



Polskie Górnictwo Naftowe i Gazownictwo SA

## STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RULES IN 2019



## 1. Adopted code of corporate governance

### 1.1 Statement of compliance with corporate governance standards

In 2019, the Company was in compliance with the set of corporate governance standards laid down in the 'Best Practice for GPW 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 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 [www.pgnig.pl/pgnig/lad-korporacyjny/dobre-praktyki](http://www.pgnig.pl/pgnig/lad-korporacyjny/dobre-praktyki)

### 1.2 Information on non-compliance with corporate governance principles

In 2019, the Company did not comply with two principles and two recommendations of the Code of Best Practice. Reasons for the non-compliance are presented below.

**Table 1 Reasons for non-compliance with principles and recommendations of the Code of Best Practice**

Name	Reason for non-compliance
Disclosure Policy and Investor Communications – I.Z.1.15	The Company believes there is no need to define a diversity policy for its key managers. The key criteria taken into account in the process of recruitment and selection of candidates to positions in the Company's key governing bodies are mainly professional experience and education.
Management Board and Supervisory Board – II.Z.7	<p>An Audit Committee operates within the Company's Supervisory Board as a standing committee.</p> <p>Pursuant to the Best Practice for WSE Listed Companies, the Company 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.</p> <p>The Company has complied with all the requirements which guarantee the Audit Committee's involvement in the supervision of the Company's business other than:</p> <ul style="list-style-type: none"><li>• 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.</li></ul> <p>Given the way in which the Audit Committee currently operates, the Company does not consider it necessary to introduce very detailed rules to regulate its operation i.e. the rule laid down in Section 4.3.2 of Annex I.</p> <p>The Company will take appropriate steps in the future, if justified by the actual manner of operation of the Audit Committee.</p>
General Meeting, Shareholder Relations – IV.R.2	The Company has decided not to comply with 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.
Remuneration – VI.R.4.	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 Company 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 Managing Certain Companies of June 9th 2016 (Dz.U. of 2017, item 2190).

### 1.3 Shareholders with major direct or indirect holdings of Company shares

In 2019, the State Treasury, represented by the Minister of State Assets (ul. Krucza 36/Wspólna 6, 00-522 Warsaw), was the only shareholder holding more than 5% of the Company's share capital.

Table 2 Company shareholding structure as at December 31st 2019

	Number of shares	Ownership interest	Number of votes at the General Meeting	Percentage of total voting rights at the General Meeting
State Treasury	4,153,706,157	71.88%	4,153,706,157	71.88%
Other shareholders	1,624,608,700	28.12%	1,624,608,700	28.12%
Total	5,778,314,857	100.00%	5,778,314,857	100.00%

### 1.4 Holders of shares conferring special control rights; description of the special control rights

Pursuant to 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.

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 Company, the State Treasury has the right to demand that the General Meeting be convened and that particular matters be placed on its agenda.

### 1.5 Restrictions on voting rights at PGNIG

Under PGNiG's Articles of Association, 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 major 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.

### 1.6 Restrictions on the transfer of ownership rights to Company securities

Under Art. 13.24 of the Act on State Property Management of December 16th 2016 (Dz.U. of 2016, item 2259, as amended), Company shares held by the State Treasury may not be disposed of.

### 1.7 Rules governing amendments to the Company's Articles of Association

Pursuant to the Commercial Companies Code and the Company'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.

On September 17th 2019, the procedure to register amendments to the Company's Articles of Association made by Resolution No. 6/2019 of the PGNIG Extraordinary General Meeting of August 21st 2019 was completed.

#### General Meeting of PGNIG

### 1.8 Operation and principal powers of the PGNIG General Meeting, shareholder rights and the procedures for exercising those rights

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 include in particular the rules of conducting meetings and adopting resolutions. The Rules of Procedure for the General



Meetings are available on the Company's website at <http://en.pgnig.pl/>. On January 23rd 2019, the Extraordinary General Meeting passed a resolution to amend the Rules of Procedure for the General Meeting.

## 1.9 Convening and cancelling the General Meeting

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

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 General Meeting convened on the initiative of the Management Board may be cancelled by the Management Board for a good reason.

## 1.10 Description of key powers of the General Meeting

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The General Meeting is the Company's constitutive body. In addition to any matters related to the Company's operations and matters specified in applicable laws, the General Meeting resolves on:

- Review and approval of the financial statements for the preceding financial year and the Directors' Report on the Company's operations;
- Approval of performance of duties by members of the Company's governing bodies;
- Distribution of profit or coverage of loss;
- Determination of the dividend record date or a decision on payment of dividend in instalments;
- Appointment and removal of Supervisory Board members;
- Review and approval of the Group's consolidated financial statements and the Directors' Report on the Group's operations for the preceding financial year;
- Suspension of members of the Management Board from their duties, or their removal from office;
- Disposal or lease of the Company's business or its organised part, or creation of limited property rights therein;
- Increase in or reduction of the Company's share capital;
- Issue of convertible bonds or bonds with pre-emptive rights, issue of subscription warrants;
- Acquisition of the Company's own shares for the purpose of offering them to the Company's employees or to persons who were employed by the Company or its related entities for at least three years;
- Mandatory buy-back of shares;
- Creation, use and liquidation of capital reserves;
- Use of statutory reserve funds;
- Merger, transformation or demerger of the Company;
- Amendments to the Company's Articles of Association and changes in its business profile;
- Definition of the rules and amounts of remuneration of Supervisory Board members and the rules of remuneration of Management Board members.

## 1.11 Shareholder rights at General Meetings and the procedures for exercising those rights

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### Participation in the General Meeting

The rules of participation in the General Meeting are set out in the Rules of Procedure for the General Meeting, available on the Company's website at <http://pgnig.pl/lad-korporacyjny/walne-zomadzenie/regulamin>.

Below is a summary of key provisions of the Rules.

- Each shareholder of the Company has the right to participate in General Meetings.
- Only persons who have been the Company'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 attend 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.

- Shareholders may participate in the General Meetings and exercise their voting rights in person, through a representative or through a proxy.
- At the General Meeting, the Management Board is required to provide shareholders – at their request – with information on the Company 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 Company, its affiliate, or its subsidiary company or cooperative, especially through disclosure of any technical, trade or organisational secrets.
- 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.
- During the General Meeting, any shareholder taking part in the General Meeting may submit procedural motions.
- 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.

#### Voting at the General Meeting

- One share confers the right to one vote at the General Meeting.
- 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 Company's governing bodies or on appointment of its liquidator, on bringing members of the Company'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.

## 2. Management and supervisory bodies at PGNIG and their committees

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### 2.1 Management Board

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Composition of the Management Board as at January 1st 2019:

- Piotr Woźniak – President of the Management Board
- Maciej Woźniak – Vice President, Trade
- Łukasz Kroplewski – Vice President, Development
- Michał Pietrzyk – Vice President, Finance
- Radosław Bartosik – Vice President, Operations
- Magdalena Zegarska – Vice President.

On January 16th 2019, the Supervisory Board removed Radosław Bartosik from the PGNIG Management Board and from the position of Vice President for Operations. On March 14th 2019, the Supervisory Board appointed Robert Perkowski, with effect from March 18th 2019, to the PGNIG Management Board and to the position of Vice President for Operations, for a joint term of office ending on December 31st 2019.

Composition of the Management Board as at December 31st 2019:

- Piotr Woźniak – President of the Management Board
- Maciej Woźniak – Vice President, Trade
- Łukasz Kroplewski – Vice President, Development
- Michał Pietrzyk – Vice President, Finance
- Robert Perkowski – Vice President, Operations
- Magdalena Zegarska – Vice President.

Following expiry of the fifth joint term of office of the PGNIG Management Board on December 31st 2019m, on January 9th 2020 the Supervisory Board removed the following persons from the Management Board:

- Piotr Woźniak – President of the Management Board
- Michał Pietrzyk – Vice President, Finance
- Robert Perkowski – Vice President, Operations
- Maciej Woźniak – Vice President, Trade
- Łukasz Kroplewski – Vice President, Development

On the same day, the following persons were appointed for a joint three-year term of office ending on January 10th 2023, with effect from January 10th 2020:

- Jerzy Kwieciński – as President of the Management Board
- Robert Perkowski – as Vice President, Operations
- Jarosław Wróbel – as Vice President, Trade

and with effect from January 15th 2020:

- Przemysław Wacławski – as Vice President, Finance
- Arkadiusz Sekściński – as Vice President, Development



Jerzy Kwieciński graduated from the Faculty of Materials Engineering of the Warsaw University of Technology and holds a doctoral degree in Technical Science. He also completed a postgraduate course for managers at the Warsaw School of Economics and an international Master of Business Administration programme at the University of Antwerp, the University of Staffordshire, the Free University of Brussels and the University of Warsaw. Jerzy Kwieciński has experience in academic work and research and development activities, gained at the Warsaw University of Technology and as a visiting professor at Brunel University of West London.

