs amounted to 11.4%, i.e. 2.6 percentage points lower than in 2009. By value an increase of PLN 22 119 000 was noted.

5. Social security and other benefits  PLN 42 100 000
The share in total costs amounted to 2.6%, i.e. 0.9 percentage points lower than in 2009. By value an increase of PLN 2 659 000 was noted.

6. Other costs by nature  PLN 22 947 000
The share in total costs amounted to 1.4%, i.e. 0.1 percentage points lower than the previous year. In terms of value this was an increase by PLN 5 722 000, and the largest share was the increase in property and personal insurance together with costs connected with purchase of shares in ATT Polymers GmbH.

6.3. Asset and liability structure characteristics

Main assets (in PLN thousands)

<table>
<thead>
<tr>
<th></th>
<th>Total 2010</th>
<th>Structure (%)</th>
<th>Total 2009</th>
<th>Structure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets, of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2 339 060</td>
<td>70.6</td>
<td>989 463</td>
<td>62.6</td>
</tr>
<tr>
<td>Current assets, of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>269 787</td>
<td>8.1</td>
<td>180 874</td>
<td>11.4</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>1 908</td>
<td>0.1</td>
<td>340</td>
<td>0.0</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>417 326</td>
<td>12.6</td>
<td>148 788</td>
<td>9.4</td>
</tr>
<tr>
<td>Deferred tax receivables</td>
<td>0</td>
<td>0.0</td>
<td>5 394</td>
<td>0.3</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>279 450</td>
<td>8.4</td>
<td>246 485</td>
<td>15.6</td>
</tr>
<tr>
<td>Other assets</td>
<td>5 751</td>
<td>0.2</td>
<td>9 361</td>
<td>0.6</td>
</tr>
<tr>
<td>Available-for-sale non-current assets</td>
<td>125</td>
<td>0.0</td>
<td>613</td>
<td>0.0</td>
</tr>
<tr>
<td>Total assets</td>
<td>3 313 407</td>
<td>100.00</td>
<td>1 581 318</td>
<td>100.00</td>
</tr>
</tbody>
</table>

In the 2010 financial year total assets were subject to significant increase in relation to the previous year by PLN 1 732 089 000. There were also significant changes in their structure.

Non-current assets increased by 8.0 percentage points in relation to the end of the previous year and constitute 70.6% of the company's assets in the current period.

In this group property, plant and equipment was subject to an increase of PLN 1 135 776 000.

Level of ATT Polymers GmbH assets acquired: EUR 24 268 000 (i.e. PLN 96 109 000 using the exchange rate as at 31 2010, whereas PLN 99 203 000 using the exchange rate as at 31 January 2010).

Level of ZAK S.A. assets as at the acquisition date: PLN 1 740 736 000.

Asset structure
Under current assets the largest change occurred in receivables, which increased by PLN 263,144,000. This resulted from the inclusion in the consolidated financial statements of receivables from two additional companies, which increased the level of overdue receivables. However the share of these receivables in total trade and other receivables remained at almost the same level.

**Maturity analysis of trade and other receivables (in PLN thousands)**

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2010</th>
<th>As at 31 December 2009</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-overdue</td>
<td>209,597</td>
<td>77,950</td>
<td>168.9</td>
</tr>
<tr>
<td>Overdue up to 60 days</td>
<td>28,325</td>
<td>23,234</td>
<td>21.9</td>
</tr>
<tr>
<td>Overdue between 60 and 180 days</td>
<td>5,253</td>
<td>3,300</td>
<td>59.2</td>
</tr>
<tr>
<td>Overdue between 180 and 360 days</td>
<td>4,743</td>
<td>1,148</td>
<td>313.2</td>
</tr>
<tr>
<td>Overdue more than 360 days</td>
<td>9,071</td>
<td>1,478</td>
<td>513.7</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>256,989</strong></td>
<td><strong>107,110</strong></td>
<td><strong>139.9</strong></td>
</tr>
</tbody>
</table>

Furthermore in current assets there was an increase in the level of inventory by PLN 88,913,000, which is a result of changes in Group structure.

**Main equity and liability items (in PLN thousands)**

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2010</th>
<th>As at 31 December 2009</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
<td><strong>1,950,102</strong></td>
<td><strong>1,113,295</strong></td>
<td><strong>75.2</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>1,363,305</strong></td>
<td><strong>468,023</strong></td>
<td><strong>191.3</strong></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>433,695</td>
<td>199,778</td>
<td>117.1</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>929,610</td>
<td>268,245</td>
<td>246.6</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>3,313,407</strong></td>
<td><strong>1,581,318</strong></td>
<td><strong>109.5</strong></td>
</tr>
</tbody>
</table>

During 2010 the structure of equity and liabilities was subject to significant change. Change in the composition of the Group meant that the share of equity decreased. As at the end of 2010 this constituted 58.9% of equity and liabilities. It also financed Group assets at this same level. Total liabilities had increased by 117.1% and their share in the carrying amount increased by 11.5% in relation to the preceding year. In this group the greatest increase was in current liabilities, whereas non-current liabilities increased to a lesser extent. The increase in liabilities results from changes in Group structure and adoption of the finance structure seen in new entities subject to consolidation.
Structure of equity and liabilities

Equity and liabilities (in PLN thousands)

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2010</th>
<th>As at 31 December 2009</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>liabilities due to borrowings</td>
<td>33,587</td>
<td>29,446</td>
<td>14.1</td>
</tr>
<tr>
<td>other</td>
<td>400,108</td>
<td>170,332</td>
<td>134.9</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>929,610</td>
<td>268,245</td>
<td>246.1</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>liabilities due to borrowings</td>
<td>281,699</td>
<td>110,201</td>
<td>155.6</td>
</tr>
<tr>
<td>trade and other payables</td>
<td>591,233</td>
<td>143,372</td>
<td>312.4</td>
</tr>
<tr>
<td>other</td>
<td>56,678</td>
<td>14,672</td>
<td>286.3</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,363,305</td>
<td>468,023</td>
<td>191.3</td>
</tr>
</tbody>
</table>
6.4. Financial ratios

**Indicators for assessment of economic standing**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit margin %</td>
<td>17.33</td>
<td>13.43</td>
<td>29</td>
</tr>
<tr>
<td>Return on equity (ROE) %</td>
<td>36.00</td>
<td>0.32</td>
<td>x</td>
</tr>
<tr>
<td>Return on invested capital %</td>
<td>17.49</td>
<td>0.54</td>
<td>x</td>
</tr>
<tr>
<td><strong>Debt ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total debt ratio %</td>
<td>69.91</td>
<td>42.04</td>
<td>26.29</td>
</tr>
<tr>
<td>Debt-to-assets ratio</td>
<td>41.15</td>
<td>29.60</td>
<td>39.02</td>
</tr>
<tr>
<td><strong>Liquidity ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current ratio</td>
<td>1.05</td>
<td>2.21</td>
<td>(52.50)</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.76</td>
<td>1.53</td>
<td>(50.53)</td>
</tr>
<tr>
<td><strong>Operating ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating cash flow to sales %</td>
<td>6.06</td>
<td>3.56</td>
<td>x</td>
</tr>
<tr>
<td>Accounts receivable days</td>
<td>119.69</td>
<td>31.70</td>
<td>227.57</td>
</tr>
<tr>
<td>Fixed-asset turnover ratio %</td>
<td>93.30</td>
<td>134.57</td>
<td>(30.67)</td>
</tr>
</tbody>
</table>

**Economic added value**

<table>
<thead>
<tr>
<th>Unit of measurement</th>
<th>31 December 2010</th>
<th>31 December 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOPAT (net operating profit after tax) PLN thousands</td>
<td>449 920</td>
<td>33 423</td>
</tr>
<tr>
<td>Cost of capital %</td>
<td>7.46</td>
<td>8.04</td>
</tr>
<tr>
<td>Capital invested PLN thousands</td>
<td>1 549 344</td>
<td>1 117 035</td>
</tr>
<tr>
<td>Total capital invested PLN thousands</td>
<td>1 864 630</td>
<td>1 256 682</td>
</tr>
<tr>
<td>EVA (NOPAT – total cost of capital invested) PLN thousands</td>
<td>418 048</td>
<td>(26 411)</td>
</tr>
<tr>
<td>Economic Value Added</td>
<td>0.2242</td>
<td>(0.0210)</td>
</tr>
</tbody>
</table>

Calculation methodology in accordance with Ministry of Treasury guidelines.
6.5. Assessment of key factors and non-standard events

Macro environment

Despite the fact that the Polish economy appeared relatively immune to the effects of the global economic crisis, the scale of deceleration in economic growth in relation to the boom of 2007 was significant. This means that without clear improvement in demand from our main commercial partners, a return to rapid growth in the short-term will be difficult to achieve.

Next year’s GDP growth in the euro zone is expected to be lower than the average from a number of years pre-crisis. Forecasts concerning economic activity in 2011 are burdened with uncertainty, which is increased by the necessity to gradually withdraw strong stimulus on the part of macroeconomic policy in conditions of high public finance imbalance in some countries and financial market pressure on increased public borrowing costs.

It is expected that in 2010 the main economic growth factor in Poland will be domestic demand. Work on infrastructure projects co-financed by the EU shows that the sector generating an increase in investment will be the public sector. Weak data concerning the number of new residential developments and new construction permits, connected with the continuing weak use of production output, indicates that the drop in private sector investment continued in 2010. A certain improvement may be expected in 2011, which, taking into consideration the continuing high public investment dynamic, will result in a clear acceleration in the rate of general investment growth. A certain degree of acceleration in consumer demand may be expected, which will reflect the anticipated increased remuneration expenditure in comparison with the forecasts for 2010.

According to the European Commission, the economy is recovering from the recession. To a large degree this is thanks to the ambitious activities of governments, central banks and the EU, who have opened the way to economic recovery. In 2011 the euro zone is to grow at a rate of 1.5%, whereas the entire EU is to develop at 1.7%. The European Commission emphasises that member states are recovering from the crisis at uneven rates.

In the short-term, the economic recovery will result from an improvement in external surroundings and better finance conditions, together with the introduction of significant fiscal and monetary policy instruments. The European Commission considers that the EU economic has reached a turning point and turns attention to the fact that many financial indicators have returned to their pre-crisis levels, trust in the market is on the increase and the perspectives for global economic and commercial growth are better, particular for emerging market economies. However the perspectives for the EU economy during its exit from the recession are uncertain and are subject to a significant level of risk from various factors which in fact counteract each other.

As per the most recent estimates from the International Monetary Fund, global economic growth will slow from 4.8% in 2010 to approx. 4.2% in 2011. Furthermore it is anticipated that in 2011 the euro zone economy will grow by 1.5% and emerging European economies have a chance to drive the entire continent, although GDP growth at a level of 3.4% and 3.1% (in 2010 and 2011) is considerably slower than before the crisis. A significant problem will be how to deal with increasing public debt, both in Europe and the US. A result will be limitation of budget deficits in such way as not to hinder GDP growth.

The Organisation for Economic Co-operation and Development (OECD) predicts that GDP in the euro zone will grow by 1.7% in 2011 after the same increase in 2010. Next year the external situation may become less favourable for the global economy. The OECD has lowered its forecast for global economic growth for 2011 from 4.5% to 4.2%. The slowdown will be visible in the US, Japan, China and a large part of Western Europe, including Germany, i.e. our largest trading partner. Emerging economies will develop at a significantly quicker rate, amounting to an average
of 8%. Threats to the global economic recovery include the high level of public debt in some states, processes of fiscal consolidation, the continuing weak situations for property markets in the US and UK and a growing imbalance in global trade. The OECD has thus called on the European Central Bank amongst others to ensure that programmes aimed at stimulating the euro zone economy are not completed too quickly. For Poland, GDP growth of 4.0% is anticipated in 2011. The World Bank has a similar assessment of the Polish economy. Furthermore, a source for the continuing increased risk of financial difficulties within the EU is the ongoing high deficit levels in some European economies and fears over the necessity for some countries within the region to seek additional support.

Micro environment

Chemicals market

The situation in the chemicals market is still considered challenging and the level of output is unsatisfactory. According to CEFIC, we should not expect achievement of the peak level of chemical products manufacture before the crisis, i.e. January 2008, before the end of 2012. Depending on the segment, the situation is varied. Gradual development is noted in the organic, polymers, low-tonnage chemicals and specialist segments.

The value of production within the European chemical industry currently amounts to EUR 556 billion. The industry employs 1.2 million people and manufactures 30% of global chemicals (figures for 2008 – Consultation on the future "EU 2020" Strategy, Draft CEFIC Comments, January 2010). According to estimates, the European chemicals market, without the pharmaceuticals, plastics and rubber sectors, is valued at approx. EUR 1 950 billion (2008). 29% of its value constitutes EU27 chemical industry sales.

