

## Statement of compliance with corporate governance rules by the parent in 2019

This statement has been prepared in accordance with the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2019 (Dz.U. of 2018, item 757).

**1. Code of corporate governance applicable to the company and its availability to the general public**

In 2019, the parent applied the rules of corporate governance stipulated in the 'Code of Best Practice for WSE Listed Companies 2016' (Code of Best Practice), approved by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated October 13th 2015 on approval of the 'Code of Best Practice for WSE Listed Companies 2016', which is available at:

<http://www.rafako.com.pl/relacje-inwestorskie/lad-korporacyjny- raport>

**2. Scope of and reasons for non-compliance with the corporate governance principles****I. Disclosure Policy, Investor Communications**

I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:

I.Z.1.15. information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website.

**Reasons for non-compliance:** *The parent has not adopted a separate formal regulation governing its diversity policy. However, the parent applies the principle of equal treatment based on generally applicable laws, including labour law, the EU regulations, and the Charter of Human Rights.*

I.Z.1.20. an audio or video recording of a general meeting.

**Reasons for non-compliance:** After each General Meeting, the Management Board will announce that the General Meeting proceedings were audio- or video-recorded and that the recording is available on the parent's website. The parent declares that it will comply with the corporate governance principle requiring the publication of audio- or video-recordings of general meetings on a corporate website if the parent's shareholders, including minority shareholders (stock exchange investors), express an interest in general meetings being so recorded. The parent continues not to comply with this principle, the non-compliance being, however, attributable to different reasons.

I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.

**Reasons for non-compliance:** The parent does not operate an English-language website containing the documents and information specified in rule I.Z.1. of the Code of Best Practice due to high costs involved. Only selected documents that reasonably need to be translated are published in English.

**II. Management Board, Supervisory Board**

II.Z.7. Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.

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**Reasons for non-compliance:**

The parent continues not to comply with this principle, the non-compliance being, however, attributable to different reasons. The Audit Committee and the Remuneration Committee established within the Supervisory Board operate in accordance with the provisions of applicable laws and the Rules of Procedure of the Supervisory Board as adopted by the Supervisory Board. In addition, the Audit Committee's operations are regulated by the separate Rules of Procedure of the Audit Committee. Most of the Audit Committee and Remuneration Committee members satisfy the independence criteria provided for in the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (Dz.U. of 2017, item 1089) as well as the independence criteria set out in Annex II to the Commission Recommendation referred to in principle II.Z.4. Both committees are comprised of persons with requisite qualifications and experience. A significant part of the provisions of Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and operation the Audit Committee and Remuneration Committee. Through the Remuneration Committee and the remuneration policy, the parent ensures that the amount of remuneration of Management Board members is set by the Supervisory Board according to the specific responsibilities of individual Management Board members. The Management Board sets the amount of remuneration of key managers on the same basis, in accordance with the remuneration policy in place at the parent. Therefore, the parent's Management Board currently can see no adverse effects that non-compliance with this principle could cause to existing or potential Shareholders.

II.Z.10.2. A report on the activity of the supervisory board containing at least the following information:

- full names of the members of the supervisory board and its committees,
- supervisory board members' fulfilment of the independence criteria,
- number of meetings of the supervisory board and its committees in the reporting period,
- self-assessment of the supervisory board;

**The parent's comment on the application of this principle.**

Activity reports prepared by the Supervisory Board contain all necessary information, except self-assessment. The Supervisory Board's performance is assessed by the General Meeting.

**III. Internal Systems and Functions**

III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

*Reasons for non-compliance: Due to the nature of the parent's operations, the elements of risk management and compliance system are distributed among the organisational units and described in various internal regulations. The Management Board has adopted a Risk Management Policy. An internal audit officer, reporting directly to the President of the Management Board, has been appointed. The officer may report directly to the Supervisory Board.*

*The parent periodically reviews individual risk categories to anticipate possible threats and their potential consequences.*

III.Z.4. The person responsible for internal audit (if the function is separated in the parent) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

*Reasons for non-compliance: The Management Board together with the internal audit officer assess the effectiveness of internal audit and the internal control system.*

*The assessment of other systems and functions is performed jointly by the Management Board and the management staff. These matters are periodically discussed by the Management Board with the Supervisory Board.*

III.Z.5. The supervisory board should monitor the efficiency of the systems and functions referred to in principle III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the parent's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the

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efficiency of the systems and functions referred to in principle III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.

**Reasons for non-compliance:** *The parent has in place an internal control system and internal audit function, whose performance is periodically reported on by the head of the audit function and the Management Board to the Audit Committee and the Supervisory Board. Due to the distribution of risk management and compliance functions, it is the Management Board that discusses potential and actual events related to the risk management and compliance with the Supervisory Board.*

III.Z.6. Where the company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated.

