



Polskie Górnictwo Naftowe i Gazownictwo S.A.

# Statement of compliance with corporate governance rules in 2017



## Statement of compliance with corporate governance rules

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 PGNiG (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 2017, the Issuer was in compliance with the set of corporate governance rules laid down in the 'Best Practice for WSE Listed Companies 2016' (the 'Code of Best Practice'), adopted by the WSE Supervisory Board in its Resolution No. 26/1413/2015 of October 13th 2015. The amended text of the code is publicly available on the Warsaw Stock Exchange's corporate governance website at [www.gpw.pl/dobre-praktyki](http://www.gpw.pl/dobre-praktyki) and on the Issuer's website at <http://en.pgnig.pl/pgnig/corporate-governance/best-practices>.

The Code of Best Practice was developed by experts representing various groups of capital market participants, who are members of the WSE Corporate Governance Consultative Committee. All changes in the Code of Best Practice were introduced in a way ensuring continuity of coverage of the matters addressed in the previous versions of the Code. To ensure clarity of the document and to emphasise the most important matters, a new thematic division of the Code was introduced. Further, a new scheme of the document, compliant with the European Commission's recommendation, was adopted.

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

In 2017, the Issuer did not comply with four of the rules and two recommendations of the Code of Best Practice:

1. Disclosure Policy and Investor Communications – I.Z.1.15;
2. Management and Supervisory Board – II.Z.3;
3. Management and Supervisory Board – II.Z.2.7;
4. Management and Supervisory Board – II.Z.2.8;
5. General Meeting, Shareholder Relations – IV.R.2;
6. Remuneration – VI.R.4.

Reasons for the non-compliance with these rules and recommendations are presented below.

#### 2.1. Disclosure Policy and Investor Communications – I.Z.1.15

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website."

Decisions to select members of the Company's governing bodies are made by the owner, taking into consideration the Ministry of Energy's 'Standards of the owner's supervision at state-owned companies in which rights attached to shares are exercised by the Minister of Energy' and 'Rules and procedure for selecting candidates for members of the supervisory boards of state-owned companies in which rights attached to the State Treasury's shares are exercised by the Minister of Energy' – Order of the Minister of Energy of August 4th 2016.

The Company believes there is no need to define a diversity policy for its key managers.

#### 2.2. Management and Supervisory Board – II.Z.3

'At least two members of the supervisory board should meet the criteria of being independent referred to in principle II.Z.4.'

Pursuant to Art. 36.1 of the Issuer's Articles of Association, one of the members of the Supervisory Board appointed by the General Meeting should meet the independence criteria (independent member of the Supervisory Board). The term 'independent member of the supervisory board' means an independent member as defined by the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and the committees of the (supervisory) board (2005/162/EC), with due regard to the provisions of the Code of Best Practice for WSE Listed Companies.

Given the fact that, in accordance with Art. 14 of the Act on Commercialisation and Certain Employee Rights of August 30th 1996 (consolidated text in Dz.U. of 2017, item 1055, as amended), some of the Company's Supervisory Board members are elected by employees, the Issuer cannot ensure a greater number of independent members on its Supervisory Board. Increasing the number of independent members on the Company's Supervisory Board relative to the number currently set out in the Company's Articles of

Association 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.

In the period from January 1st to June 28th 2017, there was one independent member on the Issuer's Supervisory Board – Mr Mateusz Boznański, appointed on December 29th 2015. In the period from June 28th to December 31st 2017, three members of the Issuer's Supervisory Board satisfied the independence criteria, namely Mr Bartłomiej Nowak, Mr Piotr Broda, and Mr Grzegorz Tchorek.

### 2.3. Management and Supervisory Board – II.Z.7

'Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.'

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.

Pursuant to the Best Practice for WSE Listed Companies, 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 4.3.2 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;
2. 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 in which 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.

### 2.4. Management and Supervisory Board – II.Z.8

'The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4.'

In accordance with the Rules of Procedure for the Audit Committee of the PGNiG Supervisory Board, the Audit Committee is composed of at least three Supervisory Board members, of whom at least one has expertise and competence in accounting or auditing of financial statements. Most of the Audit Committee members, including its Chair, are independent of the Company, i.e. they meet the independence criteria referred to in Art. 129.3 of the Act of May 11th 2017 on Statutory Auditors, Audit Firms, and Public Oversight (Dz.U. of 2017, item 1089, dated June 6th 2017). Members of the Audit Committee are appointed by the Supervisory Board from among its members on a rotational basis. Election of the Chair is a discretionary power of the Audit Committee.

Currently, no amendments in this respect are planned to be made to the Rules of Procedure for the Audit Committee. In the Company's opinion, the regulations currently in force are sufficient to ensure proper operation of that Committee.

