
**ANNUAL REPORT ON THE SUPERVISORY BOARD OPERATIONS AND ON
THE WORK OF ITS COMMITTEES**

**AND THE EVALUATION OF THE OPERATIONS OF THE SUPERVISORY
BOARD OF MERCOR S.A.**

**WITH ITS REGISTERED OFFICE IN GDAŃSK
FOR THE FINANCIAL YEAR 2008.**

- 1. Evaluation of the Supervisory Board composition.**
- 2. Evaluation of the organization and operations of the Board as a group.**
- 3. Evaluation of the competences and efficiency of the Board members and committees.**
- 4. Evaluation of the results of the Board operations as compared with the targets set.**

MERCOR SPÓŁKA AKCYJNA WITH ITS REGISTERED OFFICE IN GDAŃSK (POST CODE: 80-408), UL. GRZEGORZA Z SANOKA 2, ENTERED IN THE COMPANY REGISTER OF THE NATIONAL COURT REGISTER KEPT BY THE DISTRICT COURT GDAŃSK-PÓŁNOC IN GDAŃSK, THE 7TH BUSINESS DEPARTMENT OF THE NATIONAL COURT REGISTER, UNDER NO. KRS 0000217729 – **HEREINAFTER ALSO REFERRED TO AS THE "COMPANY"**.

Acting in accordance with Principle III.1.2 of THE GOOD PRACTICE OF COMPANIES LISTED IN THE STOCK EXCHANGE, the Supervisory Board submits to the Ordinary General Meeting of Shareholders the evaluation of :

- (1) the Supervisory Board composition
- (2) the organization and operations of the Board as a group
- (3) the competence and efficiency of individual members and committees of the Board
- (4) the work results as compared with the targets set.

RE. 1 Pursuant to §10 of the Company Statute, the Supervisory Board is made up of five to seven members. Thus, throughout the financial year the composition of the Supervisory Board has been in line with the Statute provisions, and so the Supervisory Board has been capable of passing resolutions throughout the financial year.

Pursuant to §10 p. 1 of the Company Statute, the first term of the Supervisory Board began on 25 May 2007.

From 1 January 2008 to 10 March 2008, the Board was made up of the following members: Mr Lucjan Myrda, Mr Błażej Żmijewski, Mr Tomasz Rutowski, Mr Krzysztof Krawczyk, Mr Jakub Ryzenko, Mr Grzegorz Nagulewicz and Mr Michał Chałaczkiwicz.

On 10 March 2008, Mr Michał Chałaczkiwicz resigned from his function. On 28 March 2008, Mr Wojciech Górski was appointed to take his place.

On 19 June 2008, Mr Jakub Ryzenko resigned from his function with effect on 30 June 2008. Mr Jan Brudnicki was appointed to take his place on 30 June 2008.

On 30 June 2008, Mr Błażej Żmijewski resigned from his function and he was re-appointed as member of the Supervisory Board by a Shareholder, Mr Marian Popinigis, on 10 July 2008.

Thus, from 10 July 2008 to 31 December 2008, the composition of the Supervisory Board was as follows: Mr Lucjan Myrda, Mr Błażej Żmijewski, Mr Tomasz Rutowski, Mr Krzysztof Krawczyk, Mr Grzegorz Nagulewicz, Mr Wojciech Górski and Mr Jan Brudnicki.

RE.2 Pursuant to §10 p. 12 of the Company Statute, the Board meeting should be held at least once in a quarter. In 2008, the Supervisory Board meetings were held more frequently, i.e. on 27 February 2008, 11 April 2008, 20 June 2008, 22 August 2008, 21 October 2008 and 18 December 2008.

