

## STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE

### 1. SET OF RULES OF CORPORATE GOVERNANCE BY WHICH THE COMPANY IS BOUND AND PLACE WHERE THE TEXT OF THE SET OF RULES IS PUBLICLY AVAILABLE

In 2017, the Company followed rules and recommendations included in the document "Code of Best Practice for WSE Listed Companies 2016". The text of the corporate governance rules is publicly available on the website <http://www.corp-gov.gpw.pl/>, which is the official website of the Warsaw Stock Exchange, and discusses the rules of corporate governance for the listed companies.

### 2. INFORMATION ON THE EXTENT TO WHICH THE COMPANY DIVERGED FROM THE RULES OF CORPORATE GOVERNANCE, SPECIFICATION OF SUCH PROVISIONS AND REASONS FOR NON-COMPLIANCE

In 2017, the Company fully applied most of the rules contained in the "Code of Best Practice for WSE Listed Companies 2016", except for the following rules, which are not applied consistently or temporarily or which are applied to a limited extent:

By 18 April 2017 the Company did not apply „Code of Best Practice for WSE Listed Companies 2017” with regard to 5 recommendations: II.R.3., III.R.1., IV.R.2., V.R.1., VI.R.1. and 11 specific rules: I.Z.1.3., I.Z.1.7., I.Z.1.15., I.Z.1.16., I.Z.1.20., II.Z.1., II.Z.2., III.Z.2., III.Z.3., V.Z.6., VI.Z.4.

On 18 April 2017 the Company made an update and did not apply "Code of Best Practice for WSE Listed Companies 2016" with regard to 3 recommendations: IV.R.2., V.R.1., VI.R.1. and 5 specific rules I.Z.1.15., I.Z.1.16., I.Z.1.20., V.Z.6., VI.Z.4.

On 7 August 2017 the Company made another update under which it did not apply "Code of Best Practice for WSE Listed Companies 2016" with regard to 3 recommendations: IV.R.2., V.R.1., VI.R.1 and 6 specific rules: I.Z.1.15., I.Z.1.16., I.Z.1.20., II.Z.2., V.Z.6., VI.Z.4.

**I.Z.1.3.** division of tasks and responsibilities between the board members drawn up in accordance with the II.Z.1 rule,

That rule had not been applied prior to 18 April 2017, and now it is applied.

*Company commentary:* Currently the Company's Management Board consists of 2 Board Members. The chart presenting the division of duties and responsibilities among the Board Members has been drawn up in accordance with the rule II.Z.1.

**I.Z.1.7.** information on the company's strategy and its financial results published by the company.

That rule had not been applied prior to 18 April 2017, and now it is applied.

*Company commentary:* The Company published the New Strategy

**I.Z.1.10.** financial projections - if the company decided to publish them - published during at least the last 5 years, along with information about the extent of their implementation,

This rule does not apply to the Company.

*Company commentary:* The Company did not decide to publish financial projections.

**I.Z.1.15.** information containing the description of the company's diversity policy in relation to the company's governing bodies and its key managers; the description should take into account such elements of the diversity policy, gender, course of education, age, work experience, and indicate the objectives of the diversity policies used and the manner of its implementation during a reporting period; if the company has not developed and implemented the diversity policy, it publishes on its website an explanation for the decision.

The Rule is not applied.

*Company commentary:* Currently, the Company has not adopted the diversity policy applicable to the company's governing bodies and its key managers. When selecting the Members of the Management Board, the Members of the Supervisory Board and key managers, the most important are such criteria as knowledge, experience, skills and abilities needed to perform particular functions and occupy positions in the Company. The Company does not rule out the establishment of detailed principles of the diversity policy in the future.

**I.Z.1.16.** information on the planned transmission of general meetings - no later than 7 days before the date of the general meeting.

The Rule is not applied.

