

## 28 Statement on the application of Corporate Governance (continued)

### 28.1 Corporate governance principles observed by the Issuer and location where their contents is available for the public

The corporate governance principles observed by CIECH S.A. are presented in the Code of Best Practice for WSE listed Companies, adopted by way of Resolution No. 17/1249/2010 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. of 19 May 2010. The text of the Code of Best Practice for WSE listed Companies is available on the Warsaw Stock Exchange's website (<http://corp-gov.gpw.pl/>) and on the website of CIECH S.A. (<http://www.ciech.com>).

### 28.2 Application of Corporate Governance principles

In 2010, CIECH S.A. applied the corporate governance principles for companies listed on the Warsaw Stock Exchange included in the Code of Best Practice for WSE listed Companies, which forms an annex to the Exchange Supervisory Board's Resolution No. 17/1249/2010 of 19 May 2010 on amending the Code of Best Practice for WSE listed Companies, effective as of 1 July 2010. No violations of the principles to which the *comply or explain* rule detailed in chapters II, III and IV of the Code of Best Practice for WSE listed Companies applies were recorded.

With regard to chapter I of the Code of Best Practice for WSE listed Companies, which includes Recommendations, two sections require a comment.

The amended document, adopted by the Resolution of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. of 19 May 2010, introduced new provisions to item 5 relating to the remuneration policy. In compliance with the recommendation, CIECH S.A. has a remuneration policy which defines the form, structure and level of remuneration, including remuneration for members of management and supervisory bodies in the Company. The remuneration system is transparent and ensures that the remuneration paid to top managers is linked to the financial results achieved by the Company and the performance of the remunerated persons.

The assumptions of the remuneration system account for certain principles following from Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), complemented by Commission Recommendation of 30 April 2009 (2009/385/EC). These principles include: defining fixed and variable elements of the Management Board's remuneration, establishing a link between variable remuneration elements with performance and detailing the total remuneration and its particular elements paid to the Members of the Management Board and the Supervisory Board in the notes to the annual financial statements. The adopted remuneration system does not include incentive programmes based on shares, share options or other share purchase rights, nor does it provide for receiving remuneration based on fluctuations of the share price.

The European Commission's recommendations were not a basis for establishing the remuneration system in the Company and not all of the aforementioned recommendations have been implemented. The remuneration policy does not constitute a separate item on the agenda of the Ordinary General Meeting and is not subject to vote. The Company has not published a remuneration policy declaration on its website. However, a number of Company documents include information which should be contained in the declaration.

The remuneration principles and the level of remuneration for the Members of the Management Board in CIECH S.A. are established by the Company's Supervisory Board. The functions of the Remuneration Committee, as defined by the European Commission, are performed by the Remuneration Committee of CIECH S.A.'s Supervisory Board. The remuneration for the Members of the Company's Supervisory Board is established by the Company's General Meeting.

Another issue which requires explanation is the recommendation regarding the broadcast of general meetings using the Internet, recording the meetings and publishing them on a website. In the discussed reporting period, the Company decided not to implement the recommended direct broadcast of General Meetings or recording meetings and publishing them on its website. However, in order to ensure a transparent and efficient information policy, which would ensure a fast and safe access to information for shareholders, analysts and investors, the Company has used a number of communication tools.

### 28.3 Internal audit and risk management systems in the process of preparing financial statements and consolidated financial statements

The Management Board of CIECH S.A. is responsible for the internal audit system in the Company and its effectiveness in the process of preparing financial statements and interim reports, which are prepared and published in accordance with the principles included in the Ordinance of the Minister of Finance of 19 February 2009 regarding current and interim information submitted by the issuers of securities, and the conditions of recognising as equivalent the information required under the laws of a non-member state.

**28 Statement on the application of Corporate Governance (continued)****28.3 Internal audit and risk management systems in the process of preparing financial statements and consolidated financial statements (continued)**

The Company's effective system of internal audit and risk management in the financial reporting process operates based on the following:

- preparing procedures defining the principles and responsibility for compiling financial statements, including the responsibility for quality assurance,
- determining the scope of reporting based on the applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS),
- developing, implementing and supervising the application of consistent accounting principles in the Ciech Capital Group's companies,
- semi-annual and annual audits of the published financial statements of CIECH S.A. and of the Capital Group by an independent auditor,
- financial statements authorisation prior to publication.