Mr Kwieciński has more than 30 years of international experience in strategic planning, management of large organisations, programmes and projects in the public, private, non-governmental and scientific research sectors, including the energy industry.

In 1993–2004, he was employed with the European Commission Representation Office in Poland, where he managed programmes and projects financed by the European Union and participated in the preparation of Poland for EU membership. In 2004–2005, he was President of Europejskie Centrum Przedsiębiorczości Sp. z o.o., and in 2008–2015 served as Vice President of its Management Board. In 2005, Mr Kwieciński became Undersecretary of State at the Ministry of Regional Development headed by Minister Grażyna Gęsicka, where he coordinated the national development policy and cohesion policy, as well as the work on the National Development Strategy for 2007–2015 and the National Cohesion Strategy for 2007–2013. In 2008–2015, he served as President of the Management Board of JP Capital Group Sp. z o.o., which specialises in the preparation and implementation of projects and innovations, including formation and operation of start-ups. At that time, he also ran the European Entrepreneurship Centre Foundation. In 2015, Mr Kwieciński was appointed Secretary of State at the Ministry of Development.

Since 2015, he has been a member of the National Development Council established by President Andrzej Duda. In November 2015, he was appointed First Deputy of Deputy Prime Minister Mateusz Morawiecki at the Ministry of Development in the government led by Prime Minister Beata Szydło. From January 2018, he was Minister of Investments and Development in the government of Prime Minister Mateusz Morawiecki, and from September 2019 he also served as Minister of Finance; he held the two posts until November 15th 2019. He was involved in the preparation and implementation of the Sustainable Development Strategy adopted by the Polish government and implementation of the cohesion policy.

#### President of the Management Board:

- manages the work of the Management Board and coordinates the work of Management Board members in all areas of the PGNiG Group's activity,
- supervises and coordinates the Company's operations, including with respect to:
  - internal control and audit functions,
  - development and oversight of implementation of the PGNiG Group's Strategy,
  - HR strategies, pay schemes and working time, employment and payroll policies,
  - corporate governance within the PGNiG Group and optimisation of the PGNiG Group's structure,
  - security of the facilities, protection of classified information and personal data,
  - acquisition of foreign upstream assets,
  - taking part in the development of the regulatory policy in cooperation with public administration authorities, EU authorities and industry organisations,
  - the Company's information policy and corporate communication,
  - planning and implementation of the Company's trade policy, particularly in the areas of natural gas and electricity sales, execution and settlement of contracts for the sale of natural gas and electricity, and natural gas imports policy, including with respect to the diversification of supply sources.

## Robert Perkowski – Vice President, Operations



Robert Perkowski is an economist (PhD in Economics) and member of the local government. He completed a post-graduate course in Management Analytics at Instytut Organizacji i Zarządzania w Przemśle ORGMASZ (ORGMASZ Institute of Industry Organisation and Management), where he also completed International Doctoral Studies. His PhD programme was opened and conducted at the Institute of Economics of the Polish Academy of Sciences. He also completed a full-time MA programme at Independent University of Business and Public Administration in Warsaw, majoring in Marketing and Management, and in Finance and Banking. He has written more than a dozen research articles.

Mr Perkowski started his professional career in 2001 as an intern at the financial department of Dacon Corp. LTD at Queen's University in Canada. In 2002, he started working at the Ministry of Justice, where he was responsible for preparing draft financial plans for the Prison Service' salaries and wages. In 2006–2018, he was Mayor of the town of Ząbki. He also served as President of the Polish Local Governments Association (Związek Samorządów Polskich), in which he provided training services, and was a member of municipality and county councils.

On March 14th 2019, the Supervisory Board resolved to appoint Robert Perkowski as Vice President of the PGNiG Management Board for Operations.

Vice President for Operations supervises and coordinates the Company's functioning, including with respect to:

- corporate social responsibility (CSR),
- the Company's and the PGNiG Group's procurement strategy,
- management of the Company's assets other than network assets, extraction assets and underground gas storage facilities,
- management of the Company's non-production assets, including property,
- creation and implementation of the sponsorship policy and building the Company's image in Poland and abroad,
- cooperation with transmission and distribution system operators,
- policy, objectives and programmes related to hydrocarbon exploration and production in Poland and abroad,
- overseeing all licensing processes related to hydrocarbon exploration, appraisal and production, as well as storage of waste matter in rock mass and non-reservoir storage of substances in accordance with the geological and mining law,
- operations of the Geology and Hydrocarbon Production Branch, excluding management of underground gas storage assets.

## Arkadiusz Sekściński – Vice President, Development



Arkadiusz Sekściński holds a PhD in social sciences (political science) from the University of Warsaw. He was the organiser of the Internal Security study programme focusing on Energy Security, and a lecturer in such subjects as "Poland's Energy Policy", "Energy Policies of Contemporary Countries", "Renewable Energy Sources" and "Planning and Financing Investment Projects in the Energy Sector". Author of research articles in Polish and English. He is now attending an MBA Energy programme at Lazarski University.

He held a scholarship from the Foundation for the Development of the Education System (University of Bergen, Norway), the Leonardo da Vinci Programme (the Białystok Province Regional Office, Brussels, Belgium), the Socrates – Erasmus Programme (Kapodistrian University of Athens, Greece).

Mr Sekściński started his professional career in the energy sector in 2007, working as a consultant in companies providing advisory services to businesses operating in the heat and power sector. From 2011, he served as director and member of the Management Board of the Polish Wind Energy Association. In 2016, he joined PGE Energia Odnawialna S.A. where, as Vice President and acting President of the Management Board, he supervised investment projects, innovation, operation of generation assets, communication, human resources and security. He served as president of special purpose vehicles responsible for the construction of onshore wind farms and development of wind farm projects in the Baltic Sea. He was also Head of the Photovoltaic Development Programme at the PGE Group.

Arkadiusz Sekściński is employed at University of Warsaw as assistant professor.

Vice President for Development supervises and coordinates the Company's operations with respect to:

- innovation and growth projects involving PGNiG,
- analysing and monitoring opportunities to obtain EU funding for the Company's operations,



- oversight of standardisation activities at the Company,
- development of technical assumptions, rules, norms and standards for the gas area,
- operations of the PGNiG Central Measurement and Testing Laboratory.

#### Przemysław Waclawski – Vice President, Finance



Przemysław Waclawski is a graduate of the Faculty of Management of the AGH University of Science and Technology in Kraków. Currently, he is taking the international FLEX Executive MBA course at MIP Politecnico di Milano in Italy, specialising in Digital Transformation.

In 2002–2006, he worked for Ernst & Young Audit, where he was engaged in such areas as financial auditing and due diligence processes. Between June 2006 and September 2010, he served as Head of Controlling Department and Head of Investment and Sales for the Balkan Market at Tele-Fonika Kable S.A. From October 2010, he was Member of the Management Board for Finance, and from February 2011 to May 2013 – President of the Management Board of TF Kable Fabrika Kablova Zajecar d.o.o. of Serbia. Between February 2013 and September 2018, Mr Waclawski served as Head of the Controlling Department at Tele-Fonika Kable S.A. During that period, he also sat on the Management

Boards of the Tele-Fonika Kable Group's foreign companies.

In October 2018, he was appointed Member of the Management Board for Finance at Unipetrol a.s., where he was in charge of the finance, supply chain management and IT divisions. He also supervised the Unipetrol Group's finance division.

Vice President for Finance supervises and coordinates such areas of the Company's operations as:

- implementation of the Company's strategic economic and financial objectives,
- preparation and implementation of the Company's business plan,
- economic and financial evaluations and analyses of expansion and investment projects,
- planning and overseeing financial aspects of the investment policy,
- implementation and development of accounting procedures,
- defining the rules of and overseeing the preparation of financial statements,
- investor relations,
- IT management.

