



ANNUAL REPORT  
ON THE OPERATIONS OF THE NG2 S.A. CAPITAL GROUP  
FOR THE PERIOD FROM 1 JANUARY 2010 TO 31  
DECEMBER 2010

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## 1. Background Information

<b>Name of the Dominant Entity:</b>	NG2 Spółka Akcyjna
<b>Registered Office of the Dominant Entity:</b>	Polkowice
<b>Address:</b>	ul. Strefowa 6, 59-101 Polkowice
<b>Telephone:</b>	+48 (76) 845 84 00
<b>Fax:</b>	+48 (76) 845 84 31
<b>Email:</b>	<a href="mailto:ng2@ng2.pl">ng2@ng2.pl</a>
<b>Website:</b>	<a href="http://www.ng2.pl">www.ng2.pl</a>
<b>Registration:</b>	District Court for Wrocław-Fabryczna in Wrocław, 9th Commercial Division of the National Court Register,
<b>KRS Number:</b>	0000211692
<b>Regon (Statistical Number):</b>	390716905
<b>NIP (Tax Identification Number):</b>	692-22-00-609
<b>Corporate Purpose:</b>	The Group's primary corporate purpose according to the European Classification of Economic Activities is wholesale and retail trade of clothing and footwear (ECEA 51.42).

NG2 S.A. has been listed on Giełda Papierów Wartościowych S.A. in Warsaw (Warsaw Stock Exchange) since 2004.

## 2. Primary business and financial figures disclosed in the annual financial statements, in particular, a description of the factors and circumstances, including non-typical factors and circumstances, which materially affect the Issuer's business and the profits generated or losses incurred by the Issuer in the financial year, as well as growth prospects for the Issuer's business, at least for the next financial year.

As on 31 December 2010, the NG2 S.A. Group's sales network comprised 703 locations, which included:

- 273 CCC retail stores (254 stores as on 31 December 2009),
- 49 QUAZI boutiques (51 boutiques as on 31 December 2009),
- 213 own BOTI stores (213 stores as on 31 December 2009),
- 123 franchise stores – 61 CCC salons and 62 BOTI stores (72 CCC and 64 BOTI stores as on 31 December 2009).
- 45 CCC retail stores in the Czech Republic (38 stores as on 31 December 2009).

The retail space in its own shops located in Poland and the Czech Republic increased to 139,300 sq. m (128,100 sq. m as on 31 December 2009), i.e. by 8.7 per cent.

The strategy of the NG2 Group provides for consistent increases of the sales network and opening new locations, carefully selected in terms of expected profitability and return. In 2010, the NG2 Group opened 70 of its own stores, and closed 46 locations.

Key values and business and financial figures are contained in the tables below:

**Table 1. Key business and financial figures of the NG2 S.A. Group**

Figure	2010 (PLN '000)	2009 (PLN '000)	percentage difference
net revenue from sale	1,028,559	922,408	11.51%
gross earnings from sale	556,432	481,202	15.63%
cost of sales and management	420,978	374,581	12.39%
profit loss on operating activity (EBIT)	129,119	108,159	19.38%
gross profits	122,609	99,677	23.01%
net profits	117,856	83,603	40.97%
shareholders' equity	422,848	340,209	24.29%
liabilities and provisions	255,374	210,916	21.08%
long-term liabilities and long-term provisions, of which:	105,117	81,361	29.20%
- <i>long-term bank loans*</i>	103,245	80,000	29.06%
short-term liabilities and short-term provisions, of which:	150,257	129,555	15.98%
- <i>short-term bank loans*</i>	46,006	39,986	15.06%
total assets	678,222	551,125	23.06%
non-current assets	269,959	209,908	28.61%
current assets	408,263	341,217	19.65%
inventory	252,446	242,693	4.02%
short-term receivables	72,752	37,629	93.34%

*\*detailed information about the loans incurred is set out in note 15 to the financial statements*

In 2010, the NG2 S.A. Group generated a revenue from sales of PLN 1,028,559,000 (+11.51 per cent year on year). Revenue from retail sales amounted to PLN 921,621,000, compared to PLN 801,639,000 in 2009 (+14.97 per cent YoY). In the same period, the proceeds from franchise and other (wholesale) sales amounted to PLN 106,938,000 (-11.45 per cent YoY). The change in the structure of sales revenue sources is consistent with the Group's growth strategy. In the future, we should expect continued increases in the share of retail sales in the overall revenue.

The dynamic of gross earnings from sales (amounting to 15.63 per cent YoY), higher than in the case of sales revenue, is a result of the extent of operations and increasing the share of retail sales in overall sales.

In the period under discussion, the cost of sales and management increased by PLN 46,397,000 (+12.39 per cent YoY). The ratio of the cost of sales and management to revenues from sales was maintained at 0.41 and remains typical for companies operating in the retail sector.

The higher margin growth dynamic compared to the growth dynamic of the cost of sales and management caused an increase in operating profits by 19.38 per cent (YoY).

The balance sheet of the NG2 S.A. Group as on 31 December 2010 shows a total amount of assets and liabilities of PLN 678,222,000. The balance sheet sum increased by 23.06 per cent compared to its value as on 31 December 2009.

The growth on the tangible asset side was primarily caused by the dynamic growth in tangible fixed assets by PLN 38,303,000 (18.91 per cent YoY) related to the construction of a new logistic centre and development of the sales network, as well as the increase in deferred tax assets by PLN 21,999,000 (the increase by PLN 18,209,000 relates to the assessment of trademarks contributed to the subsidiary NG2 Suisse).

Material changes in current assets included an increase in receivables by PLN 35,123,000 (of which: an increase in the value of prepayments by PLN 20,005,000 YoY). Cash and cash equivalents increased to PLN 83,065,000 (PLN 60,895,000 as on 31 December 2009).