A Member of the Management Board responsible for financial matters supervises the process of preparing the Company's financial statements and interim reports. The Finance Division, directly reporting to a Member of the Management Board of CIECH S.A., is responsible for organising work related to preparing the financial statements. The uniformity of the standards applied by the Group is ensured by the application of uniform accounting principles of the Ciech Group and uniform consolidation principles according to IAS/IFRS by all companies.

The scope of disclosures in interim reports results from the Company's accounting books and additional information submitted by particular organisational units of CIECH S.A. The Capital Group's companies deliver the required data in the form of reporting packages in order to prepare the Group's consolidated financial statements. The scope of disclosures within the Capital Group is defined and results from the disclosure obligations imposed by IAS/IFRS. Current IAS/IFRS monitoring is conducted to determine the need to update the scope of reporting.

Pursuant to the applicable laws, the Company's financial statements are reviewed and audited by an independent statutory auditor.

A statutory auditor is appointed by the Supervisory Board from a group of reputable auditing companies, ensuring high standards of service and the required independence. Agreements for auditing financial statements by a statutory auditor are concluded every year with an auditor appointed by the Supervisory Board. The Audit Committee, which is appointed as part of the Supervisory Board, supervises the financial reporting process, collaborates with an independent auditor and recommends an auditor to the Supervisory Board.

The Company operates financial statements authorisation procedures. Reports for Q1, Q3 and Q4 are not subject to auditing, but are approved by the Management Board before publication. Semi-annual and annual interim reports reviewed or audited by an auditor are submitted to the Supervisory Board and the Company's Shareholders. Annual statements approved by the Management Board, after obtaining the opinion of the Audit Committee and their evaluation by the Supervisory Board, are approved by the General Shareholders' Meeting.

After the publication of the annual or semi-annual financial statements, the conclusions from the financial statements' audit are presented to the Audit Committee. The representatives of the Audit Committee analyse the audit's and the review's results during closed sessions held with the Company's auditor. In addition, the statutory auditor presents a Letter to the Management Board with recommendations for the Management Boards of the Group's Companies, based on the results of the audit or the review of the financial statements for a given year. The auditor's recommendations are discussed by the Audit Committee and the managerial staff of the Finance Division with the aim of implementation.

The financial data forming the basis for the financial statements and interim reports originate from an accounting and financial system where all transactions are registered in accordance with the Company's accounting policy (approved by the Management Board), based on the International Accounting Standards. Accounting books are kept in an integrated ERP IT system. The modular structure of the system ensures a clear assignment of responsibilities, consistency of accounting entries and consistency between the general ledger and the sub-ledgers. The properties of the system allow for its ongoing adjustment to the changing accounting principles and other legal regulations. The system contains a complete technical and functional documentation, which, pursuant to Article 10 of the Accounting Act of 29 September 1994, is periodically revised.

The access to information contained in the IT system is restricted to authorised employees only. The employees can only access those system areas in which they work.

**28 Statement on the application of Corporate Governance (continued)****28.3 Internal audit and risk management systems in the process of preparing financial statements and consolidated financial statements (continued)**

Access control is implemented at every stage, from entering source data, through data processing, to generating output information.

The efficiency of the applied procedures for audit and risk management in the process of preparing financial statements in CIECH S.A. and in the Ciech Group is confirmed by the high quality of financial statements and the opinions of statutory auditors on the audited statements, positive assessment by the target readers of the financial statements and top rankings in the competition The Best Annual Report, which is organised by the Institute of Accounting and Taxes under the auspices of the Warsaw Stock Exchange.