*Company commentary:* I.Z.1.16 principle and the related I.Z.1.20 principle and the IV.Z.2 principle - The Company currently has no plans regarding transmission of general meetings in real time; recording of general meetings in the form of audio or video files and placing them on the website has not been planned by the Company as well. According to the Company, due to the current shareholding structure, as well as the provisions of the Articles of Association providing for the possibility of conducting general meetings both at the Company's headquarters as well as in Warsaw, the interests of all shareholders are sufficiently protected. Documenting and the course of previous general meetings provide transparency of the Company and the applicable rules of participation in general meetings allow for proper and effective implementation of the rights arising from shares. Moreover, the application of the above mentioned principles would also be connected with the necessity to incur additional costs by the Company. The content of adopted resolutions is published immediately in the form of current reports. The company, however, does not rule out the application of the above mentioned principles in the future.

**I.Z.1.20** Recording of general meetings in the form of audio or video files

The Rule is not applied.

*Company commentary:* I.Z.1.20 principle and the related I.Z.1.16 principle and the IV.Z.2 principle - The Company currently has no plans regarding transmission of general meetings in real time; recording

of general meetings in the form of audio or video files and placing them on the website is not planned by the Company as well.

According to the Company, due to the current shareholding structure, as well as the provisions of the Articles of Association providing for the possibility of conducting general meetings both at the Company's headquarters as well as in Warsaw, the interests of all shareholders are sufficiently protected. Documentation and the course of previous general meetings provide transparency of the Company and the applicable rules of participation in general meetings allow for proper and effective implementation of the rights arising from shares. Moreover, the application of the above mentioned principles would also be connected with the necessity to incur additional costs by the Company. The content of adopted resolutions is published immediately in the form of current reports.

The company, however, does not rule out the application of the above mentioned principles in the future.

**II.R.3.** Acting as a board member is the main area of the professional activity of a board member. Additional professional activity of a board member may not lead to such a commitment of time and effort to adversely

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affect the proper performance of their function in the company. In particular, a board member should not be a member of the boards of other entities, if the time to perform the functions in other entities prevents proper performance of duties in the company.

The Rule is not applied.

Company Commentary: Polnord SA carries out its activities in the scope of implementation of development projects through special purpose vehicles established by Polnord SA, independently or with partners.

**II.Z.1** Internal division of responsibilities for different areas of the company's operations between board members should be formulated clearly and transparently, and the scheme of the division should be available on the company's website.

The Rule is not applied.

Company Commentary: Currently, the Management Board of the Company consists of 3 Board Members. The new President of the Management Board of the Company was appointed to the Management Board with effect from 1 February 2016. The chart presenting the division of duties and responsibilities among the Board Members has been drawn up in accordance with the principle II.Z.1.

**II.Z.2.** Participation of board members of the company in management boards or supervisory boards of companies outside the capital group of the company requires the consent of the supervisory board  
The Rule principle is not applied.

Company Commentary: Internal regulations currently applicable in the Company and the agreements with the Management Board Members do not contain these restrictions.

**III.R.1.** The company distinguishes the organizational units responsible for the performance of tasks in the individual systems or functions within its structure, unless distinguishing organizational units is not justified because of the size or type of business carried out by the company

The Rule is not applied.

Company commentary: This Rule is applied to a limited extent. The Company has not distinguished the organizational units responsible for the performance of tasks in the individual systems or functions within its structure, however, within the current organizational structure, the above mentioned tasks are performed within each of the organizational divisions.

**III.Z.2.** Subject to the III.Z.3 Rule , those responsible for risk management, internal audit and compliance report directly to the President or another member of the board, and also have the opportunity of reporting directly to the supervisory board or audit committee.

The Rule is not applied.

Company commentary: This Rule applied to a limited extent. The Company does not have separate units responsible for risk management, internal audit or compliance; the persons responsible for these

functions have not been designated as well. However, within the current organizational structure, the above mentioned tasks are performed within each of the organizational divisions.