Since 2004 the chemicals market has dynamically developed in China and the Middle East, overtaking EU countries who until this time had been the unquestioned leaders in the chemicals market. The reasons behind the drop in European chemicals' share in the global market are principally the price of raw materials and fuels, environmental protection regulations and labour costs.

Amongst European Union countries, the most significant are the chemical industries in Germany, France, the UK and Italy. Poland’s share in European chemical industry sales is estimated at 2.3%.

The OECD has lowered its forecast for global economic growth for 2011 from 4.5% to 4.2%. The slowdown will be visible in the US, Japan, China and a large part of Western Europe including Germany, i.e. our largest trading partner. Emerging economies will develop at a significantly quicker rate of 8% on average.

In Poland there is significant economic recovery fuelled by exports, a rebound in private and public consumption and restoration of reserves. It is anticipated that actual GDP growth will be supported by infrastructural investments, part-financed from EU funds, and also partly due to the European football championships in 2012.

Plastics market

Due to the 2008 global financial crisis, the trend for annual growth in the plastics industry has been shaken. In the long-term an increase in use of plastics is still predicted – not just with consideration to GDP growth but also the development of new applications in which plastics may replace other materials. In the long-term on a global scale, a 4% increase in use per capita is forecast.

After the tense market situation in the second quarter of 2010, new signs of stabilisation in the plastics market have appeared. A 3-5% increase in use of plastics by EU consumers is forecast in relation to 2009. It is however estimated that a return to the pre-crisis level of demand will require
time. This is dependent both on creation of consumer optimism and on willingness to systematically introduce new materials and diversify applications.

The most dynamic markets, where the plastics industry and its consumption are growing are countries such as China, India and the Middle East. In connection with this, European manufacturers must lead the competition, both in export activity and in connection with the import of materials to Europe. The processing industry feels significant pressure from countries with lower manufacturing costs. It is suggested that, in order to maintain competitiveness, the European plastics industry must focus on constant improvement and innovation throughout the supply chain.

Together with a return to growth in requirements for plastics from entities dealing with processing, growth in demand for recycled plastics is also expected and for use for energy purposes. The Far East still remains the key export market for waste transferred to recycling. Consolidation changes are still visible in the plastics industry. The share of specific plastics in application segments remains unaltered – the largest segment continues to be packaging, with a 40.1% share, construction (20.4%), automotive (7%) and electronic equipment (5.6%). Remaining, smaller segments include sport, recreation, agriculture and machine production.

Approx. 20 groups are set apart amongst plastics, which in numerous variants enable optimal choice of material. Five groups are so-called high-tonnage plastics, which are 75% covered by market demand in Europe. These cover polyethylene, including low-density polyethylene (PE-LD), linear low-density polyethylene (PE-LLD) and high-density polyethylene (PE-HD), polypropylene (PP), polyvinyl chloride (PVC), polystyrene (PS) and expanded polystyrene (EPS), together with polyethylene terephthalate (PET). A small percentage of the plastics market – 18% – is occupied by other plastics including construction plastics such as PA6 and POM.

The European Union is a significant net importer of plastic goods (primary plastics and processed products). The largest export markets for plastics are China (including Hong Kong), Turkey and Russia, whereas for processed products this is the US (12.2%), Russia (11.6%) and China (5.4%). Mainly plates, sheets, plastic wrap, tape and belts are exported, which constitutes 36% of total plastic exports from the EU.

**Fertilisers market**

Experts from the International Fertilizer Association (IFA) expect that the 2010/2011 season will see an increase in global demand for fertilisers by 4.9% p.a., i.e. up to 165.8 million tons (in terms of nitrogen, phosphorus and potassium – NPK – used). In the case of calcium ammonium nitrate fertilisers the IFA forecasts growth in global use, e.g. UAN by 1.5%, with ammonium sulphate and ammonium nitrate by approx. 3% p.a. This forecast is based on an assumption of global economic recovery and maintenance of global agricultural production at a level close to that noted in 2009.

The largest area of fertiliser consumption is in the Asian region: China (30%) and India (17%). According to mid-term IFA forecasts, demand for fertilisers in these countries will continue to grow by at least 2.4% p.a. The quickest growth rate is expected in South America – Brazil and Argentina.

Manufacture of fertilisers is aimed at consumption areas (nitrogen and phosphorous fertilisers) and plants are located close to raw material sources (potassium fertilisers). The largest manufacturers of phosphorous and nitrogen fertilisers are located in consumer regions – Asia (China and India) and North America (US), while manufacturers of potassium fertilisers are in Canada, Russia and Belarus.

Within the structure of nitrogen fertilisers, ammonium nitrate, urea and calcium ammonium nitrate dominate. UAN has ever greater significance (this is a liquid solution of urea and ammonium nitrate). The production capacities of Polish nitrogen fertilisers exceed the
requirements of domestic agriculture. This situation will force domestic manufacturers to expand their product portfolios and increase quality. Amongst EU countries, Poland is to be a country where use of mineral fertilisers will increase significantly and the European Fertilizer Manufacturers Association (EFMA) estimates that over the period 2010-2019 their use will grow by approx. 15%. This will require improved agricultural techniques and an increase in agricultural production. The unification of EU climate and energy policy will force Poland to increase production of plant components (rapeseed, corn) for production of biofuels and biomass.

In addition, a threat from competition has appeared in the Polish fertilisers market. An offensive by exporters from Western and Southern Europe (Yara of Germany, Nitrogenmuvek of Hungary, Duslo of Slovakia) impacts on domestic market price levels.

**Commodity markets in 2010**

The market for chemical commodities and intermediate products is characterised by a relatively high level of concentration and specialisation. For this reason a significant proportion of the Parent's supplies of materials for production and goods for resale and services are sourced in the domestic market and in EU countries. A significant portion of supplies (mainly concerning strategic raw materials) are sourced from countries of the former CIS. Furthermore specialist purchases are also made from outside Europe, mainly materials and intermediate products supplementing manufacture of plastics.

In 2010 a significant improvement in the economic situation in commodity markets occurred, which was caused by a sudden increase in demand in the most important markets, including mainly Asia, an increase in oil prices and also the situation in currency markets. While from early autumn 2009, i.e. the height of the downturn, to halfway through 2010 only industrial commodities listings developed dynamically, mainly oil and copper, from June last year the prices of agricultural raw materials began to develop dynamically, which had a significant impact on supply and demand relationships in global commodity markets. It should be emphasised that a large part of the run on commodities took place in 2009 when the rate of economic growth was significantly lower. Economic growth forecasts for 2011 are not as optimistic as last year and anticipate an increase of 4.4% and 4.5% in 2011 and 2012, while JP Morgan estimates last year's growth at 3.7% and forecasts a 3% increase in 2011. Amongst the largest global economies only China has an above-average dynamic, while in Japan growth reached only 1.1%, in the US 2.6% and in the eurozone 1.6%, with assumption that the average oil price will be USD 92 per barrel and metal prices increase at an average of 10%. The threat of excessive growth in commodity prices is beginning to be viewed as a serious problem by international financial institutions and representatives of the most important countries manufacturing raw materials. The World Bank called on G20 leaders to urgently deal with the problem of increasing food prices in order to decrease the risk of inflation and slumping economic growth. This resembles 2008, when we had a similar situation to deal with. At that time the problem was banks' speculation on the real estate market and issues within the financial system, whereas at the turn of 2010/2011 the threat may be high raw material prices. The European Commission has also pointed to the relationship between speculation in these markets and the growth in commodity prices. Commodities are increasingly becoming treated as financial assets rather than a source of food or manufactured goods. More attention is being paid to the necessity to introduce new regulations, including limitation of transactions on derivatives markets. Commodity experts point to the fact that in 2010 as much as 90% of demand came from speculative transactions. The above factors had a deciding impact on markets for the most significant raw materials used by the Parent. Benzene, phenol, cyclohexanol and methanol prices are to a large extent dependent on increasing oil prices, and additionally in the case of benzene the growth of demand in the Chinese market has great significance. At the end of 2010 benzene prices closed on their historic highs and signals from the market indicate that subsequent increases are not excluded, while the high level of listings is not reflected in the actual costs of manufacture. Limited production capacity is an additional destabilising factor in the phenol market, together with
relatively weak demand for acetone (which limits the possibility to increase production) and also technical problems experienced by the largest manufactures (including Spain). Furthermore, an increase in demand for agricultural commodities caused a significant increase in demand for sulphur and its derivatives (sulphur prices at the end of 2010 significantly exceeded the USD 150-160/t level, with strong growth tendencies) and for liquid ammonia (growth of listings on FOB Juzhny to a level exceeding USD 450/t despite the relatively low costs of manufacturing this product in countries of the former USSR).

6.6. Explanation of variance between the actual and forecast results for 2010

No financial forecasts were published for 2010.

6.7. Assessment and justification concerning financial management, threats and actions taken against these threats

As a result of a share issue carried out in 2008, the Parent still has a significant financial surplus (PLN 172 191 000 as at 31 December 2010), which is why the threat of losing liquidity is very low, and furthermore the Parent has unused working capital loans (amounting to PLN 93 231 000 as at 31 December 2010), which additionally limits this risk.

There were no violations of repayment deadlines for liabilities or other liability terms and conditions within the Parent in 2010 which could result in a demand for early repayment of such liabilities.

Furthermore, in 2010 the Parent used a total of PLN 49 417 000 gained from the Issue (allocated to implementation of issue objectives) to fund investment and capital outlays, together with investment loans and borrowings of a total value of PLN 127 630 000.

The Parent has full payment and credit worthiness, meaning that in the context of the current macroeconomic situation it does not see threats which could result in a worsening or the loss of financial liquidity.

Furthermore, taking into consideration the Parent’s consolidation process with ZAK S.A., the aim of the Group’s financial strategy is to:

- ensure unified finance conditions within the entire AZOTY Tarnów Group adapted to its standing and potential,
- ensure optimal financial liquidity of AZOTY Tarnów Group companies,

The above AZOTY Tarnów Group objectives are implemented through:

- a process of refinancing current ZAK S.A. credit liabilities within banks with strategic significance for the AZOTY Tarnów Group,
- grant by the Parent of a short-term loan to ZAK S.A. to finance repayment of its liabilities towards PGNiG,
- expansion of virtual cash pooling connected with overdrafts for the AZOTY Tarnów Group, adding ZAK S.A. in order to further optimise cash flows and Group financing costs,
- maintenance of a cash surplus by the Parent allocated to the achievement of the strategic objectives specified in the issue prospectus.
Use of loans and borrowings by the Parent in 2010

<table>
<thead>
<tr>
<th>Bank</th>
<th>Balance as at year beginning / currency</th>
<th>Balance as at the year-end / currency</th>
<th>Amount of interest charged during the year in PLN financing costs</th>
<th>Amount of interest charged during the year in PLN investment costs</th>
<th>Date incurrence</th>
<th>Contractual period / repayment deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKO BP S.A.</td>
<td>EUR 536 230.00 + EUR 3 641.27</td>
<td>PLN 9 149.83</td>
<td>–</td>
<td>–</td>
<td>8 December 2005</td>
<td>31 October 2007 – 30 April 2010</td>
</tr>
<tr>
<td>Bogus S.A.</td>
<td>EUR 0.00</td>
<td>EUR 4 965 520.00</td>
<td>PLN 930 900.35</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Raiffeisen Bank Polska S.A.</td>
<td>–</td>
<td>EUR 0.00</td>
<td>PLN 0</td>
<td>PLN 38 153.25</td>
<td>21 September 2010</td>
<td>29 December 2013 – 29 December 2017</td>
</tr>
<tr>
<td>PKO BP S.A.</td>
<td>–</td>
<td>USD 910 000.00</td>
<td>PLN 106 513.30</td>
<td>–</td>
<td>21 September 2010</td>
<td>29 December 2013 – 29 December 2017</td>
</tr>
<tr>
<td>PKO BP S.A.</td>
<td>PLN 100 000 000.00</td>
<td>PLN 863 616.44</td>
<td>–</td>
<td>–</td>
<td>29 November 2010</td>
<td>14 November 2011</td>
</tr>
<tr>
<td>Other</td>
<td>PLN 0.00</td>
<td>PLN 0.00</td>
<td>PLN 6.91</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Total loans (outside of settlement):</td>
<td>PLN 61 908 583.28</td>
<td>PLN 149 598 859.67</td>
<td>PLN 6 186 685.03</td>
<td>PLN 144 666.55</td>
<td>up to 30 September 2011</td>
<td></td>
</tr>
</tbody>
</table>

2. Borrowings

| Corporation                   | EUR 637 679.47                          | PLN 128 512.42                       | 25 July 2008                                                   | –                                                               | –               |                                        |
| Total borrowings:             | PLN 2 054 014.82                        | PLN 0.00                             | PLN 0.00                                                      | –                                                               | –               |                                        |
| Total loans and borrowings:   | PLN 63 962 598.10                       | PLN 149 598 859.67                   | PLN 6 315 197.45                                              | PLN 144 665.55                                                  | –               |                                        |

* loans given at nominal value as at the end of the reporting period; PLN equivalents of EUR loans given as per the Raiffeisen Bank Polska S.A. sale rate, i.e. as at 31 December 2009 EURPLN = 4.2459 and as at 31 December 2010 EURPLN = 4.0778 and USDPLN = 3.0535

In 2010 the Parent was not refused a loan and no notice was served on loan agreements.

