

A. Report of the Supervisory Board on the business activity of Wawel S.A. for 2010.

I. Scope of the activity of the Supervisory Board

The report of the Supervisory Board's activity covers the period from 01.01.2010 to 31.12.2010, when the Supervisory Board of VII tenure was run in the following content:

1. Hermann Opferkuch	Chairman of the Supervisory Board
2. Eugeniusz Małek	Vice-chairman of the Supervisory Board
3. Paweł Bałaga	Secretary of the Supervisory Board
4. Nicole Richter	Member of the Supervisory Board
5. Christoph Köhnlein	Member of the Supervisory Board
5. Paweł Tomasz Brukszo	Member of the Supervisory Board

The Supervisory Board pursuant to the provisions of the Commercial Companies Code and the Articles of Association performed the permanent control over the Company's activity. The member of the Supervisory Board stayed in touch with the Management Board and performed their tasks as through the meetings as through the direct contacts and working meetings with the Management Board.

In 2009 the Supervisory Board undertook the activities, which in particular were connected with the further Company's development and the market position strengthening. The main goal was to increase the sale and improvement of products quality.

During the meetings held in 2009 the following issues were discussed:

- ◆ the issues related to the operation of "ŁAGOSZCZI" Public Join-Stock Company, seated in Ivano-Frankivsk in Ukraine.
- ◆ Sales results
- ◆ Financial plans,
- ◆ Advertising and promotion campaigns,
- ◆ Periodical analysis of the financial condition,
- ◆ election of the statutory auditor carrying out the financial statements' audit,
- ◆ sale and purchase of real estate.

II. Assessment of Company's business activity

In 2010 as the most important events which the Management of the Company faced were deemed as follows:

- 1) Product quality improvement,
- 2) Keeping the proper finance liquidity,
- 3) Optimization of employment in the Company.

As a result of taken actions the satisfying the indicated goals was reflected in the

following achievements:

- 1) The dynamic of the sale incomes, in comparison to the previous year, was achieved at the level 120,5 %.
- 2) In the analyzed period the positive financial result in the amount 47.739 k PLN was achieved,
- 3) During 2010 the Company was capable to settle the liabilities on a current basis. It should be assumed, that the liquidity rates as of 31.12.2010 achieved the satisfying level (the current liquidity rate was 2,52, and the fast liquidity rate was 1,99).
- 4) Na 31.12. 2010 r. Spółka nie posiadała żadnych umów kredytowych.

- III. The report of the Supervisory Board on the financial statement for 2010 and the report of the Management Board on business activity in 2010

- The Management Board presented to the Supervisory Board the financial statement for the year 2010, which consist of, in particular:
- Report of the financial situation prepared for 31.12.2010, which presents in the assets and liabilities the sum of **295,382 k PLN**,
- Report of the total incomes for the period from 01.01.2010 to 31.12.2010 which presents the net profit amounting to **47,739 k PLN**,
- Specification of the changes in the equity for the fiscal year from 01.01.2010 to 31.12.2010, showing the increase of equity by **32,742 k PLN**,
- Cash flow statement for the period from 01.01.2010 to 31.12.2010 indicating the decrease in the pecuniary assets by the amount of **4,653 k PLN**,
- explanatory notes together with additional information,

Together with the report of the statutory auditor Roedl Audit Sp. z o.o. on the auditing the above documents and the statutory auditor's opinion.

The Supervisory Board did not raise any reservations to the documents above.

The Supervisory Board states that the financial statement of Wawel S.A for 2010 was drawn up pursuant to the law, in particular the Accounting Act and contains the full and sufficient report on the Company's business activity in 2010.

The Supervisory Board was familiar with the motions of the Management Board concerning the assignation of the profit achieved by the Company in 2010 and the Supervisory Board complies with the request of the Management Board on the division of the worked profit in the following manner:

- For the reserve capital amounting to **14,997,550.00 PLN**,
- For the dividend **32,741,210.28 PLN**.

IV. Summary

The correct and satisfying sale results, positive financial result and proper balance structure reflected in the economic rates allows the Supervisory Board to make a positive assessment the activity of the Management Board and apply for the confirmation for the Management Board of Wawel S.A.

B. The Supervisory Board Wawel S.A. assessment of the Company's condition in 2009 including the assessment of the internal control system and important risk management system (part III, art. 1, par. 1 of the Code of the Best Practice for WSE listed Companies).

The Supervisory Board assesses positively the situation of Wawel S.A. in 2010 and the financial result achieved in 2010 is deemed to be satisfying. Making the comparable analysis in 2009-2010 there should be stated that the results achieved by the Company in 2010 are much better than those in 2009.

The Supervisory Board assesses positively the fact that the Company does not have any debts, and its operating activity is financed by the Company's equity.

The Supervisory Board positively assesses the continuance of the further changes process in the field of product. It concerns in particular the activities aimed at limitation of the assortment list with the reference to the products with low volume of sale, at the same supporting and developing the leading products. Concurrently to those actions the seasonal and occasional offers are being marketed, which have a positive influence on perception of the products and brand of Wawel among the consumers.