#### Jarosław Wróbel – Vice President



Jarosław Wróbel completed MA studies and a postgraduate doctoral course at the University of Economics in Katowice. He also completed a postgraduate course at the Faculty of Electrical Engineering of the Warsaw University of Technology as well as an Executive MBA programme (University of Gdańsk and RMS Erasmus University) and a Post-MBA programme (University of Gdańsk and Swiss Business School).

With the energy sector since 1992. From 1993 to 1999, he worked for Elektrociepłownia Będzin S.A., where he was responsible for the development and implementation of a restructuring programme as well as for the preparation and execution of the first capital privatisation in the Polish power industry via the Warsaw Stock Exchange ('IPO of the Year 1998' award).

With PGNiG since 2002. In 2003–2013, he served as Vice President for Economic Matters at Górnośląska Spółka Gazownictwa Sp. z o.o. Author and sponsor of the programme to implement an integrated platform for process support based on ERP and CIS solutions at Górnośląska Spółka Gazownictwa Sp. z o.o. Then he carried out projects for fuel and power sector companies as well as for IT companies. One of the creators of the IT/OT model for the PGNiG Group.

Between January 8th and March 1st 2016, Mr Wróbel served as Member of the Management Board of Polska Spółka Gazownictwa Sp. z o.o., and from March 2nd 2016 to February 16th 2018 – as President of the company's Management Board. Under his leadership, the Company developed and implemented a strategic package of changes for the Polish gas distribution industry for 2016–2022, and won the Polish Quality Award in the category of large economic organisations in 2017.

In the period from April 17th 2018 to January 9th 2020, Mr Wróbel was President of the Management Board of ORLEN Południe S.A. One of the creators and sponsor of the programme to construct a modern biorefinery at ORLEN Południe S.A., based on the Trzebinia and Jedlicze refineries, serving as a competence centre in biocomponents and biofuels for the ORLEN Group.



The Vice President of the Management Board supervises and coordinates such areas of the Company's operations as:

- natural gas and crude oil production,
- underground waste disposal,
- CO<sub>2</sub> storage,
- underground storage of substances,
- natural gas denitrification,
- production of helium, liquefied natural gas (LNG), propane-butane gas mixture, hydrocarbon condensate and liquid foam,
- operations of PGNiG Branches in Odolanów, Sanok and Zielona Góra, and of the Well Mining Rescue Station in Kraków,
- management of the Company's underground gas storage assets,
- building relations with the distribution system operator and the storage system operator.

#### Magdalena Zegarska – Vice President of the Management Board



Magdalena Zegarska graduated from the University of Environmental Sciences in Radom. She completed an MBA oil and gas course and holds a certificate of completion of studies in Management of Large Enterprises from the School of Management and Marketing of the Business Initiatives Association in Warsaw. She took numerous training programmes and courses in psychology of team management, as well as a course for supervisory board members, completed with a passed exam before the State Treasury Commission. From 2011 to 2014, she was Secretary of the Employee Council of the second term of office, and from 2010 to 2014 – Secretary of the Coordination Committee of the NSZZ Solidarność trade union at PGNiG. In 2014–2017, she served as Member of the PGNiG Supervisory Board, the Supervisory Board Secretary and Deputy Chair of the Audit Committee. She joined PGNiG in 1998 as an employee of Mazowiecka Spółka Gazownictwa and then worked at the Mazovian Trading Division. From 2013, she held various positions at the Retail Trading Department, Infrastructure Department and Asset and Administration

Department of the PGNiG Head Office. At the Asset and Administration Department she was Deputy Director. Since January 2016, she has been Representative of the PGNiG Management Board for the Quality, Health, Safety and Environment (QHSE) Management System. From April 2016 to March 2017, she served as Deputy Director of the QHSE Department, delegated to direct the work of the Department. She has received honorary awards for outstanding service to the Oil Mining and Gas Sector and the Mazovian Trading Division. She holds the title of Grade III Mining Director and Grade II Mining Director.

On February 27th 2020, she was appointed by the Supervisory Board as Vice President of the Management Board.

Vice President of the Management Board elected by Company employees supervises and coordinates the Company's operations with respect to:

- occupational health and safety, fire protection,
- cooperation with trade unions, the Employee Council and other employee organisations where their operations relate to the Company and the PGNiG Group,
- issue of shares to eligible Company employees.

#### Rules governing the appointment and removal of members of the management board; powers of members of the management, in particular 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 on State Property Management of December 16th 2016 (Dz.U. of 2016, item 2259, as amended). The procedure does not apply to Management Board members elected by employees.

As long as the State Treasury holds Company shares and the Company's annual average headcount exceeds 500, the Supervisory Board appoints to the Management Board one person elected by the employees, to serve for the Management Board's term of office. A person is considered 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 their 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 Company'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.

Pursuant to the Articles of Association, decisions on the issuance or buy-back of shares are adopted by the Company's General Meeting.

#### Rules governing the operation of the Management Board

The Management Board manages the Company's affairs and represents the Company in and out of court. The powers and responsibilities of the Management Board involve management of all of the Company's affairs, other than those which the law or the Company's Articles of Association reserve for the General Meeting or the Supervisory Board. In particular, the Management Board is responsible for preparing business plans, including investment plans, the strategy for the Company and the PGNiG Group, as well as long-term strategic plans, and submitting them to the Supervisory Board for approval.

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 Company's website at [www.pgnig.pl/lad-korporacyjny/zarzad/regulamin](http://www.pgnig.pl/lad-korporacyjny/zarzad/regulamin).

#### Management Board meetings and resolutions

In 2019, the Management Board held 51 meetings and passed 690 resolutions.

## 2.2 Supervisory Board and its committees

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Composition of the PGNIG Supervisory Board as at January 1st 2019:

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|-----------------------|--|
| • Bartłomiej Nowak    | – Chairman of the Supervisory Board        |
| • Piotr Sprzączak     | – Deputy Chairman of the Supervisory Board |
| • Sławomir Borowiec   | – Secretary of the Supervisory Board       |
| • Piotr Broda         | – Member of the Supervisory Board          |
| • Andrzej Gonet       | – Member of the Supervisory Board          |
| • Mieczysław Kawecki  | – Member of the Supervisory Board          |
| • Stanisław Sieradzki | – Member of the Supervisory Board          |
| • Grzegorz Tchorek    | – Member of the Supervisory Board.         |

On August 22nd 2019, pursuant to Art. 35.1 of the Company's Articles of Association, the Minister of Energy appointed Mr Roman Gabrowski to the Supervisory Board.

Composition of the PGNIG Supervisory Board as at December 31st 2019:

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|-----------------------|--|
| • Bartłomiej Nowak    | – Chairman of the Supervisory Board        |
| • Piotr Sprzączak     | – Deputy Chairman of the Supervisory Board |
| • Sławomir Borowiec   | – Secretary of the Supervisory Board       |
| • Piotr Broda         | – Member of the Supervisory Board          |
| • Roman Gabrowski     | – Member of the Supervisory Board          |
| • Andrzej Gonet       | – Member of the Supervisory Board          |
| • Mieczysław Kawecki  | – Member of the Supervisory Board          |
| • Stanisław Sieradzki | – Member of the Supervisory Board          |
| • Grzegorz Tchorek    | – Member of the Supervisory Board.         |

#### Bartłomiej Nowak – Chairman of the Supervisory Board



Bartłomiej Nowak completed management courses at the Kozminski University in Warsaw and is a graduate of the Faculty of Law and Administration of the University of Warsaw. Since 2009, he has held the degree of Doctor of Laws - European University Institute, and since 2013 - a Habilitated Doctor degree from the Institute of Legal Sciences of the Polish Academy of Sciences. Bartłomiej Nowak specialises in energy law, business law, competition law, and EU law. In 2007–2009, he worked for Directorate-General for Transport and Energy of the European Commission and as an adviser to the President of the Polish Energy Regulatory Office (URE). In 2010–2014, he served as an adviser to the Kancelaria Domański Zakrzewski Palinka sp.k. law firm and member of the Supervisory Board of PTE WARTA S.A. Since 2009, he has worked for the Leon Kozminski University of Warsaw, initially as Assistant Professor and then Professor at the Law College, as well as Vice-Rector for Economic and Social Studies. Member of the Scientific Council of the National Centre for Nuclear Research.

