



# **PGNiG**

**Polskie Górnictwo Naftowe  
i Gazownictwo SA**

**STATEMENT OF COMPLIANCE WITH CORPORATE  
GOVERNANCE RULES BY POLSKIE GÓRNICHTWO NAFTOWE  
I GAZOWNICTWO S.A. IN 2014**

Warsaw, February 19th 2015

Pursuant to Par. 91.5.4 of the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and the conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (the “**Regulation**”), dated February 19th 2009, the Management Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. of Warsaw (the “**Issuer**” or the “**Company**”) hereby presents its statement of compliance with corporate governance rules.

The Issuer’s objective is to ensure maximum transparency of its activities, appropriate quality of its investor communications and protection of shareholder rights.

## **1. Corporate governance code applicable to the Issuer and where the text of such code is publicly available**

In 2014, the Issuer was in compliance with the set of corporate governance rules laid down in the “Code of Best Practice for WSE Listed Companies” (the “**Code of Best Practice**”), adopted by the WSE Supervisory Board. The text of the code, as amended, is publicly available on the Warsaw Stock Exchange’s corporate governance website at [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl) and on the Issuer’s website at [www.pgnig.pl](http://www.pgnig.pl) in the ‘Corporate Governance’ section.

## **2. Corporate governance standards referred to in Section 1 which were not applied by the Issuer, with a statement of reasons for the non-compliance**

In 2014, the Issuer did not comply with three of the rules defined in the Code of Best Practice:

1. Best practice for supervisory board members – rule 6;
2. Best practice for supervisory board members – rule 8;
3. Best practice for shareholders – rule 10.

Grounds for the non-compliance with these rules are presented below.

### **2.1. Best practice for supervisory board members – rule 6**

*“At least two members of the supervisory board should meet the criteria of being independent from the company and from entities having material links with the company. With respect to the independence criteria for supervisory board members, Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board should apply. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or its subsidiary or associate cannot be deemed to meet the independence criteria described in the Annex. Furthermore, an actual and material link with a shareholder having the right to exercise 5% or more of the total vote at the general meeting is deemed to preclude independence of a supervisory board member as defined in this rule.”*

In the reporting period, there was only one independent member on the Issuer’s Supervisory Board – Mr Andrzej Janiak, appointed on March 26th 2014.

Pursuant to Par. 36.1 of the Issuer's Articles of Association (the "**Articles of Association**"), one of the members of the Supervisory Board appointed by the General Meeting should meet all of the following requirements:

1. He or she must be appointed in accordance with the special election procedure set forth in the Articles of Association;
2. He or she may not be a related party or a subsidiary of the Issuer;
3. He or she may not be a related party of the Issuer's parent or of another subsidiary of such parent; and
4. He or she may not have any connections with the Issuer or with any of the entities referred to in items 2 and 3 which could materially affect his or her ability to make impartial decisions as a member of the Supervisory Board.

Given the fact that, in accordance with Art. 12 of the Act on Commercialisation and Privatisation of August 30th 1996 (consolidated text in Dz.U. of 2002, No. 171, item 1397, as amended), some of the Company's Supervisory Board members are elected by employees, the Issuer cannot ensure that the number of independent members on its Supervisory Board is as required by the Code of Best Practice. This would lead to a situation where the State Treasury (the Issuer's majority shareholder) would be unable to appoint the majority of the Supervisory Board members. This in turn would violate the rule stipulating that a shareholder's influence on a company's business should be proportionate to the share capital held by such shareholder.

## **2.2. Best practice for supervisory board members – rule 8**

*"With respect to the tasks and the operation of the supervisory board committees, Annex I to Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors (...) should be applied"*

An Audit Committee operates within the Issuer's Supervisory Board as a standing committee, advising the Supervisory Board on matters within the Committee's remit.

For a detailed description of the Audit Committee's rules of operation, see Section 11.3 hereof.

Pursuant to the Code of Best Practice, with respect to the tasks and the operation of its Supervisory Board committees, the Issuer should apply the rules laid down in Annex I to Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. In the case of the Audit Committee, the primary purpose of the rules is to ensure that the Audit Committee performs its role correctly. The Issuer has complied with all the requirements which guarantee the Audit Committee's involvement in the supervision of the Issuer's business. However, the Issuer did not comply with all the detailed requirements for the operation of the Committee. The requirements which the Issuer did not comply with include:

1. The rule laid down in Section 4.1 of Annex I, pursuant to which all or a majority of the Audit Committee members should be independent;

2. The rule laid down in Section 4.3.2 of Annex I, pursuant to which the management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches;
3. The rule laid down in Section 4.3.8 of Annex I, pursuant to which the audit committee should review the process whereby the company complies with the existing regulations regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions, normally to an independent director, and should ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Given the way the Audit Committee currently operates, the Issuer does not consider it necessary to introduce very detailed rules to regulate its operation. The Issuer will take appropriate steps in the future, if justified by the actual manner of operation of the Audit Committee.

### **2.3. Best practice for shareholders – rule 10.**

*“A company should enable its shareholders to participate in a General Meeting using electronic communication means through:*

- 1) Real-life broadcast of General Meetings,*
- 2) Real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.”*

In accordance with the Commercial Companies Code, bringing into effect the above corporate governance rule would require a relevant amendment to the Company’s Articles of Association. The Company’s Articles of Association do not provide for such possibility, thus the General Meetings are not broadcast in real time.

The Company may begin to broadcast its General Meetings via electronic means in the future, when the available technical solutions and practice, including relevant judicial practice, make the application of such a procedure safe.

### **3. Basic features of internal control and risk management systems used by the Issuer in the process of preparation of financial statements and consolidated financial statements**

The Issuer’s internal control system consists of, in particular:

1. Group-wide uniform accounting policies on measurement, recognition and disclosure in accordance with the International Financial Reporting Standards, as well as unified templates for separate and consolidated financial statements;
2. Internal control mechanisms, including separation of duties, multi-stage data verification, accuracy reviews of data received, independent checks, etc;
3. Internal operating procedures implemented under the Orders of the President of the Management Board;

4. Definition of accounting, financial reporting and tax settlement responsibilities at the Company, in the task book and in the rules approved by the Management Board and the Supervisory Board;
5. Regulation and supervision of financial and accounting documents' distribution, including review of the documents for their formal, accounting and substantive correctness;
6. Recording of economic events in an integrated finance and accounting system configured in compliance with the accounting policies in place at the Company, containing controls and checks ensuring the consistency and integrity of data, such as integrity checks, hardware checks, operating checks, and authority checks;
7. Uniform rules and procedures for consolidating financial data, whose consistent application is ensured through the use of unified reports, automatic validations of the consistency and completeness of the reported data, as well as two-stage data authentication and approval procedures;
8. Formalised procedure for the preparation of financial statements (scheduled by individual deadline and person responsible);
9. Multi-stage review and approval process for financial statements, in which the Supervisory Board also participates;
10. Assessment of current reporting risk by the PGNiG Group's Internal Audit and Control Department and the Security Department;
11. Independent review of financial statements for reliability and accuracy by an independent external auditor;
12. Consistent development of the Group's internal regulatory framework designed to ensure uniformity of reporting processes and their continuous improvement.

At the centre of the accounting and financial reporting controls is a fully integrated financial and accounting system. This system not only allows for recorded transactions to be checked for correctness, but also identifies which users have entered and approved individual transactions. Access to financial information is restricted by an authorisation system. Access authorisation is granted based on an employee's function and responsibilities, and is subject to stringent control measures.

An additional level of control was introduced to oversee the Group's financial statements by assigning the preparation of the Issuer's financial statements and the Group's consolidated financial statements to two distinct Departments at the Company's Head Office; the financial statements are entered in an integrated IT system with the accounts of other consolidated entities. Data undergoing consolidation is automatically checked for correctness by automatic validation systems and is subject to logical verification procedures carried out by dedicated Group employees.

