



PGNiG

**Polskie Górnictwo Naftowe
i Gazownictwo SA**

**STATEMENT ON COMPLIANCE WITH CORPORATE
GOVERNANCE PRINCIPLES AT POLSKIE GÓRNICTWO
NAFTOWE I GAZOWNICTWO S.A. IN 2007**

Warsaw, April 4 2008

Pursuant to Par. 29.5 of the Warsaw Stock Exchange (WSE) Rules, in conjunction with the WSE Management Board's Resolution No. 1013/2007, dated December 11th 2007, defining the scope and structure of statements on compliance with corporate governance principles at listed companies, the Management Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. of Warsaw ("the Issuer") hereby publishes its statement on compliance with corporate governance principles in 2007. This statement refers to the Issuer's compliance with corporate governance principles laid down in "Best Practices in Public Companies 2005" and applicable in 2007.

1. Specification of corporate governance principles which were not applied by the Issuer, including description of circumstances and reasons for not applying a given principle, as well as manner in which the Issuer intends to remedy possible effects of a failure to apply a given principle or what measures it is going to take in order to minimise the risk of not applying a given principle in the future.

1.1. Best Practices of General Meetings – Principle 2

"A request made by parties entitled to do so for a general meeting to be convened and for certain issues to be put on its agenda should be justified. Draft resolutions proposed for adoption by the general meeting and other key documents should be presented to the shareholders together with justification and a supervisory board opinion before the general meeting to allow them time to review and evaluate the same."

The Issuer does not require any justification from the shareholders who make a request for a general meeting to be convened and for certain issues to be put on its agenda.

Pursuant to Par. 57.1 of the Issuer's Articles of Association, any motions concerning the matters reserved for the General Shareholders Meeting should be submitted together with a justification by the Management Board and an opinion by the Supervisory Board. The Supervisory Board's opinion is not required where the motions pertain to the Supervisory Board members, and a justification by the Management Board is not required if the motions pertain to the Management Board members.

In the Issuer's opinion, the above requirements provided for in the Issuer's Articles of Association partially convey the essence of the corporate governance principle under discussion, as they guarantee that every motion which concerns a matter reserved for the General Shareholders Meeting will be accompanied by an appropriate justification by the Management Board and an opinion by the Supervisory Board (except for the two situations described above). At the same time, in order to ensure unrestricted exercise of the shareholders' rights to request that a general meeting be convened and to place certain matters on its agenda, the Issuer has not introduced any additional requirement for justification to be provided whenever an entity makes a request for a general meeting to be convened and for certain issues to be put on its agenda. Taking into consideration the provisions of Par. 57.1 of the Issuer's Articles of Association (as described above), the Issuer is of the opinion that the failure to comply with the requirement to demand justification from the shareholders who make a request for a general meeting to be convened and for certain issues to be put on its agenda does not impair the transparency of the Issuer's constitutive body, i.e. the General Shareholders Meeting, or the decision-making processes at the Issuer.

1.2. Best Practices of Supervisory Boards – Principle 20

“a) At least half the members of the supervisory board should be independent members, subject to point (d) below. Independent members of the supervisory board should not have relations with the company and its shareholders or employees which could significantly affect the independent member’s ability to make impartial decisions;

b) Detailed independence criteria should be laid down in the company’s articles of association,

c) Without the consent of the majority of independent supervisory board members, no resolutions should be adopted on the following issues:

- performance of any kind by the company and any entities associated with the company in favour of management board members;*
- consent to the execution by the company or a subsidiary of a key agreement with an entity associated with the company, a member of the supervisory board or management board, or with their associated entities; and*
- appointment of an auditor to audit the company’s financial statements.*

d) In companies where one shareholder holds a block of shares carrying over 50% of all voting rights, the supervisory board should consist of at least two independent members, including an independent chairman of the audit committee, should such a committee be set up.”

There is only one independent Supervisory Board member on the Issuer’s Supervisory Board.

Pursuant to Par. 36.1 of the Articles of Association, one of the members of the Supervisory Board appointed by the General Shareholders Meeting should meet all of the following requirements:

- 1) he or she has been appointed in accordance with the election procedure set forth in the Articles of Association;
- 2) he or she may not be a related party or a subsidiary with respect to the Issuer;
- 3) he or she may not be a related party with respect to the Issuer’s parent undertaking or the parent undertaking’s subsidiary; and
- 4) he or she may not be related, in any way whatsoever, to the Issuer or any of the entities referred to in items 2 and 3, if such relation could materially affect such person’s ability to make independent decisions as a member of the Supervisory Board.