The topics the Supervisory Board dealt with in the meetings included:

- discussing the financial results of the Company and its capital group
- discussing the budget proposal of the Company and its subsidiaries
- approving transactions with the associated entities
- the status of the Company sale campaign plan
- appointment of a new member of the Remuneration and Audit Committees
- approval of annual reports of the Supervisory Board
- approval of the Principles of Remuneration of Directors in 2008
- the indebtedness of the Company and its subsidiaries and its optimization possibility
- appointment of Mr Błażej Żmijewski as member of the Remuneration and Audit Committee
- discussing the Company's current operations

Additionally, in 2008 the Supervisory Board passed a number of resolutions on a teleconference basis, concerning in particular:

- consent to the acquisition by Mercor S.A. of 100% of the shares of Tecresa Catalunya S.L. seated in Madrid
- consent to the conclusion by the Company of agreements leading to increased Financial Indebtedness
- approval of the Company's annual budget for 2008
- approval of the Supervisory Board's opinion on Resolutions Nos. 1, 2 and 3 of the Extraordinary General Meeting of Shareholders
- approval of a Director's resignation
- examination of the Board resolution on the manner of management of the Company profit for the financial year 2007
- approval of the Supervisory Board's opinion on the matters discussed during the General Shareholders' Meeting on 30 June 2008
- comprehensive assessment of the Company standing in 2007, taking into consideration the internal control system and the system of significant risk management
- consent to:

- a) issuing of new issue shares within the limits of the target capital,
- b) issuing of new issue shares in return for a non-monetary contribution and exclusion of the pre-emptive right to the new issue shares for the current shareholders,
- c) acquisition of the shares of BEM Brudniccy Sp. z o.o. seated in Mirosław by the Company and
- d) performance of the other operations described in the Investment Agreement dated 14 May 2008
 - appointment of the certified auditor and the Supervisory Board consent to conclude an agreement with him
 - consent of the Supervisory Board for the other operations, according to the Company Statute

The Audit and Remuneration Committee was active mostly during the Supervisory Board meetings and passed, *inter alia*, the Principles of Remuneration of Directors. In addition, the Committees also fulfilled their tasks set out in the Supervisory Board Principles during teleconference votes.

On 21 October 2008, the Strategic Planning Committee was appointed within the Supervisory Board, to support the Management Board in the preparation of the Group budget project for 2009 and the directions of strategic development of the Mercor Group. Its members were: Mr Krzysztof Krawczyk, Mr Wojciech Górski and Mr Jan Brudnicki.

To sum up the organization and operations of the Board as a group, we conclude that the Supervisory Board had no organizational problems. Both the meetings and votes, held on a teleconference basis, proceeded smoothly without any problems. The Board operations were based on the applicable laws and the Company Statute.

RE .3 The Board very highly evaluates the competences and effectiveness of the members of the Board and Committees. All the members actively participated both in the Supervisory Board meetings (and in the topics discussed) and the votes on the resolutions conducted on a teleconference basis.

It needs to be stressed that all the members of the Supervisory Board have both the experience and the professional knowledge necessary to act in the capacity of members of the Supervisory Board.

LUCJAN MYRDA
President of the Supervisory Board of MERCOR SA

He graduated from the Fire-Fighting Officers School in Warsaw (and was awarded the title of Fire-Fighting Officer) and the Electrical Faculty of the Silesian Technical University in Gliwice, major: Industrial Electrical Engineering. He also graduated from a post-graduate school in the field of fire prevention at the Main School of Fire Service in Warsaw. In addition, he completed a post-graduate logistics course for officers of the State Fire Brigade at the Military Academy for Quartermaster's Staff in Poznań.

In 1964-1999, his career was continually associated with the State Fire Brigade, at first as a senior non-commissioned officer for fire prevention at the State Fire Brigade District Headquarters in Kłobuck, and eventually as Deputy Chief at the Provincial Headquarters of the State Fire Brigade in Cracow.

A propagator of knowledge on fire protection and prevention. An author of many specialist texts, co-organizer and participant in numerous domestic and international trade conferences. Strongly associated with the trade community, he was an initiator of the appointment and a member of the Supervisory Board of the Association of the Fire Safety Engineers and Technicians Certification Center in Poznań. During this term of office he is Vice-President of the Association.

GRZEGORZ NAGULEWICZ
Vice-President of the Supervisory Board of MERCOR SA

He graduated from the Mechanical and Power Engineering Faculty of the Silesian Technical University in Gliwice. He also completed a post-graduate course in Management and Marketing at the Warsaw School of Economics.