The PGNiG Group's Accounting Policy ensures the compliance of the Issuer's accountancy and financial statements with the relevant regulations, in particular with regard to the overriding principles and quality features of financial statements, the correctness of event

valuation and categorisation, and safety mechanisms for databases. The Accounting Policy is regularly updated to ensure its ongoing compliance with amended regulations, particularly the International Financial Reporting Standards. The Policy was last updated in 2014.

To further mitigate the risks associated with financial reporting, financial statements are verified by an independent auditor every three months. The procedures used by the Issuer ensure that the selected auditor performs its duties independently (auditors are chosen by the Supervisory Board) and in accordance with the highest standards.

Annual financial statements are audited, whereas Q1, H1 and Q3 statements undergo reviews. The results of both processes are presented by the auditor to the Management Board and to the Supervisory Board's Audit Committee.

In its operations, the Issuer uses a dedicated system for managing overall financial safety, comprising liquidity, exchange rate risk, and budget drafting and control.

The financial reporting process is reviewed on an on-going basis. Furthermore, internal audit of individual processes and projects typically consists in reviewing accounting records for certain processes and one-off events in terms of their reliability and completeness, as well as in checking the correctness of accounting documents' distribution. Based on the findings and assessments formulated during operating audits in different areas of accounting, no need to develop a dedicated mechanism for reviewing the preparation process for financial statements has been identified. In particular, there are no grounds to believe that the absence of such a dedicated mechanism poses any threat to the Issuer's business. There is also no reason to believe that this situation is likely to significantly change in the near future. Annual inspections of the internal control and risk management system at the Company level show consistent implementation of recommendations on improving the system for financial reporting purposes.

Factors mitigating the risks related to financial reporting primarily include constant upgrading of particular modules of the integrated management system and improvement of the practical skills of the employees operating it.

#### **4. Shareholders directly or indirectly holding significant holdings of shares, with an indication of the number of shares and percentage of the share capital held by such shareholders, and the number of votes and percentage of the total vote that such shares represent at the General Meeting**

The Issuer's shares are listed on the Warsaw Stock Exchange, and its share capital is divided into 5,900,000,000 ordinary bearer shares with a par value of PLN 1.00 per share.

In 2014, the State Treasury, represented by the Minister of the State Treasury (ul. Krucza 36/Wspólna 6, 00-522 Warsaw), was the only shareholder holding a significant holding of Issuer shares (more than 5% of the Issuer's share capital).

Issuer's shareholding structure as at December 31st 2014

Shareholder	Number of shares	Percentage of the Issuer's share capital	Number of votes at the Issuer's General Meeting	Percentage of the total vote at the Issuer's General Meeting
State Treasury	4,271,717,836	72.40 %	4,271,717,836	72.40 %
Other shareholders	1,628,282,164	27.60 %	1,628,282,164	27.60 %
<b>Total</b>	<b>5,900,000,000</b>	<b>100.00 %</b>	<b>5,900,000,000</b>	<b>100.00%</b>

As at December 31st 2014, 728,282,163 Issuer shares, representing 12.34% of the share capital and total vote at the General Meeting, were distributed among 59,254 of the 61,516 eligible employees.

**5. Holders of any securities conferring special control rights, with a description of those rights**

Pursuant to the Articles of Association, as long as the State Treasury remains a shareholder of the Issuer, the State Treasury, represented by the minister competent for matters pertaining to the State Treasury, and acting in this respect in agreement with the minister competent for economy, has the right to appoint and remove one member of the Supervisory Board.

Additionally, pursuant to the Articles of Association, the State Treasury (as a shareholder) approves in writing: (i) any changes to the material provisions of existing trade agreements for natural gas imports to Poland, as well as execution of such agreements, and (ii) the implementation of any strategic investment projects or the Company's involvement in investment projects which, permanently or temporarily, impair the economic efficiency of the Company's business activities, but which are necessary to ensure Poland's energy security.

Irrespective of the State Treasury's percentage share in the Issuer's share capital, the State Treasury has the right to demand that the General Meeting be convened and that particular matters be placed on the agenda.

As a shareholder in PGNiG S.A., the State Treasury also enjoys other rights under other relevant laws and regulations.

**6. Restrictions on voting rights, such as limitation of the voting rights of holders of a given percentage or number of votes, time limits on the exercising of voting rights, or provisions under which, with the company's cooperation, equity rights attaching to securities are separated from the holding of the securities**

Since December 31st 2012, under PGNiG S.A.'s Articles of Association, the voting rights of the Company's shareholders have been restricted so that at the General Meeting no shareholder can exercise more than 10% of the total vote as at the date of the General Meeting, with the proviso that this restriction of voting rights is deemed non-existent for the purpose of determining the obligations of buyers of major holdings of shares.

The voting right restrictions do not apply to shareholders who, as at the date of the General Meeting's resolution imposing the restriction, are holders of shares conferring more than 10% of the total vote at the Company, and shareholders acting together with shareholders holding more than 10% of the total vote, pursuant to agreements concerning joint exercise of voting rights.

For the purposes of restricting the voting rights, the votes of shareholders bound by a parent-subsidiary relationship are aggregated, and if the aggregated number of votes exceeds 10% of the total vote at the Company, it is subject to reduction.

**7. Restrictions on the transfer of ownership rights to the Issuer's securities**

There are no restrictions on the transfer of ownership rights to the Issuer's securities.

**8. Rules governing the appointment and removal of management personnel and such personnel's powers, particularly the power to make decisions on the issuance or buy-back of shares**

Pursuant to the Articles of Association, individual members of the Management Board or the entire Management Board are appointed and removed by the Supervisory Board. A member of the Management Board is appointed following a qualification procedure carried out pursuant to the Regulation of the Polish Council of Ministers of March 18th 2003 concerning qualification procedures for members of management boards of certain commercial-law companies (Dz.U. No. 55, item 476, as amended). This procedure does not apply to Management Board members elected by employees.

As long as the State Treasury remains a shareholder of the Company and the Company's annual average headcount exceeds 500, the Supervisory Board appoints to the Management Board one person elected by the employees, to serve for the Management Board's term of office. A person is considered to be a Management Board candidate elected by the employees if, during the election, 50% of valid votes plus one were cast in favour of that person, with the reservation that the election results are binding on the Supervisory Board if at least 50% of the Company's employees participated in the election.



Management Board members are appointed for a joint term of three years.

A member of the Management Board may resign from their position by delivering a representation to that effect to the Supervisory Board, and a copy to the State Treasury (represented by the minister competent for matters pertaining to the State Treasury). The resignation must be submitted in writing, or will otherwise be ineffective towards the Company.

The Management Board member elected by the employees may also be removed upon a written request submitted by at least 15% of the Company's employees. The Supervisory Board orders the voting and its results are binding on the Supervisory Board if at least 50% of the Issuer's employees participate in the voting, and if the percentage of votes cast in favour of the removal is not lower than the majority required for the election of a member of the Management Board by the employees.

The powers of the Management Board are discussed in Section 11.1.2 hereof.

Pursuant to the Articles of Association, decisions on the issuance or buyback of shares are adopted by the Issuer's General Meeting.

#### **9. Rules governing amendments to the Issuer's Articles of Association**

Pursuant to the Commercial Companies Code and the Issuer's Articles of Association, amendments to the Articles of Association are introduced by virtue of resolutions adopted by the General Meeting with the required majority of votes, and must be recorded in the register of entrepreneurs. Any amendment to the Articles of Association must be submitted by the Management Board to the registry court within three months from the date on which the General Meeting adopted the resolution introducing the amendment.

The consolidated text of the Articles of Association is drawn up by the Management Board and then approved by the Supervisory Board.