Given the Issuer’s specific situation related to the fact that – in accordance with Art. 12 of the Act on Commercialisation and Privatisation of August 30th 1996 (Dz.U. of 2002, No. 171, item 1397 as amended) – some of its Supervisory Board members are appointed by the company employees, the Issuer cannot increase the number of independent members on the Supervisory Board. Any increase in the number of independent Supervisory Board members above the current number set forth in the Articles of Association would lead to the situation where the State Treasury (the majority shareholder) would be unable to appoint the majority of Supervisory Board members. This in turn would violate the rule stipulating that the effect on the company’s business should be determined by the proportion of the share capital held.

1.3. Best Practices of Supervisory Boards – Principle 28

“The supervisory board should operate in accordance with its by-laws, which should be publicly available. The by-laws should stipulate that at least two committees should be set up:

- audit, and
- remuneration.

The remuneration committee should consist of at least two independent members and at least one person possessing the relevant qualifications and experience in accounting and finance. The committee's tasks should be specified in the board by-laws. The committees should present reports on their activities to the supervisory board every year. The company should then make these reports available to its shareholders."

The Rules of the Issuer's Supervisory Board do not provide for establishing an audit committee or remuneration committee, and no such committees have been set up.

In the Issuer's opinion, the current organisational system of the Issuer's Supervisory Board ensures proper performance of its supervisory functions, including, in particular, the independent Supervisory Board member having real influence on supervision over the Issuer's business.

As concerns the requirement to set up a remuneration committee, the Issuer – as a company in which the State Treasury holds more than 50% of the share capital – is obligated to observe the limits provided for in the Act on Remuneration of Persons Managing Certain Legal Entities, of March 3rd 2000 (Dz.U. No. 26, item 306, as amended) when defining the remuneration for persons serving on the Management Board and the Supervisory Board. As a consequence, the Issuer is of the opinion that setting up a remuneration committee to serve as an additional safeguard for the correctness of rules governing remuneration processes in a public company might be deemed unjustified in the light of the restrictions and rules applicable to the Issuer under generally binding laws.

Pursuant to the Articles of Association, the decisions concerning the rules of remuneration of the Supervisory Board members and the rules and amounts of remuneration of the Management Board members are taken by the General Shareholders Meeting.

However, if the need arises or if there is a change in circumstances, in particular concerning the Issuer's shareholder structure, the Issuer may consider full compliance with this corporate governance principle in full.

1.4. Best Practices In Relations with Third Parties and Third Party Institutions – Principle 43

"The auditor should be selected by the supervisory board on the recommendation of the audit committee, or by the general meeting on the recommendation of the supervisory board containing the audit committee recommendation. If an auditor other than the one recommended by the audit committee is chosen by either the board or the general meeting, detailed reasons should be given. Information on the selection of an auditing entity together with the relevant justification should be disclosed in the annual report."

Given that the Issuer does not comply with the principle concerning the internal working of the Supervisory Board, as described in item 1.3 above, it has not complied in full with Principle 43.

Pursuant to the Articles of Association, the auditor is selected by the Supervisory Board and the relevant resolution is valid only if the independent member of the Supervisory Board votes in favour of the resolution.

2. Description of the Mode of Operation of the Issuer's General Shareholders Meeting, its Basic Powers and the Shareholders' Rights along with the Procedure for their Exercise

2.1. Description of the Mode of Operation of the General Shareholders Meeting

The General Shareholders Meeting operates in accordance with the provisions of the Commercial Companies Code and the Rules of Procedure for the General Shareholders Meeting. The Rules of Procedure stipulate, in particular, principles of conducting the meetings and adopting resolutions, and provisions concerning elections to the Supervisory Board by block voting. The Rules of Procedure are available on the Issuer's website (www.pgnig.pl).

The General Shareholders Meeting should be held at the Issuer's registered offices. The General Shareholders Meeting may adopt resolutions only on the matters included in the agenda, unless the whole share capital is represented at the General Shareholders Meeting and no one present at the meeting objects to adoption of a resolution which has not been included in the agenda. The Management Board or the entity convening the General Shareholders Meeting should propose the agenda. A shareholder or shareholders representing at least one tenth of the share capital may request that certain matters be placed on the agenda of the next General Shareholders Meeting. Moreover, the State Treasury, as the company's shareholder, is entitled to submit such a request, irrespective of its share in the share capital. If the request is submitted after the convening of the General Shareholders Meeting has been announced, it will be treated as a request to convene the Extraordinary General Shareholders Meeting. A resolution to remove an item from the agenda or not to consider a matter included in the agenda should be adopted by the General Shareholders Meeting with the majority of three quarters of votes. If a matter has been placed on the agenda of the General Shareholders Meeting at a shareholder's request, it may be removed from the agenda or may not be considered subject to additional consent of all requesting shareholders present on the Meeting. The request to remove an item from the agenda or not to consider a matter placed on the agenda should be well grounded.