**Comment:**

As the parent has a separate internal audit function in its organisation, this principle does not apply.

**IV. General Meeting, Shareholder Relations**

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

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

**Reasons for non-compliance:** *The Management Board will consider the need to broadcast the General Meeting and will inform the shareholders of the option to participate in the General Meeting and vote by electronic means of communication on a case-by-case basis.*

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

**Reasons for non-compliance:** *The Management Board will consider the need to ensure publicly available real-time broadcast of the General Meeting on a case-by-case basis and announce its decision.*

**VI. Remuneration**

Recommendation VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

**Reasons for non-compliance:**

*As the parent does not apply principle II.Z.7. to the tasks or operation of the committees established within the Supervisory Board, this principle is not applicable to the Remuneration Committee either.*

VI.Z.1. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

**Reasons for non-compliance:** *Remuneration of the Management Board members is set by the Supervisory Board. The Supervisory Board also awards discretionary bonuses to the Management Board members, depending on their performance of duties. The parent is currently developing a new incentive scheme for the key management staff.*

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

**Reasons for non-compliance:** *The parent does not grant options or other instruments linked to its shares.*

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VI.Z.4. In this activity report, the company should report on the remuneration policy including at least the following:

1. general information about the company's remuneration system;
2. information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
3. information about non-financial remuneration components due to each management board member and key manager;
4. significant amendments of the remuneration policy in the last financial year or information about their absence;
5. assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

**Reasons for non-compliance:** In its annual financial statements, the parent discloses the amounts of all benefits payable to members of the parent's governing bodies in accordance with relevant stock exchange regulations and International Accounting Standards applicable to the parent, and therefore such statements contain only some of the data referred to in this principle. Moreover, the parent views the details of its remuneration policy as a trade secret.

### **3. Key features of the company's internal control and risk management systems used in the preparation of separate and consolidated financial statements**

The role of the continually enhanced internal control and risk management systems at the parent is to ensure that the financial statements are prepared in a reliable, timely, comprehensive and transparent manner. The purpose of the systems is to identify, assess, manage and monitor potential events, a process which reasonably ensures the reliability and compliance of financial reporting. Improvement of control and risk identification mechanisms is a continuous process.

The parent's internal environment effectively contributes to providing reasonable assurance of the reliability of financial statements as well as the effectiveness and efficiency of the parent's financial transactions. It comprises, in particular, the WAN, Integrated Management System, Organisational Rules defining the manner of conducting the parent's operations, organisational structure, employee competencies, delegation of powers and duties, specific procedures for the exercise of supervision by the parent's Management, ethical principles, as well as fraud, corruption and bribery prevention rules.

By taking care to ensure that adequate controls are in place, especially in the area of control mechanisms, including the division of duties (remit), access control, internal regulations, as well as record-keeping processes and financial and economic operations, the parent minimises potential fraud.

The process of communication of information to the employees/Management at specific points in time is effectively monitored and updated, thus enhancing the expected reliability of financial statements.

The continuous monitoring of effectiveness of the internal control system allows for taking appropriate corrective measures/ mitigating potential irregularities.

The aim of these measures is, among others, to prepare financial statements that give a fair view of the parent's business, in compliance with IAS and the Polish Accounting Act.

The parent's important internal regulations include the Accounting Policy and Chart of Accounts, adopted and applied by the Management Board of RAFAKO S.A., compliant with International Financial Reporting Standards.

The parent has also implemented the Risk Management Policy, which defines the Risk Management System as a continuous, active and regular process, as well as the method of its management supporting the achievement of the parent's objectives. The system forms an integral part of the organisation's core management processes,

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using historical information, feedback from stakeholders, experience and forecasts. The parent identifies risks and threats to its operations, as described in Section 2 (Chapter II) of the Directors' Report on the Operations of RAFAKO S.A. For information on the objectives and rules of financial risk management, including the specification of the most material risks, see Note 46 to the parent's financial statements.

The Supervisory Board (including through the Audit Committee) participates in the process of risk control and management in financial reporting by reviewing periodic financial statements prior to their issue and by assessing the parent's financial statements on an annual basis. The Supervisory Board's powers include approval of annual budgets and multi-year plans, binding commercial bids, purchase and disposal of property, acquisition and disposal of equity interests. The Supervisory Board also reviews the economic aspects of parent's operating, financing and investing activities on an ongoing basis. Whenever the Supervisory Board deems it necessary, it delegates its members to individually perform specific supervisory tasks.

In accordance with the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017, an Audit Committee has been established within the Supervisory Board, with the powers and responsibilities as defined in the Act, including also advising the Supervisory Board on proper implementation of budget reporting, financial reporting, and internal control standards at the parent and the RAFAKO Group, and other matters.

