

REPORT ON AUDIT OF THE FINANCIAL STATEMENTS OF ZAKŁADY AZOTOWE W TARNOWIE-MOŚCICACH S.A. FOR 2011

I. GENERAL INFORMATION

1. Data identifying the audited company

The company ("Company") trades as Zakłady Azotowe w Tarnowie-Mościcach S.A.. The Company's registered office is in Tarnów at ul. Kwiatkowskiego 8.

The Company operates as a *spółka akcyjna* (equivalent to a public limited company), incorporated through a notarial deed on 21 February 1991 before notary public Paweł Błaszczak in Warsaw (Notary's Register A no. 910/91). The Company was registered in the commercial register held by the District Court in Tarnów, 5th Commercial-Registration Division in Tarnów, section B, entry number RHB 280, pursuant to the ruling of 1 March 1991. The Company is currently entered into the register of companies held by the District Court in Krakow, 12th Commercial Division of the National Court Register, entry no. KRS 000075450.

The Company holds taxpayer identification number (NIP) 873-000-68-29 issued by the Revenue Office in Tarnów on 11 June 1993.

On 4 February 2002 the Statistical Office issued the Company with REGON statistical number 850002268.

The Company operates pursuant to the Polish Commercial Companies Code.

As per its articles of association, the Company's objects are:

- Manufacture of basic chemicals, fertilisers and nitrogen compounds, plastics and synthetic rubber in primary forms (Polish Classification of Business Activity (PKD) 20.1),
- Manufacture of plastics products (PKD 22.2),
- Manufacture of other chemical products (PKD 20.5),
- Electric power generation, transmission, distribution and trading (PKD 35.1),
- Steam and air conditioning supply (PKD 35.3),
- Manufacture of other special-purpose machinery not elsewhere classified (PKD 28.99.Z),
- Engineering activities and related technical consultancy (PKD 71.12.Z),
- Construction of buildings (PKD 41),
- Civil engineering (PKD 42),
- Specialised construction activities (PKD 43),
- Educational support activities (PKD 85.60.Z),
- Other education (85.5),
- Other service activities not elsewhere classified (PKD 96.09.Z),
- Research and experimental development on natural sciences and engineering (PKD 72.1),
- Wholesale on a fee or contract basis (PKD 46.1),
- Other specialised wholesale (PKD 46.7),
- Water collection, treatment and supply (PKD 36),
- Advertising (PKD 73.1),
- Market research and public opinion polling (PKD 73.2),
- Land transport and transport via pipelines (PKD 49),
- Warehousing and support activities for transportation (PKD 52),

- Telecommunications (PKD 61),
- Real estate activities (PKD 68),
- Architectural and engineering activities and related technical consultancy (PKD 71.1),
- Technical testing and analysis (PKD 71.2),
- Management consultancy activities (PKD 70.2),
- Accounting, bookkeeping and auditing activities; tax consultancy (PKD 69.2),
- Employment activities (PKD 78),
- Repair of machinery and equipment (PKD 33.1),
- Installation of industrial machinery and equipment (PKD 33.2),
- Specialised design activities (PKD 74.1),
- Other professional, scientific and technical activities not elsewhere classified (PKD 74.9).

During the audited period the Company was active in the following fields of operations:

- Manufacture of basic chemicals, fertilisers and nitrogen compounds, plastics and synthetic rubber in primary forms,
- Manufacture of plastics products.

As at 31 December 2011 the Company's share capital amounted to PLN 320 577 000 and was divided into 64 155 444 shares with a nominal value of PLN 5.00.

As at 31 December 2011, the Company's shareholding structure was as follows:

- State Treasury of Poland – 32.05%,
- ING Otwarty Fundusz Emerytalny – 12.92%,
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK – 8.4%,
- PZU S.A. (including PZU Życie S.A.) – 5.26%,
- Generali Otwarty Fundusz Emerytalny – 5.06%,
- Other – 36.31%.

The following changes in the Company's share capital took place during the financial year:

On 12 August 2011 the Company's articles of association were amended pursuant to resolution no. 2 of the Company's Management Board of 26 May 2011 on an increase in issued share capital within authorised share capital. The increase in the Company's share capital from PLN 195 582 105.00 to PLN 320 577 220.00 through the issue of 24 999 023 series C ordinary bearer shares in the Company with a nominal value of PLN 5 each was registered.