The General Shareholders Meeting appoints the Management Board acting:

- 1) at its own initiative,
- 2) at a written request of the Supervisory Board,
- 3) at a written request of a shareholder or shareholders representing at least one tenth of the share capital, submitted at least a month before the suggested date of the General Shareholders Meeting,
- 4) at a written request of the State Treasury, which is the company's shareholder, as submitted at least a month before the suggested date of the General Shareholders Meeting, irrespective of the State Treasury's share in the share capital, or
- 5) at a written request of an independent member of the Supervisory Board.

If the Management Board has not convened the General Shareholders Meeting on the date specified in the request:

- submitted by the Supervisory Board – the Supervisory Board is entitled to convene the General Shareholders Meeting;
- submitted by the shareholders – the District Court may authorise the shareholders to convene the General Shareholders Meeting after it has requested the Management Board to make a relevant representation.

The Management Board convenes the Annual General Shareholders Meeting each year within six months following the end of the financial year.

At the General Shareholders Meeting votes shall be cast in an open ballot. A secret ballot shall be ordered in the case of voting on election or removal from office of members of the Issuer's governing bodies or its liquidator, on bringing them to account and on personnel matters. Furthermore, a secret ballot shall be ordered if at least one shareholder present or represented at the General Shareholders Meeting so demands.

In accordance with the Rules of Procedure, any party objecting to a resolution of the General Shareholders Meeting should be given an opportunity to concisely present the reasons for its objection.

The General Shareholders Meeting shall be opened by the Chairperson of the Supervisory Board or 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 Shareholders Meeting should procure an immediate election of the Chairperson of the Meeting, and should refrain from any substantial or formal decisions. The Chairperson should be elected by secret ballot. The Chairperson of the General Shareholders Meeting ensures an efficient conduct of the meeting and observance of the rights and interest of all shareholders. The Chairperson should not, without sound reason, resign from the function, or put off the signing of the minutes of the General Meeting.

A General Shareholders Meeting should be attended by members of the Management and Supervisory Boards as well as guests invited by the General Shareholders Meeting, including in particular the auditors.

Short breaks in the session, which do not defer the session, may be ordered by the Chairperson provided that they are not aimed at hindering the exercise of rights by the shareholders.

2.2. Description of Key Powers of the General Shareholders Meeting

The General Shareholders Meeting is the Issuer's constitutive body. The General Shareholders Meeting adopts resolutions concerning 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) Granting discharge to the members of the Issuer's governing bodies in respect of their duties;
- 3) Distribution of profit or coverage of loss;

- 4) Determination of the dividend record day or decision on payment of dividend in instalments;
- 5) Appointment and removal of the Supervisory Board members;
- 6) Review and approval of the Group's consolidated financial statements and the Directors' Report for the preceding financial year,
- 7) Suspension of members of the Management Board from duties or their removal from office;
- 8) Defining the rules and amounts of remuneration for Management Board members;
- 9) Disposal and lease of the Issuer's enterprise or an organized part thereof, and encumbering it with limited property rights,
- 10) Acquisition of non-current assets, including real estate, perpetual usufruct or interest in real estate, of a value greater than the zloty equivalent of EUR 2,000,000;
- 11) Disposal of non-current assets, including real estate, perpetual usufruct or interest in real estate, of a value greater than the zloty equivalent of EUR 1,000,000;
- 12) Conclusion by the Issuer of loan, borrowing, surety or similar agreements with a member of the Management Board, the Supervisory Board, the proxy, the liquidator, or for the benefit of any such person;
- 13) Increase or reduction of the Issuer's share capital;
- 14) Issue of exchangeable bonds or bonds with pre-emptive rights, issue of subscription warrants;
- 15) Acquisition of treasury shares to be sold to the Issuer's employees or persons who were employed by the Issuer or its related company for at least three years;
- 16) Establishing, use and liquidation of capital reserves;
- 17) Use of reserve funds;
- 18) Claims for redress of damages caused upon incorporation of the Issuer or during the exercise of management or supervisory duties;
- 19) Granting approval for conclusion of an agreement whereby the Issuer leases out its non-current assets comprising the transmission network to another entity;
- 20) Granting approval for the termination, renunciation or material change of the subject matter, term or termination provisions of a lease agreement concluded with the transmission system operator concerning the Issuer's assets used for transmission of electricity and gas,
- 21) Merger, transformation or demerger of the Issuer;
- 22) Relocation of the Issuer's head office abroad;
- 23) Establishing preference on shares;
- 24) Establishing an EU-registered company, transformation or incorporation into such company;