On the liabilities' side, material changes included an increase in liabilities under long-term loans to PLN 103,245,000 (PLN 80,000,000 as on 31 December 2009), while the net financial debt under bank loans increased by PLN 7,095,000 YoY. "Trade liabilities and other liabilities" increased to PLN 86,770,000 (PLN 81,297,000 as on 31 December 2009).

**Table 2. Profitability Ratios**

Figure	2010 (%)	2009 (%)	percentage difference
gross profit margin on sales	54.10	52.17	3.7
operating profitability (EBIT)	12.55	11.73	7.0
gross profitability	11.92	10.81	10.3
net profitability	11.46	9.06	26.5
return on assets (ROA)	17.38	15.17	14.6
return on equity (ROE)	27.87	24.57	13.4

Definitions:

- a) **gross profit margin on sales** – ratio of gross margin on sales to sales revenue,
- b) **operating profitability (EBIT)** - ratio of operating profit to sales revenue,
- c) **gross profitability** - ratio of gross profit to sales revenue,
- d) **net profitability** – ratio of net profit to sales revenue,
- e) **return on assets (ROA)** - ratio of net profit to the position of assets,
- f) **return on equity (ROE)** - ratio of net profit to the position of equity.

In the reporting period, there was a decrease in the value of profitability ratios.

**Table 3. Liquidity Ratios**

Figure	2010	2009	percentage difference
acid test ratio	2.72	2.63	3.4
quick liquidity ratio	1.04	0.76	36.8
stock rotation ratio (days)	191	196	-2.6
liabilities rotation ratio (days)	20	20	0.0
trade liabilities rotation ratio (days)	37	36	2.8

Definitions:

- a) **acid test ratio** – ratio of total current assets to the value of short-term liabilities and short-term provisions,
- b) **quick liquidity ratio** – ratio of total current assets less provisions to the value of short-term liabilities and short-term provisions,
- c) **stock rotation ratio** - ratio of mid-sized stock to the cost of goods and services sold, multiplied by the number of days in the reference period,
- d) **receivables rotation ratio** - ratio of mid-range trade receivables and other receivables to sales revenue, multiplied by the number of days in the reference period,
- e) **liabilities rotation ratio** - ratio of mid-range liabilities to the cost of goods and services sold, multiplied by the number of days in the reference period.

**Table 4. Debt and Asset Financing Ratios**

Figure	2010 (%)	2009 (%)	percentage difference
share of own funds in the financing of current assets (%)	103.57	99.70	3.9
ratio of coverage of fixed assets with shareholders' equity	156.63	162.08	-3.4
overall debt ratio	37.65	38.27	-1.6
long-term debt ratio	15.50	14.76	5.0
short-term debt ratio	22.15	23.51	-5.8
ratio of liabilities to shareholders' equity	60.39	62.00	-2.6

Definitions:

- a) **share of own funds in the financing of current assets** - ratio of own funds to current assets,
- b) **ratio of coverage of fixed assets with shareholders' equity** - ratio of shareholders' equity to fixed assets,
- c) **overall debt ratio** - ratio of the total value of liabilities and provisions to the value of assets,
- d) **long-term, short-term debt ratio** - ratio of, respectively, long-term liabilities, short-term liabilities, and long-term provisions and short-term provisions to the balance sheet sum,
- e) **ratio of liabilities to shareholders' equity** - ratio of total liabilities and provisions as at the end of the reference period to the value of shareholders' equity.

The Management Board of NG2 S.A. has assessed highly the Company's ability to discharge any obligations incurred thereby.

### 3. Description of material risks and threats, and the extent to which Group Companies are affected by these risks and threats.

In the opinion of the Management Board of the dominant entity, the activity of NG2 S.A. Group companies is affected by the following external factors:

- Currency exchange rates. Due to the fact that NG2 S.A. Group companies generate revenues in PLN and CZK, and the majority of their costs is incurred in foreign currencies, the exchange rates of CZK, USD and EUR (practically the entire Group imports are denominated in these currencies, as is a considerable portion of leases) will affect the cost structure, and the potential change of supply sources and recording currency exchange differences in the overall income statement. As the Chinese market is the primary supply market for the NG2 S.A. Group, the exchange rate of the Chinese currency to world's major currencies is also very important. Its appreciation may affect import terms. Some of the costs resulting from currency fluctuations may be transferred to the consumer.
- Interest rate changes. The NG2 S.A. Group is exposed to the risk of interest rate changes in relation to the loan agreements concluded. The loans are subject to a variable interest rate based on WIBOR. Interest rate increases will affect the value of interest on the loans to be paid.
- Credit risk. This risk derives from the uncertainty as to whether and when amounts due will be repaid. Wholesale also includes deferred payment sale, which exposes the NG2 S.A. Group to the risk of financing customers. To remain the leader on the footwear market, the NG2 S.A. Group uses the sales credit feature, which enhances the company's appeal to wholesalers.
- Overall economic situation in Poland. The majority of the revenues of the NG2 S.A. Group is generated in Poland. Therefore, the group attaches great importance to the buying power of Polish consumers and their willingness to purchase. Any worsening of the economic situation in Poland may affect the operating results and financial standing of the Issuer, and consequently, of the Group.

