Management report on the operations of the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group for the six months ended 30 June 2012
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I. DISCUSSION OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basic financial information on the Group

1.1. Consolidated financial results of the Group

The AZOTY Tarnów Group ended the first half of 2012 with positive EBIDTA of PLN 472,830,000 and net profit of PLN 272,544,000.

These financial results are an improvement on the figures for the same period in 2011 by PLN 159,097,000 and PLN 84,676,000 respectively.

The following table presents a comparison of the principal figures in the consolidated statement of profit and loss during the first half of 2012 and the first half of 2011:

<table>
<thead>
<tr>
<th></th>
<th>H1 2012</th>
<th>H1 2011</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from sales</td>
<td>3,814,648</td>
<td>1,966,124</td>
<td>1,848,524</td>
<td>94.0</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(3,170,551)</td>
<td>(1,533,485)</td>
<td>(1,637,066)</td>
<td>106.8</td>
</tr>
<tr>
<td>Gross profit on sales</td>
<td>644,097</td>
<td>432,639</td>
<td>211,458</td>
<td>48.9</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(92,150)</td>
<td>(62,250)</td>
<td>(29,900)</td>
<td>48.0</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(173,208)</td>
<td>(122,071)</td>
<td>(51,137)</td>
<td>41.9</td>
</tr>
<tr>
<td>Net revenue from sales</td>
<td>378,739</td>
<td>248,318</td>
<td>130,421</td>
<td>52.5</td>
</tr>
<tr>
<td>Other operating revenue / costs</td>
<td>(25,848)</td>
<td>(10,496)</td>
<td>(15,352)</td>
<td>146.3</td>
</tr>
<tr>
<td>EBIT</td>
<td>352,891</td>
<td>237,822</td>
<td>115,069</td>
<td>48.4</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>119,939</td>
<td>75,911</td>
<td>44,028</td>
<td>58.0</td>
</tr>
<tr>
<td>EBITDA</td>
<td>472,830</td>
<td>313,733</td>
<td>159,097</td>
<td>50.7</td>
</tr>
<tr>
<td>Finance income / costs</td>
<td>(14,779)</td>
<td>(5,246)</td>
<td>(9,533)</td>
<td>181.7</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>342,410</td>
<td>232,831</td>
<td>109,579</td>
<td>47.1</td>
</tr>
<tr>
<td>Income tax</td>
<td>(69,866)</td>
<td>(44,963)</td>
<td>(24,903)</td>
<td>55.4</td>
</tr>
<tr>
<td>Net profit</td>
<td>272,544</td>
<td>187,868</td>
<td>84,676</td>
<td>45.1</td>
</tr>
</tbody>
</table>

Source: Own data

The significant growth in revenue from sales stems from the AZOTY Tarnów Group generating a higher level of market sales in all business segments. Despite the increased speed of growth in costs over the speed of growth in revenue from sales, the Group generated a positive result on sales and as a consequence ended the reporting period with net profit.

In the first half of 2012 a negative result of PLN (25,848,000) was noted on other operating activity, which is 146.3% higher than the loss generated in the previous reporting period. The following factors impacted on the loss borne by the Group in the first half of 2012 on other operating activity:

- creation of provisions,
- loss on disposal of property, plant and equipment,
- creation of impairment charges on assets and trade receivables,
- incurrence of the costs of removing the effects of incidents,
- incurrence of the costs of installation stoppages.

The level of loss on financing activities in the first half of 2012 is PLN 9,533,000 higher than in the first half of 2011. The loss generated by the Group in the first half of 2012 on financing activities results from factors including the following:

- costs incurred in connection with interest charged on loans and borrowings,
• loss on valuation of financial assets and liabilities,
• foreign exchange losses.

1.2. Financial results by segment

Table 2. EBIT by segment

<table>
<thead>
<tr>
<th>Item</th>
<th>Plastics</th>
<th>Fertilisers</th>
<th>Oxo</th>
<th>Pigments</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue from sales</td>
<td>612 434</td>
<td>2 209 724</td>
<td>603 326</td>
<td>226 044</td>
<td>163 120</td>
</tr>
<tr>
<td>Share in total [in %]</td>
<td>16.1</td>
<td>57.9</td>
<td>15.8</td>
<td>5.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Net revenue from sales</td>
<td>76 623</td>
<td>268 402</td>
<td>57 254</td>
<td>49 654</td>
<td>(73 194)</td>
</tr>
<tr>
<td>Share in total [in %]</td>
<td>20.2</td>
<td>70.9</td>
<td>15.1</td>
<td>13.1</td>
<td>(19.3)</td>
</tr>
<tr>
<td>EBIT</td>
<td>75 664</td>
<td>267 036</td>
<td>57 089</td>
<td>50 814</td>
<td>(97 712)</td>
</tr>
<tr>
<td>Share in total [in %]</td>
<td>21.4</td>
<td>75.7</td>
<td>16.2</td>
<td>14.4</td>
<td>(27.7)</td>
</tr>
</tbody>
</table>

Source: Own data

Sales results on AZOTY Tarnów Group products are primarily determined by the market situation in the fertilisers, plastics and oxo alcohol segments. In the first half of 2012 revenue from sales in the plastics segment was PLN 612 434 000, denoting a 16.1% increase on the result recorded in the first half of 2011. The largest level of revenue from sales was noted in the fertilisers segment, which has the largest share in overall sales. This segment also generates the highest profit levels from operating activities.

SALES

Fig. 1. Revenue by product group

*) in the first half of 2011 the Police Group was not part of the AZOTY Tarnów Group

Source: Own data

The key revenue items in AZOTY Tarnów Group sales are nitrogen and compound fertilisers, plastics and oxo alcohols. In analysing revenue from sales, attention should be drawn to the fact that in the first half of 2012 there was change in revenue structure and values in relation to the first half of 2011, which was directly connected with the inclusion of Z.Ch. Police S.A. in the Group.
New products were noted in the structure of revenue from sales in relation to the first half of 2011, which contributed to a change in this structure. A slight drop was noted for nitrogen fertilisers (from 30.2% to 28.1%), together with a significant change in revenue for plastics and semi-finished products for their manufacture (drop from 30.3% to 16.0%), however it should be noted that these remain products with significant impact on the Group’s revenue. Significant effects on revenue structure were achieved by new compound fertiliser products in the first half of 2012 (constituting 23.9% of all revenue from sales).
PLASTICS SEGMENT

In the first half of 2012 revenue from sales in the plastics segment amounted to PLN 612,434,000, constituting 16.1% of the Group’s total revenue from sales. No significant changes connected with an increase or drop in revenue were noted in relation to the same period last year.

Revenue from sales dropped in the domestic market for the plastics segment, with a simultaneous increase in sales levels in the export market.

Fig. 3. Comparison of revenue from sales in the plastics segment *)

*) Z.Ch. Police S.A. financial data subject to consolidation from 23 August 2011
Source: Own data

FERTILISERS SEGMENT

In the first half of 2012 revenue from sales in the fertilisers segment amounted to PLN 2,209,724,000, constituting 57.9% of the Group’s total revenue from sales. This increased in relation to the first half of 2011, in connection with the inclusion of Z.Ch. Police S.A. in the AZOTY Tarnów Group and an increase in sales volumes by the Parent and the ZAK Group.

The beneficial price situation in the nitrogen fertiliser market continued in the first half of 2012, which led to an increase in revenue from sales. The majority of revenue from sales was generated in the domestic market, the value of which is one and a half times the size of the export market. However, in relation to the first half of 2011, export sales obtained a larger share in sales structure.

Fig. 4. Comparison of revenue from sales in the fertilisers segment *)

*) Z.Ch. Police S.A. financial data subject to consolidation from 23 August 2011
Source: Own data
OXO SEGMENT

Sales during the first half of 2012 were at a level significantly above sales during the same period a year earlier. The value of sales during the reporting period in 2012 was PLN 603,326,000, a PLN 59,834,000 increase on the level of revenue generated from sales in the first half of 2011. This variance results from an increase in sales, both in terms of quantity and due to the generation of higher sales prices.

When considering the level of revenue it should be noted that the figure was higher in relation to the previous year. Growth in sales in the domestic market was felt to a minor degree, while sales in the export market increased by almost 20% in relation to the same period last year.

A beneficial growth trend in consumption contributed to these results, alongside an increase in prices from February.

Fig. 5. Comparison of revenue from sales in the oxo alcohols segment *)

*) Z.Ch. Police S.A. financial data subject to consolidation from 23 August 2011
Source: Own data

PIGMENTS SEGMENT

A constant growth trend can be observed in the pigments section, connected with increased sales. Results generated in the first half of 2012 are higher than in the two quarters of the previous year.

Fig. 6. Comparison of revenue from sales in the pigments segment *)

*) Z.Ch. Police S.A. financial data subject to consolidation from 23 August 2011
Source: Own data


OTHER ACTIVITY SEGMENT

In the other activity segment revenue generated in the first half of 2012 was approx. 17% higher than the figure recorded in the same period a year earlier.

Fig. 7. Comparison of revenue from sales in the other activity segment

* Z.Ch. Police S.A. financial data subject to consolidation from 23 August 2011
Source: Own data

1.3. Structure of costs by nature

Operating costs during the first half of 2012 amounted to PLN 3 355 318 000, a PLN 1 682 111 000 increase on the levels recorded during the same period last year. The fundamental PLN 1 350 836 increase concerns the largest cost item, use of materials and energy. An increase in the prices of basic commodities contributed to the growth in costs, together with an increase in consumption connected with growth in the scale of production and higher prices for other materials.

Table 3. Costs by nature

<table>
<thead>
<tr>
<th>Item</th>
<th>H1 2012</th>
<th>H1 2011</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>119 939</td>
<td>75 911</td>
<td>44 028</td>
<td>58.0</td>
</tr>
<tr>
<td>Use of materials and energy</td>
<td>2 599 407</td>
<td>1 248 571</td>
<td>1 350 836</td>
<td>108.2</td>
</tr>
<tr>
<td>Third-party services</td>
<td>197 887</td>
<td>75 409</td>
<td>122 478</td>
<td>162.4</td>
</tr>
<tr>
<td>Staff costs, bonuses and other benefits</td>
<td>325 497</td>
<td>203 302</td>
<td>122 195</td>
<td>60.1</td>
</tr>
<tr>
<td>Taxes and fees</td>
<td>87 847</td>
<td>45 941</td>
<td>41 906</td>
<td>91.2</td>
</tr>
<tr>
<td>Other costs by nature</td>
<td>24 741</td>
<td>24 073</td>
<td>668</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3 355 318</strong></td>
<td><strong>1 673 207</strong></td>
<td><strong>1 682 111</strong></td>
<td><strong>100.5</strong></td>
</tr>
</tbody>
</table>

Source: Own data
Costs connected with use of materials and energy

In the first half of 2012 costs connected with the use of materials and energy demonstrated a 108.2% increase on the first half of last year. This difference results from the addition of a new entity to the Group and an increase in the prices of basic commodities. The addition of Z.Ch. Police S.A. to the Group also resulted in a 147.4% increase in natural gas use.

Table 4. Costs connected with use of materials and energy within the Group

<table>
<thead>
<tr>
<th>Item</th>
<th>H1 2012</th>
<th>H1 2011</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent</td>
<td>350 228</td>
<td>280 598</td>
<td>69 630</td>
<td>24.8</td>
</tr>
<tr>
<td>ZAK Group</td>
<td>500 815</td>
<td>559 406</td>
<td>(58 591)</td>
<td>(10.5)</td>
</tr>
<tr>
<td>Police Group *)</td>
<td>866 813</td>
<td>-</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Natural gas</td>
<td>673 728</td>
<td>285 709</td>
<td>388 019</td>
<td>135.8</td>
</tr>
<tr>
<td>Other Group companies</td>
<td>207 823</td>
<td>122 858</td>
<td>84 965</td>
<td>69.2</td>
</tr>
</tbody>
</table>

Source: Own data

The highest share in use of materials and energy during the first half of 2012 was recorded at the Police Group, which is also reflected in the level of costs incurred (PLN 866 813 000). This constitutes 33.3% of total costs. The ZAK Group incurred PLN (500 815 000) in costs, constituting 19.3% of the total.

In relation to the first half of 2011 at the Parent, these costs increased by 24.8% and were incurred at a level of PLN 350 228 000, not counting costs connected with the use of natural gas.

The costs of using natural gas amounted to PLN 673 728 000, constituting 25.9% of total costs under use of materials and energy.

The impact of the other entities within the AZOTY Tarnów Group on costs incurred constitutes 8.0% (PLN 207 823 000).

Fig. 8. Structure of the costs of using materials and energy within the Group *)

H1 2012

- Parent
- ZAK Group
- Police Group
- Natural gas
- Other ZAT Group entities
Other costs by nature

During the first half of 2012 other costs by nature, with the exception of use of materials and energy, constituted 22.5% of costs by nature, compared with 25.4% in the first half of 2011.

Table 5. Structure of other costs by nature [in %]

<table>
<thead>
<tr>
<th>Item</th>
<th>H1 2012</th>
<th>H1 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>3.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Third-party services</td>
<td>5.9</td>
<td>4.5</td>
</tr>
<tr>
<td>Staff costs, bonuses and other benefits</td>
<td>9.7</td>
<td>12.2</td>
</tr>
<tr>
<td>Taxes and fees</td>
<td>2.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Other costs by nature</td>
<td>0.7</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22.5</strong></td>
<td><strong>25.4</strong></td>
</tr>
</tbody>
</table>

Following analysis of changes in the structure of individual items under other expenses the following should be noted:

- a decreasing share of depreciation and amortisation in the overall structure of expenses,
- a decrease in staff costs,
- a decrease in other costs by nature.

1.4. Description of asset, equity and liability structure

In the first half of 2012 AZOTY Tarnów Group assets were valued at PLN 5 087 546 000, having increased by 32.0% in relation to the corresponding period last year. As at 30 June 2012 non-current assets amount to PLN 3 254 393 000, whereas current assets were valued at PLN 1 834 153 000. Given the changes which have occurred in the structure of assets and the structure of equity and liabilities, it should be noted that the Police Group was not a part of the AZOTY Tarnów Group during H1 2011.

The most significant changes on the asset side during H1 2012 are as follows:

- a 38% increase in non-current assets,
• a 22.5% increase in current assets,
• a 52.5% increase in intangible assets,
• a 1,002.0% increase in investment in subsidiaries, associates and jointly controlled entities resulting mainly from Z.Ch. Police S.A. having joined the AZOTY Tarnów Group (interests in associates and jointly controlled entities),
• recognition of inventory and receivables of Z.Ch. Police S.A. is the primary reason for the increase in these items within the Group,
• cash and cash equivalents were subject to a 45.4% decrease in comparison with the same period the previous year.

Table 6. Asset structure

<table>
<thead>
<tr>
<th>Item</th>
<th>H1 2012</th>
<th>H1 2011</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets, including:</td>
<td>3,253,393</td>
<td>2,357,108</td>
<td>896,285</td>
<td>38.0</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2,728,803</td>
<td>2,069,070</td>
<td>659,733</td>
<td>31.9</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>279,290</td>
<td>183,092</td>
<td>96,198</td>
<td>52.5</td>
</tr>
<tr>
<td>Investment property</td>
<td>29,010</td>
<td>24,719</td>
<td>4,291</td>
<td>17.4</td>
</tr>
<tr>
<td>Investments in subsidiaries, associates and jointly controlled entities</td>
<td>75,870</td>
<td>6,885</td>
<td>68,985</td>
<td>1,002.0</td>
</tr>
<tr>
<td>Current assets, including:</td>
<td>1,834,153</td>
<td>1,496,764</td>
<td>337,389</td>
<td>22.5</td>
</tr>
<tr>
<td>Inventory</td>
<td>669,467</td>
<td>272,836</td>
<td>396,631</td>
<td>145.4</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>718,526</td>
<td>444,569</td>
<td>273,957</td>
<td>61.6</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>419,209</td>
<td>767,876</td>
<td>(348,667)</td>
<td>(45.4)</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>26,570</td>
<td>10,605</td>
<td>15,965</td>
<td>150.5</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>5,087,546</td>
<td>3,853,872</td>
<td>1,233,674</td>
<td>32.0</td>
</tr>
</tbody>
</table>

Source: Own data

Essential changes on the equity and liabilities side of the balance sheet in the audited period included:
• a 59.7% increase in Group equity,
• an 85.3% increase in provisions for employee benefits,
• an increase in the balance of trade and other payables results from changes in the structure of and an increase in revenue generated by the Group as compared to Q1 2011,
• a 175.9% increase in other provisions.
Table 7. Structure of equity and liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>H1 2012</th>
<th>H1 2011</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>3 413 478</td>
<td>2 137 600</td>
<td>1 275 878</td>
<td>59.7</td>
</tr>
<tr>
<td>Non-current liabilities, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan liabilities</td>
<td>231 414</td>
<td>198 109</td>
<td>33 305</td>
<td>16.8</td>
</tr>
<tr>
<td>Provisions for employee benefits</td>
<td>129 668</td>
<td>69 977</td>
<td>59 691</td>
<td>85.3</td>
</tr>
<tr>
<td>Other provisions</td>
<td>114 736</td>
<td>140 256</td>
<td>(25 520)</td>
<td>(18.2)</td>
</tr>
<tr>
<td>Current liabilities, including:</td>
<td>1 024 651</td>
<td>1 106 161</td>
<td>(81 510)</td>
<td>(7.4)</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>743 034</td>
<td>442 133</td>
<td>300 901</td>
<td>68.1</td>
</tr>
<tr>
<td>Bank loans and borrowings</td>
<td>43 965</td>
<td>567 015</td>
<td>(523 050)</td>
<td>(92.2)</td>
</tr>
<tr>
<td>Other provisions</td>
<td>149 668</td>
<td>54 250</td>
<td>95 418</td>
<td>175.9</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1 674 068</td>
<td>1 716 272</td>
<td>(42 204)</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>5 087 546</td>
<td>3 853 872</td>
<td>1 233 674</td>
<td>32.0</td>
</tr>
</tbody>
</table>

Source: Own data

1.5. Financial ratios

The situation in the chemicals market in the first half of 2012 is reflected in the financial result and corresponding profitability ratios. In comparison with the first half of 2011 there was a decrease in profitability ratios calculated in relation to revenue, assets and equity. However this decrease is small and shows that the Group is generating slightly lower revenues on all types of operations in relation to the net financial result than in the same period last year.