- 25) Formation by the Issuer of another company, with a share capital exceeding the zloty equivalent of EUR 1,000,000;
- 26) Amendments to the Issuer's Articles of Association and changing its business profile;
- 27) Dissolution and liquidation of the Issuer;
- 28) Defining the rules of remuneration for the Supervisory Board members.

2.3. Shareholders' Rights at General Shareholders Meetings and Exercise of Such Rights

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

Each shareholder of the company has the right to participate in the General Shareholders Meetings. One share confers the right to one vote at the General Shareholders Meeting.

To participate in the General Shareholders Meeting, each shareholder holding uncertificated shares should submit to the company a deposit certificate issued by the entity keeping the securities account in accordance with the laws on trading in financial instruments, while each shareholder holding certificated shares should – at least one week prior to the General Shareholders Meeting date – be entered in the share book (if the shares are registered shares) or submit the share certificates to the company (if the shares are bearer shares). To be entitled to participate in the General Shareholders Meetings, each shareholder may also submit to the company a certificate confirming that its certificated bearer shares have been deposited with a notary public, bank or investment firm with registered offices or branch in the European Union or in a state which is a party to the treaty on the European Economic Area, as specified in the announcement on the convening of the General Shareholders Meeting.

Shareholders may participate in the General Shareholders Meetings and exercise their voting rights in person or by proxy. The powers of proxy should be granted in writing, on pain of nullity. No member of the company Management Board and none of its employees may act as a proxy of any shareholder at the General Shareholders Meeting. A written document confirming the right to represent a shareholder at the General Shareholders Meeting is deemed legally valid and needs no other confirmation, unless the Management Board or the Chairman of the General Shareholders Meeting has doubts about its authenticity or *prima facie* validity.

The shareholder(s) representing at least one-tenth of the share capital or the State Treasury as the company shareholder (irrespective of its share in the share capital) may request that the General Shareholders Meeting be convened, and such request must be made in writing at least one month prior to the proposed date of the meeting. If the Management Board fails to convene the General Shareholders Meeting at the request of the shareholder(s) within two weeks from the date when the request was submitted, the registry court, after demanding explanation from the Management Board, may authorise the shareholder(s) to convene the meeting. Additionally, shareholders representing at least one-tenth of the share capital may request that specific matters be placed on the agenda of the next General Shareholders Meeting. The same right is held by the State Treasury as the company shareholder irrespective of its share in the share capital. If the request for including specific items in the agenda is made after publication of the announcement on convening of the General Shareholders

Meeting, it is regarded as a request for convening the Extraordinary General Shareholders Meeting. Any item included in the agenda of the General Shareholders Meeting at the request of the shareholder(s) may only be removed or abandoned if a relevant resolution is passed by the majority of three quarters of the votes and if all the shareholders that made the request and attend the meeting consent to such removal or abandonment.

Upon a motion by shareholders representing at least one-fifth of the share capital, the Supervisory Board is elected by way of block voting. The shareholders which at the General Shareholders Meeting represent such portion of the shares which results from dividing the total number of the represented shares by the number of the Supervisory Board members may form a block to elect one member of the Supervisory Board, but do not 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 the Supervisory Board members that may be elected within a block is determined by dividing the number of the 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 a block remains vacant, it is filled by way of voting by all the shareholders who did not participate in the block voting.

At the General Shareholders Meetings, the Management Board is required to provide shareholders – at their requests –with information on the company if such information is needed to assess a matter which is on the Meeting’s agenda. The Management Board should refuse to provide the information if:

- 1) this could adversely affect the company, its affiliate, subsidiary or co-operative, especially if it could result in disclosing technical, trade or organisational secrets,
- 2) this could lead to penal, administrative, civil and legal consequences to a member of the Management Board.