In the period from January 1st to June 28th 2017, the Audit Committee of the PGNiG Supervisory Board was chaired by Mateusz Boznański, who had been appointed to the Supervisory Board on December 29th 2015 and who satisfied the independence criteria referred to in principle II.Z.4. In the period from August 17th to December 31st 2017, the Audit Committee of the PGNiG Supervisory Board was chaired by Grzegorz Tchorek, who satisfied the independence criteria referred to in principle II.Z.4.

### 2.5. General Meeting, Shareholder Relations – IV.R.2

'If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1st real-life broadcast of general meetings,
- 2nd real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,
- 3rd exercise of the right to vote during a general meeting either in person or through a proxy.'

The Company has decided not to comply with Section 2) of the recommendation, as its Articles of Association currently do not provide for shareholders' participation in a General Meeting using electronic communication means. In accordance with the Commercial Companies Code, bringing that recommendation into effect would require a relevant amendment to the Company's Articles of Association.

The Company does not rule out making such amendments in the future. Only after they are made will it be able to comply with the recommendation.

## 2.6. Remuneration – VI.R.4

'The remuneration levels of members of the management board and the supervisory board and key managers should be sufficient to attract, retain and motivate persons with skills necessary for proper management and supervision of the company. Remuneration should be adequate to the scope of tasks delegated to individuals, taking into account additional functions, for instance on supervisory board committees.'

The Company follows recommendation VI.R.4 on the remuneration levels of the Management Board members and key managers. The recommendation cannot be implemented by the Issuer with respect to members of its Supervisory Board, as their remuneration is regulated by generally applicable laws, namely the Act on Rules for Remunerating Persons Who Direct Certain Companies, dated June 9th 2016 (Dz.U. of 2017, item 2190).

## 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:

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 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 relevant rules approved by the Management Board and the Supervisory Board;
5. Definition of rules on supervision of the flow of financial and accounting documents, including review of the documents in terms of form, substance and accounting 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 data consistency and integrity, such as integrity checks, hardware checks, operating checks, and authority checks;
7. An IT system supporting the consolidation process, enabling the Group to streamline the consolidation process at the level of financial and management reporting, and speed up the preparation of consolidated reports;
8. Uniform rules and procedures for consolidating financial data, ensured through the use of unified reports, automatic validations of the consistency and completeness of reported data, as well as two-stage authentication and approval in the data consolidation system;
9. Formalised procedure for the preparation of financial statements (scheduled tasks with individual deadlines and persons responsible);
10. Multi-stage review and authorisation process for financial statements, involving the Supervisory Board;
11. Assessment of current reporting risk by the PGNiG Group's Internal Audit and Control Department and the Security Department;
12. Independent review of financial statements for reliability and accuracy by an independent external auditor;
13. Progressive development of the Group's internal procedures and regulations designed to ensure uniformity of the reporting processes and their continuous improvement.

At the centre of the accounting and financial reporting controls is a fully integrated financial and accounting system. The system checks recorded transactions 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 controls.

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 separate Departments at the Company's Head Office; the financial statements are entered in the 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 compliance of the Issuer's accountancy and financial statements with the relevant regulations, in particular with the International Financial Reporting Standards. The Accounting Policy is regularly updated to ensure its continuing compliance with amended regulations. The most recent update to the Accounting Policy was made in 2017.

To further mitigate the risks associated with financial reporting, financial statements are verified by an independent auditor every three months. The Issuer's auditor selection procedures ensure the auditor's independence in performing its duties (auditors are selected by the Supervisory Board acting on the Audit Committee's recommendation) and high standards of auditing services.

Full-year financial statements are audited, whereas Q1, H1 and Q3 statements are reviewed. 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 manages its overall financial security using dedicated liquidity, financial risk, budget drafting and control management systems.

The financial reporting process is also reviewed on an ongoing basis through internal audit of individual processes and projects, which consists in reviewing accounting records for specific processes and one-off events in terms of their reliability and completeness, as well as in checking the correctness of the flow of accounting documents. 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 reasons 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 reviews of the internal control and risk management system at the Company level show consistent implementation of recommendations intended to improve the financial reporting components of the system.

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

#### 4. Shareholders holding directly or indirectly major 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 voting power 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 5,778,314,857 ordinary bearer shares with a par value of PLN 1.00 per share.

In 2017, the State Treasury, represented by the Minister of Energy (Plac Trzech Krzyży 3/5, 00-507 Warsaw), was the only shareholder with a major holding of Issuer shares (more than 5% of the Issuer's share capital).