The Audit Committee's responsibilities include in particular a review of the parent's financial statements, management accounting and internal control systems, including control mechanisms in the area of finance, operations, compliance, risk assessment and management.

The parent's organisational structure includes an Internal Audit Unit, which reports to the Supervisory Board of RAFAKO S.A. and the Audit Committee of the Supervisory Board. The Internal Audit Unit operates on the basis of the adopted Internal Audit Rules as well as on the basis of international internal auditing standards. As it meets the criteria of organisational independence, the Internal Audit Unit carries out its activities in an objective and independent manner.

The Internal Audit Unit carries out internal audits according to an annual audit plan, carries out ad hoc audits and performs other audit exercises the aim of which is to, among others, provide the Supervisory Board/Management Board with reasonable assurance that the internal control system is effective and that the audit process requirements are met. The internal control system is assessed in terms of its effectiveness as well as in terms of how it contributes to streamlining the risk management processes.

The parent uses the following IT systems to support its internal control and risk management activities and preparation of financial statements:

- Infor LN10, an integrated ERP system whose functionalities ensure the transparent allocation of responsibilities and consistency of accounting records. An extensive reporting system makes it possible to verify the consistency of information.
- IBM Notes and Vdesk systems, guaranteeing the achievement of assumed objectives; used in an extensive computer network, they also support reviewing individual documents/financial and business transactions/processes in terms of quantity, quality and substance.

Describing the internal control system, it should be noted that its most important element is the verification of financial statements by an independent qualified auditor. A qualified auditor also assesses the internal control and risk management systems in terms of their roles in the financial reporting process.

The parent has long-standing relationships with reputable audit firms offering high-quality services and satisfying the criterion of full independence. The auditor is selected by the Supervisory Board in an RFP process, in accordance with the Policy and Procedure for selection of a qualified auditor of financial statements.

**4. Shareholders holding directly or indirectly major holdings of shares, along with an indication of the numbers of shares and percentages of the parent's share capital held by such shareholders, and the numbers of votes and percentages of the total vote that such shares represent at the General Meeting**

Shareholders holding each more than 5% of shares as at December 31st 2019

SHAREHOLDER/COMPANY NAME	NUMBER OF SHARES	NUMBER OF VOTING RIGHTS	OWNERSHIP INTEREST	% OF TOTAL VOTING RIGHTS AT GM
PBG S.A., Multaros Trading parent Ltd. and Fundusz Inwestycji Polskich	55,081,769	55,081,769	43.22%	43.22%

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Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, in accordance with the agreement of October 24th 2017 referred to in Art. 87.1.6) of the Public Offering Act (*), of which:				
PBG S.A. (*)	7,665,999	7,665,999	6.02%	6.02%
- Multaros Trading Company Ltd. (*) (***)	34,800,001	34,800,001	27.31%	27.31%
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych managed by PFR TFI S.A. (**)	12,615,769	12,615,769	9.90%	9.90%
Other	72,350,229	72,350,229	56.78%	56.78%
<b>TOTAL</b>	<b>127,431,998</b>	<b>127,431,998</b>	<b>100.00%</b>	<b>100.00%</b>

(\*) Number of shares based on PBG's and Multaros's notifications of December 28th 2017.

(\*\*) Number of shares based on a notification of January 3rd 2018 received from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.

(\*\*\*) Given the fact that Multaros Trading parent Ltd. is PBG S.A.'s subsidiary, RAFAKO S.A. (the "parent") is indirectly controlled by PBG S.A., which holds, directly and indirectly, 42,466,000 parent shares, representing 33.32% of its share capital and conferring the right to 33.32% of total voting rights at its General Meeting.

#### 5. Holders of any securities conferring special control rights, and description of those rights

All RAFAKO shares are ordinary bearer shares and they confer no special control rights with respect to the parent.

#### 6. Any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or provisions according to which the financial rights attaching to securities are separated from the holding of securities.

RAFAKO S.A. is aware of no restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or provisions according on which, with the parent's cooperation, the financial rights attaching to securities are separated from the holding of securities.

Shareholders of the parent may have up-to-date information on such restrictions, if any.

#### 7. Any restrictions on transfer of ownership rights to the parent's securities

To the best of the parent's knowledge (the information is publicly available), on April 20th 2016 PBG S.A. and Multaros Trading parent Limited signed lock-up agreements with banks as part of performance of PBG's obligations towards some of its creditors. The agreements provide for the creation of registered pledges over all RAFAKO S.A. shares held by PBG and Multaros.

In connection with the court's decision of June 13th 2016 to approve the arrangement between PBG and its creditors, the ordinary pledge over RAFAKO shares held by these companies, created to secure the arrangement, became effective.

Moreover, on December 2nd 2016 the parent was notified by PBG S.A. of the creation of a registered pledge over RAFAKO shares held by PBG and Multaros Trading Company Limited for the benefit of PBG's arrangement creditors acquiring bonds, in accordance with the arrangement.