In justified cases, the Management Board may provide the information in writing within two weeks from the closing of the General Shareholders Meeting. The information on the company may also be provided outside the General Shareholders Meeting. Such information, along with a specification when and to whom it was provided, should be presented by the Management Board in writing in the materials prepared for the next General Shareholders Meeting. The materials need not include the information made available to the public or provided at the General Shareholders Meeting. Shareholders may inspect the book of minutes and demand copies of the resolutions of the General Shareholders Meetings, confirmed by the Management Board.

Not later than fifteen days prior to the General Shareholders Meeting, a shareholder may request a copy of the Director’s report and financial statements, as well as a copy of the report of the Supervisory Board and the auditor’s opinion.

At General Shareholders Meetings, the attending shareholders may propose motions concerning organisational aspects, including motions to change the sequence of matters to be discussed or to have a break in the session. Each shareholder may also request that a matter be voted on by way of secret ballot.

3. Composition and Rules Governing Activities of the Issuer's Management and Supervisory Bodies and of their Committees

3.1. Management Board

3.1.1. Composition of the Issuer's Management Board in 2007

Krzysztof Głogowski – President of the Management Board,
Jan Anysz – Vice-President, Director of Human Resources and Restructuring,
Zenon Kuchciak – Vice-President, Sales and Marketing Director,
Stanisław Niedbałec – Vice-President, Director of Investments and Technology,
Tadeusz Zwierzyński – Vice-President, Strategic Projects Director.

3.1.2. Rules Governing Activities of the Issuer's Management Board

The rules governing the Management Board's activities are set out in its rules of procedure, adopted by the Management Board and approved by the Supervisory Board. The rules of the Management Board are available at the Issuer's website (www.pgnig.pl).

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 whole Management Board. The Management Board members are appointed for a joint term of office lasting three years. As long as the State Treasury is the Issuer's Shareholder and the Issuer has an average annual headcount of 500 employees, one member of its Management Board appointed by the Supervisory Board must be elected by the Issuer's employees. Such person is appointed for the whole term of office.

The Management Board manages the affairs of the Issuer and represents the Issuer in all actions before court and out of court. The responsibilities of the Management Board include all the matters connected with managing the Issuer's affairs which are not restricted for the General Shareholders Meeting or the Supervisory Board under the provisions of law or the Articles of Association. The Management Board is headed by the President of the Management Board.

The responsibilities of the Management Board include, in particular:

- 1) Preparation of annual business plans, including investment plans, long-term strategic plans, and investment plans relating to development of the distribution system and their submission to the Supervisory Board for approval;
- 2) Submission to the minister responsible for matters pertaining to the State Treasury and the minister responsible for the economy, each time at the request of these authorities, detailed reports on performance of tasks undertaken with a view to ensuring the country's energy security;
- 3) Preparation of quarterly economic and financial reviews of the Issuer and the distribution system operators in the form defined by the minister responsible for matters pertaining to the State Treasury, and their submission to the minister responsible for matters pertaining to the State Treasury and the minister

responsible for the economy by the end of the first month following the end of each quarter.

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, Directors' Report on the Issuer's activities in the preceding financial year, and the proposal for distribution of profit or coverage of loss for that financial year. The documents should be submitted without the Management Board being called upon to do so, in time for the Supervisory Board to assess them before they are presented to the General Shareholders 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 proxy. Any issues which fall beyond the scope of day-to-day management of the Issuer's affairs require adoption of a resolution.

In particular, a Management Board resolution shall be required for:

- 1) Adoption of the Management Board's rules;
- 2) Adoption of organisational rules for the company's enterprise;
- 3) Establishment and liquidation of branches;
- 4) Appointment of a proxy;
- 5) Division of powers between the Management Board members, with the proviso that a relevant resolution of the Management Board shall require approval by the Supervisory Board;
- 6) Drawing and extending loans and drawing credit facilities;
- 7) Adoption of annual business plans, including investment plans, long-term strategic plans, and investment plans relating to development of the distribution system;
- 8) Assuming contingent liabilities, including extension by the Issuer of guarantees and sureties as well as issuance of promissory notes;
- 9) Acquisition or disposal of non-current assets, including real estate, perpetual usufruct or interest in real estate, of a value equal to or greater than the zloty equivalent of EUR 50,000;
- 10) Issues referred by the Management Board for consideration by the Supervisory Board or by the General Shareholders Meeting;
- 11) Approval of detailed reports on the performance of tasks undertaken with a view to ensuring the country's energy security which are submitted to the minister responsible for matters pertaining to the State Treasury and the minister responsible for the economy, each time at the demand of these authorities;
- 12) Making donations, releasing debtors from their debt obligations and entering into other agreements outside the scope of the Issuer's business as specified in its Articles of Association;
- 13) Conclusion of contracts for sale of natural gas, crude oil, gasoline and other oil and gas derivatives, with a value exceeding 20% of the Issuer's share capital, with the proviso that in the case of sale contracts with a value exceeding the

PLN equivalent of EUR 100,000,000, the Supervisory Board's opinion shall be sought;

- 14) Entering into legal transactions, other than those listed in items 1-13, if their value exceeds the złoty equivalent of EUR 420,000.

