

REPORT ON COMPLIANCE WITH CORPORATE GOVERNANCE IN 2009

1. The set of corporate compliance principles binding on the Company and where the text of those principles is publicly available

In 2009, the Company adhered to the principles set out in the document entitled: "Good Practice of Companies Listed on the WSE".

The set of principles "Good Practice of Companies Listed on the WSE" is widely available at:

<http://www.corp-gov.gpw.pl/assets/library/polish/dobrepraktyki2007.pdf>

2. Scope in which the Company departed from the corporate governance principles, indication of those principles and reasons for such departure

The Company applies majority of principles set out in the "Good Practice of Companies Listed on the WSE" in whole, apart from the principles specified hereunder, which are either not applied on a permanent or temporary basis or applied in a limited scope:

Principle II.1.1 – Publishing on the website basic corporate documents of the Company, especially regulations of the Company's authorities:

The Company's Management Board is of opinion that internal documents, especially such as *inter alia*: The Company's organisational regulations, regulations of the Supervisory Board and the Management Board, as well as other documents of such type, are derived from the Company's experience and its heritage, and therefore it is not in the Company's interest to disclose and make publicly available its internal organisational solutions which are not legally required to be disclosed, and which in certain situations may be used against the Company's interests, e.g. by its competitors. The Company's Management Board does not recognise the need to make those documents widely available via the website. The Company's shareholders have the full access to documents necessary to assess activities of the Company and its authorities, of which access to quarterly reports, annual statements, the Articles of Association and regulations of the General Shareholders Meeting. In individual justified cases the Management Board may issue a consent to provide the individual basic internal regulations to the legal entities or private individuals concerned, who applied for such access in writing.

Principle II.1.11 and the related Principle III.2 - Publishing on the website the information on relation between members of the Supervisory Board with the shareholder representing minimum 5% of votes at the General Shareholders Meeting of the Company:

The Company applied to members of the Supervisory Board to issue a statements on their connections with the shareholders holding shares representing minimum 5% of the total number of votes at the Company's General Shareholders Meeting. The above information will be provided on the website immediately after it has been acquired.

Principle III.6. - At least two members of the Supervisory Board should meet the criteria of independence from the Company and entities substantially connected with the Company:

The composition of the Company's authority such as the Supervisory Board, should as much as possible reflect the ownership structure of the Company's shareholding, thus facilitating appropriate and effective control of implementation of the Company's strategy and its operating concepts, as well as duly safeguarding the shareholders' interests.

3. Manner of operations of the General Shareholders Meeting and its basic rights and the Shareholders' rights and how they are exercised

The General Shareholders Meeting is either ordinary or extraordinary. As the Company's authority, it operates in the manner and subject to terms specified in provisions of the Commercial Companies Code, the Company's Articles of Association, corporate governance principles adopted by the Company and provisions of the Regulations of General Shareholders Meetings, adopted with the Resolution No. 1/2010 of the 24th Extraordinary Shareholders Meeting of POLNORD SA of 08 January 2010.

The capabilities of the General Shareholders Meeting include:

- review and approval of the Management Board's reports on the Company's activity and of the Company's financial statements,
- distribution of profit and covering losses and earmarking for supplementary fund and reserves,
- granting the approval of performance to members of the Supervisory Board and the Management Board as regards their duties,
- appointment and dismissal of members of the Supervisory Board,
- increase or decrease of the share capital,
- amendment of the Company's Articles of Association,
- dissolution and liquidation of the Company,
- reviewing and deciding on motions presented by the Supervisory Board,
- resolving the Regulations of the General Shareholders Meeting,
- other issues provided for in provisions of the Commercial Companies Code.