- Overall economic situation in the Czech Republic. A portion of the revenues of the NG2 S.A. Group is generated in the Czech Republic. Therefore, the group pays attention to the buying power of Czech consumers and their willingness to purchase. Any worsening of the economic situation in the Czech Republic may affect the operating results and financial standing of the subsidiary, and consequently, of the Group.
- Seasonal nature of sales and weather conditions. Sales and the value of inventory depend on the seasonal nature of demand (demand peaks in the spring and autumn seasons). A disruption of weather conditions may cause consumers to postpone their shopping decisions or may shorten the peak sales season. Having its own manufacturing capacity strengthens the NG2 S.A. Group's immunity to seasonal and weather factors. The Group is able to quickly adapt production and supply stores with goods that reflect current expectations and weather conditions.
- Store locations. Strengthening market standing through dynamic growth of the store chain may be associated with the risk of an unsuccessful store location or a limited number of successful new locations.
- Fashion trends and failed collections. The NG2 S.A. Group is exposed to the risk of launching failed footwear collections. A factor that can mitigate this risk is the dominant entity's many years of market experience, monitoring European and global fashion trends (participating in international footwear fashion fairs, e.g. in Milan, Garda, Dusseldorf).

The Management Board of the dominant entity of the NG2 S.A. Group states that in the reference period in question, there were no factors or circumstances of non-typical nature that would significantly affect the Group's operations.

**4. Proceedings pending before a court, an authority competent to conduct arbitration proceedings or a public administration body.**

The companies of the NG2 S.A. Group are not a party to any court proceedings in which the value of the subject of dispute would exceed 10 per cent of the Group's own funds.

**5. Information about basic products, goods or services, together with their value and quantity, and the share of the products, goods or services (if they are material) or their groups in the Group's total sales, as well as changes in this regard in the financial year.**

The business activity of the NG2 S.A. Group companies covers the following fundamental areas:

- retail and wholesale of footwear through its own and franchise distribution network,
- imports of goods from Asia and Europe,
- retail and wholesale of accessories and small leather goods,
- lease of commercial spaces,
- sale of trade mark licences for CCC, BOTI and Lasocki.

The structure of sales of the NG2 S.A. Group by value and volume is presented in the tables below.

**Table 5. Structure of sales in the NG2 S.A. Group**

CATEGORY	2010		2009	
	PLN '000	percentage share	PLN '000	percentage share
Footwear	965,296	93.9	879,987	95.4
Other sales	63,263	6.1	42,421	4.6
<b>Total</b>	<b>1,028,559</b>	<b>100.0</b>	<b>922,408</b>	<b>100.0</b>

*The item "Other sales" includes revenue from selling handbags, footwear manufacturing components, accessories and small leather goods, as well as invoiced costs of commercial space lease.*

**Table 6. Volume and value of footwear sales in the NG2 S.A. Group**

CATEGORY	2010	2009
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	Volume in '000 items	Value in PLN '000	Volume in '000 items	Value in PLN '000
Women's footwear	9,349	624,027	8,599	575,056
<i>percentage share</i>	<i>56.29</i>	<i>64.65</i>	<i>55.77</i>	<i>65.35</i>
Men's footwear	2,759	195,488	2,576	172,941
<i>percentage share</i>	<i>16.61</i>	<i>20.25</i>	<i>16.70</i>	<i>19.65</i>
Children's footwear	4,502	145,781	4,245	131,990
<i>percentage share</i>	<i>27.10</i>	<i>15.10</i>	<i>27.53</i>	<i>15.00</i>
<b>Total</b>	<b>16,610</b>	<b>965,296</b>	<b>15,420</b>	<b>879,987</b>
<i>percentage share</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

In the sales structure of the NG2 S.A. Group, the main product sold is women's footwear, which accounts for 64.64 per cent of the value of footwear sales in 2010.

**6. Information about markets, including domestic and foreign markets, and information about sources of manufacturing materials, sources of goods and services, specifying dependence on one or more customers and suppliers.**

In 2010, the share of retail in total sales amounted to 89.60 per cent (86.91 per cent in 2009). Developing retail salons is an important factor in improving business profitability due to the higher retail margin it offers. In the case of franchises, the dominant entity generates a lower wholesale margin. The sales structure of the NG2 S.A. group is presented in table 7.

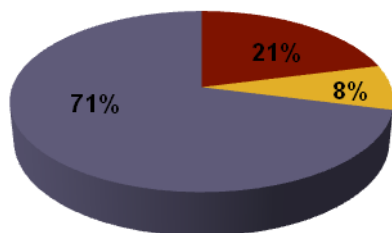
**Table 7. Sales structure of the NG2 S.A. Group by distribution channel.**

CATEGORY	2010		2009	
	PLN '000	percentage share	PLN '000	percentage share
Retail sales	921,621	89.60	801,639	86.91
Franchise and other sales	106,938	10.40	120,769	13.09
<b>Total</b>	<b>1,028,559</b>	<b>100.0</b>	<b>922,408</b>	<b>100.0</b>

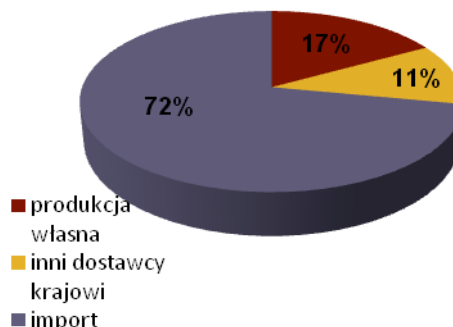
**Figure 1. Major product supply sources for the NG2 S.A. Group (by value)**

[territorial purchasing structure in 2010/territorial purchasing structure in 2009  
own production  
other domestic suppliers  
imports]

Struktura terytorialna zakupów w 2010



Struktura terytorialna zakupów w 2009



The NG2 S.A. Group's primary supply sources are Polish vendors, its own factory and imports. The supply structure (Poland, imports) remains constant. Depending on the economic situation, the Group is able to quickly change its foreign supply sources. The footwear imported from China comes from several dozen manufacturers.

**7. Concluded agreement with material effect on the Group's operations, including agreements known to the Issuer and concluded between shareholders, insurance agreements, and partnership or cooperation agreements.**

In the reporting period, the Issuer did not conclude any new material agreements, save for the loan agreements described in Clause 10.