The appointment of the entity authorised to audit the financial statements of CIECH S.A. and financial statements of the Ciech Group is performed by the Company's Supervisory Board (after a preliminary recommendation of the Supervisory Board's Audit Committee), which has established the following selection criteria to ensure that the opinion is unbiased:

- the entity authorised to audit financial statements may not perform audits for the Company/Group for more than 5 years in a row,
- the entity authorised to audit financial statements may resume audits for the Company/ Group after 2 years at the earliest,
- the key statutory auditor may not perform the financial auditing activity for the Company/ Group for more than 5 years in a row,
- the key statutory auditor may resume audits for the Company/ Group after 2 years at the earliest.

**28.4 Qualifying holdings of CIECH S.A.**

The Company's shares are quoted at the Warsaw Stock Exchange. As of the publication date, the share capital amounts to PLN 255,001,420 and is divided into 51,000,000 shares with a nominal value of PLN 5 each, including:

- 20,816 series A ordinary bearer shares,
- 19,775,200 series B ordinary bearer shares,
- 8,203,984 series C ordinary bearer shares,
- 23,000,000 series D ordinary bearer shares.

According to the notifications received under Article 69 of the *Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and on public companies (J.L. No. 184, item. 1539)*, the following Shareholders hold at least 5% of the total number of votes at the company's general meetings:

**List of shareholders holding 5% of shares prior to the share capital increase by way of the issue of series D shares:**

1. State Treasury represented by the State Treasury Ministry: 36.68 % share in the share capital,
2. Customers of Pioneer Pekao Investment Management S.A., including Pioneer FIO and SFIO of Telekomunikacja Polska: 12.85% share in the share capital,
3. Otwarty Fundusz Emerytalny PZU Złota Jesień (Open Pension Fund): 6.12% share in the share capital,
4. ING Otwarty Fundusz Emerytalny (Open Pension Fund): 5.33% share in the share capital.

**Estimates: Shareholding structure following the share capital increase by way of the issue of series D shares:**

1. State Treasury represented by the State Treasury Ministry: approx. 35.68% to 37.68% share in the share capital,
2. Customers of Pioneer Pekao Investment Management S.A., including Pioneer FIO and SFIO of Telekomunikacja Polska: approx. 10.85% to 14.85% share in the share capital,
3. Otwarty Fundusz Emerytalny PZU Złota Jesień (Open Pension Fund): approx. 5% to 10% share in the share capital,
4. ING Otwarty Fundusz Emerytalny (Open Pension Fund): approx. 5% to 10% share in the share capital.

**28.5 Shareholders with special control rights and their description**

The shares issued by CIECH S.A. are not vested with any special control rights with regard to the issuer. There are no preference shares, and each share is vested with one vote during the general shareholders' meeting.

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### **28.6 Restriction regarding the right to vote**

CIECH S.A.'s statute does not provide for any restrictions regarding the right to vote. There are no decisions in place to separate capital rights under the securities from the holding of securities.

### **28.7 Restrictions on the transfer of the ownership title to the issuer's securities**

CIECH S.A.'s statute does not provide for any restrictions regarding the transfer of the ownership title to the securities issued by the Company.

### **28.8 Description of rights to make decisions on the issue or redemption of shares**

The provisions of the Commercial Companies Code and the Company's Statute define the rights of the managerial staff. The managerial staff do not have any special rights to decide on the issue or redemption of shares.

### **28.9 Principles for introducing amendments to the issuer's Statute or Articles of Associations**

The Statute can be amended in accordance with the regulations of the Commercial Companies Code. The Statute does not introduce any detailed regulations in that regard. In 2010, there were no amendments to CIECH S.A.'s Statute.

### **28.10 General Shareholders' Meeting and its main responsibilities, shareholders' rights and the exercise of such rights**

The General Meeting of CIECH S.A. is held as an ordinary or extraordinary meeting, in accordance with the Commercial Companies Code and the Statute, based on the principles defined in the General Meeting's Regulations.

