

Representation on application of corporate governance

Report on application of corporate governance 2008

The report has been prepared in compliance with:

- § 91, sec. 5 pos. 4 by virtue of the Decree of the Minister of Finance dated 19 February 2009 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Official Journal: Dz. U. No. 33 of 2009, pos. 259);
- Art. 49, sec. 2 of the Accounting Act;
- Resolution No. 1013 of the Management Board of the Warsaw Stock Exchange of 11.12.2007 on defining scope and structure of a report relating to application of corporate governance by joint stock companies.

I. Listing of the collected corporate governance principles which the issuer is required to follow, and where these principles are publicly available.

The Company accepted to apply response to “The Code of Best Practice for WSE Listed Companies”, which are publicly available on the issuer’s website: www.orz.el.com.pl and on websites: www.corp-gov.pl and www.seg.org.pl.

II. Listing of the collected corporate governance principles on whose application the issuer was allowed to decide freely, and where these principles are publicly available.

It was not applied.

III. Listing of all applicable information respecting the application by the issuer of corporate governance practices which go beyond those required by domestic law, with information on the application by the issuer of corporate governance practices

It was not applied.

IV. Indication of a scope in which issuer departed from the collected corporate governance principles, explanation of reasons for such departure.

In 2008 the Company did not applied the following corporate governance principles covered by the document: “The Code of Best Practice for WSE Listed Companies”:

- specified in chapter I: Recommendations for Best Practice for Listed Companies, wording:

„I. 1. A company should pursue a transparent and effective information policy using both traditional methods and modern technologies ensuring fast, secure and broad access to information. Using such communication methods to the broadest extent possible, a company should ensure adequate communication with investors and analysts, enable on-line broadcasts of General Shareholder’s Meetings (GSM) over the Internet, record General Meetings, and publish the recordings on the company website.”

The company did not transmit debates of the GSM over the Internet, record the course of the debates and publish it on the company website due to incurrence additional costs connected herewith.

- quoted in chapter III, pos. 7: Best Practice for Supervisory Board Members, wording:
“ III.7 The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board.”

The Regulation of the Supervisory Board binding in the Company, adopted on 14th October 2005 in the Board’s resolution No. V/5/2005 does not provide opportunity to establish committees. Decisions on procedure for organization works by the Supervisory Board, particularly on establishing an audit committee or other committees will be adopted by the Supervisory Board of the VI term later.

- quoted in chapter III, pos. 8: Best Practice for Supervisory Board Members, wording:
“III.8 Annex I to the European Commission Recommendation of 15th February 2005 on the role of non-executive directors (...) should apply to the tasks and the operation of the committees of the Supervisory Board.

Departure from the above rule is a consequence of departure from the III.7 principle.

- On 12.12.2009, in the current report No. 36, the Management Board of Zakłady Lniarskie “Orzeł” S.A. seated in Mysłakowice notified that the principle of the corporate governance principles quoted in chapter II, pos. 2 of Best Practice for Management Boards of Listed Companies would not be applied in the Company as of 1st January 2009, the a.m. principle is of wording:
“ II.2. A company shall publish its website in English, at least to the extent described in section II, pos.1. This rule should be applied not later than 1 January 2009.”

The Company is under thorough rebranding, which one of the purposes is to create the new, multi-language website including inter alia developed part of investors relationships complying with the Investor Relations Model prepared by WSE.

The Company assumes the works covering total reconstruction of the website will be completed up till May 2009.

V. A description of the basic characteristics of internal control and risk management systems applied by the issuer with respect to the process of preparing financial statements.

As a consequence of the change of booking system and resulted changes in keeping accounting books the internal audit and risk management system covering the process of preparing financial statements is in progress, and will be implemented along with complete implementation of the system, which will ensure automatic control. Closure of the 2008 year was provided with manual control.

VI. The manner of functioning of the GSM and its basic rights, and a description of the rights of shareholders and the manner of their execution, in particular the principles arising from the regulations of the GSM, if such regulations have been passed and are not a direct result of existing law.

The Regulations of the GSM of Zakłady Lniarskie "Orzeł" S.A. seated in Mysłakowice binding in the Company was adopted by virtue of Art. 30, sec 2 of the Company's Statute on 27th June 2006.