Issuer's shareholding structure as at December 31st 2017

	Number of shares	Ownership interest	Number of votes at the Issuer's General Meeting	Percentage of the total voting power at the Issuer's General Meeting
State Treasury	4,153,706,157	71.88%	4,153,706,157	71.88%
Treasury shares	-	-	-	-
Other shareholders	1,624,608,700	28.12%	1,624,608,700	28.12%
<b>Total</b>	<b>5,778,314,857</b>	<b>100.00%</b>	<b>5,778,314,857</b>	<b>100.00%</b>

The specification given above takes into consideration EGM's Resolution No. 7/XI/2016 of November 24th 2016 to cancel 121,685,143 treasury shares. Cancellation of the treasury shares was registered with the National Court Register on March 2nd 2017.

As at December 31st 2017, 728,293,842 PGNiG shares, representing 12.60% of the share capital and total voting rights at the General Meeting, were distributed among 59,256 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 holds Issuer shares, the State Treasury, represented by the minister competent for matters pertaining to energy, has the right to appoint and remove one member of the Supervisory Board.

Further, 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 contracts for natural gas imports to Poland, as well as execution of such contracts, and (ii) the implementation of any strategic investment projects or the Company's involvement in investment projects which may, 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 ownership interest in the Issuer, the State Treasury has the right to demand that the General Meeting be convened and that particular matters be placed on its agenda.

As a shareholder in PGNiG SA, the State Treasury also enjoys other rights under 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

Under PGNiG's Articles of Association, since December 31st 2012 the voting rights of the Company's shareholders have been restricted so that no shareholder (except as specified below) can exercise at a General Meeting more than 10% of the total voting rights existing as at the date of the General Meeting, with the proviso that this restriction is deemed non-existent for the purposes of determining the obligations of buyers of significant holdings of shares.

The voting rights restrictions do not apply to shareholders who were holders of shares conferring more than 10% of total voting rights at the Company on the date of the General Meeting's resolution imposing the restrictions, and to shareholders acting together with shareholders holding shares conferring more than 10% of total voting rights under agreements on voting in concert.

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

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

Under Art. 13.14 of the Act of December 16th 2016 on State Property Management (Dz.U. of 2016, item 2259), shares held by the State Treasury may not be disposed of.

## 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 recruitment and selection procedure carried out pursuant to applicable provisions of the Articles of Association and in compliance with the requirements for candidates laid down in Art. 22 of the Act of December 16th 2016 on State Property Management (Dz.U. of 2016, item 2259). The procedure does not apply to Management Board members elected by employees.

As long as the State Treasury holds Issuer shares and the Issuer'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 a candidate to the Management Board 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 his or her position by delivering a notice to that effect to the Company, represented by another Management Board member or commercial proxy, with copies to the Chairman of the Supervisory Board and the minister competent for matters pertaining to energy. 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 ballot, 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 described in Section 11.1.2 hereof.

Pursuant to the Articles of Association, decisions on the issuance or buy-back 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 business register. 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 conducting 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 on 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 5% 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 the percentage of its ownership interest 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 5% of the share capital, made in a written or electronic form;
3. At the request of the State Treasury as a Company shareholder, irrespective of the percentage of its ownership interest in the Company's share capital, made in a written or electronic form;
4. At the request of a Supervisory Board member appointed pursuant to Art. 36.1 of the Articles of Association (independent member), made in a written or electronic form;
5. at the written request of the Supervisory Board.

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

Shareholders representing at least 50% of the share capital or at least 50% of the total voting power 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 a 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 concerning items on the agenda.

A General Meeting is opened by the Chairman of the Supervisory Board or the Deputy Chairman 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 Chair of the Meeting is immediately elected and should refrain from any decisions on the substance of matters or on procedural issues. The Chair of the General Meeting is elected by secret ballot. The Chair's role is to ensure that the meeting proceeds smoothly and that the rights and interests of all the shareholders are respected. The Chair 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 support staff, invited to present their opinions on and provide clarification of matters included on 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 Chair, provided that they are not aimed at hindering the exercise of the shareholders' rights.