#### **Pursuant to CIECH S.A.'s Statute, the responsibilities of the General Shareholders' Meeting include:**

- 1) examining and approving the Company's management report, financial statements for the previous financial year, consolidated financial statements and the Capital Group's management report, where the Company is the parent, if the Company prepares such statements, as well as examining and approving an annual report by the Supervisory Board, and acknowledging the fulfilment of duties by the members of the Company's authorities,
- 2) passing resolutions on profit distribution or loss coverage,
- 3) adopting the regulations for the General Shareholders' Meeting,
- 4) amending the Company's Statute,
- 5) changing the subject of the Company's business activity,
- 6) selling and leasing the enterprise or its organised part and establishing a limited property right thereon,
- 7) appointing and dismissing Members of the Supervisory Board and determining their remuneration,
- 8) appointing and dismissing Members of the Management Board, including the President of the Management Board,
- 9) increasing or decreasing the share capital,
- 10) passing resolutions on the issue of bonds, including convertible bonds,
- 11) merging the Company with other companies, demerging and transforming the Company,
- 12) dissolving the Company,
- 13) approving the purchase of shares by the Company for redemption and passing resolutions on the terms of shares redemption,
- 14) passing other resolutions stipulated by the laws or the Statute.

Pursuant to § 21 section 2 item 3) of CIECH S.A.'s Statute, CIECH S.A.'s Supervisory Board examines and gives an opinion on matters brought to the fore during CIECH S.A.'s General Shareholders' Meeting.

Attendance, procedure and execution of the right to vote are regulated by the Regulations of the General Meeting of CIECH S.A., which was adopted by the Ordinary General Shareholders' Meeting of CIECH S.A. on 21 June 2010 and took effect as of the date of the Meeting following the Meeting which adopted it, i.e. 28 October 2010.

The shareholders may participate in the Meeting and exercise their voting rights in person or through representatives. A power of attorney should be made in writing or in electronic form. A Shareholder who gives or revokes a power of attorney to attend a General Meeting in electronic form must inform the Company by sending an e-mail to [wza@ciech.com](mailto:wza@ciech.com).

**28 Statement on the application of Corporate Governance (continued)****28.10 General Shareholders' Meeting and its main responsibilities, shareholders' rights and the exercise of such rights (continued)**

Pursuant to the Regulations of the General Meeting of CIECH S.A., the participants of the General Meeting include Members of the Management Board and of the Supervisory Board, in a composition which allows for answering any questions asked during the Meeting. The Meeting can be also attended by:

- 1) experts, advisors and employees of the Company whose presence is deemed necessary by the Management Board, the Supervisory Board or the Chairman,
- 2) service providers,
- 3) representatives of the media, unless the Meeting passes a resolution against their presence,
- 4) persons referred to in Article 370 § 3 and Article 395 § 3 sentence 2 of the Commercial Companies Code.

The Meeting appoints a Chairman from among its participants. The Chairman presides over the Meeting in accordance with the adopted agenda, legal regulations, the Statute and the Regulations of the General Shareholders' Meeting, ensuring a problem-free course of the session and respect for the rights and interests of all Shareholders.

**The responsibilities of the Chairman of the General Shareholders' Meeting include in particular:**

- 1) ensuring that all participants observe the law, including the Regulations of the General Shareholders' Meeting, and making appropriate organisational decisions in this respect,
- 2) commencing discussion on particular items on the agenda and giving the floor,
- 3) taking the floor away if the speech:
  - a) exceeds the limit of time for speeches or replies, or
  - b) covers topics not included in the agenda, or
  - c) is offensive,
- 4) closing discussion on particular items on the agenda,
- 5) closing the lists referred to in § 42 section 4 (list of candidates for Members of the Management Board, including the President of the Management Board, or the Supervisory Board),
- 6) based on the adopted motions, determining the content of draft resolutions of the Meeting,
- 7) ordering and supervising votes, signing all documents containing the results of a vote and announcing the results,
- 8) giving instructions to maintain order during the Meeting,
- 9) resolving procedural doubts and clarifying legal issues, as required, based on the obtained legal opinions – legal and regulatory issues,
- 10) announcing the exhaustion of the agenda,
- 11) closing the Meeting after exhausting the agenda,
- 12) making other organisational decisions.