On February 12th 2020, remedial proceedings were opened with respect to PBG S.A. after the Arrangement was rescinded on January 9th 2020. Shareholders of the parent may have up-to-date information on such restrictions, if any.

#### 8. Rules governing the appointment and removal of the parent's management personnel and such personnel's powers, particularly the power to make decisions to issue or buy back shares

According to the parent's Articles of Association, members of the Management Board are appointed and removed by the Supervisory Board. The Supervisory Board may remove the President or a Member of the Management Board, as well as the entire Management Board, at any time before the expiry of their term of office. The General Meeting has the power to adopt a decision to issue or buy back shares, upon the Management Board's proposal submitted together with the Supervisory Board's written opinion.

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

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The Articles of Association of the parent may be amended by the General Meeting upon the Management Board's proposal submitted together with the Supervisory Board's written opinion, the Supervisory Board's proposal or a proposal by Shareholders entitled to convene the General Meeting.

**10. Manner of operation of the General Meeting and its key powers; shareholders' rights and the manner of exercising those rights, including in particular the rules stipulated in the rules of procedure of the General Meeting if such rules have been adopted, unless the relevant information follows directly from legal regulations**

The operation of the General Meeting of the parent is governed by legal regulations (including the Commercial Companies Code), the parent's Articles of Association and the General Meeting Rules of Procedure adopted by the General Meeting. The texts of the Articles of Association and the Rules of Procedure are available on the website at:

<http://www.rafako.com.pl/o-nas/dokumenty-organizacyjne-spolki>.

**11. Activities of the parent's management, supervisory or administrative bodies and of their committees, including information on their composition and changes in their composition over the last financial year**

In the financial year 2019, there were changes in the composition of the parent's Management Board.

On August 20th 2019, the mandate of Jerzy Wiśniewski, President of the Management Board, expired.

On September 2nd 2019:

- 1) Jarosław Dusiło was removed from the position of Vice President of the Management Board,
- 2) the Supervisory Board appointed Jerzy Ciechanowski as Vice President of the parent's Management Board.
- 3) Helena Fic, Chair of the Supervisory Board, was delegated to serve as President of the Management Board for a period of three months.

In the exercise of its special right referred to in Art. 17.3 and Art. 17.4 of the parent's Articles of Association, on November 25th 2019 PBG S.A. removed Helena Fic from the Supervisory Board, and thus Helena Fic's delegation to temporarily serve as President of the Management Board expired.

On November 27th 2019, the Supervisory Board:

- 1) appointed Paweł Jarczewski as President of the parent's Management Board,
- 2) delegated Jerzy Karney, a Supervisory Board member, to temporarily serve as a Member of the Management Board for a period of three months following his appointment as a member of the Supervisory Board on November 25th 2019 after PBG S.A. exercised its special right referred to in Art. 17.3 and Art. 17.4 of the parent's Articles of Association.

On December 20th 2019, the Supervisory Board resolved to:

- 1) shorten the delegation of Jerzy Karney to the parent's Management Board,
- 2) appoint Jacek Drozd as Member and Vice President of parent's the Management Board.

As at December 31st 2019, the Management Board was composed of:

- 1) Paweł Jarczewski, President of the Management Board,
- 2) Agnieszka Wasilewska-Semail, Vice President of the Management Board,
- 3) Jerzy Ciechanowski, Vice President of the Management Board,
- 4) Jacek Drozd, Vice President of the Management Board.

On January 7th 2020 Jerzy Ciechanowski, Vice President of the Management Board resigned from his position.

On May 20th 2020, the Supervisory Board removed Paweł Jarczewski from the Management Board. Michał Sikorski, Deputy Chairman of the Supervisory Board, was delegated to temporarily perform the duties of a member of the Management Board for a period of three months. Agnieszka Wasilewska-Semail was appointed acting President of the Management Board.

Accordingly, as at the date of these financial statements the parent's Management Board was composed of:

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1. Agnieszka Wasilewska-Semail, Acting President of the Management Board, Vice President of the Management Board,
2. Jacek Drozd, Vice President of the Management Board,
3. Radosław Domagalski-Łabędzki, Vice President of the Management Board,
4. Michał Sikorski, Deputy Chairman of the Supervisory Board, delegated to temporarily perform the duties of a Management Board member.

The operation of the Management Board is governed by legal regulations (including the Commercial Companies Code), the parent's Articles of Association and the Management Board Rules of Procedure adopted by the Supervisory Board. The texts of the Articles of Association and the Rules of Procedure are available on the website at: <http://www.rafako.com.pl/o-nas/dokumenty-organizacyjne-spolki>

In the financial year 2019, there were changes in the composition of the parent's Supervisory Board.

