ZAKŁADY AZOTOWE
W TARNOWIE-MOŚCICACH S.A.
GROUP

Abridged interim consolidated financial statements
for the 3 months ending 31 March 2011
prepared in accordance with International Financial Reporting Standards as adopted
by the European Union

Tarnów, 13 May 2011

TABLE OF CONTENTS

SELECTED CONSOLIDATED FINANCIAL DATA

	PLN (thousands)		EUR (thousands)	
	For the period from 1 Jan to 31 Mar 2011	**For the period from 1 Jan to 31 Mar 2010**	**For the period from 1 Jan to 31 Mar 2011**	**For the period from 1 Jan to 31 Mar 2010**
Revenue from sales	1 014 026	367 570	255 152	92 659
Profit on operating activities	114 769	21 869	28 879	5 513
Profit before tax	114 079	17 808	28 705	4 489
Net profit	92 777	14 197	23 345	3 579
Total comprehensive income	109 842	14 353	27 639	3 618
Number of shares	39 116 421	39 116 421	39 116 421	39 116 421
Net profit per ordinary share	1.75	0.36	0. 44	0.09
Net cash flows from operating activities	95 633	13 020	24 063	3 282
Net cash flows from investing activities	(48 221)	(97 606)	(12 134)	(24 605)
Net cash flows from financing activities	(10 123)	(14 913)	(2 547)	(3 759)
Total net cash flows	37 289	(99 499)	9 383	(25 082)
Cash at the beginning of period	279 450	246 485	70 316	62 135
Cash at the end of period	315 811	146 986	79 465	37 053
	As at 31 March 2011	**As at 31 March 2010**	**As at 31 March 2011**	**As at 31 March 2010**
Non-current assets	2 350 396	1 012 263	585 856	262 095
Current assets	1 023 676	608 981	255 160	157 677
Non-current liabilities	609 806	210 799	151 999	54 580
Current liabilities	704 251	283 874	175 541	73 501
Equity	2 060 015	1 126 571	513 476	291 692
Share capital	195 582	195 582	48 750	50 640
Non-controlling interests	480 344	2 199	119 730	569

SELECTED SEPARATE FINANCIAL DATA

	PLN (thousands)		EUR (thousands)	
	For the period from 1 Jan to 31 Mar 2011	**For the period from 1 Jan to 31 Mar 2010**	**For the period from 1 Jan to 31 Mar 2011**	**For the period from 1 Jan to 31 Mar 2010**
Revenue from sales	444 265	354 703	111 787	89 416
Profit on operating activities	47 783	15 281	12 023	3 852
Profit before tax	46 861	11 368	11 791	2 866
Net profit	37 245	8 993	9 372	2 267
Total comprehensive income	37 307	10 451	9 387	2 635
Number of shares	39 116 421	39 116 421	39 116 421	39 116 421
Net profit per ordinary share	0.95	0.23	0.24	0.06
Net cash flows from operating activities	59 072	(7 235)	14 864	(1 824)
Net cash flows from investing activities	(40 456)	(134 155)	(10 180)	(33 819)
Net cash flows from financing activities	(6 241)	8 851	(1 570)	2 231
Total net cash flows	12 375	(132 539)	3 114	(33 411)
Cash at the beginning of period	172 191	235 650	43 327	59 404
Cash at the end of period	184 566	103 111	46 441	25 993
	As at 31 March 2011	**As at 31 March 2010**	**As at 31 March 2011**	**As at 31 March 2010**
Non-current assets	1 092 495	936 690	272 314	242 528
Current assets	556 956	553 310	138 826	143 263
Non-current liabilities	153 954	168 098	38 374	43 524
Current liabilities	335 967	251 541	83 743	65 129
Equity	1 159 530	1 070 361	289 023	277 138
Share capital	195 582	195 582	48 750	50 640

Selected entries in the statement of financial position, statement of comprehensive income and cash flow statement are converted into EUR in accordance with the prevailing conversion method indicated:

– individual assets and liabilities in the statement of financial position are converted at the exchange rate prevailing at the end of the reporting period:
  rate as at 31 March 2010 EUR 1 = PLN 3.8622 (Table 63/A/NBP/2010)
  rate as at 31 March 2011 EUR 1 = PLN 4.0119 (Table 63/A/NBP/2011)
– individual items in the statement of comprehensive income and cash flow statement are converted at the exchange rates which are the arithmetic mean of the rates reported by the Polish National Bank for the euro at the last day of each month during the reporting period:
  average exchange rate during the period 1 January – 31 March 2010 EUR 1 = PLN 3.9669
  average exchange rate during the period 1 January – 31 March 2011 EUR 1 = PLN 3.9742

The conversion was made in accordance with the previously identified exchange rates by dividing the values expressed in thousands of PLN by the exchange rate.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period ending 31 March 2011

	For the period from 1 Jan to 31 Mar 2011	For the period from 1 Jan to 31 Mar 2010
	unaudited	*unaudited*
Continuing operations		
Revenues	1 014 026	367 570
Cost of sales	(810 136)	(303 987)
Gross profit on sales	**203 890**	**63 583**
Distribution costs	(28 442)	(17 029)
Administrative expenses	(59 137)	(27 361)
Other operating revenue	13 539	8 340
Other operating costs	(15 081)	(5 664)
Profit (loss) on operating activities	**114 769**	**21 869**
Finance income	6 337	3 700
Finance costs	(7 124)	(7 777)
Net finance income (costs)	**(787)**	**(4 077)**
Profit (loss) on shares in associates under the equity method	97	16
Profit (loss) before tax	**114 079**	**17 808**
Income tax	(21 302)	(3 611)
Net profit (loss) on continuing operations	**92 777**	**14 197**
Discontinued operations	-	-
Net profit (loss) on discontinued operations	**-**	**-**
Net profit (loss)	**92 777**	**14 197**
Components of other comprehensive income		
Valuation of hedging instruments	(145)	1 314
Settlement of hedging instruments	221	486
Effects of PP&E revaluation	21 076	
Deferred tax on components of other comprehensive income	(4 018)	(342)
Exchange differences from conversion of subsidiaries	(69)	(1 302)
Sum total of the components of other comprehensive income	**17 065**	**156**
Total comprehensive income	**109 842**	**14 353**
Net profit attributable to:		
Owners of the parent	68 286	14 161
Non-controlling interests	24 491	36
Total comprehensive income attributable to:		
Owners of the parent	77 262	14 317
Non-controlling interests	32 580	36
Profit (loss) per share:		
From continuing and discontinued operations:		
Basic (PLN)	1.75	0.36
Diluted (PLN)	1.75	0.36
From continuing operations:		
Basic (PLN)	1.75	0.36
Diluted (PLN)	1.75	0.36

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2011

	As at 31 Mar 2011	As at 31 Dec 2010	As at 31 Mar 2010
	unaudited	*audited*	*unaudited*
Assets			
Non-current assets			
Property, plant and equipment	2 026 707	2 038 415	926 189
Investment property	25 989	26 338	11 970
Intangible assets	216 117	182 954	21 598
Investments in subsidiaries	7 731	7 651	591
Available-for-sale investments	12 650	12 633	12 504
Other financial assets	736	737	2
Non-current receivables	3 177	3 501	1 355
Deferred income tax assets	57 216	66 706	38 040
Other assets	73	125	14
Total non-current assets	**2 350 396**	**2 339 060**	**1 012 263**
Current assets			
Inventories	246 120	269 787	185 407
Other financial assets	94	1 908	92 390
Income tax receivables	-	-	3 295
Trade and other receivables	448 479	417 326	175 664
Cash and cash equivalents	315 811	279 450	146 986
Other assets	13 047	5 751	4 988
Available-for-sale non-current assets	125	125	251
Total current assets	**1 023 676**	**974 347**	**608 981**
Total assets	**3 374 072**	**3 313 407**	**1 621 244**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2011

	As at 31 Mar 2011	As at 31 Dec 2010	As at 31 Mar 2010
	unaudited	*audited*	*unaudited*
Equity and liabilities			
Equity			
Share capital	195 582	195 582	195 582
Share premium	209 990	209 990	209 990
Provision for hedge valuations	(1 369)	(1 431)	(1 630)
Revaluation provision	8 983	-	-
Exchange differences from conversion of subsidiaries	(1 635)	(1 566)	(1 302)
Retained earnings, including:	1 168 120	1 099 601	721 732
Current-period net profit (loss)	*68 286*	*390 953*	*14 161*
Equity attributable to owners of the parent	**1 579 671**	**1 502 176**	**1 124 372**
Non-controlling interests	480 344	447 926	2 199
Total equity	**2 060 015**	**1 950 102**	**1 126 571**
Liabilities			
Liabilities due to borrowings	186 746	33 587	42 505
Provisions for employee benefits	71 235	71 235	44 887
Other non-current liabilities	312	251	190
Other provisions	156 073	129 288	20 767
Government grants	306	307	-
Deferred income	2	2	4
Provisions for deferred income tax	188 350	192 082	100 885
Financial liabilities	6 782	6 943	1 561
Total non-current liabilities	**609 806**	**433 695**	**210 799**
Liabilities due to borrowings	125 066	281 699	107 056
Provisions for employee benefits	6 866	8 176	5 104
Liabilities due to deferred income tax	10 190	2 763	-
Trade and other payables	501 891	591 233	155 782
Other provisions	54 208	39 803	13 709
Government grants	40	48	413
Deferred income	752	747	732
Financial liabilities	5 238	5 141	1 078
Total current liabilities	**704 251**	**929 610**	**283 874**
Total liabilities	**1 314 057**	**1 363 305**	**494 673**
Total equity and liabilities	**3 374 072**	**3 313 407**	**1 621 244**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ending 31 March 2011

	Share capital	Share premium	Hedge accounting provision	Revaluation provision	Exchange differences on conversion of associates	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
As at 1 January 2010	**195 582**	**209 990**	**(3 088)**	**-**	**-**	**708 648**	**1 111 132**	**2 163**	**1 113 295**
Error correction	-	-	-	-	-	-	**-**	-	**-**
As at 1 January 2010 after corrections	**195 582**	**209 990**	**(3 088)**	**-**	**-**	**708 648**	**1 111 132**	**2 163**	**1 113 295**
Total comprehensive income for the 3 months ended 31 March 2010	-	-	1 458	-	(1 302)	14 161	**14 317**	36	**14 353**
Other	-	-	-	-	-	(1 077)	**(1 077)**	-	**(1 077)**
As at 31 March 2010 (*not audited*)	**195 582**	**209 990**	**(1 630)**	**-**	**(1 302)**	**721 732**	**1 124 372**	**2 199**	**1 126 571**
As at 1 January 2010	**195 582**	**209 990**	**(3 088)**	**-**	**-**	**708 648**	**1 111 132**	**2 163**	**1 113 295**
Error correction	-	-	-	-	-	-	-	-	**-**
As at 1 January 2010 after corrections	**195 582**	**209 990**	**(3 088)**	**-**	**-**	**708 648**	**1 111 132**	**2 163**	**1 113 295**
Total comprehensive income for the 12 months ended 31 December 2010	-	-	1 657	-	(1 566)	390 953	**391 044**	9 805	**400 849**
Dividend	-	-	-	-	-	-	**-**	(454)	**(454)**
Non-controlling interests relating to acquisition of ZAK S.A. Group	-	-	-	-	-	-	**-**	436 412	**436 412**
As at 31 December 2010 (*audited*)	**195 582**	**209 990**	**(1 431)**	**-**	**(1 566)**	**1 099 601**	**1 502 176**	**447 926**	**1 950 102**
As at 1 January 2011	**195 582**	**209 990**	**(1 431)**	**-**	**(1 566)**	**1 099 601**	**1 502 176**	**447 926**	**1 950 102**
Error correction	-	-	-	-	-	-	**-**	-	**-**
As at 1 January 2011 after corrections	**195 582**	**209 990**	**(1 431)**	**-**	**(1 566)**	**1 099 601**	**1 502 176**	**447 926**	**1 950 102**
Total comprehensive income for the 3 months ended 31 March 2011	-	-	62	8 983	(69)	68 286	**77 262**	32 580	**109 842**
Dividend	-	-	-	-	-	-	**-**	-	**-**
Other	-	-	-	-	-	233	**233**	(162)	**71**
As at 31 March 2011 (*unaudited*)	**195 582**	**209 990**	**(1 369)**	**8 983**	**(1 635)**	**1 168 120**	**1 579 671**	**480 344**	**2 060 015**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ending 31 March 2011