The Chairman may, at their sole discretion, order the adjournment of the Meeting, other than the adjournment ordered by the General Meeting pursuant to Article 408 § 2 of the Commercial Companies Code. Procedural breaks should be ordered by the Chairman in such a way that the Meeting can be closed on the day when it was opened.

The Chairman may submit to the debate a motion and a resolution on the convening of an extraordinary general meeting and other procedural issues, including in particular:

- 1) admitting into the session room the persons referred to in § 8 section 2 items 1-3,
- 2) proposing motions for changing the order of discussing particular issues on the agenda,
- 3) appointing committees as required by the Regulations; the participants of the Meeting may propose discussion-related motions relating to the matters included in the agenda, organisational motions and a motion calling for convening an extraordinary general meeting.

Draft resolutions proposed for adoption by the Meeting are published on the Company's website.

The resolutions of the General Meeting of CIECH S.A. are passed by an absolute majority of votes, unless the regulations of the Commercial Companies Code stipulate otherwise.

The General Meeting's Regulations do not allow voting by mail, as referred to in Article 411<sup>1</sup> of the Commercial Companies Code.

The Statute does not allow for attending and taking the floor during a General Meeting by means of electronic communication.

Voting shall be by open ballot. A secret ballot is ordered:

- 1) in the case of appointments,
- 2) on motions calling for the appointment/dismissal of members of the Company's authorities,
- 3) on motions calling for the dismissal of the Company's liquidators,

**28 Statement on the application of Corporate Governance (continued)****28.10 General Shareholders' Meeting and its main responsibilities, shareholders' rights and the exercise of such rights (continued)**

- 4) on motions to hold liable the persons specified in items 2) and 3),
- 5) in personnel-related matters,
- 6) at the request of at least one of the Meeting's participants.

The right to demand a secret ballot does not apply when adopting resolutions on procedural matters. The Meeting may cancel the secrecy of a vote on issues concerning the appointment of committees established by the Meeting.

**28.11 Composition and changes in the last financial year and description of the operation of the issuer's management, supervisory and administrative authorities and of their committees.****CIECH S.A.'s Management Board**

According to § 23 section 1 of the Company's Statute, the Management Board consists of three to five persons. The joint term of office of the Members of the Management Board lasts three years. The mandate of a Member of the Management Board expires at the day of the General Meeting which approves the financial statements for the last full financial year of that Member's term at the latest. A Member's mandate also expires upon their death, resignation or dismissal from the Management Board.

The responsibilities of the Management Board include all matters and economic decisions as well as other matters not reserved by the provisions of the Commercial Companies Code or the company's Statute to the sole competence of the General Meeting or the Supervisory Board. The President of the Management Board acting independently, two Members of the Management Board or one Member of the Management Board acting jointly with a proxy are authorised to make declarations of will and sign documents on behalf of the company.

The current joint term of office of the Company's Management Board began on 21 June 2010 and expires on 21 June 2013, and the mandates expire on the day of the Ordinary General Meeting in 2013. A detailed assignment of responsibilities of the Members of the Management Board is defined in the Management Board's resolution.

The Management Board of CIECH S.A. acts based on the regulations adopted by the Management Board and approved by the Supervisory Board. Resolutions of the Management Board are adopted by an absolute majority of votes. In the case of a tied vote, the President of the Management Board has the decisive vote. In compliance with the best practice, the Management Board Regulations state that, in case of a conflict between Company's interest and personal interests of a Member of the Management Board, their spouse, relatives up to second degree or persons with whom they remain in personal relations, such a Member should refrain from deciding on such issues and demand that this fact is recorded in the Management Board's session minutes.

In 2010, the Supervisory Board approved new Management Board Regulations.

**According to the new Regulations, all matters beyond Company's ordinary activities shall be decided upon by a resolution of the Management Board, in particular:**

- 1) approval and amendment of Management Board Regulations,
- 2) approval and amendment of Company's Organisational Regulations,
- 3) approval of motions addressed to the Supervisory Board or to the General Meeting,
- 4) calling the General Meeting and approval of proposed agenda,
- 5) approval of annual and long-term financial plans and development strategies of the Company,
- 6) granting power of attorney or general proxies,
- 7) raising loans and borrowings,
- 8) granting loans and borrowings,
- 9) exercising a right or incurring liabilities in an amount exceeding PLN 500,000.00 (in words: five hundred thousand zloty),
- 10) applying for bank guarantees, incurring liabilities on promissory notes, awarding all categories of securities and establishing other securities.