The Ordinary General Shareholders Meeting takes place at the Company's registered office and it is convened by the Company's Management Board, not later than six months of the end of each financial year. Only persons being the shareholders of the Company 16 days ahead of the date of a General Shareholders Meeting, called "Registration Date" may take part in the General Shareholders Meeting provided that they present to the entity running their securities account the demand to issue personal certification of right to participate in the General Shareholders Meeting within the period from the notification on convening the General Shareholders Meeting to the first working day after the Registration Day, that is up to December 24th, 2009. Non-Shareholder members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting without the right to vote. On invitation of the Company's Management Board or Supervisory Board, the General Shareholders Meeting may be attended by other persons.

The Extraordinary Shareholders Meeting of the Company is convened, as and when required, by the Management Board following its own initiative or by the Shareholders representing at least 1/20 of the share capital. The Extraordinary Shareholders Meeting may be also convened: by the Supervisory Board, shall it deem the meeting to be advisable, and the shareholders representing at least a half of the share capital or at least a half of the overall number of votes in the Company.

The General Shareholders Meeting is legally valid regardless of the number of shares represented thereat, unless provisions of the Commercial Companies Code provide otherwise. Resolutions are taken by an absolute majority of valid votes cast, unless the provisions of the Commercial Companies Code or the Articles of Association stipulate otherwise. Voting may be traditional, using voting cards, or supported by a computerised casting and counting system.

The General Shareholders Meeting is opened by the Chairman of the Supervisory Board or a person appointed by the Chairman who then immediately orders election of the General Shareholders Meeting's Chairman. After signing and checking the attendance record, the Chairman of the General Shareholders Meeting confirms that the General Shareholders Meeting has been duly convened and has the capacity to adopt resolutions, and presents the meeting's agenda for voting. The Chairman of the General Shareholders Meeting chairs the meeting according to the adopted agenda, common law regulations, the Company's Articles of Association, the adopted corporate governance principles and provisions of the Regulations of General Shareholders Meetings of POLNORD SA. The Chairman may not, without the General

Shareholders Meeting's consent, remove or change the order of items on the agenda. The General Shareholders Meeting may adopt a resolution on deleting specific items from the agenda, as well as on changing the order of items on the agenda, except for any issue entered to the agenda at the shareholder's request.

Participants of the General Shareholders Meeting may only discuss the issues that have been included in the adopted agenda and are currently under discussion. Each Shareholder may ask questions regarding any item on the agenda. Members of the Management Board and the Supervisory Board are obligated to provide answers and explanations to the asked questions insofar as reasonable for assessment of the issue included in the agenda. Each Shareholder may submit a formal motion. With regard to formal motions, the Chairman of the General Shareholders Meeting grants permission to speak out of turn. Formal motions are those concerning the manner of holding the meeting and voting.

The General Shareholders Meeting takes resolutions on issues included in the agenda after conducting a vote. Voting is open, subject to respective provisions of the Company's Articles of Association and the Commercial Companies Code.

Resolutions taken by the General Shareholders Meeting are published online on www.polnord.pl.

4. Personal composition, changes thereof and principles of operations of managing and supervising bodies of the Company and their committees

- ***Supervisory Board of the Company***

As at December 31st, 2009, the composition of the Supervisory Board was as follows:

Ryszard Krauze – Chairman of the Supervisory Board

Bartosz Jałowiecki – Member of the Supervisory Board

Barbara Ratnicka-Kiczka – Member of the Supervisory Board

Wiesław Walendziak – Member of the Supervisory Board

Tomasz Buzuk – Member of the Supervisory Board

Maciej Grelowski – Member of the Supervisory Board

Marek Modecki – Member of the Supervisory Board

Robert Raczkowski – Member of the Supervisory Board

In 2009, the following changes in the Company's Supervisory Board's composition took place:

- as of 29.06.2009 Mr. Zbigniew Szachniewicz tendered his resignation from the function of a Member of the Supervisory Board;
- as of 30.06.2009 Mr. Dariusz Górka tendered his resignation from the function of a Member of the Supervisory Board;
- on 06.07.2009, the General Shareholders Meeting of the Company of 30.06.2009, adjourned and renewed on 06.07.2009 appointed the following persons to act as members of the Supervisory Boards: Mr. Tomasz Buzuk, Mr. Maciej Grelowski and Mr. Marek Modecki,
- as of 08.10.2009 Mr. Robert Raczkowski was appointed to act as a Member of the Supervisory Board of the Company with regard to the registration, on 08.10.2009, by the District Court Gdańsk Północ in Gdańsk, of the amendments to the Articles of Association of the Company on the basis of the Resolution no. 4 of the Extraordinary Shareholders Meeting of 30.09.2009.