**10. The operation of the General Meeting, its basic powers and description of shareholders' rights, with the procedure for their exercise, in particular the rules stipulated in the Rules of Procedure for the General Meeting, to the extent not prescribed directly by law**

**10.1. Description of the operation of the General Meeting**

The General Meeting operates in accordance with the provisions of the Commercial Companies Code, the Articles of Association and the Rules of Procedure for the General Meeting. The Rules of Procedure for the General Meeting stipulate, in particular, the rules of conduct for convening meetings and adopting resolutions. The Rules of Procedure for the General Meeting are available on the Issuer's website at [www.pgnig.pl](http://www.pgnig.pl).

The General Meeting may be convened as either Annual or Extraordinary, and is held at the Issuer's registered office. The General Meeting may only adopt resolutions on matters included in the detailed agenda, unless the entire share capital is represented at the General Meeting and no one present at the meeting objects to the adoption of a resolution which has not been included in the agenda. The agenda is proposed by the Management Board or by the party convening the General Meeting.

Pursuant to the provisions of the Commercial Companies Code, a shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the forthcoming General Meeting. Moreover, the State Treasury, as a Company shareholder, is entitled to submit such a request, irrespective of its share in the share capital. A General Meeting is convened by the Management Board, which in this respect acts:

1. On its own initiative;
2. At the request of a shareholder or shareholders representing at least one-twentieth of the share capital, made in written or electronic form;
3. At the request of the State Treasury as a Company shareholder, irrespective of its interest in the Company's share capital, made in written or electronic form;
4. At the request of a Supervisory Board member appointed pursuant to Par. 36.1 of the Articles of Association (independent member), made in written or electronic form;
5. At the written request of the Supervisory Board.

If the Management Board does not convene the General Meeting within two weeks from the date of receiving the relevant request, the registry court may authorise the shareholders to convene an Extraordinary General Meeting.

Shareholders representing at least half of the share capital or at least half of the total vote may convene an Extraordinary General Meeting.

The Supervisory Board may convene an Annual General Meeting if the Management Board fails to do so within the time limit specified in the Commercial Companies Code or the Articles of Association, or an Extraordinary General Meeting, if the Supervisory Board deems it advisable.

General Meetings are convened by publishing notice on the Company's website and in any other form prescribed for the purposes of current disclosures under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies.

The notice should be published at least 26 days before the date of the General Meeting.

The Annual General Meeting is convened by the Management Board once a year, no later than within six months following the end of the financial year.

Votes at the General Meeting are cast in an open ballot. A secret ballot is ordered when voting on the election or removal from office of members of the Issuer's governing bodies or on appointment of its liquidator, on bringing members of the Issuer's governing bodies or its liquidator to account, and on personnel matters. Furthermore, a secret ballot is ordered if at least one shareholder present or represented at the General Meeting so demands.

The General Meeting adopts resolutions regardless of the number of shares represented at the meeting, unless the provisions of the Commercial Companies Code or the Articles of Association provide otherwise.

Any shareholder is entitled to object to a resolution of the General Meeting, and in accordance with the Rules of Procedure for the General Meeting, should be given an opportunity to concisely present the reasons for such objection. During the Company's General Meeting, each shareholder may submit draft resolutions for the items on the agenda.

A General Meeting is opened by the Chairperson of the Supervisory Board or the Deputy Chairperson of the Supervisory Board, or in the event of their absence, by the President of the Management Board or a person appointed by the Management Board. The person opening the General Meeting should procure that the Chairperson of the Meeting is immediately elected and should refrain from any decisions on the substance of matters or on procedural issues. The Chairperson of the General Meeting is elected by secret ballot. The Chairperson's role is to ensure that the meeting proceeds smoothly and that the rights and interests of all the shareholders are respected. The Chairperson should not resign from their function without a sound reason, and may not unreasonably delay the signing of the minutes of the General Meeting.

Apart from the shareholders, the following persons are entitled to participate in the General Meeting:

1. Members of the Management Board and Supervisory Board, as well as candidates to the Supervisory Board (if the General Meeting is to deal with the appointment of a member or members of the Supervisory Board). The General Meeting may limit the right of Supervisory Board candidates to speak, to issues related directly to the candidacy;
2. Guests invited by the body convening the General Meeting, as well as experts, including auditors of financial statements and members of the Company's legal service, invited to present their opinions on and provide clarification of the issues included in the agenda, with the proviso that their right to speak may be limited by the

General Meeting to those items on the agenda about which they have been invited;

3. Notaries public drawing up the minutes of the General Meeting.

Short breaks in the meeting (technical breaks), which do not constitute adjournments, may be ordered by the Chairperson, provided that they are not aimed at hindering the exercise of rights by the shareholders.

## **10.2. Description of key powers of the General Meeting**

The General Meeting is the Issuer's constituent body and has the power to adopt resolutions on the following matters:

1. Review and approval of the financial statements for the preceding financial year and the Directors' Report on the Issuer's operations;
2. Approval of performance of duties by members of the Issuer's governing bodies;
3. Distribution of profit or coverage of loss;
4. Determination of the dividend record date or a decision on payment of dividend in instalments;
5. Appointment and removal of Supervisory Board members;
6. Review and approval of the Group's consolidated financial statements and the Directors' Report on the Group's operations for the preceding financial year;
7. Suspension of members of the Management Board from their duties, or their removal from office;
8. Disposal or lease of the Issuer's business or its organised part, or creation of proprietary interests therein;
9. Acquisition of non-current assets, including property, perpetual usufruct rights to property or interest in property with a value higher than the PLN equivalent of EUR 2,000,000;
10. Disposal of non-current assets, including property, perpetual usufruct rights to property or interest in property, with a value higher than the PLN equivalent of EUR 1,000,000;
11. Contribution to another company of non-current assets, including property, perpetual usufruct rights to property or interest in property, with a value exceeding the PLN equivalent of EUR 1,000,000;
12. Conclusion by the Issuer of a loan, borrowing, surety or similar agreements with or for the benefit of a member of the Management or Supervisory Board, a commercial proxy or a liquidator;
13. Increase or reduction of the Issuer's share capital;
14. Issue of convertible bonds or bonds with pre-emptive rights, issue of subscription warrants;

15. Acquisition of the Issuer's own shares for the purpose of offering them to the Issuer's employees or to persons who were employed by the Issuer or its related entities for at least three years;
16. Mandatory buy-back of shares;
17. Creation, use and liquidation of capital reserves;
18. Use of statutory reserve funds;
19. Decisions on claims for redress of any damage caused in connection with the Issuer's formation or the exercise of management or supervisory duties;
20. Merger, transformation or demerger of the Issuer;
21. Relocation of the Issuer's registered office abroad;
22. Establishment of preference on shares;
23. Establishment of an EU-registered company, transformation into or joining such company;
24. Amendments to the Issuer's Articles of Association and changes in its business profile;
25. Dissolution and liquidation of the Issuer;
26. Definition of the rules of remuneration for Supervisory Board members.
27. Subscription, acquisition or disposal of shares in companies of the PGNiG Group which function, pursuant to generally applicable laws, as a distribution system operator or storage system operator, including definition of the terms and procedures for the disposal;
28. Formation of a company, or acquisition of or subscription for shares in a company other than the company referred to in item 27 above, except if:
  - a) made in exchange for the Company's claims as part of settlement or arrangement proceedings;
  - b) made with a view to implementing the strategy approved in accordance with Article 33.1.6a and related to a company whose business consists in:
    - production or generation of fuels or energy, or
    - trading in fuels or energy, or
    - transmission, distribution or transport of fuels or energy, or
    - construction of buildings and structures used for the production, generation, transmission, distribution or transport of fuels or energy, or
    - production or supply of steam, hot water or air for air-conditioning systems, or
  - c) is related to a company in which the Company holds at least a 50% interest; or
  - d) is related to acquisition of or subscription for shares in other companies which have not yet commenced operations; or
  - e) is made with a view to implementing the strategy approved in accordance with

Article 33.1.6a and related to the acquisition of or subscription for shares in a company that owns, as part of a holding company structure, shares in the companies referred to in item b; or

f) is made in the primary or secondary trading of securities on the public market;

29. Disposal of shares in a company other than the company referred to in item 27 above, including definition of the terms and procedure for the disposal, except for:

a) disposal of shares traded on the public market;

b) disposal of shares held by the Company if the holding does not exceed 10% of the share capital of a given company;

c) disposal of shares acquired in exchange for the Company's claims as part of settlement or arrangement proceedings.