The Regulations of the GSM of Zakłady Lniarskie "Orzeł" S.A. is available on the Company's website: www.orzel.com.pl /Relacje inwestorskie/Regulaminy. The Ordinary Shareholders' Meeting (OSM) is convened by the Management Board and is held up till 30th June of each calendar year. The Extraordinary Shareholders' Meeting is convened by the Management Board at its own initiative or upon the Supervisory Board demand, or upon the shareholders' demand representing at least 1/10 of the share capital.

The GSM of Zakłady Lniarskie "Orzeł" S.A., by virtue of the Statute is held in the Company's seat. The GSM is valid in spite of number of shares represented at the meeting, excluding case when regulations of the Code of Commercial Companies (CCC) requires a definite number of represented shares at the Meeting for its validity. The voting right can be executed personally by a shareholder or a plenipotentiary. Power of attorney should be in writing form under clause of nullity. Plenipotentiaries at the GSM may not be Members of the Management Board and the Company's employees.

At the GSM holders of bearer shares may take part who at least one week before the date of the GSM submitted to the Company registered deposit certificates issued by the entity keeping an account of securities.

All Company's shares are bearer shares providing the right to one vote at the GSM.

The right to participate at the GSM covers the right to vote, lodge motions and raise objections.

The GSM adopts resolutions on:

- examination and approval of the Management Board's report on the Company's activity and financial statement for the prior financial year,
- division of profit or covering loss,
- providing acceptance to the members of the Company's authorities for fulfilment the duties by them
- increase or decrease of the share capital,
- appointment and dismissal of Member of the Supervisory Board,
- changes of the Statute,
- merger of companies,
- dissolute or liquidation of the Company,
- issue of shares, bonds,
- decide on any issues relating to claims to remedy a damage caused at establishing the Company or exercise management or supervision,
- changes of the Company's activity,
- other issues covered in the CCC.

Resolutions of the GSM are adopted by absolute majority of cast votes, excluding the cases for which regulations of the CCC determines more rigorous terms.

A resolution on deprivation of hitherto shareholders of the subscription right partially or entirely requires qualified majority of 4/5 votes cast, as well as justification in details.

Qualified majority of 3/4 cast votes is required for resolutions relating to:

- change of the Statute, including issue of new shares,
- issues of bonds,
- disposal of the Company's plant,
- merger of the Company and other company,

- dissolution of the Company,
- taking away from agenda or abandon examination of an issue covered by agenda for shareholders' motion.

A change of the Company's activity requires qualified majority of 2/3 votes cast.

Resolutions regarding changes of the Company's Statute increasing shareholders' performances or diminishing the rights granted personally to particular shareholders require consent by all shareholders that refer to.

The GSM may adopt a resolution on cancelling particular issues from agenda, as well as on a change of sequence of issues covered by the agenda. A resolution on abandoning examination of an issue included in the agenda may be adopted merely, if essential reasons appeal for it. A motion in such case should be justified in details.

Taking away from the agenda or abandon of examination of an issue included in the agenda for shareholders' motion requires a resolution adopted by GSM, which follows consent given by all present shareholders, who lodged such motion, backed up by 75% of GSM votes.

VII. Listing of shareholders owning, directly or indirectly, significant blocks of shares with a listing of the number of shares owned by the said entities, their percentage ownership of the share capital, the number of votes arising from these shares and their percentage of the total number of votes at the GSM

Shareholding structure as of 31.12.2008 regarding entities owned at least 5% of total number of votes at GSM was, as follows:

<i>Pos.</i>	<i>Shareholder</i>	<i>Number of shares</i>	<i>% in share capital</i>	<i>Number of votes at GSM</i>	<i>% share in total number of votes at GSM</i>
1.	Bank Gospodarstwa Krajowego	15 526 908	9.69	15 526 908	9.69
2.	Krzysztof Jaszczyński	11 654 730	7.27	11 654 730	7.27
3.	Others	133 123 764	83.04	133 123 764	83.04
	<i>Total</i>	160 305 402	100.00	160 305 402	100.00

VIII. Indication of holders of any securities that grant special rights of control, including description of such rights.

No Z.L. "Orzeł" S.A. shareholders have special rights of control.