6.8. Assessment of the capacity to achieve investment objectives, including capital expenditures, in relation to the level of capital available, with consideration to possible alterations in the financing structure for these operations

As a result of the share issue carried out in 2008, the Parent is still in possession of a significant surplus (PLN 172 191 000 as at 31 December 2010), in which coverage of the unused part of funds gained from the issue, amounting to PLN 169 102 000 can be found.
The Parent uses proceeds from issue of shares in accordance with Issue Prospectus assumptions together with annual assumptions and long-term operational plans which take into consideration adaptation of time scales and the scope of specific investment tasks to the market situation and the Parent’s strategic objectives.

Unused funds acquired from issue of shares and committed to further achievement of issue objectives are held by the Parent in fixed-term deposits whose maturity is adjusted to the planned time scale of investment expenditures.

In 2010 the Parent used funds acquired from the issue, totalling PLN 49 417 000, together with funds acquired from investment loans and borrowings, totalling PLN 127 630 000, to finance investment and capital expenditures.

As at 31 December 2010 the Parent had unused investment loans totalling PLN 48 141 000 allocated for further execution of planned investment expenditures.

During the reporting period, implementation of the largest on-going investment task was commenced – the Hydrogen Facility. The project is an element in achieving one of the issue objectives – "Modernisation of the Caprolactam Plant and Construction of a new Hydrogen Facility".

The principal aim of this project is to increase the scale of operations conducted, achieve stable caprolactam production capacity at a level of approx. 1 000 tons/year and lower the unit costs of caprolactam production. Construction of the new Hydrogen Facility with production capacity of 8 000 Nm3/h, being closely connected with modernisation of the Caprolactam Plant, will increase the reliability of the Caprolactam Plant, decrease the costs of production and increase the use of natural gas with a higher nitrate content from local sources.

The other large investments commenced or planned for implementation in 2011 include:

- Intensification of the Modified Plastics Plant – phases I-II,
- Modernisation and Intensification of the Caprolactam Plant to 101 300 t/year,
- Modification of the electricity metering/billing system to meet the conditions of the Electricity Market,
- Upgrade of power supply to Main Power Supply Points at Zakłady Azotowe w Tarnowie-Mościcach S.A.,
- A complex facility for collection of ash from EC II boilers,
- Upgrade of the live steam collector, Phases 4 and 5,
- Improvements at the Chemist's House,
- Adaptation of loading and unloading stations for raw materials and products at ZAT to the requirements of TDT regulations,
- Change to the means of conducting Beckmann grouping process,
- Modernisation of the Sulphuric Acid Plant,
- Conversion of the "Kapro" goods entrance and construction of a parking facility for HGVs.

In accordance with the Development Strategy, in 2011 the most important investments will be connected with improving competitive position in the Company's sphere of operations and achieving issue objectives.

A significant new task which is due for commencement in 2011 will be the project to Modernise the Sulphuric Acid Plant. In connection with the necessity to adapt production facilities to legal requirements, in 2011 investments connected with adaptation of the Parent's loading and unloading stations to TDT requirements will constitute a significant group of tasks.

The Parent has full credit worthiness, which in relation to the above and taking into consideration the current macroeconomic situation allows it to acquire financing for planned investment objectives which in the opinion of lenders ensure anticipated economic effectiveness.
6.9. Information concerning loan agreements executed and terminated in the financial year

Parent’s loans and borrowings incurred or annexed during 2010

<table>
<thead>
<tr>
<th>Agreement date</th>
<th>Annex date</th>
<th>Currency</th>
<th>Loan amount (in 000's)</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit limit with RB PL S.A. (overdraft facility)</td>
<td>21 September 2005</td>
<td>21 September 2010</td>
<td>PLN</td>
<td>10 000</td>
</tr>
<tr>
<td>Multi-purpose loan with PKO BP (overdraft facility)</td>
<td>5 July 2006</td>
<td>5 October 2010</td>
<td>PLN</td>
<td>15 000</td>
</tr>
<tr>
<td>Overdraft facility with PKO BP S.A.</td>
<td>1 October 2010</td>
<td>–</td>
<td>PLN</td>
<td>30 000</td>
</tr>
<tr>
<td>Investment loan To finance a loan for Unylon Polymers GmbH</td>
<td>16 December 2009</td>
<td>21 September 2010</td>
<td>EUR</td>
<td>6 000</td>
</tr>
<tr>
<td>Investment loan with RB PL S.A.</td>
<td>21 September 2010</td>
<td>–</td>
<td>EUR</td>
<td>1 997.5</td>
</tr>
<tr>
<td>Investment loan with RB PL S.A.</td>
<td>21 September 2010</td>
<td>–</td>
<td>USD</td>
<td>7 735</td>
</tr>
<tr>
<td>Investment loan PKO BP S.A.*</td>
<td>29 November 2010</td>
<td>–</td>
<td>PLN</td>
<td>120 000</td>
</tr>
</tbody>
</table>

*) as collateral for the loan agreement which financed payment regarding subscription for shares in ZAK, a registered pledge was entered.

In 2010 the Parent signed the following agreements and annexes to loan agreements:

- Annex to the revolving working capital loan with Powszechna Kasa Oszczędności Bank Polski S.A. amounting to PLN 40 000 000 for the period from 7 January 2009 to 26 January 2010, executed on 26 January 2011 in order to renew the loan until 25 January 2011.
- Two annexes to a loan agreement in the form of a multi-purpose credit limit with Powszechna Kasa Oszczędności Bank Polski S.A. amounting to PLN 15 000 000 for the period from 5 July 2006 to 31 August 2011, executed on 5 October 2010 and 24 November 2010, under which changes to credit sub-limits were made.
- Annex to the credit limit agreement with Raiffeisen Bank Polska S.A. amounting to PLN 10 000 000 for the period from 21 September 2005 to 30 June 2011, executed on 21 September 2011, under which the credit limit validity period was extended to 30 June 2012.
- Annex to the loan agreement with Raiffeisen Bank Polska S.A. amounting to EUR 6 000 000, executed on 16 December 2009 until 31 December 2014 to provide finance for grant of a loan to Unylon Polymers GmbH (currently ATT Polymers GmbH), executed on 21 September 2010 in order to change the form of loan collateral.
- EUR 1 997 500 investment loan agreement with Raiffeisen Bank Polska S.A., executed on 21 September 2010 for the period to 29 December 2017 in order to finance construction of the "Hydrogen Facility”.
- USD 7 735 000 investment loan agreement with Raiffeisen Bank Polska S.A., executed on 21 September 2010 for the period to 29 December 2017 in order to finance construction of the "Hydrogen Facility”.
- PLN 120 000 000 investment credit agreement with Powszechna Kasa Oszczędności Bank Polska S.A., executed on 29 November 2010 for the period to 14 November 2011 in order to
finance subscription for shares in ZAK S.A.

- PLN 40 000 000 overdraft facility agreement for the AZOTY Tarnów Group with Powszechna Kasa Oszczędności Bank Polski S.A., executed on 1 October 2010 for the period to 30 September 2013, with sub-limit of PLN 30 000 000 for the Parent and with total sub-limits of PLN 10 000 000 for other domestic AZOTY Tarnów Group companies, together with an agreement on provision of virtual cash-pooling services serving the virtual balancing of financial surpluses and overdraft facilities.

Within the PLN 10 000 000 limit granted to other AZOTY Tarnów Group companies, the following were granted in particular:

<table>
<thead>
<tr>
<th>For:</th>
<th>Sub-limit amount in PLN thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROREM Sp. z o.o.</td>
<td>1 000</td>
</tr>
<tr>
<td>ZWRI Sp. z o.o.</td>
<td>500</td>
</tr>
<tr>
<td>JRCH Sp. z o.o.</td>
<td>1 000</td>
</tr>
<tr>
<td>Elzat Sp. z o.o.</td>
<td>300</td>
</tr>
<tr>
<td>Automatyka Sp. z o.o.</td>
<td>500</td>
</tr>
<tr>
<td>Biprozat Sp. z o.o.</td>
<td>500</td>
</tr>
<tr>
<td>Koltar Sp. z o.o.</td>
<td>2 200</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>10 000</strong></td>
</tr>
</tbody>
</table>

Use of limits:

PROREM Sp. z o.o.’s total liability as at 31 December 2010 amounted to PLN 4 618 205.05.

After the end of the reporting period the Group is conducting negotiations concerning an additional credit sub-limit for ZAK S.A. and ZAK S.A. subsidiaries and including these within the structure of virtual cash-pooling, which should be completed after publication of this report.

Aside from the above overdraft facility for the AZOTY Tarnów Group executed with Powszechna Kasa Oszczędności Bank Polski S.A., one of the subsidiaries – JRCH Sp. z o.o. received a loan from the National Fund for Environmental Protection and Water Management in Warsaw for financing of an investment venture entitled: "Decrease in the quantity of non-processed communal waste through construction of a sorting line for mixed communal waste together with technical infrastructure for the “Zarzek Biala” waste storage facility in Tarnów". The above loan amounts to PLN 708 000. The final payment date has been established as 30 September 2015.

6.10. Information on loans granted, particularly to Group related parties

On 7 January 2010 the Parent signed a EUR 6 000 000 loan agreement with Unylon Polymers GmbH (currently ATT Polymers GmbH) for the period to 31 January 2014, serving one-off payment of financial debts within the rehabilitation proceedings for Unylon Polymers GmbH. Payment of funds occurred on 21 January 2010 after approval of the previous terms and conditions of the agreement of 18 November 2009 executed with Unylon AG concerning the acquisition and transfer of shares in Unylon Polymers GmbH (the loan was subject to exclusion during consolidation).

Furthermore, after the end of the reporting period, i.e. on 21 January 2011 the Parent executed a PLN 50 million loan agreement with ZAK S.A. for the period to 31 May 2011, serving repayment of the debtor's liabilities towards Polskie Górnictwa Naftowego i Gazownictwa S.A. under the "Debt Repayment Agreement".
ZAK S.A. subsidiary CHEMZAK S.A. granted a loan to HOTEL CENTRALNY Sp. z o.o. (another ZAK S.A. subsidiary) amounting to PLN 70 000 (the loan was subject to exclusion during consolidation).

6.11. Information on guarantees and sureties granted and received, particularly to Group related parties

In 2010 the Parent granted the following sureties for an AZOTY Tarnów Group associate’s liabilities: ATT Polymers GmbH, with total value of PLN 6 118 000 correct as at 31 December 2010, as indicated in the table:

Guarantees and sureties granted

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Amount in thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Envia Mitteldeutsche Energie AG, Germany</td>
<td>Security for payment of liabilities under supply of electricity</td>
<td>EUR</td>
<td>1 000</td>
</tr>
<tr>
<td>EnviaTHERM GmbH</td>
<td>Security for payment of liabilities under supply of heat and steam</td>
<td>EUR</td>
<td>500</td>
</tr>
</tbody>
</table>

AZOTY Tarnów associates did not grant sureties and guarantees to the Parent.