**8. Information about the Issuer's foreign or capital links with other entities and its primary domestic and foreign investments (securities, financial instruments, intangible assets and real estate), including capital investments made outside its affiliate group and the financing method.**

NG2 S.A. is the dominant entity in the NG2 Capital Group. The organisational structure in the NG2 S.A. Capital Group is as follows:

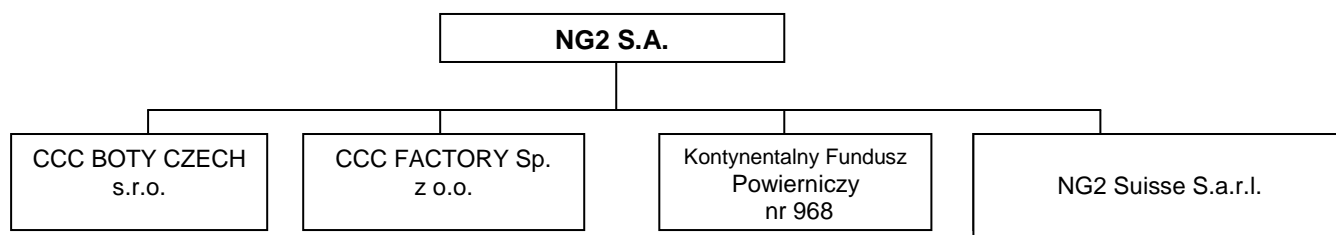


Table 8. Affiliates as on 31 December 2010

Subsidiaries of NG2 S.A.	Percentage share in the	Nominal value of shares
CCC Factory Sp. z o. o.	100	PLN 15,036,000
CCC Boty Czech s.r.o.	100	CZK 112,600,000
Kontynentalny Fundusz Powierniczy (Continental Trust Fund)	100	USD 10
NG2 Suisse S.a.r.l.	100	CHF 20,000

**9. Material transactions concluded by the Issuer or its subsidiary with affiliates on terms other than arm's length terms, together with their amounts and notes on the nature of the transactions.**

To the Issuer's knowledge, no transactions described above were concluded.

**10. Information on loan agreements incurred and terminated in the financial year, listing at least their amount, type and interest rate, currency and maturity date.**

In the reporting period in question, NG2 S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. concluded a loan agreement concerning a PLN 50,000,000 multi-purpose loan bearing interest at the variable WIBOR rate, increased by the bank's margin. The loan was granted for the term from 28 October 2010 to 27 October 2013. Under the agreement, the Bank granted the Company an overdraft facility and a revolving loan for up to 100 per cent of the overdraft limit to cover its day-to-day liabilities incurred as part of its ordinary business.

**11. Loans granted in the financial year in question, taking into account particularly the loans granted to the Issuer's affiliates, listing their amount, type and interest rate, currency and maturity date.**

In the reporting period in question, NG2 S.A. extended a loan to its subsidiary NG2 Suisse S.a.r.l. that amounted to CHF 823,415 (i.e. PLN 2, 392,589), with a maturity date of 31 December 2010. Interest on that loan amounted to CHF 19,130 (PLN 58,090).

In the reporting period in question, CCC Factory Sp. z o.o. granted Cuprum Arena MGC Inwest Sp. z o.o. Sp. Komandytowa a PLN 10,000,000 loan, which was repaid on 12 May 2010. Interest on that loan, amounting to PLN 30,000 was repaid on 25 June 2010.

**12. Guarantees and warranties obtained and extended in the financial year, in particular with respect to guarantees and warranties extended to the Issuer's affiliates.**

In the reporting period in question, NG2 S.A. extended a security for a loan and a guarantee cap incurred by the subsidiary CCC Boty s.r.o. The security was granted for up to CZK 40,000,000.

**13. Explanation of the differences between the financial results disclosed in the annual report and the previously published performance projections for the year.**

No 2010 projections were published.

**14. Assessment and justification pertaining to the management of financial resources, with particular emphasis on the ability to discharge incurred obligations, and specification of potential threats and measures that the Group plans to take to counteract the threats.**

The Management Board of NG2 S.A. has assessed highly the NG2 S.A. Group's ability to discharge any obligations incurred thereby. In the Management Board's view, the level of cash flow and generated financial performance will allow the Group to maintain its liquidity ratios at a level that will ensure proper functioning of the Group Companies. Furthermore, to counteract any potential threats, the Group consistently diversifies its third-party working capital sources.

**15. Assessment of the potential to implement investment goals, including capital expenditures, compared to the amount of funds possessed, taking into account potential changes to the structure of funding this activity.**

The NG2 S.A. Group intends to finance its investments using its own funds and foreign capital (increase of the value of foreign debt). In the view of the Issuer's Management Board, there are currently no major threats that could affect the implementation of investment goals in the future. At the current level of financial performance, the Group is able to use financial leverage to a greater extent.

**16. Assessment of factors and non-typical occurrences affecting the result on operations for the financial year in question, stating the extent to which these factors and non-typical occurrences affected the performance.**

In the period covered by this report, there were no non-typical occurrences that would materially affect the result on operations.

**17. Changes to the fundamental principles of managing the Issuer's business and its capital group.**

In the period covered by this report, no changes were introduced to the fundamental principles of managing the business or the capital group.

18. Any agreements concluded between the Issuer and managers, which stipulate compensation in the event of their resignation or departure from their position without a valid reason, or if their recall or dismissal results from a merger of the Issuer effected via an acquisition.

Management Board members are employed under employment contracts governed by the Labour Code.