*Bartłomiej Nowak has submitted a statement to the effect that he meets the independence criteria stipulated under Art. 129 of the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight dated May 11th 2017 and under Commission Recommendation 2005/162/EC of February 15th 2005.*

#### Piotr Sprzączak – Deputy Chairman of the Supervisory Board



Piotr Sprzączak is a graduate of the Maria Curie-Skłodowska University of Lublin and the National School of Public Administration of Warsaw. He began his professional career in 2011 at the Oil and Gas Department of the Ministry of Economy, and then the Ministry of Energy. He is currently Head of the Infrastructure Department at the Ministry of Energy. As part of his job duties, he participates in the negotiation of EU legal acts, including amendments to the gas directive and the regulation concerning measures to safeguard security of gas supply, and in the development of the regulatory environment through the 'Clean Energy for All Europeans' package. He coordinates activities related to international cooperation and Poland's membership in the European Union and in international energy organisations and agreements. In 2011–2014, he was involved in preparing and updating the assessment of risk related to security of gas supplies, a prevention plan and an emergency response plan.

#### Sławomir Borowiec – Secretary of the Supervisory Board



Sławomir Borowiec graduated from the AGH University of Science and Technology in Kraków (Faculty of Drilling, Oil and Gas) in 1992. In the same year he joined Zielonogórski Zakład Górnictwa Nafty i Gazu. In 2001, he graduated from The Jacob of Paradyż University of Applied Sciences in Gorzów Wielkopolski – Institute of Management and Finance, where he completed studies in Management and Marketing. In 2014, he earned a degree from the Koszalin University of Technology, where his principal field of study was Accounting – Accounting of Business Entities. At present, he is Head of the Centre for Oil and Gas Production Facilities. Mr Borowiec is also a licensed Mine Operations Manager. In 2002, he passed an examination for candidates to supervisory boards of state-owned companies and in 2010 he received the title of Grade II Mining Director.



#### Piotr Broda – Member of the Supervisory Board



Piotr Broda is a graduate of the Faculty of Foreign Trade of the Warsaw School of Economics and holder of an Executive MBA degree from the University of Minnesota. He gained professional experience working in leading financial institutions. In 1991, he joined Bank Austria Creditanstalt S.A. of Warsaw. He was Deputy Director of the Treasury Department (1995–1998), and then Director of the Treasury Department and Chairman of the Assets and Liabilities Committee (1998–2000). In November 2000, he took the position of Investment Team Manager at Allianz S.A., and in 2002 was appointed Deputy Director of the Financial Investments Office at PZU S.A. Mr Broda continued his career with the PZU Group as Director of the Debt and Derivative Instruments Office and Vice President of the Management Board of PZU Asset Management S.A. (2008–2011) and Vice President of the Management Board of PZU TFI S.A. (2009–2013).

For over four years (2013–2017), he served as Member of the Management Board of TFI BGK S.A. Since July 2018, he held the post of Chief Financial Officer at ElectroMobility Poland S.A. He has long-standing experience as a member of supervisory boards, having served in that capacity in 2002–2004 at PZU Asset Management S.A. and PZU NFI Management S.A., in 2005–2006 at Lentex S.A., and in 2006–2007 at Jago S.A. He has authored a number of publications concerned with finance as an expert cooperating with the Sobieski Institute.

*Piotr Broda has submitted a statement to the effect that he meets the independence criteria stipulated under Art. 129 of the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight dated May 11th 2017 and under Commission Recommendation 2005/162/EC of February 15th 2005.*

#### Roman Gabrowski – Member of the Supervisory Board



Roman Gabrowski is a graduate of the Faculty of Electrical Engineering at the Wrocław University of Technology, where he specialised in applied automation, and the Wałbrzych Higher School of Management and Enterprise, where his principal field of study was strategic management. He additionally completed post-graduate studies in management of state-owned energy companies organised by the Warsaw University of Technology, and studies in business finance management at the Wrocław University of Economics (Faculty of Management and Computer Science). Mr Roman Gabrowski has gained professional experience working in managerial roles in the power industry, including entities of the Tauron Group. In 1993–1997, he served as Chairman of the Supervisory Board of ZE Wałbrzych S.A. In 1998–2002, he held the position of President of the Management Board at ZE Wałbrzych S.A., and in 2007–2008 at EnergiaPro

Gigawat (currently Tauron Obsługa Klienta). In 2016–2019, he was President of the Management Board of Tauron Ekoenergia. He also sat on the Supervisory Boards of various companies, including Jeleniogórskie Elektrownie Wodne (currently Tauron Ekoenergia) and Tauron Ekoserwis.

#### Andrzej Gonet – Member of the Supervisory Board



Andrzej Gonet graduated with honours from the Faculty of Drilling, Oil and Gas of the AGH University of Science and Technology in Kraków in 1975. He was then employed at the Faculty and in 1980 he defended with honours his doctoral thesis. In 1989, he was awarded a post-doctoral degree (*doctor habilitatus*) in science. In 1998, he was awarded professorship and is now employed as a full professor at the AGH University of Science and Technology. He has completed several post-graduate programmes run by the AGH University of Science and Technology, Jagiellonian University and Polish Academy of Sciences, as well as a course for candidates to supervisory boards of state-owned companies. He was a member of the Supervisory Boards of ZUN Sp. z o. o. of Krosno (2000–2002) and PNIG Sp z o. o. of Kraków (2011–2013). Andrzej Gonet has authored or co-authored over 300 publications, 260

unpublished research papers, 29 approved and submitted patents and 8 licences. He is a certified environmental impact assessment expert of the Kraków Province Governor, expert of the Polish Association of Oil and Gas Industry Engineers and Technicians, and has extensive professional experience gained in Poland and abroad. He has been a consultant and reviewer of many scientific papers and research projects. He is a member of the Drilling and Borehole Mining Section of the Mining Committee of the Polish Academy of Sciences. Throughout his professional career he has held various positions, including head of the Drilling Department, Deputy Director of the Institute of Drilling, Oil and Gas, two terms of office as Vice-Dean and Dean of the Faculty of Drilling, Oil and Gas of the AGH University of Science and Technology, which position he held for three terms. In addition, Andrzej Gonet was a co-founder of the PWSZ Krosno State College, where he has served as Vice-Rector and Rector.

#### Mieczysław Kawecki – Member of the Supervisory Board



Mieczysław Kawecki is a graduate of the AGH University of Science and Technology in Kraków, Master of Science in Engineering, with principal field of study: well operation. He completed post-graduate studies in underground gas storage, and graduated in Environment Protection in Economy from the AGH University of Science and Technology in Kraków. Mieczysław Kawecki is a licensed mine operations manager and Grade I Mining Director. He started his professional career in 1976 at Sanocki Zakład Górnictwa Nafty i Gazu, working at the Wańkowa crude oil extraction facility. In 1984, he was appointed manager of a new crude oil and natural gas extraction facility in Lublin, and in 1986 he became manager of the Wielopole crude oil extraction facility. From 1991 to 2017, he worked as manager of the Strachocina Underground Gas Storage Facility. Since 2017, Mieczysław Kawecki has managed the Underground Gas Storage Department of PGNiG's Sanok Branch. He is President of the Management Board of the Sanok Branch of the Polish Association of Oil and Gas Industry Engineers and Technicians (SITPNiG). In 1990–1992, he was a member of the Works Council at Sanocki Zakład Górnictwa Nafty i Gazu and a delegate to the General Assembly of Delegates of PGNiG Warszawa. He was a member of the Works Council of the 6th and 7th terms of office at PGNiG Warszawa from 1994 until it was transformed into a company. Until 1998, he was a member of the consulting group at PGNiG. From 2003 to 2005, Mieczysław Kawecki served as Chairman of the KADRA Trade Union at the Sanok Branch, and member of the Union Coordination Committee. He was a member and then Secretary of the Supervisory Board of PGNiG in 2005–2014.

#### Stanisław Sieradzki – Member of the Supervisory Board



Stanisław Sieradzki completed studies in stratigraphic and exploratory geology at the University of Wrocław. He also completed post-graduate studies in oil and gas engineering at the AGH University of Science and Technology in Kraków. Stanisław Sieradzki has worked for PGNiG since 1986, first as independent geologist, then specialist geologist in the Operational Geology Department, and later as Head of the Deposit Appraisal and Documentation Department at PGNiG's Sanok Branch. Upon establishment of the Geology and Hydrocarbon Production Unit, he was appointed Head of the Project Design Centre in Sanok. Currently, Mr Sieradzki holds the position of Deputy Head of the Project Design Department in Jasło, Sanok office. His work to date has focused chiefly on crude oil and natural gas exploration. Stanisław Sieradzki has received a number of qualifications, including a licence from the Minister of the Environment to perform, supervise and manage category 1 geological work in: exploration for and appraisal of crude oil and natural deposits; he is also a qualified senior technical supervisor of geological operations and mining geologist at facilities extracting mineral deposits through boreholes, licensed by the President of the State Mining Authority. He is also a certified internal management system auditor.