Assessment of the internal control system and important risk management.

The internal control system of Wawel S.A. consists of several procedures and internal regulations (ordinances, internal regulations, internal manuals, scope of duties for the relevant units etc.)

Additionally the Management Board personally engages at the individual levels of the internal regulations to the proper functioning the all control system and on a current basis controls its functioning.

In the opinion of the Supervisory Board the risk management system in Wawel S.A. covers all the risks being significant for the Company.

C. Work assessment of the Supervisory Board Wawel S.A. prepared pursuant to the Code of the Best Practice for WSE listed Companies.

Pursuant to the part III, art. 1, par. 2 of the Code of the Best Practice for WSE listed Companies, the Supervisory Board puts in the assessment of its work in 2010 to the shareholder's information.

The meetings of the Supervisory Board were held as the general meeting and as circuit meetings. Always the required by law quorum was preserved.

In the whole past reporting period the relevant members of the Board were in touch with the Management Board, and on a current basis discussing and consulting the particular issues related to the business activity. The important element of these contacts of the Supervisory Board with the Management Board is the fact that the Vice-Chairman of the Supervisory Board is a person working every day in the Company's seat office.

The Supervisory Board of Wawel S.A. consists of two representatives of the main shareholder i.e. Hosta International AG, one member working at the Company and **three independent members including the Secretary**. The Supervisory Board includes the persons who have very good knowledge of the branch where the Company conducts its business activity and they have proper qualifications.

In structure of the Supervisory Board committee for nominations and committee for remunerations were not selected whose tasks and functioning are specified in the Appendix No. I to the Directive of the European Commission of 15th February 2005 on non-executive directors role (...)” (par. III.8 of the Code of Best Practices for WSE Listed Companies).

On 28.10.2009 the Supervisory Board of the Company, within its structure appointed the Audit Committee for which the following individuals were appointed:

- 1) Christoph Köhnlein – Chairman,
- 2) Nicole Richter,
- 3) Paweł Tomasz Brukszo.

The functioning of the Supervisory Board fulfills the requirements of the rules of the Code of the Best Practice for WSE Listed Companies.

The Supervisory Board performed its duties according to the provisions of the Commercial Companies Code and the Articles of Association.

D. Report of the Audit Committee of Wawel S.A. for 2010

On 28.10.2009 the Supervisory Board of the Wawel S.A within its structure appointed the Audit Committee for which the following individuals were appointed:

- 1) Christoph Köhnlein – Chairman,
- 2) Nicole Richter,
- 3) Paweł Tomasz Brukszo.

Amongst elected members of the Audit Committee at least two is independent members and at least one has qualifications and experiencing in accounting and finances.

The Audit Committee acts as the consultant and advisor and auditor for the Supervisory Board in the field of the right application of the financial reporting principles by the Company, internal control of the Company and cooperation with the statutory auditors of the Company.

The tasks of the Committee include:

- Monitoring the financial reporting process including the report on the business activity of the Management Board and the motions of the Management Board concerning the profit division and loss coverage and presenting the recommendations to the Supervisory Board in order to be accepted,
- Monitoring the independency of the statutory auditor and the entity authorized to audit financial statements, in this case services mentioned in the art. 48 sec. 2 of the Act,
- Monitoring the work of the statutory auditors of the Company and presenting the recommendation concerning the election and remuneration of the statutory auditors to the Supervisory Board,
- Monitoring the efficiency of the internal control systems, internal audit and risk management systems,
- Monitoring the performance of audit activities,
- Accepting the information concerning the audit activities from the entity performing the audit including in particular information on material discrepancies of the internal control system in relation to the financial reporting process.

On 07.04.2010 the following participants attended the meeting held in the Company's office"

- Dariusz Orłowski - the President of the Management Board
- Paweł Brukszo- member of the Supervisory Board and Audit Committee
- Janusz Serwoński- Chief Accountant
- Anna Kurzawa- Roedl Audit Sp. z o.o. (Statutory auditor)
- Agnieszka Regulska- Roedl Audit Sp. z o.o. (Team Manager)

The purpose of the meeting was to discuss and summarize the job of the statutory auditor referred to the performed audit of the financial statement of the Issuer for 2009.

On 28.04.2010 the meeting of the Audit Committee was held concerning the following issues:

1. Presentation of the report from the audit of the financial statement for 2009 with the opinion of the statutory auditor and the Management Report for 2009 with the Report on application the corporate governance principles in 2009.
2. Discussion of the Audit Committee's Report project for 2009.

3. Discussion on the proposal of the Management Board of Wawel S.A. on designation of the profit for 2009 to the dividend and supplementary capital and the proposal of the Audit Committee.
4. Recommendation to select the statutory auditor in order to review the financial statements of Wawel S.A. for the first six months of 2010 and to audit the financial statements for 2010.
5. Current issues.

The Audit Committee adopted 3 resolutions:

- on the financial statements of the Company and the management report of Wawel S.A. for 2009,
- on profit distribution for 2009,
- On recommendation to select the statutory auditor in order to review the financial statements of Wawel S.A. for the first six months of 2010 and to audit the financial statements for 2010.