Banks granted the following guarantees for the Parent’s liabilities, which were deducted from credit limits (PLN thousands):

<table>
<thead>
<tr>
<th>Type/Issuer</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>31 December 2010</th>
<th>31 December 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantee / Raiffeisen</td>
<td>Head of the Customs Office in Nowy Sącz</td>
<td>Excise duty collateral</td>
<td>PLN</td>
<td>–</td>
<td>3 500</td>
</tr>
<tr>
<td>Bank Polska S.A.</td>
<td>Customs Chamber in Krakow</td>
<td>Guarantee of lease payments collateral</td>
<td>PLN</td>
<td>1 600</td>
<td>1 600</td>
</tr>
<tr>
<td>Bank guarantee / Raiffeisen</td>
<td>GATX Rail Poland Sp. z o.o. Warsaw</td>
<td>Guarantee of lease payments</td>
<td>PLN</td>
<td>44</td>
<td>42</td>
</tr>
</tbody>
</table>

Guarantees issued by banks at the request of the Parent and in blanco promissory notes issued by the company provide collateral for liabilities included in the balance sheet, which is why the Parent does not present these promissory notes and guarantees as off-balance-sheet liabilities.
### 6.12. Description of significant off-balance-sheet items

#### Contingent liabilities

#### Subsidiaries’ contingent liabilities

<table>
<thead>
<tr>
<th>Details</th>
<th>Title</th>
<th>Beneficiary</th>
<th>Content of the agreement</th>
<th>Value (PLN thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatyka Sp. z o.o.</td>
<td>Insurance guarantee for due performance of the contract and of removal of faults and defects</td>
<td>RafaKO S.A.</td>
<td>Agreement no. Z/K/ZU/0326/08/KO. Comprehensive completion of Control-measurement and Automation Equipment for the Fumes Desulphuring Facility of the 858 MW Power Unit at BOT Elektrownia Belchatów S.A.</td>
<td>343</td>
</tr>
<tr>
<td>ZAK S.A.</td>
<td>Collateral for customs liability</td>
<td>Bank PKO BP S.A. issued a guarantee for the Customs Chamber</td>
<td></td>
<td>1 000</td>
</tr>
<tr>
<td>ZAK S.A.</td>
<td>Collateral for customs liability</td>
<td>Bank PKO BP S.A. issued a guarantee for the Customs Chamber</td>
<td></td>
<td>1 600</td>
</tr>
<tr>
<td>REKOM</td>
<td>Bank guarantee / investment of funds</td>
<td>Mostostal Kędzierzyn S.A.</td>
<td>collateral for guarantee claims</td>
<td>159</td>
</tr>
</tbody>
</table>

Bank Polska Kasa Opieki S.A. consented to the deletion of a registered pledge on the rolling stock belonging to PTK KOLTAR Sp. z o.o. (subsidiary) from the register of pledges. Pledgee’s declaration (Bank PKO S.A.) on consent for removal of the pledge constituted an appendix (submitted during the proceedings) to the application made by PTK KOLTAR Sp. z o.o. of 4 June 2010 on removal of the pledge from the register of pledges. Through the ruling of 31 August 2010 the District Court for Krakow Śródmieście in Krakow, 7th Commercial Division, Register of Pledges, removes the pledge entered into the register of pledges, entry no. 17772. The entry into legal force of the above ruling was confirmed on 14 October 2010 (case file no. KR. VII. Ns – Rej. Za 4062/10/013). The subject of the registered pledge was rolling stock submitted as a non-cash contribution to PTK KOLTAR Sp. z o.o. at the moment the company was formed. The pledge was established as collateral for a bank loan taken out by the Parent with Bank Polska Kasa Opieki S.A. The registered pledge agreement was entered into between Bank Polska Kasa Opieki S.A. and the Parent on 27 February 1998.
Promissory notes in subsidiaries

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Promissory note issuer</th>
<th>Beneficiary</th>
<th>Promissory note amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biprozat Sp. z o.o.</td>
<td>own promissory note</td>
<td>for the Parent</td>
<td>up to PLN 84 000</td>
</tr>
<tr>
<td></td>
<td>issued by</td>
<td>Urszugi budowlane “WEST BUD PLUS” s.c.</td>
<td>up to PLN 53 000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ELZAT Sp. z o.o.</td>
<td>up to PLN 8 000</td>
</tr>
<tr>
<td></td>
<td>issued by</td>
<td>EKODYNAMIC Sp. z o.o.</td>
<td>up to PLN 49 000</td>
</tr>
<tr>
<td>ZAK S.A.</td>
<td>PKN Orlen S.A. Płock – collateral for supplies of propylene</td>
<td></td>
<td>PLN 10 000 000.</td>
</tr>
<tr>
<td></td>
<td>National Fund for Environmental Protection and Water Management – collateral for project finance agreement no. KSI POIS.04.03.00-00-012/08</td>
<td></td>
<td>PLN 20 000 000.</td>
</tr>
<tr>
<td></td>
<td>BRE Bank S.A. – collateral for the hedge transaction limit</td>
<td></td>
<td>PLN 1 000 000</td>
</tr>
<tr>
<td></td>
<td>for the Customs Office in Opole</td>
<td></td>
<td>PLN 648 000</td>
</tr>
</tbody>
</table>

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

The Group is exposed to credit risk, liquidity risk and market risk (mostly involving currency risk and interest rate risk), which arise during the Group’s normal course of business. Financial risk management in the Group aims to minimise the impact of market factors – such as exchange and interest rates – on its core financial parameters as per the approved budget for the year (financial result, cash flows). To this end, the Group utilises natural hedging as well as derivatives.

Credit risk

Credit risk refers to the possibility of the Group incurring financial losses as a result of a customer’s or counterparty’s default on a financial instrument. Credit risk is largely tied to the Group’s receivables from customers and its financial investments.

The Group’s credit risk is mainly connected with trade receivables and fixed-term deposits at banks (reported under “cash and cash equivalents” as at 31 December 2010, as they were to mature within 3 months from the end of the reporting period amounting to PLN 279 450 000). Considering the procedures in place at the Group and its diversified client portfolio, credit risk seems relatively dispersed (except for fixed-term deposits placed with highly reliable banks).

The Group assesses its clients’ creditworthiness on an on-going basis, monitoring their status through credit bureaus and debtor registers. When necessary, the Group requires its partners to provide appropriate securities.

The Group’s trade receivables (accounting for around 75% of its total trade receivables from unrelated parties) are insured under the trade credit insurance policy issued by Towarzystwo Ubezpieczeń Euler Hermes S.A. and, as an additional measure, the policy issued by Korporacja Ubezpieczeń Kredytów Eksportowych S.A. These policies cap credit risk at the level of the Group’s deductible (5% to 15% of the value of insured receivables). These insurance policies ensure that the financial position of the Group’s business partners is constantly monitored and receivables are collected whenever necessary. Should the partner become physically or legally bankrupt, insurance compensation is received, totalling 85-90% of the insured receivables. After the end of the reporting period, the entire trade credit insurance for the Group was taken over (as of 1 March 2011) by KUKE S.A.
Furthermore, around 10% of the Group’s trade receivables from unrelated parties are protected by letters of credit, guarantees and banker’s collection, which remain outside the scope of insurance.

Whenever no positive trading history exists between a counterparty and the Group or when transactions are occasional, and the credit limit cannot be insured, a prepayment is required. Trade credit, in turn, is extended primarily based on approval by the insurance company, and sometimes due to a positive trading history as well as creditworthiness as concluded from credit bureau reports, financial reports and payment history. Exposure to credit risk is defined as the sum of unpaid receivables, monitored on an ongoing basis by the Group’s internal financial staff (customer by customer) and, wherever a receivable is insured, also by insurance company analysts. Receivables from domestic consumers make up about 68% of the Group’s balance of trade receivables, whereas the remaining 32% constitute receivables from foreign customers. The Group draws its revenues from three main segments related to its area of business operations. The share of these customers in the Group’s receivables is similar, where Oxo alcohols account for 29.0% of total trade receivables, Fertilisers 27.5% and Plastics 27.1%. The Plastics and Oxo alcohols segments are dominated by foreign customers, who receive trade credit, usually subject to insurance credit limits, or – in other cases – open letters of credit and guarantees. Fertilisers, in turn, are mostly sold to domestic clients. A customer proven as a creditworthy partner receives trade credit subject to insurance credit limits, whereas in other cases prepayments are necessary.

**Cash and fixed-term deposits**  
Cash and cash equivalents are deposited in highly reliable financial institutions with high solvency ratios.

**Risk associated with cash flow disruptions and liquidity**  
Liquidity risk refers to the risk that the Group will not be able to repay its financial liabilities when due. The above risk is minimised through appropriate liquidity management, carried out by correctly determining cash levels based on cash flow projections for various time horizons. Since the Group has acquired a substantial financial surplus as a result of the 2008 share issue, the risk of liquidity loss is very low. Moreover, as an additional risk-mitigating factor, the Group has unused working capital and investment loan limits at its disposal. The Parent is also the loan agent for the current account overdraft extended to the Group, a facility tied to the virtual cash pooling service. Together, the two vehicles support improved liquidity and financial cost management throughout the entire Group.

In 2010 no liabilities in the Group were delinquent, nor was there any other material violation in place that could otherwise result in demands of early repayment of these liabilities.

**Market risk**

**Currency risk**  
The Group is exposed to currency risk due to foreign currency transactions, which account for approx. 2/3 of its revenues and approx. 1/3 of its costs. Exchange rate fluctuations affect both revenue from sales and raw material costs. The profitability of exports as well as foreign currency-denominated domestic sales are adversely influenced by a stronger domestic currency and positively affected by a weaker domestic currency. These fluctuations of export revenues and domestic market quote-based revenues are partly offset by the changing costs of raw material imports. This significantly reduces the Group’s exposure to currency risk.

The Group takes steps to reduce currency risk stemming from the existing net currency exposure through certain hedging instruments and activities, selected depending on its current and planned net currency exposure. The main hedging methods applied in the reporting period comprised
natural hedging, factoring transactions and sales of currency receivables. As an additional measure, forward transactions were concluded. As a result of increasing sales to EU countries and diminished activity in the East Asian markets, the Group experienced an increase in its average net position in EUR and a corresponding reduction in the average net position in USD.

**Interest rate risk**

The Group’s exposure to interest rate changes mostly results from its balance of cash and cash equivalents, financial assets as well as bank loans and borrowings and lease contracts based on a floating rate, computed on the basis of WIBOR + margin or, as in the case of EUR- and USD-denominated loans, EURIBOR + margin or LIBOR + margin respectively. The influence of interest rates on the Group’s debt is not hedged in terms of interest rate risk.

In order to limit interest rate risk, the Group monitors the situation in the money market on an ongoing basis. A significant portion of the Group’s financial surplus is deposited in bank term deposits, subject to market rates quoted as the deposit is created. The WIBID and WIBOR benchmark rates seemed stabilised on a low level throughout the reporting period. Interest rates offered to the Group on fixed-term deposits were generally proportional to average interest rates on floating-rate financial liabilities.

**Risk of price changes of raw materials, products and services**

In order to reduce such risks, the Group attempts to “match” sales contract provisions with procurement contracts (e.g. by applying ICIS-LOR quotes in both).

**Derivative instruments**

**Currency derivatives**

As at 31 December 2010, the nominal value of unrealised currency derivatives (forwards) at the Group was EUR 20.5 million (by maturity: January 2011 – EUR 5 million, February and March 2011 – EUR 5.5 million each, April 2011 – EUR 3 million, May 2011 – EUR 1.5 million) and USD 0.3 million (maturing in January 2011).

The Group measures derivatives at fair value, based on valuations supplied by cooperating banks and data sourced from electronic data providers. Transactions are only concluded with reliable banks and are based on framework agreements. All such transactions reflect physical transactions resulting from currency cash flows. Currency forwards and derivatives are concluded in order to reduce the impact of currency fluctuations on the financial result, and thus depend on the Group’s net currency exposure.

In order to hedge future cash flows that give rise to currency risk, the Group has applied hedge accounting since 1 October 2008, in accordance with International Accounting Standard 39.

In 2010 the Group applied the above hedge accounting principles to currency loans and borrowings which meet the criteria listed in IAS 39 by computing the effective hedge amount, which is taken to the revaluation reserve.

Revenue from sales was decreased by PLN 1 235 000 in 2010 as a result of the settlement of hedge relationships related to currency loans and borrowings through the revaluation reserve.

**Fair value of the hedged instruments**
As at 31 December 2010, the Group posted a so-called effective hedge amount relating to EUR currency loans and borrowings in its revaluation reserve (in accordance with IAS 39). The amount in question was PLN (1,766,000).

Outstanding hedge positions as at 31 December 2010, which amounted to PLN 815,000, also made up the total fair value of derivatives presented as financial assets. No hedging relationships were designated in this group.


As per the most recent estimates from the International Monetary Fund, global economic growth in 2011 will amount to approx. 4.2%. Furthermore the IMF anticipates that in 2011 the euro zone economy will grow by 1.5% and that CEE countries should develop at twice the pace, achieving 3.1%.

Next year the external environment may become less beneficial for the global economy than took place in 2010, which is confirmed by the OECD's lowering of its forecast for growth in the global economy for 2011 to 4.2% (an earlier forecast had assumed 4.5% growth).

A scenario of stable market growth is adopted as a continuance of the trend observed in 2010, aimed at justified economic market balancing. Analysis of historic data and the assumptions and forecasts for operations in 2011 indicate that, despite the existing probability of economic instability caused by the process of geopolitical and financial changes provoked by the high debt levels of some EU economies, there will not be any circumstances triggering the necessity to limit or constituting a threat to continuation of the Group's operations.

Economic growth prospects in 2011 are favourable. Globally we can observe further economic recovery although the forecasts are that global GDP growth will slow slightly in 2011. Pursuant to the latest IMF estimates, anticipated global GDP growth amounts to approx. 4.4%. The IMF forecasts euro zone GDP growth at approx. 1.5%. According to OECD and World Bank estimates, Poland can expect economic growth at a level of 4.0-4.1%.

The global economic situation will have an impact on results in the chemicals sector, which is a supplier of raw materials, intermediate products and goods for a wide variety of industries. An increase in chemical industry production of approx. 10% in relation to the preceding year was noted in Europe in 2010 after the economic crisis and drop in production during 2008 and 2009. According to CEFIC data, 2011 can be expected to deliver further manufacturing growth. Although the rate of growth in the European chemical industry will slow to approx. 2.5% (the forecast does not include the pharmaceutical industry), this growth will however continue to be higher than in the general economy. The polymer sector in Europe is expected to show growth of approx. 2%, while growth in petrochemicals is forecasted at approx. 1.5%.