#### Grzegorz Tchorek – Member of the Supervisory Board



Grzegorz Tchorek graduated from the Faculty of Management of the University of Warsaw. In 2007, he received PhD degree and started working as an associate professor at the Faculty of Management of the University of Warsaw and as an adviser at the National Bank of Poland (from 2009). As an expert, he currently focuses on evaluating competitiveness of countries and businesses, global supply chains, and advancement of low-carbon technologies in Poland. He conducts research projects in the fields of electromobility, gas mobility, shared mobility and hydrogen technologies.

*Grzegorz Tchorek has submitted a statement to the effect that he meets the independence criteria stipulated under Art. 129 of the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight dated May 11th 2017 and under Commission Recommendation 2005/162/EC of*

*February 15th 2005.*

#### Powers of the PGNiG Supervisory Board

The Supervisory Board exercises ongoing supervision of the Company'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 include in particular:

- Assessment of the Directors' Report on the Company'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;
- Assessment of the Management Board's proposals concerning distribution of profit or coverage of loss;
- Submission to the General Meeting of written reports on results of the activities referred to in items 1 and 2;
- 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 Group's operations, and reporting to the General Meeting on the results of these assessments;
- Appointment of an auditor to audit the financial statements;
- Approval of business plans, including investment plans;
- Approval of the strategy for the Company and the PGNiG Group and long-term strategic plans;

- Adoption of detailed rules governing the Supervisory Board's operation;
- Approval of the consolidated text of the Articles of Association, drawn up by the Company's Management Board;
- Approval of the Rules of Procedure for the Management Board;
- Appointment and removal of Management Board members;
- Definition of rules and amounts of remuneration for Management Board members, unless applicable mandatory provisions of law state otherwise.

#### 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 Company's website at <http://pgnig.pl/lad-korporacyjny/rada-nadzorcza/regulamin>.

The Company's Supervisory Board consists 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 consists of up to six members, two members are appointed from among persons elected by the Company's employees and employees of all of its subsidiaries; if the Supervisory Board consists of seven to nine members, three members are appointed from among candidates elected by the employees.

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

Supervisory Board meetings are convened by the Chairman or Deputy Chairman of the Supervisory Board any time the Company's interest so requires, but no less frequently than once every two months.

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

The Supervisory Board may appoint standing or ad hoc committees (established as needed), to act as the Supervisory Board's collective advisory and opinion-forming bodies.

#### Committees of the Supervisory Board

In 2019, there was one committee operating at the Company – the Audit Committee.

Composition of the Audit Committee of the PGNiG Supervisory Board in 2019:

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

In 2019, the composition of the Audit Committee did not change.

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.

All members of the Audit Committee submitted statements to the effect that they meet the independence criteria stipulated in Art. 129 of the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight, of May 11th 2017, and Commission Recommendation 2005/162/EC of February 15th 2005. Two members of the Audit Committee have expertise and competence in accounting or auditing of financial statements:

Grzegorz Tchorek, Chairman of the Audit Committee, holds an MA in business management and marketing. He graduated from the Faculty of Management of the University of Warsaw, and holds a PhD in Economics in Management earned at the Faculty of Management of the University of Warsaw.

Piotr Broda, Deputy Chairman of the Audit Committee, is a graduate of the Warsaw School of Economics and holds an MA in economics/ foreign trade, with a specialisation in financial markets.

Bartłomiej Nowak, Member of the Audit Committee, has the expertise and skills required in the industry in which the Company operates. He holds a PhD in law from the Polish Academy Sciences (Institute of Legal Sciences), in business law, and a PhD in law from EUI FLORENCE. He was an adviser to the President of the Energy Regulatory Office (URE) in 2007–2009 and worked for Directorate-General for Transport and Energy of the European Commission in 2007–2008.



## Rules governing the operation of the Audit Committee and its powers

The Audit Committee operates within the Supervisory Board as a standing committee, advising the Supervisory Board on matters for which the Board is responsible. 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. Every six months, the Audit Committee submits reports on its activities to the Supervisory Board. Each report is made available to the Company's shareholders at the next General Meeting.

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

- 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;
- 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;
- 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;
- assessing the auditor's independence and approving the provision of permitted non-audit services by the auditor;
- developing a policy for selection of an audit firm to perform audits;
- developing a policy for the provision of permitted non-audit services by the audit firm, its related entities, or members of its network;
- establishing an audit firm selection procedure for the Company;
- 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;
- submitting recommendations to ensure the reliability of the financial reporting process at the Company.

## Audit Committee meetings and resolutions

In 2019, the Audit Committee held six meetings and passed eight resolutions. At three of its meetings, the Audit Committee met with the auditor.

## Rules for cooperation with audit firm

Following election made by the PGNiG Supervisory Board on December 20th 2018, PKF Consult Sp. z o.o. Sp.k. was appointed as the auditor to audit and review the financial statements of PGNiG and some of the subsidiaries as well as the consolidated financial statements of the PGNiG Group. The agreement was concluded on April 12th 2019 and covers the years 2019–2020.

In 2019, the audit firm provided the following permitted non-audit services to PGNiG:

- Review of the quarterly separate and consolidated financial statements for the periods ended March 31st 2019 and September 30th 2019.
- Review of the interim separate and consolidated financial statements for the six months ended June 30th 2019.
- Review, for the needs of banks providing financing to PGNiG, of agreed procedures concerning financial covenants specified in the credit facility agreements signed by PGNiG, as well as bond subscription agreements and the terms and conditions of such bonds – for the 12 months ended December 31st 2018 and June 30th 2019.

On January 23rd 2020, the Audit Committee submitted a recommendation to the PGNiG Supervisory Board concerning selection of an audit firm to perform audits for PGNiG and selected companies of the PGNiG Group for 2021–2022; the recommendation met the conditions set forth in Art. 130.2. of the Act on Statutory Auditors.

The Audit Committee also stated that the recommendation had been prepared following the procedure to select an audit firm, carried out by PGNiG in accordance with the provisions of the Public Procurement Law of January 29th 2004 (consolidated text: Dz.U. of 2019, item 1843), and the procedure meets the criteria set out in Art. 130.3 of the Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (Dz.U. of 2019, item 1421).

## 3. Remuneration of members of the governing bodies

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### 3.1 PGNiG's remuneration policy

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The key internal document governing the remuneration policy at PGNiG is the Collective Bargaining Agreement concluded with the trade unions on July 15th 2009. The remuneration system is additionally governed by internal rules implemented at individual organisational units and agreements with trade unions.

In line with the adopted remuneration policy, base pay rates are based on job grading. The rate depends on the qualifications required for a given job, type of work performed and professional experience.

The policy also provides for additional components of remuneration, the most important of them being: awards and bonuses, St. Barbara's Day awards, jubilee awards, retirement severance payments and annual bonuses.

### 3.2 Incentive scheme

At PGNiG, a bonus scheme is in place whose key components include:

- MBO (Management By Objectives) bonus, which applies to management positions responsible for achieving PGNiG's key objectives. The amount of an MBO bonus depends on the quality and progress in the achievement of allocated objectives;
- Discretionary periodic bonus, which covers the remaining employees and is granted on a quarterly basis, based on discretionary assessment of an employee's performance by their superior;
- Discretionary task bonus, earmarked for employees excelling in their work for the Company (a special account placed at the disposal of the PGNiG Management Board);
- Discretionary project bonus, earmarked for employees who have been involved in the execution of project work; the bonus amount depends on the quality and progress in the execution of specific projects.

### 3.3 Employee benefits

PGNiG has in place an Employee Pension Plan within the meaning of the Act on Employee Pension Plans of April 20th 2004 (Dz.U. No. 116, item 1207). Every employee who has continuously worked for the Company for at least three months is eligible for the plan.

### 3.4 Remuneration policy for members of the management and supervisory bodies of PGNiG

On September 9th 2016, the Company's General Meeting passed Resolution No. 9/VIII/2016 on the rules of remuneration for members of the Supervisory Board of PGNiG. Pursuant to the resolution, the monthly remuneration of Supervisory Board members equals the average monthly remuneration in the business sector (net of bonuses paid from profit) in the fourth quarter of the previous year.