19. Value of remuneration, awards and benefits, including those offered under incentive or bonus schemes, based on the Issuer's capital, including plans based on senior bonds, convertible bonds, subscription warrants (in cash, in kind or any other form), paid out, payable or potentially payable, individually for each of the Issuer's managers or supervisors in the Issuer's business.

Salaries of the Issuer's management or supervisory board members, received for the period from 1 January to 31 December 2010, and for the period from 1 January to 31 December 2009, are presented in the tables below.

**Table 9. Salaries of Management Board members**

Position/title Name and surname	Gross amount (PLN) 2010	Gross amount (PLN) 2009	Number of potentially due subscription warrants**
Management Board President - Dariusz Milek	450,000	450,000	-
Vice-President of the Management Board - Lech Chudy*	59,200	355,200	-*
Vice-President of the Management Board - Mariusz Gnych	473,600	355,200	50,000
Vice-President of the Management Board - Piotr Nowjalis	473,600	355,200	50,000
<b>Total</b>	<b>1,456,400</b>	<b>1,515,600</b>	

\*Mr. Lech Chudy served as Vice-President of the Management Board until 28 February 2010.

\*\* details of the "Incentive Scheme" are set out in Notes 4 and 17 to the financial statements.

**Table 10. Salaries of Supervisory Board members**

Position/title Name and surname	Gross amount (PLN) 2010	Gross amount (PLN) 2009
Chairman of the Supervisory Board - Henryk Chojnacki	24,000	24,000
Member - Rafał Chwast	18,000	18,000
Member – Wojciech Fenrich*	18,000	9,143
Member – Martyna Kupiecka	18,000	18,000
Member – Paweł Tamborski	18,000	18,000
Member – Marek Wiza**	-	8,929
<b>Total</b>	<b>96,000</b>	<b>96,072</b>

\*Mr. Wojciech Fenrich has served as Supervisory Board Member since 29 June 2009.

\*\*Mr. Marek Wiza served as Supervisory Board Member until 29 June 2009.

In 2010, the Company and Mr. Rafał Chwast concluded an agreement for the provision of IT organisation consulting services. The agreement was concluded for a fixed term from 1 January 2010 to 31 December 2010. The remuneration for the performance of the agreement was set at PLN 11,000 net per month, increased by applicable VAT.

Save for the instance listed above, Management and Supervisory Board members do not collect any fee for their positions with the NG2 S.A. Group companies, other than the salaries set out in Tables 9 and 10.

**20. Total number and value of all of the Issuer's shares and shares in the Issuer's affiliates, held by Management and Supervisory Board members (for each individually).**

The Issuer's share capital is composed of 38,400,000 shares:  
- 6,650,000 shares carrying voting rights - 2 votes for each share;  
- 31,750,000 ordinary bearer shares.

The nominal value of 1 share is PLN 0.1.

As on the date of the 2010 report, the Issuer's Management and Supervisory Board members held the following number of shares in NG2 S.A.:

**Table 11. Number and nominal value of shares held by Management Board members**

<b>Position/title Name and surname</b>	<b>Shares held as on the report submission date</b>	<b>Nominal value in PLN '000</b>
Management Board President - Dariusz Miłek	4,750,000	475.00
Vice-President of the Management Board - Mariusz Gnych	120,000	12.00

To the Issuer's knowledge, the Chairman and members of the Supervisory Board do not hold any shares in the Company.

**21. Information on agreements known to the Issuer (including agreements concluded after the balance sheet date) which may in the future result in changes to the proportional holdings of the shares among existing shareholders and bondholders.**

To the Issuer's knowledge, as on the report submission date, there are no agreements that could in the future result in changes to the proportional holdings of the shares among existing shareholders.

**22. Information about the monitoring system for employee stock ownership plans.**

In the reporting period in question, an Incentive Scheme was launched, addressed to existing and future Management Board members and the Company's executives. Participants of the Scheme will be able to subscribe E series shares (new issue shares). This right may be exercised if the total consolidated net profit of the NG2 SA Group for the years 2010, 2011 and 2012, calculated with the exclusion of costs incurred in connection with the introduction of the Incentive Scheme, is at least PLN 450,000,000.

**23. The Issuer's agreement with the entity authorised to audit financial statements.**

Information in this regard was published in Note 28 to the consolidated financial statements of the NG2 S.A. Group for the period from 1 January 2010 to 31 December 2010.

**24. Information about major research and development accomplishments.**

Not applicable.

**25. Information on the application of corporate governance principles.**

The statement on the application of corporate governance principles is set out in the appendix, which is an integral part of the Group's annual report.

**26. Information on the purchase of own shares, and in particular, the purpose of their purchase, their number and nominal value, and indication of the percentage of the share capital they represent, purchase price and sale price of these shares, in the case of their disposal.**

In the reporting period in question, the NG2 S.A. Group did not purchase its own shares.

**27. Information about the entity's branches (plants).**

As a result of contributing the Company's branch with its registered office in Chróstnik to the subsidiary NG2 Suisse S.a.r.l. with its registered office in Zug, Switzerland, established on 30 April 2010, the branch was eliminated.

**28. Information about financial instruments.**

In the reporting period in question, the NG2 S.A. Group Companies did not use derivative instruments. The risk to which the Companies are exposed in connection with using other financial instruments than those set out above is described in Note 3 to the consolidated financial statements of the NG2 S.A. Group for the period from 1 January 2010 to 31 December 2010.

**29. Description of the structure of assets and liabilities on the consolidated balance sheet, also from the point of view of liquidity of the Issuer's capital group.**

The Group describes the structure of the assets and liabilities on its consolidated balance in Clause 2.

**30. Major events significantly affecting the operations and financial performance of the capital group in the financial year in question or that may affect them in the following years.**

In the Issuer's view, the major factors that will affect the performance of the NG2 S.A. Capital Group in the near future are:

- volume of sales completed and margins generated,
- continued dynamic expansion of the NG2 Group's sales network,
- weather conditions,
- currency exchange rates.