The broader description of the environment in which the Group operations, the effects of market factors on its economic and financial situation and actions taken in 2010 contains analysis of threats, risk and prospects for development.
7. RISK, THREATS AND PROSPECTS FOR GROUP DEVELOPMENT

7.1. Significant risk and threat factors

**Opportunities**

- Maintenance of the positive global economic growth dynamic observed after national economies had exited from the recession triggered by the global financial crisis.
- Direct EU subsidies for agriculture impacting on the growth of purchasing power in this sector.
- Development of road infrastructure both in Poland and the CEE region.
- Market availability of key technology for the Group.
- Inclusion of the Group in the process of consolidating the Polish and European chemical industries and as a consequence increase in development potential (economies of scale, synergies, access to new markets, raw materials, competences, technology, funds and the introduction of new organisational and cultural elements).
- Maintenance of positive stable growth trends for Group product target markets.
- Maintenance of positive trends in the Polish economy, including stable growth in GDP and the level of corporate investment and funding by financial markets.

**Threats**

- Increased risk of financial difficulties within the EU caused by some European economies maintaining high deficit levels.
- Lower-than-expected economic growth in Poland and in commercial partner countries.
- Poland’s weak position in negotiations concerning import of natural gas translate into limitations in supplies and an increase in prices of this commodity.
- Successive expansion of production capacity in Asian countries translating into increasingly lower demand for import of chemical industry products.
- On-going processes concentrating production, research and commercial potential and also concentration of capital in the global chemical industry.
- Aggressive activity of global competitors and the increasing intensity of sector competition.
- Growth of social unrest in Arab countries, which could have a negative impact on energy supply stability and price.
The risk and threat factors to which the Group is exposed are as follows:

**Risk factors connected with capital markets and equity trading:**

**Risk of shares being disposed of by a majority shareholder**

In connection with the liquidation process at Nafta Polska S.A., which is planned for the first half of 2011, shares held by Nafta Polska S.A. in liquidation will be transferred to the State Treasury of Poland. According to information released by the Ministry of Treasury, a return to privatisation of major state-owned chemical companies can be expected in 2011.

**Risk of decrease in the Issuer’s rating**

Risk of subjective assessment of the effects of the main shareholder being in liquidation, i.e. Nafta Polska S.A., potentially causing unjustified reduction of the Issuer’s assessment by rating agencies.

**Risk of increased supply of shares**

Connected with the performance of obligations by the State Treasury of Poland resulting from acts of law adopted by the Polish Parliament and agreements entered into with State Treasury creditors.

**Risk of the suspension of trade in shares or their exclusion from trading on the Warsaw Stock Exchange**

The Management Board of the Warsaw Stock Exchange can suspend trade in shares if it recognises that this is required by the interests and safety of market participants or if the regulations in force on the Warsaw Stock Exchange are violated.

In certain instances the Management Board of the Warsaw Stock Exchange may exclude securities from trading if this is performed in circumstances indicating a potential threat to the correct operation of the regulated market or trading safety or the violation of investors’ interests.

**Risks connected with administrative sanctions**

Administrative sanctions imposed by the Polish Financial Supervision Authority in the event of non-performance or improper performance of obligations under the Act on Trading.

**Risk and threat factors connected with the economic environment**

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

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

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

**Risk of changes in electricity prices**
Price projections for electricity in the power industry to 2015 and beyond indicate a significant increase in manufacture costs by approx. 30-60%, resulting from implementation of the LCP directive (lowering of emissions into the atmosphere from large combustion plants) and the introduction of purchase in CO\(_2\) emission units. In such conditions the optimum competitive solution implemented by business is modernisation of companies’ own sources of heat and electricity generation.

**Risk of limitations in natural gas supply**
The Group’s sole supplier of natural gas is PGNiG, whose principal source of supply is the Russian monopoly Gazprom. Potential interruptions in gas supplies, not necessarily caused by economic factors, may result in the introduction of limitations in supplies of gas for the Group, which subsequently worsen its financial situation. In order to limit the impact of the risk described above on results, the Group invests in the capability to use gas from local sources in production processes, which is provided by PGNiG without the intermediation of Gaz-System S.A. Its physical and chemical parameters do not allow it to be injected into the nationwide transmission system, however thanks to modification of the production installations at the Parent, it is sufficient for production purposes.

**Cyclic risk in product markets**
The Parent operates in markets which exhibit cyclical fluctuations in demand, which has an impact on development of price levels and the profitability of specific products. The margin achieved is thus subject to significant changes, in particular reacting strongly in weaker economic situations. This causes uncertainty with regard to several financial forecasts. This risk is limited through control of operating costs and their maintenance at a low level, together with expansion of production capacity, use of economies of scale under a cohesive strategy throughout the Group and diversification of the product portfolio. Extension of the caprolactam product manufacturing process and growth in the capacity of subsequent links in the manufacturing chain creates the possibility to flexibly manage the scale of manufacture and sale of products under this technological process.

**Seasonality risk**
The seasonality in sales of some products throughout the year in the chemical industry has an impact on financial liquidity. The inorganic fertiliser segment is characterised by a specific level of seasonality within the chemical industry, as its sale is dependent on the agricultural cultivation calendar and changeable weather conditions. The product portfolio is diversified in order to limit the impact of this phenomenon, minimising the percentage of seasonally sensitive products.
Currency risk

The Group's currency risk is connected with transactions executed in foreign currencies. For many years the Parent has been both conducting export sales and making purchases of raw materials necessary for production through making payments in foreign currencies (in particular USD and EUR). In connection with this it is exposed to currency risk, which in particular may manifest itself through an increase in supply costs or a drop in effective revenues from sale calculated in PLN. The Parent uses instruments and takes actions including the following to hedge currency positions: natural hedging and forward transactions. Furthermore, in order to shorten currency positions, the Group takes advantage of the possibility to make payments to “residents”, i.e. foreign firms with operations registered in Poland, in contract currencies. Hedge accounting has been in effect at the Parent since 2008.

ZAK S.A. is also exposed to currency risk with regard to its net currency exposure under operations conducted in EUR and USD.

2010 was a period in which banks refused to renew limits for ZAK S.A. on currency hedging transactions. For this reason the company was forced to cease currency risk and interest rate hedging using forward transactions. More emphasis was placed in adaptation of its foreign currency inflow and expenditure structure and temporary foreign exchange rate fluctuations were used for effective management of currency risk.

ZAK S.A. does not use hedge accounting.

Risk of change in legal regulations

Constant changes in legal regulations (both EU and Polish) create the risk that the necessity to adjust to new regulations – in as far as this is not beneficial – may bring costs which could have a negative impact on financial results.

Risk and threat factors connected with operations

Risk connected with environmental damage

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

The Group holds all permits necessary for its operations, including integrated permits for use of the natural environment for facilities covered by IPPC requirements.

Risk of change to the sales structure in East Asian markets

Until now the Chinese market had been a significant and important target market for crystallised caprolactam. Pursuant to the provisional anti-dumping customs duty for the Parent introduced from 25 January 2011, amounting to 20.4% on crystallised caprolactam to China, the Parent will be forced to modify its sales structure in East Asian markets, allocating the product to markets other than China (Taiwan, Malaysia – where the Parent's product is well-known, as well as entry into new sales markets).

The introduction of customs duty in the Chinese market brings with it certain risk and further consequences in the medium-term, but does not however mean a total lack of sales in the Chinese market, since it is possible for some consumers to recover the customs duty (through re-sale of the product in the European market). From the commercial point of view this may only force change of the sales structure in East Asian markets – a decreased quantity of sales in China to the benefit of other East Asian markets, which are also currently attractive.
Risk connected with the operational dependence of subsidiaries on the Parent

Despite the slight drop in subsidiaries’ dependence on the Parent since 2007, their operations continue to be dependent to a high degree on the economic situation of the Parent.

7.2. Characteristics of external and internal factors important for development of the Group and characteristics of developmental policy

In 2010 factors significant for Group development included as always the market situation, together with principal trends in raw material and product prices.

Commodity markets

In the markets for raw materials such as benzene, phenol, ammonia and methanol, 2010 was a year of systematic growth in price levels. Slight decreases did not change the fact that in comparison with December 2009 prices had increased and continue to exhibit this same trend. The majority of raw materials used are based on crude oil which is heading towards forecasted prices for 2011 oscillating at around 105 USD/bbl and even higher.

Growth in natural gas prices were noted twice during 2010 (the first increase as of 1 June, and the second as of 1 October). At the same time, since 1 January 2011 the amount of this increase was subject to adjustment – on 16 January 2010 the President of the Energy Regulatory Office altered Part A of the “PGNiG S.A. Tariff for Gas Fuels” – resulting in a drop in natural gas price for the Group of approx. 3%.

In 2010 the situation in markets for Azoty Tarnów products was assessed as stable.

Caprolactam market

2010 saw systematic growth in liquid caprolactam prices in the European market and in crystallised caprolactam in East Asia.

In the first half of the year, liquid caprolactam prices in Europe followed the increase in benzene price, with slight fluctuation in the trend during the summer months stimulated by increased demand, particularly in Asia.

As a result of increased demand for crystallised caprolactam in East Asia, with a significant supply shortage, prices this year reached a record high. Together with an increase in benzene prices, strong Asian markets caused a strengthening in caprolactam prices in Europe. It is forecasted that the East Asian market will retain its favourable trend for a subsequent 2 years.

For the AZOTY Tarnów Group, a strategic issue here is security of raw materials for ATT Polymers Guben.

Plastics market

Recovering from the 2008 recession, the economy is showing increased demand for plastics. Following this fact, in 2010 the level of systematically listed prices rose, both for polyamide (PA) and for polyoxymethylene (POM). It is anticipated that global demand for PA6 will increase by an average of approx. 5% p.a. until 2015, whereas PA6.6 will increase at 6% p.a. The predicted slight increase in PA6 production capacity throughout the next few years will take place mainly through modernisation of existing production facilities.

In the long-term an increase in use of plastics is still predicted – not just with consideration to GDP growth but also the development of new applications in which plastics may replace other materials. In the long-term on a global scale, a 4% increase in use per capita is forecast. The processing industry feels significant pressure from countries with lower manufacturing costs.
According to forecasts, over the period 2010-2018 significant growth in the global economy will occur, particularly in China, Russia, India and Brazil. This will lead to increased requirements for plastics, including for PVC (and thus for plasticisers). Use of PVC in the EU has fallen over the last few years as a result of environmental and safety regulations. The cost advantage of PVC in mass application is ever more visible. Its use should continue in other regions of the world and may even increase. Optimistic forecasts indicate an almost 100% increase in demand for PVC by 2025\(^1\), mainly thanks to a strong increase in demand in China and India.

**Fertilisers market**

The largest area of fertiliser consumption is the Asian region, in such countries as China (30%) and India (17%). According to mid-term IFA forecasts, demand for fertilisers in these nations will continue to grow by at least 2.4% p.a. The highest growth rate is expected in Brazil and Argentina. Manufacture of fertilisers is aimed at consumption areas (nitrogen and phosphorous fertilisers) and plants are located close to raw material sources (potassium fertilisers).

The largest manufacturers of phosphorous and nitrogen fertilisers are located in consumer regions – Asia (China and India) and North America (US), while manufacturers of potassium fertilisers are based in Canada, Russia and Belarus.

In the future the nitrogen fertiliser price level should not negatively impact on use of these fertilisers. The main reason is a lack of substitutes and potential price changes will be correlated with changes in the price of raw materials and energy.

The Polish agricultural market continues to maintain high fertiliser use potential, e.g. in the region of 100-150 kg NPK/ha UR and optimum effective fertiliser usage is conditional on the type and variety of the crop, soil quality, price relations and weather conditions.

A mechanical granulation facility was commissioned in 2009, which meant that the Parent is manufacturing three new mineral fertilisers: Saletrasan® 26 macro, ammonium nitrate 32 macro and calcium ammonium nitrate 27 macro. These fertilisers were successfully introduced to the market, gaining recognition in industry awards and trade fairs in 2010:

- For quality corresponding to European standards – Business Centre Club with the support of the Ministry of Foreign Affairs and under the honorary patronage of the European Economic and Social Committee;
- A gold medal at the Kielce “Agrotech” Agricultural Technology Fair;
- Distinction for rapid market penetration by a fertiliser product – special award at the 33rd International Agro-Tech Agricultural and Industrial Fair in Minikowo.

More proof of recognition for achievements in production of fertilisers at Azoty Tarnów is an award for calcium ammonium nitrate 27 macro, which was presented with an award at the 8th incarnation of the "Polish Fertilisers” awards organised by “Zielony Sztandar".

