

**RESOLUTION No. 66/VIII/2011
OF THE SUPERVISORY BOARD OF ZAKŁADY AZOTOWE
W TARNOWIE-MOŚCICACH S.A.
of 10 May 2011**

Subject: Supervisory Board report for the Ordinary General Meeting of Shareholders for 2010, drafted in accordance with § 33, sec. 1, points 20) and 22) of the Company's Articles of Association.

Acting pursuant to § 33, sec. 1, points 20) and 22), in connection with § 51, point 26 of the Company's Articles of Association, it is resolved as follows:

§ 1

The Supervisory Board adopts the "Supervisory Board Report for the Ordinary General Meeting for 2010, drafted in accordance with § 33, sec. 1, points 20) and 22) of the Company's Articles of Association", covering:

- I. Assessment of the Company's situation,
- II. Assessment of the Company's observance of corporate governance standards,
- III. Assessment of internal control and risk management systems.

in the wording as attached to this resolution.

§ 2

The Supervisory Board requests that the General Meeting review the submitted Supervisory Board report.

§ 3

The resolution enters into force upon adoption.

The resolution has been adopted in open voting in the presence of 9 Supervisory Board members.

Votes for the resolution: 9

Abstentions: 0

Votes against the resolution: 0

[signature] Marzena Piszczek /Chairperson of the Supervisory Board/	[signature] Ewa Lis /Vice-Chairperson of the Supervisory Board/	[signature] Jan Wais /Secretary of the Supervisory Board/
[signature] Agnieszka Doroszkiewicz	[signature] Tomasz Klikowicz	[signature] Jacek Lewandowski
[signature] Jacek Obłąkowski	[signature] Zbigniew Paprocki	[signature] Miroslaw Potulski

**SUPERVISORY BOARD REPORT
FOR THE ORDINARY GENERAL MEETING FOR 2010
DRAFTED IN ACCORDANCE WITH § 33, SEC. 1, POINTS 20)
AND 22) OF THE COMPANY'S ARTICLES OF ASSOCIATION**

I. Assessment of the Company's situation

In 2010 the Company fully implemented its planned tasks. The net financial result of PLN 60.656 million is PLN 33.278 million higher than planned.

The Company's asset and financial situation shows a significant improvement on 2009, expressed through revenue growth and an improvement in profitability ratios and performance indicators. Liquidity ratios were subject to a slight deterioration, but remained at an acceptable level in connection with the allocation of proceeds from the equity issue to non-current assets under construction.

Significant changes to asset structure occurred in 2010. Non-current assets increased their share in total Company assets from 62% to 68%. An increase in investment in subsidiaries, associates and jointly controlled entities constituted the largest item – transactions connected with the acquisition of a 100% stake in ATT Polymers GmbH (previously Unylon Polymers GmbH) in Germany and 52.62% of shares in ZAK S.A. through the PLN 150 million increase in this company's share capital.

The Supervisory Board believes that both acquisitions were appropriate and were executed on conditions which were highly beneficial to the Company. In acquiring ATT Polymers GmbH, the Company fulfilled the objective contained in the Prospectus, i.e. intensification of PA6 production, and the acquisition of a majority stake in ZAK S.A. creates future possibilities for more effective operations within the Group with regard to the many areas of synergy. These possibilities were partially taken advantage of in the fourth quarter of 2010 and first quarter of 2011 in the areas of ammonia and nitric acid supplies and joint procurement.

The economy, recovering from the recession in 2008-2009, is notable for factors including increased demand for the Company's core products, i.e. fertilisers and plastics. These are symptoms of the on-going growth in demand for these products in the coming years, which is a positive signal for the Company.

There are also risks, connected with growth in the costs of production stemming from implementation of the REACH directive, the planned introduction of market trading in CO₂ emissions units and increase in the costs of energy, however over the next few years these risks will not constitute a hindrance to the Company's achievement of respectable results and its status as a going concern.

II. Assessment of the Company's observance of corporate governance standards

The Company was made a listed company pursuant to Resolution of the Management Board of the Warsaw Stock Exchange no. 518/2008 of 27 June 2008 on the admission to stock market trading on the Warsaw Stock Exchange Main Market of series AA ordinary bearer shares and rights to series B ordinary bearer shares in Zakłady Azotowe w Tarnowie-Mościcach S.A., dated 30 June 2008.

In submitting an applicable declaration in the Prospectus, the Company declared its intent to observe the corporate governance principles specified in the document *Best Practices of Warsaw Stock Exchange Listed Companies*, adopted through Resolution no. 12/1170/2007 of the Stock Market Council of 4 July 2007, with certain stipulations concerning recommendation 8 under section I and principle 8 under section III of the Best Practices.