## 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 limited property rights therein;
9. Disposal of non-current assets within the meaning of the Accounting Act of September 29th 1994, classified as intangible assets, property, plant and equipment or long-term investments, including contribution thereof to a company or cooperative, if the market value of such assets exceeds PLN 100,000,000 or 5% of total assets within the meaning of the Accounting Act of September 29th 1994, as determined based on the most recent approved financial statements, as well as granting a third party the right to use such assets for a period of more than 180 days in a calendar year, on the basis of a legal transaction, if the market value of the assets covered by such legal transaction exceeds PLN 100,000,000 or 5% of total assets, with the proviso that if the right to use the assets is granted under:
  - a) lease or rental agreements or other agreements for granting rights to use an asset for a consideration by a third party – the market value of the asset is the amount of the consideration for:
    - one year – if the right to use the asset has been granted under an agreement concluded for an indefinite term,
    - the entire term of the agreement – if the right to use the asset has been granted under an agreement concluded for a definite term,
  - b) lending agreements or other agreements for granting rights to use an asset free of charge by a third party – the market value of the asset is the amount of the consideration which would have been payable if a lease or rental agreement had been concluded, for:
    - one year – if the right to use the asset is to be granted under an agreement concluded for an indefinite term,
    - the entire term of the agreement – if the right to use the asset has been granted under an agreement concluded for a definite term;
10. Acquisition of non-current assets within the meaning of the Accounting Act of September 29th 1994 if the value of such assets exceeds PLN 100,000,000 or 5% of total assets within the meaning of the Accounting Act of September 29th 1994, as determined based on the most recent approved financial statements;
11. Acquisition of or subscription for shares in another company, if the value of the shares exceeds PLN 20,000,000 or 10% of total assets within the meaning of the Accounting Act of September 29th 1994, as determined based on the most recent approved financial statements, subject to Art. 56.6;
12. Disposal of shares in another company, if the value of the shares exceeds PLN 10,000,000 or 10% of total assets within the meaning of the Accounting Act of September 29th 1994, as determined based on the most recent approved financial statements, subject to Art. 56.6;
13. 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;
14. Increase or reduction of the Issuer's share capital;
15. Issue of convertible bonds or bonds with pre-emptive rights, issue of subscription warrants;
16. 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;
17. Mandatory buy-back of shares;
18. Creation, use and liquidation of capital reserves;
19. Use of statutory reserve funds;
20. Decisions on claims for redress of any damage caused in connection with the Issuer's formation or the exercise of management or supervisory duties;
21. Merger, transformation or demerger of the Issuer;
22. Relocation of the Issuer's registered office abroad;
23. Establishment of preference on shares;
24. Establishment of an European company (societas Europaea), transformation into or joining such company;
25. Amendments to the Issuer's Articles of Association and changes in its business profile;



26. Dissolution and liquidation of the Issuer;
27. Definition of the rules and amounts of remuneration of Supervisory Board members and the rules of remuneration of Management Board members;
28. Subscription, acquisition or disposal of shares in companies of the PGNiG Group which operate, pursuant to generally applicable laws, as a distribution system operator or storage system operator, including definition of the terms and procedures for the disposal.

### 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. (Central Securities Depository of Poland), in accordance with the provisions of the Act on Trading in Financial Instruments.

Shareholders may participate in the General Meetings and exercise their voting rights in person, through a representative or through a proxy. Powers of proxy should be granted in a 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 Chair of the General Meeting has doubts, *prima facie*, about its authenticity or validity.

Shareholder(s) representing at least 5% of the Issuer's share capital, as well as the State Treasury (irrespective of the percentage of its ownership 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 a 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 statement from the Management Board, authorise the shareholder(s) to convene the meeting. Additionally, shareholders representing at least 5% 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 the percentage of its ownership interest in the Issuer. Any such request must be made in the Polish language and 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 scheduled date of the General Meeting. A shareholder or shareholders representing at least 5% of the Issuer's share capital may, before a General Meeting, submit to the Company, in a written or electronic form, draft resolutions on items which have been, or are to be, placed on the agenda of the General Meeting. Any item included on 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 20% 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 cooperative, 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 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 information which has been made publicly available, including by way of current reports issued pursuant to Par. 38.1.12 of the Regulation, or provided at the General Meeting.

A shareholder may require that a list of shareholders be sent to him/her free of charge by email, 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 on 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 fifteen 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. 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. Operation of management bodies – Management Board

#### 11.1.1. Composition of the Management Board

##### **As at January 1st 2017**

1. Piotr Woźniak – President
2. Maciej Woźniak – Vice President, Trade
3. Łukasz Kroplewski – Vice President, Development
4. Michał Pietrzyk – Vice President, Finance
5. Radosław Bartosik – Vice President, Chief Operating Officer
6. Waldemar Wójcik – Vice President.

- On March 6th 2017, the Supervisory Board removed Mr Waldemar Wójcik from the PGNiG Management Board and from his position as Vice President of the Management Board, following the expiry of his term of office;

- On March 6th 2017, the Supervisory Board appointed Ms Magdalena Zegarska as Vice President of the PGNiG Management Board for a joint term of office ending on December 31st 2019.