In those matters which do not require adoption of a Management Board resolution, each Management Board member attends to the responsibilities assigned to him/her on an individual basis. During Board sessions, each Management Board member is obligated to brief the other members of the Board about his/her material decisions and the results of the supervisory work over the Issuer's business units, in accordance with the division of powers between the Management Board members. The Management Board sessions are held as needed. Each Management Board member may submit a motion to the President of the Board (or the President's substitute) for calling a Board session on matters requiring an urgent decision by the Board or for purposes of presenting information on matters of significance to the Issuer. The Chairman of the Supervisory Board is also entitled to request that Management Board session be called – by presenting the President of the Management Board with a written agenda of that session. In addition, the Chairman 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 session.

The principles and amount of remuneration of Management Board members are determined by the General Shareholders Meeting pursuant to the provisions of the Act on Remuneration of Persons Managing Certain Legal Entities, of March 3rd 2000 (Dz.U. No. 26, item 306, as amended).

3.2. Supervisory Board

3.2.1. Composition of the Supervisory Board in 2007

Andrzej Rościszewski – Chairman of the Supervisory Board,
Piotr Szwarc – Vice-Chairman of the Supervisory Board,
Kazimierz Chrobak – Secretary of the Supervisory Board,
Wojciech Arkuszewski – Member of the Supervisory Board,
Mieczysław Kawecki – Member of the Supervisory Board,
Marcin Moryń – Member of the Supervisory Board,
Mieczysław Puławski – Member of the Supervisory Board,
Mirosław Szkałuba – Member of the Supervisory Board,
Jarosław Wojtowicz – Member of the Supervisory Board.

3.2.2. Rules Governing the Operation of the Supervisory Board

The Supervisory Board operates in accordance with the rules set out in Rules of the Supervisory Board, adopted by a Supervisory Board resolution. Rules of the Supervisory Board are available at the Issuer's website (www.pgnig.pl).

The Issuer's Supervisory Board is composed of five to nine members appointed by the General Shareholders Meeting. One Supervisory Board member must meet the independence criteria specified in the Articles of Association. If the Supervisory Board is composed of up to six members – two members are appointed from among the candidates proposed by the

Issuer's employees. If the Supervisory Board is composed of seven to nine members – three members are appointed from among the candidates proposed by the Issuer's employees. The Supervisory Board members are appointed for a joint term of office lasting three years.

The Supervisory Board exercises continuous supervision over the Issuer's activities in all areas of its operations. The Supervisory Board presents its opinion on all matters submitted to the General Shareholders Meeting for consideration by the Management Board. The responsibilities of the Supervisory Board include, in particular:

- 1) Assessment of the Directors' Report on the Issuer's activities and of the financial statements for the preceding financial year with respect to their correspondence with the books, documents, and with the factual state;
- 2) Assessment of motions by the Management Board concerning distribution of profit or covering of loss;
- 3) Submission to the General Shareholders Meeting of a written report on results of the activities referred to in items 1 and 2;
- 4) Assessment of the consolidated financial statements with respect to their correspondence with the books and the documents as well as with the factual state, assessment of the consolidated Directors' Report on the Issuer's activities, and reporting to the General Shareholders Meeting on the results of these activities;
- 5) Appointment of a certified auditor to audit the financial statements;
- 6) Approval of annual business plans, including investment plans, long-term strategic plans, and investment plans relating to development of the distribution system;
- 7) Adoption of rules governing the details of the Supervisory Board's activities;
- 8) Approval of the consolidated text of the Company's Articles of Association, as drawn up by the Management Board;
- 9) Approval of the Rules of the Management Board;
- 10) Approval of the organisational rules of the Issuer's enterprise;
- 11) Approval of the Management Board's resolution on division of powers between the Management Board members;
- 12) Issue of opinions on all matters submitted for consideration to the General Shareholders Meeting by the Management Board;
- 13) Issue of opinions on detailed reports concerning the performance of tasks undertaken with a view to ensuring the country's energy security submitted by the Management Board to the minister responsible for matters pertaining to the State Treasury and the minister responsible for the economy;
- 14) Issue of opinions on the motions for the State Treasury (the Shareholder) represented by the minister responsible for matters pertaining to the State Treasury to approve 1) any changes to material provisions of the existing trade agreements for import of natural gas to Poland, as well as conclusion of such agreements, 2) any strategic investment projects or the Issuer's involvement in investment projects which, permanently or temporarily, impair the economic

efficiency of the Issuer's business but which are necessary to ensure Poland's energy security;