	For the period from 1 Jan to 31 Mar 2011	**For the period from 1 Jan 2010 to 31 Mar 2010**
	unaudited	***unaudited***
Cash flows from operating activities		
Gross profit (loss)	**114 079**	**17 808**
Corrections	*36 309*	*20 340*
Depreciation / amortisation	38 029	23 354
Creation (reversal) of revaluations	(9 803)	(1 011)
Profit (loss) on investing activities	4 479	(1 198)
Profit (loss) on disposal of financial assets	-	-
Profit (loss) on shares in associates under the equity method	(97)	(16)
Interest, exchange differences	2 886	352
Profit (loss) on change in fair value of financial assets measured at fair value	815	(1 141)
Profit (loss) on operating activities before changes in working capital	***150 388***	***38 149***
Change in trade and other receivables	(4 925)	32 652
Change in inventories	23 885	(2 279)
Change in trade and other payables	(103 531)	(97 484)
Change in inventory, accruals and grants	40 370	14 235
Other corrections	(1 008)	25 608
Cash generated from operating activities	***105 179***	***10 880***
Interest paid	1 802	-
Tax paid	(11 348)	2 140
Net cash from operating activities	**95 633**	**13 020**

	For the period from 1 Jan to 31 Mar 2011	For the period from 1 Jan 2010 to 31 Mar 2010
	unaudited	*unaudited*
Cash flows from investing activities		
Sale of intangible assets, PP&E and investment properties	3 700	9 594
Purchase of intangible assets, PP&E and investment properties	(51 244)	(16 424)
Dividend received	-	2
Expenditures on acquisition of financial assets	(233)	(90 000)
Proceeds from sale of financial assets	-	-
Interest received	105	815
Grants	15	-
Other investment proceeds (expenditures)	(564)	
Repayment of borrowings granted	-	(1 593)
Net cash flow from investing activities	**(48 221)**	**(97 606)**
Cash flows from financing activities		
Net proceeds from share issue	-	-
Dividend paid	-	(34)
Proceeds from loans and borrowings taken	186 294	38 947
Expenditures on repayment of loans and borrowings	(191 483)	(51 785)
Interest paid	(3 767)	(1 912)
Payments for finance lease liabilities	(1 167)	(129)
Net cash flows from financing activities	**(10 123)**	**(14 913)**
Total net cash flows	**37 289**	**(99 499)**
Cash at the beginning of period	**279 450**	**246 485**
Effect of exchange differences	**(928)**	**-**
Cash at the end of period	**315 811**	**146 986**

I. NOTES TO THE FINANCIAL STATEMENTS

1. INFORMATION ON SIGNIFICANT EVENTS DURING THE FIRST QUARTER OF 2011

Temporary suspension of nitrate fertiliser production

On 5 January 2011, in the Parent's Nitric Acid Department – Technical Nitric Acid Manufacturing Plant, an air compressor failed within the Manufacturing Plant's turbine set (KDC installation).

The air compressor failure caused suspension of own manufacture of technical nitric acid and limited the manufacture of nitrate fertilisers (saletrosan, calcium ammonium nitrate) and chemicals in the first quarter of 2011. However, with regard to their different raw material base, manufacture of other fertilisers – ammonium nitrate and its grades: macro, crystalline, standard, selected – was continued without interruption and the total volume manufactured conformed to the 2011 manufacture plan for this quarter.

The immediate effect of the failure was the suspension in manufacture of nitrate fertilisers (saletrosan, calcium ammonium nitrate) for a period of 14 days. On 20 January 2011 the nitrate fertiliser production facility was started up at 40% capacity based on allocation of technical nitric acid within the AZOTY Tarnów Group supported (in the first weeks of the quarter) by purchase of technical nitric acid from external sources. Aside from a short, approx. 5-day period of limitations in the manufacture of ammonia in January 2011, the air compressor failure within the Dual-Pressure Nitric Acid Production Facility did not have an impact on the stable, high-pressure operations of installations within the ammonia production line. It was possible to minimise the effects of the failure due to purchase by AZOTY Tarnów of assets – shares in ZAK S.A. in October 2010 and the possibility to implement synergy effects, i.e. using excess technical nitric acid at ZAK S.A. for the manufacture of nitrate fertilisers in Tarnów and designating own manufacture of ammonia to increase the production of technical nitric acid at ZAK S.A.

Finally, concerning manufacture of fertilisers at AZOTY Tarnów in the first quarter of 2011:

- approx. 79 000 tons of nitrate fertilisers for calcium ammonium nitrate was not produced,
- while other fertilisers (4 grades of ammonium nitrate) were manufactured as planned.

Energy-related events

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

Sale of emission reduction units (ERUs)

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

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

Increase in credit limits

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

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

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

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

Loan agreements and complete repayment of debt to a consortium of banks: BRE Bank S.A./Kredyt Bank S.A./Pekao S.A. had an impact on the financial standing and result of ZAK S.A.

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

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

On 29 March 2011 ZAK S.A. entered into a loan agreement with PKO BP S.A, Regional Corporate Branch in Katowice, with the loan in the form of a multi-purpose limit of PLN 100 million to refinance loan liabilities towards a consortium of banks: BRE BANK S.A./Bank Pekao S.A./Kredyt Bank S.A. under a renewable loan and for financing current operations.

In addition, as referred to in the point ***Increase of credit limit*** above, on 30 March 2011 ZAK S.A. signed Annex no. 1 to the Overdraft Agreement and Annex no. 1 to the Agreement on Provision of Virtual Cash Pooling Services with PKO BP S.A., Regional Corporate Branch in Katowice, concerning grant of a PLN 55 700 000 overdraft facility for ZAK S.A. and PLN 4 300 000 facility for ZAK S.A. subsidiaries.

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

Change in the Parent's shareholding structure

On 11 April 2011 the Parent's Management Board received information from the Ministry of Treasury and Nafta Polska S.A. w likwidacji on change of State Treasury of Poland and Nafta Polska S.A. w likwidacji shares in the total number of votes within the Parent. Furthermore, on 15 April 2011 the Board received information provided by Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG") on a transaction to dispose of all shares held in the Parent.

(details can be found in point III.4 of this report)

Awards and distinctions

In January 2011, for the second time AZOTY Tarnów was included in the elite group of 16 listed companies included in the RESPECT Indeks portfolio – companies managed in a responsible and sustainable manner. In obtaining a high rating assessment in research carried out by Deloitte, in 2009 AZOTY Tarnów was qualified, as one of 16 companies listed on the Warsaw Stock Exchange, to the first stock market index of socially responsible companies in Poland.

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

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

2. PRINCIPLES OF THE ACCOUNTING POLICY AND CALCULATION METHODS

2.1. Declaration of conformity and general principles for drawing up the report

These consolidated abridged interim financial statements have been drawn up in accordance with the requirements of IAS 34 "Interim Financial Statements" and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and the terms and conditions for recognising information required by the provisions of law of a non-member state as equivalent (Polish Journal of Laws no. 33, item 259), hereinafter referred to as the Ordinance and present the Group's financial position as at 31 March 2011 and 31 December 2010, the results of its operations for the 3-month period ending 31 March 2011 and 31 March 2010 and cash flows for the 3-month period ending 31 March 2011 and 31 March 2010.

In accordance with § 83, sec. 1 of the Ordinance, the Parent's quarterly financial information has been published in these financial statements, containing: Separate Statement of Comprehensive Income, Separate Statement of Financial Position, Separate Statement of Changes in Equity, Separate Statement of Cash Flows.

These abridged, interim Consolidated Financial Statements should be read together with the audited Consolidated Financial Statements of the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group, drawn up in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union, containing notes to the financial statements for the year ending 31 December 2010.

The financial statements were prepared on the assumption that the Group will continue as a going concern and that it will continue its operations in the foreseeable future.

These abridged interim consolidated financial statements were prepared using the number format PLN x 1 000.

2.2. Accounting principles and calculation methods

a) Changes in International Financial Reporting Standards

The followings standards, changes in existing standards and interpretations (adopted or currently being adopted by the European Union) are in effect as of 1 January 2011:

- **Amendments to IAS 24 "Related party disclosures"** – to simplify disclosure requirements for entities related to the state and clarify the definition of related parties, as approved in the EU on 29 July 2010 (effective for annual periods beginning on or after 1 January 2011 or thereafter),

- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Classification rights issues, approved in the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010 or thereafter),

- **Amendments to IFRS 1 "First-time adopters"** – the limited release of adopters of IFRS first-time adopters to disclose comparative information in accordance with IFRS 7, as approved in the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010 beginning on or after that date),

- **Amendments to IFRIC 14 "IAS 19 – The Limit on a defined benefit asset, minimum funding requirements and their interaction"** – a prepayment of the minimum funding requirement, as approved in the EU on 19 July 2010 (effective for annual periods beginning 1 January 2011 or thereafter),

- **IFRIC interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments"** adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010 or thereafter).

- **Changes to the various standards and interpretations, "Amendments to IFRS (2010)"** – changes made in the procedures for annual amendments to IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13) focused primarily on resolving inconsistencies and clarifying vocabulary (effective for annual periods beginning on or after 1 January 2011).

Adoption of the above standards and interpretations did not create significant changes in the Group's accounting policy or in the presentation of data in the financial statements.

b) Standards and interpretations published, but still not approved by the EU

In approving these financial statements, the Group did not apply the following standards, changes to standards and interpretations, which have been published by have not yet been approved by the EU:

- **IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013),**

- **Amendments to IFRS 7 "Financial instruments: disclosures"** – transfers of financial assets (effective for annual periods beginning on or after 1 July 2011 or after that date),

- **Amendments to IFRS 1 "First-time adopters" –** severe hyperinflation and the removal of rigid deadlines for applying IFRS for the first time (as in force for annual periods beginning on or after 1 July 2011 or thereafter),

- **Amendments to IAS 12 "Income taxes"** – deferred tax; realization of assets (effective for annual periods beginning on or after 1 January 2012 or thereafter),

According to estimates, the above standards, interpretations and amendments to standards would not have had any significant impact on the financial statements, if they were applied by the Group at the end of the reporting period.

c) Changes in presentation of the statements

No changes were made to the presentation of the financial statements during the reporting period.

2.3. Functional and presentation currency of the financial statements, together with the principles adopted for the conversion of financial data

a) Functional and presentation currency

The functional and presentation currency for these abridged interim Financial Statements of the Group and Parent is Polish zloty (PLN).

b) Principles adopted for financial conversion

Selected items in the statement of financial position, statement of comprehensive income and statement of cash flows were converted into EUR in accordance with the conversion method in force, which is presented below:

- individual assets and liabilities in the statement of financial position are converted at the exchange rate prevailing at the end of the reporting period:
  the exchange rate on 31 March 2010 amounted to EUR 1 = PLN 3.8622 (table no. 63/A/NBP/2010),
  the exchange rate on 31 March 2011 amounted to EUR 1 = PLN 4.0119 (table no. 63/A/NBP/2011).