**Table 3 Remuneration of members of the management and supervisory bodies of PGNiG in 2019**

Full name	January 1st 2019–December 31st 2019		
	Total remuneration, additional benefits and bonuses paid and due in 2019 for holding key positions at PGNiG, including VAT	Total remuneration for holding key positions at subordinated entities in 2019, including VAT	Total remuneration in 2019
(PLN '000)			
<b>Total remuneration of Management Board members, including:</b>	<b>9,503</b>	<b>291</b>	<b>9,794</b>
Piotr Woźniak – President of the Management Board	1,984	154	2,138
Łukasz Kroplewski – Vice President of the Management Board	1,846	-	1,846
Michał Pietrzyk – Vice President of the Management Board	1,843	137	1,980
Maciej Woźniak – Vice President of the Management Board	1,848	-	1,848
Robert Perkowski – Vice President of the Management Board	698	-	698
Magdalena Zegarska – Vice President of the Management Board	1,284	-	1,284
<b>Persons no longer in office as at December 31st 2019:</b>	<b>965</b>	<b>14</b>	<b>979</b>
Radosław Bartosik – Vice President of the Management Board <sup>1)</sup>	965	14	979
<b>Commercial Proxy</b>	<b>620</b>	<b>54</b>	<b>674</b>
Violetta Jasińska-Jaskowiak – Commercial Proxy	620	54	674
<b>Total remuneration of Supervisory Board members, including:</b>	<b>695</b>	<b>-</b>	<b>695</b>
Sławomir Borowiec	86	-	86
Piotr Broda	81	-	81
Andrzej Gonet	82	-	82
Mieczysław Kawecki	79	-	79
Bartłomiej Nowak	92	-	92
Stanisław Sieradzki	81	-	81
Piotr Sprzączak	86	-	86
Grzegorz Tchorek	79	-	79
Gabrowski Roman	29	-	29
<b>Total remuneration of members of the management and supervisory bodies</b>	<b>11,783</b>	<b>359</b>	<b>12,142</b>

1) Served as member of the Management Board until January 16th 2019

Table 4 Remuneration of members of the management and supervisory bodies of PGNiG in 2018

January 1st–December 31st 2018			
Full name	Total remuneration, additional benefits and bonuses paid and due in 2018 for holding key positions at PGNiG, including VAT (PLN '000)	Total remuneration for holding key positions at subordinated entities in 2018, including VAT	Total remuneration in 2018
Total remuneration of Management Board members, including:	5,410	428	5,838
Piotr Woźniak – President of the Management Board	955	154 <sup>1)</sup>	1,109
Radosław Bartosik – Vice President of the Management Board	894	137 <sup>1)</sup>	1,031
Łukasz Kroplewski – Vice President of the Management Board	896	-	896
Michał Pietrzyk – Vice President of the Management Board	891	137 <sup>1)</sup>	1,028
Maciej Woźniak – Vice President of the Management Board	887	-	887
Magdalena Zegarska – Vice President of the Management Board	887	-	887
Persons no longer in office as at December 31st 2018:	86	-	86
Waldemar Wójcik <sup>2)</sup>	86	-	86
Commercial Proxy	576	34	610
Violetta Jasińska-Jaśkowiak – Commercial Proxy	576	34	610
Total remuneration of Supervisory Board members, including:	662	-	662
Sławomir Borowiec	86	-	86
Piotr Broda	79	-	79
Andrzej Gonet	81	-	81
Mieczysław Kawecki	80	-	80
Bartłomiej Nowak	91	-	91
Stanisław Sieradzki	80	-	80
Piotr Sprzączak	85	-	85
Grzegorz Tchorek	81	-	81
Total remuneration of members of the management and supervisory bodies	6,734	462	7,196

1) All remuneration for service on the Supervisory Board of EUROPOL GAZ S.A. will be paid to the bank account of a non-profit organisation entered in the list approved by the PGNiG Supervisory Board.

2) Served as Member of the Management Board until March 6th 2017.

#### 4. Internal control and risk management systems used by the Company in the process of preparation of financial statements and consolidated financial statements

The Company's internal control system consists of:

- Group-wide uniform accounting policies on measurement, recognition and disclosure in accordance with the International Financial Reporting Standards (IFRS), as well as unified templates for separate and consolidated financial statements;
- Internal control mechanisms, including separation of duties, multi-stage data verification, accuracy reviews of data received, independent checks, etc;
- Internal operating procedures implemented under Orders of the President of the Management Board;
- 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;
- 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;
- 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;
- 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;
- 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;
- Formalised procedure for the preparation of financial statements (scheduled tasks with individual deadlines and persons responsible);
- Multi-stage review and authorisation process for financial statements, involving the Supervisory Board;
- Assessment of current reporting risk by the PGNiG Group's Internal Audit and Control Department and the Security Department;
- Independent review of financial statements for reliability and accuracy by an independent external auditor;
- 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 Company'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 policies ensure compliance of the Company's accounting procedures and financial statements with the relevant regulations, in particular with the IFRS. The accounting policies are regularly updated to ensure their continuing compliance with amended regulations. The most recent update to the accounting policies was made in 2019.

To further mitigate the risks associated with financial reporting, financial statements are verified by an independent auditor every three months. The Company'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 Company manages its overall financial security using dedicated liquidity, financial risk, budget drafting and control management systems.

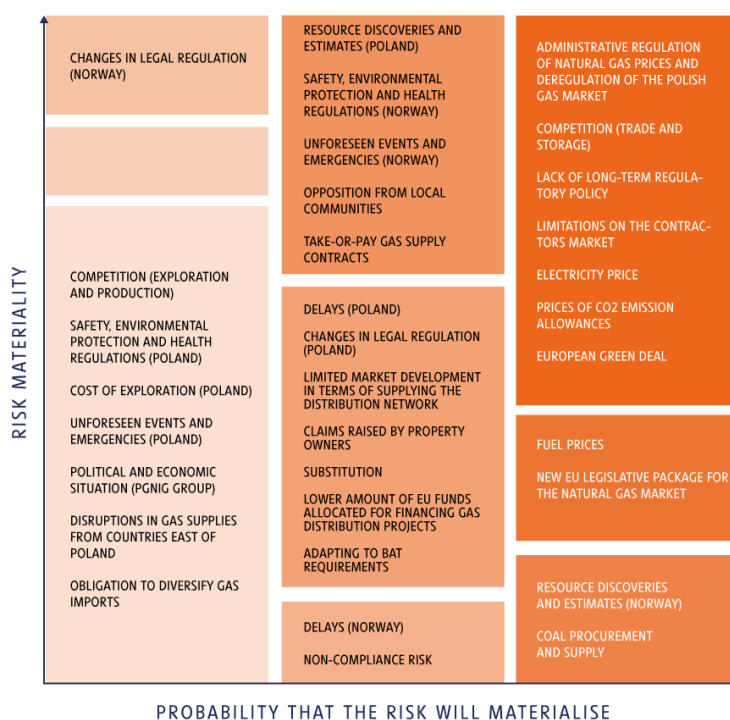
The financial reporting process is properly structured and includes controls to minimise the risk of error. It is also subject to ongoing management review, as well as periodic internal and external audits, which significantly protects the Company from serious irregularities in reporting.

## 5. Risk management

Based on an annual review of the internal control and risk management systems, the PGNiG Group does not operate a comprehensive corporate risk management system. At the PGNiG level, risk management processes are formalised and defined for key business areas. Risks are identified, addressed and assessed in accordance with the methodologies and assessment scales adopted in respective business areas. Risk management processes in particular areas are based on internally developed risk models and records, and risk management processes are identified and submitted for assessment to representatives of individual organisational units (management staff).

However, the Company recognises the need to develop a comprehensive and integrated risk management system. At the strategic level, the Company is pursuing a process mapping project across the PGNiG Group. It is expected that the project will also cover the defining and structuring of a process integrating risk management at the PGNiG Group level.