**III.Z.3** With regard to a person in charge of the internal audit and other persons responsible for carrying out its tasks, the principles of independence set out in the universally recognized international standards of professional practice of internal audit are applicable.

The Rule is not applied.

Company commentary: This Rule is applied to a limited extent. The Company does not have separate units responsible for risk management, internal audit or compliance; the persons responsible for these functions have not been designated as well. However, within the current organizational structure, the above mentioned tasks are performed within each of the organizational divisions.

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**IV.R.2.** If justified due to the shareholding structure or reported expectations of shareholders to the company, if the company is able to provide the technical infrastructure necessary for the smooth conduct of a general meeting by means of electronic communications, it should enable shareholders participation in a general meeting by means of such measures, in particular through:

- 1) transmission of general meetings in real time,
- 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting venue,
- 3) Exercise of the voting right, in person or by proxy, during the General Meeting.

The Rule is not applied.

Company commentary: This principle is applied to a limited extent. In the opinion of the Management Board, the above rule is not applied due to the logistical complications and the risks, both technical and legal, to the proper and efficient conduct of general meetings, in particular real risk of such technical disturbances which could prevent continuous, bilateral communication with shareholders located in places other than the meeting room. The Company believes that the currently applicable rules of participation in general meetings allow for proper and effective implementation of the rights arising from shares and sufficiently protect the interests of all shareholders, including minority shareholders. In addition, application of the above mentioned rule would be connected with the necessity to incur partially unreasonable costs by the Company.

**IV.R.3.** Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

The Rule does not apply to the company.

Company commentary: Securities issued by the Company are listed only and exclusively in the domestic market.

**V.R.1** A member of the management or supervisory boards should avoid taking up professional or non-professional activity that could lead to a conflict of interest or adversely affect his reputation as a member of the company's governing body, and, should a conflict of interest arise, they should immediately disclose it.

The principle is not applied.

Company commentary: Currently, the Company has not adopted internal regulations in relation to members of the management or supervisory board specifying the criteria and circumstances that could cause a conflict of interest, as well as procedures to prevent conflicts of interest. The Company will review the existing practices and does not rule out the possibility of implementing appropriate internal regulations in the future.

**V.Z.6.** The Company determines the criteria and circumstances in the internal regulations that can result to a conflict of interest in the company, as well as the rules of conduct in the face of conflict of interest or the possibility of its occurrence. Internal regulations of the company take into account, inter alia, how to prevent, identify and solve conflicts of interest, as well as rules of excluding a member of the management or supervisory board from participation in dealing with matters covered by or at risk of conflict of interest.

The Rule is not applied.

Company commentary: Currently, the Company has not adopted internal regulations specifying the criteria and circumstances that could cause a conflict of interest in the company, as well as rules of conduct in the face of conflict of interests or an option of its occurrence.

**VI.R.1.** The remuneration of board members and key managers should result from the adopted remuneration policy. The Rule is not applied.

Company commentary: This recommendation is not applied by the Company in whole, because there are no regulations regarding the remuneration policy for members of governing bodies. Remuneration of Members of the Management Board is determined by the Company's Supervisory Board. The Supervisory Board Members

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receive a monthly lump sum remuneration, the amount of which is adopted by the Company's General Meeting of Shareholders.

**VI.R.3.** If there is remuneration committee in the supervisory board, the II.Z.7 principle applies in terms of its operation.

The Rule is not applied.

Company commentary: There is no remuneration committee in the Supervisory Board of the Company.

**VI.Z.1.** An incentive scheme should be designed in such a way so that it determines the level of remuneration of the board members of the company and its key managers based on the real, long-term financial situation of the company as well as long-term growth in value for shareholders and stability of the company's operations.

The Rule does not apply to the company.

Company commentary: The incentive scheme was introduced by the Company in 2013 and is currently completed in the scope of issuing subscription warrants to entitled individuals pursuant to the Regulations adopted by the Supervisory Board of the Company.