Table 8. Profitability ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>H1 2012</th>
<th>H1 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on sales (ROS)</td>
<td>7.1</td>
<td>9.6</td>
</tr>
<tr>
<td>Return on operations</td>
<td>9.3</td>
<td>12.1</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>12.4</td>
<td>16.0</td>
</tr>
<tr>
<td>Net profit margin (NPM)</td>
<td>7.1</td>
<td>9.5</td>
</tr>
<tr>
<td>Return on assets (ROA)</td>
<td>5.4</td>
<td>4.9</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>8.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Return on investment (ROI)</td>
<td>6.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Return on invested capital (ROIC)</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Return on capital employed (ROCE)</td>
<td>8.7</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Source: Own data

Ratio definitions:

Return on sales (ROS) = (Net profit / Revenue from sales)*100
Return on operations = (Result on operating activities / net revenue from sales) * 100
EBITDA margin = (EBITDA / Net revenue from sales) * 100
Net profit margin (NPM) = Net profit / (Revenue from sales + other operating revenues + finance income)
Return on assets (ROA) = (net profit / total assets) * 100
Return on equity (ROE) = (net profit / equity) * 100
Return on investment (ROI) = operating profit / capital expenditures (total assets)
Return on invested capital (ROIC) = operating profit (EBIT) after tax / equity
Return on capital employed = EBIT/(assets – current liabilities)*100

The Group's financial situation is closely dependent on events occurring outside its market environment. These have a direct impact on the capability to meet current liabilities.
In the first half of 2012 the Group noted an increase in liquidity ratio I, which was caused by the increase in current assets (in particular inventory) with simultaneous lower growth in the level of current liabilities.

The drop in liquidity ratios II and III was caused by an increase in current liabilities with a simultaneous drop in current assets less inventory, together with a drop in the level of cash and cash equivalents.

Table 9. Liquidity ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>H1 2012</th>
<th>H1 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity ratio I</td>
<td>1.8</td>
<td>1.4</td>
</tr>
<tr>
<td>Liquidity ratio II (Quick ratio)</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Liquidity ratio III</td>
<td>0.4</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: Own data

Ratio definitions:

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

Fig. 9. Working capital dynamics

As a result of the change in the level of current assets and current liabilities described above, as at 30 June 2012 working capital amounted to PLN 809 502 000. As at 30 June 2011 working capital amounted to PLN 390 603 000.

In comparison with the first half of 2011, in the first half of 2012 the inventory turnover ratio increased to 32 days, which was caused by an increase in the cost of sales in the first half of 2012 in comparison with the same period a year earlier, with a simultaneous relatively large increase in inventories.

Receivables turnover shortened by 7 days in relation to the level recorded for the first half of 2011. This was caused by lower growth in the average level of receivables in relation to the revenue dynamic.

Trade receivable turnover was decreased by 53 days, chiefly as a result of an increase in the manufacturing costs of products sold.
Management Report on the Operations of the AZOTY Tarnów Group for the 6 months ended 30 June 2012
(all data in PLN thousands unless otherwise stated)

Table 10. Business efficiency ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>H1 2012</th>
<th>H1 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover in days</td>
<td>32</td>
<td>25</td>
</tr>
<tr>
<td>Receivables turnover in days</td>
<td>34</td>
<td>41</td>
</tr>
<tr>
<td>Liabilities turnover in days</td>
<td>49</td>
<td>102</td>
</tr>
</tbody>
</table>

Source: Own data

Ratio definitions:

Inventory turnover = (Inventory * number of days in period) / Net revenue from sales
Receivables turnover = (Current receivables * number of days in period) / Net revenue from sales
Liabilities turnover = (Current liabilities * number of days in period) / Net revenue from sales

The Group's total liabilities in the first half of 2012 increased by PLN 42,204,000 (2.5%) in relation to the first half of 2011, while the level of total equity and liabilities increased by PLN 1,233,674,000 (32.0%). In the first half of 2012 the Group generated net profit, which led to an increase in the nominal value of equity in relation to the comparative period. As a result of a higher growth dynamic in equity over total equity and liabilities, the debt ratio and debt-to-equity ratio decreased. At the same time the equity-to-assets ratio rose slightly.

Table 11. Debt ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>H1 2012</th>
<th>1pol. 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt ratio</td>
<td>32.9</td>
<td>44.5</td>
</tr>
<tr>
<td>Equity to debt ratio</td>
<td>49.0</td>
<td>80.3</td>
</tr>
<tr>
<td>Equity to assets ratio</td>
<td>67.1</td>
<td>55.5</td>
</tr>
</tbody>
</table>

Source: Own data

Ratio definitions:

Debt ratio = (Total liabilities / total equity and liabilities) * 100
Equity to debt ratio = (Total liabilities / equity) * 100
Equity to assets ratio = (Equity / total assets) * 100
2. Information on significant events during the first half of 2012

AZOTY Tarnów Group Growth Strategy 2012-2020

On 13 June 2012 the Parent’s Management Board presented an updated strategy for the AZOTY Tarnów Group for years 2012-2020. In accordance with the adopted document the AZOTY Tarnów Group operations over the next decade are aimed at implementing the Group’s vision, which provides for AT’s inclusion in the main index at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A. – GPW), generation of top rates of return on equity in the industry for shareholders and maintenance of a sustainable position as one of the three largest fertiliser manufacturers in Europe.

The AZOTY Tarnów Group operations will particularly focus on:

1. Economies of scale and growth in effectiveness:
   - Organic growth and expansion via alliances, mergers and acquisitions, both in Poland and abroad,
   - Further internal integration within the Group aimed at maximising synergies.

2. Optimisation of Group operations:
   - Reduction in the Group’s sensitivity to energy costs through the use of effective technological and energy solutions,
   - Reduction in the Group’s sensitivity to changes in structural phases and cycles as well as natural gas prices and petrochemical raw materials through the extension of product chains,
   - Reduction in production costs through the modernisation of main production lines,
   - Enhancement of key Group brand awareness,
   - Continuous adapting of quality and product portfolio to customer requirements,
   - Optimisation of logistics and distribution.

3. Product portfolio development and expansion:
   - Product diversification via synergies with the existing product portfolio,
   - Use of innovative technology.

In production and trading the AZOTY Tarnów Group will focus on:

- Products for the agricultural sector, in particular mineral fertilisers,
- Technologically-advanced materials sector, in particular engineering plastics,
- Organic chemicals sector, in particular caprolactam, oxo alcohols, plasticisers and specialty chemicals,
- Inorganic chemicals sector, in particular ammonia and titanium white.

The AZOTY Tarnów Group plans to maintain an EBITDA of 14% and aims to reach and maintain EBIT of 8% until 2020. The Group also plans to generate a ROE of 12% and ROCE of over 14%. Net financial debt to EBITDA, calculated as net financial liabilities to EBITDA (for a one-year period) is expected at less than 2.5, whereas net debt to equity is not to exceed 0.8.

In terms of its dividend policy, the Group intends to make distributions appropriately to generated earnings and financing capabilities of the Parent. In submitting proposals concerning dividend distribution, the Management Board will prioritise the necessity to maintain the appropriate level of financial ratios, financial standing and amount of capital sufficient for the Group’s further development. Going forward the Management Board will recommend to the General Meeting dividend distributions in an amount not exceeding 40-60% of the Parent’s net earnings for the given financial year.
**Tender offer by Norica Holding S.à.r.l to purchase shares in the Parent**

On 16 May 2012 Norica Holding S.à.r.l. (the Offeror) announced a tender offer for sale of shares in connection with the intention to acquire shares in the Parent. The Offeror intended to acquire up to 41,550,037 shares as a result of the tender offer, carrying up to 64.80% of votes at the Parent's general meeting.

(further details can be found in the section Structural and ownership changes (tender offer) on p.42)

**Employee Pension Programme**

Following consultations with representatives of workplace trade unions the AT Management Board, considering the post-retirement financial security of its employees, decided to create an Employee Pension Programme (EPP).

On 20 June 2012 two agreements were signed concerning creation of the abovementioned programme: a workplace pension agreement executed between the employer and workplace trade unions and an agreement between AT and Towarzystwo Funduszy Inwestycyjnych PZU S.A., in cooperation with which the Parent will develop the programme. The execution of these agreements allows to submit a motion for registration of the EPP to the Polish Financial Supervision Authority. The programme is set to commence immediately following registration.

Creation of the EPP is a reflection of CSR values which the AT Group is guided by and constitutes the foundation for stable growth of the company's value over the long term.

The programme is to be fully financed by AT through the use of additional funds dedicated for development of a pension system for the AT personnel. The employee’s participation is exclusively limited to payment of tax at a rate of 18% from the premium financed by the employer and optional payment of additional premium. Distributions from the EPP are exempt from capital gains tax and income tax and are permissible once the employee turns 60.

**Actions of the previous owner of ATT Polymers GmbH**

At the beginning of 2012 the Parent received a letter from ISARIOS Industriekapital AG concerning UNYLON AG’s potential alleged claims against the purchaser of UNYLON Polymers GmbH, headquartered in Guben, currently trading as ATT Polymers GmbH (hereinafter “ATT Polymers”). The letter stated that in August 2011 ISARIOS Industriekapital AG (hereinafter “ISARIOS”) became the owner of unspecified claims due to UNYLON AG against AZOTY Tarnów connected with the acquisition of UNYLON Polymers GmbH. Acting on behalf of ISARIOS, Christian Schennstedt indicated that non-specified judicial proceedings are on-going at appeals level concerning the invalidity of a resolution. No specific claims were outlined in these letters, nor were specific demands made of AZOTY Tarnów. Also AZOTY Tarnów is not and has never been a party to any judicial or arbitration proceedings in which any claims were raised in relation to the Parent concerning the ATT Polymers share acquisition transaction. AZOTY Tarnów is aware that proceedings are in progress between UNYLON AG shareholders and the company concerning questions raised by some shareholders with regard to the procedural correctness of the general meeting of shareholders of UNYLON AG on 23 December 2009, where consent was expressed to the acquisition of shares in ATT Polymers by AZOTY Tarnów. One of the Unylon AG shareholders consistently contesting challenges as to the correctness of the resolution of 23 December 2009, and the courts are in agreement with this view, issuing rulings upholding the resolution of 23 December 2009. It should be borne in mind that firstly the consent of the general meeting of shareholders for execution of the transaction was one of the conditions which AZOTY Tarnów could waive, which despite the existence of the resolution of 23 December 2009 the Parent took the precaution to do, and secondly that the management board of UNYLON AG declared during the ATT Polymers sale that ATT was not UNYLON AG’s only asset, and thus legally the consent of the general meeting is not a necessary (legal) condition for the validity of the transaction. On 6 June 2012 the court in Hamburg issued a ruling repealing the resolution of 23 December 2009. The proceedings in this matter took place without the Parent’s presence and the
Parent received information on the ruling from representatives of ISARIOS. Legal analysis of the proceedings and ruling is on-going. However legal advisers to the Parent maintain their opinion regarding validity of the agreement on sale of ATT shares and the fact that there are no circumstances justifying a regressive transfer of these shares to any entity. In the event this transaction is overturned through arbitrage or general court a settlement between the parties should take place, i.e. return of the purchase price and payment of compensation for the Parent.

Privatisation of KiZCS Siarkopol S.A.

In connection with the publication of a public invitation to negotiation at the Ministry of Treasury’s website concerning purchase of 85% of shares in Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. in Grzybów, the Parent’s Management Board confirmed its participation in this company’s privatisation process. Response to the invitation was provided on 15 February 2012. On 1 March 2012 the Parent was admitted to the next stage of the process, i.e. limited due diligence of Siarkopol. The due diligence process took place between 2-5 April 2012.

Following approval from the Supervisory Board (Supervisory Board resolution no. 163/VIII/2012 of 24 April 2012), on 24 April 2012 the Parent’s Management Board submitted a proposal to purchase from the State Treasury 85% of shares in KiZChS Siarkopol S.A. The purchase was dictated by the necessity to ensure a supply of liquid sulphur.

On 20 June 2012 the Parent received a letter from the Ministry of State Treasury concerning presentation of detailed information on financing sources in respect of the purchase of Siarkopol shares, confirming the capacity to conclude the transaction. This information was drafted and sent to the Ministry on 22 June 2012.

Audit of the Quality Management System

On 19-22 March 2012 an audit was carried out at the Parent by Det Norske Veritas. The audit concerned: Quality Management System (recertification audit extending the validity of the certificate for a subsequent 3 years) and the Environmental Management System and Occupational Health and Safety Management System (periodic audits). The auditors performed a complete review of the management systems, conducting the audit at all organisational units. The auditors did not find any irregularities as a result of the audit.

IT operations

The AZOTY Tarnów Group is taking further steps aimed at more complete integration of companies within the Group. The transformation and consolidation of IT environments at the Parent, Z.Ch. Police S.A. and ZAK S.A., developed in partnership with Hewlett Packard, the Group’s strategic IT partner, ensure the standardisation and optimisation of business processes for AZOTY Tarnów.

Due to consolidation, the AZOTY Tarnów Group will streamline the management of IT, business support applications and hardware infrastructure. The joint IT infrastructure created by HP covers the maintenance and management of an integrated environment at infrastructure and software level.

The integration of IT environments within Group companies includes areas such as consolidation of SAP infrastructure (including SAP ERP, SAP Business Warehouse and SAP BusinessObjects), together with all support systems including significant backup systems ensuring business security and continuity. The implementation of a private cloud is also planned, enabling access to selected IT services, together with the creation of a group working platform to facilitate communication and cooperation between employees at all AZOTY Tarnów companies. Commissioned under the project, the Shared Services Centre will provide support for finance and HR processes for the entire Group, together with significantly speeding up and streamlining specification of profitability levels for specific companies and the AZOTY Tarnów Group as a whole.
Sale of ERU units

On 7 May 2012 pursuant to a previous decision the Minister of Environment transferred t emission reduction units (ERUs) generated in the fourth measurement period (i.e. 2011) to Mitsubishi Corporation Japan under a joint implementation project pursuant to the "Agreement on Reduction of Nitrogen Oxide at the AZOTY Tarnów Nitric Acid Installation", entered into between the Parent and Mitsubishi Corporation.

On 18 June 2012 the Parent received EUR 3 016 000 in payment for sale of the above ERUs to the final purchaser.

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

Verification of CO₂ emissions

An audit was carried out in the first quarter of 2012 to verify the level of CO₂ emissions for 2011. The audit confirmed the calculated emissions levels and ended with a positive result. In fulfilling the statutory verification obligation, a Report on CO₂ Emissions was sent to the Marshal of the Małopolskie Province and KASHUE (the National Administrator of Emissions Trading System), and redemption of used emissions allowances occurred on 12 April 2012.

As a result of the verification, a surplus of greenhouse gas emissions allowances was generated for 2011. Verification of the annual Reports on CO₂ Emissions were also verified at ZAK S.A. and Z.Ch. Police S.A. concerning on-site power plants for 2011, and a surplus of greenhouse gas emissions allowances was generated in both instances.

Certificates of origin for electricity

On 8 January 2012 an audit was conducted in order to obtain an opinion concerning confirmation of the correctness of data contained in the report submitted to the President of the ERO for issue of certificates of origin from co-generation for energy produced at the Parent's CHP plant. On 16 February and 26 March 2012 the President of the ERO awarded Property Rights to AZOTY Tarnów under certificates of origin for electricity produced through highly efficient co-generation in 2011.

Z.Ch. Police S.A. has a Cogeneration Unit, comprising combined heat and power plant EC2, producing electricity and heat, together with the 20C101 carbon dioxide compressor, which creates mechanical energy in cogeneration.

On 30 March 2012 certificates of origin for cogeneration were issued for the period from 1 August 2011 to the end of 2011 and on 5 April 2012 for the period from 1 January 2011 to the end of 2011 - compensatory certificates for 2011.

On 28 March 2012 cogeneration certificates were sold (46 million property rights, corresponding to 46 000 MWh) in an off-session transaction not settled by the Warsaw Stock Exchange.

Z.Ch. Police S.A. has not yet submitted an application for issue of certificates of origin under cogeneration for 2012.

Awards and distinctions

During the period which the report concerns, i.e. the first half of 2012, AZOTY Tarnów Group products won awards at prestigious industry events, which in the long-term should contribute to the creation of positive brand awareness and brand value:

- TYTANPOL, a product manufactured by Z.Ch. Police S.A., was presented with an award at the "Teraz Polska" event promoting Polish achievements. TYTANPOL was the winner of the chemicals industry product category. The results of the 12th "Teraz Polska" awards were announced on 11 June 2012 during a ceremony which took place at the Grand Theatre in Warsaw.
• Tarnoform® (POM), a high-quality engineering thermoplastic with decreased formaldehyde emissions, was presented with a medal in the category "Achievements of Polish Technology" at the PLASTPOL international plastics and rubber manufacturing fair in Kielce.

3. Significant agreements

<table>
<thead>
<tr>
<th>Parties</th>
<th>Object</th>
<th>Date of execution</th>
<th>Value</th>
<th>Current report date and number</th>
<th>Level of turnover / period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z.Ch. Police S.A. –</td>
<td>Polska Żegluga Przedsiębiorstwo Państwowe</td>
<td>29-12-2011</td>
<td>150 000</td>
<td>Current report, Police S.A. no. 1/2012</td>
<td>-</td>
</tr>
<tr>
<td>JSC Belarusian Potash Company</td>
<td>Purchase of phosphorous raw materials</td>
<td>09-01-2012</td>
<td>82 868</td>
<td>Current report, Police S.A. no. 2/2012</td>
<td>144 763</td>
</tr>
<tr>
<td>Keytrade AG</td>
<td>Sale of compound fertilisers</td>
<td>25 Apr 2012</td>
<td>31 304</td>
<td>Current report, Police S.A. no. 18/2012</td>
<td>92 970</td>
</tr>
<tr>
<td>DGG ECO Sp. z o.o.</td>
<td>Supply of phosphates</td>
<td>29 May 2012</td>
<td>276 915</td>
<td>Current report, Police S.A. no. 23/2012</td>
<td>316 534</td>
</tr>
</tbody>
</table>

Group commercial trade

<table>
<thead>
<tr>
<th>Parties</th>
<th>Object of trade</th>
<th>Period</th>
<th>Current report date and no.</th>
<th>Value of trade</th>
</tr>
</thead>
</table>

On 13 July 2012 the Parent commissioned Societe Generale S.A., Branch in Poland, to issue a bank guarantee to UniCredit CAIB Poland S.A. up to a maximum sum of PLN 672 848 000 in order to provide collateral for the submission of a tender offer for sale of shares in Zakłady Azotowe Puławy S.A. (ZAP), which the Parent announced in connection with the intention to acquire shares in Puławy carrying 32% of total votes.
In accordance with the commission, the Parent undertook to: (i) repay the bank all amounts paid out by the bank pursuant to the guarantee; and (ii) transfer an amount to the Parent's account held with the bank equal to the difference between the total price for shares in Puławy acquired under the tender offer and the deposit amount (defined below) deposited at the bank.

In order to provide collateral for the Parent’s potential debt towards the bank resulting from the commission, on 13 July 2012 the Parent executed an agreement with the bank establishing a pledge on shares in Puławy constituting the object of the tender offer and executed a deposit agreement with the bank, pursuant to which a PLN 300 000 000 deposit was established for it.

The value of the Parent’s liabilities connected with establishment of the guarantee under the commission exceeds 10% of the AZOTY Tarnów Group's revenue from sales for the last four quarters, constituting the criterion for recognising the agreement as a significant agreement.