### **10.3. Shareholders' rights at General Meetings and their exercise**

Shareholders have the right to participate in General Meetings and to exercise the voting rights attached to their shares.

Each shareholder of the Issuer has the right to participate in General Meetings, with one share conferring the right to one vote.

Only persons who have been the Issuer's shareholders for at least 16 days prior to the date of the General Meeting (the record date for participation in the General Meeting) are entitled to participate in the General Meeting. The record date for participation in the General Meeting is the same for the holders of rights under bearer shares and under registered shares.

Holders of rights under registered shares or provisional certificates as well as pledgees and usufructuaries holding voting rights are entitled to participate in the General Meeting, provided that they are entered in the share register on the record date for participation in the General Meeting.

Bearer shares in certificated form entitle their holders to participate in the General Meeting if the share certificates are submitted with the Company no later than on the record date for participation in the General Meeting and are not collected prior to the end of that day. In place of their shares, a shareholder may submit a document confirming that their shares have been deposited with a notary public, bank or investment firm having its registered office or a branch in the European Union, or in a state which is a party to the treaty on the European Economic Area, as indicated in the notice of the General Meeting. The document should specify the serial numbers of the share certificates and should state that the share certificates will not be released prior to the end of the record date for participation in the General Meeting.

The list of entities entitled to participate in the General Meeting as holders of rights under bearer shares is determined based on the shares submitted with the Company and on a list prepared by Krajowy Depozyt Papierów Wartościowych S.A. (Polish National Depository for Securities), in accordance with the provisions of the Act on Trading in Financial Instruments.

Shareholders may participate in General Meetings and exercise their voting rights in person, through a representative or through a proxy. Powers of proxy should be granted in written or electronic form. A written or electronic document confirming the right to represent a shareholder at the General Meeting is deemed legally valid and needs no other confirmation, unless the Management Board or the Chairperson of the General Meeting has doubts, *prima facie*, about its authenticity or validity.

Shareholder(s) representing at least one-twentieth of the Issuer's share capital, as well as the State Treasury (irrespective of its equity interest in the Issuer), may demand that the General Meeting be convened, provided that they submit the request in a written or electronic form. If the Management Board fails to convene the General Meeting at the request of the shareholder(s) within two weeks from the date the request was submitted, the registry court may, after demanding a relevant representation from the Management Board, authorise the shareholder(s) to convene the Meeting. Additionally, shareholders representing at least one-twentieth of the Issuer's share capital may request that certain matters be placed on the agenda of the forthcoming General Meeting. The same right is held by the State Treasury, irrespective of its equity interest in the Issuer. Any such request must be made in the Polish language and be sent to the Issuer in a written or electronic form. The request should contain the grounds for, or draft resolutions of, the proposed agenda items and should be submitted to the Management Board no later than 21 days before the planned date of the General Meeting. A shareholder or shareholders representing at least one-twentieth of the Issuer's share capital may, before a General Meeting, submit to the Company, in written or electronic form, draft resolutions on items which have been, or are to be, entered on the agenda of the General Meeting. Any item included in the agenda of the General Meeting may, at the request of the shareholder(s), be removed or abandoned only if a relevant resolution is passed by a majority of three quarters of votes and if all the shareholders that made the request and attend the meeting consent to such removal or abandonment.

The Company's Articles of Association do not provide for the possibility of participating in the General Meeting by means of electronic communication (including speaking at the General Meeting by means of electronic communication), or of exercising voting rights by postal ballot or by means of electronic communication.

At the request of shareholders representing at least one-fifth of the share capital, the Supervisory Board is elected by way of block voting. Shareholders at the General Meeting representing that portion of the shares resulting from division of the total number of represented shares by the number of Supervisory Board members, may form a block to elect one member of the Supervisory Board, but do not then participate in the elections of other members. Shareholders that belong to a block may exercise their voting rights exclusively within the block, which means that the shares held by them cannot be divided. The number of Supervisory Board members that may be elected within a block is determined by dividing the number of shares represented by the block by the minimum number of shares necessary to form a block. If a position on the Supervisory Board that should be filled by an appropriate block remains vacant, it is filled by the vote of all shareholders not participating in the block voting.

At the General Meeting, the Management Board is required to provide shareholders – at their request – with information on the Issuer, if such information is needed to assess an item on the Meeting's agenda. The Management Board may refuse to provide information if this could adversely affect the Issuer, its affiliate, or its subsidiary company or co-operative, especially through disclosure of any technical, trade or organisational secrets.

A Management Board member may refuse to provide information if this could lead to their criminal, civil or administrative liability.

In justified cases, the Management Board may provide the information in writing within two weeks of being requested to do so at the General Meeting.

An answer is deemed to have been given if the relevant information is available on the Issuer's website in the section dedicated to shareholders' questions and answers to the questions.

Information on the Issuer may also be provided outside the General Meeting. Such information, along with indication of when and to whom it was provided, should be disclosed by the Management Board in writing in the materials to be presented at the next General Meeting. These materials need not include such information which has been made publicly available, including by way of current reports issued pursuant to Par. 38.1.12 of the Regulation, or in the information provided at the General Meeting.

A shareholder may require that a list of shareholders be sent to him/her free of charge by e-mail, may inspect the book of minutes or demand to be given copies of the resolutions of the General Meetings certified as true copies by the Management Board.

Moreover, a shareholder may request to be provided with certified copies of proposals to the items included in the agenda one week before a General Meeting. Copies of the Directors' Report on the Company's operations and of the financial statements, along with copies of the Supervisory Board's report and the auditor's opinion are provided to the shareholders at their request, not later than 15 days before the Annual General Meeting.

At General Meetings, attending shareholders may propose procedural motions, including motions to change the sequence of items on the agenda, or to order a break. Each shareholder may also request that a matter be voted on by way of secret ballot.



The Issuer has its own website, where the following information is made available from the date of the convening of a General Meeting:

1. Notice of the General Meeting.
2. Information on the total number of Company shares and the number of votes attached to such shares as at the notice date, and on types of shares and the number of votes attached to the shares of each type (if such variety exists).
3. The documents to be presented to the General Meeting.
4. Draft resolutions or – if no resolutions are planned to be adopted – comments by the PGNiG Management or Supervisory Board on matters which have been placed on the agenda or are to be placed on the agenda prior to the General Meeting.

## **11. Composition and activities of the Issuer's management, supervisory and administrative bodies or their committees; changes in their composition during the last financial year**

### **11.1. Activities of management bodies – Management Board**

#### **11.1.1. Composition of the Management Board**

As at January 1st 2014, the Issuer's Management Board was composed of:

1. Mr Mariusz Zawisza – President,
2. Mr Jerzy Kurella – Vice-President of the Management Board, Trade,
3. Mr Jarosław Bauc – Vice-President, Finance,
4. Mr Zbigniew Skrzypkiewicz – Vice-President, Exploration and Production,
5. Mr Andrzej Parafianowicz – Vice-President, Corporate Affairs.

On April 3rd 2014, the PGNiG Supervisory Board appointed Mr Waldemar Wójcik as Member of the PGNiG Management Board elected by the employees, for the joint three-year term of office commencing December 30th 2013.