His career has from the start been connected with design studies and designs for the power engineering industry. Since 1988 he has, with a partner, run Biuro Projektów MEXEM Sp. z o.o. as Member of the Management Board. Since 1997 he has also been a representative of the Management Board of Biuro Projektów NEXT in Gliwice.

KRZYSZTOF KRAWCZYK
Member of the Supervisory Board of MERCOR SA

He is a Partner at Innova Capital, one of the leading Private Equity companies in Central and Eastern Europe. He specializes in investment projects in the sector of services for enterprises and in the construction materials sector. He has led projects and sat on the Supervisory Boards of the following companies: Energis (telecommunications, Poland), La Fântâna (mineral water, Romania/Serbia), GTS (telecommunications, CEE), Mercor (fire safety, CEE), Metropolis Media (outdoor advertising, Slovenia/Croatia/Serbia) and AMG.net (IT, Poland). He also worked at such investments as Orange Slovakia, MobilTel and Expander.

Before joining the team of Innova Capital, he worked as an investment analyst at Pioneer Investment Poland (a company managing a venture capital of 60 million dollars), and before that as an analyst in an international privatization team at Daiwa Institute of Research (part of a Japanese investment bank Daiwa Securities).

Krzysztof Krawczyk has a diploma (with distinctions) of the Faculty of Finance and Banking of the Warsaw School of Economics. He was a speaker and participant at numerous international conferences, including CEE Private Equity Forum (London), CEE Forum (Vienna) and VC Forum (Warsaw). He is a co-founder of the LBO Committee at the Polish Association of Capital Investors.

TOMASZ RUTOWSKI
Member of the Supervisory Board of MERCOR SA

He graduated from the Faculty of Law and Administration at the Adam Mickiewicz University in Poznań.

In 1997-2001 he worked as a legal trainee at the Lawyers' Office Zenon Marciniak in Poznań. In 2001 he opened his own law office, Kancelaria Adwokacka Tomasz Rutowski, seated in Poznań.

BŁAŻEJ ŻMIJEWSKI
Member of the Supervisory Board of MERCOR SA

A graduate from the Faculty of Transport Economics at the University of Gdańsk, at the Department of Sea Transport Economics. He also completed a course in managerial skills MANAGEMENT 2002 at the Canadian International Management Institute.

He worked at the Maritime Commercial Port Gdynia, Container Terminal Gdynia Oksywie, a foreign enterprise DORA with its seat in Lębork, and INTERTRADE in Sopot. Since 1993 he has run a trading company IMEX TOP 32 based in Gdańsk, in the capacity of President of the Management Board.

WOJCIECH GÓRSKI
Secretary of the Supervisory Board of MERCOR SA

A graduate from the Faculty of Management of the Academy of Economics in Poznań, specialization – Capital Investments and Financial Strategies of Enterprises. He started his career as a financial analyst – first for the brokerage house BMT SA (from October 1997 to August 1999), and then BTW Investment Services SA (from September 1999 to September 2002). From September 2002 to December 2007 he was involved in Polskie Przedsiębiorstwo Wydawnictw Kartograficznych SA, acting as: from September 2002 to December 2007 – Financial Director of PPWK SA, from August 2003 to January 2007 – a representative of PPWK SA, and from January 2007 to September 2007 – Vice-President of the Management Board of PPWK SA. From January 2003 to October 2005, Wojciech Górski also held the positions of Member of the Management Board and Financial Director of PPWK GeoInvent Sp. z o.o. (presently Tele Atlas Polska Sp. z o.o.).