**Significant financial agreements**

- **Current account overdraft agreement connected with virtual cash-pooling between the Group and PKO BP**
  On 8 March 2012, and again on 30 March 2012, the Parent (also representing other AZOTY Tarnów Group companies) signed subsequent annexes to the agreement concerning current account overdrafts granted to Group companies, of a total of PLN 250 million, for the period up to 30 September 2014, together with annexes to the virtual cash-pooling agreement, under which the following companies were excluded from both agreements: ZWRI Sp. z o.o., Hotel ORW "Azoty" Sp. z o.o., Hotel Centralny Sp. z o.o. and Centrum Elektrotechnika Instalacje Serwis Sp. z o.o., in connection with sales processes implemented within the Group and changes to the Group's internal organisational structure. Simultaneously for the subsequent half-year period, i.e. until 28 September 2012, as credit agent AZOTY Tarnów made a new allocation of credit sub-limits under the global current account overdraft limit, the level of which was adapted to the current and anticipated cash requirements of specific Group companies.

- **Factoring agreement between the Parent and Raiffeisen Bank**
  On 5 January 2012 the Parent executed an annexe to its factoring agreement with Raiffeisen Bank Polska S.A., under which cost optimisation was carried out on the acquisition of invoices covered by factoring, the factoring limit was increased from EUR 3 650 000 to EUR 6.5 million and an assignment was established from the insurance policy at KUKE concerning rights to damages relating to contracting parties covered by the factoring agreement.

- **Debt financing facility agreement between the Parent and Raiffeisen Bank**
  On 23 January 2012 the Parent executed an annexe to the PLN 10 million debt financing facility agreement with Raiffeisen Bank Polska S.A., under which the term of the agreement was extended to 28 November 2014.

- **Parent’s global insurance policy at KUKE**
  On 1 March 2012 the Parent signed a new global insurance policy for receivables with Korporacja Ubezpieczeń Kredytów Eksportowych S.A. for a one-year period, i.e. until 28 February 2013, which is a continuation of cooperation with the insurer to date. The significant conditions of the policy are adapted to the best, unified standards for commercial credit insurance within the AZOTY Tarnów Group.

- **Investment loan agreement between the Parent and BGŻ S.A.**
  On 30 March 2012 the Parent signed a PLN 45 million investment loan agreement with Bank Gospodarki Żywnościowej S.A. to provide finance for expenditures connected with the task "Modernisation of the Sulphuric Acid Plant" for the period from 1 April 2012 to 31 December 2018, with variable interest based on the WIBOR 1M base rate + bank commission at a market level adequate to the Group's financial standing. Collateral for the loan was established in the
form of a contractual mortgage of up to PLN 67.5 million on Sulphuric Acid and Hydroxylammonium Sulphate Plant, together with a registered pledge on moveable property within the above plant of a maximum pledge value of PLN 19.1 million.

- **Multi-purpose line of credit agreement between Z.Ch. Police S.A. and PKO BP**
  On 13 February 2012 Z.Ch. Police S.A. executed an annexe to the PLN 82 million multi-purpose line of credit agreement with Powszechna Kasa Oszczędności Bank Polski S.A., under which the bank’s margin, calculated on the basis of the WIBOR 1M base interest rate, was decreased to a level adequate for the market interest on this type of loan as available to the AZOTY Tarnów Group, and the term of the agreement was extended through to 30 September 2014.

- **Factoring agreement between Z.Ch. Police S.A. and PKO BP**
  On 15 March 2012 Z.Ch. Police S.A. entered into a factoring agreement with PKO BP Faktoring S.A. The limit is PLN 40 million and constitutes a supplementary source of finance (after ending cooperation with BZ WBK S.A. at the end of 2011) relating to similar factoring services.

- **Loan agreement - Z.Ch. Police S.A.**
  On 26 June 2012 Z.Ch. Police S.A. executed a loan agreement with Bank Gospodarki Żywnościowej S.A., corporate centre in Krakow. Under the agreement the bank provided a current account overdraft facility of up to PLN 80 000 000 for the period up to 30 June 2013, allocated to funding current operations, with the option for it to be renewed for a subsequent 12 months.

- **Loan agreement between PTK Koltar and WFOŚiGW**
  On 22 March 2012 PTK Koltar Sp. z o.o. signed two agreements with WFOŚiGW in Krakow to provide finance for a task entitled "Modernisation of Diesel Locomotives", valued at PLN 926 000 and PLN 918 000. As collateral for repayment of the above loans, on 22 March the Parent provided WFOŚiGW in Krakow with two sureties on behalf of PTK Koltar Sp. z o.o. up to PLN 956 000 and PLN 948 000 for the repayment period, i.e. until 31 December 2016.

- **Finance lease contract - PTK Koltar Sp. z o.o.**
  On 4 April 2012 PTK Koltar Sp. z o.o. executed a capital lease contract with Bankowy Leasing Sp. z o.o. for 30 railway wagons, with total value of PLN 3 780 000 and an 8-year repayment term for leasing instalments until July 2020.

**Agreements executed after the end of the reporting period**

- **ZAK S.A.’s global insurance policy for receivables at KUKE**
  In July 2012 ZAK S.A. signed an annex to the trade credit insurance agreement with Korporacja Ubezpieczeń Kredytów Eksportowych S.A., with a new insurance period from 1 August 2012 to 31 July 2013, constituting continuing cooperation with the current insurer. The significant conditions of the policy are adapted to optimal, unified standards for trade credit insurance within the AZOTY Tarnów Group.

- **After the end of the reporting period, in July 2012, the Parent signed an annex to the trade credit insurance agreement with Korporacja Ubezpieczeń Kredytów Eksportowych S.A., extending the insurance period to 31 July 2013.**

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

During the first half of 2012 there were no unusual items from the point of view of type, amount or impact which affected assets, liabilities, equity, net financial result or cash flows.
5. Issue, buyback and repayment of debt and equity instruments

Through current report no. 40/2012, the Parent’s Management Board announced that on 31 July 2013, with the intermediation of UniCredit CAIB Poland S.A. based in Warsaw, it had provided the Polish Financial Supervision Authority, Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) and Polska Agencja Prasowa S.A. with the content of a tender offer for purchase of shares in Zakłady Azotowe Puławy S.A. (ZAP), carrying 32% of votes at the company’s general meeting.

The share acquisition price was established as PLN 110 per share. The commencement date for subscriptions was established as 2 August 2012, with the end-date as 16 August 2012.

Immediately after the successful completion of the Tender Offer and following the adoption by the general meeting of the Bidder of a relevant resolution regarding the increase of the share capital of the Bidder, subject to the obtainment of relevant administrative and legal consents, the Bidder intends to offer the shareholders of the Company newly-issued shares (the “New Shares”) in exchange for an in-kind contribution in the form of shares in the Company (the “In-kind Offering”). The share exchange ratio, based on which the New Shares can be covered by contributing shares in the Company under the In-kind Offering, will be agreed in such manner that 2.5 New Shares will be delivered in exchange for one share in the Company. The offering of the New Shares to the shareholders of the Company constitutes an important element of the transaction and is intended to increase the shareholding of the Bidder by up to 100% of the total number of votes at the general meeting of the Company. The In-kind Offering may be structured in such manner so as to optimise the volume of the possible subsequent tender offer, which must be announced if relevant statutory shareholding thresholds are exceeded with respect to the number of votes in a public company. The information about the In-kind Offering will be included in a prospectus, which will be the sole legally binding document containing information on the In-kind Offering. The In-kind Offering may be effected after the preparation, approval and publication of the prospectus.

Through resolution no. 4 of 14 July 2012 amending the articles of association, the extraordinary general meeting of the Parent provided the Parent’s Management Board with authorisation to increase the Parent’s share capital through the issue of new shares of a total nominal value not exceeding PLN 240 432 915 under an increase in share capital within the limits specified above (authorised share capital). An increase of share capital within authorised share capital may only occur for the purpose and on the terms and conditions specified in the written opinion of the Management Board justifying the reasons for authorising the Management Board to exclude pre-emptive rights and the means of establishing the issue price for shares in the event of the Management Board increasing share capital under authorised share capital, published on 13 July 2012 through current report no. 41/2012. The Management Board’s authorisation to increase share capital and to issue new shares under authorised share capital expires six months from the date on which the amendment to the articles of association providing for authorised capital was made.

Within the authorized share capital the Management Board is authorised to offer the Company’s shares with exclusion of pre-emptive rights, exclusively to shareholders of ZAP in exchange for an in-kind contribution in the form of shares in ZAP in such manner that one share in ZAP comprises an in-kind contribution equal to 2.5 of the Company’s shares issued within authorised share capital. The Resolution of the Management Board regarding issuing shares in exchange for an in-kind contribution in the form of shares in ZAP does not require the approval of the Supervisory Board.

Pursuant to the authorisation granted, the Parent’s Management Board decides on all issues connected with the increase in share capital within authorised share capital, in particular the Management Board is authorised to: execute agreements and contracts securing the organisation and performance of the share issue, adopt resolutions and take other steps to dematerialise the shares and rights to shares and to execute an agreement with the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) on registration of the shares and rights to shares,
and to adopt resolutions and take other steps to issue shares through a public offering or apply for admission of the shares and rights to shares to trading on a regulated market respectively.

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

The amendment to the Articles of Association providing for the Management Board’s authorisation to increase the Company’s issued share capital within authorised share capital is aimed at providing the Management Board with the legal instruments necessary to provide the company with financial resources for implementation of the Company’s strategy concerning acquisition of shares in ZAP. The acquisition of shares in ZAP is a part of the Parent’s strategy adopted and announced by the Management Board on 13 June 2012 through current report 33/2012, in accordance with which the Parent’s goals include increase the scale of operations conducted within its group through alliances, mergers and acquisitions. Within authorised share capital the Management Board is permitted to conduct a share issue with exclusion of pre-emptive rights, addressed to shareholders of ZAP in exchange for a non-cash contribution in the form of ZAP shares. The in-kind share issue will enable the Parent to assume control over ZAP without the need to commit significant funds and increase the Parent’s debt. The General Meeting believes that, from the viewpoint of the Company’s interests, an increase in issued share capital within authorised share capital is the optimal instrument for implementation of the Company’s strategy.

6. Achievement of issue objectives

In the first quarter of 2012 expenditures were incurred in connection with implementation of the project "Modernisation of the Caprolactam Plant and Construction of a New Hydrogen Facility", a task resulting from the first share issue in 2008.

The other tasks under the assumptions of the first share issue were completed in accordance with information contained in the Management report on the operations of the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group for the 12 months ended 31 December 2011, p. 19.

Construction of a new Hydrogen Facility" were connected with the completed stage in construction of the new hydrogen facility. Commencement of gas consumption from local sources and start-up of an installation which is operating correctly. The performance of start-up tests on the installation and task settlement is anticipated for the third quarter of 2012.

The task "Modification and Intensification of the Caprolactam Plant to 101 300 t/year" was completed.

Tasks connected with the adaptation of existing loading stations to TDT requirements are underway: adaptation of the loading station for phenol from cisterns on the loading ramp to TDT requirements, adaptation of the loading station for cyclohexanol, cyclohexanone, cyclohexane and frakol to TDT requirements, adaptation of benzene loading stations to TDT requirements, adaptation of caprolactam loading equipment to TDT requirements and adaptation of the loading station for liquid sulphur from railway cisterns to on the loading ramp to TDT requirements. Work is progressing as per the schedule.

The task "means of implementing the Beckmann rearrangement process" is on-going. A technical project has been developed and technological start-up is planned for the second half of 2012.

The task "Modernisation of the Sulphuric Acid Plant" is in its initial stage of implementation. Suppliers of key equipment have been identified. Project commencement is anticipated for 2013.

Expansion of the Modified Plastics Plant

The task "Intensification of the Modified Plastics Plant - phases I and II" was completed and handed over.
The objectives of the 2011 share issue were also fully achieved on 2011 in relation to the assumptions specified in the issue prospectus, and the proceeds from the issue were used as designated (information contained in the **Condensed consolidated interim financial statements for the three and six month periods ended 30 September 2011**, p. 44).

### 7. Use of proceeds from share issues

The value of the Parent's public offerings to date totals PLN 897 246 000 (of which PLN 294 770 000 was generated under the 2008 issue and PLN 602 476 000 in 2011).

Up to the date of publishing these consolidated financial statements for the first half of 2012, 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 15 980 000,
- for financing a part of expenditures under achievement of issue objectives: PLN 853 560 000, including:
  - PLN 38 000 000 for investment tasks implemented under "Optimisation of the Product Portfolio and the Nitrate Fertiliser Sales System", fully planned in the issue prospectus,
  - PLN 105 745 000 for tasks implemented under "Modernisation of the Caprolactam Plant together with Construction of a New Hydrogen Facility",
  - PLN 23 487 000 for "Intensification of the Modified Plastics Plant",
  - PLN 19 921 000 for increasing polyamide production capacity, the "Polyamide II Plant" (including the acquisition of ATT Polymers GmbH),
  - PLN 569 250 000 for the acquisition of a 66% interest in Z.Ch. Police S.A.,
  - PLN 102 248 000 for the acquisition of 40.86% shares in ZAK S.A. from the Ministry of the Treasury.

The Parent used a total of PLN 858 651 000 in funds acquired from the public offering for financing expenditures under achievement of issue objectives, including PLN 12 182 000 to finance expenditures incurred in the first half of 2012.

In the first half of 2012, funds were used to implement one of the tasks under the first share issue completed in 2008, Modernisation of the Caprolactam Plant together with Construction of a New Hydrogen Facility".

However, objectives from the series C share issue were fully completed in 2011 in accordance with the assumptions outlined in the issue prospectus, and proceeds were used as designated.
Table 12. Expenditures on achievement of issue objectives incurred up to 30 June 2012, fully financed up to the date of drafting these financial statements

<table>
<thead>
<tr>
<th>Task</th>
<th>Expenditures from 1 July 2008</th>
<th>Borrowings</th>
<th>Own funds other than proceeds from issuing equity</th>
<th>Proceeds from issuing equity</th>
<th>Expenditures from 1 January to 30 June 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modernisation of the caprolactam plant together with construction of a new hydrogen facility</td>
<td>132 655</td>
<td>24 672</td>
<td>2 238</td>
<td>105 745</td>
<td>12 220</td>
</tr>
<tr>
<td>Optimisation of the product portfolio and nitrate fertiliser sales system</td>
<td>50 089</td>
<td>6 291</td>
<td>5 798</td>
<td>38 000</td>
<td></td>
</tr>
<tr>
<td>Expansion of the Modified Plastics Plant</td>
<td>23 487</td>
<td>-</td>
<td>-</td>
<td>23 487</td>
<td>(38)</td>
</tr>
<tr>
<td>Polyamide II Plant</td>
<td>19 921</td>
<td>-</td>
<td>-</td>
<td>19 921</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenditures financed under issue I objectives (2008)</strong></td>
<td><strong>226 152</strong></td>
<td><strong>30 963</strong></td>
<td><strong>8 036</strong></td>
<td><strong>187 153</strong></td>
<td><strong>12 182</strong></td>
</tr>
<tr>
<td>Acquisition of shares in Police S.A.</td>
<td>569 250</td>
<td>-</td>
<td>-</td>
<td>569 250</td>
<td></td>
</tr>
<tr>
<td>Acquisition of shares in ZAK S.A.</td>
<td>200 090</td>
<td>-</td>
<td>97 842</td>
<td>102 248</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenditures financed under issue II objectives (2011)</strong></td>
<td><strong>769 340</strong></td>
<td>-</td>
<td>97 842</td>
<td><strong>671 498</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenditures financed under issue objectives as at 30 June 2012</strong></td>
<td><strong>995 492</strong></td>
<td><strong>30 963</strong></td>
<td><strong>105 878</strong></td>
<td><strong>858 651</strong></td>
<td><strong>12 182</strong></td>
</tr>
</tbody>
</table>
8. Dividends

During the first half of 2012 the Issuer did not pay out or declare pay-out of a dividend.

After reviewing the opinion of the Supervisory Board concerning the division of net profit proposed by the Parent’s Management Board, on 27 April 2012 the Ordinary General Meeting decided to allocate net profit for 2011 to the Parent’s capital reserve.

9. Information on related parties

Information concerning significant transactions with related parties

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

During the six months ended 30 June 2012 there were no transactions executed with related parties on terms and conditions other than market terms and conditions.

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

During the six months ended 30 June 2012 the Group did not grant any advances, loans, borrowings, guarantees and sureties to management and supervisory personnel or persons closely related to them, nor did it enter into any agreements with them to provide benefits to the Group.

10. Events occurring after the end of the reporting period which could have an impact on future financial results

Announcement by the Parent of a tender offer for purchase of shares in Zakłady Azotowe Puławy S.A.

On 13 July 2012 the Parent’s Management Board decided to consolidate with Zakłady Azotowe Puławy S.A. (ZAP). Under this project the Parent announced a tender offer for purchase of 32% of shares in ZAP. Shares covered by the tender offer will be acquired for PLN 110 per share. UniCredit CAIB Poland Spółka Akcyjna is acting as intermediary.

As a result of the tender offer, the Parent intends to acquire 6 116 800 shares, carrying 6 116 000 votes at the general meeting of ZAP. After the acquisition, the Parent will hold 32% of votes at the general meeting of ZAP. The Parent only intends to acquire shares in a situation where at the end of the subscription period subscriptions cover at least 32% of total votes at the company’s general meeting, at the same time reserving the right to withdraw from the above requirement and to change the minimum number of shares covered by subscriptions, after achievement of which it undertakes to acquire the shares.

Transaction schedule:

11. Date of announcement of the Tender Offer: 13 July 2012
12. Date of commencement of subscriptions: 2 August 2012
13. Date of closing of subscriptions: 16 August 2012
15. Expected date of settlement: 24 August 2012

The Tender Offer is announced on the condition that the general meeting of ZAP adopts, no later than by 16 August 2012, a resolution regarding a change in the composition of the supervisory board of ZAP by appointing to the supervisory board of ZAP an individual nominated by the Parent,
effective as of 24 August 2012. The Bidder reserves the right to acquire shares under the tender offer even if the condition referred to above is not satisfied. The Parent’s failure to propose a candidate for the supervisory board of ZAP shall be tantamount to the waiver by the Parent of the aforementioned condition.

On 31 July 2012 the Parent published information on amendment to the content of the tender offer concerning points relating to the acceptance of subscriptions - subscriptions for shares covered by the tender offer will be accepted by UniCredit CAIB Poland S.A. and Dom Maklerski Pekao.