On June 18th 2014, the Supervisory Board unanimously resolved to suspend Mr Andrzej Parafianowicz from duties as Vice-President of the PGNiG Management Board for Corporate Affairs pending an investigation concerning comments he made regarding the Company which have been released into the public domain.

On August 4th 2014, Mr Andrzej Parafianowicz resigned as PGNiG Management Board Member.

On December 29th 2014, the Supervisory Board removed Mr Jerzy Kurella from the PGNiG Management Board and the position of Vice-President for Trade.

As at December 31st 2014, the Issuer's Management Board was composed of:

1. Mr Mariusz Zawisza – President,
2. Mr Jarosław Bauc – Vice-President, Finance,
3. Mr Zbigniew Skrzypkiewicz – Vice-President, Exploration and Production,
4. Mr Waldemar Wójcik – Vice-President.

Ms Violetta Jasińska-Jaśkowiak was the Company's Commercial Proxy throughout 2014.

### **11.1.2. Rules governing the operation of the Management Board**

The operation of the Management Board is defined in its Rules of Procedure, adopted by the Management Board and approved by the Supervisory Board.

The Rules of Procedure for the Management Board are available on the Issuer's website at [www.pgnig.pl](http://www.pgnig.pl) in the 'Corporate Governance' section.

The Management Board is composed of two to seven members. The number of Management Board members is determined by the Supervisory Board, being the body authorised to appoint individual Management Board members, or the entire Management Board. Management Board members are appointed for a joint term of three years. As long as the State Treasury remains a shareholder of the Issuer and the Issuer's annual average headcount exceeds 500, the Supervisory Board appoints as a Management Board member one person elected by the employees, to serve for the Management Board's term of office.

The Management Board manages the affairs of the Issuer and represents the Issuer in or out of court. The powers and responsibilities of the Management Board provide for management of all of the Issuer's affairs, other than those which law or the Issuer's Articles of Association reserve for the General Meeting or the Supervisory Board. The Management Board is headed by the President of the Management Board.

The responsibilities of the Management Board particularly include:

1. Preparation of annual business plans, including investment plans, the strategy for the Company and the PGNiG Group, as well as long-term strategic plans, and their submission to the Supervisory Board for approval;
2. Submission to the minister competent for matters pertaining to the State Treasury and the minister competent for economy, upon their request, of detailed reports on projects undertaken with a view to ensuring the country's energy security;
3. Submission to the minister competent for matters pertaining to the State Treasury, within two months from the closing of the General Meeting approving the financial statements and the Directors' Reports of the Company's subsidiaries and related companies, of annual reports on the matters listed below, with an assessment of their content in the context of Poland's energy security:
  - a) Implementation of strategic investment projects or involvement in investment

projects resulting in lasting or temporary deterioration of the economic efficiency of that subsidiary's or related company's operations, but that are necessary to ensure Poland's energy security,

- b) Entry by the operator or owner of a distribution system or an interconnection gas pipeline into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a transmission network, distribution network, interconnection gas pipeline or direct gas pipeline, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
  - c) Entry by the operator or owner of a storage facility into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a storage facility, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
  - d) Entry by the owner of a generation unit or a cogeneration unit into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a generation unit or cogeneration unit, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
  - e) Entry into an obligational relationship with a foreign entity for hydrocarbon exploration, appraisal or production, within the meaning of the Polish Geological and Mining Law, if the value of the obligational relationship exceeds the PLN equivalent of EUR 5,000,000,
    - with the proviso that items a) to e) above do not apply to information on credit agreements or maintenance services, including overhauls, geophysical, drilling and well services and projects, nor to services or deliveries under such agreements or projects,
    - item e) does not apply to information on the activities of a foreign subsidiary's contracts and agreements concluded as part of the day-to-day management of the organisational structure, including employment contracts, use of assets where the related liabilities are equal to or less than EUR 5,000,000, and day-to-day administrative expenses;
4. Submission of relevant information to the minister competent for matters pertaining to the State Treasury, within 21 days from the closing of the General Meeting of a subsidiary or related company which addressed the following matters:
- a) Implementation of strategic investment projects or involvement in investment projects resulting in lasting or temporary deterioration of the economic efficiency of that subsidiary's or related company's operations, but that are necessary to

- ensure Poland's energy security,
- b) Entry by the operator or owner of a distribution system or an interconnection gas pipeline into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a transmission network, distribution network, interconnection gas pipeline or direct gas pipeline, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
  - c) Entry by the operator or owner of a storage facility into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a storage facility, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
  - d) Entry by the owner of a generation unit or a cogeneration unit into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a generation unit or cogeneration unit, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
  - e) Entry into an obligational relationship with a foreign entity for hydrocarbon exploration, appraisal or production, within the meaning of the Polish Geological and Mining Law, if the value of the obligational relationship exceeds the PLN equivalent of EUR 5,000,000,
  - f) Approval of annual budgets, with detailed information on resolutions adopted by the General Meeting of the subsidiary or related company on the matters specified in items a) to f), with an assessment of their implications for the country's energy security,
- the above does not apply to information on credit agreements and maintenance services, including overhauls, geophysical, drilling and well services and projects, as well as services or deliveries under such agreements or projects,
  - item e) does not apply to information on the activities of a foreign subsidiary's contracts and agreements concluded as part of the day-to-day management of the organisational structure, including employment contracts, use of assets where the related liabilities are equal to or less than EUR 5,000,000, and day-to-day administrative expenses;
5. Preparation of economic and financial reviews of the Company and its subsidiaries acting as distribution or storage system operators, in the form defined by the minister competent for matters pertaining to the State Treasury, and their submission to the minister competent for matters pertaining to the State Treasury and the minister competent for economy by the end of the month in which a periodic report was

published at the Warsaw Stock Exchange.

The Management Board submits to the Supervisory Board the following documents for assessment: financial statements for the preceding financial year, with the auditor's opinion; the Directors' Report on the Issuer's operations in the preceding financial year, and a proposal for distribution of profit or coverage of loss for that financial year. These documents should be submitted without the Management Board being called upon to do so, and with sufficient time for the Supervisory Board to assess them before they are presented to the General Meeting.

Declarations of will may be made on behalf of the Issuer by two Management Board members acting jointly, or one Management Board member acting jointly with a commercial proxy. Any issues which fall beyond the scope of the day-to-day management of the Issuer's affairs require adoption of a resolution.

In particular, the Management Board adopts resolutions on the following issues:

1. Adoption of the Management Board's rules of procedure;
2. Adoption of organisational rules for the Issuer's business;
3. Establishment and closure of branches;
4. Appointment of commercial proxies;
5. Division of powers between the Management Board members, provided that a relevant resolution of the Management Board must be approved by the Supervisory Board;
6. Appointment and removal from office of members of the governing bodies of the company's subsidiaries or related companies, to the permitted extent of the company's powers;
7. Contracting and extending loans and contracting credit facilities, except where the Articles of Association require the Supervisory Board's approval of or opinion on the transaction;
8. Adoption of annual business plans, including investment plans, subject to the approval of the Supervisory Board;
9. Adoption of the strategy for the Company and the PGNiG Group and long-term strategic plans, subject to the approval of the Supervisory Board;
10. Assumption of contingent liabilities, including extension by the Issuer of guarantees and sureties, as well as issuance of promissory notes, except where the Articles of Association require the Supervisory Board's approval or opinion;
11. Acquisition or disposal of non-current assets, including property, perpetual usufruct rights or interests in property, with a value equal to or higher than the PLN equivalent of EUR 50,000, except where the Articles of Association require the Supervisory Board's approval or a resolution of the General Meeting;
12. Issues to be considered by the Supervisory Board or the General Meeting upon the Management Board's request;