As mandates of the current members of the Supervisory Board expired on June 14th 2019, on the same day the Annual General Meeting of RAFAKO S.A. passed the following resolutions:

1. to set the number of Supervisory Board members at seven (7);
2. to appoint the Supervisory Board of the tenth term.

In the exercise of its special right referred to in Art. 17.3 and Art. 17.4 of the parent's Articles of Association, on June 14th 2019 PBG S.A. appointed to the Supervisory Board:

- 1) Helena Fic as Chairwoman of the Supervisory Board,
- 2) Małgorzata Wiśniewska as Deputy Chairwoman of the Supervisory Board,
- 3) Dariusz Szymański,
- 4) Michał Sikorski.

The Annual General Meeting appointed the following persons to the Supervisory Board:

- 1) Przemysław Schmidt,
- 2) Krzysztof Gerula,
- 3) Adam Szyszka.

At the Supervisory Board meeting held on June 14th 2019 Przemysław Schmidt was appointed Secretary of the Supervisory Board. Also, the following Audit Committee was appointed:

- 1) Adam Szyszka (independent member of the Supervisory Board), Chairman of the Committee,
- 2) Przemysław Schmidt (independent member of the Supervisory Board),
- 3) Dariusz Szymański.

In the exercise of its special right referred to in Art. 17.3 and Art. 17.4 of the parent's Articles of Association, on November 25th 2019 PBG S.A.:

1. removed the following persons from the Supervisory Board:
  - 1) Helena Fic,
  - 2) Dariusz Szymański;
2. appointed the following persons to the Supervisory Board:
  - 1) Jerzy Karney,
  - 2) Michał Maćkowiak.

On November 26th 2019, the Supervisory Board appointed Małgorzata Wiśniewska as Chairwoman of the Supervisory Board, and Jerzy Karney as Deputy Chairman of the Supervisory Board.

On November 27th 2019, following removal of Dariusz Szymański, the Supervisory Board appointed Michał Maćkowiak to the Audit Committee.

As at December 31st 2019, the Supervisory Board of RAFAKO S.A. was composed of:

- 1) Małgorzata Wiśniewska, Chairwoman,
- 2) Jerzy Karney, Deputy Chairman,
- 3) Przemysław Schmidt (independent member), Secretary,
- 4) Adam Szyszka (independent member),
- 5) Krzysztof Gerula (independent member),
- 6) Michał Sikorski,
- 7) Michał Maćkowiak.

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On February 4th 2020, PBG S.A., in the exercise of its special right referred to in Art. 17.3 and 17.4 of the parent's Articles of Association, removed Jerzy Karney from the Supervisory Board and appointed Maciej Stańczuk to the Supervisory Board.

On April 18th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special right referred to in Art. 17.3 and 17.4 of the parent's Articles of Association, removed Michał Maćkowiak from the Supervisory Board and appointed Konrad Milczarski to the Supervisory Board.

On May 11th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special right referred to in Art. 17.3 and 17.4 of the parent's Articles of Association, removed Małgorzata Wiśniewska from the Supervisory Board and appointed Piotr Zimmerman to the Supervisory Board.

On May 28th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special right referred to in Art. 17.3 and 17.4 of the parent's Articles of Association, removed Konrad Milczarski from the Supervisory Board and appointed Bartosz Sierakowski to the Supervisory Board.

On the same day, the Extraordinary General Meeting of RAFAKO S.A. passed resolutions to:

1. remove Adam Szyszka from the Supervisory Board, and
2. appoint Konrad Milczarski to the Supervisory Board.

Following the changes, as at the date of preparation of the full-year financial statements, the RAFAKO Supervisory Board is composed of:

- 1) Piotr Zimmermann, Chairman,
- 2) Michał Sikorski, Deputy Chairman, delegated to temporarily perform the duties of a member of the Management Board.
- 3) Przemysław Schmidt (independent member of the Supervisory Board), Secretary,
- 4) Krzysztof Gerula (independent member of the Supervisory Board),
- 5) Konrad Milczarski (independent member),
- 6) Bartosz Sierakowski,
- 7) Maciej Stańczuk.

The operation of the Supervisory Board of the parent is governed by legal regulations (including the Commercial Companies Code), the parent's Articles of Association and the General Meeting Rules of Procedure adopted by the General Meeting. The texts of the Articles of Association and the Rules of Procedure are available on the website at:

<http://www.rafako.com.pl/o-nas/dokumenty-organizacyjne-spolki>.

In the financial year 2019, there were no changes in the composition of the Supervisory Board's Audit Committee. As at December 31st 2019, the Audit Committee was composed of:

1. Adam Szyszka, Chairman,
2. Przemysław Schmidt,
3. Michał Maćkowiak.

On April 20th 2016, the Supervisory Board appointed Konrad Milczarski to the Audit Committee following the removal of Michał Maćkowiak from the Supervisory Board.