The consolidation with ZAP will allow the creation of a group with a significant competitive position on the European market and will serve as a platform for further consolidation of the Polish chemical sector. Above all, the planned transaction will enable both parties to achieve similar strategic objectives, increase the value of their companies, and exploit synergies and the many benefits created by their cooperation, including:

- elimination of market volatility through product diversification;
- increase in production capacities of urea, ammonium nitrate and UAN (urea-ammonium nitrate solution);
- development of a comprehensive and flexible fertiliser product portfolio;
- integration of fertiliser sales networks;
- optimisation of production and consumption of ammonia and nitric acid;
- optimisation of urea production and consumption directions;
- integration of management processes;
- service integration;
- exchange of know-how in the field of fertilisers as well as caprolactam and polyamides;
- reduction of the costs of sales and production; improvement of buyer-power and economies of scale in negotiations with suppliers;
- optimisation of logistics;
- improvement of the ability to introduce new technological solutions;
- increase in the scale of operations in the segment of chemicals and broaden the portfolio of nitrogen products in commodity chemicals, specifically in the melamine segment, in which the ZAP ranks third in the world (behind Borealis and Orascom) and in the caprolactam segment where the ZAP is one of the ten largest producers in the world; strengthen the good image of both brands, specifically in Poland and other EU member states by merging stable local, regional and international chains of distribution;
- mutual opening of new markets by using the client networks developed by both companies.

The above objectives will be possible to achieve by using the Parent’s experience in the operations conducted by ZAP. The business and strategic benefits resulting from the consolidation of the Company and the Bidder will have a positive effect on the creation of the value of the combined AZOTY Tarnów Group by increasing net earnings per share for both companies and increasing the attractiveness of AZOTY shares due to increased liquidity and possible inclusion in the WIG20 index of the Warsaw Stock Exchange.

**Consolidation plans and planned equity issue**

The Parent’s strategic objective is to develop the largest Polish fertiliser and chemicals group, thus placing it in a leading position among the biggest nitrogen fertiliser producers in Europe.

Subsequent to completion of the tender offer and after adoption by the Parent's general meeting of an appropriate resolution on increasing share capital, subject to the acquisition of applicable
administrative and legal consents, the Parent intends to offer shares under the new share issue to ZAP shareholders in return for a non-cash contribution in the form of ZAP shares (details of the issue are presented in the point Issue, buyback and repayment of debt and equity instruments on p. 23).

The offering of new shares to ZAP shareholders constitutes a significant element of the transaction aimed at increasing the Parent’s stake to 100% of total votes at ZAP’s general meeting.

Furthermore the Parent’s Management Board presented an opinion supplementing the reasons for the Management Board’s authorisation to exclude pre-emptive rights in connection with the draft resolutions concerning the increase of the Parent’s share capital published in connection with calling the Parent’s extraordinary general meeting for 14 July 2012. This opinion provides for the fact that new issue shares in the Parent will be offered to ZAP shareholders in such manner that shareholders will receive 2.5 new issue shares in the Parent for each share in ZAP. The planned transaction to consolidate both companies is aimed at creating Poland’s largest chemicals group, consisting of creating value for shareholders through consolidating the sector.

As a result of the planned consolidation, it is the Parent’s goal for the AZOTY Tarnów Group to become the number two fertiliser manufacturer in Europe. It intends to execute the transaction on the principles of a friendly merger of both companies’ future potential, high manufacturing standards and long-term industry legacy.

During the Parent’s extraordinary general meeting on 14 July 2012, a resolution was adopted on amendment of the articles of association in connection with the Management Board’s authorisation to increase authorised share capital of 32 495 500 shares in order for these to be issued in exchange for 68% of shares in ZAP, i.e. 2.5 shares in the Parent per ZAP share. The planned increase in capital together with the tender offer for purchase of 32% of ZAP shares at PLN 110 per share constitutes an element in the comprehensive consolidation proposal to both companies.

**Guarantee agreement**

After the end of the reporting period, i.e. on 13 July 2012, the Parent commissioned Societe Generale S.A. Branch in Poland to issue a bank guarantee for beneficiary UniCredit CAIB Poland S.A. up to a maximum amount of PLN 672 848 000 in order to provide collateral for the tender offer for the purchase of shares in ZAP representing 32% of voting rights at the general meeting.

The bank guarantee issued by Societe Generale is secured by an interest-bearing collateral account on the Parent’s funds in the amount of PLN 300 000 000 and a financial pledge on shares in ZAP which are to be acquired through the tender offer.

The parent provided collateral for the interest-bearing account at Societe Generale in the amount of PLN 300 000 000, serving as collateral for a bank guarantee issued by Societe Generale in the amount of PLN 672 848 000 to provide security for the public tender offer to subscribe for the sale of up to 32% of shares in Zakład Azotowe Puławy S.A. The above does not impact the Group’s financial liquidity due to the fact that the collateral was established using surplus funds and to a lesser degree free credit limits and a renewable loan in the amount of PLN 70 000 re-granted to the Parent by ZAK, without impacting on the financial liquidity of the Group and its subsidiaries.

**Guarantee agreement**

On 13 July 2012 the Parent signed an agreement on issue at its request of a PLN 672 848 000 bank guarantee in order to provide collateral for the tender offer for purchase of shares in Zakład Azotowe Puławy S.A.

Details of the agreement can be found in the point Significant agreements on p. 20 and in the point Sureties for borrowings and issued guarantees on p. 42 of this report.
II. OTHER INFORMATION

1. Description of Group structure

As at the 30 June 2012, the AZOTY Tarnów Group comprised Zakłady Azotowe w Tarnowie-Mościcach S.A. – the Parent, and:

- 5 subsidiaries (with interest exceeding 50%),
  including:
  - ZAK S.A., together with the ZAK S.A. Group
  - Z.Ch. Police S.A., together with the Z.Ch. Police Group
  - ATT Polymers GmbH,
  - Polskie Konsorcjum Chemiczne sp. z o.o. with 9 subsidiaries,
  - Przedsiębiorstwo Transportu Kolejowego KOLTAR Sp. z o.o.,
- 1 associate - Navitrans (with a 26.4% interest).

A detailed description of the companies included in the AZOTY Tarnów Group can be found in the Management Report on the Operations of the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group for the 12-month period ended 31 December 2011, p. 4.

The only change was to the registered office address of Polskie Konsorcjum Chemiczne Sp. z o.o. As of 31 July 2012 the company’s address is: Tarnów, ul. Kwiatkowskiego 7.

The Parent also holds minority interests in 13 entities. The Parent’s minority interests remained unaltered in relation to the information published in the Management report on the operations of the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group for the 12 months ended 31 December 2011, p.8.

During the reporting period, on 2 February 2012 Zakłady Przemysłu Dziewiarskiego "Karo" S.A. w likwidacji was removed from the National Court Register in connection with the completion of liquidation (the decision on removal was ratified on 7 March 2012).

In connection with the completion of bankruptcy proceedings, on 10 May 2012 a subsequent minority-held company, Południowe Zakłady Przemysłu Skórnego "Chełmek" S.A. w Upadłości Likwidacyjnej, was removed from the National Court Register.
2. Changes during the reporting period in the structure of commercial entities, including as a result of mergers, acquisitions or sale of Group companies, long-term investments, division, restructuring and discontinued operations

Consolidation of the PKCh Sp. z o.o. group

Pursuant to the adopted strategy the PKCh Sp. z o.o. Group is undergoing an internal consolidation and restructuring process in relation to the operations of the various entities comprising the Group. Entities from the city of Kędzierzyn-Koźle will be merged with companies from Tarnów. The consolidation is being implemented in accordance with operating profiles. The planned completion of the merger is Q3 and Q4 2012. Appropriate document has been filed by the companies in competent courts.

The consolidation process covers the following entities:

- Merger of PKCh (acquirer) with subsidiary BIPROZAT (target)
- PROREM (acquirer) and ZAK SERWIS (target) and REKOM (target) – mechanical and machinery operations
- JRCh (acquirer) and CHEMAK (target) – laboratory and small chemical manufacturing operations
- AUTOMATYKA (acquirer) and ASTER ZAK (target) – automation and control systems operations

Schedule for the consolidation process

<table>
<thead>
<tr>
<th>OPERATIONAL AREA</th>
<th>DEADLINE FOR MERGER PLAN SUBMISSION TO KRS</th>
<th>PLANNED DATE FOR GENERAL MEETINGS OF SHAREHOLDERS</th>
<th>RECOMMENDED DATE OF ENTRY IN KRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKCh +BIPROZAT</td>
<td>16 May 2012</td>
<td>19 July 2012</td>
<td>31 July 2012</td>
</tr>
<tr>
<td>Mechanical and machinery operations</td>
<td>28 June 2012</td>
<td>30 July 2012</td>
<td>approx. 31 August 2012</td>
</tr>
<tr>
<td>Laboratory and small chemical manufacturing operations</td>
<td>28 June 2012</td>
<td>1 August 2012</td>
<td>approx. 31 August 2012</td>
</tr>
<tr>
<td>Automation and control systems operations</td>
<td>19 July 2012</td>
<td>by 31 October 2012</td>
<td>by the end of 2012</td>
</tr>
</tbody>
</table>

In accordance with the above schedule the consolidation process for BIPROZAT Sp. z o.o. and PKCh Sp. z o.o. is completed and the two entities were formally merged on 31 July 2012. Pursuant to a resolution of the PKCh SP. z o.o. general meeting of 19 July 2012, the merger was conducted through transferring BIPROZAT Sp. z o.o. assets (as target) to PKCh Sp. z o.o. (as acquirer). Due to the above, BIPROZAT Sp. z o.o. was removed from KRS. All rights and obligations of the acquired company were transferred to PKCh Sp. z o.o. which is the legal successor of the merged entities.

On 30 July 2012 general meetings took place at subsidiaries of PKCh Sp. z o.o.: PROReM Sp. z o.o., Zakład Remontowy REKOM Sp. z o.o. and ZAK SERWIS Sp. z o.o. Resolutions were adopted on merger of the three entities, with PROReM Sp. z o.o. as the acquirer and Zakład Remontowy REKOM Sp. z o.o. and ZAK SERWIS Sp. z o.o. as targets. The merger is set to be completed through transferring the entire assets of Zakład Remontowy REKOM Sp. z o.o. and ZAK SERWIS Sp. z o.o. to PROReM Sp. z o.o., with a concurrent increase in share capital of PROReM Sp. z o.o. through creating new shares which will be issued to shareholders in Zakład Remontowy REKOM Sp. z o.o. and ZAK SERWIS Sp. z o.o. in accordance with the exchange ratio specified in the merger plan.
As a result of the merger PROReM Sp. z o.o. will ascend into all rights and obligations of Zakład Remontowy REKOM Sp. z o.o. and ZAK SERWIS Sp. z o.o. The merger will be completed upon its entry into the Register of Companies maintained for the acquirer. This entry necessitates removal of Zakład Remontowy REKOM Sp. z o.o. and ZAK SERWIS Sp. z o.o. from KRS.

On 1 August 2012 general meetings took place at two entities set to merge: Jednostka Ratownictwa Chemicznego Sp. z o.o. and CHEMZAK Sp. z o.o. – subsidiaries of PKCh Sp. z o.o. Resolutions were adopted on merger of the two entities, with JRCh Sp. z o.o. as the acquirer and CHEMZAK Sp. z o.o. as the target. The merger is set to be completed through transferring the entire assets of CHEMZAK Sp. z o.o. to JRCh Sp. z o.o., with a concurrent increase in share capital of JRCh Sp. z o.o. through creating new shares which will be issued to the shareholder in CHEMZAK Sp. z o.o.

As a result of the merger JRCh Sp. z o.o. will ascend into all rights and obligations of CHEMZAK Sp. z o.o. The merger will be completed upon its entry into the Register of Companies maintained for the acquirer. This entry necessitates removal of CHEMZAK Sp. z o.o. from KRS.

Sale of ZWRI Sp. z o.o.

On 9 March 2012 Polskie Konsorcjum Chemiczne Sp. z o.o. sold its 100% stake in ZWRI Sp. z o.o. Przedsiębiorstwo Produkcyjno-Handlowo-Uslugowe WIET-POL Piotr Wietecha, having its registered office in Krośno, became the new owner of ZWRI Sp. z o.o.

Merger of two Z.Ch. Police S.A. subsidiaries

On 29 February 2012 the merger of two Z.Ch. Police S.A. subsidiaries was completed: Centrum Elektrotechnika Instalacje Serwis Sp. z o.o. as the target and AUTOMATIKA Usługi Kontrolno-Pomiarowe Sp. z o.o. as the acquirer. The merger was completed through transferring the entire assets of Centrum Elektrotechnika Instalacje Serwis Sp. z o.o. to AUTOMATIKA Usługi Kontrolno-Pomiarowe Sp. z o.o. On the merger date Centrum Elektrotechnika Instalacje Serwis Sp. z o.o. was removed from KRS.

On 27 April 2012 a general meeting of AUTOMATIKA Usługi Kontrolno-Pomiarowe Sp. z o.o. took place, where the company’s share capital was increased by PLN 5 486 000 through creation of 10 972 new shares with nominal value of PLN 500 each. As a result of the increase AUTOMATIKA Usługi Kontrolno-Pomiarowe Sp. z o.o.’s capital now amounts to PLN 7 157 500. All shares were acquired by Z.Ch. Police S.A. On 13 June 2012 the share capital increase was registered in KRS.

Request for consent to transfer shares in Z.Ch. Police S.A. subsidiaries to PKCh Sp. z o.o.

The Management Board of Z.Ch. Police S.A. requested consent of the appropriate Company authorities to transfer to Polske Konsorcjum Chemiczne Sp. z o.o. (PKCh Sp. z o.o.) as in-kind contribution shares of Koncept Sp. z o.o., Remech Sp. z o.o. and Automatika Sp. z o.o. in exchange for acquisition by Z.Ch. Police S.A. of shares in the increased share capital of PKCh Sp. z o.o.

Resolution on dissolution of Infrapark Police S.A.

On 30 April 2012 the ordinary general meeting of Infrapark Police S.A., a subsidiary of Z.Ch. Police S.A., adopted a resolution on company dissolution and commencement of liquidation on the resolution adoption date, together with appointment of liquidators.

Liquidation bankruptcy announcement at Budchem Sp. z o.o.

On 23 July 2012 the Regional Court for Szczecin-Centrum in Szczecin issued a decision on the liquidation bankruptcy of Budchem Sp. z o.o. and appointed Krzysztof Drzewieniecka as receiver.

Attempt to dispose of the assets of "Supra" Sp. z o.o. w likwidacji

The company's receiver took steps to dispose of the entire assets of "Supra" Sp. z o.o. w likwidacji, a subsidiary of Z.Ch. Police S.A. Tender procedures remained unresolved due to a lack of interest among purchasers.
Commencement of the process to sell ZAK S.A. subsidiaries

On 23 March 2012 the Management Board of ZAK S.A. consented to the commencement of a process to sell subsidiaries PTS "AUTOZAK" Sp. z o.o., Hotel ORW "Azoty" Sp. z o.o. and Hotel Centralny Sp. z o.o.

In connection with the above, on 15 May 2012 a tender offer announcement was published in the daily Gazeta Wyborcza concerning sale of companies, and on 18 May 2012 in additional local editions for Opole and Gdańsk. Furthermore, information on the planned hotel sale was published a hotel web portal. The tender submission deadline was 15 June 2012. One entity expressed interest in purchasing the hotels, however on 16 July 2012 withdrawal of the sole Offeror from the tender was announced. In connection with this withdrawal, on 3 August 2012 the ZAK S.A. Management Board decided to finish the tender without conclusion.

As regards the sale of PTS AUTOZAK Sp. z o.o., negotiations with selected offerors are on-going.

3. Management position concerning achievement of forecasts

In connection with the fact that forecasts for financial results in 2012 were not published, we cannot present the Parent Management Board's position on achievement of forecast results.

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

Table 13. Shareholding structure as at the date of publishing the last annual report for 2011 (as at 20 March 2012)

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING Otwarty Fundusz Emerytalny</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva Otwarty Fundusz Emerytalny</td>
<td>5 384 685</td>
<td>8.40</td>
<td>5 384 685</td>
<td>8.40</td>
</tr>
<tr>
<td>Aviva BZ WBK PZU S.A. (including PZU Życie S.A.)</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td>Generali Otwarty Fundusz Emerytalny</td>
<td>3 245 554</td>
<td>5.06</td>
<td>3 245 554</td>
<td>5.06</td>
</tr>
<tr>
<td>Other</td>
<td>23 277 763</td>
<td>36.31</td>
<td>23 277 763</td>
<td>36.31</td>
</tr>
<tr>
<td></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

As per the list of persons entitled to participate at the ordinary general meeting called for 27 April 2012, as made available to AZOTY TARNÓW by the National Depository for Securities, Aviva Otwarty
Fundusz Emerytalny Aviva BZ registered 6 million shares, which is equivalent to increasing its share in the share capital of AZOTY Tarnów to 9.36%.

Table 14. Shareholding structure as at the date of publishing these Q1 2012 financial statements (as at 8 May 2012)

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING Otwarty Fundusz Emerytalny</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva Otwarty Fundusz Emerytalny</td>
<td>6 000 000</td>
<td>9.36</td>
<td>6 000 000</td>
<td>9.36</td>
</tr>
<tr>
<td>Aviva BZ WBK PZU S.A. (including PZU Życie S.A.)</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td>Generali Otwarty Fundusz Emerytalny</td>
<td>3 245 554</td>
<td>5.06</td>
<td>3 245 554</td>
<td>5.06</td>
</tr>
<tr>
<td>Other</td>
<td>22 662 448</td>
<td>35.35</td>
<td>22 662 448</td>
<td>35.35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On 15 June 2012 the Parent received a notification from Powszechne Towarzystwo Emerytalne PZU S.A., based in Warsaw, acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień" (open-ended pension fund), that as a result of executing a transaction for purchase of the shares in the Parent on the Warsaw Stock Exchange on 6 June 2012, the number of shares held by the "Złota Jesień” pension fund enabled the 5% threshold of votes at the general meeting of AZOTY Tarnów to be exceeded.

Before the above transaction, the "Złota Jesień" pension fund held 3 196 990 shares, constituting 4.99% of the Parent’s share capital and 4.99% of votes at the general meeting. These shares carried 3 196 990 votes at the general meeting of shareholders.

After the above transaction, the "Złota Jesień" pension fund held 3 270 585 shares, constituting 5.10% of the Parent’s share capital and 5.10% of votes at the general meeting. These shares carry 3 270 585 votes at the general meeting of shareholders.

Table 15. Shareholding structure as at 15 June 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING Otwarty Fundusz Emerytalny</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva Otwarty Fundusz Emerytalny</td>
<td>6 000 000</td>
<td>9.36</td>
<td>6 000 000</td>
<td>9.36</td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td>PZU OFE „Złota Jesień” Generali Otwarty Fundusz Emerytalny</td>
<td>3 270 585</td>
<td>5.10</td>
<td>3 270 585</td>
<td>5.10</td>
</tr>
<tr>
<td>Other</td>
<td>19 391 863</td>
<td>30.25</td>
<td>19 391 863</td>
<td>30.25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
According to the list of persons and entities entitled to participate at the extraordinary general meeting called for 14 July 2012, made available to the Parent by the National Depository for Securities:

- **ING Otwarty Fundusz Emerytalny** registered 9 250 000 shares, which is equivalent to increasing its stake in the Parent’s share capital to 14.43%,
- **Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK** registered 6 397 643 shares, which is equivalent to increasing its stake in the Parent’s share capital to 9.98%,
- **PZU S.A.** (including **PZU Życie S.A.**) registered 3 392 642 shares, which is equivalent to increasing its stake in the Parent’s share capital to 5.29%,
- **Generali Otwarty Fundusz Emerytalny** registered 3 340 610 shares, which is equivalent to increasing its stake in the Parent’s share capital to 5.21%.