The Association of Polish Exporters again awarded a medal and the title "Polish Export Leader 2010" to the Parent, since for many years the company has been a leading exporter, achieving approx. 60% of its sales outside of Poland. This concerns both export of high quality products (construction plastics, caprolactam, mineral fertilisers) and technical know-how.

In 2010 an industrial zone was established at the Parent's site. New investors are expected.

The policy aimed at strengthening the AZOTY Tarnów Group and use of all possible synergies remains a significant task.

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\(^1\)Petrochemical Market Dynamics: Vinils, Nexant 2010
For subsidiary ATT Polymers GmbH an external factor significant for its development is maintenance of a level of demand for products in the market segments which the company dominates. These are mainly the carpet and technical fibre and industrial packaging segments.

In these fields ATT Polymers GmbH is taking internal steps aimed at implementing new polyamide types. These are heat-stabilised polyamide for production of fishing lines and nets and polyamide modified with internal nucleants and lubricants for manufacture of specialised plastic packaging wrap for the food industry.

At ZAK S.A. basic directions for market and product development have been adopted taking into consideration the situation in the chemical industry and the conclusions of internal analysis. Aside from the situation in the fertiliser and raw material markets, significant factors include the oxo alcohol, plasticiser markets and the markets for their application.

Oxo alcohol and plasticiser market

Oxo alcohols and plasticisers are part of a very large group of organic products. These are oil derivatives from the same manufacturing chain. The main raw materials for their manufacture – propylene and o-xylene – are derived directly from crude oil, hence a significant external factor is the price of petrochemical raw materials.

The manufacture of oxo alcohols contracted by 2.8% p.a. over the period 2006–2009. Forecasts are however optimistic. It is expected that use from 2010 to 2014 will grow by an average of 4-5% o.a. and approx. 3% over the period 2014-2019.

Oxo alcohol 2-EH is mainly used for manufacture of plasticisers, including manufacture of DEHP, which constitutes 42% of its total use. Over the last few years an increase in the use of 2-EH has also been seen in other market segments, particular in the manufacture of coating materials and non-phthalic esters. However butanols are mainly used for manufacture of paints and polishes, plasticisers and acrylic and methacrylic esters – used for the manufacture of latex.

The global annual indicator for increase in processing 2–EH into DEHP is forecasted at a level of 0.5%, whereas global consumption growth over the period 2007-2020 is forecasted at a level of 1.5%.

Plasticisers: phthalates, aliphatic, epoxidised, polymer, phosphorous and others

Phthalic plasticisers (phthalic acid esters, called phthalates) are the dominant type of plasticisers manufactured and used around the world. The main market for plasticisers is Asia, and in particular China.

The highest shares in global manufacture of phthalates are held by DEHP (48%), DINP (20%) and DIDP (11%). The main use of DEHP is to soften PVC, and in connection with this the DEHP market (and indirectly the 2-EH market) is closely connected with the PVC market, and in the wider economic perspective also with the construction industry.²

According to forecasts, global use of phthalic plasticisers over the period 2008 - 2013 will grow by an annual average of 1.6%. However use of DEHP should grow by an average of 1.3% p.a. by 2013 in China (2.4% growth) and Brazil (approx. 3% growth). Prices will be dependent on the energy market situation, in particular crude oil.

Propylene is part of the group of alkenes which are the fundamental and most important oil derivatives with wide application (polypropylene, oxo alcohols, phenol, oligomers, etc.). With regard to the nature of production, their prices are closely related to oil prices. In 2010 the situation connected with disturbances in the relationship between supply and demand after the recession in

² Tecnon 2007
2009 may cause as much as a several-percentage-point price increase. From 2011 further growth in prices is forecast, dependent on fluctuations in oil prices. According to IAE forecasts, oil prices up to 2010 should increase at an average annual rate of 4.35%. In analysing the last decade’s relationship between propylene and oil it can be assumed that the average increase in propylene prices over the period 2012 - 2018 will amount to approx. 2.3%.

Construction market

Oxo alcohols are connected with the development of construction projects through plasticisers and PVC, together with finishing of interiors through application in industrial paints and varnishes and the use of PVC – also from the non-plasticised PVC market – for manufacture e.g. of mouldings, piping, cabling, carpets, etc. For this reason the construction sector is the largest consumer of oxo alcohols and phthalic plasticisers. Analysis of the construction market indicated that after an uncertain 2010 there will be gradual 1.6% growth in 2011, with a similar level being maintained in subsequent years. This growth will be significantly diversified from a geographical perspective, with Greece, the UK and Spain remaining in the most difficult situation. The largest growth in the construction sector will take place in CEE, where the driver will be infrastructure investments. An improvement is also forecast in Poland over the period 2010 - 2011. It is anticipated that the average annual growth in sector companies’ revenues will reach a level of 2.3%, which it should maintain over the coming years.

Information on REACH activities

Prior to 1 December 2010 AZOTY Tarnów registered substances of the greatest tonnage: >1 000t/year. 17 substances were registered, including 11 as products, 3 as transported intermediate products and 3 as isolated on-site intermediate products. The scope of registration corresponds to the current and anticipated scope of the Parent’s operations. With consideration to the high cost of document preparation, registration of substances was carried out on the principle of co-registration with other European companies.

In subsequent years it will be necessary to register substances with lower production tonnage: in 2013 – 6 substances, and in 2018 – a subsequent 9.

The Parent’s product portfolio does not include “high risk” substances in quantities subject to the costly authorisation procedure (acquisition of temporary and conditional production permits).

At ZAK S.A. the department overseeing implementation of the REACH directive registered 21 substances in 2010 within the first registration period, i.e. up to 1 December 2010, whereas by 1 June 2013 registration of a subsequent 2 substances is anticipated.

Internal factors significant for the operations and development of the Group

Strengths

- high, market-accepted quality in the majority of products,
- high technical level and production facility technology,
- stable distribution channels for high quantity of products,
- high level of production capacity use in the main production lines,
- experience and qualified technical personnel with a high level of professional competences,
- own caprolactam and polyoxymethylene technology,
- fundamental environmental protection problems solved on the conditions of currently binding legal regulations,
- good Group image, in particular the Parent, decades of experience in the chemical industry,
- presence in the organised public trading system,
• funds acquired from the issue, guaranteeing implementation of the development programme.

Weaknesses
• small-scale operations in comparison with competitors, limiting competitive opportunities,
• relatively low technology levels in some facilities,
• high employment rate and relatively low salary level,
• lack of stable access to basic petrochemicals, which significantly limits development possibilities in the large-scale organic chemical and plastics sector
• limited possibilities to achieve prices at the price levels of leading competitors
• low level of competence in operating in the market for highly processed products aimed at wide groups of consumers,
• high level of property decapitalisation causing the necessity to allocate a relatively large amount of funds to modernisation and reconstruction.

7.3. Group development prospects with consideration to market strategy elements

2010 emerged as a very good year for the chemical industry. 10% growth in chemical industry production was observed in Europe in comparison to 2009, while the highest growth rate was noted in the polymer sector (15%). According to the majority of forecasts, 2011 is expected to see further growth in consumption, however lower than the previous year and diversified depending on geographical regions and sectors.

A factor having a negative impact on sector development will be growth in raw material prices, including oil, and increasing competition from Asian manufacturers, particularly from China. A constant increase in manufacturing capacity in this region may lead to a drop in demand for European products.

The Investment Plan for 2011 is adapted to the Parent’s Development Strategy for 2007 - 2015 and the objectives specified in the Issue Prospectus. In accordance with the Development Strategy, the most important investments in the Investment Plan for 2011 are connected with improving the competitive position and implementing issue objectives. The largest tasks implemented are construction of a new Hydrogen Facility, Modernisation and Intensification of the Caprolactam Plant to 101 300 tons/year and Intensification of the Modified Plastics Plant – phases I and II.

Construction of the new Hydrogen Facility, one of the most important investment projects currently being implemented and closely connected with modernisation of the Caprolactam Plant, will increase the reliability of the Caprolactam Plant, decrease the costs of production and increase the use of natural gas with a higher nitrate content from local sources.

A significant new task which is due for commencement in 2011 will be the project to Modernise the Sulphuric Acid Plant. In connection with the necessity to adapt production facilities to legal requirements, in 2011 investments connected with adaptation of the Parent’s loading and unloading stations to TDT requirements will constitute a significant group of tasks.

Work carried out in 2011 concerning preparation of investments will be connected with implementation by the Parent of the adopted strategic objectives. Preparation works will be carried out on new projects concerning manufacture of caprolactam, construction plastics and works connected with modernising the on-site power plant. Work on further diversification of the product portfolio will also be continued.

The objective of activities in the field of external development is construction of a larger, integrated structure ensuring improvement of competitive position and conditions for continued development.
In 2010 the Parent became the owner of 100% of shares in a German manufacturer of polyamide 6 (PA6) in Guben – Unylon Polymers GmbH, and took over control of ZAK S.A., becoming owner of 52.62% of shares.

The effect of the Parent acquiring Unylon Polymers GmbH (currently ATT Polymers GmbH) is integration of caprolactam and polyamide 6 production within the AZOTY Tarnów Group. The inclusion of ZAK S.A., one of the largest of the major state-owned chemical companies in Poland, into the AZOTY Tarnów Group allowed for a significant increase in the scale of operations and effectiveness in manufacture, sales and distribution of mineral fertilisers, together with creation of a strong business organisation, not just in the Polish chemicals market.

In the case of ZAK S.A. – taking into consideration the situation in the chemical industry and the conclusions of internal analysis – the Company’s Management Board specified fundamental directions for the two principal businesses’ market and product development – the Fertiliser Business Unit and the Oxoplast Business Unit. The company’s development strategy assumed that in relation to the Fertiliser Business Unit the main focus will be market development, while in the case of the Oxoplast Business Unit this will be product development.

The development strategy for both principal business units requires care not just concerning an increase of sales in quantitative terms (through market or product development) but also care concerning the profitability of sales through cost optimisation (with particular emphasis on energy costs) and attempts to make full use of production capacity.

**Market and product development at the Fertiliser Business Unit**

The market and product development strategy at the Fertiliser Business Unit assumes an increase in sales through market development, which consists of increasing sales in current markets (in Poland and abroad) and the company’s entry into new geographical markets or offering of the company’s portfolio to new consumers. The unit’s objective is also to increase profitability.

The basic portfolio of products manufactured by the Fertiliser Business Unit will not be subject to significant change in the new few years (although this does not rule of the introduction of new products from a marketing point of view, including offering new packaging, different quantities etc.).

The introduction of a group of liquid fertilisers to the fertiliser product portfolio is provided for. The key representative here is UAN – a liquid solution of urea and ammonium nitrate. This will be used as the basis of other, specific liquid fertilisers, including those using ammonium nitrate. It is anticipated that the project connected with starting up UAN production will be completed in 2012.

A project for "Modernisation of the urea facility in the field of ecology" has been implemented, aimed at lowering the costs of manufacture with simultaneous limitation of environmental impact. Its implementation will have an impact on lowering the release of ammonia and urea liquid, leading to an improvement in ZAK’s environmental impact, which will also decrease urea production costs.

**Market and product development at the Oxoplast Business Unit**

The market and product development strategy at the Oxoplast Business Unit assumes a strengthening of the current position mainly through product development – expanding the product portfolio. The Oxoplast Business Unit will increase sales through supplying an expanded product portfolio into existing and new markets (in Poland and abroad), at the same time taking care to increase the profitability of sales.

For this reason projects connected with new projects have been implemented – plasticisers which are substitutes to end-stage plasticiser FDO (bis(2-ethylhexyl)phthalate)
1) DIOCH on the basis of FDO (DIOCH is a hydrated form of FDO),

2) Bis(2-ethylhexyl)terephthalate

Steps are being taken to intensify production and sale of FDPH (di 2-propyl heptyl phthalate) on the basis of purchased 2PH alcohol (dipropyl heptyl alcohol). FDPH is a plasticiser with a long carbon chain (C10) and is an alternative to FDO.

It is manufactured using the FDiB facility.

A project entitled “change to the raw material base of maleic anhydride acid” was implemented, aimed at replacing benzene – a raw material for the manufacture of n-butane maleic anhydride, which results in a lowering of manufacturing costs and eliminates the carcinogenic product benzene, at the same time improving the environmental and health aspects of maleic anhydride acid production.

Development of other operations at ZAK S.A.

ZAK S.A., together with Południowy Koncern Energetyczny S.A., is currently implementing (verifying for the purposes of a competition) a feasibility study for PROJECT KĘDZIERZYN, a co-generation power station where coal gasification is planned for the production of electricity (309 MWe), heat (127 MWt) and methanol (517 000 Mg/year) with simultaneous sequestration of CO2. This is one of two projects which Poland intends to submit to the EU CCS competition, under which 8 DEMO CCS projects will be selected for EU funding. The deadline for submission of applications in the competition to the Ministry of Economy was 9 February 2011. By 9 May 2011 the Ministry of Economy will submit an application to the EIB (European Investment Bank), acting on behalf of the European Commission as the authority for assessment, verification and classification of projects into a ranking list. In the event of the project being assigned DEMO status and after adoption of the final investment decision by the Management Board of ZAK S.A. and PKE S.A., accepted by corporate authorities, the project will be implemented by an SPV established by ZAK S.A. and PKE S.A.