- 15) Extension of permission to the Management Board for:
 - a) Acquisition of non-current assets of a value falling between the złoty equivalent of EUR 500,000 and EUR 2,000,000, excluding transactions arising under annual business plans, long-term strategic plans or investment plans relating to development of the distribution system which were approved by the Supervisory Board;
 - b) Disposal of non-current assets of a value falling between the złoty equivalent of EUR 500,000 and EUR 1,000,000, excluding transactions arising under the plans approved by the Supervisory Board and referred to in b) above;
 - c) Assumption of other liabilities whose value exceeds 20% of the Issuer's share capital, excluding liabilities arising under the plans approved by the Supervisory Board and referred to in b) above;
 - d) Execution of an agreement of the type discussed in Art. 19b of the Commercialisation and Privatisation Act;
- 16) Appointment and removal of Management Board members;
- 17) Submission of motions for defining the rules and amounts of remuneration for Management Board members;
- 18) Suspension of Management Board members in their duties – on material grounds, and by an absolute majority of the votes;
- 19) Delegation of Supervisory Board members to temporarily perform the duties of Management Board members who are unable to perform their duties;
- 20) Holding the qualification proceedings referred to in Art. 19a of the Commercialisation and Privatisation Act;
- 21) Granting permission for establishing and closing foreign branches of the Issuer,
- 22) Granting permission to Management Board members for accepting positions on governing bodies of other companies where permission for holding such positions is required by law;
- 23) Granting permission for incorporation by the Issuer of another company with a share capital not exceeding the złoty equivalent of EUR 1,000,000;
- 24) Monitoring the Issuer's debt level;
- 25) Issue of opinions about the Management Board's recommendation concerning appointment or removal of the Issuer's representatives at the Management Board and Supervisory Board of System Gazociągów Tranzytowych EuRoPol Gaz S.A. and making recommendations for acceptance to the State Treasury (the Shareholder) represented by the minister responsible for matters pertaining to the State Treasury;
- 26) Issue of opinions about the manner of exercising the voting rights by a representative of the Issuer at the general shareholders meeting of System Gazociągów Tranzytowych EuRoPol Gaz S.A.;
- 27) Approval of the manner of exercising the voting rights by representatives of the Issuer at the general shareholders meetings of distribution companies with

respect to matters concerning approval of such companies' annual financial plans;

- 28) Approval of the manner of exercising the voting rights by representatives of the Issuer at the general shareholders meetings of distribution companies with respect to matters concerning approval of such companies' long-term strategic business plans;
- 29) Approval of the manner of exercising the voting rights by representatives of the Issuer at the general shareholders meetings of distribution companies with respect to matters concerning:
 - a) amendments to the companies' statutes or articles of association,
 - b) increase or reduction of the companies' share capital,
 - c) merger, transformation or division of the companies,
 - d) sale of companies' shares,
 - e) sale and lease of companies' enterprises or organized parts thereof and establishing limited rights in property thereon,
 - f) dissolution and liquidation of the companies;
- 30) Approval of the manner of exercising the voting rights by representatives of the Issuer at the general shareholders meetings of the companies in which the Company holds at least 50% of shares, with respect to matters concerning:
 - a) amendments to the companies' statutes or articles of association,
 - b) increase or reduction of the companies' share capital,
 - c) merger, transformation or division of the companies,
 - d) sale of companies' shares,
 - e) sale and lease of companies' enterprises or organized parts thereof and establishing limited rights in property thereon,
 - f) dissolution and liquidation of the companies;
 - g) establishing pledges or other encumbrances on the companies' shares,
 - h) obligations to make additional contributions to equity,
 - i) issue of bonds;
- 31) Issue of opinions on the Management Board's motions concerning assumption of liabilities with a value exceeding the złoty equivalent of EUR 100,000,000.