JAN BRUDNICKI
Member of the Supervisory Board of MERCOR SA

Member of the Supervisory Board of MERCOR SA. A practiced entrepreneur with experience of several dozen years. A founder and co-maker of the success of BEM Brudniccy, at first a family-owned business which under his management has made an impressive progress. At present, BEM Brudniccy, seated in Płock, is one of the Polish biggest manufacturers of fire and regular doors as well as section and wooden partitions. The company employs over 450 people. Jan Brudnicki has a technical background in mechanical engineering. During the first 10 years of his career he worked at Petrochemia Płock – first as assistant designer at the Company Design Office, and then as an independent constructor at the Catalytic Processes Department. In 1984 he founded the company BEM that he directed from its inception, in mid-2008 handing over the company leadership to his successors, Mariusz and Paweł Brudnicki. Apart from running his own company, Jan Brudnicki has for years been actively involved in the development of regional entrepreneurship, supporting the development of business self-government. In 2008, he led the Business Chambers Forum in the Mazovian Province. Since 2004 he has been Member of the National Business Chamber. He has also acted as President of the Business Chamber of Płock Region for four years.

RE .4 As regards the assessment of the performance of the Board as compared with the goals set, the Supervisory Board informs the Ordinary General Meeting of Shareholders that they have fully accomplished the goals defined at the beginning of the financial year.

SUPERVISORY BOARD REPORT ON THE ASSESSMENT OF THE COMPANY STANDING IN 2008, RELATED TO THE INTERNAL CONTROL SYSTEM AND THE SYSTEM OF SIGNIFICANT RISK MANAGEMENT

Last year's key events include two successful acquisitions completed by the Company, resulting in the extension of the Mercor Group by new attractive business links: one in Spain (Tecresa Proteccion Pasiva) and one in Poland (BEM Brudniccy sp. z o.o.).

Another significant factor is the optimization and modernization of the production line of fire partitions in the Czech Republic (in the company Hasil) as well as the considerable extension of the manufacturing plant in Dobrzeń Wielki near Opole. These investments will support the Company's further development and increase its chance of a competitive advantage in the European market, even during the continued downturn in the economy over the coming months due to the global crisis.

The investments made in 2008 ensure an effective operating resource base for the Company and allow it to radically limit the investment expenditures in 2009, while the finalized acquisitions provide the Company with a space for cushioning any consequences of the unfavorable macroeconomic situation in the coming months.

When analyzing both the Company's economic environment and its inner potential, we can see real challenges on the one hand, and significant development opportunities on the other hand. The Company associates its development perspectives with the business effects of product synergies within the Mercor Group, above all. Particular emphasis is also placed on the development of services, especially maintenance services, which are perceived as a very important and so far highly underestimated link in the business model of the Company. The Company sees its chance of development in export, especially to Western markets, which can be naturally increased by, for instance, the fall of the zloty.

1. Analysis of the basic economic and financial figures

Profit and loss account

	31.12.2008	31.12.2007
Total revenue	239 494	215 483
Cost of sales	165 585	152 648
Margin	73 909	62 835
% (margin/total revenue)	31%	29%
Selling expenses and general administrative expenses	36 809	35 628
Other operating profit or loss	-448	448
Operating profit (EBIT)	36 652	28 655
% (operating profit/total revenue)	15%	13%

Profit (loss) on financial activity	2 580	1 103
Profit before tax	39 232	29 758
% (profit before tax/total revenue)	16%	14%
Income tax	6 717	5 080
Net profit (loss)	32 515	24 678
% (net profit (loss)/ total revenue)	14%	11%

In 2008, Mercor SA attained a revenue of PLN 239,494 k, which means an 11% increase in comparison to last year's revenue.

The operating margin is higher than in 2007. Margins have gone up from 13% to 15% on the operating level and from 11% to 14% on the net profit level, respectively.

The net profit for 2008 was PLN 32,515 k, i.e. 32% higher than last year. The EBIT value in 2008 was PLN 36,652 k, i.e. 28% higher than the EBIT in 2007.