**31. Description of the structure of major capital investments made within the Issuer's capital group in the financial year in question.**

No major capital investments were made in the financial year in question.

**32. Description of the organisation of the Issuer's capital group, listing entities subject to consolidation, and a description of changes in the Issuer's group structure and reasons therefor.**

NG2 S.A. is the dominant entity in the NG2 S.A. Capital Group. The subsidiaries of NG2 S.A. are set out in Table 12.

**Table 12. Affiliates as on 31 December 2010**

Subsidiaries of NG2 S.A.	Registered office/Country	Percentage share in the entity's capital	Consolidation
CCC Factory Sp. z o.o.	Polkowice, Poland	100	full
CCC Boty Czech s.r.o.	Prague, Czech	100	full
Kontynentalny Fundusz Powierniczy nr 968	USA	100	-
NG2 Suisse S.a.r.l.	Zug, Switzerland	100	full

In the period covered by this report, no changes were introduced to the fundamental principles of managing the business or the capital group.

**33. Description of the policy concerning expansion of the Issuer's capital group.**

The NG2 Group's strategy envisions continued dynamic growth and increasing the market share through organic growth of the sales network. The growth will be effected through consistent increases of the sales network and opening new locations, carefully selected in terms of expected profitability and return.

**34. Description of material off-balance sheet items, in terms of their subject, object and value.**

OFF-BALANCE SHEET ITEMS FOR THE NG2 S.A. GROUP (PLN '000)	As on 31 December 2010	As on 31 December 2009

<b>I. RECEIVABLES</b>	<b>38,400</b>	<b>40,450</b>
<b>1. Other receivables</b>	<b>38,400</b>	<b>40,450</b>
1.1. From other entities (on account of)	38,400	40,450
- guarantees and warranties received	38,400	40,450
<b>II. LIABILITIES</b>	<b>59,721</b>	<b>59,768</b>
<b>2. Other liabilities</b>	<b>59,721</b>	<b>59,768</b>
2.1. To other entities (on account of)	59,721	59,768
- customs bonds	22,500	22,500
- other forms of security	30,221	30,268
- security extended	7,000	7,000

Customs bonds provide a security for the repayment of customs receivables due to the Group's operation of customs warehouses, and their maturity date is 17 June 2011.  
 Other guarantees secure property leases and their maturity date is 30 April 2012.

The security granted is related to the Paylink overdraft facility opened with Bank Handlowy for franchise customers and the loan security for subsidiaries. Their maturity dates are unspecified.

### **35. Statement by the Management Board of the dominant entity of the NG2 S.A. Group**

Pursuant to Article 92.1.5 and 92.1.6 of the Regulation of the Minister of Finance on current and periodical information provided by issuers of securities and the conditions of equivalency of information required by the legislation of non-member states of 19 February 2009, the Management Board of NG2 S.A. hereby states that:

- to its best knowledge, the annual financial statements of the NG2 SA Capital Group, as well as the comparable data, were prepared in accordance with the applicable accounting standards and reflect truly, accurately and clearly the assets, financial standing and financial performance of the NG2 SA Capital Group,
- the annual report on operations of the NG2 SA Group presents a true picture of the growth, accomplishments and situation of the NG2 SA Capital Group, including the major threats and risk factors,
- the entity authorised to audit financial statements, auditing the annual financial statements of the NG2 SA Capital Group, was appointed in accordance with the applicable laws. Furthermore, that entity and auditors auditing the Group's annual financial statements have met the requirements to issue an impartial and independent opinion on the audited annual financial statements, in accordance with the applicable laws and professional standards.

<b>SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS</b>		
Dariusz Miłek	President of the Management Board	
Mariusz Gnych	Vice-President of the Management Board	
Piotr Nowjalis	Vice-President of the Management Board	

*Polkowice, 21 April 2011*

### 36. Statement by the Issuer's Management Board on the application of corporate governance principles in the NG2 S.A. Capital Group in 2010.

#### Indication of the corporate governance principles applicable to the Issuer and the location of the publicly available set of principles.

In 2010, the Issuer complied with the principles contained in the document entitled „Dobre Praktyki Spółek Notowanych na GPW” (“Best Practice for WSE-Listed Companies”), contained in the appendix to Resolution 12/1170/2007 of the Supervisory Board of the Stock Exchange of 4 July 2007. The collection of the principles is available, among other things, on the WSE's website: <http://www.corp-gov.gpw.pl/assets/library/polish/publikacje/dpsn2010.pdf>

#### Extent to which the Issuer departed from the provisions of the set of corporate governance principles and reasons for such departure.

In 2010, the Issuer complied with the principles contained in the document entitled "Dobre Praktyki Spółek Notowanych na GPW" (“Best Practice for WSE-Listed Companies”).

#### Description of the fundamental features of the internal audit and risk management systems used in the NG2 S.A. Capital Group with respect to the process of preparing financial statements and consolidated financial statements.

Responsibility for the effective functioning of the internal audit and risk management system with respect to the process of preparing financial statements in each company of the NG2 S.A. Group lies with the Management Board of these companies. In the case of consolidated financial statements, the above responsibility lies with the Management Board of the dominant entity.

The Vice-President of the Management Board supervises the process of preparing financial statements. The Head Accountant of the Company is responsible for managing the process of preparing financial statements, and supervises the proper recording of business operations in the Company's books of account. The document circulation process ensures that any potential risks related to the proper recording of business operations may be mitigated. The Company has a multi-level internal audit system, which, in the Management Board's view, makes it possible to effectively counteract and quickly eliminate potential inaccuracies.

Furthermore, annual and semi-annual financial reports are audited by an independent body, i.e. an auditor. The results of each audit are enclosed to the reports published.