##### **As at December 31st 2017**

1. Piotr Woźniak – President
2. Maciej Woźniak – Vice President, Trade
3. Łukasz Kroplewski – Vice President, Development
4. Michał Pietrzyk – Vice President, Finance
5. Radosław Bartosik – Vice President, Chief Operating Officer

6. Magdalena Zegarska – Vice President.

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/lad-korporacyjny/zarząd/regulamin](http://www.pgnig.pl/lad-korporacyjny/zarząd/regulamin).

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 holds Issuer shares 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 and out of court. The powers and responsibilities of the Management Board involve management of all of the Issuer's affairs, other than those which the 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, upon each request, of detailed reports on the performance of the activities undertaken with a view to ensuring Poland's energy security to the minister competent for matters pertaining to energy;
3. Submission to the minister competent for matters pertaining to energy, 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 that result in a lasting or temporary deterioration of the economic efficiency of such subsidiary or related company but are required for ensuring the energy security of Poland,
  - 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 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 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 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 energy, within 21 days from the closing of the General Meeting of a subsidiary or related company which addressed the following matters:
  - a) Strategic investment projects or involvement in investment projects that result in a lasting or temporary deterioration of the economic efficiency of such subsidiary or related company but are required for ensuring the energy security of Poland,
  - 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 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 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 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 energy, and submission of the same to the minister competent for matters pertaining to energy by the end of the month in which a periodic report was published at the Warsaw Stock Exchange;
- 6. submission of a report on entertainment expenses, legal costs, marketing costs, public relations and social communication expenses, and costs of management advisory services, along with the Supervisory Board's opinion, to the General Meeting.

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 intent 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 matters 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 matters:

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 or opinion on the transaction;
8. Adoption of annual business plans, including investment plans, subject to their approval by 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 equivalent of PLN 200,000, except where the Articles of Association require the Supervisory Board's approval or a resolution of the General Meeting;
12. Matters to be considered by the Supervisory Board or the General Meeting upon the Management Board's request;
13. Adoption of detailed reports on the performance of tasks undertaken with a view to ensuring the country's energy security, which are submitted, upon each request, to the minister competent for matters pertaining to energy;
14. Formation of another company, subscription for, acquisition or disposal of shares in another company, including definition of the terms and procedures for their disposal, with a proviso that formation of a company with a share capital exceeding the PLN equivalent of EUR 2,000,000, as well as subscription for, acquisition or disposal of shares in another company with a value exceeding the PLN equivalent of EUR 2,000,000, require approval by the Supervisory Board (or an opinion of the same where approval by the General Meeting is required), and with a further proviso that approval by the General Meeting is required for subscription for, acquisition or disposal of shares in companies of the PGNiG Group which,

pursuant to generally applicable laws, act as distribution or storage system operators, including definition of the terms and procedure for such disposal;

15. Donations, release of debtors from their debt obligations and entry into other agreements beyond the scope of business defined in the Articles of Association;
16. Execution of sale or purchase transactions and contracts or other disposal agreements, as well as the making of declarations of intent 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, an 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 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 Chairman 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 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 meeting.

In accordance with the Articles of Association of PGNiG, 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.

#### 11.1.3. Management Board meetings and resolutions

In 2017, the Management Board held 48 meetings and passed 675 resolutions, of which 31 were passed by circulation (outside of a meeting) under Art. 21.6 of PGNiG's Articles of Association and Section 4.10 of the Rules of Procedure for the PGNiG Management Board. A recess was ordered during 12 meetings of the Management Board.

In 2017, the General Meeting did not assign any tasks to be performed at the Company.

Recommendations issued in 2017 by the Minister of Energy included:

1. Taking measures by the Company's Supervisory Board to review the amount and rationale of expenses related to advisory agreements;  
The Supervisory Board conducted such review in line with the Minister of Energy's recommendations;
2. Conducting a review by the Company's Supervisory Board to evaluate measures taken to ensure compliance with the requirements applicable under the Act on Rules of Remunerating Persons Who Direct Certain Companies to remunerating management and supervisory board members at PGNiG Group companies.  
The Supervisory Board, with the support of the Management Board, has taken the necessary steps to ensure compliance with such rules of remunerating persons who direct certain companies as are applicable to remunerating management and supervisory board members at PGNiG Group companies;
3. Taking measures by the Company's Supervisory Board to review expenditure on sponsorship activities.  
The Supervisory Board conducted a review of expenditure incurred on sponsorship activities in line with the Minister of Energy's recommendations;
4. Taking measures by the Company's Supervisory Board to review claims for redundancy payments.  
The Supervisory Board has undertaken and is continuing a review of claims for redundancy payments.