The Supervisory Board is positive in its assessment of the Company's observance of corporate governance standards, with consideration to the following:

1.

The Company applies the principles of the Best Practices of Warsaw Stock Exchange Listed Companies, which it undertook to observe.

2.

In declaring observance of the highest standards of capital market communication and corporate governance principles, Zakłady Azotowe w Tarnowie-Mościcach S.A. observes the "Best Practices of WSE-Listed Companies", developed by the Warsaw Stock Exchange. The code constitutes an appendix to Stock Market Council Resolution no. 17/1249/2010 of 19 May 2010.

In order to adapt internal regulations to the code of best practices, the Organisational Regulations of 22 July 2008 (as amended) are in force at the Company, containing corporate governance principles.

3.

It is the intention of Zakłady Azotowe w Tarnowie-Mościcach S.A. to observe all of the corporate governance principles outlined in the Best Practices for WSE-Listed Companies with the exception of principle 8 under section III of the Best Practices, which related to the obligation to ensure a majority of independent Supervisory Board members on the audit committee in accordance with Annex I to the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies (...). The Parent announced this exclusion in the Issue Prospectus and at the time of the IPO in current report no. 20/2008 of 30 June 2008.

Justification: principle 8 under section III of the Best Practices recommends application of the guidelines contained in Annex I to the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies (...) with relation to the functioning of committees operating within the supervisory board. In accordance with point 4.1. of the Annex, at least a majority of audit committee members should be independent. The Audit Committee operating within the Supervisory Board's 7th term, ending in June 2010, comprised two members, including one independent member, and the committee appointed on 4 January 2011 through Supervisory Board Resolution no. 22/VIII/2011, operating as an advisory body within the Company's Supervisory Board, has three members, of which only one is an independent member.

As a company with the State Treasury as shareholder, Azoty Tarnów does not observe principle 8 under section III of the Best Practices regarding the obligation to ensure a majority of independent Supervisory Board members within the audit committee. The composition of the Supervisory Board, established pursuant to the provisions of the Act on Commercialisation and Privatisation, and the fact that only three Supervisory Board members fulfil the criteria of independence specified in the Annex, mean that fulfilment of the requirement for the majority of audit committee member to be independent is almost impossible. The Supervisory Board comprises the following four groups of members:

- members of the Supervisory Board elected by the General Meeting, at which the majority of votes are held by Nafta Polska S.A.,

- representative of Company employees,
- independent Supervisory Board members,
- representative of the Ministry of Treasury.

The Management Board believes that the non-observance of the above principle has not and will not have negative effects since the State Treasury and Nafta Polska have not been and will not be active participants in the market for Company equity. On 1 April 2011 the Ordinary General Meeting of Nafta Polska S.A. w likwidacji approved the company's liquidation statements, and on 7 April 2011 the State Treasury acquired all shares in Zakłady Azotowe w Tarnowie-Mościcach S.A. held by Nafta Polska (19.2 million shares).

4.

The Company fulfilled the obligation specified in par. 29, sec. 3 of the Warsaw Stock Exchange Regulations concerning publication of a report containing information on which Best Practices principles are not or have not been applied by the Company, including the circumstances and reasons for non-observance of such principles and the means in which the issuer intends to avoid the potential impact of not observing a given principle, or the steps the issuer intends to take to reduce the risk of not observing corporate governance principles in the future.

5.

The set of corporate governance principles to which the Company is subject is publically available on the Company's website under "Corporate Governance" in the "Investor Relations" section.

6.

In March 2010 Zakłady Azotowe w Tarnowie-Mościcach S.A. was invited to take part in the "10 Companies for 10 Years of the SII..." programme, organised by the Association of Private Investors (Stowarzyszenie Inwestorów Indywidualnych – SII). The aim of the programme is to create and promote the highest standards of communication between stock market companies listed on the regulated market managed by Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) and investors, and to develop the best practical solutions for investor relations, covering contact between listed companies and private investors. This programme forms part of the Company's policy for excellence in communication with the market and the provision of information on the principles of management and supervision, ensuring their transparency.

7.

In January 2011 Azoty Tarnów was once again included in the group of 16 companies listed on the Warsaw Stock Exchange within the RESPECT index portfolio. The Company was commended for its engagement in fulfilling tasks in accordance with the principles of corporate social responsibility as a company managed in a responsible and sustainable manner. The investment attractiveness of companies is also assessed, covering issues such as quality of reporting, investor relations and information policy.

8.

Principles relating to Best Practice applied by members of the Supervisory Board were adopted through Supervisory Board resolution no. 136/VII/2009 of 4 March 2009 and, after update of the *Best Practice...*, through Supervisory Board resolution no. 1/VIII/2010 of 13 July 2012.