**Table 16. Shareholding structure as at 14 July 2012**

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING Otwarty Fundusz Emerytalny</td>
<td>9 250 000</td>
<td>14.43</td>
<td>9 250 000</td>
<td>14.43</td>
</tr>
<tr>
<td>Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK</td>
<td>6 397 643</td>
<td>9.98</td>
<td>6 397 643</td>
<td>9.98</td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3 392 642</td>
<td>5.29</td>
<td>3 392 642</td>
<td>5.29</td>
</tr>
<tr>
<td>PZU OFE „Złota Jesień”</td>
<td>3 340 610</td>
<td>5.21</td>
<td>3 340 610</td>
<td>5.21</td>
</tr>
<tr>
<td>Generali Otwarty Fundusz Emerytalny</td>
<td>3 270 585</td>
<td>5.10</td>
<td>3 270 585</td>
<td>5.10</td>
</tr>
<tr>
<td>Other</td>
<td>17 914 964</td>
<td>27.94</td>
<td>17 914 964</td>
<td>27.94</td>
</tr>
<tr>
<td></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On 23 July 2012 the Parent’s Management Board received a notification from Norica Holding S.à.r.l, having its registered office in Luxembourg ("Noric"), in which Norica announced that as a result of a transaction for purchase of shares in the Parent as a result of the tender offer announced on 16 May 2012, on 20 July 2012 it had acquired rights under 7 715 131 shares, carrying 7 715 131 votes at the Parent’s general meeting (12.03% of total votes at the general meeting).

Before acquisition of shares under the tender offer Norica did not hold shares in the Parent. As at the date of announcing the tender offer, Agroberry Ventures Limited (having its registered office in Nicosia, Cyprus), i.e. a company controlled by Norica's parent company, held 766 156 shares in the Parent, carrying 766 156 votes at the general meeting (1.2% of total votes at the Parent's general meeting). After acquisition of the shares under the tender offer, Norica and Agroberry Ventures Limited hold a total of 8 481 287 shares, carrying 8 481 287 votes at the Parent's general meeting (13.23% of total votes at the general meeting).

As a supplement to the above information, on 25 July 2012 the Parent received a notification concerning acquisition of shares in the Parent, as a result of which the threshold of 5% of total votes at the general meeting had been exceeded with regard to the direct and indirect stakes held by companies connected with Norica. On 25 July 2012 the Parent received additional notifications from the attorney of the following entities:
1. TrustService Limited Liability Company having its registered office in Velikey Novogrod, Russia (hereinafter referred to as “TrustService”),

2. JSC Acron, Joint Stock company having its registered office in Velikey Novogrod, Russia (hereinafter referred to as “Acron”),

3. Subero Associates Inc., private company limited by shares having its registered office in Tortola, British Virgin Islands (hereinafter referred to as “Subero”),

4. Mr Viatcheslav Kantor,

about indirect acquisition of the Issuer’s shares (hereinafter referred to as the “Notification”), prepared pursuant to article 77 section 7, article 69a section 1 point 3 and article 69 of Act of 29th July 2005 on Public Offerings and the Terms and Conditions of Admitting Financial Instruments to an Organised System of Trading and on Public Companies (hereinafter referred to as the “Act”).

According to the Notification of 20 July 2012 as a result of the transaction of acquisition of shares in the Company resulting from the Public Tender Offer for shares in the Company, announced pursuant to article 73 section 1 of the Act, on 16th May 2012 by Norica Holding S.à.r.l. having its registered office in Luxembourg (hereinafter referred to as “Norica”) in which Norica directly acquired 7,715,131 shares in the Company constituting 12.03% of the total number of shares in the Company which entitle to exercise 7,715,131 votes at the Company’s General Meeting of Shareholders, constituting 12.03% of the total number of votes at the Company’s General Meeting of Shareholders:

- TrustService, dominant entity of Norica, indirectly, through its subsidiary Norica, acquired 7,715,131 shares in the Company, constituting 12.03% of the total number of shares in the Company which entitle to exercise 7,715,131 votes at the Company’s General Meeting of Shareholders, constituting 12.03% of the total number of votes at the Company’s General Meeting of Shareholders.

- Acron, dominant entity of TrustService, indirectly, through its subsidiary Norica, acquired 7,715,131 shares in the Company, constituting 12.03% of the total number of shares in the Company which entitle to exercise 7,715,131 votes at the Company’s General Meeting of Shareholders, constituting 12.03% of the total number of votes at the Company’s General Meeting of Shareholders.

- Subero, dominant entity of Acron, indirectly, through its subsidiary Norica, acquired 7,715,131 shares in the Company, constituting 12.03% of the total number of shares in the Company which entitle to exercise 7,715,131 votes at the Company’s General Meeting of Shareholders, constituting 12.03% of the total number of votes at the Company’s General Meeting of Shareholders.

- Mr Viatcheslav Kantor, citizen of Israel, dominant entity of Subero, through its controlled entity Norica, acquired 7,715,131 shares in the Company, constituting 12.03% of the total number of shares in the Company which entitle to exercise 7,715,131 votes at the Company’s General Meeting of Shareholders, constituting 12.03% of the total number of votes at the Company’s General Meeting of Shareholders.

Pursuant to the Notification, before the above described indirect acquisition of the Issuer’s shares by Norica resulting from the Public Tender Offer:

- TrustService did not hold, directly or indirectly, any shares in the Company,

- Acron did not hold, directly or indirectly, any shares in the Company.
- Subero indirectly, through its controlled entity Agroberry Ventures Limited having its registered office in Nicosia, Cyprus, held 766,156 shares in the Company, constituting 1.2% of the share capital of the Company which entitled to exercise 766,156 votes at the Company’s General Meeting of Shareholders, constituting 1.2% of the total number of votes at the Company’s General Meeting of Shareholders.

- Mr Viatcheslav Kantor, indirectly, through its controlled entity Agroberry Ventures Limited (controlled by Mr Kantor’s controlled entity Subero), held 766,156 shares in the Company, constituting 1.2% of the share capital of the Company which entitled to exercise 766,156 votes at the Company’s General Meeting of Shareholders, constituting 1.2% of the total number of votes at the Company’s General Meeting of Shareholders.

At present:

- TrustService, dominant entity of Norica, indirectly, through its subsidiary Norica, holds 7,715,131 shares in the Company, constituting 12.03% of the share capital of the Company which entitle to exercise 7,715,131 votes at the Company’s General Meeting of Shareholders, constituting 12.03% of the total number of votes at the Company’s General Meeting of Shareholders.

- Acron, dominant entity of TrustService, indirectly, through its subsidiary Norica, holds 7,715,131 shares in the Company, constituting 12.03% in the share capital of the Company which entitle to exercise 7,715,131 votes at the Company’s General Meeting of Shareholders, constituting 12.03% of the total number of votes at the Company’s General Meeting of Shareholders.

- Subero, dominant entity of Acron, indirectly, through Subero’s controlled entities Norica and Agroberry Ventures Limited holds in total 8,481,287 shares in the Company, constituting 13.23% in the share capital of the Company which entitle to exercise 8,481,287 votes at the Company’s General Meeting of Shareholders, constituting 13.23% of the total number of votes at the Company’s General Meeting of Shareholders.

- Mr Viatcheslav Kantor, dominant entity of Subero, indirectly, through its controlled entities Norica and Agroberry Ventures Limited holds in total 8,481,287 shares in the Company, constituting 13.23% in the share capital of the Company which entitle to exercise 8,481,287 votes at the Company’s General Meeting of Shareholders, constituting 13.23% of the total number of votes at the Company’s General Meeting of Shareholders.

Entities controlled by Mr Viatcheslav Kantor, other than Norica and Agroberry Ventures Limited, do not hold any shares in the Company.

Entities controlled by Subero, other than Norica and Agroberry Ventures Limited, do not hold any shares in the Company.

Entities controlled by Acron, other than Norica and Agroberry Ventures Limited, do not hold any shares in the Company.

Entities controlled by TrustService, other than Norica and Agroberry Ventures Limited, do not hold any shares in the Company.

Simultaneously, Mr Viatcheslav Kantor, Subero, Acron and Norica informed - each of them individually - that they do not exclude within the coming 12 months to increase or decrease, directly or indirectly, their total number of votes at the Company’s General Meeting of Shareholders.
Furthermore, Mr Viatcheslav Kantor, Subero, Acron and Norica informed - each of them individually - that there are no persons referred to in article 87 section 1 point 3 c of the Act.

Table 17. Shareholding structure as at 23 July 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING Otwarty Fundusz Emerytalny</td>
<td>9 250 000</td>
<td>14.43</td>
<td>9 250 000</td>
<td>14.43</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l together with Agroberry Ventures Limited</td>
<td>8 481 287</td>
<td>13.23</td>
<td>8 481 287</td>
<td>13.23</td>
</tr>
<tr>
<td>Aviva Otwarty Fundusz Emerytalny</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>6 397 643</td>
<td>9.98</td>
<td>6 397 643</td>
<td>9.98</td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3 392 642</td>
<td>5.29</td>
<td>3 392 642</td>
<td>5.29</td>
</tr>
<tr>
<td>Generali Otwarty Fundusz Emerytalny</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PZU OFE „Złota Jesień”</td>
<td>3 270 585</td>
<td>5.10</td>
<td>3 270 585</td>
<td>5.10</td>
</tr>
<tr>
<td>Pozostali</td>
<td>9 433 677</td>
<td>14.71</td>
<td>9 433 677</td>
<td>14.71</td>
</tr>
<tr>
<td></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On 27 July 2012 the Parent’s Management Board received information from Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU S.A.), drafted pursuant to art. 69, sec. 1, point 3 of the Act of 29 July 2005 on Public Offerings and the Terms and Conditions for Admitting Financial Instruments to an Organised System of Trading and on Public Companies. As per the information provided, as a result of the contribution by PZU S.A. and PZU Życie S.A. on 24 July 2012 of 213 146 shares in the Parent to investment fund PZU FIZ AKCJI, the level of shares held in the Parent by PZU S.A. and subsidiary PZU Życie S.A. had fallen below the 5% threshold of total votes at the Parent’s general meeting.
Table 18. Shareholding structure as at 27 July 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING Otwarty Fundusz Emerytalny</td>
<td>9 250 000</td>
<td>14.43</td>
<td>9 250 000</td>
<td>14.43</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l together with Agroberry</td>
<td>8 481 287</td>
<td>13.23</td>
<td>8 481 287</td>
<td>13.23</td>
</tr>
<tr>
<td>Aviva Otwarty Fundusz Emerytalny</td>
<td>6 397 643</td>
<td>9.98</td>
<td>6 397 643</td>
<td>9.98</td>
</tr>
<tr>
<td>Generali Otwarty Fundusz Emerytalny</td>
<td>3 340 610</td>
<td>5.21</td>
<td>3 340 610</td>
<td>5.21</td>
</tr>
<tr>
<td>PZU OFE „Złota Jesień”</td>
<td>3 270 585</td>
<td>5.10</td>
<td>3 270 585</td>
<td>5.10</td>
</tr>
<tr>
<td>Other</td>
<td>12 826 319</td>
<td>20.00</td>
<td>12 826 319</td>
<td>20.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Up to 14 August 2012, i.e. up to the date of drafting this report, the Parent had not received any other official information on changes in the ownership of significant blocks of shares.

5. Parent shares held by management and supervisory personnel as at the date of publishing the report, together with indication of changes in such shares held during the period from publication of the last interim report, with separate presentation for each individual

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

Table 19. Parent shares held by management personnel

<table>
<thead>
<tr>
<th>Number of shares as at 1 January 2012</th>
<th>Change acquisition</th>
<th>Number of shares as at 14 August 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>- 2 000</td>
<td>2 000</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>639</td>
<td>639</td>
</tr>
</tbody>
</table>

On 18 January 2012 Jerzy Marciniak, President of the Management Board and Managing Director, acquired 2 000 shares in the Parent.

Table 20. Parent shares held by supervisory personnel

<table>
<thead>
<tr>
<th>Number of shares as at 1 January 2012</th>
<th>Change acquisition</th>
<th>Number of shares as at 14 August 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomasz Klikowicz</td>
<td>190</td>
<td>190</td>
</tr>
</tbody>
</table>

6. Court proceedings

There are no proceedings on-going within Group companies concerning liabilities or receivables, the value of which could individually or in total constitute 10% of the Parent’s equity, i.e. which could constitute the criterion of significance specified in § 91, point 5, par. 5 of the Ordinance of the Minister of Finance concerning current and periodic information of 19 February 2009.
However, there is an on-going dispute between Z.Ch. Police S.A. and Bank Polska Kasa Opieki Spółka Akcyjna, as referred to in the Z.Ch. Police S.A. management report for 2011, p.62.

In June 2012 there was a hearing at which witnesses were cross-examined and evidence proceedings were held.

7. Loan and borrowing guarantees or sureties issued

Guarantees and sureties issued by the Parent

On 22 March the Parent granted PLN 948 000 and PLN 956 000 in sureties (103.25% of the loan amount) for PTK Koltar Sp. z o.o.’s liabilities under loans granted by the National Fund for Environmental Protection and Water Management in Krakow to finance the modernisation of two diesel locomotives. The sureties were granted until 31 December 2016, and they expire in the event of complete repayment of the loans with interest and costs under the agreements.

Table 21. Sureties issued by the Parent for related parties in 2012

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provincial Fund for Environmental Protection and Water Management</td>
<td>Collateral for payment of PTK Koltar Sp. z o.o. liabilities resulting from a loan agreement</td>
<td>PLN</td>
<td>948</td>
</tr>
<tr>
<td>Provincial Fund for Environmental Protection and Water Management</td>
<td>Collateral for payment of PTK Koltar Sp. z o.o. liabilities resulting from a loan agreement</td>
<td>PLN</td>
<td>956</td>
</tr>
</tbody>
</table>

AZOTY Tarnów Group related parties did not provide sureties or guarantees to the Parent.

The Parent did not issue new guarantees in H1 2012.

As at 30 June 2012 there was a guarantee issued by a bank at the request of the Parent, decreasing the available credit limits.

<table>
<thead>
<tr>
<th>Type/issuer</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantee / PKO BP S.A.</td>
<td>Director of the Customs Chamber in Krakow</td>
<td>Collateral for customs procedures</td>
<td>PLN</td>
<td>1 600</td>
</tr>
</tbody>
</table>

After the end of the reporting period, i.e. on 13 July 2012, the Parent commissioned Societe Generale S.A. Branch in Poland to issue a bank guarantee for beneficiary UniCredit CAIB Poland S.A. up to a maximum amount of PLN 672 848 000 in order to provide collateral for the tender offer for the purchase of shares in Zakład Azotowe Puławy S.A. (ZAP), representing 32% of voting rights at the general meeting.

The bank guarantee issued by Societe Generale is secured by an interest-bearing collateral account on the Parent’s funds in the amount of PLN 300 000 000 and a financial pledge on the shares in ZAP which are to be acquired through the tender offer.

8. Other information essential for assessing the HR, property, financial situations, the financial result and their changes at the company and its
8.1. Structural and ownership changes (tender offer)

On 16 May 2012 Norica Holding S.à.r.l. (Norica), (the Offeror), with the intermediation of Dom Maklerski BZ WBK S.A., announced a tender offer for purchase of shares in connection with the intention to acquire shares in the Parent. The Offeror intended to acquire up to 41,550,037 shares as a result of the tender offer, carrying up to 64.80% of votes at the Parent's general meeting.

In accordance with the tender offer, Norica only intended to acquire shares in the Parent if, at the end of the subscription period, at least 31,291,567 shares in the Company had been covered by subscriptions, which together with the 766,156 shares in the Company held by Agroberry Ventures Limited (a company headquartered in Nicosia, Cyprus and controlled by Subero Associates Inc.) as at the date of announcing the tender offer would have corresponded to 50%+1 of votes at the Company's general meeting and if at the same time the structure of subscriptions submitted during the tender offer were such that after settlement of the tender offer there were no limitations in exercising the right to vote at the Company's general meeting, as referred to in § 47, sec. 3 of the Company's articles of association. Through Dom Maklerski BZ WBK S.A., on 31 May 2012 the Offeror issued a statement concerning change to the content of the tender offer concerning indication of the minimum number of shares covered by subscriptions. In accordance with the statement, the Offeror as an entity acquiring shares intended to purchase shares only if, after the term of the tender offer, subscriptions had covered at least 41,550,037 shares in the Company, which together with the 766,156 shares in the Company held by Agroberry Ventures Limited (a company headquartered in Nicosia, Cyprus and controlled by Subero Associates Inc.) as at the date of announcing the tender offer would have corresponded to 66% of votes at the Company's general meeting.

The purchase price for shares covered by the tender offer was PLN 36.00 per share. The subscription period under the tender offer was 6 - 22 June 2012. On 14 June 2012 the Offeror released a statement on amendment to the content of the tender offer concerning the end-date for acceptance of subscriptions. The new date was established as 29 June 2012. Through its statement of 21 June 2012, the Offeror rescheduled the deadline for acceptance of subscriptions to 6 July 2012. This deadline was subsequently re-extended through the statement of 28 June 2012, with the new end-date established as 13 July 2012.

On 1 June 2012 the Parent's Management Board presented its position on the tender offer for purchase of shares in the Parent, as announced by Norica (current report no. 30/2012). In accordance with its published position, the Parent's Management Board decided against the tender offer, justifying this decision with reasons including the fact that the tender offer did not reflect the fair value of the Parent and did not take into consideration its long-term strategy, in particular failing to take into account potential synergies which the Offeror referred to in the tender offer. The position taken by the Parent's Management Board was supported by two independent opinions issued by financial institutions, JP Morgan and Societe Generale. The Management Board also shared the anxiety of trade unions active at the AZOTY Tarnów Group, as expressed in their statements of position (current reports no. 29/2012 and 30/2012). In its statement, the Parent's Management Board recommended that shareholders in the Parent not respond to the tender offer.

On 5 July 2012 the Offeror released a statement on amendment to the content of the tender offer concerning the end-date for acceptance of subscriptions. The new date was established as 16 July 2012. On 13 July 2012 the Offeror released a statement announcing change to the content of the tender offer, as of 13 July 2012 amending the price from the previous level of PLN 36.00 per share to PLN 45.00 per share being the subject of the tender offer.