No changes to the Company's share capital occurred after the end of the reporting period and any changes in shareholding structure were the result of transactions for acquisition/disposal of the Company's shares on the Warsaw Stock Exchange.

As at 31 December 2011, the Company's equity amounted to PLN 1 925 589 000.

The Company's financial year is the calendar year.

The Company has the following related parties:

- | | |
|---------------------|------------------------------|
| - ZAK S.A. Group | - 94.48% stake – subsidiary; |
| - Police S.A. Group | - 66% stake – subsidiary; |
| - Koltar Sp. z o.o. | - 100% stake – subsidiary; |
| - ATT Polymers GmbH | - 100% stake – subsidiary; |

- Polskie Konsorcjum Chemiczne Sp. z o.o. - 63.27% stake – subsidiary;
- Navitrans Sp. z o.o. - 26.4% stake – associate.

Furthermore, companies belonging to the Azoty Tarnów Group are treated as related parties of Zakłady Azotowe w Tarnowie-Mościcach S.A.

As at the date of issuing the opinion, the Company's Management Board comprised:

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

The following changes occurred in Management Board composition during the audited period:

- On 20 October 2011 Franciszek Bernat was dismissed from the Management Board,
- On 20 October 2011 the Company's Supervisory Board adopted a resolution on the appointment of Krzysztof Jałosiński as Vice-President of the Management Board.

The following changes occurred in Management Board composition after the end of the reporting period:

- On 17 February 2012 the Company's Supervisory Board adopted a resolution on the appointment of Artur Kopeć as Member of the Management Board.

Up to the date of issuing this opinion, the above change had not been registered in the applicable court register.

2. Information on the financial statements for the previous year

In 2010 the Company generated PLN 60 656 000 in net profit. The Company's financial statements for 2010 were audited by a statutory auditor. The audit was carried out by Deloitte Audyt Sp. z o.o. On 8 March 2011 the statutory auditor issued an opinion with the following comment:

“Without raising reservations as to the correctness and reliability of the audited financial statements, we wish to point out that the presented financial statements are separate financial statements and should first and foremost serve statutory objectives. They cannot constitute the sole basis for assessing the financial situation and asset position of the Company, which is the Group Parent. Aside from the separate financial statements, the Company also draws up consolidated financial statements for its Group.”

The General Meeting of Shareholders approving the financial statements for 2010 took place on 14 June 2011. The General Meeting of Shareholders ruled to allocate the PLN 60 655 812.48 in net profit for 2010 to the Company's supplementary capital.

In accordance with legal regulations, the financial statements for 2010 were submitted to the National Court Register on 24 June 2011 and submitted for publication in official gazette *Monitor Polski B* on 27 June 2011. The statements were published in *Monitor Polski B* no. 1940 on 18 October 2011.

3. Data identifying the authorised entity and lead statutory auditor carrying out the audit on its behalf

The audit of the financial statements was carried out pursuant to the agreement of 20 May 2009, entered into between Zakłady Azotowe w Tarnowie-Mościcach S.A. and Deloitte Audyt Sp. z o.o., having its registered office in Warsaw at Al. Jana Pawła II 19, entered into the list of entities authorised to audit financial statements held

by the National Chamber of Statutory Auditors, entry no. 73. Audit of the financial statements was carried out on behalf of the authorised entity under the supervision of lead statutory auditor Marek Turczyński (reg. no. 90114) at the registered office of the Company from 5 to 9 December 2011, from 8 to 10 February 2012, from 13 to 17 February 2012, from 20 to 24 February 2012 and away from the registered office of the Company up to the date of issuing this opinion.

The authorised entity was selected by the Supervisory Board through a resolution of 31 March 2009 pursuant to the authorisation contained in part. 33, sec. 1, point 10 and part. 40, sec. 4 of the Company's articles of association.