On June 2nd 2016, the Supervisory Board appointed Krzysztof Gerula to the Audit Committee following the removal of Adam Szyszka from the Supervisory Board. The Supervisory Board appointed Przemysław Schmidt as Chairman of the Audit Committee.

As at the date of this report, the composition of the Audit Committee was as follows:

1. Przemysław Schmidt, Chairman (independent),
2. Krzysztof Gerula (independent),
3. Konrad Milczarski.

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The Supervisory Board's Audit Committee operates in accordance with the applicable laws and the Rules of Procedure for the Audit Committee adopted by the Supervisory Board.

In the financial year 2019, there were changes in the composition of the Supervisory Board's Remuneration Committee.

On June 14th 2019, the Supervisory Board appointed the following Remuneration Committee:

1. Małgorzata Wiśniewska,
2. Helena Fic,
3. Krzysztof Gerula,
4. Michał Sikorski.

As at December 31st 2019, due to changes in the composition of the Supervisory Board, the Remuneration Committee was composed of:

1. Małgorzata Wiśniewska (removed on May 11th 2020),
2. Krzysztof Gerula,
3. Michał Sikorski (delegated to the Management Board on May 20th 2020).

On May 13th 2020, the Supervisory Board appointed Maciej Stańczuk to the Remuneration Committee.

As at the date of this report, the Remuneration Committee was composed of:

1. Krzysztof Gerula,
2. Maciej Stańczuk.

The Remuneration Committee's responsibilities include:

- presenting proposals, for approval by the Supervisory Board, concerning the rules of remuneration for Management Board members;
- presenting to the Supervisory Board the proposed amounts of remuneration for individual Management Board members;
- proposing to the Supervisory Board appropriate types of contracts to be signed with Management Board members. The Remuneration Committee presents to the Supervisory Board its recommendations regarding the rules and amounts of remuneration for Management Board members orally or in writing.

**12. With respect to the audit committee or the supervisory board or any other supervisory or controlling body that performs the duties of the audit committee, indication of:**

- persons meeting the statutory independence criteria,
- persons having the knowledge of and skills in accounting or auditing of financial statements, including information on how the knowledge and skills were acquired,
- persons having the knowledge and skills relevant for the industry in which the parent operates, including information on how the knowledge and skills were acquired,
- whether any permitted non-audit services were provided to the parent by the audit firm that audited its financial statements and whether the independence of that audit firm was assessed and consent for the provision of such services was given,
- the main assumptions of the policy for selecting an audit firm to conduct the audit and the policy for the provision of permitted non-audit services by the audit firm, its related entities, or members of its network,
- whether the recommendation to select an audit firm to conduct the audit met the applicable conditions, and where the selection of the audit firm was not related to extension of the contract for audit of financial statements – whether the recommendation was prepared following a selection procedure, organised by the issuer, which met the applicable criteria;
- the number of meetings held by the audit committee or by the supervisory board or any other supervisory or controlling body which were devoted to the performance of duties of the audit committee,
- if the duties of the audit committee are performed by the supervisory board or any other supervisory or controlling body – which of the statutory conditions permitting the parent to use this option have been met, including specification of relevant data.

## Statement of compliance with corporate governance rules by the parent in 2019

As at December 31st 2019, the Supervisory Board's Audit Committee was composed of:

1. Adam Szyszka (independent), Chairman,
  2. Przemysław Schmidt (independent),
  3. Michał Maćkowiak.
1. Adam Szyszka, Chairman of the Audit Committee, meets the statutory independence criteria and has the knowledge of and skills in accounting or auditing of financial statements which he acquired in the course of his education in finance (from Msc in Finance and Accounting to Professor of Economics). In addition, Szyszka acquired the relevant practical skills working in the audit department of PwC, working for the consultancy AT INVEST Sp. z o.o., and also as the chairman of the audit committee at PANI TERESA MEDICA S.A. Adam Szyszka has the knowledge and skills relevant for the industry in which the parent operates, acquired during the period of nearly five years when he held the position of member of the Supervisory Board of RAFAKO S.A., and also earlier when he worked on advisory projects for construction sector companies during his employment at AT INVEST Sp. z o.o.
  2. Przemysław Schmidt, Member of the Audit Committee, meets the statutory independence criteria and has the knowledge of and skills in accounting. Schmidt graduated from the Adam Mickiewicz University of Poznań with a degree in law, has completed a number of training programmes in management and finance, and has also served on supervisory board audit committees at a number of companies. Przemysław Schmidt has acquired the knowledge and skills relevant for the industry in which the parent operates working for more than 20 years as an investment banker for customers operating in the power construction or related sectors and also during the nearly six years when he served on the Supervisory Board of RAFAKO S.A.
  3. Michał Maćkowiak, MBA, Member of the Audit Committee, graduated from the Faculty of Management of the Poznań University of Economics. He has served on management and supervisory boards of Polish companies. Michał Maćkowiak has acquired the knowledge and skills relevant for the industry in which the parent operates during his work at RAFAKO S.A. and other companies in the power sector.