On 17 July 2012 the Offeror announced that on 16 July 2012 the subscription period for purchase of shares in the Parent had ended and that, despite the fact that the conditions for effectiveness
outlined in the tender offer had not been fulfilled by the end of this period, the Offeror had decided
to acquire all shares covered by subscriptions under the tender offer. On 19 July 2012 Dom Maklerski
BZ WBK S.A., as intermediary in the tender offer for purchase of shares in the Parent, announced that
as a result of the tender offer, on 19 July 2012 transactions were executed for purchase of 7 715 131
shares in the Parent. As the purchaser Norica, a subsidiary of Russia’s Acron, acquired all shares
subject to subscriptions submitted in response to the tender offer. These shares constitute a 12.03%
stake in the Parent’s share capital. In addition, Agroberry Ventures Limited, a subsidiary of Acron,
held 766 156 shares in the Parent, constituting a 1.2% stake in the Parent’s share capital.

8.2. Implementation of key investments

The largest current investments at the Parent are projects implemented under issue objectives:
construction of a new hydrogen facility and modernisation of the sulphuric acid plant.

Construction of the Hydrogen Facility secures supplies of hydrogen for caprolactam manufacture and
ensures additional production of synthetic gas. The new installation is also tasked with lowering the
costs of hydrogen production due to an increase in consumption of natural gas with higher nitrogen
content from local sources.

Together with the 5th Methane Decomposing Facility, implementation of the project enables use of
the full amount of natural gas with higher nitrogen content from new local sources, enabling a
reduction in the consumption of more expensive mains gas.

Capital expenditures incurred through to 30 June 2012 reached PLN 67 567 000. The installation has
currently been activated, is functioning correctly and the performance of test start-up and task
settlement are anticipated for the third quarter of 2012.

The aim of the project Modernisation of the Sulphuric Acid Facility is to ensure the operational
continuity of one of the main installations in the caprolactam production line, improve ecological
indicators and increase the steam production ratio.

Capital expenditures incurred through to 30 June 2012 reached PLN 12 048 000.

The project is planned for completion in 2013.

Implementation of key investments within the AZOTY Tarnów Group during the first half of 2012

On-going projects at the Parent also include:

- Modernisation of main electrical substations,
  Capital expenditures incurred until 30 June 2012 reached PLN 15 592 000.
- Conversion of gate no. 6 from ul. Chemiczna and construction of a heavy goods vehicle parking
  area,
  Capital expenditures incurred until 30 June 2012 reached PLN 2 062 000.
- Installation for comprehensive collection of ash from the boilers at power plant EC II,
  Capital expenditures incurred until 30 June 2012 reached PLN 14 040 000.
- IT consolidation within the AZOTY Tarnów Group,
  Capital expenditures incurred until 30 June 2012 reached PLN 4 722 000.
- Modernisation of the Cooling Station no. 6 refrigeration system,
  Capital expenditures incurred until 30 June 2012 reached PLN 308 000.
- Exchange of the computer control and instrumentation systems in the Lactam Department,
  Capital expenditures incurred until 30 June 2012 reached PLN 3 022 000.
- Exchange of the computer control and instrumentation systems at the Ammonium Nitrate Plant,
  Capital expenditures incurred until 30 June 2012 reached PLN 1 936 000.
• Removal of phenol and liquid hydrocarbons within the cyclohexanone-over-palladium installation.
  No further capital expenditure was incurred through to 30 June 2012 - a contractor for the technical project was selected.

*Installation for comprehensive collection of ash from the boilers at power plant EC II*

A modern installation for collection of ash from the on-site CHP plant was completed and commissioned during the reporting period. The aim of the investment is to significantly lower the quantity of waste, at the same time reducing its negative environmental impact.

The ash obtained from the new installation will be sold to external customers, guaranteeing additional revenue for the Parent.

The installation is equipped with modern control and measurement apparatus. This enables precise control over specific process phases, guaranteeing a high level of operational reliability. The technological start-up performed in May 2012 confirmed achievement of assumed operational parameters for the installation with regard to efficiency and the selection of equipment.

The total cost of implementing the task was PLN 14 000 000. AZOTY Tarnów also obtained approx. PLN 4 000 000 in co-finance for the project from the National Fund for Environmental Protection and Water Management under the Operational Programme 'Infrastructure and Environment', task entitled "Rational Corporate Resource and Waste Management". The Parent anticipates a return on its investment outlays within 4 years.

One undoubted benefit is the limitation of environmental pollution - a reduction in negative impact on the ecosystem. These are particularly significant issues for the Parent, which has adopted a wide range of pro-ecology initiatives and has many successes in the field, proved by the fact that it was named Leader in Polish Ecology by the Minister of the Environment.

The commencement of further significant investments is planned in 2012:

• Purchase and construction of a new hydrogen compressor for the phenol hydrogenation installation in the palladium catalyst,
• Modernisation of the interior of ammonia synthesis reactors.

In total over the first half of 2012 PLN 44 232 000 was spent on investments at the Parent.

The most important on-going investments at ZAK S.A. during the first half of 2012 include:

• Expansion of the HNO3 pouring station,
  Capital expenditures incurred through to 30 June 2012 reached PLN 2 285 000.
• Upgrade of propylene loading stations,
  Capital expenditures incurred through to 30 June 2012 reached PLN 451 000.
• Construction of a new hydrogen facility,
  Capital expenditures incurred through to 30 June 2012 reached PLN 1 701 000.
• Construction of a platform to load liquid BKF into tanks,
  Capital expenditures incurred through to 30 June 2012 reached PLN 3 570 000.
• Sulphuric acid dispensing in the process of neutralising nitric acid using ammonia gas,
  Capital expenditures incurred through to 30 June 2012 reached PLN 646 000.

Furthermore, significant tasks on which work is progressing in the field of investment preparation include:

• Installation for the manufacture of liquid fertilisers,
• Change to the BKM raw material base,
• Terephthalate,
• New power generation infrastructure for ZAK.

During the first half of 2012 the total level of expenditures connected with investment implementation was PLN 7,564,000.

At Z.Ch. Police S.A. the principal on-going investments during the first half of 2012 include:

• Modernisation of synthetic gas compressors and exchange of the CO₂ compressor turbine
  Investment expenditures incurred during the first half of 2012 totalled PLN 1,290,000

• Construction of a filtration system and preparation of the existing installation for dry separation,
  Investment expenditures incurred during the first half of 2012 totalled PLN 2,980,000

• Iron II sulphate neutralisation system - monohydrate
  Investment expenditures incurred during the first half of 2012 totalled PLN 5,600,000

• Logistics development at Z.Ch. Police S.A. - phase 1,
  Investment expenditures incurred during the first half of 2012 totalled PLN 1,260,000

• Logistics development at Z.Ch. Police S.A. - phase 2,
  Investment expenditures incurred during the first half of 2012 totalled PLN 580,000

• Installation to dispense filler into NP fertilisers,
  Investment expenditures incurred during the first half of 2012 totalled PLN 3,590,000

• Stripper 20 E-102,
  Investment expenditures incurred during the first half of 2012 totalled PLN 11,820,000

• Purchase of an imported electro-filter,
  Investment expenditures incurred during the first half of 2012 totalled PLN 1,610,000

• Upgrade of ammonia loading ramps
  Investment expenditures incurred during the first half of 2012 totalled PLN 1,000,000

Investment expenditures totalling PLN 37,838,000 were incurred at Z.Ch. Police S.A. during the first half of 2012.

8.3. Foreign exchange rate volatility

The first half of 2012 was characterised by maintenance of the good economic situation in the chemicals market, which enabled satisfactory financial results to be achieved and, as an effect, a high level of liquidity and credit worthiness was maintained by the AZOTY Tarnów Group. An increase in natural gas prices occurred during the analysed period, although this was taken into consideration in the Group’s plans.

Factors and events impacting the financial results achieved by the AZOTY Tarnów Group include the relatively high level of PLN exchange rate volatility on the currency market, i.e. first a significant strengthening of Poland’s currency in relation to EUR and USD in January 2012, followed by stabilisation between February and April and then a returning short-term weakening in May, which to a large extent was counterbalanced by another strengthening in the second half of June.

In total over the first half of 2012, PLN strengthened by approx. 0.9% in relation to USD and 3.7% in relation to EUR in comparison with the rates recorded as at 31 December 2011. In turn the average USDPLN exchange rate during the first half of 2012 was 10.5% higher than the average rate during 2011, while the EURPLN rate was 3.5% higher respectively. Thus in the medium-term the PLN exchange rate was subject to a weakening during the first half of the year, primarily in relation to USD but also to a lesser degree to EUR, which had a positive impact on the results generated by the AZOTY Tarnów Group, which has positive net foreign currency exposure in EUR, and to a lesser extent in USD, resulting from a surplus of foreign exchange revenues over expenses.

In total during the first half of 2011, PLN followed the EURUSD trend and as a result strengthened by approx. 7.2% against the USD and weakened by approx. 0.7% against the EUR in relation to the levels recorded as at 31 December 2010. Maintenance of relatively good macroeconomic indicators coupled with the tightening of national monetary policy eased the negative impact of the above-mentioned growth in risk within the global economy.
Based on the "Market Risk Management Policy" within the plan for 2011 and in accordance with the internal guidelines of the Foreign Exchange Risk Committee, in the first quarter of 2011 the Parent hedged up to 50% of planned currency exposure under contracts executed, within a time scale of up to 6 months from the date on which the hedge was originated.

During the first half of 2012 the Parent executed hedges in the form of forward contracts on future exchange of EUR (79.1%) and USD (20.9%) into PLN in proportion to planned net exposures in both these currencies.

Currency swap transactions were used as a supplementary tool to adapt the maturity date of instruments to changes in current currency exposure and adapt to short-term USD deficit in the EURUSD pair.

The result on executed hedging transactions for the first half of 2012 amounted to PLN 2,705,000, with a simultaneous gain of PLN 542,000 on revaluation of hedging instruments (constituting the difference in valuation of open financial instruments between 31 December 2011 and 30 June 2012).

In parallel, the remaining part of non-hedged net currency exposure during the reporting period amounted to a positive result on executed currency differences of PLN 616,000, with a simultaneous negative valuation of currency settlements amounting to PLN (2,507,000).

In total during the first half of 2012 the Parent's net balance of finance income and costs from exchange differences and derivative currency transactions (with consideration to the revaluation as at the end of the reporting period) amounted to: PLN 1,356,000 (with realised exchange differences and currency hedging transactions at PLN 3,321,000 and unrealised items valued at negative PLN (1,965,000).

In connection with the net foreign currency exposure generated by the Group during the first half of 2012 (mainly in EUR) with a high level of volatility in EURPLN and USDPLN exchange rates, a positive result was achieved on foreign exchange differences and settled hedging transactions, which together with the surplus compensated for the negative valuation of open hedging transactions.

Furthermore, during the first half of 2012 AZOTY Tarnów recorded a negative result on the revaluation and implementation of interest rate hedging in the form of collar transactions for a total of PLN (354,000) in foreign currency loans denominated in EUR, together with a negative result on valuation of a PLN (3,123,000) transaction executed last year for conversion of EUAs into CER carbon credits.

8.4. Financial liquidity

The AZOTY Tarnów Group's financial position is characterised by full payment capability and creditworthiness, both in relation to the Parent and to other leading Group companies. This means the Group's capability to make timely repayment of its liabilities and to hold and generate a surplus on operating activity, allowing for further payment within payment deadlines.

The AZOTY Tarnów Group has the above free overdraft limits and supplementary free factoring limits, which may be used in situations of potential growth in short-term requirements for funds, such as may arise for reasons including maintenance stoppages or seasonal or periodic drops in sales levels or the extension of payment deadlines in the fertilisers segment.

The AZOTY Tarnów Group also has the possibility to fund its investment plans both from its current and planned cash surpluses from operating activities, and through the ability to incur new investment loans. Financial ratios established with strategic lenders allow for a significant increase in the scale of finance for the investment plans using the Parent's and Group's external sources of funding, without the risk of violating the terms and conditions of existing loan agreements.

The AZOTY Tarnów Group has also negotiated the application of unified conditions of lease for subsidiaries under global leasing limits offered by Bankowy Leasing Sp. z o.o. (PLN 20 million) and ING Lease Sp. z o.o. (PLN 30 million).
8.5. Liabilities – borrowings

The Group has free overdraft limits connected with the structure of virtual cash pooling (which the Parent may use in situations of changing need for funds amongst Group companies), alongside supplementary free multi-purpose loan limits at specific leading companies. As at 30 June 2012 in total, the AZOTY Tarnów Group has credit limits to finance current operating activities at a level of approx. PLN 450 million, with maturities ranging from 1 to 2.5 years from the end of the reporting period.

Current and multipurpose credit agreements executed by Group companies enable full coverage of financial requirements under operating activities, including with regard to planned liquidity ratios, and ensure the required level of finance appropriate to sales levels.

Correct as at 30 June 2012, the Parent has free investment loan limits totalling over PLN 53 million, designated for the completion of planned investment tasks: "Construction of a Hydrogen Facility" (equivalent of over PLN 13 million in EUR and USD) and to finance the task "Modernisation of the Nitric Acid Plant" at PLN 40 million.

In the first half of this year the Group successfully continued the process of finance cost optimisation, which resulted in factors including a decrease in margins on new and existing working capital loans at Z.Ch. Police S.A., adapted to a unified level at banks with strategic significance to the Group.

Also, during the first half of 2012 AZOTY Tarnów increased the scale of surplus balancing among loans AZOTY Tarnów Group companies under virtual cash-pooling services, as an effect increasing the revenue-cost effectiveness of this service.

It should be emphasised that, as a result of the positive results generated on operating activities, in the first half of 2012 the Group decreased its total liabilities under loans and borrowings.

The Group observes unified covenants under loan agreements, in accordance with which it has the capability to make significant increases in the scale of financial liabilities as required.

In the assessment of strategic credit providers, the Group's financial standing is high and there are no threats or risks to this standing in the future.
Table 22. Significant financing agreements signed or annexed in H1 2012

<table>
<thead>
<tr>
<th>Type of financing or parties to the agreement</th>
<th>Agreement date</th>
<th>Annex date</th>
<th>Currency</th>
<th>Amount</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>AZOTY Tarnów factoring agreement with Raiffeisen Bank Polska S.A.</td>
<td>11 Sep 2009</td>
<td>5 Jan 2012;</td>
<td>EUR</td>
<td>6 500</td>
<td>undefined</td>
</tr>
<tr>
<td>ZAK S.A. debt limit with Raiffeisen Bank Polska S.A.</td>
<td>23 Feb 2012</td>
<td>-</td>
<td>PLN</td>
<td>10 000</td>
<td>28 Nov 2014</td>
</tr>
<tr>
<td>Factoring agreement between Z.Ch. Police S.A. and PKO BP Factoring S.A.</td>
<td>15 Mar 2010</td>
<td>-</td>
<td>PLN</td>
<td>40 000</td>
<td>undefined</td>
</tr>
<tr>
<td>2 loan agreements between PTK Koltar Sp. z o.o. and WFOŚiGW in Krakow</td>
<td>22 Mar 2012</td>
<td>-</td>
<td>PLN</td>
<td>926 918</td>
<td>from 31 Mar 2012 to 15 Dec 2016 from 31 Mar 2014 to 31 Dec 2018 from 28 Apr 2012 to 28 Jul 2020</td>
</tr>
<tr>
<td>AZOTY Tarnów investment loan at BGŻ S.A.</td>
<td>30 Mar 2012</td>
<td>-</td>
<td>PLN</td>
<td>45 000</td>
<td>undefined</td>
</tr>
<tr>
<td>Finance lease contract - PTK Koltar Sp. z o.o. with Bankowy Leasing Sp. z o.o.</td>
<td>4 Apr 2012</td>
<td>-</td>
<td>PLN</td>
<td>3 780</td>
<td>undefined</td>
</tr>
<tr>
<td>Current account overdraft for Z.Ch. Police S.A. at BGŻ S.A.</td>
<td>30 Jun 2012</td>
<td>-</td>
<td>PLN</td>
<td>80 000</td>
<td>30 Jun 2013</td>
</tr>
</tbody>
</table>

During the first half of 2012 the following loans were granted within the AZOTY Tarnów Group:

- PLN 240 000 loan granted by Z.Ch. Police S.A. to "Supra" Agrochemia Sp. z o.o. w likwicjadi, headquartered in Wroclaw, to ensure gratuities for redundant personnel and PLN 500 000 for day-to-day needs,
- Loan granted by Z.Ch. Police S.A. to Automatica Sp. z o.o., headquartered in Police - arising after the merger of two previously independent companies - valued at PLN 1 million for the payment of liabilities,
- PLN 750 000 loan granted by Hotel ORW "Azoty" Sp. z o.o. to Hotel Centralny Sp. z o.o. in Kędzierzyn Koźle in order to repay an overdraft held at PKO Bank Polski before the planned process for disposal of shares in this company by ZAK S.A.

### 8.6. Composition of management and supervisory authorities

Composition of the Management Board as at 1 January 2012:

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

On 25 November 2011 the Supervisory Board of the Parent adopted a resolution on holding elections for the Member of the Management Board elected by employees of the Parent. The elections were held in December 2011 and January 2012. On 17 February 2012 the Supervisory Board of the Parent adopted resolution on appointment of Artur Kopeć to the Management Board of the Parent as the Management Board member elected by employees.
Composition of the Management Board as at the date of drafting these financial statements:

- Jerzy Marciniak – President of the Management Board, Managing Director
- Krzysztof Jałosiński – Vice-President,
- Andrzej Skolmowski – Vice-President,
- Witold Szczypiński – Vice-President,
- Artur Kopec – Member.

The competences of the Parent’s Management Board are specified in the following regulations:

- Polish Commercial Companies Code,
- Act on Commercialisation and Privatisation of 30 August 1996 as amended,
- Act of 29 July 2005 on Public Offerings and the Conditions for Admitting Financial Instruments to Organised Trading and on Public Companies,
- Act of 29 July 2005 on Trade in Financial Instruments,
- the provisions of secondary legislation issued on the basis of the above acts,
- provisions of the Parent's articles of association (§ 19 - § 22).

Through resolution no. 4 of 14 July 2012, The Extraordinary General Meeting of Shareholders amended the content of §10 sec. 3 and subsequent of the Parent’s Articles of Association by wording it the following way:

“3. The Management Board is authorised to increase the Company’s share capital by issuing new shares with a total nominal value of not more than PLN 240,432,915, by means of increasing the share capital within the limits defined above (“authorised share capital”). The increase of the share capital within authorised share capital may be effected only for the purpose and under terms and conditions stipulated in section 4 below. The Management Board’s authorisation to increase the share capital and to issue new shares within the Authorised share capital expires within six months from the date of registration of the changes to the Articles of Association, stipulating the Authorised share capital.

4. Within authorised share capital, the Management Board is authorised to offer the Company’s shares with the exclusion of pre-emptive rights, only to shareholders of Zakłady Azotowe „Puławy” S.A., with a registered office in Puławy, Poland, entered into the Register of Entrepreneurs of the National Court Register under number KRS 0000011737 (“ZAP”) in exchange for a non-cash contribution in the form of shares in ZAP in such a way that one share in ZAP will be a non-cash contribution to cover 2.5 Company’s shares issued within the authorised share capital. The Resolution of the Management Board regarding issuing shares in exchange for a non-cash contribution in the form of shares in ZAP does not require the approval of the Supervisory Board.