13. Approval of detailed reports on the performance of projects undertaken with a view to ensuring the country's energy security which are submitted to the minister competent for matters pertaining to the State Treasury and the minister competent for the economy, upon their request;
14. Formation of another company, subscription for, acquisition of or disposal of shares in another company, including definition of the terms and procedures for their disposal, with a value not exceeding the PLN equivalent of EUR 2,000,000, provided that such transaction does not require approval by the General Meeting;
15. Donations, release of debtors from their debt obligations and entry into other agreements beyond the scope of business defined in the Issuer's Articles of Association;
16. Execution of sale or purchase transactions and contracts or other disposal agreements, as well as the making of declarations of will and assumption of liabilities in respect of: gas fuels (including LNG and LNG regasification), crude oil, natural gasoline, other oil and gas derivatives, electricity, heat, emission allowances for greenhouse gases or other substances; property rights under certificates of origin for electricity, hard coal, lignite, biomass, ancillary control services, other derivative rights based on gas fuels or electricity; other financial instruments and commodities, provision of transmission capacities for electricity, performance of balancing and dispatching services or provision of transmission capacities for gas fuels with a value exceeding 20% of the Issuer's share capital (however, in the case of contracts with a value exceeding the PLN equivalent of EUR 100,000,000, the opinion of the Supervisory Board is required, except where the Articles of Association specifically require the Supervisory Board's approval);
17. Entry into legal transactions other than those listed in items 1 to 16, if their value exceeds the PLN equivalent of EUR 400,000.

In those matters which do not require adoption of a Management Board resolution, each Management Board member attends to the responsibilities assigned to them on an individual basis. During Management Board meetings, each Management Board member has the duty to brief the other Management Board members on their material decisions and the results of their supervisory work, in particular with respect to supervision of the Issuer's business units, in accordance with the division of powers between the Management Board members.

Management Board meetings are held as needed. Each Management Board member may submit a request to the President of the Management Board (or acting President) to call a Management Board meeting in connection with matters requiring an urgent decision by the Management Board or for the purpose of presenting information on matters of significance to the Issuer. The Chairperson of the Supervisory Board is also entitled to request that a Management Board meeting be called, by providing the President of the Management Board with a written agenda for the meeting. In addition, the Chairperson of the Supervisory Board has the right to demand of the President of the Management Board that certain items be placed on the agenda of a Management Board meeting.

In accordance with the Articles of Association of PGNiG S.A., in justified cases votes may be cast by written ballot or by means of remote communication, with the minutes of such voting to be approved at the next meeting of the Management Board.

The Supervisory Board defines the rules and amounts of remuneration for Management Board members, unless applicable mandatory provisions of law state otherwise.

## **11.2. Activities of supervisory bodies – Supervisory Board**

### **11.2.1. Composition of the Supervisory Board**

As at January 1st 2014, the PGNiG Supervisory Board was composed of:

1. Mr Wojciech Chmielewski – Chairman of the Supervisory Board,
2. Mr Marcin Moryń – Deputy Chairman of the Supervisory Board,
3. Mr Mieczysław Kawecki – Secretary of the Supervisory Board,
4. Ms Agnieszka Chmielarz – Member of the Supervisory Board,
5. Mr Józef Głowacki – Member of the Supervisory Board,
6. Mr Janusz Pilitowski – Member of the Supervisory Board,
7. Ms Ewa Sibrecht-Ośka – Member of the Supervisory Board,
8. Ms Jolanta Siergiej – Member of the Supervisory Board.

On March 26th 2014, the Extraordinary General Meeting of PGNiG S.A. appointed Mr Andrzej Janiak as member of the Company's Supervisory Board.

In connection with the expiry of the Supervisory Board's term of office, the Annual General Meeting held on May 15th 2014:

- removed the following persons from the PGNiG Supervisory Board as of May 15th 2014:

- a) Ms Agnieszka Chmielarz,
- b) Mr Wojciech Chmielewski,
- c) Mr Józef Głowacki,
- d) Mr Andrzej Janiak,
- e) Mr Mieczysław Kawecki,
- f) Mr Marcin Moryń,
- g) Mr Janusz Pilitowski,
- h) Ms Ewa Sibrecht-Ośka,
- i) Ms Jolanta Siergiej,

and appointed the following persons to the Supervisory Board as of May 15th 2014:

- a) Mr Wojciech Chmielewski,
- b) Mr Sławomir Borowiec,
- c) Mr Andrzej Janiak,
- d) Mr Bogusław Nadolnik,
- e) Mr Janusz Pilitowski,
- f) Ms Agnieszka Trzaskalska,
- g) Mr Ryszard Wąsowicz,
- h) Ms Agnieszka Woś,
- i) Ms Magdalena Zegarska.

On June 30th 2014, PGNiG received a letter of resignation from Ms Agnieszka Trzaskalska, whereby she resigned as member of the PGNiG Supervisory Board, without stating a reason, with effect from June 30th 2014.

On November 5th 2014, PGNiG received a letter of resignation from Mr Bogusław Nadolnik, whereby he resigned as member of the PGNiG Supervisory Board, without stating a reason, with effect from November 6th 2014.

As at December 31st 2014, the Supervisory Board consisted of seven members:

1. Mr Wojciech Chmielewski – Chairman of the Supervisory Board,
2. Ms Agnieszka Woś – Deputy Chairperson of the Supervisory Board,
3. Ms Magdalena Zegarska – Secretary of the Supervisory Board,
4. Mr Janusz Pilitowski – Member of the Supervisory Board,
5. Mr Sławomir Borowiec – Member of the Supervisory Board,
6. Mr Andrzej Janiak – Member of the Supervisory Board,
7. Mr Ryszard Wąsowicz – Member of the Supervisory Board.

The Supervisory Board's term of office expires on May 15th 2017.

### **11.2.2. Rules governing the operation of the Supervisory Board**

The Supervisory Board operates in accordance with the rules set out in the Commercial Companies Code, the Articles of Association and the Rules of Procedure for the Supervisory Board. The Rules of Procedure for the Supervisory Board have been adopted by a Supervisory Board resolution and are available on the Issuer's website at [www.pgnig.pl](http://www.pgnig.pl) in the 'Corporate Governance' section.

The Issuer's Supervisory Board is composed of five to nine members appointed by the General Meeting. One Supervisory Board member should meet the independence criteria



specified in the Articles of Association. As long as the State Treasury remains a shareholder of the Issuer, the State Treasury, represented by the minister competent for matters pertaining to the State Treasury, acting in this respect in agreement with the minister competent for economy, has the right to appoint and remove one member of the Supervisory Board. If the Supervisory Board is composed of up to six members, two members are appointed from among the candidates elected by the Issuer's employees. If the Supervisory Board is composed of seven to nine members, three members are appointed from among the candidates elected by the Issuer's employees.

Supervisory Board members are appointed for a joint term of office lasting three years.

The Supervisory Board exercises ongoing supervision of the Issuer's activities in all areas of its operations, and presents its opinions on all matters submitted by the Management Board for consideration to the General Meeting. The powers and responsibilities of the Supervisory Board particularly include:

1. Assessment of the Directors' Report on the Issuer's operations and of the financial statements for the preceding financial year, in terms of their consistency with the accounting books, supporting documentation, and the actual state of affairs;
2. Assessment of the Management Board's proposals concerning distribution of profit or coverage of loss;
3. Submission to the General Meeting of written reports on results of the activities referred to in items 1 and 2;
4. Assessment of the consolidated financial statements with respect to their consistency with the accounting books, supporting documentation, and the actual state of affairs, as well as assessment of the Directors' Report on the Issuer's operations, and reporting to the General Meeting on the results of these assessments;
5. Appointment of an auditor to audit the financial statements;
6. Approval of annual business plans, including investment plans;
7. Approval of the strategy for the Company and the PGNiG Group and long-term strategic plans;
8. Adoption of detailed rules governing the Supervisory Board's operation;
9. Approval of the consolidated text of the Articles of Association, drawn up by the Issuer's Management Board;
10. Approval of the Rules of Procedure for the Management Board;
11. Approval of the organisational rules for the Issuer's enterprise;
12. Approval of the Management Board's resolution on division of powers between the Management Board members;
13. Issue of opinions on all matters submitted by the Management Board for consideration to the General Meeting;
14. Issue of opinions on detailed reports concerning the performance of projects

undertaken with a view to ensuring the country's energy security, submitted by the Management Board to the minister competent for matters pertaining to the State Treasury and the minister competent for economy;