Supervisory Board meetings may be convened by the Chairman or Deputy Chairman of the Supervisory Board when required by the Issuer's interest, but not less frequently than once every two months. Supervisory Board meetings may also be convened at the request of at least one Supervisory Board member, or at the request of the Management Board. The Supervisory Board may 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 in the meeting. The Supervisory Board may only adopt resolutions on the 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 a simple majority of votes. A secret vote is ruled at the request of a Supervisory Board member or when the matter put to a vote concerns personnel affairs. 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 concerning appointment of the auditor requires a favourable vote from a member of the Supervisory Board who meets the criteria of independence defined in the Issuer's Articles of Association. Save as specified in the Supervisory Board's Rules of Procedure, the Supervisory Board may adopt resolutions in a written form or with the use of

means of remote communication. Adoption of a resolution with the use of the latter method must be justified, and a draft resolution must be made available to all Supervisory Board members beforehand.

The Chairman of the Supervisory Board is authorised to request that a Management Board meeting be convened, by providing the President of the Management Board with an agenda for the meeting in writing. The Chairman of the Supervisory Board may request the President of the Management Board to include particular matters in the agenda of a Management Board meeting. The Management Board provides the Supervisory Board with financial statements for the previous financial year along with an auditor's opinion about the performed audit, the Directors' Report concerning the Issuer's operations in the previous financial year and a proposal concerning previous year's profit distribution or loss coverage for a review, unrequested and early enough to enable the Supervisory Board to review the documents before presenting them to the Annual General Shareholders Meeting. In addition, the Supervisory Board or its members delegated to perform certain supervisory functions independently shall be authorised to supervise all areas of the Issuer's operation, and in particular to examine all Issuer's documents, demand that the Management Board and the Issuer's employees produce reports and explanations, and to review the Issuer's assets.

The amount of remuneration to be received by the Supervisory Board Members shall be set by the Annual General Shareholders Meeting pursuant to the Act on Remunerating Persons Managing Certain Legal Entities of 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 delegated Supervisory Board member must report to the Supervisory Board in writing all actions undertaken by him / her.

4. Basic Features of Internal Control and Risk Management Systems Used by the Issuer for the Preparation of Financial Statements

At present, the Issuer does not use an integrated risk management system dedicated exclusively to the preparation of financial statements. Like most other energy generation and upstream companies, the Issuer manages separate industry risks. In its operations, the Issuer uses a specialist system for managing the overall financial safety comprising liquidity, exchange rate risk, and budget drafting and control.

The financial reporting process has not been audited separately yet, however it is reviewed on an on-going basis in connection with the operation of such processes as the review for reliability and completeness of accounting records related to certain processes or one-off events, and the check of distribution of accounting documents for correctness. Findings of and assessments formulated during operating audits concerning a corresponding area of accounting justify a conclusion that so far no need has been identified for development of a dedicated mechanism used only for reviewing the preparation of financial statements. In particular, there are no grounds to believe that the absence of such a mechanism poses a risk to the Issuer's operations. There are no reasons to conclude that the current situation is likely to change materially in the near future.

Factors which mitigate the risk related to financial reporting include primarily an on-going upgrading of particular modules of the Integrated Management System, and improvement of practical skills of the employees who operate the System.

The risk analyses conducted by the Issuer in the area of financial reporting and accounting in 2006 and 2007 proved that all those areas were of moderate importance for the Issuer's operations and that the Issuer's exposure to these risks was low (the actual result of the analyses was: average to low).

The elements of the risk management system used by the Issuer and relating to the preparation of financial statements include in particular:

- 1) The PGNiG Group's Accounting Policy adopted by` virtue of Resolution of the Management Board of May 17th 2007, including guidelines to ensure compliance of the Issuer's accounting policy and financial statements with the relevant regulations, in particular with regard to the overriding principles and the quality of financial statements, correctness of event valuation and categorisation, and safety mechanisms for databases;
- 2) Instructions, procedures and controls of the Integrated Management System ensuring data consistency and integrity, including hardware checks, operating checks and authority checks;
- 3) Internal controls implemented at the Accounting Departments (separation of duties, sign-off by line manager, review of received data for accuracy, independent checks, etc.);
- 4) Multi-stage process of financial statements approval, including an involvement of the Supervisory Board, and
- 5) Independent review of financial statements for reliability and accuracy by an independent auditor.

President of the Management Board Michał Szubski

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Vice-President of the Management Board Mirosław Dobrut

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Vice-President of the Management Board Radosław Dudziński

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Vice-President of the Management Board Sławomir Hinc

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Vice-President of the Management Board Mirosław Szkałuba

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