The parent's current Audit Committee is composed of:

1. Przemysław Schmidt (independent), Chairman,
  2. Krzysztof Gerula (independent),
  3. Konrad Milczarski.
1. Przemysław Schmidt, Chairman of the Audit Committee, meets the statutory independence criteria, has the knowledge of and skills in accounting. Schmidt graduated from the Adam Mickiewicz University of Poznań, completed a number of training courses in finance, and has worked extensive investment banking experience in corporate finance. He has sat on supervisory boards of companies where he has also served as a member of the audit committees. He completed training programmes organised by the WSE, PwC and BDO for members of audit committees. Przemysław Schmidt has acquired the knowledge and skills relevant for the industry in which the parent operates working for more than 20 years as an investment banker for customers operating in the power construction or related sectors and also during the nearly six years when he served on the Supervisory Board of RAFAKO S.A.
  2. Krzysztof Gerula, member of the Audit Committee, meets the statutory independence criteria. He is certified by the Polish Ministry of State Treasury to serve on supervisory boards of state-owned companies. He completed a number of training programmes, including internal audit training at E&Y Business Academy on operation of audit committees and supervisory boards organised by PwC, BDO, Gessel and SEG. In 2008-2010, he was an internal auditor at the United Federation of Travel Agents' Association in Monaco. Member of the Polish Chapter of the Institute of Internal Auditors since 2009.
  3. Konrad Milczarski, member of the Audit Committee, has the knowledge and skills in accounting, with post-graduate certificates in business finance management from the Warsaw University of Technology and IT resources management from the Warsaw University of Technology. He completed an MBA programme organised by the University of Warsaw and the University of Illinois (USA). Member of the ACCA (The Association of Chartered Certified Accountants). Konrad Milczarski has the relevant industry knowledge and skills acquired during his work at PKO BP where he was responsible for banking relationships with power sector companies. He also served on the Supervisory Board of Polimex Mostostal S.A.

## Statement of compliance with corporate governance rules by the parent in 2019

The audit firm which audited the parent's financial statements performed permitted non-audit services for the parent, consisting in a review of the parent's half-year financial statements and the RAFAKO Group's half-year consolidated financial statements. The auditor's independence was therefore assessed on May 25th 2018 and consent to the provision of those services was given.

**Key assumptions of the policy for selection of an audit firm to perform an audit:**

1. The qualified auditor is selected by the Supervisory Board.
2. As regards the appointment of the qualified auditor, the Supervisory Board acts on the basis of the recommendation provided to it by the Audit Committee.
3. Any contractual clauses restricting the Supervisory Board's freedom in selecting a qualified auditor are void by operation of the law.
4. Some of the clauses restricting the freedom of selecting a qualified auditor include those requiring that the auditor be selected from a specific category or list of qualified auditors.
5. Both the Supervisory Board when making the final choice and the Audit Committee when formulating its recommendation observe the following guidelines regarding the selection of the qualified auditor:
  - a) the quality of audit work performed,
  - b) the price proposed by the qualified auditor,
  - c) the ability to provide the full range of services required by RAFAKO S.A.,
  - d) auditor's experience in auditing the financial statements of entities with similar business profiles,
  - e) auditor's experience in auditing the financial statements of public-interest entities,
  - f) professional qualifications and experience of the persons who would be directly engaged in performing the audit,
  - g) the ability to perform the audit at the time specified by RAFAKO S.A.,
  - h) qualified auditor's reputation on the financial markets,
  - i) confirmation of the independence and impartiality of the qualified auditor already at the selection procedure stage.
6. In accordance with the applicable laws, the Audit Committee follows the principle of rotation of the lead auditor.

**The main assumptions of the policy for the provision of permitted non-audit services by the audit firm, its related entities, or members of its network**

1. The qualified auditor, the audit firm carrying out the statutory annual audit of the financial statements of RAFAKO S.A. or a review of its half-year financial statements, and an entity related to the audit firm or member of the network to which the qualified auditor or the audit firm belongs, may not provide RAFAKO S.A. or its related entities with any direct or indirect services referred to in Article 5 (1) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, or any other services which are not financial audit services, with the exception of the services specified in Art. 136.2 of the Act, the provision of which is permitted.
2. The qualified auditor or the audit firm carrying out statutory audits of public-interest entities and, where the qualified auditor or the audit firm belong to a network, any member of such network, may provide the audited entity, its parent or any undertakings it controls with non-audit services other than the prohibited services referred to in paragraph 2, only to the extent not related to RAFAKO S.A.'s tax policy and provided that the provision of such additional services:
  - a) has, individually or in the aggregate, no direct effect or an immaterial direct effect on the audited financial statements;
  - b) the assessment of the effect of such additional services on the audited financial statements is documented and explained in an additional report prepared by the Management Board and provided to the Audit Committee;
  - c) the qualified auditor or the audit firm comply with the principles of independence stipulated by applicable laws.
3. An agreement for the provision of permitted services is concluded (or provision of permitted services envisaged under a framework agreement commences) after the Audit Committee gives its consent to the provision of additional services, expressed in a relevant resolution.
4. To obtain the Audit Committee's consent to the provision of additional services, the Management Board of RAFAKO S.A. submits a request to the Audit Committee, along with a document describing the estimated