Deloitte Audyt Sp. z o.o. and lead statutory auditor Marek Turczyński confirm that they are authorised to audit financial statements and fulfil the conditions specified in art. 56 of the Act on Statutory Auditors and their Self-Regulation, Entities Authorised to Audit Financial Statements and on Public Oversight (Polish Journal of Laws of 2009, no. 77, item 649 as amended) concerning the issue of an impartial and independent opinion on the financial statements of Zakłady Azotowe w Tarnowie-Mościcach S.A.

4. Availability of Company management data and declarations

The extent of our audit was not subject to limitation.

During the audit all requested documents and data were made available to the authorised entity and lead statutory auditor and exhaustive information and explanations were provided, which *inter alia* was confirmed through the written declaration of the Company's Management Board dated 6 March 2012.

II. COMPANY ASSETS AND FINANCIAL SITUATION

The key amounts from the statement of profit and loss and financial ratios describing the Company's financial performance, its assets and financial situation in relation to the same amounts for the preceding year are presented below.

<u>Key amounts from the statement of profit and loss (in PLN thousands)</u>	<u>2011</u>	<u>2010</u>
Revenue from sales	1 916 717	1 549 753
Operating costs	(1 621 575)	(1 438 576)
Other operating revenue	12 850	7 358
Other operating costs	(49 747)	(42 639)
Finance income	19 355	14 310
Finance costs	(17 979)	(13 068)
Income tax	(51 746)	(16 482)
Net profit (loss)	207 875	60 656
Total comprehensive income	207 672	62 313
 <u>Profitability ratios</u>	 <u>2011</u>	 <u>2010</u>
- return on sales	13%	5%
- net profit margin	11%	4%
- return on equity	12%	6%
 <u>Operating efficiency ratios</u>		
- asset turnover	0.77	0.97
- receivables turnover in days	26	23
- liabilities turnover in days	28	28
- inventories turnover in days	38	43
 <u>Liquidity / net working capital</u>		
- debt ratio	22%	30%
- equity-to-asset ratio	78%	70%
- net working capital (in PLN thousands)	101 952	190 896
- current ratio	1.25	1.61
- quick ratio	0.81	1.06

Analysis of the above figures and ratios indicates the occurrence of the following tendencies in 2011:

- increase in return on sales and net profit margin,
- increase in return on equity,
- decrease in asset turnover and inventories turnover,
- increase in receivables turnover, with liabilities turnover remaining unchanged,
- decrease in the debt ratio with simultaneous increase in the asset-to-equity ratio,
- decrease in net working capital,
- decrease in the current and quick ratios.

III. DETAILED INFORMATION

1. Assessment of the accounting system

The Company holds the documentation required under art. 10 of the Polish Accounting Act (Polish Journal of Laws of 2009, no. 152, item 1223 as amended), the "Polish Accounting Act", in particular concerning specification of the financial year and its reporting periods, the methods of valuing assets, liabilities and equity and establishing the financial result, the means of managing the accounts, and the system of data and data set protection. Accounting policy documentation was drafted in accordance with the Polish Accounting Act and, regarding asset, liability and equity valuation and presentation of the financial statements, in accordance with the requirements of IFRS, and was adopted for application from 1 January 2007 through Management Board resolution no. 331/VI/2007 of 26 July 2007. The main principles for valuing assets, liabilities and equity and measuring the financial result were presented in the notes to the financial statements.

The accounting principles which the Company has the option to select pursuant to IFRS were selected in a manner enabling correct reflection of the specifics of the Company's operations, its financial situation and its financial results. These principles were applied in a consistent manner and were not subject to change in relation to the principles applied in maintaining the accounts and drafting the financial statements for the preceding year.

A SAP ECC 6.0 accounting IT system is used within the Company to record all economic events. The SAP ECC 6.0 system is password-protected against unauthorised access and has limited functional access. The IT system specification fulfils the requirements of art. 10, sec. 1, point 3, letter c) of the Polish Accounting Act.

The opening balance results from the approved financial statements for the preceding financial year and was correctly introduced into the accounts for the audited period.

In the part audited by us, documentation of economic transactions, the accounts and links between accounting entries and documents and the financial statements fulfil the requirements of section 2 of the Polish Accounting Act.

The accounts, accounting records, documentation of the adopted accounting policy and the approved financial statements of the Company are maintained in accordance with section 8 of the Polish Accounting Act.