- specific items in the statement of comprehensive income and the statement of cash flows were converted according to exchange rates constituting the arithmetical average of exchange rates published by the National Bank of Poland for EUR, in force as at the last day of each month within a given reporting period:
  the average exchange rate over the period 1 January 2010 - 31 March 2010 amounted to EUR 1 = PLN 3.9669,
  the average exchange rate over the period 1 January 2011 - 31 March 2011 amounted to EUR 1 = PLN 3.9742.

The conversion was made in accordance with the previously identified exchange rates by dividing the values expressed in thousands of PLN by the exchange rate.

2.4. Changes in estimated amounts

The following changes in estimated amounts occurred in the report for the first quarter of 2011:

Changes in provisions for payables (without provisions for deferred income tax)

	from 1 Jan to 31 Mar 2011	from 1 Jan 2010 to 31 Dec 2010	from 1 Jan 2010 to 31 Mar 2010
As at the beginning of period	**248 502**	**79 248**	**79 248**
Creation	47 532	192 623	9 900
Release and use	(7 652)	(23 369)	(4 681)
As at the end of period	**288 382**	**248 502**	**84 467**

Changes in revaluation write-downs on fixed assets

	from 1 Jan to 31 Mar 2011	from 1 Jan 2010 to 31 Dec 2010	from 1 Jan 2010 to 31 Mar 2010
As at the beginning of period	**111 690**	**87 385**	**87 385**
Creation	-	41 554	-
Release and use	(2)	(17 249)	(1 011)
As at the end of period	**111 688**	**111 690**	**86 374**

Changes in revaluation write-downs on inventories

	from 1 Jan to 31 Mar 2011	from 1 Jan 2010 to 31 Dec 2010	from 1 Jan 2010 to 31 Mar 2010
As at the beginning of period	**7 224**	**7 617**	**7 617**
Creation	689	6 860	851
Release and use	(872)	(7 253)	(2 462)
As at the end of period	**7 041**	**7 224**	**6 006**

Changes in revaluation write-downs on receivables

	from 1 Jan to 31 Mar 2011	from 1 Jan 2010 to 31 Dec 2010	from 1 Jan 2010 to 31 Mar 2010
As at the beginning of period	**28 242**	**21 870**	**21 870**
Creation	791	19 399	285
Release and use	(3 363)	(13 027)	(926)
As at the end of period	**25 670**	**28 242**	**21 229**

Changes in deferred income tax assets and provisions

Assets	from 1 Jan to 31 Mar 2011	from 1 Jan 2010 to 31 Dec 2010	from 1 Jan 2010 to 31 Mar 2010
As at the beginning of period	**66 706**	**37 829**	**37 829**
Creation	4 733	78 830	9 248
Release and use	(14 223)	(49 953)	(9 037)
As at the end of period	**57 216**	**66 706**	**38 040**
Provisions			
As at the beginning of period	**192 082**	**102 511**	**102 511**
Creation	1 107	216 812	1 003
Release and use	(4 839)	(127 241)	(2 629)
As at the end of period	**188 350**	**192 082**	**100 885**

2.5. Segment data

In accordance with the requirements of IFRS 8, operating segments should be identified on the basis of internal reports concerning such elements of the Group which are regularly verified by a decision-maker responsible for allocating resources to a given segment and assessing its financial results.

Operating segments

The Group separates operating segments as follows:

- Plastics segment,
- Fertilisers segment,
- Oxo alcohols segment,
- Other activity segment, which includes the remaining lines of business, including energy laboratory services, rental properties and other activities not attributable to individual segments.

Evaluation of the results of the segments is made on the basis of the revenue from EBIT and EBITDA sales.

Geographical segments

The Group separates the following geographical segments:

- Poland,
- Germany,
- Other EU countries,
- Other European countries,
- Asia,
- Other countries.

Operating segments

Revenues, costs and profit by business segment for the 3 months ended 31 March 2011

Continuing operations	Plastics	Fertilisers	Oxo alcohols	Other activity	Consolidation exclusions (+/-)	Total
Revenue from external sales	326 179	370 378	262 307	94 920	(39 758)	**1 014 026**
Revenue from inter-segment sales	52 730	63 625	2 297	177 397	(296 049)	**-**
Total revenue from sales	378 909	434 003	264 604	272 317	(335 807)	**1 014 026**
Operating costs, including: (-)	(324 745)	(376 495)	(226 295)	(302 214)	332 034	**(897 715)**
distribution costs (-)	(9 739)	(15 289)	(7 513)	1 061	3 038	***(28 442)***
administrative expenses (-)	(17 214)	(21 274)	(13 143)	(8 892)	1 386	***(59 137)***
Other operating revenue	143	1 210	1 550	10 998	(362)	**13 539**
Other operating costs (-)	(8)	(5 138)	490	(14 560)	4 135	**(15 081)**
Operating EBIT for the segment	**54 299**	**53 580**	**40 349**	**(33 459)**	**-**	**114 769**
Finance income	x	x	x	x	x	**6 337**
Finance costs (-)	x	x	x	x	x	**(7 124)**
Profit (loss) on shares in associates under the equity method	x	x	x	x	x	**97**
Profit (loss) before tax (continuing operations)	**x**	**x**	**x**	**x**	**x**	**114 079**
Profit (loss) before tax (discontinued operations)	**x**	**x**	**x**	**x**	**x**	**x**
Income tax (-) (continuing and discontinued operations)	x	x	x	x	x	**(21 302)**
Net profit (loss) (continuing and discontinued operations)	x	x	x	x	x	**92 777**
Depreciation / amortisation	5 587	12 102	6 074	11 730	x	**35 493**
Unallocated depreciation / amortisation	x	x	x	x	x	**2 536**
EBITDA	**59 886**	**65 682**	**46 423**	**(21 729)**	**-**	**152 798**

Revenues, costs and profit by business segment for the 3 months ended 31 March 2010

Continuing operations	Plastics	Fertilisers	Oxo alcohols	Other activity	Consolidation exclusions (+/-)	Total
Revenue from external sales	220 000	133 515	-	67 822	(53 767)	**367 570**
Revenue from inter-segment sales	49 278	43 751	-	107 950	(200 979)	**-**
Total revenue from sales	269 278	177 266	-	175 772	(254 746)	**367 570**
Operating costs, including: (-)	(249 034)	(179 305)	-	(174 809)	254 771	**(348 377)**
distribution costs (-)	(4 994)	(12 006)	-	(29)	-	***(17 029)***
administrative expenses (-)	(12 233)	(10 285)	-	(4 843)	-	***(27 361)***
Other operating revenue	-	-	-	28 347	(20 007)	***8 340***
Other operating costs (-)	-	-	-	(5 706)	42	***(5 664)***
Operating EBIT for the segment	**20 244**	**(2 039)**	**-**	**23 604**	**(19 940)**	**21 869**
Finance income	x	x	x	x	x	3 700
Finance costs (-)	x	x	x	x	x	(7 777)
Profit (loss) on shares in associates under the equity method	x	x	x	x	x	16
Profit (loss) before tax (continuing operations)	**x**	**x**	**x**	**x**	**x**	**17 808**
Profit (loss) before tax (discontinued operations)	**x**	**x**	**x**	**x**	**x**	**-**
Income tax (-) (continuing and discontinued operations)	x	x	x	x	x	(3 611)
Net profit (loss) (continuing and discontinued operations)	**x**	**x**	**x**	**x**	**x**	**14 197**
Depreciation / amortisation	8 559	5 730	-	8 077	988	**23 354**
Unallocated depreciation / amortisation	x	x	x	x	x	**x**
EBITDA	**28 803**	**3 691**	**-**	**31 681**	**(18 952)**	**45 223**

Geographical segments

Geographical segments for the 3-month period ending 31 March 2011

	Revenues	Costs
Poland	424 199	409 161
Germany	181 433	142 487
Other EU countries	305 812	263 799
Other European countries	36 627	30 028
Asia	54 472	42 051
Other	11 483	10 189
Total	**1 014 026**	**897 715**

Geographical segments for the 3 months ended 31 March 2011

	Revenues	Costs
Poland	169 014	151 617
Germany	85 410	106 105
Other EU countries	78 314	59 168
Other European countries	3 073	2 574
Asia	25 291	20 144
Other	6 468	8 769
Total	**367 570**	**348 377**

2.6. Contingent assets and liabilities

The Group recognises neither blank promissory notes issued as collateral for payables included in the balance sheet nor guarantees (presented below), issued by banks at the request of the Group to provide collateral for payables also included in the balance sheet, as contingent liabilities.

Sureties granted by the Group – standing correct as at 31 March 2011

Type	Entity	Details	Currency	As at 31 Mar 2011	As at 31 Dec 2010
Surety/ Zakłady Azotowe w Tarnowie-Mościcach S.A.	Envia Mitteldeutsche Energie AG Germany	Security for payment of ATT Polymers GmbH liabilities	EUR	1 000	1 000
Surety/ Zakłady Azotowe w Tarnowie-Mościcach S.A.	EnviaTHERM GmbH	Security for payment of ATT Polymers GmbH liabilities	EUR	500	500
Guarantee	PKO Bank Polski S.A.	Security for payment of ZAK S.A. loan	PLN	100 000	-
Guarantee	Raiffeisen Bank Polska S.A.	Security for payment of ZAK S.A. loan	PLN	21 563	-
Guarantee	Raiffeisen Bank Polska S.A	Security for payment of ZAK S.A. loan	EUR	18 438	-

Guarantees granted at the request of the Group – standing correct as at 31 March 2011

Issuer	Beneficiary	Details	Currency	As at 31 Mar 2011	As at 31 Dec 2010
Raiffeisen Bank Polska S.A.	Head of the Customs Office in Krakow	Customs duty collateral	PLN	1 600	1 600
Generali TU S.A.	RAFAKO S.A.	Insurance guarantee for due performance of the contract and of removal of faults and defects	PLN	343	343
Generali TU S.A.	RAFAKO S.A.	Insurance guarantee for due performance of the contract and of removal of faults and defects	PLN	123	123
Generali TU S.A	Lotos S.A. Group	Insurance guarantee for due performance of the contract and of removal of faults and defects	PLN	15	-
PKO Bank Polski S.A.	Customs Office	Customs procedure collateral	PLN	1 600	1 600
PKO Bank Polski S.A.	Mostostal Kędzierzyn S.A.	Collateral for guarantee claims	PLN	159	159
Raiffeisen Bank Polska S.A.	GATX Rail Poland Sp. z o.o. Warsaw	Guarantee of lease payments	PLN	143	112
Raiffeisen Bank Polska S.A.	GATX Rail Poland Sp. z o.o. Warsaw	Guarantee of lease payments	PLN	120	44

Promissory notes issued by the Group as collateral for payables, standing correct as at 31 March 2011

Promissory note issue date	Beneficiary	As collateral for:	Currency	Notes
9 September 2004.	PKN Orlen S.A.	payables relating to payment for purchased goods and services	PLN	blank promissory note up to 14 000
26 January 2005	Polimex-Mostostal Siedlce S.A.	payables relating to the guarantee of advance repayment on agreement with CNCCC - China	USD	blank promissory note up to 590
21 December 2009	Head of Customs Office in Krakow	excise duty collateral	PLN	blank promissory note up to 1 050
9 August 2010	National Fund for Environmental Protection and Water Management	repayment of funds paid out in relation to the project concerning commercial use of ashe	PLN	blank promissory note up to 4 588
21 December 2009	Head of Customs Office in Krakow	excise duty collateral	PLN	blank promissory note up to 330
11 January 2006	blank promissory note for PKN Orlen S.A. Płock	collateral for supplies of propylene	PLN	Maximum collateral amount 10 000
14 December 2009	blank promissory note for the National Fund for Environmental Protection and Water Management	collateral for project finance agreement no. KSI POIS.04.03.00-00-012/08	PLN	Maximum collateral amount 20 000
21 June 2005	blank promissory note for BRE Bank S.A.	collateral for the hedge transaction limit	PLN	Maximum collateral amount 1 000
31 December 2010	blank promissory note for the Customs Office in Opole	excise duty collateral	PLN	Maximum collateral amount 648

2.7. Information on associates

Information concerning significant transactions with associates

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

During the 3-month period ending 31 March 2011 there were no transactions executed with associates 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 3-month period ending 31 March 2011 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.