Figure 1 Risk matrix



Key: Risk materiality level: low ●○○ ; medium ●●○ ; high ●●●

Probability that the risk will materialise: low ○○○ ; medium ○●○ ; high ○●●

Yoy change in the risk level: increase ↗; decrease ↘; no change →

Table 5 Scope of changes and impact of material operational risks on the PGNiG Group

Risks	Risk description
<b>Resource discoveries and estimates</b>  <b>Poland</b> ●●● ○●○ → <b>Norway</b> ●○○ ○●● →	<p>The main risk inherent in exploration activities is the risk of failure to discover hydrocarbons, i.e. exploration risk. This means that not all identified leads and prospects actually have deposits of hydrocarbons which can qualify as an accumulation. In addition, the actual quantity and quality of accumulated hydrocarbons may differ from estimates. If the results of successful exploration in the form of new reserves do not balance production from existing fields, the recoverable reserves in the PGNiG Group's fields will gradually decrease as the production continues. Reserves estimates and production projections may be erroneous due to imperfections inherent in the applied equipment and technology, which affect the quality of the acquired geological information. Irrespective of the methods applied, data on the volume and quality of commercial reserves of crude oil and natural gas is always an estimate. Actual production, income and expenses relating to a given deposit may significantly differ from estimates. The weight of this risk is further increased by the fact that in the full business cycle the period from start of exploration to the launch of production from a developed field takes six to eight years, while the production lasts from 10 to 40 years. Formation characteristics determined at the stage of preparing the relevant documentation are reviewed after production launch. Any downward adjustment of the reserves or production volumes may lead to lower revenue and adversely affect the PGNiG Group's financial performance.</p>
<b>Competition</b>  <b>in the Exploration and Production segment in Poland:</b> ●○○ ○●○ ↘ <b>In the Trade and Storage segment</b> ●●● ○●● →	<p>Both in Poland and abroad there is a risk of competition from other companies seeking licences for exploration and appraisal of hydrocarbon deposits, although it should be noted that this risk has significantly diminished in the Polish market over the past year. Certain competitors of PGNiG, especially those active globally, enjoy strong market positions and have greater financial resources than those available to the Group. Thus, it is probable that such companies would submit their bids in tender procedures and be able to acquire promising licences, offering better terms than PGNiG could offer given its financial and human resources. This competitive advantage of oil majors is particularly important on the international market. Competitors seek to increase gas fuel sales by offering competitive prices of the fuel or dual fuel (gas and electricity) deals. A noteworthy development is also the growing activity of large energy companies on the Polish natural gas market. Given the prevailing trend in supplier switch numbers (according to URE data), the number of people switching energy supplier should increase in the coming years.</p>
<b>Delays</b>  <b>Poland</b> ●●○ ○●○ ↘ <b>Norway</b> ●●○ ○●○ ↘	<p>Under the applicable Polish laws and regulations, the process of obtaining a licence for exploration and appraisal of crude oil and natural gas reserves lasts from one to one and a half years. In foreign markets such procedures may even take up to two years from the time the winning bid is awarded until the actual contract is ratified. All these factors create the risk of delays in the start of exploration work. The formal and legal obstacles, beyond PGNiG's control, include those related to:</p> <ul style="list-style-type: none"> <li>local governments' failure to approve local zoning plans or amendments to those already approved;</li> <li>obstacles in having investment projects incorporated into the local zoning plans;</li> <li>requirement to obtain and comply with administrative or other formal and legal decisions, including environmental decisions or building permits;</li> <li>amendments to the current investment project;</li> <li>difficulties in obtaining the landowners' consent for access to the area.</li> </ul> <p>These factors materially delay investment activities and entering the area to commence construction work. Further, PGNiG's obligation to comply with the Public Procurement Law frequently protracts tender procedures. A protracting project exacerbates the risk related to estimation of capital expenditure.</p>
<b>Safety, environmental protection and health regulations</b>  <b>Poland</b> ●○○ ○●○ ↘ <b>Norway</b> ●●● ○●○ →	<p>The need to ensure compliance with environmental laws in Poland and abroad may significantly increase the PGNiG Group's operating expenses. Currently, the Group incurs significant capital expenditure and costs to ensure compliance of its operations with the ever more complex and stringent regulations concerning safety and health at work, as well as environmental protection. Offshore upstream operations carry a significant risk of environmental pollution resulting from oil spills. The risk is monitored on an ongoing basis, and field operators have implemented a number of barriers and technical solutions to mitigate the risk.</p>
<b>Cost of exploration</b>  <b>Poland</b> ●○○ ○●○ ↘	<p>Capital intensity of an exploration project depends on prices of energy and materials. Cost of exploratory work is especially sensitive to steel prices, which are passed onto prices of casing pipes and production tubing used in drilling. An increase in prices of energy and materials translates into higher costs of exploratory work. Profitability of foreign exploration projects also depends to a significant extent on prices of oil derivative products and on exchange rates. To reduce drilling costs, in 2011 PGNiG introduced the daily rate system into its procedure for selecting drilling contractors and paying for their work.</p>
<b>Unforeseen events and emergencies</b>  <b>Poland</b> ●●○ ○●○ →	<p>Hydrocarbon deposits developed by the PGNiG Group are usually located at great depths, which involves extremely high pressures and, in many cases, the presence of hydrogen sulfide. Consequently, the risk of hydrocarbon blowout or leakage is very high, which in turn may pose a threat to people (employees and local population), the natural environment and production equipment.</p>

## Norway



In Norway, PGNiG UN keeps records of all risks related to upstream operations as they arise. All risks are reviewed every three months by an interdisciplinary team of experts. A set of preventive measures is assigned to each risk, designed to reduce the probability and impact of potential accidents.

## Changes in legal regulation

### Poland



### Norway



In some countries, exploration and production activities may be hindered by frequent and unexpected changes in legislation, which may give rise to particularly serious risks in countries with authoritarian regimes. The risk is low in Norway, given the country's stable legal regime governing the oil industry operations.

## Political and economic situation

### PGNiG Group



Some countries where the PGNiG Group is conducting exploration and production activities are threatened by conflicts and terrorist attacks, which may lead to limitation, suspension or even discontinuation of such activities.

The PGNiG Group's operations are also exposed to the risk of social or political unrest in some regions. Changes of governments may result in withholding issuance of petroleum licences. Those countries are also at risk of internal conflicts and civil unrest due to poverty and demographic issues. If these risks materialise, the Company's operations may be limited, suspended or discontinued.

In certain countries, operations of exploration companies may be hindered by the absence of adequate infrastructure, which may be an obstacle in transporting equipment, personnel and materials to the sites. Problems may also arise in providing supplies and ensuring appropriate health care. These risks may lead to limitation or suspension of the Company's exploration activities.

## Opposition from local communities



In 2019, there were protests from residents of the areas where drilling work was being conducted. The reasons for the local communities' complaints included noise emitted by the drilling equipment, increased vehicle traffic and road destruction, as well as concerns about pollution of the natural environment (water, soil). Protests result in delays or suspension of drilling work, prolongation of administrative procedures and damage to the Company's image. In order to minimise the risk, the locations of wells are reviewed in terms of potential conflicts and dedicated information campaigns are conducted. It is increasingly more common that local communities expect to receive direct benefits.

## Administrative regulation of natural gas prices and deregulation of the Polish gas market



Gas trading on the exchange market has been excluded from the tariff regime. Prices of gas paid by end users have also been gradually liberalised as the process of deregulation advances. The first customer groups in respect of which the tariff requirement will be disapplied are wholesale and business customers. As regards gas trading on the Polish Power Exchange or direct sales to customers at prices similar to those quoted on the exchange, there is a risk that revenues from such sales will be lower than gas procurement costs due to the growing disconnect between the market prices of gas and of petroleum products, to which gas prices under the long-term import contracts continue to be linked. As a consequence, revenue is subject to forecasting risk. Inaccurate estimates of costs (particularly the cost of gas purchase) may result in a risk of miscalculation of selling prices and charges, which may adversely affect financial results.

Dependence of PGNiG OD's revenue on tariffs approved by the President of URE is the key factor affecting the company's regulated business. Tariffs are crucial to the company's ability to generate revenue that would cover its reasonable costs and deliver a return on the capital employed. Currently, a significant portion of that revenue depends on the selling prices of gas fuel and is regulated. Inaccurate estimates of demand for gas (affecting the accuracy of projected purchase volumes) and changes in prices of gas purchased on the Polish Power Exchange, which cannot be accurately projected, may have an adverse effect on the financial performance of PGNiG OD.

## Disruptions in gas supplies from countries east of Poland



In 2019, there were no disruptions in gas supplies from across Poland's eastern border. However, due to the continuing fragile situation in Ukraine and the nearing expiry of the transit agreement between PAO Gazprom and NAK Naftogaz Ukraine at the end of 2019, there was a risk of limitations or suspension of natural gas supplies. PGNiG made preparations in case of suspension of gas supplies as of January 1st 2020. Eventually the transit agreement between Russia and Ukraine was signed and the continuity of gas supplies was maintained.