15. Issue of opinions on requests to be submitted to the shareholder State Treasury, represented by the minister competent for matters pertaining to the State Treasury, to approve: 1) any changes to the material provisions of existing trade agreements for import of natural gas to Poland, as well as the execution of new trade agreements, 2) any strategic investment projects or the Company's involvement in investment projects which, permanently or temporarily, impair the economic efficiency of the Company's business activities, but which are necessary to ensure Poland's energy security;
16. Granting of approval to the Management Board for:
  - a) Acquisition of non-current assets with a value falling between the PLN equivalent of EUR 500,000 and EUR 2,000,000, except where the transaction has been provided for in any annual business plans, including investment plans, long-term strategic plans and investment plans for development of the transmission system, previously approved by the Supervisory Board,
  - b) Disposal of non-current assets with a value falling between the PLN equivalent of EUR 500,000 and EUR 1,000,000, except where the transaction has been provided for in any of the plans referred to in a) above, and approved by the Supervisory Board,
  - c) Assumption of other liabilities whose value exceeds 20% of the Company's share capital, except where the liability has been provided for in the plans referred to in item 6 and approved by the Supervisory Board, or arises from execution of or amendments to an agreement on provision of gas fuel transmission or distribution services to the Company,
  - d) Execution of an agreement of the type discussed in Art. 19b of the Act on Commercialisation and Privatisation, dated August 30th 1996,
  - e) Entry into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a transmission network, distribution network, interconnection gas pipeline or direct gas pipeline, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
  - f) Entry into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a storage facility, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,

- g) Entry into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a generation unit or cogeneration unit, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
- h) Entry into an obligational relationship with a foreign entity for hydrocarbon exploration, appraisal or production, within the meaning of the Polish Geological and Mining Law, if the value of the obligational relationship exceeds the PLN equivalent of EUR 5,000,000,
  - with the proviso that items e) to h) above do not apply to credit agreements or maintenance services, including overhauls, geophysical, drilling and well services and projects, as well as services or deliveries under such agreements or projects,
  - item h) does neither apply to the activities of a foreign subsidiary pertaining to contracts and agreements concluded as part of day-to-day management of the organisational structure, including employment contracts, use of assets where the related liabilities are equal to or less than EUR 5,000,000, and day-to-day administrative expenses;
- 17. Appointment and removal of Management Board members;
- 18. Definition of rules and amounts of remuneration for Management Board members, unless applicable mandatory provisions of law state otherwise;
- 19. Suspension of Management Board members from their duties – on material grounds, and by an absolute majority of votes;
- 20. Delegation of Supervisory Board members to temporarily replace Management Board members unable to perform their duties;
- 21. Conduct of the qualification procedure referred to in Art. 19a of the Act on Commercialisation and Privatisation;
- 22. Granting of permission for establishment and closure of the Issuer's foreign branches;
- 23. Granting of permission to Management Board members to accept positions in the governing bodies of other companies, where such permission is required by law;
- 24. Granting of approval for the Company to form another company with share capital exceeding the PLN equivalent of EUR 2,000,000, or to subscribe for, acquire or dispose of shares in another company with a value exceeding the PLN equivalent of EUR 2,000,000, including definition of the terms and procedure for such disposal. If a transaction requires approval by the General Meeting, the Supervisory Board only issues an opinion concerning the proposal;
- 25. Monitoring of the Issuer's debt level;
- 26. Issue of opinions on Management Board recommendations for appointment or removal of the Issuer's representatives on the management and supervisory boards of

System Gazociągów Tranzytowych EuRoPol GAZ S.A. and submission of such recommendations for approval to the shareholder State Treasury, represented by the minister competent for matters pertaining to the State Treasury;

27. Issue of opinions on the exercise of voting rights by the Issuer's representative at the General Meeting of System Gazociągów Tranzytowych EuRoPol GAZ S.A.;
28. Approval of how the Issuer's representative should vote at the General Meetings of the distribution system operators, with respect to approval of the operators' annual budgets;
29. Approval of how the Issuer's representative should vote at the General Meetings of the distribution system operators, with respect to approval of the operators' long-term strategic plans;
30. Approval of how the Issuer's representative should vote at the General Meetings of the distribution system operators, with respect to:
  - a) Amendments to a company's articles of association,
  - b) Increase or reduction of a company's share capital,
  - c) Merger, transformation or demerger of a company,
  - d) Sale of a company's shares,
  - e) Sale and lease of a company's business or organised part, or creation of proprietary interests therein,
  - f) Dissolution and liquidation of a company,
  - g) Entry into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a distribution network, interconnection gas pipeline or direct gas pipeline, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000, excluding credit agreements and maintenance services, overhauls, well services and projects, as well as services or deliveries under such agreements or projects;
31. Approval of how the Issuer's representative should vote at the General Meetings of the storage system operators, with respect to:
  - a) Amendments to a company's articles of association,
  - b) Increase or reduction of a company's share capital,
  - c) Merger, transformation or demerger of a company,
  - d) Sale of a company's shares,
  - e) Sale and lease of a company's business or organised part, or creation of proprietary interests therein,
  - f) Dissolution and liquidation of a company,

- g) Entry into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a storage facility, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000, excluding credit agreements and maintenance services, overhauls, well services and projects, as well as services or deliveries under such agreements or projects;
32. Approval of how the PGNiG S.A. representative should vote at the General Meeting of a company in which the Company holds at least a 50% interest, or which owns a transmission network, distribution network, interconnection gas pipeline, direct gas pipeline, storage facility, or a generation or cogeneration unit (in the case of companies owning generation or cogeneration units – provided that it is engaged in energy trading activities within the meaning of the Polish Energy Law), subject to items 30 and 31, with respect to the following matters:
- a) Amendments to their articles of association,
  - b) Increase or reduction in their share capital,
  - c) Their merger, transformation or demerger,
  - d) Sale of their shares,
  - e) Disposal, lease or creation of limited property rights in their business or its organised part,
  - f) Their dissolution and liquidation,
  - g) Creation of a pledge or other forms of encumbrance over their shares,
  - h) Obliging their shareholders to make additional contributions to equity,
  - i) Issue of bonds/notes,
  - j) Entry into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a transmission network, distribution network, interconnection gas pipeline or direct gas pipeline, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
  - k) Entry into an obligational relationship with a foreign entity in relation for the planning, analysis, construction, expansion or disposal of a storage facility, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,
  - l) Entry into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a generation unit or cogeneration

unit, within the meaning of the Polish Energy Law, if the obligational relationship is related to infrastructure with a present value or – in the case of new infrastructure or infrastructure being planned – with an estimated value exceeding the PLN equivalent of EUR 500,000,

m) Entry into an obligational relationship with a foreign entity for hydrocarbon exploration, appraisal or production, within the meaning of the Polish Geological and Mining Law, if the value of the obligational relationship exceeds the PLN equivalent of EUR 5,000,000,

– with the proviso that items j) to m) above do not apply to credit agreements or maintenance services, including overhauls, geophysical, drilling and well services and projects, as well as services or deliveries under such agreements or projects,

– item m) does not apply to a foreign subsidiary's activities pertaining to contracts and agreements concluded as part of the day-to-day management of the organisational structure, including employment contracts, use of assets where the related liabilities are equal to or less than EUR 5,000,000, and day-to-day administrative expenses;

33. Issue of opinions on Management Board proposals for assumption of liabilities with a value exceeding the PLN equivalent of EUR 100,000,000.