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

There is no information concerning such events.

2.9. Dividend

During the first quarter of 2011 the Issuer did not pay out or declare payout of a dividend.

However, subsidiary ZAK S.A. paid out PLN 4 783 for a dividend not collected in 2007. As at 31 March 2011 the amount of the dividend not collected was PLN 232 159.20. The above amounts result from the fact that individual shareholders did not come forward for collection of due dividends. This is commonly caused by problems in establishing rights carried by shares resulting from incomplete inheritance cases.

2.10. Seasonality

The seasonality of AZOTY Tarnów Group products mainly concerns nitrate fertilisers.

The seasonality phenomenon results from periodic fluctuations in supply and demand throughout the agricultural market and is also significant in the development of fertiliser sales trends. In relation to sales at AZOTY Tarnów, seasonality is significantly reduced through the use of appropriate provisions in distribution agreements. Sales of other products are not subject to seasonal fluctuations, which is why the impact of seasonality on AZOTY Tarnów sales results is relatively small.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the period ending 31 March 2011

	For the period from 1 Jan to 31 Mar 2011	For the period from 1 Jan to 31 Mar 2010
	unaudited	*unaudited*
Continuing operations		
Revenues	444 265	354 703
Cost of sales	(342 808)	(299 173)
Gross profit on sales	**101 457**	**55 530**
Distribution costs	(14 476)	(16 228)
Administrative expenses	(25 530)	(22 028)
Other operating revenue	484	1 154
Other operating costs	(14 152)	(3 147)
Profit (loss) on operating activities	**47 783**	**15 281**
Finance income	2 256	3 641
Finance costs	(3 178)	(7 554)
Net finance income (costs)	**(922)**	**(3 913)**
Profit (loss) on shares in associates under the equity method		-
Profit (loss) before tax	**46 861**	**11 368**
Income tax	(9 616)	(2 375)
Net profit (loss) on continuing operations	**37 245**	**8 993**
Discontinued operations		
Net profit (loss) on discontinued operations	**-**	**-**
Net profit (loss)	**37 245**	**8 993**
Components of other comprehensive income		
Valuation of hedging instruments	(145)	1 314
Settlement of hedging instruments	221	486
Deferred tax on components of other comprehensive income	(14)	(342)
Sum total of the components of other comprehensive income	**62**	**1 458**
Total comprehensive income	**37 307**	**10 451**
Profit (loss) per share:		
From continuing and discontinued operations:		
Basic (PLN)	0,95	0,23
Diluted (PLN)	0,95	0,23
From continuing operations:		
Basic (PLN)	0,95	0,23
Diluted (PLN)	0,95	0,23

SEPARATE STATEMENT OF FINANCIAL POSITION
as at 31 March 2011

	As at 31 Mar 2011	As at 31 Dec2010	As at 31 Mar 2010
	unaudited	*audited*	*unaudited*
Assets			
Non-current assets			
Property, plant and equipment	779 192	777 105	770 306
Investment property	11 963	12 159	11 970
Intangible assets	22 547	20 763	19 225
Investments in subsidiaries	219 882	219 798	69 748
Available-for-sale investments	15 552	15 552	19 016
Other financial assets	13 277	14 310	17 473
Non-current receivables	2 300	2 300	1 300
Deferred income tax assets	27 782	30 540	27 652
Total non-current assets	**1 092 495**	**1 092 527**	**936 690**
Current assets			
Inventories	158 352	172 832	170 292
Other financial assets	24 828	5 585	96 876
Income tax receivables	-	1 947	3 370
Trade and other receivables	183 122	145 749	177 275
Cash and cash equivalents	184 566	172 191	103 111
Other assets	5 963	4 071	2 199
Available-for-sale non-current assets	125	125	187
Total current assets	**556 956**	**502 500**	**553 310**
Total assets	**1 649 451**	**1 595 027**	**1 490 000**

SEPARATE STATEMENT OF FINANCIAL POSITION

as at 31 March 2011

	As at 31 Mar 2011	As at 31 Dec 2010	As at 31 Mar 2010
	unaudited	*audited*	*unaudited*
Equity and liabilities			
Equity			
Share capital	195 582	195 582	195 582
Share premium	209 990	209 990	209 990
Provision for hedge valuations	(1 369)	(1 431)	(1 630)
Retained earnings, including:	755 327	718 082	666 419
Current-period net profit (loss)	*37 245*	*60 656*	*8 993*
Total equity	**1 159 530**	**1 122 223**	**1 070 361**
Liabilities			
Liabilities due to borrowings	26 434	30 855	39 503
Provisions for employee benefits	24 924	24 924	25 422
Other provisions	20 229	20 228	14 601
Government grants	300	300	-
Provisions for deferred income tax	80 603	83 477	87 654
Financial liabilities	1 464	1 416	918
Total non-current liabilities	**153 954**	**161 200**	**168 098**
Liabilities due to borrowings	118 514	118 354	104 603
Provisions for employee benefits	2 154	2 254	1 991
Liabilities due to deferred income tax	4 451	-	-
Trade and other payables	192 501	179 021	143 077
Other provisions	17 469	10 911	1 100
Government grants	36	21	280
Deferred income	6	8	-
Financial liabilities	836	1 035	490
Total current liabilities	**335 967**	**311 604**	**251 541**
Total liabilities	**489 921**	**472 804**	**419 639**
Total equity and liabilities	**1 649 451**	**1 595 027**	**1 490 000**

SEPARATE STATEMENT OF CHANGES IN EQUITY

for the period ending 31 March 2011

	Share capital	Share premium	Provision for hedge accounting	Retained earnings	Total equity
As at 1 January 2010	**195 582**	**209 990**	**(3 088)**	**657 426**	**1 059 910**
Total comprehensive income for the 3 months ended 31 March 2010	**-**	**-**	1 458	8 993	**10 451**
As at 31 March 2010 (*not audited*)	**195 582**	**209 990**	**(1 630)**	**666 419**	**1 070 361**
As at 1 January 2010	**195 582**	**209 990**	**(3 088)**	**657 426**	**1 059 910**
Total comprehensive income for the 12 months ended 31 December 2010	-	-	1 657	60 656	**62 313**
As at 31 December 2010 (*audited*)	**195 582**	**209 990**	**(1 431)**	**718 082**	**1 122 223**
As at 1 January 2011	**195 582**	**209 990**	**(1 431)**	**718 082**	**1 122 223**
Total comprehensive income for the 3 months ended 31 March 2011	-	-	62	37 245	37 307
As at 31 March 2011 (*unaudited*)	**195 582**	**209 990**	**(1 369)**	**755 327**	**1 159 530**

SEPARATE STATEMENT OF CASH FLOWS

for the period ending 31 March 2011

	For the period from 1 Jan to 31 Mar 2011	For the period from 1 Jan 2010 to 31 Mar 2010
	unaudited	*unaudited*
Cash flows from operating activities		
Gross profit (loss)	**46 861**	**11 368**
Corrections	*18 369*	*15 827*
Depreciation / amortisation	15 682	18 908
Creation (reversal) of revaluations	(465)	(1 011)
Profit (loss) on investing activities	521	(1 195)
Profit (loss) on disposal of financial assets	-	-
Profit (loss) on shares in associates under the equity method	-	-
Interest, exchange differences	1 816	266
Profit (loss) on change in fair value of financial assets measured at fair value	815	(1 141)
Profit (loss) on operating activities before changes in working capital	***65 230***	***27 195***
Change in trade and other receivables	(37 380)	(45 771)
Change in inventories	14 480	5 491
Change in trade and other payables	3 809	(4 067)
Change in inventory, accruals and grants	17 126	6 129
Other corrections	(845)	1 113
Cash generated from operating activities	***62 420***	***(9 910)***
Interest paid	-	-
Tax paid	(3 348)	2 675
Net cash from operating activities	**59 072**	**(7 235)**

	For the period from 1 Jan to 31 Mar 2011	For the period from 1 Jan 2010 to 31 Mar 2010
	unaudited	*unaudited*
Cash flows from investing activities		
Sale of intangible assets, PP&E and investment properties	2 123	9 582
Purchase of intangible assets, PP&E and investment properties	(21 965)	(14 745)
Dividend received	-	2
Expenditures on acquisition of financial assets	(84)	(106 057)
Proceeds from sale of financial assets	-	-
Interest received	-	790
Repayment of borrowings granted	(19 026)	(22 133)
Grants	15	-
Other investment proceeds (expenditures)	(1 519)	(1 594)
Net cash flow from investing activities	**(40 456)**	**(134 155)**
Cash flows from financing activities		
Dividend paid	-	(34)
Proceeds from loans and borrowings taken	455	35 869
Expenditures on repayment of loans and borrowings	(4 716)	(25 209)
Interest paid	(1 807)	(1 797)
Payments for finance lease liabilities	(173)	22
Net cash flows from financing activities	**(6 241)**	**8 851**
Total net cash flows	**12 375**	**(132 539)**
Cash at the beginning of period	**172 191**	**235 650**
Effect of exchange differences		
Cash at the end of period	**184 566**	**103 111**

II. REVIEW OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. BASIC INFORMATION CONCERNING THE GROUP

During the first quarter of 2011, the Group achieved a net profit of PLN 92 777 000, a carrying amount as at 31 March 2011 of PLN 3 374 072 000, while cash flows as at the end of the period amounted to PLN 37 289 000.

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

Selected financial data

(in PLN thousands)

	For the period from 1 Jan to 31 Mar 2011	**For the period from 1 Jan 2010 to 31 Mar 2010**	**Change (%)**
Net revenue from sales	1 014 026	367 570	175.87
Cost of sales	(810 136)	(303 987)	166.50
Gross profit (loss) on sales	203 890	63 583	220.67
Distribution costs	(28 442)	(17 029)	67.02
Administrative expenses	(59 137)	(27 361)	116.14
Other operating revenues (costs)	(1 542)	2 676	x
Profit (loss) on operating activities	114 769	21 869	424.80
Finance income (costs)	(787)	(4 077)	(80.70)
Profit (loss) on shares in associates measured using the equity method	97	16	506.25
Income tax	(21 302)	(3 611)	489.92
Net profit (loss)	**92 777**	**14 197**	**553.50**
Net profit (loss) attributable to owners of the parent	68 286	14 161	382.21
Net profit (loss) attributable to non-controlling interests	24 491	36	67 930.56
EBITDA	**152 798**	**45 223**	**237.88**

	As at 31 Mar 2011	As at 31 Mar 2010	Change (%)
Value of assets	**3 374 072**	**1 621 244**	**108.12**
Non-current assets	2 350 396	1 012 263	132.19
Current assets, including:	1 023 676	608 981	68.10
Inventories	246 120	185 407	32.75
Current receivables	448 479	178 959	150.60
Cash and cash equivalents	315 811	146 986	114.86
Other financial assets	94	92 390	(99.90)
Available-for-sale non-current assets	125	251	(50.20)
Other assets	13 047	4 988	161.57
Equity, including:	**2 060 015**	**1 126 571**	**82.86**
Equity attributable to owners of the parent	1 579 671	1 124 372	40.49
Non-controlling interests	480 344	2 199	21 743.75
Non-current liabilities	609 806	210 799	189.28
Current liabilities	704 251	283 874	148.09

	For the period from 1 Jan to 31 Mar 2011	For the period from 1 Jan 2010 to 31 Mar 2010	Change (%)
Cash flows from operating activities	95 633	13 020	776.18
Cash flows from investing activities	(48 221)	(97 606)	(50.60)
Cash flows from financing activities	(10 123)	(14 913)	(32.12)

Revenue from sales

The Group's net consolidated revenue from sales for the first quarter of 2011 amounted to PLN 1 014 026 000. In comparison to the same period of 2010, revenues had increased by PLN 646 456 000, i.e. by 175.87%. This is the result of the AZOTY Tarnów Group, expanded by the acquisition of subsidiaries ATT Polymers GmbH and ZAK S.A., achieving higher market sales in all operating segments.