## Take-or-pay gas supply contracts



PGNiG is a party to long-term take-or-pay contracts for gas supply to Poland, and takes care to duly discharge its obligations under those contracts. Assuming that PGNiG's customer portfolio remains unchanged, the volume of gas imports specified in the take-or-pay contracts will allow the Company to optimise its gas purchases under long-term and spot contracts, including for LNG. If PGNiG loses its market share, there is a risk that the Company would be forced to look for new ways to utilise the surplus volumes of gas in its portfolio.

## Market development limitations in terms of supplying the distribution network



Limitations at the entry points to the distribution system result from the limitations of the supply network and the insufficient capacity of gas stations. Consequently, the possibility of connecting new customers and gas network roll-out may be limited. In addition, end users may switch to direct or substitute competitors.

## Absence of a long-term regulatory policy



The risk is related to the lack of URE's approval for freezing the tariff prices. If the risk materialises, it may bring about reductions in tariff rates and difficulties in having each subsequent tariff approved. A protection against materialisation of this risk is the development of a regulatory and econometric model, subsequently agreed with URE.

## Claims raised by property owners











The risk arises from failure to secure a permanent legal title to property at the stage of project execution and property owners' higher awareness of the related legal aspects. The consequences of materialisation of the risk include excessive (above market prices) claims made by property owners, increase in litigation, litigation costs, claims for removal or alteration of infrastructure, as well as provisions and claims related to extra-contractual use of property.

## Substitution




The substitution risk is associated with a potential lower cost of using alternative fuels and with unavailability or insufficient capacity of the gas network. The risk may arise from the inability to use a wide range of marketing tools due to the nature of the business (separation of distribution



	and sales operations), from the direction of changes in the national energy policy, and from fuel prices on commodity exchanges. Materialisation of the substitution risk may result in constraints for the roll-out of the programme to connect new areas to the gas network or may affect revenue and volume growth. It may also impair the efficiency of the networks built.
<p>Lower amount of EU funds allocated for financing gas distribution projects</p> 	This risk may result from fund allocation priorities set by the institutions responsible for distribution of EU funding. Unfavourable fund allocation may result in unavailability of financing for submitted projects or in low efficiency of such projects.
<p>Limitations on the contractors market</p> 	This risk may result from an insufficient number of qualified contractors, deteriorated competitiveness in the contractors market, and increase in the cost of labour, materials and services. Should this risk materialise, implementation of planned investment processes may be slower than expected.
<p>Electricity price</p> 	The volatility of electricity prices is one of the key risks affecting the Company's financial performance. Towards the end of 2019, there was a strong decline in electricity prices on the wholesale market. Sales of electricity are conducted by the Company in accordance with certain rules limiting exposure to periodic price volatility. In 2019, the adverse impact of lower prices on the results was mitigated by forward sales.
<p>Acquired CO<sub>2</sub> emission allowances</p> 	The Company purchases CO <sub>2</sub> emission allowances in quantities representing the difference between actual emissions and the emissions covered by free allowances it receives. In 2019, the prices of emission allowances were less volatile, after a significant increase in 2018. Purchases of CO <sub>2</sub> emission allowances are made subject to specific rules, in particular with respect to the time horizon of the purchase transactions and focus on performance.
<p>Fuel prices</p> 	In 2019, the main feedstock used for generation purposes by PGNiG TERMIKA was coal, followed by biomass. The volatility of coal prices on the Polish market was not high in 2019, and in addition the Company used coal purchased under contracts executed in previous periods. Matching the timing of sales of electricity and certificates of origin with the timing of fuel purchases makes it possible to partly to mitigate the adverse impact of rising fuel prices on the Company's financial performance.
<p>Coal procurement and supply</p> 	Coal is purchased by the Company mostly under contracts executed in advance to ensure that strategic coal stocks are maintained above the level required by the Regulation of the Minister of Economy. Coal transport services are purchased in accordance with the Public Procurement Law. The Company monitors and forecasts the performance of its contracts and the mandatory stock volumes.
<p>Adapting to BAT requirements</p> 	With installations adapted to meet the requirements expressly stated in the Industrial Emissions Directive (IED), the next step will be to ensure compliance with emission limits imposed under the decision establishing the BAT Conclusions for large combustion plants. The deadline for compliance is August 17th 2021 or, where an IED derogation applies to an installation, the end date of the relevant derogation period. An investment plan has been developed for the Company to ensure that the emission and technology requirements defined in the BAT Conclusions are duly met. The process of obtaining amendments to integrated permits in connection with the adaptation to the BAT requirements is in the final stage. Also, the implementation of the BAT Conclusions is monitored on an ongoing basis and any doubts as to their interpretation are clarified.

## Regulatory risks

Table 6 Scope of changes and impact of significant regulatory risks on the PGNiG Group

Risks	Risk description
<p>Obligation to diversify gas imports</p> 	The Council of Ministers' Regulation of April 24th 2017 on the minimum level of diversification of foreign sources of gas supplies prescribes the maximum share of gas imported from a single country in total gas imports in a given year. In 2017–2022, the share may not exceed 70%. In view of the solutions adopted in the Regulation, the regulatory risk of its breach is low, as is the probability of its materialisation.
<p>European Green Deal</p> 	At the time of the issue of the Communication on the European Green Deal, a very ambitious climate agenda of the new European Commission was presented. The Communication explicitly states that the European Commission will seek to phase out financing of fossil fuel infrastructure and to reduce the use of fossil fuels in the long term, in line with the climate neutrality objective.
<p>New EU legislative package for the natural gas market</p> 	The European Commission is currently carrying out analyses to identify regulatory gaps for the natural gas sector. The potential new gas package is to consist of regulations on the operation of the natural gas market in the European Union, and rules designed to accelerate the decarbonisation of the EU's natural gas sector. In this respect, a proposal of regulations is expected which will probably provide for preferential treatment of decarbonised/renewable gases.

## Non-compliance risk

Table 7 Scope of changes and impact of non-compliance risk on the PGNiG Group

Non-compliance risk	<p data-bbox="429 197 1351 297">PGNiG has an organisationally and functionally separated Compliance unit. In line with the compliance risk management model, each area at risk of non-compliance was assigned a dedicated compliance risk area manager (leader), who is in charge of ensuring that compliance standards are met.</p> <p data-bbox="429 324 1351 371">Compliance risks (risks of breaching compliance standards) may arise in various areas and may materialise:</p> <ul data-bbox="429 398 1351 555" style="list-style-type: none"><li data-bbox="429 398 1351 450">• Immediately as fines, damages, compensation or other liabilities the Company may be required to pay,</li><li data-bbox="429 450 1351 477">• as damage to the Company's image, which could also have its financial implications;</li><li data-bbox="429 477 1351 528">• In the Company's operations and as a factor affecting the value for stakeholders, including shareholders.</li><li data-bbox="429 528 1351 555">•</li></ul> <p data-bbox="429 582 1351 869">As part of anti-corruption measures, the Company put in place the Anti-Corruption and Gift Policy of the PGNiG Group. In addition, the Ethics and Compliance Management System of the PGNiG Group was adopted, as a result of which the ethics and compliance areas were integrated in the Compliance Department. The Transparency Policy for Managers was introduced, with the principal objective of eliminating the risk of conflicts of interest and lack of transparency in decision-making processes within the Group. In 2019, the PGNiG Group revised and implemented the PGNiG Group's Code of Ethics, which is based on four values of the PGNiG Group: quality, reliability, responsibility and partnership. The Procedure for Reporting Cases of Misconduct and Handling the Reports at PGNiG was also adopted, setting out the rules for reporting violations of laws, procedures and ethical standards by employees, as well as the procedure for handling such reports.</p> <p data-bbox="429 896 1351 940">In 2019, the Company's compliance risk mapping process was carried out. The risk was assessed for individual areas of the compliance risk, while globally it was found to be low and medium.</p>
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## Financial risks

PGNiG and the PGNiG Group are exposed to financial risks, including in particular:

- Credit risk >For more information, see Note 7.3.1 to The consolidated financial statements of the PGNiG Group,
- Market risk >For more information, see Note 7.3.2 to The consolidated financial statements of the PGNiG Group,
- Liquidity risk >For more information, see Note 7.3.3 to The consolidated financial statements of the PGNiG Group.

Warsaw, March 10th 2020