IX. Listing of all restrictions on voting rights, such as restrictions on the execution of voting rights by a shareholder of a defined part or amount of votes, time-related restrictions on the execution of voting rights or subscriptions, in accordance with which, in cooperation with the company, equity rights related to securities are separate from the ownership of securities

No restrictions.

X. Listing of all restrictions on the transfer of ownership rights to securities of the issuer

No restrictions.

XI. Description of principles respecting changes in the statutes of the issuer

Any change in the Company's Statute requires adoption of a resolution by GSM. Motions for convening GSM and for including in agenda of GSM debate a proposal for changes in the Statute can be lodged by the Management Board, the Supervisory Board or shareholders representing at least 10% of the share capital. Pursuant to the Statute of the Company:

- resolutions of GSM relating to changes in the Statute are adopted by majority of three-fourth of votes cast,
- resolutions regarding changes in the Statute of the Company increasing benefits for shareholders or decreasing rights granted individually to particular shareholders require consent of all shareholders to whom such resolutions refer to.

However, adaptation of a resolution on any significant change of the Company activity, pursuant to Art. 416 of the CCC, requires majority of two-third of votes.

The Management Board of the Company is obliged to submit to the Registration Court changes in the Statute of the Company adopted by GSM.

XII. Description of principles respecting the appointment and dismissal of management personnel and their rights, in particular the right to decide on the issuance or buyback of shares

Principles respecting the appointment and dismissal of the Management Board are defined in Art. 13 of the Statute of the Company, and by virtue of that article:

- The Management Board is composed of two up to five persons. A term of the Management Board lasts three years. Members of the Management Board are appointed for a period of common term.
- The Supervisory Board appoints Members of the Management Board, including President of the Management Board and one or a few Vice-presidents.
- The Supervisory Board defines number of members of the Management Board.
- The Supervisory Board can dismiss President of the Management Board, Vice-presidents of the Management Board, Member of the Management Board or the entire Management Board within the term time of the Management Board.

The Management Board exercises any powers within management of the Company, excluding powers reserved by the law or the Statute of Z.L. "Orzeł" S.A. for other bodies of the Company.

The Management Board lodges a motion for issuance or buyback of shares, on which opinion is given by the Supervisory Board of the Company. A motion is submitted to GSM, which makes a decision on issuance or buyback of shares.

XIII. the personnel composition of management, supervisory and administrative bodies of the issuer and any changes thereto during the previous financial year, along with a description of the activities and committees of the said bodies

In 2008 the composition of the Management Board of the Company was, as follows:

- in a period from 1.01.2008 up till 27.03.2008:

Marek Błażków - President of the Management Board

Jacek Golonka - Vice-president of the Management Board, Economy-Finance Director

Krzysztof Sierka - Vice-President of the Management Board, Commercial and Marketing Director

Józef Pradela - Member of the Management Board, Production Director

- in a period from 28.03.2008 up till 23.07.2008:

Marek Błażków - President of the Management Board

Jacek Golonka - Vice-President of the Management Board, Economy-Finance Director

Józef Pradela - Member of the Management Board, Production Director

- in a period from 24.07.2008 up till 23.10.2008:

Rafał Czupryński - Member of the Supervisory Board delegated to act as Member of the Management Board

Marcin Szawłowski - Member of the Supervisory Board delegated to act as Member of the Management Board

- in a period from 24.10.2008 up till 31.12.2008:

Rafał Czupryński - President of the Management Board

Marcin Szawłowski - Vice-president of the Management Board

In the current report No. 5 the Company notified on dismissal by the Supervisory Board as of 28.03.2008 Vice-president of the Management Board, Commercial and Marketing, Mr. Krzysztof Sierka.

On 24.07.2008 the Supervisory Board of Z.L. "Orzeł" S.A. adopted resolutions on dismissal of the Management Board, i.e.:

- President of the Management Board - Marek Błażków,
- Vice-president of the Management Board - Jacek Golonka
- Member of the Management Board - Józef Pradela

Notification on dismissal of the Management Board was made known by the Company in the current report No. 22 on 24.07.2008.

At the same time the Supervisory Board of Z.L. "Orzeł" S.A. notified on delegation as of 24.07.2008 of the Supervisory Board Members to the Management Board, determining 2-

person composition of the Management Board. Information on delegation of the Supervisory Board Members to perform actions of the Management Board Members was made known by the Company in the current report No. 23 on 24.07.2008.