III. Assessment of internal control and risk management systems

Principles of internal control

In accordance with the *Organisational Regulations at Zakłady Azotowe w Tarnowie-Mościcach S.A.* and the *Internal Control Regulations at Zakłady Azotowe w Tarnowie-Mościcach S.A.* (constituting an appendix to Internal Order no. 36/2005 of 5 October 2005), internal control within the Company is organised as follows:

1) each employee controls his/her own work, which consists of systematic inspection of the correctness of the work performed with regard to the provisions contained in the Internal Control Regulations and the tasks resulting from the employee's scope of duties,

2) functional control is ensured by management personnel and consists of performing systematic activities aimed at assessing the correctness of operations performed during and immediately after performance. All areas of the Company's operations are subject to this type of control.

Functional control is ensured by: the President of the Management Board – Managing Director, Members of the Management Board, Chief Financial Officer, Directors of Departments/Centres, the managers of specific organisational units, and other employees required to ensure control within a specific objective and subjective area.

3) organisational control is ensured by separate organisational units tasked with specialist control functions in specific scopes; this type of control concerns all decisions, actions and documents reflecting economic transactions, together with the implementation of the accounting policies applied within the Company.

Organisational control is ensured by: the Department of Economic Control and Inventory, the HR Department, the Technical Safety, Employment Protection and Environment Department and other organisational units pursuant to separate internal regulations.

4) systematic and periodic inventory, the means for organising which are specified in the Inventory Instructions.

The organisation (system), principles and means of internal control are established in the *Internal Control Regulations of Zakłady Azotowe w Tarnowie-Mościcach S.A.*

In order to adapt internal and legal regulations concerning internal control to the applicable standards currently in force, in June 2009 the Company implemented "Standards for the Performance and Documentation of Economic Control at Zakłady Azotowe w Tarnowie-Mościcach S.A."

A SAP ERP system has been in operation at the Company since 2009, and since 1 April 2009 has been the primary system. It is protected by passwords, has limited access functions and work within the system requires an individual licence.

The IT system specification fulfils the requirements of art. 10, sec. 1, point 3, letter c of the Polish Accounting Act. The accounts and the links between accounting records and documents and the financial statements fulfil the requirements of section 2 of the Polish Accounting Act.

The accounts, accounting documents, documentation concerning the means of managing the accounts and the approved financial statements of the Company are stored in accordance with section 8 of the Polish Accounting Act.

The accounting and IT systems ensure compliance of the accounting records with statutory regulations.

Risk management

Currency risk

For many years the Company has been active both in export sales and the purchase of the commodities needed for production, making payments in foreign currencies (in particular USD and EUR). In connection with this, the Company is exposed to currency risk with regard to net foreign currency exposure in the above currencies, resulting from the balance of foreign currency trading from commercial operations and deliveries, together with commercial, finance and investment receivables and liabilities. In particular, this risk may appear as an increase in the cost of supplies or a drop in effective revenues from sale, denominated in PLN. The Company uses a range of instruments and activities to hedge foreign currency positions, including natural hedging, forward contracts and currency swaps. It is also possible to create symmetrical options structures such as corridors or options spreads with put-call symmetry. The Company executes hedging transactions typically with a maximum 6-month timeframe in amounts constituting max. 50% of exposure, and for a maximum period of 12 months for 25% of planned exposure. Furthermore, in order to reduce its foreign currency positions, the Company takes advantage of the option to make payments in contractual currencies to entities residing abroad.

A Currency Risk Committee has been appointed in order to implement the currency risk management process, while the currency risk management process is supervised by the Vice-President of the Management Board for financial affairs.

Interest rate risk

The Company is exposed to interest rate risk on its financial liabilities – chiefly loans and borrowings denominated in PLN and EUR based on floating interest rates, and financial assets – mainly bank deposits denominated in PLN which are based on variable and fixed market interest rates.

The Company first and foremost uses natural hedging, based on the application of a common interest rate basis for PLN-denominated loans, borrowings and financial assets.

Other exposure may be hedged through executing only the following transactions:

- forward rate agreements
- interest rate swaps
- currency interest rate swaps

These transactions are mainly executed for periods up to 12 months.

Credit risk

Aside from standard activities consisting of assessing customers and subsequent monitoring, risk connected with debtor defaults towards the Company is mainly reduced through trade insurance policies.

Risk of changes in market prices for products

The Company is a manufacturer of chemicals - a product group where price is highly dependent on the price of commodities. This concerns in particular products based on natural gas and petrochemicals, where demand is subject to severe fluctuations. The Company limits risk through taking steps aimed at diversifying sources of supply for strategic commodities, together with the introduction of price formulae linking product price with commodity price in order to limit risk resulting from variability in petrochemical product prices.