A Resolution of the Management Board is also required in matters which do not exceed the scope of Company's ordinary activities, if this is demanded by any Member of the Management Board.

As of 1 January 2010, the Company's Management Board was composed of:

- 1 Ryszard Kunicki – President of the Management Board,
2. Robert Bednarski – Member of the Management Board,
3. Marcin Dobrzański – Member of the Management Board,
4. Artur Osuchowski – Member of the Management Board.

**28 Statement on the application of Corporate Governance (continued)****28.11 Composition and changes in the last financial year and description of the operation of the issuer's management, supervisory and administrative authorities and of their committees (continued)**

On 21 June 2010, the General Meeting of CIECH S.A. appointed the following Management Board of CIECH S.A. for another joint term of office:

1. Ryszard Kunicki – President of the Management Board,
2. Marcin Dobrzański – Member of the Management Board,
3. Artur Osuchowski – Member of the Management Board,
4. Andrzej Bąbaś – Member of the Management Board,
5. Rafał Rybkowski – Member of the Management Board.

On 27 September 2010, Marcin Dobrzański, Member of the Management Board of CIECH S.A., resigned from his position.

As a result, the composition of the Management Board as of that day was as follows:

1. Ryszard Kunicki – President of the Management Board,
2. Artur Osuchowski – Member of the Management Board,
3. Andrzej Bąbaś – Member of the Management Board,
4. Rafał Rybkowski – Member of the Management Board.

The aforementioned composition of the Management Board did not change by 31 December 2010. The composition of CIECH S.A.'s Management Board remained unchanged as of the day of preparing the financial statements.

CIECH S.A.'s Supervisory Board is responsible for establishing the remuneration principles and amounts for the Members of the Management Board.

In accordance with their employment contracts, the Members of the Management Board receive base remuneration plus an annual bonus based on profits. Furthermore, the employment contracts of the Members of the Management Board stipulate a possibility of awarding a task-based bonus calculated as multiple monthly remunerations. It is paid according to the principles and in the amount specified by the Supervisory Board.

The total amount of remuneration paid to the Members of the Management Board (who held their functions in 2010) by the Company in 2010 is PLN 5,320 thousand.

The information on the amount of remuneration paid to the Members of the Management Board, broken down into the base remuneration and the bonus, is presented in item 39.4 of the Notes to the Consolidated Financial Statements of the Ciech Group for 2010.

**CIECH S.A.'s Supervisory Board**

Pursuant to § 20 section 1, the Supervisory Board is composed of five to nine members appointed by the General Meeting. The joint term of office of the Members of the Supervisory Board lasts three years.

The Supervisory Board of CIECH S.A. acts based on the regulations adopted by the Supervisory Board and approved by the General Meeting. Appointing and dismissing Members of the Supervisory Board is a responsibility of the General Meeting. The Supervisory Board appoints the Chairman of the Supervisory Board and, if necessary, a Vice-Chairman and a Secretary. The Supervisory Board supervises the Company's operations.

The current joint term of office of the Company's Supervisory Board began on 26 June 2008 and it expires on 26 June 2011, and the mandates expire on the day of the Ordinary General Meeting in 2011.