## Statement of compliance with corporate governance rules by the parent in 2019

- effect of the provision of the additional services on the audit of the financial statements and independence.
5. The Audit Committee's resolution on granting consent to the provision of additional services is adopted following an assessment of threats to the audit of financial statements and of the safeguards applied to ensure independence of the statutory auditor or the audit firm.
  6. If necessary, the Audit Committee issues appropriate guidance concerning the performance of permitted services.

The recommendation on selecting the audit firm to perform the audit met the applicable conditions stipulated in the parent's procedure for selecting the entity qualified to perform a statutory audit of financial statements.

The Supervisory Board's Audit Committee operates in accordance with the applicable laws and the Rules of Procedure for the Audit Committee adopted by the Supervisory Board. In 2018, the Audit Committee held eight meetings and made its decisions at meetings, during conference calls and by using means of remote communication.

### 13. Sponsorship and charity policy

Recommendation I.R.2: Where a company pursues sponsorship, charity or other similar activities, it should publish information about its sponsorship and charity policy in its full-year directors' report.

The parent's mission is to build state-of-the-art power capacities, with due regard to environmental protection. We are proud to be present both on the Polish and international markets, but this presence also makes us aware of our social responsibility. By building its image of a large stable Polish company, the parent supports important economic events and actively pursues the corporate social responsibility mission. It therefore actively supports sports, science and culture, with special care provided to local communities and employees of RAFAKO S.A.

The parent's sponsorship activities include partnership with the most important conferences devoted to the Polish economy, especially those whose theme is power generation or environmental protection in the power sector.

As one of the largest employers in the region, the parent is particularly sensitive to the needs of the local community. That is why RAFAKO S.A. is involved in cultural, educational and sports initiatives in the Racibórz region.

The RAFAKO Foundation's exhibitions of great Polish artists, usually inaccessible to the local community because they are presented in the largest museums – such as the 2019 exhibition of Kossaks' works – are particularly popular. But modern art is also appreciated by the parent, hence the exhibition of an outstanding contemporary artist, Janusz Kapusta, organised in Racibórz.

The parent also supports Polish sports, both individual athletes and clubs, as well as various sports events. We focus on endurance sports, which require strong character, determination and hard work, as well as those based on cooperation and mutual trust

– hence RAFAKO's support for the half marathon organised in Racibórz every year. In addition to being one of the run's sponsors, the parent also has a separate classification for its employees participating in the half marathon.

The parent has vibrant clubs, associations, as well as informal groups and individual enthusiasts of various forms of sport and recreational activities.

Canoeing trips are organized, with the parent providing support the mountain bikers' club and the football team. The parent's employees successfully compete in both nationwide and local events, bringing together their passions and representing the RAFAKO brand locally and across the country.

We also remember about those in need, allocating considerable resources to social and charitable projects.

We try to engage all employees in this type of activities, which additionally builds the sense of community.

### 14. The diversity policy applicable with respect to the company's administrative, management and supervisory bodies, including in particular in relation to the age, gender, education or professional experience; objectives of the diversity policy, manner of its implementation and its effects in any given reporting period; if the company does not apply such policy – an explanation of such decision

In 2019, the parent did not have an official document describing the diversity policy. However, the parent applies the principle of equal treatment based on generally applicable laws, including the labour law, EU regulations, Charter of Human Rights, and the RAFAKO Code of Ethics. The parent's key management staff is diversified in all material respects (i.e. gender, education, age, and professional experience), in accordance with the general non-discrimination principle followed by the parent. The parent has not recorded any acts of discrimination,

Statement of compliance with corporate governance rules by the parent in 2019

including gender or age discrimination, within the parent's governing bodies or among the management personnel. The parent has been following a policy of appointing to its governing bodies and key management competent and creative persons with relevant professional experience and diverse educational backgrounds. No other factors, including gender, are taken into account as selection criteria. The parent strives to have diverse management and supervisory personnel (in terms of experience and education), because diversity enhances innovation, creativity, and management methods, and thus contributes to the Company's growth, improving the quality of its products and services, etc.