Development at other subsidiaries

Automatyka Sp. z o.o.

The company’s financial situation will to a large extent be dependent on the financial condition of the Parent, for whom approx. 70% of its sales are made.

Furthermore, Automatyka Sp. z o.o. is a participant in tender proceedings for purchase of Elzat Sp. z o.o. (another subsidiary). If it is possible to finalise this acquisition, the company’s consolidated results will grow significantly. The company has become one of the largest automation and electricity service providers in Poland.

ATT Polymers GmbH

In order to maintain the level of demand for the company’s products, internal steps are being taken to implement new types of polyamides, for which there is heavy demand.

This year the company plans to strengthen its market position, achieve credit worthiness and develop a feasibility study for an investment aimed at increasing production capacity to 55 000 tons/year. Growth in production capacity is anticipated for BCF (carpet fabric), which is the company’s main product.

Biuro Projektów Zakładów Azotowych "BIPROZAT – TARNÓW" Sp. z o.o.
The company’s growth in 2011 and subsequent years is development of the competences of an engineering company. In 2011 the company plans to increase the number of contracts in EPC and EPCM formulae for the benefit of and in cooperation with its principal partner, i.e. the Parent, which will allow it to acquire essential experience and references and offer investment services on the open market, particularly in the chemical sector.

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

The Management Board does not anticipate changes in the company’s principal operations in 2011. The company’s main operations continue to be focussed on general electricity services. The company’s objective is to maintain its current services level, together with retaining current and acquiring new clients through effective marketing.

Jednostka Ratownictwa Chemicznego Sp. z o.o.

In 2011 the company aims to continue to develop the main areas of its operations. It anticipates development of operations connected with segregation of communal waste and the processing of a specific group of materials acquired as a result of this segregation. It also anticipates expansion of its laboratory operations within the Specialist Laboratory Complex and increase in the quantity of analytical methods accredited by the PCA. The company intends to continue cooperation with representatives of Ukraine concerning the possibility to recycle rocket fuel oxidiser in Ukraine.

In connection with pro-ecology tasks implemented by the Parent concerning the dry ash intake from the ZAT EC-2 facility, the company intends to conduct operations connected with the acquisition by the Parent of ash storage facilities "Czajka I" and "Czajka II". It will also continue operations connected with the preparation of new sectors for depositing specific waste.

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

The company’s development results from the adopted Strategy for the Development of Przedsiębiorstwo Transportu Kolejowego "KOLTAR" Sp. z o.o. for 2010 - 2012, assuming concentration of expenditures on:

- purchase and modernisation of locomotives,
- purchase and modernisation of TADS and TADDS series wagons.

The above purchases will be the main area of the company’s development. The objective is to building a position based on rail transport serving the Group.

The most significant new investments which will be implemented in 2011 are connected with an increase in the quantity of locomotives, which will increase guarantees of timely transport and allow for the acquisition of new transport contracts. In 2011 a significant group of tasks will be investments connected with the adaptation and modernisation of rolling stock for the Group’s requirements.

PKCH Sp. z o.o.

The company intends to commence operations aimed at its economic activation. The first phase enabling achievement of this objective was to make changes in the company’s articles of association concerning expansion of its business activity. A subsequent step is the development of organisational optimisation, financial and marketing studies for selected ZAT and ZAK Group companies, resulting from the consolidation, with the aim of creating an entity serving the ZAT S.A. and ZAK S.A. groups.
"PROReM" Sp. z o.o.

In 2011, "PROREM" will continue to implement the restructuring plan adopted through a resolution of the Extraordinary General Meeting in August 2010. 2011 will be a transitional year ending the restructuring period and commencing the process of returning to "normality". The main assumption adopted in the restructuring plan for 2011 is to conduct operations based on limited employment directed at providing internal Group services, particularly for Azoty Tarnów. Execution of external orders will be limited to some work within skills held and free production capacity.

ZAK S.A.

Taking into consideration the situation in the chemical industry and the conclusions of internal analysis, the Company's Management Board specified fundamental directions for the two principal business units' market and product development – the Fertiliser Business Unit and the Oxoplast Business Unit. The company's development strategy assumes that in relation to the Fertiliser Business Unit the main focus will be market development, while in the case of the Oxoplast Business Unit this will be product development.

The development strategy for both principal business units requires care not just concerning an increase of sales in quantitative terms (through market or product development) but also care concerning the profitability of sales through cost optimisation (with particular emphasis on energy costs) and attempts to make full use of production capacity.

"ZWRI" Sp. z o.o.

Despite existing threats, the company's current financial and HR position, together with equipment, means that the company’s status as a going concern is not under threat. If the trend towards growth in construction market investment continues, it may be possible to avoid a lowering of the profitability ratio.

The company intends to modernise the varnishing of steel elements and expand its services. The adopted areas for development reinforce the company’s market position.

8. ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS

Parent – 2010

In accordance with Resolution of the Parent’s Supervisory Board no. 141/VII/2009 of 31 March 2009, the auditor for 2009 - 2011 is Deloitte Audyt Sp. z o.o.

Details of the agreement concerning audit of the financial statements for 2010 do not differ from details of the agreement for the preceding year.

Parent – 2009

An agreement with Deloitte Audyt Sp. z o.o. was entered into on 20 May 2009 concerning:

- audit of separate financial statements for the 12-month periods ending 31 December 2009, 31 December 2010 and 31 December 2011, drawn up in accordance with International Financial Reporting Standards,
- audit of consolidated financial statements for the 12-month periods ending 31 December 2009, 31 December 2010 and 31 December 2011, drawn up in accordance with International Financial Reporting Standards,
- audit of consolidation packages for the 12-month periods ending 31 December 2009, 31 December 2010 and 31 December 2011, drawn up in accordance with guidelines for the
consolidation of Nafta Polska S.A.,

- review of separate (full) financial statements for the 6-month periods ending 30 June 2009, 30 June 2010 and 30 June 2011, drawn up in accordance with International Financial Reporting Standards,
- review of consolidated financial statements for the 6-month periods ending: 30 June 2009, 30 June 2010 and 30 June 2011, drawn up in accordance with International Financial Reporting Standards,

Remuneration level – PLN 260 000 for each year of the agreement’s term.

**Entities auditing financial statements at subsidiaries for 2010**

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<th>Company</th>
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<th>NIP</th>
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<th>Agreement date</th>
<th>Agreement term</th>
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### Entities auditing financial statements at subsidiaries for 2009

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N/A
9. COURT PROCEEDINGS

Within Group companies there are no proceedings in progress concerning liabilities of other debts, the value of which separately or in total constitutes 10% of the equity of the AZOTY Tarnów Group, i.e. the criterion of significance specified in § 91, point 5 of the Ordinance of the Minister of Finance on current and periodic information of 19 February 2009 has been fulfilled.

10. DECLARATION ON APPLICATION OF CORPORATE GOVERNANCE

In accordance with par. 29, sec. 5 of the Byelaws of Giełda Papierów Wartościowych w Warszawie S.A. [the Warsaw Stock Exchange], the Management Board of the Parent, acting pursuant to resolution no. 1013/2007 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A., hereby presents this report concerning application by the company in 2010 of the principles for corporate governance contained in the document "Good Practice for Companies Listed on the WSE" (Appendix to the Resolution of the Stock Exchange Council no. 17/1249/2010 of 19 May 2010).

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

Declaring operations in accordance with the highest capital market communication standards and principles of corporate governance, the Parent applies the principles of "Good Practice for Companies Listed on the WSE", drawn up by the Warsaw Stock Exchange. The code constitutes an appendix to Resolution of the Stock Exchange Council no. 17/1249/2010 of 19 May 2010.

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

In march 2010 the Parent was invited to participate in the programme “10 companies for 10 years of the SII...”, organised by the Association of Private Investors [Stowarzyszenie Inwestorów Indywidualnych – SII]. The aim of the programme is to create and promote the highest standards of communication between stock market companies listed on the regulated market run by the Warsaw Stock Exchange and investors, and to draw up the best practical solutions for investor relations, covering contact between such companies and private investors. This programme is entered into the company’s policy for excellence in communication with the market and provision of information on the principles of management and oversight, ensuring their transparency.

In January 2011 the Parent was again categorised as being in the group of 16 stock market companies listed on the Warsaw Stock Exchange within the RESPECT index portfolio. The Parent was valued for its engagement in fulfilling tasks in accordance with corporate social responsibility principles as one of the companies managed in a responsible and balanced manner. At the same time its attractiveness for investment companies is valued, which is characterised by factors including the quality of reporting, level of investor relations and information management.

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

Beginning from its stock market debut in 2008, the Parent’s aim is to observe best practice for corporate governance, which was expressed in the declaration of the company’s Management Board contained in the Issue Prospectus (see point 26.3.1).
The Parent’s aim is to observe all corporate governance principles specified in Good Practice for Companies Listed on the WSE, with the exception of principle 8 of section III of Good Practice relating to the obligation to ensure a majority of independent Supervisory Board members in the audit committee in accordance with Annex I to the European Commission Recommendation of 15 February 2005 on the role of non-executive directors (...). The Parent made notification of this exception in the Issue Prospectus and at the moment of its debut on the stock market in current report no. 20/2008 of 30 June 2008.

Justification: principle 8 of section III of the Good Practice recommends application related to the functioning of committees operating within the supervisory board of the guidelines contained in Annex I to the European Recommendation of 15 February 2005 on the role of non-executed directors (...). In accordance with point 4.1 of the above Annex, at least the majority of members of the audit committee should be independent. The Audit Committee appointed on 4 January 2011 through Resolution of the Parent’s Supervisory Board no. 22/VIII/2011, acting as a consultant body within the Parent’s Supervisory Board, is a three-person authority, where one of the members is an independent member.

As a company with State Treasury involvement, the Parent will not apply principle 8 of section III of the Good Practice concerning the obligation to ensure a majority of independent Supervisory Board members on the audit committee. The composition of the Supervisory Board of a company formed pursuant to the Act on Commercialisation and Privatisation and the fact that only three Supervisory Board members fulfil the criterion of independence specified in the Annex means that fulfilment of the requirement for the majority of members on the audit committee to be independent is impossible. The following four groups of members participate in the Supervisory Board: (1) members of the Supervisory Board elected by the General Meeting, where the majority of votes are held by Nafta Polska S.A., (2) representatives of company employees, (3) independent members of the Supervisory Board and (4) representatives of the Ministry of Treasury.

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

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

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

The Committee’s tasks include in particular:

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

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

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

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

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

In order to implement the currency risk management process, a Currency Risk Committee was appointed, while oversight for the currency risk management process is performed by the Management Board Member overseeing ﬁnance.

In order to adapt internal and legal regulations concerning internal control to the currently binding standards in this area, on 10 June 2009 the Parent implemented "Standards for the performance and documentation of economic control at Zakłady Azotowe w Tarnowie-Mościcach S.A.".

The aims of the internal control procedure include analysis of the risk faced by the Parent, together with indication of the areas of unbeneﬁcial phenomena in the current and future operations of speciﬁc units and business teams. The impact of the institutional business control system is to develop the Parent’s operations, in particular in all functional and business ﬁelds, i.e. technical, maintenance, production, investment, economic, ﬁnancial, organisational, administrative, HR, commercial, marketing and others.

10.4. Shareholding structure

Shareholding structure as at 31 March 2010 (date of the report for 2009), with consideration to shareholders directly or indirectly holding at least 5% of total votes at the General Meeting

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>No. of shares held</th>
<th>Share in share capital (%)</th>
<th>No. of votes</th>
<th>Share in total votes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nafta Polska S.A.</td>
<td>19 200 000</td>
<td>49.08%</td>
<td>19 200 000</td>
<td>49.08%</td>
</tr>
<tr>
<td>Polskie Górnictwo Naftowe i Gazownictwo S.A.</td>
<td>4 000 001</td>
<td>10.23%</td>
<td>4 000 001</td>
<td>10.23%</td>
</tr>
<tr>
<td>CIECH S.A.</td>
<td>2 560 000</td>
<td>6.54%</td>
<td>2 560 000</td>
<td>6,54%</td>
</tr>
</tbody>
</table>

The State Treasury of Poland directly held 3.45% of shares in the Parent’s equity, Nafta Polska S.A. (a 100% State Treasury-owned company) holds 49.08%, which constitutes a total of over 52% shares indirectly held by the State Treasury within the Parent’s share capital. Change in the number of shares held by the State Treasury resulted from completion of the free grant of employee shares to the inheritors of entitled persons.