- **Rules of operation of the Supervisory Board**

The Supervisory Board is comprised of 5-11 members elected by the General Shareholders Meeting for a 3-year joint term of office, including the Chairman of the Board. The Supervisory Board appoint from among its members the Chairman of the Board and, if required, also the Secretary of the Board.

On 28.06.2007, the GSM of POLNORD SA elected the Supervisory Board for another 3-year term of office. According to § 13 section 2 and in relation to § 10 section 4 of the Articles of Association, the tenure of the Supervisory Board's Member expires at the latest on the day on which the General Shareholders Meeting is held at which the financial statements are approved for the last full financial year of acting as a Supervisory Board's Member.

The Supervisory Board operates pursuant to regulations of the Commercial Companies Code, provisions of the Company's Articles of Association and Regulations of the Supervisory Board, specifying its organisation, manner of performing its duties and the Good Practice of Companies Listed on the WSE.

The Supervisory Board is a permanent supervisory authority of the Company in all areas of its activity. The Supervisory Board adopts resolutions or issues opinions on matters that are solely within its capabilities, correspondingly to provisions of the Company's Articles of Association and in the manner stipulated in provisions thereof or the relevant legislation.

Meetings of the Supervisory Board are held regularly throughout the year. What is more, pursuant to art. 388 § 3 of the Commercial Companies Code and § 17 sections 2 and 3 of the Company's Articles of Association, the Supervisory Board adopts resolutions by way of correspondence (written) vote or using direct remote communication means. The Management Board supplies the Supervisory Board with exhaustive information on all material issues related to the Company's activity.

- **Audit Committee**

The Supervisory Board of the Company, by way of the Resolution no. 26/2009 of 25.11.2009 appointed the Supervisory Board Audit Committee in the following composition:

Maciej Grelowski - Chairman of the Committee,

Marek Modecki- Deputy Chairman of the Committee,

Wiesław Walendziak – Member of the Committee.

A Member of the Audit Committee who meets the independence criteria and has the qualifications in the scope of accountancy and financial audit, provided for in the Act on Statutory Auditors and their Self-Governance, Entities Entitled to Examine Financial Statements and Public Supervision of 07.05.2009, is Mr. Maciej Grelowski.

Tasks of the Audit Committee comprise in particular:

- a. financial reporting process monitoring;
- b. monitoring the efficiency of internal control, internal audit and risk management system;
- c. monitoring the realisation of activities of financial audit;
- d. monitoring the independence of statutory auditor.

As of the day of appointment of the Audit Committee, the Company applies the corporate governance principle referred to in part III item 7 of Good Practices of Companies Listed on WSE.

- **Management Board of the Company**

As at December 31st, 2009, the composition of the Management Board was as follows:

- 1) Wojciech Ciużyński - President of the Management Board
- 2) Andrzej Podgórski - Deputy President of the Management Board
- 3) Piotr Wesołowski - Deputy President of the Management Board
- 4) Michał Świerczyński - Deputy President of the Management Board

The Supervisory Board, on the session:

- held on 18.06.2009, has dismissed Mr. Bartłomiej Kolubiński from the position of the Deputy President of the Management Board.

- held on 25.11.2009 appointed Mr. Michał Świerczyński to act as Deputy President of the Management Board.

- **Principles of the Management Board's operations including principles of appointing and dismissing managing persons and their authorisations**

The Management Board operates pursuant to regulations of the Commercial Companies Code, provisions of the Company's Articles of Association and Regulations of the Management Board, adopted by way of the Supervisory Board's resolution, and in accordance with the "Good Practice of Companies Listed on the WSE".