## 11.2. Operation of supervisory bodies – Supervisory Board

### 11.2.1. Composition of the Supervisory Board

**As at January 1st 2017**

- |                        |                   |
|------------------------|-------------------|
| 1. Bartłomiej Nowak    | – Chairman        |
| 2. Wojciech Bieńkowski | – Deputy Chairman |
| 3. Magdalena Zegarska  | – Secretary       |
| 4. Sławomir Borowiec   | – Member          |
| 5. Mateusz Boznański   | – Member          |
| 6. Andrzej Gonet       | – Member          |
| 7. Piotr Sprzączak     | – Member          |
| 8. Ryszard Wąsowicz    | – Member          |
| 9. Anna Wellisz        | – Member.         |

- Ms Magdalena Zegarska resigned as Member of the PGNiG Supervisory Board, with effect from March 5th 2017, following approval of her candidacy for appointment to the PGNiG Management Board.

- Mr Ryszard Wąsowicz resigned as Member of the Supervisory Board, with effect from May 30th 2017.

#### **As at May 30th 2017:**

- |                        |                   |
|------------------------|-------------------|
| 1. Bartłomiej Nowak    | – Chairman        |
| 2. Wojciech Bieńkowski | – Deputy Chairman |
| 3. Sławomir Borowiec   | – Secretary       |
| 4. Mateusz Boznański   | – Member          |
| 5. Andrzej Gonet       | – Member          |
| 6. Piotr Sprzączak     | – Member          |
| 7. Anna Wellisz        | – Member.         |

- On June 28th 2017, in connection with the expiry of the Supervisory Board's term of office, the Annual General Meeting removed the entire Supervisory Board composed of:

1. Bartłomiej Nowak,
2. Wojciech Bieńkowski,
3. Sławomir Borowiec,
4. Mateusz Boznański,
5. Andrzej Goneta,
6. Piotr Sprzączak,
7. Anna Wellisz,

and appointed, for a joint three-year term of office until June 28th 2020, the Supervisory Board composed of:

1. Bartłomiej Nowak,
2. Piotr Sprzączak,
3. Andrzej Gonet,
4. Piotr Broda,
5. Grzegorz Tchorek,
6. Sławomir Borowiec,
7. Mieczysław Kawecki,
8. Stanisław Sieradzki.

- On June 29th 2017, the PGNiG Supervisory Board appointed Mr Bartłomiej Nowak as Chairman of the Supervisory Board, Mr Piotr Sprzączak as Deputy Chairman of the Supervisory Board, and Mr Sławomir Borowiec as Secretary of the Supervisory Board.

#### **As at December 31st 2017:**

- |                        |                   |
|------------------------|-------------------|
| 1. Bartłomiej Nowak    | – Chairman        |
| 2. Piotr Sprzączak     | – Deputy Chairman |
| 3. Sławomir Borowiec   | – Secretary       |
| 4. Piotr Broda         | – Member          |
| 5. Andrzej Gonet       | – Member          |
| 6. Mieczysław Kawecki  | – Member          |
| 7. Stanisław Sieradzki | – Member          |
| 8. Grzegorz Tchorek    | – Member.         |

#### **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 <http://pgnig.pl/lad-korporacyjny/rada-nadzorcza/regulamin>.



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 holds Company shares, the State Treasury, represented by the minister competent for matters pertaining to energy, 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 business;
12. Approval of the Management Board's resolution on division of powers between the Management Board members;
13. Giving opinions on all matters submitted by the Management Board for consideration to the General Meeting;
14. Giving opinions on detailed reports on the performance of the activities undertaken with a view to ensuring the energy security of Poland to be submitted by the Management Board to the minister competent for matters pertaining to energy;
15. Giving opinions on requests to be submitted to the shareholder State Treasury, represented by the minister competent for matters pertaining to energy, to approve: 1) any changes to the material provisions of existing trade contracts for import of natural gas to Poland, as well as the execution of new trade contracts, 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 approval to the Management Board for:
  - a) Acquisition of non-current assets, including real property, perpetual usufruct rights or interests in real property with a value of EUR 2,000,000 or more, except where such a transaction requires approval by the General Meeting or has not 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 within the meaning of the Accounting Act of September 29th 1994, classified as intangible assets, property, plant and equipment or long-term investments, including contribution thereof to a company or cooperative, if the market value of such assets exceeds PLN 20,000,000, but does not exceed PLN 100,000,000, as well as granting another entity the right to use such assets for a period longer than 180 days in a calendar year, on the basis of a legal transaction, if the market value of the assets covered by such legal transaction exceeds PLN 20,000,000, but does not exceed PLN 100,000,000, with the proviso that if the right to use the assets is granted under:
    - i) lease or rental agreements or other agreements for granting rights to use an asset for a consideration by a third party – the market value of the asset is the amount of the consideration for:
      - one year – if the right to use the asset has been granted under an agreement concluded for an indefinite term,
      - the entire term of the agreement – if the right to use the asset has been granted under an agreement concluded for a definite term,
    - ii) lending agreements or other agreements for granting rights to use an asset free of charge by a third party – the market value of the asset is the amount of the consideration which would have been payable if a lease or rental agreement had been concluded, for:
      - one year – if the right to use the asset is to be granted under an agreement concluded for an indefinite term,
      - the entire term of the agreement – if the right to use the asset has been granted under an agreement concluded for a definite term,
  - c) Assumption of other liabilities in an amount exceeding 20% of the Company's share capital, except where the liability has been provided for in the plans referred to in item 6, approved by the Supervisory Board, or agreements for the provision of gas fuel transmission or distribution services or amendments to gas fuel trading agreements to the extent they refer to the term of such agreements,
  - d) Entry into any of the following agreements:
    - 1) a donation agreement or any other agreement having a similar effect, with a value exceeding PLN 20,000 or 0.1% of total assets within the meaning of the Accounting Act of September 29th 1994, as determined based on the most recent approved financial statements,