Electricity price risk

Price projections for the energy industry up to 2015 and beyond show a significant increase (approx. 30-60%) in the costs of generating energy, resulting from implementation of the Industrial Emissions Directive (IED) and the introduction of market trading in CO₂ emission units. The key is modernisation of the Company's own power and heat generation facilities.

Risk of limitations in natural gas supplies

The sole gas supplier is PGNiG. In order to limit the impact of this risk on its financial results, the Company is investing in the capacity to generate gas from local sources, which is supplied by PGNiG without the intermediation of Gaz-System S.A.

Information on external inspections

The following inspections conducted by external institutions took place in 2010:

6-25 January 2010 – Customs Authority (Nowy Sącz) – use of spent fuels to produce electricity – no irregularities found.

13 January 2010 – District Environmental Health Inspectorate (Tarnów) – inspection to verify the implementation of District Environmental Health Inspectorate in Tarnów directives – post-inspection recommendations implemented.

10 February 2010 – District Environmental Health Inspectorate (Tarnów) – inspection to verify the implementation of District Environmental Health Inspectorate in Tarnów directives – post-inspection recommendations implemented.

16 February 2010 – District Environmental Health Inspectorate (Tarnów) – occupational health and safety and food hygiene inspection – post-inspection recommendations implemented.

19 February-17 March 2010 – Provincial Environmental Protection Inspectorate (branch in Tarnów) – POM Manufacturing and Compounding Facility – no irregularities found.

22-24 February 2010 – State Labour Inspectorate – inspection concerning adaptation of workstations to the needs of disabled persons – no irregularities found.

1 March 2010 – Provincial Environmental Protection Inspectorate (branch in Tarnów) – environmental protection inspection at the Fertilisers Centre – no irregularities found.

15 March-30 April 2010 – Tax Office (Krakow) – inspection covering the accuracy of declared tax bases and the calculation of corporate income tax and VAT for 2008 – post-inspection recommendations subject to implementation, VAT and corporate income tax declarations corrected.

16 March 2010 – District Environmental Health Inspectorate in Tarnów – inspection verifying the implementation of directives and decisions (Catalyser Plant) – post-inspection recommendations implemented.

22 April 2010 – District Environmental Health Inspectorate in Tarnów – occupational health and safety inspection at the WKS and SHA departments – no irregularities found.

29 April 2010 – District Environmental Health Inspectorate in Tarnów – inspection of the water treatment plant at ul. Chemiczna – no irregularities found.

29 April 2010 – District Environmental Health Inspectorate in Tarnów – inspection of the water intake on the Dunajec river – post-inspection recommendations implemented.

6 July 2010 – District Environmental Health Inspectorate in Tarnów – occupational health and safety inspection at the Ammonia I department – no post-inspection recommendations issued.

22-23 July 2010 – Provincial Environmental Protection Inspectorate in Krakow – inspection of the hydroxylammonium sulphate plant – post-inspection recommendations implemented.

23 September 2010 – District Environmental Health Inspectorate in Tarnów – inspection relating to sulphur dioxide – no post-inspection recommendations issued.

12 October 2010 – State Fire Service in Tarnów – Fertilisers Centre, Ammonia PA-2 department – no post-inspection recommendations.

12 October 2010 – District Environmental Health Inspectorate in Tarnów – EC II combined heat and power plant – no irregularities found.

18 October-5 November 2010 – Supreme Audit Office in Warsaw – management of hazardous waste incinerators purchased under project PHARE PL 9608.02.01 – no post-inspection recommendations.

5-18 November 2010 – District Environmental Health Inspectorate in Tarnów – ECII combined heat and power plant and hazardous material storage facilities – post-inspection recommendations implemented (the recommendation concerning application to the Marshal of the Province of Lesser Poland for amendment of integrated permits for a facility relating to change in the organisational structure of Azoty Tarnów will be implemented within the deadline specified by the District Environmental Health Inspectorate, i.e. by 15 June 2011).

25 November 2010 – District Environmental Health Inspectorate – Plastics Centre – Casing and Granulates Department – no irregularities found.

Conclusion:

The Supervisory Board is positive in its assessment of the Company's internal control system and management of its key risks.

Signatures of members of the Supervisory Board of Zakłady Azotowe w Tarnowie-Mościcach S.A.

[signature] Marzena Piszczek /Chairperson of the Supervisory Board/	[signature] Ewa Lis /Vice-Chairperson of the Supervisory Board/	[signature] Jan Wais /Secretary of the Supervisory Board/
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