5. In the Company’s interest the Management Board is authorised to deprive current shareholders, in whole or in part, of pre-emptive rights in relation to shares issued within the authorised share capital only to offer them to shareholders of ZAP according to rules described in section 4 above.

6. Unless stipulated otherwise in section 7 or in the Code of Commercial Companies and Partnerships, the Management Board decides on all matters connected with the increase in the share capital within the authorised share capital, in particular the Management Board is authorised to:

1) conclude agreements protecting the organization and carrying out a share issue,
2) adopt resolutions and take other actions regarding dematerialisation of shares and rights to shares as well as to conclude agreements with Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository for Securities) on the registration of shares and rights to shares,
3) adopt resolutions and take other actions regarding, respectively, issuing shares by public offering or applying to distribute shares and rights to shares in the regulated market.

7. The Management Board’s resolutions regarding:
1) increasing the share capital within the authorised share capital,
2) establishing the issue price of shares issued within the authorised share capital, and
3) excluding pre-emptive rights,

require the consent of the Supervisory Board. (...)

Under § 21 of the articles of association, the Management Board's competences include:

- adoption of the Management Board regulations,
- approval of Organisational Regulations governing the internal organisation of the Company’s business,
- creation and liquidation of branches, facilities, offices and other units,
- appointment of a commercial representative,
- incurrence and grant of loans and borrowings (if the level of Company debt under loans and borrowings, together with planned loans and/or borrowings, exceeds PLN 40 million, the execution of loan and/or borrowing agreements and issue of bonds requires the consent of the Supervisory Board),
- issue of bonds, subject to the issue of bonds exchangeable for shares or pre-emptive rights to shares and the competences of the Supervisory Board specified in § 33, sec. 2, point 7,
- adoption of annual financial plans and long-term strategic plans,
- adoption of financial statements,
- incurrence of conditional liabilities, including the grant by the Company of guarantees, sureties and any adoption by the Company of liability for a third party debt, together with the issue, acceptance and grant of promissory notes and the on-demand endorsement of promissory notes, subject to the provisions of § 33, sec. 2, points 5 and 6 (the incurrence of conditional liabilities, including the grant by the Company of guarantees and property sureties and the acceptance of liability for third-party debt of a value exceeding PLN 2 million, together with the issue, acceptance and grant of promissory notes and the on-demand endorsement of promissory notes exceeding PLN 2 million in value, requires the consent of the Supervisory Board),
- the disposal, acquisition and encumbrance with limited property rights of property, plant and equipment elements of a market value equal to or in excess of PLN 50 000, subject to the provisions of § 33, sec. 2, points 1, 2, 3 and 4, together with § 51, sec. 1, points 8, 9, 10, 11 and 24 of the articles of association (competences of the Supervisory Board and General Meeting),

A detailed division of competences amongst Members of the Parent's Management Board, 9th term, governed by the Resolution of the Management Board of the Parent, no. 1/IX/2011 of 25 October 2011, can be found in the Condensed consolidated interim financial statements for the three and nine month periods ended 30 September 2011, point 8.2 on p. 58.

Composition of the Parent's Supervisory Board as at 1 January 2011:

- Marzena Piszczek – Chairperson of the Supervisory Board,
- Ewa Lis – Vice-Chairperson,
- Jan Wais – Secretary,
- Tomasz Klikowicz – Member,
- Artur Kucharski – Member,
- Marek Mroczkowski – Member,
- Jacek Obłękowski – Member,
- Zbigniew Paprocki – Member,
- Ryszard Trepczyński – Member.

Marzena Piszczek resigned as Member of the Supervisory Board on 13 January 2012. She was also Chairperson of the Supervisory Board and did not provide a reason for her resignation.
On 13 January 2012 the Extraordinary General Meeting of AZOTY Tarnów appointed Monika Kacprzyk-Wojdyga as Member of the Supervisory Board, simultaneously entrusting her with the function of Chairperson of the Parent’s Supervisory Board.

The composition of the Parent’s Supervisory Board as at the date of drafting these financial statements is as follows:

- Monika Kacprzyk-Wojdyga – Chairperson of the Supervisory Board
- Ewa Lis – Vice-Chairperson,
- Jan Wais – Secretary,
- Tomasz Klikowicz – Member,
- Artur Kucharski – Member,
- Marek Mroczkowski – Member,
- Jacek Obłękowski – Member,
- Zbigniew Paprocki – Member,
- Ryszard Trepczyński – Member.

The Supervisory Board acts pursuant to:

- the provisions of the Act of 15 September 2000 – the Polish Commercial Companies Code (Polish Journal of Laws no. 94, item 1037 as amended),
- the Act on Commercialisation and Privatisation (...),
- the Accounting Act,
- the company’s articles of association (§ 32 and subsequent),
- the Byelaws for the Supervisory Board of Zakłady Azotowe w Tarnowie-Mościcach S.A.

In 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 an advisory body working jointly within the structure of the Supervisory Board. The following Board members form its composition:

- Jacek Obłękowski (Chairman),
- Marek Mroczkowski,
- Tomasz Klikowicz.

The Committee’s tasks include in particular:

- monitoring the financial reporting process,
- monitoring the effectiveness of internal control, internal audit and risk management systems existing within the Parent,
- monitoring financial audit,
- monitoring the independence of the statutory auditor and entity authorised to audit the Parent’s financial statements,

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.
9. Factors impacting on results achieved over the perspective of at least the next half year

9.1. Income from deposits of share issue proceeds

With regard to the full achievement of objectives under the 2011 share issue and the use of proceeds to acquire blocks of shares in Z.Ch. Police S.A. and ZAK S.A., and also the advanced stage of objectives under the IPO in 2008, in the first quarter of 2012 the Parent generated approx. PLN 660 000 in finance income from deposited share issue proceeds and anticipates that in subsequent quarters of this year this income will continue to decrease.

9.2. Exchange rates

In the second quarter a subsequent wave of the debt crisis in southern European economies and the on-going economic slowdown in the euro zone had a negative impact on currencies in Central and Eastern European countries, in effect causing a repeat of the Polish currency's weakening trend in relation to USD and, to a lesser extent, to EUR. This had a positive impact on the financial results generated by the AZOTY Tarnów Group.

With regard to the stable economic situation in Poland, the relatively low debt level and comparatively limited economic slowdown against a backdrop of strong symptoms of recession in other EU countries, it should be expected that PLN will be relatively resistant in subsequent months to further weakening. The chief risk to exchange rate stability remains the scenario of an uncontrolled Greek euro exit and/or that of subsequent euro zone economies in the event of a lack of sufficient determination - on the one hand among politicians and public opinion in at-risk countries, and on the other among leading decision-makers and European Union institutions - to prevent further escalation of the economic crisis.

Thus in the third quarter of this year the most probable scenario will be maintenance of a sideways trend in EURPLN, with a slight weakening of the zloty against the US dollar, although short-term increases in exchange rate volatility at a level of +/- 5% are possible.

However, in the less probable scenario of an uncontrolled development of the debt crisis in southern European economies, the speculative weakening trend for PLN against USD and EUR may escalate in the short-term to around 10% of current levels.

All the same, in the mid-term, as EU economies begin to exit recession, we expect that PLN will return to a path of gradual strengthening and the EUR/PLN exchange rate may move towards a level of approx. 4.00 - 4.20 by the end of 2012.

Current and anticipated PLN exchange rates against USD and EUR should not pose a threat to the achievement of results planned for 2012 in relation to the AZOTY Tarnów Group's net foreign currency exposure, since the trend towards limited strengthening of the Polish currency was taken into consideration in the Group's plans. However, a scenario in which PLN again weakens against EUR and USD would have a positive impact on the results generated by the Group in the second half of 2012.

9.3. Domestic interest rates

The limited interest rate increase (0.25%) by the Monetary Policy Council in the second quarter of 2012 was aimed at combating the on-going high level of inflationary pressure and to underscore consistent attempts to achieve an inflation level of 2.5%.

However, with the slowdown observed over the past few months in the Polish economy it should be accepted that salary and price pressure on inflation has significantly reduced, and as a result the risk of an increase in national interest rates in the second half of 2012 has significantly decreased.
In the above case the most probable course will be for the Monetary Policy Council to maintain interest rates at current levels until the end of 2012.

Given the deepening recession across the euro zone, overburden of a number of economies with debt and increasing debt financing costs, it appears that the third quarter of this year will likely see the EBC cuts interest rates by approx. 25 basis points.

9.4. Seasonality

For the AZOTY Tarnów Group’s products, sales seasonality and demand fluctuations occur mainly in the markets for mineral fertilisers and pigments. Seasonality most affects the fertiliser market and is dependent on the farming calendar.

In order to reduce the impact of seasonality on fertiliser sales, AZOTY Tarnów ensures demand throughout the year through dealer agreements, encouraging dealers to build up inventories before the next season by offering attractive prices. In addition, AZOTY Tarnów undertakes to diversify and optimise its production portfolio and grow sales markets by entering countries featuring different seasons, where seasonal peaks occur at times of lower demand for fertilisers in Poland and Europe.

As regards the available financial tools, in order to insulate its operations from changes in liquidity AT maintains free current and working capital credit limits, in particular a current-account credit agreement. The credit agreement is linked to the virtual cash-pooling structure, allowing additional optimisation of interest costs and income in relation to the amount of borrowings and surpluses recognised in the Group’s balance sheet. Furthermore, in order to stabilise liquidity, the key AZOTY Tarnów Group companies maintain factoring agreement limits. This allows to determine convenient payment deadlines for main fertiliser dealers, at the same time ensuring higher fertiliser sales prices in the future. The Parent has also concluded an agreement with BRE Bank on discounting of intra-Group receivables, which allows for sale of receivables in the same manner as factoring; however in this case this concerns intra-Group receivables.

Mineral fertilisers

Fertiliser sales are characterised by visible seasonality. Larges sales volumes in the domestic and European markets are recorded in the spring (depending on the weather the demand may peak in February, March or April). The second peak occurs in early autumn.

Mineral fertilisers are applied in the spring. This is when nitrogen fertilisers are applied to crops, which are supplemented with phosphorous and potassium fertilisers. With regard to the fact that complex fertilisers should be mixed with a layer of soil during application, and in Poland winter crops are dominant, autumn is also a primary season for the use of these fertilisers.

In the fourth quarter the off-season begins, characterised by a decreasing demand for fertilisers from target customers (farmers). In the domestic market this period is traditionally used by distributors to build up product inventories before the next spring season. This is being encouraged by the bonus policy, which besides lower prices during low-demand periods features further rebates, for example for volume. In European markets during low-demand periods export sales are re-directed to overseas markets featuring different climate zones than those of Europe.

Pigments

Titanium white is used in the manufacture of varnishes as well as paper and plastics. Sales seasonality is determined by the seasonality of these industries. Seasonal fluctuations are particularly visible in paints and varnishes. Titanium white sales increase in the spring/summer period (second and third quarter) – in the traditional period of an uptick in construction. The fourth quarter typically sees a decrease in demand among the industries prone to seasonal swings.
Chemicals

The chemicals market is not subject to seasonal demand swings. Changes in demand result from the situation in the given segment rather than seasonal swings.

9.5. Development of commodity and product prices in the next reporting period

Commodities

In accordance with the decision of the President of the Energy Regulatory Authority, from 31 March 2012 PGNiG S.A. introduced a new gas fuel tariff, set to be in effect until 31 December 2012. The price of gas fuel increased, however subscription fees, network fees and the principles for payment settlement with customers were not subject to change. For the Parent and Group facilities this meant an increase of approx. 16%. PGNiG’s decision to increase gas prices was mainly caused by high gas import prices and unfavourable USD exchange rates.

It is worth noting that it is possible for Polish companies which have gained transmission capacity on the interconnection in Lasów to purchase natural gas in western European markets. This option was used by Z.Ch. Police S.A. and ZAK S.A., though these are small quantities representing approx. 10% of annual demand. The Jamal reverse was launched, which allows additional supply diversification. However PGNiG S.A. remains the main and strategic supplier of this commodity.

The prices of basic petrochemical commodities used in the manufacture of plastics and oxo alcohols are determined chiefly by upstream (crude oil listings) and downstream factors (the situation in segments using commodities and the general macroeconomic situation). Over the past few weeks decreases in crude oil prices can be observed, caused by fears over the escalation of the global economic crisis. However this situation cannot last too long. Current price decreases have left drops in petrochemical commodity prices in their wake.

A gradual drop in demand for benzene, phenol and propylene can currently be observed. This results from the economic slowdown, which has fluctuated demand for these commodities, chiefly due to lower consumption of the plastics made from them. This situation may be maintained over the next several months with regard to the holiday period, a traditional period of lower orders for commodities and the products made from them. If there are drastic decreases in petrochemical commodity prices in the third quarter of this year, prices may rebound in the fourth quarter of 2012.

AZOTY Tarnów has negotiated several-percent discounts on phosphorite prices for the third quarter of 2012 and the maintenance of potassium chloride prices at the Q2 2012 level.

In the case of commodities for the manufacture of titanium white, manufacturers expect a drop in price, but limited supply is significantly decreasing the ability to negotiate prices.

Mineral fertilisers

The situation on the domestic market may develop differently for nitrogen and compound fertilisers.

The end of the spring fertiliser period traditionally causes a sharp drop in demand for fertilisers and, in accordance with the existing seasonality model, during the calendar year demand should increase in the second half of the third quarter, however on a slightly lower scale. Weather conditions are key - these are capable of delaying demand and impact its level.

It is estimated that, despite the anticipated lower level of demand, calcium ammonium nitrate fertiliser prices may remain at a relatively high level. This will be possible as a result of the situation on the nitrogen fertiliser market in western Europe and the ongoing high prices of commodities used for the production of nitrogen fertilisers. A lowering of prices is expected in the urea market in July, however prices will increase systematically from August.

A slight price drop in relation to the closing prices for the first quarter of 2012 is forecast in the European market for NP and NPK fertilisers. An increase in fertiliser demand is anticipated in
connection with the upcoming autumn fertiliser season. This will cause an increase in demand and prices, the low point for which was noted in May 2012.

The purchasing power of the agricultural sector in the second half of the year will depend on the size and quality of the harvest and the level of direct subsidies. Approximately 1.4 million farmers applied for subsidies this year and there are no indications that the level of subsidies was lower than previously, constituting significant financial support.

**Plastics and intermediates**

Forecasts for the next few months anticipate a decreasing trend on the caprolactam and polyamide markets. The main reason determining this trend is the on-going drop in demand in the automotive and fabrics sectors, these being the target markets. An improvement in application sectors is expected in September. A further drop in caprolactam and polyamide prices is expected next quarter, first and foremost as a result of reduced demand. Lower prices for principle commodities is also an important factor. Polytrioxane prices are expected to remain at a similar level to that recorded in the second quarter.

**Oxo alcohols and plasticisers**

In the case of oxo alcohols and plasticisers a slowdown in demand and consumption should be expected, mainly in the European market as a result of the worsening condition of the European and global economies. In the third quarter we can expect that price levels for oxo products in the European market should not differ greatly from current levels, despite the economic slowdown and drop in commodity prices. This situation may result from a product shortage in the market caused by stoppages at European manufacturing facilities. In the fourth quarter of 2012 the supply criterion may lose its significance, which will probably lead to increased price pressure from customers and a lowering of profitability for alcohol and plasticiser manufacturing. If the tendency for USD to strengthen against EUR continues, the quantity of oxo products reaching the European market from Asia may decrease as a result of the drop in price attractiveness. As a consequence this may lead to a balancing of the European market.

**Pigments**

Forecasts for the titanium white market are not overly optimistic. A limitation in demand for this product has been observed since the beginning of the year. This phenomenon concerns all sales markets. The recovery in 2011 suffered from an increasingly weak economic situation in European countries. Most markets are in recession and the countries with the highest investment ratios to date are hardest hit by the economic crisis. Southern European countries have significantly limited use of titanium white and other investment expenditures.

The commodities price spike noted at the end of 2011 is not without significance for this situation. A double and even triple price increase for ilmenite and slag significantly limited manufacturers' capabilities to react with price policies to the drop in demand for titanium white and over-supply of the product occurred, both in the European and Asian markets.

A price adjustment is expected in the second half of the year as a consequence of the drop in titanium white consumption.

**Agricultural market conditions**

Agricultural produce prices in 2012 remained at high levels. This concerns prices in Poland and on exchanges in France (Matif) and the US (Cbot). The average wheat price on the Chicago exchange from January to June was approx. USD 238 per tonne, and in futures contracts exceeded USD 300 per tonne. From the beginning of July the wheat price on all exchanges continued its growth trend and forecast prices may even increase by several percent by the end of the year. The reason for this situation is unfavourable weather conditions experienced by the largest grain exports, including the
US, Russia and Ukraine. Further price movements will depend on information concerning actual harvest levels in specific regions of the world.

10. Risk and threats connected with the remainder of the year

The newly adopted "AZOTY Tarnów Growth Strategy 2012-2020", presented by the Management Board on 13 June 2012 assumes the implementation of a corporate risk management system over this period. In the first half of 2012 the Parent created a Corporate Risk Management Office business unit, which will coordinate the process. During this process the phase of identifying and assessing risk was completed within the AZOTY Tarnów Group. Through the Management Board resolution of 8 May 2012, a map of risks identified within the Group was adopted, together with a list of eight key risks for the Group. Through the decision of the Management Board of 11 July 2012 this list was expanded by a subsequent risk category, totalling nine risks. There are also many risk factors and threats to which the Group is exposed. This issue was presented in detail in the 2011 issue prospectus on p.20 under the heading "Risk Factors", and the majority of these have been presented in periodic reports to date, including risks connected with undue performance of obligations, directives or the violation of prohibitions set out in the applicable regulations.

A list of key risks for the Group is presented below in order of severity, together with other risk factors which may occur and impact the Group's operations in other months of the financial year.

Risk of a hostile takeover by competitors or speculative investors

There is risk of a hostile takeover by competitors or speculative investors, which may lead to the acquisition of control over the Parent through the acquisition of its shares in a number sufficient to control and manage it, with the assumption that this process is not approved by the Management Board or Supervisory Board of AZOTY Tarnów at any stage.

In a hostile takeover it cannot be ruled out that agreements specifying the investor's obligations or social packages guaranteeing specific terms and conditions of employment may not be concluded. Furthermore, this type of situation poses the risk of change to the Group's current development policy and strategy.

In a situation where a tender offer for purchase of shares in the Parent arises, the Management Board thoroughly analyses its content and drafts a statement of position in response, based on independent advisors' opinions. The content of opinions on this subject is published in the form of a current report. Furthermore, care to maintain good relations with shareholders and their support for presented objectives and development plans partially minimises this risk.