The fertiliser segment recorded the largest share in revenues.

Total costs

During the first quarter of 2011 total costs amounted to PLN 919 920 000 and were PLN 558 102 000 higher than costs incurred during the same period of 2011, i.e. an increase of 154.25% with an increase in sales of 175.87%.

(in PLN thousands)

	For the period from 1 Jan to 31 Mar 2011	For the period from 1 Jan 2010 to 31 Mar 2010	Change (%)
Cost of sales	(810 136)	(303 987)	166.50
Distribution costs	(28 442)	(17 029)	67.02
Administrative expenses	(59 137)	(27 361)	116.14
Total selling costs	**(897 715)**	**(348 377)**	**157.68**
Other operating costs	(15 081)	(5 664)	166.26
Total operating costs	**(912 796)**	**(354 041)**	**157.82**
Finance costs	(7 124)	(7 777)	(8.40)
Total costs:	**(919 920)**	**(361 818)**	**154.25**

Sales result and operating result

During the first quarter of 2011 gross profit on sales amounted to PLN 203 890 000, while during the same period last year this amounted to PLN 63 583 000. However, the operating result amounted to PLN 114 769 000, with PLN 21 869 000 in the comparative period.

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

- beneficial deviations in the price of basic products in relation to the same period a year earlier,
- growth in sales volume in relation to the same period in 2010 caused by the growth of the Group in the fourth quarter of 2010,
- increase in the scale of operations and product range at the AZOTY Tarnów Group,
- growth in demand and the level of market prices for caprolactam. The shift in price is mainly caused by an increase in prices of the raw materials used for its manufacture. Strong demand on Asian markets caused the placing of caprolactam by European manufacturers there, which from the viewpoint of price is attractive,
- the growth in fertiliser prices is not just an effect of a seasonal increase in demand but also tendencies in the global market resulting from the high prices of grain and oil crops. Unrest in North Africa and the Middle East also had a certain impact on prices,
- growth in requirements for construction plastics, including for polymer PA6 and polyacetal POM,
- decrease in the price of coal and electricity,

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

- the strengthening of PLN against EUR, which makes achieving the profitability of AZOTY Tarnów exports difficult (without taking hedged currency transactions into account),
- significantly higher raw material prices, mainly ammonia, phenol, methanol, benzene, sulphur and natural gas.

Net result

Consolidated net profit for the first quarter of 2011 amounted to PLN 92 777 000, of which PLN 68 286 000 was the net profit for shareholders in the Parent. Net profitability amounted to 9.15%.

Operating profit (EBIT) had a major, positive impact on the final financial result. This result was slightly decreased through the negative result recorded on finance activity.

Financial results achieved in specific types of activity

(in PLN thousands)

	For the period from 1 Jan to 31 Mar 2011	For the period from 1 Jan 2010 to 31 Mar 2010	Change (%)
Profit (loss) on operating activities	114 769	21 869	424.80
Net finance income (costs)	(787)	(4 077)	(80.70)
Share of net profits of associates measured using the equity method	97	16	506.25
Income tax	(21 302)	(3 611)	489.92
Profit (loss) on discontinued operations	-	-	x
Net profit (loss)	92 777	14 197	553.50
Net profit (loss) attributable to owners of the parent	68 286	14 161	382.21
Net profit (loss) attributable to non-controlling interests	24 491	36	67 930.56

Assets

As at 31 March 2011 the Group's fixed assets totalled PLN 2 350 396 000 in value. In comparison to the standing correct as at 31 December 2010, fixed assets increased in value by PLN 11 336 000 (i.e. 0.48%). The highest level of growth was recorded in intangible asset items, which had increased in value in comparison with December 2010 from PLN 182 954 000 to PLN 216 117 000.

The share of fixed assets in total assets amounted to 69.66% (with 70.59% as at the end of 2010).

As at 31 March 2011, the Group's current assets totalled PLN 1 023 676 000 in value. Current assets dominated the asset structure: trade and other receivables – 43.81%, cash and cash equivalents – 30.85%, current assets and inventory – 24.04%.

In comparison with the situation as at 31 December 2010, the value of current assets increased by PLN 49 329 000 (including the largest increase recorded in cash and cash equivalents by PLN 36 361 000, whereas the largest decrease was recorded in inventory – by PLN 23 667 000).

Liabilities

The Group's liabilities (both current and non-current) amounted to PLN 1 314 057 000 as at 31 March 2011, which denotes a PLN 49 248 000 drop in comparison with the situation as at 31 December 2010 (i.e. a decrease of 3.61%).

The increase in liabilities mainly results from growth in non-current liabilities for loans and borrowings – an increase of 456%.

As at 31 March 2011 the debt ratio (current and non-current liabilities to total assets) amounted to 38.95% (as at the end of December 2010 this was 41.15%).

The current ratio, calculated as the product of total current assets and total current liabilities, amounted to 1.45 as at 31 March 2011 (as at the end of 2010 this was 1.05).

Cash flows

During the first quarter of 2011 cash flows amounted to PLN 37 289 000, which means that the Group had generated cash flows which were PLN 136 788 000 higher in comparison with the same period in 2010.

Cash flows from operating activities amounted to PLN 95 633 000, which were PLN 82 613 000 higher in relation to those generated during the period January-March 2010. The Group generated gross profit which was PLN 96 271 000 higher than in the first quarter of 2010.

The excess of investment expenditures over proceeds amounted to PLN 48 211 000, which was similar to the same period in 2010, when this difference amounted to as much as PLN 97 606 000. The greatest impact on the balance of cash flows from investing activities came from the excess of expenditures on the acquisition of intangible assets, plant, property and equipment and investment property over proceeds from their sale, which amounted to PLN 47 544 000.

Net cash and cash equivalents from financing activities were negative and amounted to PLN 10 123 000. This figure was PLN 4 790 000 higher than during the first quarter of 2010. This level results mainly from the excess of expenditures on repayment of loans and borrowings over proceeds from their assumption – a figure of PLN 5 189 000.

Ratio analysis

	As at 31 Mar 2011	As at 31 Mar 2010	Change (%)
Net margin	9.15%	3.86%	137.05
EBIT%	11.32%	5.95%	90.25
EBITDA%	15.07%	12.30%	22.52
Current ratio	1.45	2.37	(38.82)
Quick ratio	1.10	1.69	(34.91)
Debt ratio	38.95%	28.87%	34.92
Equity to total assets ratio	61.05%	69.17%	(11.74)

2. DESCRIPTION OF NON-TYPICAL FACTORS AND EVENTS HAVING AN IMPACT ON FINANCIAL RESULTS

In relation to factors and events having a significant impact on achievement of the Group's financial results in the first quarter of 2011, increased volatility in EURUSD exchange rates was observed, alongside a simultaneous strengthening of EUR vs. USD. The Polish currency was subject to strengthening in the first month of the analysed quarter, while being subject to weakening in subsequent months due to an increase of global risk resulting from ongoing conflicts in the Arab world and the earthquake in Japan. In total over the first quarter of 2011, the Polish currency headed in the same direction as the EURUSD trend, as a consequence strengthening by almost 5% in relation to USD and weakening by over 1% against the EUR in comparison with the levels recorded as at 31 December 2010.

Maintenance of relatively good macroeconomic indicators and assessment of the Polish economy eased the negative impact of the above-mentioned growth in risk within the global economy.

From the point of view of the Polish economy, there is still space for further appreciation of PLN against USD and EUR in the long-term, however with relation to the second quarter of 2011 it is anticipated that the pace of this appreciation will be restrained due to the continuing instability around the world and uncertainty relating both to the further state of public finances and the possibility to limit the high budget deficit in Poland.

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

During the first quarter of 2011 the Parent executed hedges in the form of forward contracts on future exchange of EUR (over 80%) and USD (almost 20%) into PLN in proportion to planned net exposures in both these currencies.

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

The result on executed hedging transactions for the first quarter of 2011 amounted to PLN 1 375 000, with a simultaneous result of PLN 816 000 on revaluation of hedging instruments (constituting the difference in valuation of open financial instruments between 31 December 2010 and 31 March 2011).

In parallel, the remaining part of non-hedged net currency exposure during the reporting period amounted to a positive result on executed currency differences of PLN 696 000, with a simultaneous negative valuation of currency settlements amounting to PLN 1 925 000.

In total during the first quarter of 2011 at the Parent, the net balance of finance income and costs from currency differences and derivative currency transactions (with consideration to the revaluation as at the end of the reporting period) amounted to PLN 670 000 (with realised currency differences and currency hedging transactions at PLN 559 000 and unrealised items valued at PLN 1 229 000).

During the first quarter of 2011 no hedging transactions were executed at ZAK S.A., taking advantage of the high variability of currency rates and applying natural hedging. Work is in progress on implementing and unifying policies, procedures and hedge accounting within other Group entities.

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

As a result of completed settlements of hedges securing currency loans executed in the first quarter of 2011, revenues from sale were decreased by PLN 241 000.

As at 31 March 2011 in the revaluation provision, the Parent included part of successful hedging – designated pursuant to hedge accounting criteria – resulting from PLN 1 690 000 in currency loans denominated in EUR. Throughout the first quarter of 2011, negative capital from revaluation of the above successful part of hedging decreased by PLN 76 000 with regard to settlement of hedging transactions with an increase in the negative valuation of other loans covered by such transactions.

As at 31 March 2011, open hedging positions concerned exclusively forward contracts entered into during the preceding 6 months.

Total liabilities from valuation of unrealised forward currency transactions as at 31 March 2011 amounted to PLN 22 000. No hedges were designated for these transactions.

In connection with the net currency exposure generated by the Group (mainly in EUR) alongside large fluctuations in PLN to EUR and USD exchange rates, a minor negative impact on the result from operating activities and valuation of unrealised settlements and hedging transactions was felt throughout the first quarter of 2011. At the same time a positive result was achieved on currency differences and hedging transactions, which to a high degree compensated for the above negative impact on increased exchange rate fluctuations.

Energy-related events

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

3. SIGNIFICANT AGREEMENTS ENTERED INTO DURING THE FIRST QUARTER OF 2011

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

On 17 January 2011 subsidiary ZAK S.A. signed annex 1/2011 to the framework agreement of 22 December 2008 with Polynt S.p.A. of Italy for sale of 2-ethylhexanol.

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

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

(Current report no. 5/11 of 18 January 2011)

Execution of a significant agreement by the Parent

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

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

The executed agreement fulfils the criterion of a significant agreement, i.e. its estimated net value is PLN 146.9 million and exceeds 10% of the Parent's equity. This is simultaneously the highest value agreement executed by the Parent with the Seller (and between the AZOTY Tarnów Group and the Brenntag Group) during the last year. The total value of trade between the AZOTY Tarnów Group and the Brenntag Group during this period, together with the estimated value resulting from the above agreement, amounts to approx. PLN 232.6 million, which also constitutes a criterion for recognising the sum of agreements as significant, whereas only the agreement of 19 January 2011 independently fulfils the above criterion of a significant agreement.

(Current report no. 7/11 of 19 January 2011)

Trade with Mitsui

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

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

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

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

Trade with PGNiG S.A.