Shareholder structure as at 22 April 2010 (date of the report for 2009), with consideration to shareholders directly or indirectly holding at least 5% of total votes at the General Meeting
On 23 April 2010 Ciech S.A., having its registered office in Warsaw, made notification through the announcement of 22 April 2010 of a transaction for shares in Azoty Tarnów. In accordance with the announcement, as a result of the transaction executed by Ciech S.A. in stock market trading (off-session block transaction), on 22 April 2010 2,560,000 shares in Azoty Tarnów were disposed of, constituting 6.54% of the share capital. Before the transaction, Ciech S.A. held 2,560,000 shares, constituting 6.54% of the Parent's share capital. The shares carried 2,560,000 votes, i.e. 6.54% of total votes at the General Meeting of Shareholders. After the transaction, Ciech S.A. did not hold any shares in the Parent (Current Report no. 7/2010 of 23 April 2010).

The State Treasury of Poland directly held 3.45% of shares in the Parent’s equity, and Nafta Polska S.A. (a 100% State Treasury-owned company) holds 49.08%, which constitutes a total of over 52% shares indirectly held by the State Treasury within the Parent's share capital.

Shareholder structure as at 4 May 2010, with consideration to shareholders directly or indirectly holding at least 5% of total votes at the General Meeting

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>No. of shares held</th>
<th>Share in capital (%)</th>
<th>No. of votes</th>
<th>Share in total votes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nafta Polska S.A. Polskie Górnictwo Naftowe i Gazownictwo S.A.</td>
<td>19,200,000</td>
<td>49.08%</td>
<td>19,200,000</td>
<td>49.08%</td>
</tr>
<tr>
<td>Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK</td>
<td>4,000,001</td>
<td>10.23%</td>
<td>4,000,001</td>
<td>10.23%</td>
</tr>
<tr>
<td></td>
<td>2,667,859</td>
<td>6.82%</td>
<td>2,667,859</td>
<td>6.82%</td>
</tr>
</tbody>
</table>

In accordance with information provided by Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A., with its registered office in Warsaw, as a result of the transaction for acquisition of shares in the Parent, executed on 22 April 2010, Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK (“Aviva OFE”) increased its share in total votes in the Parent above 5%. Before settlement of the above transaction on 26 April 2010, Aviva OFE held 1,900,000 shares in the Parent, constituting 4.86% of the Parent's share capital and carrying 1,900,000 votes at the General Meeting, which constituted 4.86% of total votes. After execution and settlement of the transaction, as at 27 April 2010 Aviva OFE held 2,667,859 shares in the Parent, constituting 6.82% of the Parent's share capital and carrying 2,667,859 votes at the General Meeting, which constituted 6.82% of total votes.

The State Treasury of Poland directly held 3.45% of shares in the equity of Zakłady Azotowe w Tarnowie-Mościcach S.A., and Nafta Polska S.A. (a 100% State Treasury-owned company) holds 49.08%, which constitutes a total of over 52% shares indirectly held by the State Treasury within the Parent's share capital.

Shareholder structure as at 12 November 2010, with consideration to shareholders directly or indirectly holding at least 5% of total votes at the General Meeting
In connection with the convening of an Extraordinary General Meeting on 19 November 2010, the National Depository for Securities made a list of persons authorised to take part in the aforementioned General Meeting to Azoty Tarnów on 12 November 2010, pursuant to which Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK had registered 3,000,000 shares, increasing its share in Azoty Tarnów’s equity to 7.67%.

The State Treasury of Poland directly held 3.45% of shares in the equity of Zakłady Azotowe w Tarnowie-Mościcach S.A., and Nafta Polska S.A. (a 100% State Treasury-owned company) holds 49.08%, which constitutes a total of over 52% shares indirectly held by the State Treasury within the Parent’s share capital.

Between 12 November 2010 and the date of drawing up this information, i.e. 8 March 2011, the Parent has not received information on changes in the ownership structure of significant blocks of shares.

10.5. Special control authorisations of holders of securities

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

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

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

10.6. Indication of all voting restrictions

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

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

"§ 47, sec. 3. As long as the State Treasury of Poland or Nafta Polska S.A. owns shares in the Company constituting at least one fifth of the total votes available in the Company, shareholders’ rights to vote shall be
limited in such manner that at the General Meeting no one shareholder may exercise more than one fifth of total votes available within the Company on the day on which the General Meeting is convened. Limitation of the right to vote, as referred to in the preceding sentence, shall not concern the State Treasury of Poland and Nafta Polska S.A., nor any subsidiaries of the State Treasury of Poland and Nafta Polska S.A. For the purposes of this section, exercise of the right to vote by a subsidiary is recognised as exercise thereof by its parent in the meaning of the Act of 29 July 2005 on Public Offerings and the Terms and Conditions of Admitting Financial Instruments to an Organised System of Trading and on Public Companies (the "Act on Offerings"). The terms parent and subsidiary are also understood respectively as each entity whose votes result from directly or indirectly held shares in the Company subject to accumulation with the votes of another entity or entities on the principles specified in the Act on Offerings in connection with the possession, disposal or acquisition of significant blocks of shares in the Company. A shareholder whose right to vote has been limited shall in all instances retain the right to exercise at least one vote.”

10.7. Indication of all limitations concerning transfer of securities ownership

Limitations concerning transfer of ownership of securities resulted from the provisions of the Act on commercialisation and privatisation (Art. 38, sec. 3). The statutory disposal prohibition period for AA series shares for employees ended on 15 September 2007 and for members of the then-Management Board of the Parent (holding a total of 970 series AA shares) on 15 September 2008. In connection with the Act of 18 December 2008 on amendment to the Act on commercialisation and privatisation and the Act on the principles for acquisition of shares from the State Treasury of Poland in the consolidation process of electric utilities (Polish Journal of Laws no. 13, item 70) of 12 February 2010, the process of free access of shares to inheritors of entitled persons ended, whereas activities connected with the formal registration of the above agreements in the Issue Sponsor’s Register ended on 16 March 2010.

There are no transfer limitations relating to series B shares.

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

Principles concerning the appointment and dismissal of management personnel

Management Board

In accordance with § 24 of the company’s articles of association, Members of the Management Board or the entire Management Board are appointed and dismissed by the Supervisory Board with consideration to the provisions of § 25 and subsequent of the articles of association.

Each member of the Management Board may be appointed or suspended from duties by the Supervisory Board of General Meeting. (§ 24, sec. 2 of the company’s articles of association).

As long as the Parent employs an annual average of above 500 employees, the Supervisory Board appoints one person elected by Parent employees to the Management Board for the term of such Board. (§ 25, sec. 1 of the company’s articles of association).

Supervisory Board

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

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

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

10.9. Description of the principles for amending the Parent’s articles of association

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

10.10. General Meeting – means of operation

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

- review and approval of the financial statements for the previous financial year and the Management Board report on the Parent’s operations,
- granting a vote of approval to members of the Parent’s authorities for fulfilment of their duties,
- distribution of profit or coverage of loss,
- definition of the date for establishment of rights to dividends and the dividend payout date, and also offset of dividend payout in instalments,
- review and approval of the Group’s consolidated financial statements for the previous financial year and the Management Board’s report on the Group’s operations if the obligation for preparation of this results from the Accounting Act,
- appointment and dismissal of Supervisory Board members elected by the General Meeting, including the Chairperson of the Supervisory Board, subject to the provisions of § 16, sec. 2 and § 36,
- establishment of the principles for and amount of remuneration for members of the Supervisory Board,
- expression of consent for the disposal or lease of the company’s business or an organised part thereof and establishment of limited proprietary rights thereon,
- expression of consent for the purchase of real property, perpetual usufruct or shares in real property of a market value exceeding PLN 2 000 000 (two million Polish zloty),
- disposal of and the establishment of limited proprietary rights on real property, perpetual usufruct or shares in real property of a market value exceeding PLN 200 000 (two hundred thousand Polish zloty),
- expression of consent for the purchase, disposal or establishment of limited proprietary rights on elements of fixed assets other than real property, perpetual usufruct or shares in real property of a market value exceeding PLN 10 000 000 (ten million Polish zloty),
- execution by the company of agreements for loans, borrowings, sureties or other similar agreements with a member of the management board, supervisory board, commercial representative, receiver or on behalf of any such person,
- increasing and decreasing the Parent’s share capital,
- issuing bonds convertible to shares, bonds with priority right and subscription warrants,
- purchase of own shares in the situation specified in art. 362, § 1, point 2 of the Polish Commercial Companies Code.
Commercial Companies Code,
• forced buy-back of shares appropriate to the provisions of art. 418 of the Polish Commercial Companies Code,
• the creation, use and liquidation of reserve capital,
• use of the capital reserve,
• rulings concerning claims for rectification of damage caused in the formation of the company or exercising of management or supervision,
• merger, restructuring and division of the Parent,
• amendment to the articles of association and amendment of the subject of the Parent’s operations,
• winding-up and liquidation of the Parent,
• disposal of shares with specific conditions and the means of disposal with the exception of:
  • disposal of shares which are publically traded securities,
  • disposal of shares which the Parent holds in quantities not exceeding 10% of the share capital of a company,
  • disposal of shares covered by the Parent's debt claims under bankruptcy or arrangement proceedings,
• expression of consent for the grant of licences or other disposal of intellectual property rights initially held by the Parent,
• review of the Supervisory Board reports referred to in § 33, sec. 1, points 8, 20, 21 and 22.

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

MANAGEMENT BOARD OF THE PARENT

Composition of the Management Board as at 1 January 2010:
• Jerzy Marciniak – President of the Management Board
• Andrzej Skolmowski – Vice-President of the Management Board
• Witold Szczypiński – Vice-President of the Management Board
• Franciszek Bernat – Member of the Management Board

The composition of the Management Board has remained unchanged up to the date of drawing up this report.

The competences and duties of the Parent’s Management Board and members of the Management Board are specified in the provisions of the Polish Commercial Companies Code, the Act on Commercialisation and Privatisation of 30 August 1996 as amended, the Act of 29 July 2005 on Public Offering and the Terms and Conditions for Admitting Financial Instruments to an Organised Trading System and on Public Companies, the Act of 29 July 2005 on Trade in Financial Instruments, secondary legislation issued on the basis of the above acts of law and the provisions of the company's articles of association (§19 – §210).

The specific division of Management Board Member competences is governed by Management Board Resolution no. 190/VII/2009 of 8 April 2009.

SUPERVISORY BOARD

Composition of the Supervisory Board as at 1 January 2010:
• Marzena Pisczek – Chairperson,
• Małgorzata Rzążewska – Vice-Chairperson,
• Jan Wais – Secretary,
• Joanna Kielkiewicz – Member,
On 15 February 2010 the President of the Parent's Management Board was submitted the resignation of Mr Krzysztof Pierikowski from his position of Member of the Supervisory Board. (Current report no. 5/2010 of 15 February 2010).

Through resolutions adopted on 23 June 2010 by the Ordinary General Meeting of Zakłady Azotowe w Tarnowie-Mościcach S.A., the Members of the Supervisory Board, 7th term of office, were granted a vote of approval for their performance. At the same time the Ordinary General Meeting appointed new members of the company’s Supervisory Board, 8th term of office, with the following composition:

- Marzena Piszczek – Chairperson,
- Ewa Lis – Member,
- Agnieszka Doroszkiewicz – Member,
- Jacek Lewandowski – Member,
- Jacek Oblękowski – Member,
- Mirosław Potulski – Member.

Through the Supervisory Board resolution of 16 September 2010 Ms Ewa Lis was elected Vice-Chairperson of the Board.

On 19 November 2010, through resolutions of the Extraordinary General Meeting, the following persons were appointed to the company’s Supervisory Board:

- Tomasz Klikowicz,
- Zbigniew Paprocki,
- Jan Wais.

The new members of the Supervisory Board were appointed in accordance with § 36 of the company’s articles of association after voting by the Parent’s employees.

Furthermore, through the Supervisory Board resolution of 4 January 2011, the role of Supervisory Board Secretary was assigned to Mr Jan Wais.

The composition of the Supervisory Board as at the date of drawing up this report, i.e. 8 March 2011 is presented below:

- Marzena Piszczek – Chairperson,
- Ewa Lis – Vice-Chairperson,
- Jan Wais – Secretary,
- Agnieszka Doroszkiewicz – Member,
- Jacek Lewandowski – Member,
- Jacek Oblękowski – Member,
- Mirosław Potulski – Member,
- Tomasz Klikowicz – Member,
- Zbigniew Paprocki – Member.

The Supervisory Board acts pursuant to:

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

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

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

The Committee's tasks include in particular:

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

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

Management Board member signatures

Jerzy Marciniak
President of the Management Board

Witold Szczypiński
Vice-President of the Management Board

Andrzej Skolmowski
Vice-President of the Management Board

Franciszek Bernat
Member of the Management Board

Tarnów, 8 March 2011