The Management Board is the Company's executive authority, it manages the Company and represents it outside. All the members of the Management Board are obligated and authorised to jointly manage the Company's affairs. The Management Board is authorised to take any decisions, without prejudice to capabilities of other authorities of the Company. The Management Board is obligated to manage the Company's assets and affairs with due diligence required for business transactions, to respect the law, provisions of the Company's Articles of Association and resolutions adopted by the General Shareholders Meeting and the Supervisory Board within their respective capabilities.

In line with art. 368 § 3 and 4 of the Commercial Companies Code and § 10 section 2 of the Company's Articles of Association, the Company's Management Board may be appointed from among the shareholders or from outside. The President of the Management Board and, at his/her request, other members of the Management Board, are appointed by the Supervisory Board. The Management Board member's tenure expires not later than on the date of the General Shareholders Meeting approving the financial statements for the last full financial year when that member of the Management Board remained in office.

In line with the Company's Articles of Association, the Management Board may be comprised of 3-6 members whose joint term of office lasts three years. The Supervisory Board of POLNORD SA, at the session held on 15.05.2008 appointed the Management Board of the Company for another common 3-year term of office, which started as of the moment of closure of the GSM of the Company on 16.05.2008.

The number of the Management Board members is specified by the Supervisory Board. In order to issue statements and sign on behalf of the company, it is required for two members of the

Management Board or one member of the Management Board and a proxy to act jointly. Resolutions of the Management Board are adopted by the absolute majority of votes. In the case of equal distribution of votes, the Management Board President's vote is decisive.

Pursuant to art. 370 § 1 of the Commercial Companies Code and § 10 section 5 of the Company's Articles of Association, the Management Board member may be dismissed or suspended from his/her duties by the Supervisory Board at any time, for valid reasons. The relevant resolution needs to be adopted by the majority of 2/3 of votes.

5. Description of the main features of the internal audit and risk management system applied across the Company with regard to the process of preparing financial statements

With a view to reliability of the prepared financial statements, the Company has implemented and keeps actively developing the internal audit and risk management system. The scope of this system covers such areas as e.g.:

- Controlling,
- Accounting,
- Reporting and consolidation,
- Forecasting and financial analyses.

As part of the internal audit and risk management system, the Company implemented a number of organisational solutions and procedures, implementing corporate standards that guarantee success of performed audit, as well as identification and elimination of risks. Some of those solutions include:

- Organisational and financial spin-off of carried out real estate development projects by establishment of special purpose vehicles,
Streamlining of the Accounting Policy, reporting principles and account records across the Capital Group,
- Application of a consistent model of financial reporting for external and internal purposes,
- Clear distribution of responsibilities and capabilities among the financial personnel, as well as medium and senior level management,
- Cyclicity and formalisation of the review of budget assumptions and financial forecasts.
- Having financial statements reviewed and audited by a statutory auditor.

Responsible for preparation of financial statements and current reporting for the Company's management purposes, is a team of highly qualified employees of the financial and accounting

department. The Company, while enabling participation in trainings and the relevant courses of studies, takes all reasonable endeavours to ensure that its staff continually improve their qualifications, while remaining up-to-date with the requirements imposed by external regulations, as well as solutions and tools from a widely understood finance area.

In the process of preparing financial statements, the Company takes advantage of the dedicated IT tools which support ongoing control of accounting operations and controlling calculations. The basic IT systems used by the Capital Group include:

- Integrated IT system recording transactions in line with the accounting policy adopted by the Company (Asseco Softlab ERP),
- Electronic log of purchase invoices,
- Calculation package for real estate development investments, including the investment budget (revenues, costs and cash flow) and well as performance against the budget,
- Consolidation package for preparation of the Capital Group's financial statements.