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

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

Establishment of a pledge on ZAK S.A. shares

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

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

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

On 23 March 2011 subsidiary ZAK S.A. (hereinafter the Borrower) entered into a loan agreement with Raiffeisen Bank Polska S.A. (hereinafter the Bank) concerning a EUR 14 750 000 (fourteen million, seven hundred and fifty thousand Euros) loan.

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

Funds from the loan are allocated for refinancing of an investment loan granted to ZAK S.A. by a consortium of banks to finance an investment consisting of the construction of a TK V nitric acid facility together with a "New TK V Nitric Acid" neutralisation installation.
Aside from the liability for due commission and interest, the Borrower's unpaid liability will be treated as an overdue debt. In the event that the Borrower defaults on the provisions of the agreement, the Bank has the right to terminate it.

The amounts of the loan in a foreign currency used in PLN will be converted into the loan currency according to the purchase rate in force at the Bank on the date of submitting the order for payout from the loan. The Borrower has the right to make early repayment of the loan or part thereof. Commission for early repayment will be collected against the amount of early repayment in the amount specified in the agreement.

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

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

Collateral for repayment of the loan is provided by a temporary surety granted by the Parent according to civil law on 23 March 2011 and covering repayment of all the Borrower's liabilities under the above agreement, together with a power of attorney to ZAK S.A.'s current account. The agreement provides for the establishment of future collateral in the form of transfer of a debt claim confirmed through assignment of debt claims from commercial contracts and mortgages up to the amount of EUR 22 125 000 on the right to perpetual usufruct of land, transfer of rights under insurance policies on the above mortgage, a registered pledge on fixed assets being part of the TK

V nitric acid facility together with neutralisation installation and assignment of rights under an insurance policy covering machinery and equipment.

The above loan agreement is the highest value agreement entered into by the AZOTY Tarnów Group with Raiffeisen Bank Polska S.A. within the last 12 months. The total value of agreements executed by the AZOTY Tarnów Group with Raiffeisen Bank Polska S.A. during the last 12 months amounts to approx. PLN 123.8 million, which exceeds 10% of the Parent's equity and constitutes a criterion for recognising the amount of these agreements as a significant amount,

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

Trade with PKO BP S.A.

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

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

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

Together with the above agreement, on 30 March 2011 an annex to the overdraft facility agreement was signed with Powszechna Kasa Oszczędności Bank Polski S.A. concerning expansion of virtual cash-pooling services within the AZOTY Tarnów Group and ZAK S.A. Group by PLN 60 million.
The service allows for benefits to be achieved in connection with virtual balancing of negative and positive balances in the current accounts of AZOTY Tarnów Group companies, elimination of bank commission between the rate of deposits offered and the credit rate and settlement of interest calculated on the basis of a unified WIBOR rate within the Group. Activation of an overdraft sub-limit for ZAK S.A. allows in the first phase for use of excess funds at AZOTY Tarnów which will serve the financing of issue objectives, the virtual balancing of part of ZAK S.A.'s credit liabilities and as an effect transfer under cash-pooling of interest paid on this part by ZAK S.A. to AZOTY Tarnów.

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

SIGNIFICANT AGREEMENTS AFTER THE END OF THE REPORTING PERIOD

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

On 4 April 2011 a long-term cooperation agreement was executed between the Parent and Polski Koncern Naftowy Orlen S.A., having its registered office in Płock. The subject of the agreement concerns the sale of raw materials: phenol and benzene by PKN Orlen S.A. to the Parent according to the established schedule and commercial terms and conditions.
The long-term agreement fulfils the criterion of a significant agreement, i.e. its estimated net value over 5 years amounts to approx. PLN 1.1 billion and exceeds 10% of the Parent's equity. This is also the highest value agreement executed by the Parent with Polski Koncern Naftowy Orlen S.A. (and between the AZOTY Tarnów Group and the Orlen Group) over the last 12 months. The total value of trade between the AZOTY Tarnów Group and the Orlen Group during this period, together with the estimated value resulting from the above agreement, amounts to approx. PLN 1.3 billion, which also constitutes a criterion for recognising the amount of agreements as a significant value.

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

Trade with PGNiG S.A.

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

(Current Report no. 26/2011 of 8 May 2011)

4. ACHIEVEMENT OF ISSUE OBJECTIVES

Optimisation of the product portfolio and nitrate fertiliser sales system

a) *1 200 t/d mechanical fertiliser granulation installation*

The investment task was completed in 2009.

b) *Modernisation of the dolomite milling plant*

The objective was achieved, the task completed and commissioning took place in 2009 in accordance with the plan.

c) *Modernisation of the fertiliser packaging and dispatch station*

The task was completed and commissioning took place in 2010.

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

a) *Modernisation of the air compression system for the Cyclohexane Oxidation Facility in sector K-54.*

The task was completed and fully commissioned in 2009.

b) *Modernisation of process control in Cyclohexane Department installations*

The task was completed and fully commissioned in 2009.

c) *Modernisation of the selective phenol hydrogenation installation in the Palladium catalyst*

The task was completed and fully commissioned in 2009.

d) *Modernisation and Intensification of the Caprolactam Plant to 101 300 t/year*

At the current time the task is being implemented in accordance with the schedule. All task objectives designated for 2010 were completed and performance of all essential work on the final phase of the task has been commissioned. The task will be commissioned in 2011.

e) *Construction of the Hydrogen Facility*

Intensive work is in progress connected with preparation of the 5th Methane Processing Installation to work with the new Hydrogen Facility, preparation of a building site, including numerous transfers of existing infrastructure such as gantries and underground piping. Technical project in its final phase.
Investment implemented in accordance with the adopted schedule.

f) *Modernisation of the M cooling system*

Construction and installation work was completed in the fourth quarter of 2010. Extensive testing has been conducted. The chamber of the cooling system has been commissioned. In accordance with the schedule, payment settlement is planned for the second quarter of 2011.

g) *Expansion of the 0.4 kV switching station for the requirements of the SHA Plant.*

A technical project was drawn up and performance of construction and electrical works has been commissioned. The work is being completed in accordance with the schedule. The completion of works is planned for June 2011.

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

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

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

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

j) *Adaptation of benzene loading stations to TDT requirements*

Task ongoing. In accordance with the *Investing Activity Plan*, completion is planned for 2011. "Turnkey" implementation has been executed with an external design company.

Expansion of the Modified Plastics Plant

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

The technical start-up of line no. 4 has been completed, the line is being used, the completion of line no. 5 is in progress, supply of elements for line no. 5 is planned for June 2011. Arrangements have been made with the supplier of the line concerning the date of the function test and technical start-up. The completion of technical start-up and test operations on the line is planned for the end of the third quarter of 2011.

b) *Modernisation of the tarnamid storage facility*

The task was completed and commissioning took place in 2009.

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

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

The entry of ATT Polymers GmbH to the Group enabled the German company to integrate with a caprolactam manufacturer.

Caprolactam (CPL) is a raw material for the manufacture of PA6 through polymerisation. ATT Polymers GmbH has 5 polymerisation lines with production capacity of up to 47 000 tons of PA6 per year.

5. Use of funds from share issue

Up to the date of publishing the financial statements for the first quarter of 2011, the Parent used funds from the Public Offering, held in fixed-term deposits adapted to the anticipated deadline for achievement of issue objectives, in the following manner:

- for covering net costs of the share issue – PLN 9 298 000,
- for financing a part of expenditures under achievement of issue goals – PLN 121 221 000, including:
  - for investment tasks implemented under "optimisation of the production portfolio and system for selling nitrogen fertilisers" – the full amount described in the issue prospectus – PLN 38 000 000,
  - for tasks implemented under "modernisation of the caprolactam plant together with construction of a new hydrogen facility" – PLN 44 775 000,
  - for "Intensification of the Modified Plastics Plant" - PLN 18 524 000
  - for increasing polyamide production capacity, the "Polyamide II Plant" – PLN 19 921 000 (including the acquisition of ATT Polymers GmbH).

In total for financing expenditures borne up to 31 December 2010 under achievement of issue goals, the Parent used PLN 121 221 000 in funds acquired from the Public Offering, including PLN 4 851 000 used since publication of the 2010 annual report during the first quarter.

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

Expenditures for implementation of issue goals incurred up to 31 March 2011 completely financed until the date of drawing up this report (in PLN thousands)

Task	Expenditures as at 1 Jul 2008	including:			of which: expenditures from 1 Jan to 31 Mar 2011
		from loan	from own funds, other than share issue	from share issue	
Modernisation of the caprolactam plant together with construction of a new hydrogen facility					
Modernisation of the air compression system for the Cyclohexane Oxidation Facility in sector K-54	2 419	-	1 240	1 179	-
Modernisation of process control in Cyclohexane Department installations	410	-	410	-	-
Modernisation of the selective phenol hydrogenation installation in the Palladium catalyst	8 661	-	60	8 601	-
Modernisation and Intensification of the Caprolactam Plant to 101 300 t/year	22 026	-	96	21 930	1 462
Construction of the Hydrogen Facility	12 752	2 753	-	9 999	1 499
Modernisation of the cooling system	1 122	-	151	971	99
Expansion of the 0.4 kV switching station for the requirements of the SHA Plant	1 111	-	206	905	715

Task	Expenditures as at 1 Jul 2008	including: from loan	from own funds, other than share issue	from share issue	of which: expenditures from 1 Jan to 31 Mar 2011
Adaptation of the loading station for phenol from cisterns on the loading ramp to TDT requirements	208	-	41	167	24
Adaptation of benzene loading stations to TDT requirements	34	-	34	-	-
Adaptation of re-loading equipment for cyclohexanone and frakol to TDT	145	-	-	145	145
Sulphuric acid pumps relocation	473	-	-	473	473
Modernisation of sulphuric acid department – base project	341	-	-	341	341
Implementation of a computer control and AKP systems in the ammonium sulphate plant	64	-	-	64	64
Total	**49 766**	**2 753**	**2 238**	**44 775**	**4 822**
Optimisation of the product portfolio and nitrogen fertiliser sales system					
1200 t/d mechanical fertiliser granulation installation	32 092	6 291	2 821	22 980	-
Modernisation of the dolomite milling plant	4 199	-	1 229	2 970	-
Modernisation of the packing and fertiliser freight forwarding centre	13 798	-	1748	12 050	-
Total	**50 089**	**6 291**	**5 798**	**38 000**	**-**
Polyamide II Plant					
Modernisation of the tarnamid storage facility	3 864	-	-	3 864	-
Capital expenditures – acquisition of ATT Polymers GmbH	16 057	-	-	16 057	-
Total	**19 921**	**-**	**-**	**19 921**	**-**
Expansion of the Modified Plastics Plant					
Intensification of the Modified Plastics Plant – phases I+II	18 524	-	-	18 524	29
Total	**18 524**	**-**	**-**	**18 524**	**29**
Total finance tasks under issue objectives	**138 301**	**9 044**	**8 036**	**121 221**	**4 851**

6. TYPE AND AMOUNT OF NON-TYPICAL ITEMS HAVING AN IMPACT ON ASSETS, LIABILITY, EQUITY, THE NET FINANCIAL RESULT OR CASH FLOWS

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

7. ISSUE, BUY-BACK AND REPAYMENT OF DEBT AND EQUITY SECURITIES

In the first quarter of 2011 the Group did not issue, buy back or repay debt and equity securities.

III. OTHER INFORMATION

1. DESCRIPTION OF GROUP ORGANISATION

The Parent is Azoty Tarnów.
As at the 31 March 2010, the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group (hereinafter the AZOTY Tarnów Group) established Zakłady Azotowe w Tarnowie-Mościcach S.A. – the Parent, and:

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

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

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

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

Presentation of AZOTY Tarnów Group Subsidiaries

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

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

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

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

Biuro Projektów Zakładów Azotowych „BIPROZAT – TARNÓW" Sp. z o.o.
The company was registered on 2 March 1994. Its registered office is located in Tarnów at ul. E. Kwiatkowskiego 7. The company was entered into the National Court Register (entry number KRS 0000199462) on 12 March 2004 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.
Field of operations: design, document creation, organisation of apparatus and equipment delivery, trade, consulting and IT activity, new technologies (PKD 7112Z).