#### Shareholders of the dominant entity holding considerable blocks of shares (whether directly or indirectly).

Shareholders holding considerable blocks of shares (as on the annual report submission date):

Shareholder	Number of shares held (quantity)	Share in the share capital (%)	Number of votes at the General Meeting (quantity)	Share in the overall number of votes at the General Meeting (%)
Dariusz Miłek, of which:	15,360,000	40.00	20,110,000	44.64
-directly,	4,750,000	12.37	9,500,000	21.09
-indirectly through a subsidiary, Luxprofi S.a.r.l.	10,610,000	27.63	10,610,000	23.55
Leszek Gaczorek	3,010,000	7.84	4,760,000	10.57
ING OFE	2,477,486	6.45	2,477,486	5.50
PIONEER Investment Management	3,271,877	8.52	3,271,877	7.26
PKO TFI	2,350,500	6.12	2,350,500	5.22

The dominant entity's shares are divided into the following categories:

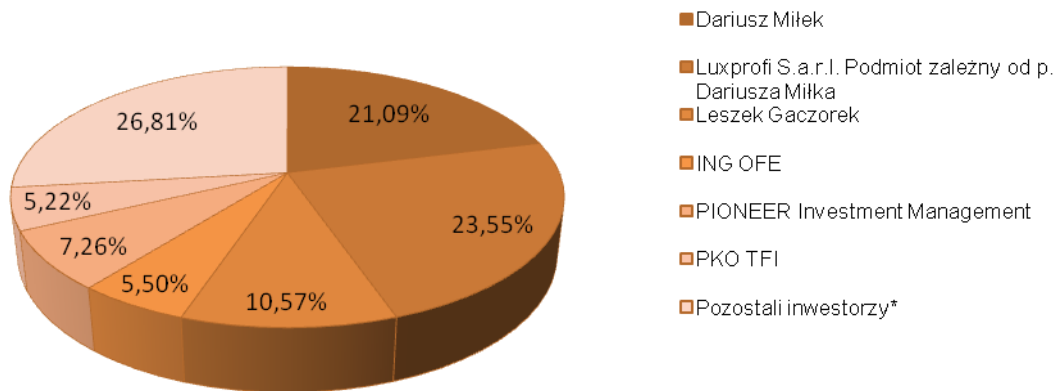


- ordinary bearer shares,
- registered shares carrying voting rights, in that each share carries two votes at the General Meeting of the dominant entity.

A portion of the above shares vested in Mr. Dariusz Miłek and Leszek Gaczorek carry voting rights:

Shareholder	Number of shares carrying voting rights (quantity)	Share in the share capital (%)	Number of votes at the General Meeting (quantity)	Share in the overall number of votes at the General Meeting (%)
Dariusz Miłek	4,750,000	12.37	9,500,000	21.09
Leszek Gaczorek	1,750,000	4.56	3,500,000	7.77

**Udział w liczbie głosów na Walnym Zgromadzeniu Akcjonariuszy**



[Share in the number of votes at the General Meeting of Shareholders  
Dariusz Miłek  
Luxprofi S.a.r.l. – Subsidiary of Mr. Dariusz Miłek  
Leszek Gaczorek  
ING OFE  
PIONEER Investment Management  
PKO TFI  
Other investors\*]

**Holders of any securities that carry special control rights in the Issuer's entity and a description of these rights.**

Shareholders holding preferred shares (as on the annual report submission date):

Shareholder	Number of shares held (quantity)	Share in the share capital (%)	Number of votes at the General Meeting (quantity)	Share in the overall number of votes at the General Meeting (%)
Dariusz Miłek	4,750,000	12.37	9,500,000	21.09
Leszek Gaczorek	1,750,000	4.56	3,500,000	7.77
Lech Chudy	50,000	0.13	100,000	0.22
Mariusz Gnych	50,000	0.13	100,000	0.22
Renata Miłek	50,000	0.13	100,000	0.22
<b>Total</b>	<b>6,650,000</b>	<b>17.32</b>	<b>13,300,000</b>	<b>29.52</b>

The above shares carry voting rights and each share carries two voting rights.

**Any restrictions with respect to exercising voting rights in the Issuer's company.**

There are no restrictions.

**Any restrictions with respect to transferring the ownership of the Issuer's securities.**

Shareholders of the dominant entity have the right of first refusal with respect to the purchase of registered preferred shares for sale. If this right is not exercised with respect to all or any portion of the shares, the transfer of ownership of these shares requires the approval of the Issuer's Management Board.

**Terms and conditions of appointing and recalling Management Board members of the dominant entity and their powers, in particular, the right to make decisions on issuing or purchasing shares.**

The Issuer's Management Board members are appointed and recalled by the Issuer's Supervisory Board. The powers and rules of operation of the Management Board of NG2 S.A. are set out in the following documents:

- 1) the Company's Statute, available on the Company's website
- 2) Management Board By-Laws, available on the Company's website
- 3) Commercial Companies Code.

An issue of new shares may take place after an appropriate resolution is adopted by the General Meeting of the Issuer and results in a share capital increase. The provisions of the Commercial Companies Code and regulation on the public offering and on the conditions of introducing financial instruments to organised trading and on public companies apply to issues of new shares and share purchases.

**Terms of amending the Issuer's statute.**

The provisions of the Commercial Companies Code apply accordingly to any amendments of the statute.

To amend the company's statute, a resolution of the General Meeting of Shareholders must be adopted by a majority of 3/4 votes and an entry must be made in the National Court Register. The Company's Supervisory Board may, in accordance with the authorisation granted to it by the General Meeting, determine a uniform wording of the amended statute or introduce other editorial changes set out in the resolution of the General Meeting.