From the point of view of minimising the risk of error and in order to deliver true and fair financial statements, a key role at the Capital Group is played by the financial Controlling Department of the Company which in cooperation with medium and senior management of the Company and authorities of companies from the Capital Group, performs reviews, reconciliation and consolidation of the basic financial data on real estate development investments and construction contracts carried out at the Capital Group.

An important tool enabling:

a) acquisition by the Management Board of the Company of systematic information supporting the process of decision taking as regards executed development projects and key business areas and

b) identification of risks which should be recorded in the financial statements

is the Management Information System (MIS) that functions at the Company. Within the MIS there are organised, on a monthly basis, meetings of the Management Board and the executives of the Company, at which individual development projects are subject to analysis in the scope of sales level, execution of the project's budget, cash flow forecasts and where decisions are taken as regards further actions both within the individual development projects as well as the whole organisation. At the MIS meeting, there are also beforehand identified the

areas of possible risk and ineffectual areas within the organisation itself, which enables reacting in advance.

Pursuant to the effective legal regulations, the Company reports its financial statements to be reviewed or audited by an independent statutory auditor with recognised and appropriately high qualifications. The Company's Supervisory Board selects the independent auditor pursuant to the authorisation issued by the General Shareholders Meeting.

6. Shareholders holding significant stakes either directly or indirectly via subsidiaries

As at 31 December 2009, at least 5% of the total number of votes at the General Shareholders Meeting was held by the following shareholders:

Item	Shareholder	Number of shares/votes (amount)	Par value of shares	% of share capital/votes
1.	PROKOM Investments SA in Gdynia	7 477 959	14 955 918	33.72%
2.	Osiedle Wilanowskie Sp. z o.o. in Gdynia (a subsidiary of Prokom Investments SA)	2 582 949	5 165 898	11.65%
3.	Templeton Asset Management Ltd. in Singapore*	3 091 382	6 182 764	13.93%
4.	Remaining shareholders in total	9 026 133	18 052 266	40.70%
IN TOTAL		22 178 423	44 356 846	100.00%

* means the customers and funds managed by Templeton Asset Management Ltd. with the registered office in Singapore

7. Holders of securities that confer special control rights

The Company has not issued any securities that confer special control rights in respect of the Company.

8. Restrictions regarding transfer of ownership rights to the Company's securities and restrictions on exercise of voting rights

Pursuant to art. 337 of the Commercial Companies Code, in relation to § 8 section 1 of the Company's Articles of Association, the Company's shares may be sold without any restrictions.

The only restrictions introduced by the Company with regard to the transfer of ownership rights to the Company's securities refer to subscription warrants issued under the Management Options Scheme. Pursuant to provisions of the Resolution No. 22/2007 of the General Shareholders Meeting of the Company, dated 28 June 2008, as amended, the subscription warrants are not disposable.

The Company did not introduce any restrictions with regard to the exercise of the right to vote.

9. Principles of amendment of the Company's Articles of Association

The Company's Articles of Association are amended as per art. 430 § 1 of the Commercial Companies Code and § 22 section 1 item 6 of the Company's Articles of Association, by way of the resolution of the General Shareholders Meeting of the Company. The Management Board of the Company, 26 days ahead of the General Shareholders Meeting, in announcement of convening the General Shareholders Meeting performed in line with art. 402¹ of the Commercial Companies Code on the website of the Company, announces on the basis of the art. 402 § 2 of the Commercial Companies Code the contents of amendments planned in the Articles of Association of the Company as well as hitherto provisions to be amended. In addition, after the General Shareholders Meeting of the Company adopts the amendments of the Company's Articles of Association, each amendment of the Company's Articles of Association, in order to be legally valid, needs to be entered to the Register of Entrepreneurs at the National Court Register held by the court relevant to the registered office of the Company, and such entry is made at the request filed by the Management Board, according to art. 430 § 2 of the Commercial Companies Code, not later than within three months of the date of adopting the resolution by the General Shareholders Meeting. Each amendment of the Company's Articles of Association, following its registration, is also announced in the Court and Economic Monitor.