**The responsibilities of the Supervisory Board include in particular:**

- 1) assessment of the Company's management report and financial statements for the previous financial year, consolidated financial statements and management report of the capital group, where the Company is the parent, if the Company prepares such statements, for their consistency with the accounting books and documents and the factual status, as well as assessment of the Management Board's motions as to profit distribution or loss coverage and submitting to the General Meeting an annual written report on the results of this assessment,
- 2) giving opinions on the Company's action plans prepared by the Management Board,
- 3) examining and giving opinions on matters subject to resolutions of the General Meeting,
- 4) adopting the regulations of the Supervisory Board,
- 5) approving the regulations of the Management Board,

**28 Statement on the application of Corporate Governance (continued)****28.11 Composition and changes in the last financial year and description of the operation of the issuer's management, supervisory and administrative authorities and of their committees (continued)**

- 6) determining remuneration rules and remuneration amounts for the Members of the Management Board, including for the President of the Management Board,
- 7) appointing a statutory auditor to audit the Company's financial statements and the capital group's consolidated financial statements,
- 8) expressing consent for the execution of any right or incurring of any liability exceeding the equivalent of PLN 10,000,000 (in words: ten million zloty) based on one or several related acts in law, except for:
  - a) agreements for the sale of raw materials, semi-finished products and finished products linked to the Company's business,
  - b) actions which require the consent of the General Meeting.

The Supervisory Board adopts resolutions by an absolute majority of votes with at least half of the Members present, and in the event of a tied vote, the decisive vote belongs to the Chairman. Pursuant to CIECH S.A.'s Statute, the Supervisory Board may pass resolutions without convening a meeting in a written ballot or with the use of means of remote communication, but for such a resolution to be effective it is necessary to inform all Members of the Board about the draft content thereof. The Members of the Supervisory Board may participate in passing the Board's resolutions through voting in writing via another Member of the Supervisory Board. It is not possible to vote in writing on matters included in the agenda at the meeting of the Supervisory Board.

As of 1 January 2010, the Supervisory Board of CIECH S.A. was composed of:

1. Ewa Sibrecht-Ośka – Chairwoman of the Supervisory Board,
2. Jacek Goszczyński – Vice-Chairman of the Supervisory Board,
3. Krzysztof Salwach – Secretary of the Supervisory Board,
4. Grzegorz Kłoczko – Member of the Supervisory Board,
5. Marzena Okła-Anuszewska – Member of the Supervisory Board,
6. Sławomir Stelmasiak – Member of the Supervisory Board.

On 21 June 2010, the Ordinary General Meeting of CIECH S.A. dismissed Grzegorz Kłoczko and Marzena Okła-Anuszewska from the Supervisory Board, and appointed Przemysław Cieszyński, Arkadiusz Grabalski and Waldemar Maj.

As a result, the composition of the Supervisory Board as of 21 June 2010 was as follows:

1. Ewa Sibrecht-Ośka,
2. Jacek Goszczyński,
3. Krzysztof Salwach,
4. Sławomir Stelmasiak,
5. Przemysław Cieszyński,
6. Arkadiusz Grabalski,
7. Waldemar Maj.

On 2 July 2010, the Supervisory Board of CIECH S.A. appointed Przemysław Cieszyński as the Vice-Chairman of the Supervisory Board of CIECH S.A.

The aforementioned composition of the Supervisory Board did not change by 31 December 2010. Consequently, the composition of CIECH S.A.'s Supervisory Board remained unchanged as of the day of preparing the financial statements.

The Members of the Supervisory Board receive remuneration pursuant to the principles and in the amount defined by a General Meeting Resolution.

The total amount of remuneration paid by the Company to all Members of the Supervisory Board who held their functions in 2010 is PLN 598 thousand.

The detailed information on the amounts of remuneration paid to the Members of the Supervisory Board is been presented in item 39.4 of the Notes to the Consolidated Financial Statements of the Ciech Group for 2010.

**28 Statement on the application of Corporate Governance (continued)****28.11 Composition and changes in the last financial year and description of the operation of the issuer's management, supervisory and administrative authorities and of their committees (continued)****Committees of CIECH S.A.'s Supervisory Board**

The following Committees operate as part of the Supervisory Board of CIECH S.A.: Audit Committee of the Supervisory Board of CIECH S.A. and Remuneration Committee of the Supervisory Board of CIECH S.A.