- 2) an agreement on release from debt or any other agreement having a similar effect, with a value exceeding PLN 50,000 or 0.1% of total assets within the meaning of the Accounting Act of September 29th 1994, as determined based on the most recent approved financial statements,
- 3) any agreement for the provision of legal services, marketing services, public relations and social communication services, or management consultancy services, if the total fees for the services to be provided under such agreement exceed PLN 500,000, VAT exclusive, per year,
- 4) any agreement for the provision of legal services, marketing services, public relations and social communication services, or management consultancy services where no maximum fees are specified,
- 5) any amendments to an agreement for the provision of legal services, marketing services, public relations or other social communication services, or management consultancy services, which would increase the fees under the agreement above the amount specified in item 3);
- 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 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 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 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 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 not additionally 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 – for valid reasons, 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 recruitment and selection procedure referred to in Art. 18 of the Act on State Property Management;
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 a 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 energy;
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 the company's articles of association;
  - b) Increase or reduction in the company's share capital;
  - c) Merger, transformation or demerger of the company;
  - d) Sale of company shares;
  - e) Sale or lease of, or creation of limited property rights in, the company's business or its organised part;
  - f) Dissolution and liquidation of the 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 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:
- Amendments to the company's articles of association;
  - Increase or reduction in the company's share capital;
  - Merger, transformation or demerger of the company;
  - Sale of company shares;
  - Sale or lease of, or creation of limited property rights in, the company's business or its organised part;
  - Dissolution and liquidation of the company;
  - Entry into an obligational relationship with a foreign entity for the planning, analysis, construction, expansion or disposal of a storage unit, within the meaning of the 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 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, a distribution network, an interconnection gas pipeline, a direct gas pipeline, a storage facility, or a generation or cogeneration unit (in the case of companies owning generation or cogeneration units – provided they are engaged in energy trading activities within the meaning of the Energy Law), subject to items 30 and 31, with respect to the following matters:
- Amendments to the company's articles of association;
  - Increase or reduction in the company's share capital;
  - Merger, transformation or demerger of the company;
  - Sale of company shares;
  - Sale or lease of, or creation of limited property rights in, the company's business or its organised part;
  - Dissolution and liquidation of the company;
  - Creation of pledges or other forms of encumbrance over company shares;
  - obligating shareholders to make contributions to equity,
  - Issue of bonds/notes;
  - 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 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;
  - 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 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;
  - 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 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;
  - Entry into an obligational relationship with a foreign entity for hydrocarbon exploration, appraisal or production, within the meaning of the 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 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 additionally 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. Giving opinions on the Management Board proposals for assumption of liabilities in an amount exceeding the PLN equivalent of EUR 100,000,000.
34. Giving opinions on the Management Board's reports on entertainment expenses, legal costs, marketing costs, public relations and social communication expenses, and costs of management advisory services.

Supervisory Board meetings are convened by the Chairman or Deputy Chairman 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 50% of 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 on 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 ballot is ordered at the request of a Supervisory Board member or when the matter 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 Chairman 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 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 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 individually perform certain supervisory functions are authorised to supervise all areas of the Issuer's activity, and in particular to examine all of the Issuer's documents, demand that the Issuer's Management Board and 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-forming 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 competence.

The amount of remuneration to be received by Supervisory Board members is set by the General Meeting, pursuant to the Act of June 9th 2016 on Remunerating Persons Who Direct Certain Companies (Dz.U. of 2017, item 2190).

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 2017, there was one committee operating at the Company – the Audit Committee. The Audit Committee is composed of at least three Supervisory Board members, of whom at least one has expertise and competence in accounting or auditing of financial statements.