Risk connected with macroeconomic factors

Polish and global macroeconomic factors have impact on the Group's financial situation. The Polish economy is sensitive to the global economic situation and in particular within the European Union. 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. The macroeconomic situation is influenced by political events, natural disasters and unforeseeable market events. The financial condition of the AZOTY Tarnów Group is closely linked to the economic situation. Instability in the financial system and/or an economic crisis in Poland or in global markets will have a direct impact on the Group's development potential and financial standing. The occurrence of unbefitting tendencies in the economy may bring a drop in demand for its products or may have an unbefitting impact on price-cost ratios through a drop in prices for the Group's products.

The on-going weak economic situation in European countries and around the world has a direct impact on chemical applications markets, and for this reason the economic situation has a particular effect on markets in the plastics, oxo alcohols and pigments segments. These are particularly
sensitive to fluctuations in the economic situation with regard to their direct dependency on consumer markets: automotive, white goods or construction. In the market this translates into decreased demand for engineering plastics (PA6, POM), oxo alcohols, plasticisers and titanium white.

It should be emphasised that the unbenevolent weather conditions for crops which started from the second half of January 2012 and lasted until the end of February 2012 (temperatures of up to -25°C and below were recorded) resulted in some crops freezing (according to estimates this may be approx. 1.4 million hectares of crops in Poland). This large-scale freeze may have an impact on the condition of farms and their purchasing power in the 2012/2013 season. One consequence may be a decreased number of purchase of phosphorous and potassium fertilisers and to a lesser degree nitrogen fertilisers. The generation of lower prices is also possible for the fertilisers sold by the Group (lower margins) with a simultaneous higher unit cost of production (no signs of a decrease in the price of natural gas).

The impact of new developments in the debt crisis in southern Europe and the on-going economic slowdown in the euro zone on financial risk (currency, credit, liquidity, interests rates) connected with the Group's operations has been presented in subsequent parts of this section.

**Foreign exchange risk**

The Group is exposed to currency risk due to foreign currency transactions. Exchange rate fluctuations affect both revenue from sales and commodity costs. These fluctuations of export revenues and domestic market quote-based revenues are partly offset by the changing costs of commodity 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 Parent uses instruments and takes actions including the following to hedge currency positions: natural hedging, factoring and forfaiting, together with forward derivatives and corridors. In H1 2012 the Group held net open foreign exchange positions mainly in EUR, constituting 80% of total exposure, while the remainder was in USD, which was partially hedged (up to a maximum 50% of planned exposure).

In the second quarter a subsequent wave of the debt crisis in southern European economies and the on-going economic slowdown in the euro zone had a negative impact on currencies in Central and Eastern European countries, in effect causing a repeat of the Polish currency's weakening trend in relation to USD and, to a lesser extent, to EUR. This had a positive impact on the financial results generated by the AZOTY Tarnów Group. It should be expected that PLN will be relatively resistant to further weakening in the coming months. The chief risk to exchange rate stability remains the scenario of an uncontrolled Greek euro exit and/or that of subsequent euro zone economies in the event of a lack of sufficient determination - on the one hand among politicians and public opinion in at-risk countries, and on the other among leading decision-makers and European Union institutions - to prevent further escalation of the economic crisis. All the same, in the mid-term, as EU economies begin to exit recession, we expect that PLN will return to a path of gradual strengthening. Current and anticipated changes in PLN exchange rates against USD and EUR should not pose a threat to the achievement of results planned for 2012 in relation to the AZOTY Tarnów Group's net foreign currency exposure, since the trend towards limited strengthening of the Polish currency was taken into consideration in the Group's plans. However, a scenario in which PLN again weakens against EUR and USD would have a positive impact on the results generated by the Group in the second half of 2012.

**Risk connected with increased competition and commodity price changes**

The consolidation and strengthening of competitors in the industry may constitute a potential risk to the Group's operations. Companies with global reach, significant financial potential, diversified product portfolios and integrated commodities are more resistant to market volatility. They have a
greater capability to compensate for losses in specific products in order to maintain their market positions. In conditions of extreme competition they are in a position to periodically maintain more convenient sales conditions. The on-going consolidation within the AZOTY Tarnów Group is aimed at the achievement of exactly this resistance and market advantage, together with streamlining competitive advantages in the international market.

The Group mass-manufacturers products and their price levels are decided first and foremost by European and global economic situations and development in global relations between supply and demand. Prices and levels of demand for products are subject to extreme volatility.

This concerns in particular fertiliser products (urea, NPK and NP fertilisers), which are manufactured on the basis of natural gas, phosphorites and potassium chloride. In this case in order to avoid negative changes in market trends, the Group strives to ensure maximum diversification in its sales markets and customer structure. Thanks to these efforts it obtains greater independence and the possibility to level out potential drops in sales in one market with growth in another.

The Group is a leading manufacturer or nitrogen fertilisers, the production of which uses natural gas. Currently the majority of this commodity is purchased for AZOTY Tarnów with the intermediation of PGNiG, the only possible supplier in Poland. The price in force is one of the highest in Europe, which translates into high nitrogen fertiliser production costs for Polish manufacturers, including AZOTY Tarnów. This creates the risk of cheaper fertilisers being imported from Russia, particularly in the context of Russia's recent membership of the WTO and the removal of protective tariffs. As a consequence of close proximity to the Ukrainian and Russian markets, there is a risk of short- and long-term import of fertilisers from these countries to Poland, which may contribute to lower margins on AZOTY Tarnów Group nitrogen fertilisers. In the case of compound fertilisers (manufactured at Z.Ch. Police S.A., the main risk is the availability and price of main commodities for production, such as phosphorites, potassium chloride and sulphur.

Concerning the majority of products at the Group, another risk is the on-going and planned expansion of production capacities in Asia (in particular in China) and South America. In the future this may hinder or limit the export of the Group's products to non-European markets and disturb the relationship between supply and demand in European countries.

Risk of interruptions in production processes or the occurrence of serious industrial incidents

In principle the type of operations performed at the AZOTY Tarnów Group is burdened with a certain degree of this risk. Small failures in production lines requiring production stoppages for their removal may impact on sales results. During such periods there may be a drop in supply of products and an increase in costs connected with repairs and maintenance, causing a temporary drop in the profitability of some products.

Risk connected with the manufacture, storage and transport of hazardous materials

In the event of stoppages and incidents in production processes, the nature of the operations performed by AZOTY Tarnów Group companies connected with the processing of chemical raw materials and the manufacture of flammable, explosive and toxic products as a result of implementing production processes in which there are high temperatures and pressures, may pose a risk to the health and safety of employees and residents of towns and villages located in the vicinity of the companies, as well as to the environment. The safety procedures in force at the Group, together with instructions for actions to be taken in the event of incidents in the production process, are aimed at minimising the risk of accidents and incidents at companies' installations and interruptions in production, together with limiting threats to human health and safety and the environment.

A significant element of organisational actions in this field is the implementation of a project, planned for 2012, connected with consolidating procedures for actions to be taken in the event of disturbances and incidents for all companies within the Group. In the technical field, the adaptation
in 2012 of loading equipment for chemical substances used at loading stations within the companies to the requirements specified in the Ordinance of the Minister of Transport of 20 September 2006 on the terms and conditions for technical supervision to which equipment for the filling and emptying of transport containers should correspond (Polish Journal of Laws no. 181, item 1335 as amended) should contribute to a reduction in the occurrence of hazards for employees and the environment.

**Risk connected with commodity supplies and dependence on suppliers**

The price of products manufactured at the AZOTY Tarnów Group are heavily dependent on commodities prices. This concerns in particular products whose production process is based on oil derivative commodities and gas. In order to limit this risk, the Group takes steps to diversify its supplies of strategic commodities with simultaneous use of the benefits of synergy. Furthermore, purchases are made on the basis of price formulae linking product with commodity price.

One supplier holding a significant share within the purchasing structure can have unbeneﬁcial results. In the case of commodities, a lack of alternative sources of supply and insufficient reserves poses the risk of harming production ﬂuidity at a moment of ceasing or limiting cooperation (this is a speciﬁc threat in the case of gas suppliers - the supply monopoly referred to in point 4). At the same time an overly strong supplier position limits the possibility to negotiate prices and commercial terms and conditions. In order to minimise this risk the Group strives to execute long-term contracts which guarantee precise and clear terms and conditions of cooperation for both parties and takes steps to ensure the widest diversification of supplies. An example of this is the purchase of gas from local sources and from the German market, or phosphorites and potassium chloride - key commodities for manufacture at Z.Ch. Police S.A, together with diversification of phenol supplies for manufacture in Tarnów - possible due to the modernisation of loading systems.

**Key threats in the analysed area may include:**

- volatility in the crude oil market, the threat of oil supplies from Iran being suspended may cause an immediate and sudden price increase and also bring an increase in petrochemical commodity prices, having a negative impact on supply and demand in the largest commodities markets (including benzene, propylene, phenol and o-xylene),
- increase in gas prices in Poland - if gas prices are increased again this would be very unbeneﬁcial for the fertiliser manufacturing section of the AZOTY Tarnów Group and for the proﬁtability of ammonia production,
- risk of a shortage of liquid sulphur - as a result of the acquisition of Kopalnie i Zakłady Chemiczne Siarki "Siarkopol" S.A. in Grzybów by other entities admitted to further proceedings in the ongoing process of sale by the State Treasury of the company's shares, change in the structure of sulphur manufacture and sale and an increase in the price of this commodity cannot be ruled out,
- political instability in some regions, for example in North Africa and other countries (e.g. Syria) - this brings the risk of logistical diﬃculties in transporting commodities by sea and poses a threat to stable commodity supplies,
- production problems (unstable supply) at the ORLEN refinery in Płock - this could cause production limitations at phenol installations, which could cause a temporary limitation in access to this commodity in the market.

**Risk connected with excessive formalising of communications and the decision-making process**

There is a risk that, as a result of changes in the business model, process and organisation of the Company, communication will become excessively formalised and the decision-making process will be less effective or that it will be insuﬃcient in its support for the implementation of strategic objectives.

The key objective of the management model assumed in the Group Strategy is an increase in the Group's value through acting "as one company". In operations, this model assumes the assignment
to the AZOTY Tarnów Management Board of corporate departments and business and support areas. Competencies for Group management are assigned within corporate departments. The model assumes the centralisation of areas, ensuring the highest synergy effects and the management of key business processes at Group level. This solution may also minimise the risk defined above. Operations are currently based on standards which are already implemented and functional, which efficiently eliminate this type of risk.

**Risk connected with the implementation of strategic projects and strategies**

There is a risk that key initiatives and development projects implemented by Group companies will not be completed in accordance with assumptions or will not being the anticipated results.

The AZOTY Tarnów Group Strategy 2012-2020, presented by the Management Board on 31 June 2012, assumes that over the next ten years of operations AZOTY Tarnów will be admitted to the primary index on the Warsaw Stock Exchange, provide shareholders with one of the highest rates of return on investment in the industry and maintain its permanent position as one of the three largest fertiliser manufacturers in Europe.

The implementation of strategies is dependent on a range of factors, including those which are outside the control of the Group. These are external factors identified in the Group's operational environment, such as macroeconomic factors, market situation, the economic environment or actions taken by the Group's main competitors. The negative impact of these factors could hinder implementation of the assumed vectors for Group development and achievement of its strategic objectives.

In addition, potential changes in the Parent's shareholding structure and the appearance of a new majority shareholder may cause the occurrence of new circumstances which may not necessarily support the implementation of strategy, and such shareholder’s concept of further development may be at odds with that specified in the strategy referred to above.

**Other risks such as may arise in the remained of the year**

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

In accordance with the AZOTY Tarnów strategy adopted for years 2012-2020, the Group intends to increase the scale of its key operations through organic growth as well as alliances and acquisitions in Poland and abroad. Identification and effective use of such potential opportunities, negotiated on good terms and favourable financed, may not however be guaranteed, nor can the expected synergies and benefits be assured. Any potential integration processes may in addition result in unforeseen operational or regulatory challenges and costs, and may draw the attention of the Parent’s Management Board from the Group’s current operations. As a result of future acquisitions, the Parent will be able to issue additional equity. This may lead to dilution of existing shareholders, necessity to incur significant expenditures, increased debt levels and incurrence of contingent liabilities, which in turn may have a significant impact on the operations and performance of the Group.

**Risk connected with lower share performance as a result of equity issuance by the Parent**

The Parent May issue new equity, which May result in dilution of existing shareholders. There is no guarantee as to whether in the future the Parent will wish to issue new shares or dispose of existing stock. The issue or disposal of a significant number of the Parent’s shares in the future, or simply the belief that such issue or disposal may take place, may have a negative impact on the quoted share price and the Parent’s ability to raise capital via a public or private offering of equity or other financial instruments.
Risk connected with the integration and consolidation of subsidiaries

One of the Group’s growth directions described in the strategy is further integration between Group entities, which in effect will allow maximisation of synergies.

In this strategic area the Group is currently conducting the integration of the ZAK and Z.Ch. Police S.A. groups. Shares in production-related ZAT and ZAK companies were transferred to a subsidiary – Polskie Konsorcjum Chemiczne Sp. z o.o., which is currently engaged in further integration and consolidation processes.

There is a risk that the on-going integration and consolidation process will not yield the expected results or will prove impossible to implement within the adopted timeframe. This may have a significant negative effect on the operations, financial standing and performance of the Group.

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

Reports on the Parent published by equity market analyst have an impact on the Parent’s share price and liquidity. In addition, if one or more analysts withdraw from covering the Parent or regularly publishing reports on the Parent, capital market participants may lose interest in the Parent’s shares, leading to lower prices and liquidity. If one or more analysts change their recommendations to negative, the Parent’s share price may be subject to a significant decrease.

Risk connected with changes in legal and environmental regulations

Amendments to legal regulations, both EU and domestic, make it necessary to adapt to the new legislation, and this may incur high costs and have a negative impact on financial results. Risk connected with change in environmental regulations is significant for the Group’s operations. Management of this risk consists of systematic monitoring of planned changes in this field and constant adaption of the operations performed by the Group to new legal regulations.

Other financial risk

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. Within the Group, credit risk mainly concerns trade receivables, and to a lesser extent fixed-term deposits and funds held in bank accounts.

Considering the procedures in place at the Group and its diversified client portfolio, credit risk is relatively insignificant. In turn, a part of Group companies’ cash surpluses is covered by virtual cash-pooling connected with current account overdrafts provided to the Group by PKO BP S.A., which allows for optimisation of the Group’s costs and interest revenues with simultaneous limitation of the associated credit risk.

The Group maintains a unified credit risk policy, making assessment and inspecting the creditworthiness of customers on an on-going basis, using economic intelligence reports, debtor registers and credit histories for this purpose.

Trade and other receivables of the Group from non-related parties are largely insured under the trade credit insurance policies issued by Korporacja Ubezpieczeń Kredytów Eksportowych S.A. and Atadius Credit Insurance N.V. S.A., which limit credit risk. 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 90-95% of the insured receivables.

In addition some of the Group’s trade receivables from unrelated parties are protected by letters of credit and guarantees which remain outside the scope of insurance.
In the first half of 2012 an increase in commercial credit risk was observed in the domestic construction sector, which may have a negative impact on other sectors of the Polish economy in the second half of the year. In addition, the on-going recession and debt crisis in southern European economies may cause a certain increase in credit risk in the largest European Union economies in subsequent months. In effect, there is the probability of a selective increase in credit risk throughout the current portfolios of Group clients and customers, however with regard to the broad diversification of this risk and simultaneous high level at which leading Group companies insure their receivables, this risk is limited to a significant degree.

The large domestic banks with which the Group cooperates are not engaged in financing debt in at-risk EU economies, and furthermore have safe investment ratings and fulfil the capital requirements specified by the domestic banking regulator, hence throughout the second half of 2012 credit risk connected with funds held at these banks by AZOTY Tarnów Group companies should remain at the same very low level.

**Liquidity risk**

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 the appropriate liquidity management, carried out by correctly determining cash levels and finance sources based on cash flow projections for various time horizons.

The Group's financial position is characterised by full payment capability and creditworthiness, both in relation to the Parent and to other leading Group companies. This means the Group's capability to make timely repayment of its liabilities and to hold and generate a surplus on operations activity, allowing for further payment within payment deadlines. The Group has available overdraft limits connected with the structure of virtual cash pooling, which the Parent may use in situations of changing funding requirements amongst Group companies, as well as supplementary multi-purpose loan limits. In particular, these provide protection against short-term shortfalls in funds which may occur due to the seasonality of sales in the fertilisers segment.

The Group fulfils unified covenants under loan agreements, in accordance with which it has the capability to make significant increases in the scale of financial liabilities as required. In the assessment of strategic credit providers, the Group's financial standing is high and there are no threats or risks to this standing in the future.

Bearing in mind the Group's stability and good financial standing, together with that of the banks financing the Group, it should be accepted that even in a scenario where the domestic economic continues to slow down and the debt crisis in the euro zone escalates, this should not cause a worsening in the Group's liquidity or significant associated risk in the second half of 2012.

It should further be taken into consideration that from the second half of this year the European financial regulator has introduced the obligation for banks to adapt the maturities of their financing to the maturities of their loans and borrowings granted, and thus there may be difficulties in the financial market with access to long-term finance for investment projects, although large corporations such as the AZOTY Tarnów Group will be exposed to this to a lesser degree since they have high credit worthiness.

**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 variable rate. The impact of interest rates on the Group's debt is partially offset in the form of collar interest rate hedging transactions, executed for a long-term foreign currency-denominated loan.

In order to limit interest rate risk, the Group monitors the situation in the money market on an ongoing basis. A significant proportion of the Group's domestic currency cash and cash equivalents is
covered by the virtual cash pooling service and bears interest according to the WIBOR 1M market rate, both for negative and positive balance on the Group’s current accounts, which enables effective use of natural hedging in this area.

A limited increase in the domestic WIBID and WIBOR market rates was observed in the first half of 2012, which subsequently stabilised in the second half of the year, and the interest rates on bank deposits offered to the Group developed at a level proportional to the average interest on financial liabilities based on a variable interest rate. In turn, the EURIBOR and LIBOR interest rates remained at a low level, which resulted in a relatively low level of cost for support of the Group’s foreign exchange liabilities.

With regard to the slowdown observed over the past few months in the Polish economy it should be accepted that salary and price pressure on inflation has significantly reduced, and as a result the risk of an increase in domestic interest rates in the second half of 2012 has significantly decreased.

In the above case the most probable course will be for the Monetary Policy Council to maintain interest rates at current levels until the end of 2012.

In relation to market rates, it is anticipated that a relatively low spread will be maintained between loan margins and the deposits offered to the AZOTY Tarnów Group. Furthermore, taking into consideration the high level at which Group companies’ liquidity items are balanced (under overdraft facilities connected with the virtual cash-pooling structure), the level of finance revenue generated by the Group from interest on surpluses will compensate the costs of external sources of finance to a large degree.
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Management signatures

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

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

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Artur Kopeć
Member of the Management Board

Tarnów, 14 August 2012