The Company performed an inventory of its assets and equity and liabilities to the extent, within the time periods and with the frequency required under the Polish Accounting Act. Inventory differences were recognised and settled in the accounts for the audited period.

2. Information on the audited financial statements

The audited financial statements were drawn up as at 31 December 2011 and include:

- statement of financial position as at 31 December 2011, which shows PLN 2 476 415 000 on both the asset side and the equity and liabilities side,
- statement of comprehensive income for the period from 1 January 2011 to 31 December 2011, showing PLN 207 875 000 in net profit and total comprehensive income of PLN 207 672 000,
- statement of changes in equity for the period from 1 January 2011 to 31 December 2011 showing a PLN 803 366 000 increase in equity,
- statement of cash flows for the period from 1 January 2011 to 31 December 2011 showing a PLN 85 902 000 decrease in cash and cash equivalents,

- notes to the financial statements, containing information on the adopted accounting policy and other explanatory information.

The asset-liability structure and items determining the financial result were presented in the financial statements.

3. Information on selected significant items in the financial statements

Property, plant and equipment

The Company's PP&E item comprises:

- PP&E – PLN 749 948 000,
- PP&E under construction – PLN 154 325 000,
- advances for PP&E under construction – PLN 12 639 000.

The notes to the financial statements correctly specify adjustments to PP&E and PP&E under construction, together with explanation of potential revaluation charges on the above asset elements.

Non-current investments

Within the Company the non-current investment item includes shares in subsidiaries, associates and jointly controlled entities, together with available-for-sale investments, totalling PLN 1 005 961 000. The notes to the financial statements correctly specify adjustments to investments during the financial year.

Inventory structure

Inventory structure is correctly presented in the note to this item in the statement of financial position.

Receivables structure

The trade receivables turnover structure is correctly presented in the note to this item in the statement of financial position. In the sample audited by us, no instances of overdue or written-off receivables occurred.

Liabilities

The structure of liabilities by turnover and by type per repayment period was correctly presented in the note to this item in the statement of financial position.

The Company's largest liability items are as follows:

- provisions for employee benefits – PLN 35 351 000,
- loans and borrowings – PLN 123 132 000,
- trade payables – PLN 230 832 000.

The specification of loans incurred, together with a description of the collateral provided, was disclosed in the notes to the financial statements. Within the sample audited by us, there were no instances of overdue or written-off liabilities.

Pre-payments, accruals and provisions for liabilities

Explanatory information concerning pre-payments, accruals and provisions for liabilities correctly specify their structure. Deferred income and costs were correctly categorised in relation to the audited reporting period. Provisions for liabilities were established in reliably estimated amounts. These items are included completely and correctly, in all significant aspects, in relation to the financial statements as a whole.

4. Completeness and accuracy of the notes to the financial statements and the report on Company operations

The Company confirmed the justification for applying the going concern principle in drawing up the financial statements. The principles for valuation of assets, equity and liability, measurement of the financial result and the means of drawing up the financial statements were correctly and fully described in the notes to the financial statements.

The capability to dispose of specific assets indicated in the statement of financial position was presented, with consideration to collateral established for creditors.

The notes completely describe reporting items and clearly present the remaining information required under IFRS.

The Management Board drew up and attached a report on Company operations for 2011 to the financial statements. The report on operations contains the information required under art. 49, sec. 2 of the Polish Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 concerning current and periodic information provided by issuers of securities and the conditions for recognising information required by the law of a non-member state as equivalent. We verified this report with regard to the information contained in it such as was directly sourced from the audited financial statements.

IV. FINAL REMARKS

Management Board declaration

Deloitte Audyt Sp. z o.o. and the lead statutory auditor received a written declaration from the Company's Management Board stating that the Company had observed the provisions of law.

Marek Turczyński
Lead Statutory Auditor
conducting the audit
reg. no. 90144

Marek Turczyński
Vice-President of the Management Board
Statutory Auditor
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Persons representing the entity

entity authorised to audit
financial statements, entered
onto the list of authorised entities,
register no. 73, held by the National
Chamber of Statutory Auditors

Warsaw, 6 March 2012