On 23.10.2008 the Supervisory Board adopted resolutions on appointment to the Management Board of Z.L. "Orzeł" SA.:

- Mr. Rafał Czupryński as President of the Management Board
- Mr. Marcin Szawłowski as Vice-president of the Management Board.

On 24.10.2008, the Company in current reports No.: 27 and 28 notified on appointing the Management Board and resigning by Mr. Rafał Czupryński and Marcin Szawłowski from membership in the Supervisory Board of Z.L. "Orzeł" S.A.

As of 31.12.2008 composition of the Management Board of V term is, as follows:

Rafał Czupryński - President of the Management Board

Marcin Szawłowski – Vice-president of the Management Board

Detailed tasks of the Company Management Board provides the Regulations of the Management Board passed by the Management Board and accepted by the Supervisory Board.

The Management Board is composed of 2-5 persons selected by the Supervisory Board. Number of Members of the Management Board is decided by the Supervisory Board. The Management Board can be composed of shareholders or outside of them. The Supervisory Board appoints and dismisses Members of the Management Board, including President of the Management Board, and one or a few Vice-presidents. A term of the Management Board is 3 years. The Management Board Members are appointed for a period of common term. Mandates of the Management Board Members expire as of a day when GSM is held. The condition is approval of financial statement for the last full financial year when function of the Management Board Member function was executed.

The Company Management Board controls the Company and represents it in and outside of the court. Representation of two Members of the Management Board or one Member of the Management Board jointly with a proxy is required at making declarations of will in behalf of the Company.

Powers of the Management Board cover all other issues not reserved for GSM and the Supervisory Board.

The following issues demand resolutions by the Management Board:

- introducing the Company organizing regulations,
- concluding loan/credit contracts,
- preparing a report on the Company's activity for a prior financial year,
- preparing a draft of profit division and loss coverage for a financial year,
- determining and notification on term of dividend payment,
- introducing Regulations of the Management Board and other regulations,
- granting in behalf of the Company proxy or permanent power of attorney,
- convening GSM and determining a draft of agenda (under agreement with the Supervisory Board),
- lodging a motion to the Supervisory Board for giving consent to acquire and dispose real estates or a share in a real estate, if lodging a motion to the Supervisory Board for giving consent, if a given transaction does not exceed PLN 250 000,
- lodging a motion to the Supervisory Board for giving consent to enter transactions covering disposal or acquisition of the shares or other property, or to contract a cash

credit, if value of a given transaction exceeds 15 % of the Company's net assets, by the last balance-sheet.

Resolutions by the Management Board are adopted by absolute majority of votes cast.

In 2008 composition of the Supervisory Board changed.

As of 1.01.2008 composition the Supervisory Board of Z.L. "Orzeł" S.A. was, as follows:

Jacek Klęczar - Chairman
Jan Cegliński - Deputy Chairman
Dariusz Czepiel - Secretary
Krzysztof Jaszczyński - Member
Piotr Smagała - Member

On 23.06.2008 OSM of Z.L. "Orzeł" S.A. appointed 6-person Supervisory Board of the Company for common, 3-year VI term.

As of 30.06.2008 composition of the Supervisory Board of Z.L. "Orzeł" S.A. was, as follows: Jan Cegliński, Tomasz Cichorski, Rafał Czupryński, Magdalena Jagiełło-Szostak, Krzysztof Jaszczyński, Marcin Szawłowski.

On 02.07.2008 the Supervisory Board of Z.L. "Orzeł" S.A., at its first debate, constituted, as follows:

Jan Cegliński - Chairman
Rafał Czupryński - Deputy Chairman
Marcin Szawłowski - Secretary
Magdalena Jagiełło-Szostak - Member
Tomasz Cichorski - Member
Krzysztof Jaszczyński - Member

The Company notified on constitution of the Supervisory Board of VI term in current report No. 19/2008 dated 2.07.2008.

On 24.10.2008, the Company in current reports No.: 27/2008 and 28/2008, notified on appointment of the Management Board and resignation by Mr. Rafał Czupryński and Mr. Marcin Szawłowski from membership in the Supervisory Board of Z.L. "Orzeł" S.A.