The resolution amending the statute becomes effective once it is entered into the National Court Register.

**The Issuer's General Meeting and its fundamental powers, together with a description of the shareholders' rights and their exercise.**

The General Meeting at the dominant entity operates on the basis of the Company Statute and General Meeting By-Laws, published by the Issuer inter alia on the website of NG2 S.A. and to the extent not governed by the above documents, on the basis of the Commercial Companies Code.

**Convening a General Meeting of Shareholders:**

- 1) General Meetings of Shareholders may be ordinary or extraordinary.
- 2) General Shareholders Meetings are held at the Company's offices, in Warsaw or in Wrocław, at a time and location specified in the announcement convening the General Meeting.
- 3) Ordinary General Meetings are held annually, within six months from the lapse of the financial year.
- 4) Information on convening a General Meeting, listing the date and location (day and time) is published by the Management Board in the Court and Business Journal (Monitor Sądowy i Gospodarczy), provided in the form of a current report and published on the Company's website.

Powers of the General Meeting of Shareholders:

The powers of the General Meeting, in addition to all matters related to the company's business activity and matters set out in the applicable laws, with the exception of real property purchase and disposal, perpetual usufruct or share in real properties, include:

- 1) Appointing and recalling Supervisory Board members
- 2) Approving Supervisory Board By-Laws
- 3) Determining the rules of remuneration for the Supervisory Board
- 4) Determining the remuneration for members of the Supervisory Board delegated to perform day-to-day supervision individually.

The powers of the General Meeting are set forth in the following documents:

- 1) the Issuer's Statute, available on the Company's website
- 2) By-Laws of the General Meeting of NG2 S.A., available on the Company's website
- 3) Commercial Companies Code

Taking into account Best Practices for Public Companies.

Holding a General Meeting of Shareholders:

- 1) A General Meeting of Shareholders is opened by the Chairman of the Supervisory Board or a person authorised thereby. The Chairman or its nominee determines that a Chairman of the General Meeting be elected.
- 2) The person opening the General Meeting ensures that the Chairman of the General Meeting is elected immediately. The Chairman manages the work of the General Meeting and ensures that the meeting is expedient and that the rights and interests of all shareholders are respected.
- 3) The General Meeting adopts resolutions only on matters included in the agenda.
- 4) Members of the Supervisory and Management Board of the Company and the auditor should, within the bounds of their powers and to the extent required for the matters being resolved and discussed by the General Meeting, provide participants of the Meeting with information and clarifications regarding the Company.
- 5) The General Meeting is minuted by a notary.

Voting:

- 1) Voting at the General Meeting occurs via open ballot. Secret ballot voting is effected at elections and for votes with respect to recalling members of the Company's governing bodies, with respect to action being brought against them, as well as in personal matters. Moreover, secret ballot votes are effected at the request of at least one shareholders or its representative.
- 2) The General Meeting may appoint a Vote Review Committee, which will be responsible for overseeing each vote, monitoring computer support (if a vote is conducted using electronic solutions) and determining the results of a vote and providing them to the Chairman of the General Meeting.
- 3) One share entitles to one vote at the General Meeting. In the case of preferred A<sub>1</sub> series shares (registered preferred share), one share entitles to two votes.
- 4) The Chairman of the General Meeting announces the results of the vote, which will then be recorded in the minutes of the meeting.

**The composition and changes thereto in the last financial year and a description of the governing, supervisory or managing bodies of the Issuer as well as their committees.**Management Board of the dominant entity:

The Management Board of the Company is composed from at least one and no more than seven members appointed and recalled by the Supervisory Board for a four-year term.

As on 31 December 2010, the Management Board of the Company was composed as follows:

Dariusz Miłek	-	President of the Management Board
Mariusz Gnych	-	Vice-President of the Management Board
Piotr Nowjalis	-	Vice-President of the Management Board

On 26 February 2010, the Company's Supervisory Board received a statement made by Mr. Lech Chudy, confirming his resignation from his then-current position of Management Board Member

and Vice-President of the Management Board of NG2 S.A., effective on 28 February 2010, which was recorded in current report RB 10/2010 of 1 March 2010.

The powers and rules of operation of the Management Board of NG2 S.A. are set out in the following documents:

- 1) the Company's Statute, available on the Company's website
- 2) Management Board By-Laws, available on the Company's website
- 3) Commercial Companies Code.

The Supervisory Board of the dominant entity:

The Supervisory Board is composed of at least five and no more than seven members, appointed by the General Meeting for a two-year term. The Supervisory Board meets as necessary, but no less than three times per financial year. Supervisory Board meetings are convened by the Chairman.

As on 31 December 2010, the Supervisory Board appointed for a new term on 29 June 2009 was composed as follows:

Henryk Chojnacki	-	Chairman of the Supervisory Board
Martyna Kupiecka	-	Member of the Supervisory Board
Paweł Tamborski	-	Member of the Supervisory Board
Rafał Chwast	-	Member of the Supervisory Board
Wojciech Fenrich	-	Member of the Supervisory Board

The powers and rules of operation of the Supervisory Board of NG2 S.A. are set out in the following documents:

- 1) the Company's Statute, available on the Company's website
- 2) Supervisory Board By-Laws, available on the Company's website
- 3) Resolutions of the Company's General Meeting
- 4) Commercial Companies Code and other applicable laws.

The corporate documents of NG2 S.A. are available on the Company's website at:  
[http://ng2.pl/pl/dlainwestorow\\_lad.asp](http://ng2.pl/pl/dlainwestorow_lad.asp)

<b>SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS</b>		
Dariusz Miłek	President of the Management Board	
Mariusz Gnych	Vice-President of the Management Board	
Piotr Nowjalis	Vice-President of the Management Board	

*Polkowice, 21 April 2011*