**Audit Committee**

The Audit Committee of the Supervisory Board of CIECH S.A. was appointed by way of Resolution no. 57/IV/2005 of 16 February 2005. Pursuant to the Audit Committee's Regulations, its tasks include: **The responsibilities and duties of the Committee include:**

- 1) monitoring financial reporting,
- 2) monitoring the efficiency of the internal control system,
- 3) monitoring the efficiency of the internal auditing system,
- 4) monitoring the efficiency of the risk management system,
- 5) monitoring financial revision,
- 6) monitoring the autonomy of the statutory auditor and the entity authorised to audit the Company's financial statements.

The Audit Committee of the Supervisory Board of CIECH S.A. submits annual reports on its activity, which constitute a part of the Report on the Operations of the Supervisory Board of CIECH S.A., presented to the Shareholders during the Ordinary General Meeting of CIECH S.A.

As of 1 January 2010, the Audit Committee was composed of:

1. Marzena Okła-Anuszewska,
2. Krzysztof Salwach.

On 9 February 2010, CIECH S.A.'s Supervisory Board appointed Sławomir Stelmasiak to be a member of the Audit Committee. On 21 June 2010, Ms Marzena Okła-Anuszewska was dismissed from the Supervisory Board of CIECH S.A.

As a result, as of 21 June 2010, the Audit Committee was composed of:

1. Krzysztof Salwach,
2. Sławomir Stelmasiak.

On 2 July 2010, the Supervisory Board appointed a new Audit Committee of the Supervisory Board of CIECH S.A.:

1. Przemysław Cieszyński,
2. Waldemar Maj,
3. Krzysztof Salwach,
4. Sławomir Stelmasiak.

During the Audit Committee's session on 4 August 2010, the Audit Committee appointed Waldemar Maj as the Chairman.

As of 31 December 2010 and as of the date of the financial statements, the Audit Committee of CIECH S.A.'s Supervisory Board was composed of:

1. Waldemar Maj – Chairman,
2. Przemysław Cieszyński,
3. Krzysztof Salwach,
4. Sławomir Stelmasiak.

**28. Statement on the application of Corporate Governance (continued)****28.11 Composition and changes in the last financial year and description of the operation of the issuer's management, supervisory and administrative authorities and of their committees (continued)****Remuneration Committee of CIECH S.A.'s Supervisory Board**

The Remuneration Committee was appointed by way of Resolution no. 66/IV/2005 of CIECH S.A.'s Supervisory Board.

According to the Regulations of the Remuneration Committee, the main task of the Committee is to advise the Supervisory Board on issues related to defining the remuneration rules and amounts for the Members of the Management Board of CIECH S.A.

**The Committee's tasks include in particular:**

1. presenting to the Supervisory Board a proposal concerning the rules of remunerating the Members of the Management Board of Ciech S.A., which should take into account all forms of remuneration, in particular with regard to: base remuneration, performance-based reward system, pension and severance pay system,
2. presenting to the Supervisory Board a proposal concerning the amount of remuneration of every Member of the Management Board of CIECH S.A.,
3. presenting to the Management Board draft agreements regulating the duties of the Members of CIECH S.A.'s Management Board,
4. discussing (with or without the participation of the Company's Management Board) any problems or reservations which may arise in relation to remunerating the Members of the Management Board of CIECH S.A.,
5. considering any other issues of interest to the Committee or the Supervisory Board,
6. informing the Supervisory Board about all material issues within the Committee's responsibilities.

The Remuneration Committee of the Supervisory Board of CIECH S.A. submits annual reports on its activity, which constitute a part of the Report on the Operations of the Supervisory Board of CIECH S.A., presented to the Shareholders during the Ordinary General Meeting of CIECH S.A.

As of 1 January 2010, the Remuneration Committee was composed of:

1. Jacek Goszczyński,
2. Grzegorz Kłoczko.

Following the dismissal of Grzegorz Kłoczko from the Supervisory Board on 21 June 2010, the Remuneration Committee operated as a one-person body.

On 2 July 2010, the Supervisory Board appointed the following persons to sit in the Remuneration Committee of CIECH S.A.'s Supervisory Board:

1. Jacek Goszczyński,
2. Arkadiusz Grabalski.

As of 31 December 2010 and on the date of the financial statements, the Remuneration Committee of CIECH S.A.'s Supervisory Board operated in an unchanged composition.