Supervisory Board meetings are convened by the Chairperson or Deputy Chairperson of the Supervisory Board any time the Issuer's interest so requires, but no less frequently than once every two months. Supervisory Board meetings are also convened at the request of a Supervisory Board member, or at the request of the Management Board. The Supervisory Board express its opinions exclusively in the form of resolutions. The Supervisory Board may adopt resolutions if at least half of all its members are present at a meeting, and all the members have been invited to participate. The Supervisory Board may only adopt resolutions on matters included in the agenda, which however can be amended if all members are present at a meeting and no member objects to the agenda being amended. The Supervisory Board adopts resolutions in an open vote by an absolute majority of votes. A secret vote is ordered at the request of a Supervisory Board member or when the issue put to vote concerns personnel matters. Members of the Management Board may be invited to participate in Supervisory Board meetings. In order to be valid, a resolution of the Supervisory Board on appointment of an auditor requires a favourable vote from a member of the Supervisory Board who meets the independence criteria defined in the Issuer's Articles of Association. Except as specified in the Rules of Procedure for the Supervisory Board, the Supervisory Board may adopt resolutions by written ballot or by means of remote communication. Adoption of a resolution using any of these methods must be justified, and a draft resolution must be made available to all Supervisory Board members beforehand.

The Chairperson of the Supervisory Board is entitled to request that a Management Board meeting be called, by providing the President of the Management Board with a written agenda for the meeting. The Chairperson of the Supervisory Board may request of the President of the Management Board that certain matters be included in the agenda of a Management Board meeting. The Management Board must submit the following documents to the Supervisory

Board for assessment: financial statements for the preceding financial year, with the auditor's opinion; the Directors' Report on the Issuer's operations in the preceding financial year, and a proposal for distribution of profit or coverage of loss for that financial year. These documents should be submitted without the Management Board being called upon to do so, and with sufficient time for the Supervisory Board to assess them before they are presented to the General Meeting.

The Supervisory Board or its members delegated to perform certain supervisory functions independently are authorised to supervise all areas of the Issuer's business, and in particular to examine all of the Issuer's documents, demand that the Management Board and the Issuer's employees produce reports and explanations, or review the Issuer's assets.

The Supervisory Board may appoint standing or ad hoc committees (established as needed), to act as the Supervisory Board's collegiate advisory and opinion-giving bodies. The Supervisory Board also has the right to seek opinions from legal counsels and to engage experts in relevant fields to provide opinions on matters within the Supervisory Board's range of competences.

The amount of remuneration to be received by Supervisory Board members is set by the General Meeting, pursuant to the Act on Remuneration of Persons Managing Certain Legal Entities, dated March 3rd 2000 (Dz.U. No. 26, item 306, as amended).

For important reasons, the Supervisory Board may delegate individual members to perform certain supervisory functions independently for a specified term. A Supervisory Board member so delegated must submit written reports to the Supervisory Board on all actions taken.

### **11.3. Committees**

In 2014, there was one committee operating at the Company – the Audit Committee. The Audit Committee is composed of at least three members of the Issuer's Supervisory Board.

In the period January 1st to December 31st 2014, the Audit Committee held five meetings and adopted five resolutions. In that time, the Committee did not adopt any resolutions by written ballot or by means of remote communication. At four of the meetings held, the Audit Committee met with the auditor and performed a review and assessment of the Company's financial reporting system.

### **11.3.1. Composition of the Audit Committee**

As at January 1st 2014, the Audit Committee was composed of:

1. Ms Jolanta Siergiej – Deputy Chairman of the Audit Committee,
2. Mr Józef Głowacki – Member of the Audit Committee,
3. Mr Janusz Pilitowski – Member of the Audit Committee.

On April 23rd 2014, the PGNiG Supervisory Board appointed Mr Andrzej Janiak, meeting the independence criteria, as member of the Audit Committee.

On May 15th 2014, the Annual General Meeting of PGNiG S.A. removed from office all Supervisory Board members.

On August 7th 2014, the PGNiG Supervisory Board passed a resolution setting the number of Audit Committee members at four, and appointed the following persons to the Audit Committee: Ms Agnieszka Woś, Ms Magdalena Zegarska, Mr Andrzej Janiak and Mr Bogusław Nadolnik.

On August 11th 2014, the Audit Committee appointed Mr Bogusław Nadolnik as its Chairman.

On September 25th 2014, the PGNiG Supervisory Board passed a resolution setting the number of Audit Committee members at five.

On September 25th 2014, the PGNiG Supervisory Board appointed Mr Janusz Pilitowski as member of the Audit Committee.

On September 25th 2014, the Audit Committee appointed Mr Janusz Pilitowski as its Deputy Chairman.

On November 6th 2014, Mr Bogusław Nadolnik tendered his resignation from the PGNiG Supervisory Board.

As at December 31st 2014, the Audit Committee was composed of:

1. Mr Janusz Pilitowski – Deputy Chairman of the Audit Committee,
2. Ms Agnieszka Woś – Member of the Audit Committee,
3. Ms Magdalena Zegarska – Member of the Audit Committee,
4. Mr Andrzej Janiak – Member of the Audit Committee (independent member of the Supervisory Board).

As at December 31st 2014, the provision of the Rules of Procedure for the Supervisory Board's Audit Committee stipulating that the Audit Committee should include at least one independent member was complied with.



### **11.3.2. Rules governing the operation of the Audit Committee**

The Audit Committee operates within the Supervisory Board as a standing committee, advising the Supervisory Board on matters for which the Board is responsible.

In accordance with the Rules of Procedure for the Supervisory Board's Audit Committee, the Audit Committee is composed of at least three members of the Supervisory Board, including at least one member independent of the Issuer or entities materially related to the Issuer, who is appointed by the General Meeting under Par. 36.1 of the Articles of Association and is qualified in accounting and finance. The members of the Audit Committee are appointed by the Supervisory Board.

Meetings of the Audit Committee are held as needed, but at least once every quarter, and are convened by the Chairperson of the Committee. The Chairperson of the Audit Committee may invite other members of the Supervisory Board to an Audit Committee meeting, as well as members of the Issuer's Management Board, the Issuer's employees, or other persons whose participation in a given meeting is considered important to the performance of the Committee's duties. The Audit Committee may adopt resolutions if at least a half of its members are present at a meeting and all the members have been properly invited. The Committee may adopt its resolutions by written ballot or by means of remote communication. Resolutions of the Audit Committee are adopted by a simple majority of votes cast. In the event of a tied vote, the Chairperson of the Audit Committee has the casting vote.

Every six months, the Audit Committee submits reports on its activities to the Supervisory Board. Each report is made available to the Issuer's shareholders at the next General Meeting.

The responsibilities of the Audit Committee include, in particular:

1. Monitoring of the financial reporting process;
2. Checking of financial information presented by the Issuer for reliability;
3. Monitoring of internal control, internal audit and risk management systems for their effectiveness;
4. Monitoring of the audit/review process for financial statements by external auditors;
5. Issuing recommendations to the Supervisory Board on the selection, appointment, re-appointment and removal of an auditor of financial statements, as well as the terms and conditions of the auditor's engagement;
6. Monitoring of the independence and objectivity of the auditor of financial statements;
7. Control of the nature and extent of services not related to audit or review of financial statements, but contracted from the auditor of financial statements;
8. Review of the external audit process's effectiveness and monitoring of the response of the members of the Management Board and the Issuer's employees to the external auditor's recommendations;
9. Examining the reasons for termination of the agreement with an auditor of financial statements.

President  
of the Management Board      Mariusz Zawisza

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Vice-President  
of the Management Board      Jarosław Bauc

.....

Vice-President  
of the Management Board      Zbigniew Skrzypkiewicz

.....

Vice-President  
of the Management Board      Waldemar Wójcik

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