Jednostka Ratownictwa Chemicznego Sp. z o.o.
The company was registered on 19 November 1993. Its registered office is located in Tarnów at ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number

KRS 0000188857) on 29 January 2004 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register. The principal field of this company's operations covers services connected with environmental protection.

Field of operations: services related to decontamination, recycling, waste recovery and storage, sewage treatment, repair of damage caused by industrial incidents, analysis of water, air and waste, training, transport of hazardous materials, food testing, manufacture and trade in chemical products (PKD 3700Z).

Przedsiębiorstwo Transportu Kolejowego „KOLTAR" Sp. z o.o.
The company was registered on 7 December 1999. Its registered office is located in Tarnów at ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number KRS 0000206663) on 12 May 2004 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.

Field of operations: freight support connected with the handover and acceptance of rail transport freight, loading services, cleaning of tanks and wagons and inspection thereof, trade, maintenance of railway lines connected with operating a rail loading station (PKD 4920Z).

Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne „ELZAT" Sp. z o.o.
The company was registered on 2 March 2004. Its registered office is located in Tarnów at ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number KRS 0000205643) on 29 April 2004 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.

Field of operations:

- electrical installation (PKD 4321Z),
- manufacture of mechanical equipment and tools (PKD 2824Z),
- treatment and coating of metals (PKD 2561Z),
- sale of waste and scrap (PKD 4677Z),
- technical testing and analysis (PKD 7120B),
- completion and finishing works (PKD 4339Z).

Polskie Konsorcjum Chemiczne Sp. z o.o.
The company was registered on 23 December 2008. Its registered office is located in Krakow, ul. Lubicz 25/732a. The company was entered into the National Court Register (entry no. KRS 0000319998) on 19 February 2009 by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register.

Field of operations:

- activities of financial holding companies (PKD 6420Z),
- activities of head offices and holding companies with the exception of financial holding companies (PKD 7010Z),
- business and other management consultancy activities (PKD 7022Z),
- accounting, bookkeeping and auditing activities; tax consultancy (PKD 6920Z),
- repair of fabricated metal products (PKD 3311Z).

PROReM Sp. z o.o.

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

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

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

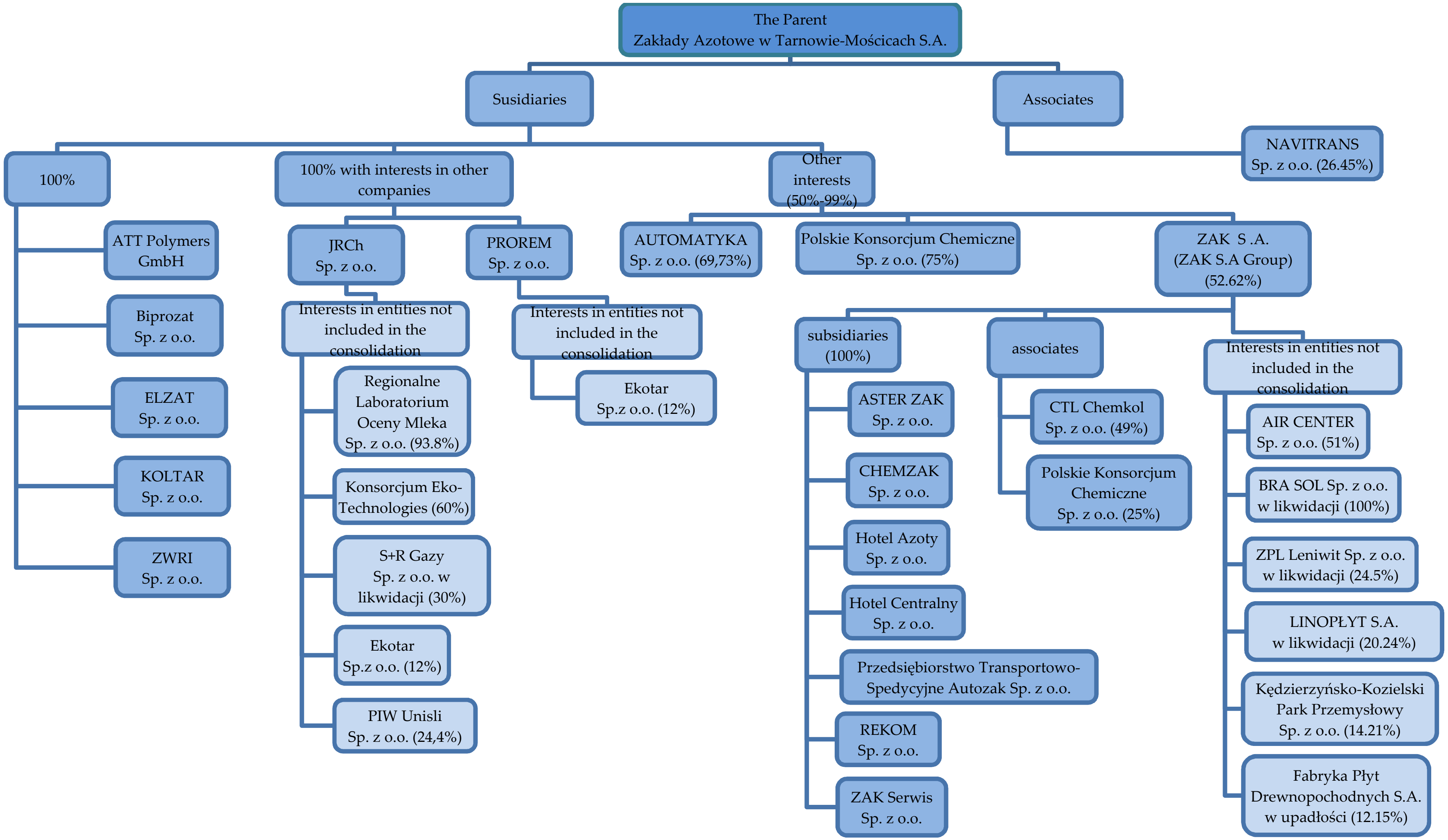
The company's primary activity is the manufacture of fertilisers and nitrogen compounds, organic and non-organic chemicals and other chemical products.

Associate

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

Field of operations: other transport agency activities (PKD 6340C).

Diagram of the Group including consolidated entities and non-consolidated entities as at 31 March 2011



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

Companies not subject to consolidation are entities connected through subsidiaries. They are not subject to consolidation due to their insignificant nature.

The Parent also holds minority interests in 15 entities.

Parent minority shareholding in entities as at 31 March 2011

Company name	**% of shares**
Tarnowskie Wodociągi Sp. z o.o.	12.55%
Tarnowski Klaster Przemysłowy S.A.	0.1077%
Tarnowska Agencja Rozwoju Regionalnego S.A.	0.05865%
Francusko-Polskie Przedsiębiorstwo Instalacji Przemysłowych „POLSNIG" Sp. z o.o.	2.67%
Centrum Naukowo - Produkcyjne Materiałów Elektronicznych „CEMAT'70" S.A.	1.24%
Sportowa Spółka Akcyjna Unia Tarnów	8.00%
INWESTSTAR S.A.	0.06%
Zakłady Włókien Chemicznych „WISTOM" S.A. w Upadłości	9.83%
Zakłady Tworzyw Sztucznych "PRONIT" S.A. w Upadłości	0.28%
LEN S.A. w Likwidacji	0.289%
Tłocznia Metali "PRESSTA" S.A. w Upadłości Likwidacyjnej	0.019%
Wytwórnia Silników "PZL MIELEC" Sp. z o.o. w Upadłości	0.12%
Zakłady Przemysłu Dziewiarskiego „KARO" S.A. w Likwidacji	0.17%
Południowe Zakłady Przemysłu Skórzanego "Chełmek" S.A. w Upadłości Likwidacyjnej	0.03%
Konsorcjum Rozwoju Eksploatacji Majątku Trwałego „EKSPLOSYSTEM" Sp. z o.o.	3.36%

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

2. CHANGES IN THE STRUCTURE OF ECONOMIC ENTITIES, INCLUDING AS A RESULT OF MERGERS, ACQUISITIONS OR SALE OF GROUP COMPANIES, LONG-TERM INVESTMENTS, DIVISION, RESTRUCTURING AND ABANDONMENT OF OPERATIONS DURING THE REPORTING PERIOD

Purchase of additional shares in a subsidiary

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

Process of privatising ELZAT Sp. z o.o.

The process of privatising the company Zakład Remontów Elektrycznych oraz Instalatorstwo Elektryczne "Elzat" Sp. z o.o. is ongoing – negotiations are being conducted with potential investors.

3. MANAGEMENT BOARD POSITION CONCERNING ACHIEVEMENT OF FORECASTS

In connection with the fact that forecasts for financial results in 2011 were not published, we cannot present the Parent Management Board's position on achievement of forecasted 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 THE ANNUAL 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 SIGIFICANT STAKES IN THE PARENT FROM THE PUBLICATION DATE FOR THE PREVIOUS GROUP REPORT

Shareholding structure as at the date of publishing the annual report for 2010 (as at 21 March 2011)

Shareholder	Number of shares	% of share capital	Number of voting rights	% of voting rights
State Treasury of Poland	1 349 000	3.45%	1 349 000	3.45%
Nafta Polska S.A. w likwidacji	19 200 000	49.08%	19 200 000	49.08%
PGNIG	4 000 001	10.23%	4 000 001	10.23%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	2 667 859	6.82%	2 667 859	6.82%
Other	11 899 561	30.42%	11 899 561	30.42%
	39 116 421	**100.0%**	**39 116 421**	**100.0%**

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

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

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

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

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

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

In connection with the above, the shareholding structure as at the date of drawing up this report is as follows:

Shareholding structure as at 16 May 2011

Shareholder	Number of shares	% of share capital	Number of voting rights	% of voting rights
State Treasury of Poland	20 549 000	52.53%	20 549 000	52.53%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	3 000 000	7.67%	3 000 000	7.67%
Other	15 567 421	39.80%	15 567 421	39.80%
	39 116 421	**100.0%**	**39 116 421**	**100.0%**

5. NUMBER OF SHARES IN THE PARENT 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

Name	Number of shares as at 21 March 2011	Change		Number of shares as at 16 May 2011
		acquisition	disposal	
Vice-President of the Management Board **Witold Szczypiński**	390	-	-	390
Member of the Management Board **Franciszek Bernat**	5	-	-	5

Name	Number of shares as at 21 March 2011	Change		Number of shares as at 16 May 2011
		acquisition	disposal	

Member of the Supervisory Board **Tomasz Klikowicz**	190	-	-	190

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

Other management and supervisory personnel at the Parent did not hold shares in the Parent as at the date of publishing this report, i.e. as at 13 May 2011.

6. COURT PROCEEDINGS

There are no proceedings ongoing within Group companies concerning liabilities or debt claims, 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.

7. LOAN OR BORROWING SURETIES, GUARANTEES ISSUED

On 23 March 2011 the Parent issued a surety for repayment of investment credit granted to ZAK S.A. (subsidiary) by Raiffeisen Bank Polska S.A. for refinancing credit liabilities towards a consortium of banks: BRE BANK S.A./Bank Pekao S.A./Kredyt Bank S.A. under finance for Nitric Acid Installation (TKV) and Water Treatment Facility (SUW) investments, amounting to PLN 17 250 000 and EUR 14 750 000 respectively, simultaneously submitting itself to enforcement of up to 125% of the value of the above loans, i.e. up to PLN 21 562 500 and EUR 18 437 000 for the period to 31 March 2019.