Assets and Liabilities Structure

	31.12. 2008	31.12. 2007	Increase	Dynamics	Structure	
					31.12. 2008	31.12. 2007
Fixed assets	343 755	72 207	271 548	376.1%	78.2%	37.5%
Current assets	96 096	120 210	-24 114	-20.1%	21.8%	62.5%
TOTAL ASSETS	439 851	192 417	247 434	128.6%	100.0%	100.0%
Equity	233 185	143 812	89 373	62.1%	54.3%	74.8%
Long-term liabilities	79 702	7 372	72 330	981.1%	18.5%	3.8%
Short-term liabilities	126 964	41 233	85 731	207.9%	27.2%	21.4%
TOTAL LIABILITIES	439 851	192 417	247 434	128.6%	100.0%	100.0%

The balance sheet total of Mercor SA as on 31 December 2008 closes at PLN 439,851 k and exceeds that of the previous financial year by PLN 247,434 k (i.e. 128.6%).

The structure of the Company assets changed considerably; the increase in the fixed assets percentage was the effect of successful acquisitions in the domestic and foreign market – the takeovers of a Spanish company, Tecresa Catalunya S.L., and a Polish one, BEM Brudniccy Sp. z o.o.

In the financing sources there are visible differences in the changes of the equity and liabilities structure. The changes in the equity and liabilities structure result from the loans taken for the partial financing of the purchase of shares in Tecresa Catalunya S.L. and BEM Brudniccy Sp. z o.o.

2. Equity Management

In 2008, the Company continued to generate a financial surplus which enabled it to pay its debts promptly. Investments in financial assets (acquisition of shares in other entities) led to a change in the structure of equity financing by increasing the share of bank loans. These factors, together with a limited level of capital expenses and stable receipts from sales, guarantee the Company the necessary financial liquidity.

	31.12.2008	31.12.2007
Liquidity ratio	0.8	2.9
Short-term liabilities turnover ratio	41 days	39 days
Receivables turnover ratio	100 dni	93 dni
Inventory turnover ratio	35 days	38 days
Debt ratio	47%	25%

The acquisition of shares in new companies, Tecresa and BEM, significantly affects the ratios.

3. Assessment of the internal auditing system and the system of significant risk management

The Company Management Board is responsible for the internal control system in the Company and its efficiency in the process of preparation of financial and periodic reports, based on the principles included in the Directive of 19 October 2005 on current and periodic information provided by issuers of securities. The purpose of an effective system of internal auditing in financial reporting is to assure the adequacy of the financial information included in financial reports and periodic reports.

In the process of preparation of unit and consolidated financial reports, one of the basic elements of control is the review of the financial report by an independent auditor. The auditor's tasks include in particular a review of the unit and consolidated midyear financial report, a preliminary and proper audit of the unit and consolidated financial report. The independent auditor is appointed by the Company Supervisory Board. After the independent auditor has completed the audit, the financial reports are sent to the members of the Company Supervisory Board for assessment.

The preparation of financial reports, periodic financial reports and current management reports is the responsibility of the accountancy and finance department managed by the Financial Director.

The financial data being the basis for financial reports and periodic reports are drawn from the monthly financial and operating reporting run by the Company. After the monthly closing of the settlement period by the accountancy, the senior and middle management in collaboration with the accountancy and financial department perform an analysis of the financial results of the Company and specific operating departments, in comparison to the business goals in the budget.

The errors identified during the analysis of results are entered in the account books on a current basis, pursuant to the adopted accounting policy.

Mercor SA performs annual reviews of business strategies and plans, both with respect to the Company and all the entities in the capital group. The senior and middle management is involved in the budgeting process covering all the areas of operation. The prepared budget is accepted by the Company Management Board and approved by the Supervisory Board. During the financial year the Company Management Board analyses the financial results on the basis of the approved budget.

The accounting policy adopted by the Company with respect to the statutory reporting is applied both in the budgeting process and the preparation of periodic management reporting. The Company applies consistent accounting principles when presenting financial data in financial reports, periodic financial reports and other reports submitted to the shareholders.

The Company continues streamlining the so-called document circulation system. Each item of cost in the Company is subject to approval by the designated persons. The processes are constructed in such a way as to be approved by the Company Management Board too. In 2008, the process of bonus approval was added to the electronic approval system. In previous years the electronic approval process of capital expenses was implemented.

Based on the assessment of the procedures applied, the Supervisory Board concludes that as on 31 December 2008 there were no defects that could considerably affect the efficiency of internal control and significant risk management systems.