In 2017, the Audit Committee held 6 meetings and passed 12 resolutions. The Committee did not adopt any resolutions by written ballot or by means of remote communication. At three of its meetings, the Audit Committee met with the auditor and at two of those meetings performed a review and assessment of the Company's financial reporting system.

#### Composition of the Audit Committee

- from January 1st 2017 to March 5th 2017:

- |                        |  |
|------------------------|--|
| 1. Mateusz Boznański   | – Chairman of the Audit Committee        |
| 2. Magdalena Zegarska  | – Deputy Chairman of the Audit Committee |
| 3. Wojciech Bieńkowski | – Member of the Audit Committee          |
| 4. Bartłomiej Nowak    | – Member of the Audit Committee          |
| 5. Piotr Sprzączak     | – Member of the Audit Committee.         |

- from March 6th 2017 to June 28th 2017:

- |                        |  |
|------------------------|--|
| 1. Mateusz Boznański   | – Chairman of the Audit Committee        |
| 2. Piotr Sprzączak     | – Deputy Chairman of the Audit Committee |
| 3. Wojciech Bieńkowski | – Member of the Audit Committee          |
| 4. Bartłomiej Nowak    | – Member of the Audit Committee.         |

- from June 29th 2017

- |                     |                                  |
|---------------------|----------------------------------|
| 1. Bartłomiej Nowak | – Member of the Audit Committee  |
| 2. Piotr Broda      | – Member of the Audit Committee  |
| 3. Grzegorz Tchorek | – Member of the Audit Committee. |

- from August 17th 2017 until the end of 2017:

- |                     |  |
|---------------------|--|
| 1. Grzegorz Tchorek | – Chairman of the Audit Committee        |
| 2. Piotr Broda      | – Deputy Chairman of the Audit Committee |
| 3. Bartłomiej Nowak | – Member of the Audit Committee.         |

### 11.3.1. 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 Audit Committee of the Supervisory Board, the Audit Committee is composed of at least three Supervisory Board members, of whom at least one has expertise and competence in accounting or auditing of financial statements.

Most of the Audit Committee members, including its Chair, are independent of the Company, i.e. they meet the independence criteria referred to in Art. 129.3 of the Act of May 11th 2017 on Statutory Auditors, Audit Firms, and Public Oversight.

Audit Committee members should have expertise and skills specific to the industry in which the Company operates. This requirement is deemed satisfied if at least one Audit Committee member has expertise and skills specific to that industry, or individual members have expertise and skills specific to different aspects of that industry.

Members of the Audit Committee are appointed by the Supervisory Board from among its members on a rotational basis, so as to avoid attaching importance to the presence of any particular persons.

Meetings of the Audit Committee are held as needed, but at least once every six months, and are convened by the Chair of the Committee.

The Chair 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 Chair 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 Audit Committee's responsibilities include in particular those set down in Art. 130 of the Act of May 11th 2017 on Statutory Auditors, Audit Firms, and Public Oversight, e.g.:

- a) monitoring of:
  - the financial reporting process;
  - effectiveness of the internal control and risk management systems and the internal audit function, including with regard to financial reporting,
  - performance of financial audit tasks, including the audit of financial statements performed by an audit firm, with account taken of all conclusions and findings from an inspection of the audit firm by the Polish Audit Oversight Commission;
- b) oversight and monitoring of the statutory auditor's and the audit firm's independence in the context of fee caps on permitted non-audit services provided to the audited Company;
- c) informing the Supervisory Board or other supervisory or control body of the Company of the audit findings and explaining how the audit contributed to the reliability of the Company's financial reporting and what role the Audit Committee played in the audit;
- d) assessing the auditor's independence and approving the provision of permitted non-audit services by the auditor;
- e) developing a policy for selection of an audit firm to perform audits;
- f) developing a policy for the provision of permitted non-audit services by the audit firm, its related entities, or members of its network;
- g) establishing an audit firm selection procedure for the Company;
- h) submitting to the Supervisory Board or other supervisory or control body, or the governing body referred to in Art. 66. 4 of the Accounting Act of September 29th 1994, a recommendation referred to in Art. 16.2 of Regulation (EU) No 537/2014, in accordance with the policies referred to in items e and f;
- i) The recommendation on the selection of an auditor should name the audit firm recommended for appointment and include a statement that the recommendation is free from influence by a third party and that the audited public interest entity has not entered into any agreements including clauses referred to in Art. 66.5a of the Accounting Act of September 29th 1994.
- j) submitting recommendations to ensure the reliability of the financial reporting process at the Company.

Warsaw, March 12th 2018