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

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

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

8. OTHER INFORMATION ESSENTIAL FOR ASSESSING THE HR, PROPERTY, FINANCIAL SITUATIONS, THE FINANCIAL RESULT AND THEIR CHANGES AT THE COMPANY AND ITS GROUP AND ALSO

INFORMATION ESSENTIAL FOR ASSESSING THE CAPABILITY FOR THE COMPANY AND ITS GROUP TO PERFORM OBLIGATIONS

8.1. Compositions of management and supervisory authorities

On 18 March 2011 a resolution was adopted at the meeting of the Supervisory Board concerning appointment of the Parent's Management Board for a new three-year term, with composition as follows:

- Jerzy Marciniak – President of the Management Board - Managing Director
- Andrzej Skolmowski – Vice-President of the Management Board
- Witold Szczypiński – Member of the Management Board

Resolutions on the above issue will be binding from the day falling after the Ordinary General Meeting of Shareholders of the Parent approving the financial statements for 2010.

There was also an election for the fourth Member of the Management Board elected by employees. The election took place in two phases; the first round took place on 14-23 March 2011 and the second round took place on 4-13 April 2011. After lapse of the deadline for accepting and examining complaints concerning the election and validity of voting (according to the schedule established by the Primary Elections Commission this was 29 April 2011), the election documentation was provided to the Supervisory Board which, after confirming the validity of the election, on 10 May 2011 adopted a resolution appointing the candidate elected by employees to the Management Board. As is the case with other Members of the Management Board, the resolution will enter into force after the Ordinary General Meeting of Shareholders of the Parent approving the financial statements for 2010.

As at the date of drawing up this report, the composition of the Management Board and Supervisory Board had not changed in relation to the composition presented in the last periodic report, i.e. in the annual report for 2010.

The composition of the Supervisory Board is as follows:

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

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

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

The Committee's tasks include in particular:

- monitoring the financial reporting process,

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

The specific principles for Audit Committee operations are defined in the 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 and their self-regulation, entities authorised to audit financial statements and on public supervision. The above byelaws constitute an appendix to this resolution.

8.2. Competences of persons managing the Parent

The detailed division of competences amongst persons managing the Parent is governed by Resolution of the Management Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. no. 190/VII/2009 of 8 April 2009.
The division of competences amongst persons managing the Parent has not changed from the date of publishing the last periodic report for 2010.

(Details can be found in the following report: interim consolidated financial statements for the fourth quarter of 2009 published on 19 February 2010, point F.8.2).

8.3. Significant organisational changes

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

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

Furthermore during the first quarter of 2011 works were continued within the Parent connected with restructuring, consisting of the separation of fields / activities which are outside its core operations. Work was thus continued in connection with the following projects:

- management of protective clothing,
- loading and transport of fertilisers,
- catalysts,
- Site Fire Service.

9. FACTORS IMPACTING ON RESULTS ACHIEVED OVER THE PERSPECTIVE OF AT LEAST THE NEXT QUARTER

9.1. Income from deposits of share issue proceeds

As at 31 March 2011, PLN 143 million was invested in fixed-term deposits with maturity of up to 3 months from the end of the reporting period. Furthermore, the Parent had PLN 41.5 million held in bank accounts and overnight deposits, serving the financing of current operating and investment activity.

Financial income totalling PLN 1.1 million was achieved in the first quarter of this year through fixed-term deposits of funds from the share issue.

The achievement of approx. PLN 1.6 million is planned in the second quarter of this year through investing funds from the share issue, which results from the assumed increase in the profitability of bank deposits connected with an increase in interest rates by the Monetary Policy Council.

9.2. Seasonality

Information concerning seasonality can be found in point I.2.10 of this report.

9.3. Exchange rates

The anticipated increase in the volume of EUR on the Polish currency market may result in further development of the currency market during the second quarter of 2011. This is caused by the Ministry of Finance's intention to exchange foreign currency through Bank Gospodarstwo Krajowego (BGK), together with the anticipated involvement of foreign investors in large planned share issues on the Warsaw Stock Exchange. Furthermore, taking into account the stable fundamental factors for the Polish economy, it seems justified in the short-term to expect further appreciation of PLN, in particular against the USD (which is weakening together with growth in crude oil prices) and to a lesser extent against the EUR.

However in the medium-term – i.e. the second half of 2011 – the development of currency trends will be dependent on continuation by the government of activities limiting the scale of future budget deficits and the effects of the same type of activities within the at-risk economies of the EU and in the USA. An increase in uncertainty here may result in a return to greater currency rate fluctuations and adjustment of the trend of strengthening in the Polish currency which has been noted for two years.

The scale of total strengthening of PLN against the USD and EUR should not threaten achievement of the results planned in 2011 in relation to net AZOTY Tarnów Group foreign currency exports.

9.4. Domestic interest rates

In the first quarter of this year the Monetary Policy Council instigated a cycle of interest rate increases in the wake of growing inflationary pressure resulting both from economic growth and from an excess of cash on the global market as an effect of the liberal policies of central banks to stimulate economic growth during the financial crisis.

Bearing in mind the commencement of a similar cycle of interest rate increases by the European Central Bank, correlated activities undertaken by the Monetary Policy Council should be expected in subsequent quarters of 2011, which aside from fulfilling the inflationary objective must take into consideration maintenance of a constant benchmark between interest rates in Poland and in the euro zone. Regarding inflationary pressure caused by increases in food and oil prices strengthened by speculative funds on the global market and lowering of the long-term rating for US debt, it appears that the United States will also be forced to commence a cycle of interest rate increases.

Thus in the perspective up to the end of 2011 a gradual increase both in Polish interest rates and those in EUR and USD should be expected at a minimum level of 25 base points per quarter.

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

9.5. Development of raw material and product prices in the next quarter

Raw materials market

In the first quarter of 2011 the prices of raw materials and petro-chemicals were subject to growth as a result of the increasing price of oil and oil derivatives and during certain months remained at very high, frequently record levels. During the first quarter of 2011 the prices of raw materials such as benzene, phenol, ammonia, methanol, o-xylene and propylene increased (according to ICIS). At the beginning of the second quarter a reduction in the price growth has been observed in relation to some raw materials, an example of which is benzene, where price adjustments have been made. In the case of propylene and also o-xylene, the European market for these raw materials continues to be strong, which as a consequence translates into further growth in their price listings. However, by the end of the second quarter it should be assumed that the tendency observed on the propylene and o-xylene markets should also slow, since the record high price listings for these raw materials are to a lesser degree accepted by the market for their processing. Furthermore these prices are already significantly higher than price listings for propylene and o-xylene in other global markets.

Caprolactam market

An increase in demand and prices was recorded in the global caprolactam market during the first quarter. The shift in price is mainly caused by an increase in the raw materials used for its manufacture. Strong demand on Asian markets caused the placing of caprolactam by European manufacturers there, which from the viewpoint of price is attractive. This caused a limitation of supply in Europe, which is additionally intensified by technical problems experienced by the largest manufacturers.
It is anticipated that high market prices in Europe and the Far East will be maintained, which is connected with the limited availability of the product (repair stoppages are planned by manufacturers).
On 25 January 2011 a temporary anti-dumping excise duty was imposed by the Chinese government on caprolactam imports from the US and EU.

Construction plastics market

An increase in demand for construction plastics, including polyamide (PA6) and polyoxymethylene POM manufactured by the Parent, was observed in the first quarter of 2011.
Price listings are increasing on the PA6 and POM markets (according to ICIS), however price listings with domestic distributors indicated slight fluctuations.

It is anticipated that the situation connected with the tsunami in Japan may have an impact on the global plastics market, however at the present time this impact is difficult to predict. There is also no direct translation on the markets serviced by AZOTY Tarnów.

Oxo alcohol market

In the European oxo alcohols market, both in the first quarter of 2011 and at the beginning of the second quarter, demand remained at a very high level, which translated into the growth tendency in price listings for specific goods observed throughout the period. It is difficult to state whether the European oxo alcohols market was subject to change in the first months of this year in comparison with the previous year. It can however be stated that the European oxo alcohols market remains in a good economic situation. However the increase in price observed during this same period was mainly caused by growth in the prices of raw materials used for their manufacture.
After a good start to the year, after a certain time we are however seeing a weakening in the economic situation for oxo alcohols in global markets, including the largest global market – processing of oxo alcohols, i.e. China. Here, in accordance with the Chinese government's policy – cooling off of the Chinese economy – we are observing a drop in demand for oxo alcohols and as a consequence a reduction in their price listings. This situation automatically translates into a significantly worse situation in the region in comparison with the beginning of the year, although this does not have an impact on the situation in Europe.
It is anticipated that the trend for price increases will slow down in Europe, although at the current time there is no premise that the market will be subject to a slump or worsening.

Plasticiser market

During the first quarter of 2011 demand on the European market for plasticisers manufactured by ZAK S.A. remained at a very high level. This translated into a tendency towards price increases, which also results from the price listings of raw materials which also increased during the same period. At the beginning of the second quarter though we are seeing a certain slowing in the market, which indicates a curbing of price increase tendencies. On the one hand this is the result of an improvement in the supply situation, where after previous emergency stoppages the manufacturers of other substitute products to plasticisers manufactured by ZAK S.A. returned to production. Furthermore, as with the situation concerning oxo alcohols, from a certain time a weakening in the economic situation in the plasticiser markets of the Far East has been observed, which translated into a drop in price listings on these markets for specific goods. As an effect of increasing disproportion between prices in the European market and prices on Far East markets, import pressure is growing, which results into a slowing of the price increase tendencies in the European market.

Fertiliser market

During the first quarter of 2011 there was a significant increase in fertiliser prices in Poland, which was caused not only by the seasonal increase in demand but also by tendencies in global markets, resulting from the high prices of grain and oil crops. Product shortages connected with limitations in manufacture at the Parent were also felt.
Unrest in North Africa and the Middle East also had a certain impact on price listings.
With regard to the seasonal nature of fertiliser sales and the "fertiliser peak" currently taking place, it can be accepted that in the near future we will be able to predict small, out-of-season reductions in price, the amount of which will mainly be dependent on the development of the situation on markets for the raw materials used to manufacture nitrate fertilisers. As is the case with agricultural produce, domestic fertiliser prices are subject to the trends which can be observed in global markets. The standard scenario is for fertiliser price listings to reach their peak at the end of March and fall during June when the prices and manufacture of these goods reach their lowest level. In accordance with forecasts, price adjustments during the current year should be anticipated halfway through May (at a level of 10-15%), however the principle out-of-season adjustment in accordance with forecasts at the present time may exceed as much as 30%.

9.6. Other factors

With regard to the Parent's and ZAK S.A.'s high share in the total share of associates' sales, the situation of these entities over the coming months will be significantly dependent on the economic condition of their main customers. Furthermore, subsidiaries' situations will also be impacted by the results of tender procedures in which bids have been submitted, the scale of demand for services provided and, with regard to the necessity to sub-contract some works, the terms and conditions of agreements with sub-contractors.

For chemicals companies the second quarter is a period of slightly lower sales profitability on chemical goods, particularly in the fertilisers segment. In anticipating the above, maintenance stoppages in manufacturing facilities are planned. Bearing in mind the improvement in the economic situation during the first quarter it should be anticipated that results for the second quarter should also be positive, which will result in maintenance of a satisfactory financial situation for the company.

The abridged interim consolidated financial statements of the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group for the 3-month period ending 31 March 2011 contain 61 pages.

SIGNATURES

Jerzy Marciniak
President of the Management Board

Witold Szczypiński
Vice-President of the Management Board

Andrzej Skolmowski
Vice-President of the Management Board

Franciszek Bernat
Member of the Management Board

Ewa Gładysz
Person responsible for maintaining the accounts

Tarnów, 13 May 2011