On 20.11.2008 ESM of Z.L. "Orzeł" S.A. adopted a resolution on appointment Mr. David Thomas into the Supervisory Board from 20.11.2008.

The Company submitted the a/m information in current report No. 31/2008 on 20.11.2008.

As of 31.12.2008 composition of the Supervisory Board of VI term was, as follows:

Jan Cegliński - Chairman
Tomasz Cichorski - Member
Krzysztof Jaszczyński - Member
Magdalena Jagiełło-Szostak - Member
David Thomas - Member

The Supervisory Board is composed of at least five members appointed for a period of common term. Number of members is decided by GSM. Term of the Supervisory Board lasts three years. Mandates of the Supervisory members expire at the latest as of a day when GSM approving financial statement for the last full financial year when function of the Supervisory Board Member function was executed, is held. If in duration of the Board term, personal composition of the Board decreases, Chairman of the Board or his/her Deputy applies to the Management Board of the Company to convene GSM purposed to complete the Board composition. Term of the Board members appointed as a result of completion of the Board composition ends at the same time when the Board term expires, to into which they were selected. The Supervisory Board appoints, from its staff, Chairman and one or two Deputies of Chairman and Secretary. The Supervisory Board of Z.L. "Orzeł" S.A. operates under the adopted Regulations.

The Supervisory Board's powers cover:

- appraisal of financial statements for a prior financial year and ensuring verification of thereof by auditors appointed by the Board,
- appraisal of the Management Board's report of the Company's activity,
- yearly examination and approval of the Company economical-financial plan and demand from the Management Board to meet such plan,
- appraisal of the Company position,
- submission to the GSM a report in writing on effects of actions specified in above items,
- giving opinions to motions by the Management Board regarding division of profit and coverage of losses,
- giving consent for transactions relating to disposal or acquisition of shares or other property, or contracting a credit, if a transaction value exceeds 15% of the Company's net assets by the last balance sheet,
- defining number of members of the Management Board,
- appointment, suspension and dismissal of members of the Management Board,
- delegating members of the Supervisory Board to act as the Management Board in case of suspension or dismissal of the entire Management Board, or when the Management Board can not act for other reasons,
- accepting Regulations of the Management Board of the Company,
- concluding, in behalf of the Company, contracts with members of the Management Board and executing any legal actions with thereof,
- giving consent to establish the Company's branches in the country and abroad,
- giving consent to acquire and dispose real estates or a share in a real estate, unless value of such transaction value exceeds PLN 250 000.

The Board gives opinion to motions by the Management Board of the Company submitted to GSM purposed to adopt resolutions, particularly relating to:

- change of the Company's subject of activity,
- change in the Statute of the Company,
- increase or decrease of the share capital,
- merger or transformation of the Company,
- dissolution or liquidation of the Company,
- issuance of bonds,
- disposal and tenancy of the plant or its organized part and establishing limited right on property.

The Board convenes GSM, when:

- the Management Board of the Company did not convene GSM in time established in the Statute of the Company,
- the Management Board did not convene ESM within two weeks upon submitting a relevant motion by the Supervisory Board, or a motion by shareholders representing at least 1/10 of the Company's share capital.

To fulfil the tasks, the Board can:

- control activity of the Company each organizational unit,
- demand reports and explanations from the Management Board and employees of the Company,
- inspect the property, audit Company's books and any documents.

The Supervisory Board adopts resolutions by absolute majority of votes. The Board may not adopt resolutions on issues not covered by the agenda, unless all Board Members are present and none raises the objection. Members of the Supervisory Board may take part at adopting the Board's resolutions by casting his/her vote in writing through other member of the Supervisory Board. No vote may be cast if relates to issues included in the agenda at the Supervisory Board meeting. Resolutions by the Supervisory Board can be adopted without holding a meeting, in writing mode or using means of direct remote communication. A resolution is valid, if all Board members have been notified on contents of such resolution draft.

In 2008 the Supervisory Board appointed neither the audit committee nor the salary committee.

Data	Name and surname	Position/Function	Signature
04.06.2009	Rafał Czupryński	President of the Management Board	
04.06.2009	Marcin Szawłowski	Vice President of the Management Board	