**VI.Z.2.** To link the remuneration of board members and key managers with long-term business and financial goals of the company, the period between the allocation of options or other instruments linked to shares of the company under the incentive program and the possibility of their implementation should be a minimum of 2 years.

The Rule does not apply to the company.

Company commentary: The incentive scheme was introduced by the Company in 2013 and is currently completed in the scope of issuing subscription warrants to entitled individuals pursuant to the Regulations adopted by the Supervisory Board of the Company.

**VI.Z.2.** To link the remuneration of board members and key managers with long-term business and financial objectives of the company, the period between the allocation of options or other instruments linked to shares of the company under the incentive program and the possibility of their implementation should be a minimum of 2 years.

This rule does not apply to the Company.

Company commentary: *Currently the Company does not have an incentive scheme in place.*

**VI.Z.4.** The Company, in the report on its operations, presents a statement on the remuneration policy, including at least:

- 1) general information about the remuneration system adopted by the company,
- 2) information on the conditions and amount of remuneration of each of the board members, broken down into fixed and variable components of remuneration, indicating the key parameters determining the variable

remuneration components and principles of severance payments and other payments due to termination of

employment, orders, or other legal relationship of a similar nature - separately for the company and each

entity within the capital group,

3) information on non-financial remuneration components that individual board members and key managers are entitled to,

4) indication of significant changes, which in the past financial year occurred in the remuneration policy, or

information about their absence,

5) assessment of the functioning of the remuneration policy for the realization of its objectives, in particular long-term growth of shareholder's value and stability of the company.

The Rule is not applied.

Company commentary: This recommendation is not applied by the Company in whole, because there are no regulations regarding the remuneration policy for members of governing bodies. Remuneration of Members of

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the Management Board is determined by the Company's Supervisory Board. The Supervisory Board Members receive a monthly lump sum remuneration, the amount of which is adopted by the Company's General Meeting of Shareholders.

## **DIVERSITY POLICY**

Currently, the Company has not adopted the diversity policy applicable to the company's governing bodies and its key managers. In accordance with the Company's Articles of Association, key personnel decisions with respect to the Company's authorities are made by the General Meeting and the Supervisory Board. When selecting the members of Management and Supervisory Boards, the Company selects such criteria as qualifications and subject matter background of the candidate for a certain position.

The Management and the Supervisory Boards of the Company are composed of members with educational backgrounds in law, economics and various professional experience. As of 31 December 2017 the Management Board consisted of two men, while the Supervisory Board consisted of one woman and six men, aged from 30 to 52. Information on the data of persons sitting in the Company's bodies is published in relevant current reports informing about the selection of bodies and on the Company's website.

In addition, on 30 November 2017 the General Meeting adopted the following resolutions:

*I. On the procedure for the appointment of Company's Management Board members:*

1. Members of the Management Board of the Company are appointed by the Supervisory Board after conducting the recruitment procedure, whose purpose is to check and assess the qualifications of candidates and to select the best candidate for a Member of the Management Board.
2. As part of the recruitment procedure referred to in subpara. 1, the Supervisory Board is obliged to ensure openness, transparency and integrity of the conducted qualification procedure, guaranteeing the selection of the Management Board member most suited to the interests of the Company.
3. The Supervisory Board, by way of a resolution, shall determine detailed rules for conducting the recruitment procedure referred to in para. 1, bearing in mind the need to ensure the objectives referred to in paragraph 1 and 2.

*With regard to the requirements for candidates for Company's Management Board members:*

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Candidate for a member of the Company's Board:

1) may be a person who meets all the following conditions:

a) has a university degree or higher education obtained abroad recognized in the Republic of Poland, under separate regulations,

b) has at least a 5-year employment period on the grounds an employment contract, appointment, selection, appointment, cooperative employment contract, or provision of services under a different contract or business on its own account,

c) has at least 3 years of experience in managerial or independent positions or resulting from running a business on his/her own,

(d) meets other than those referred to in letters a-c requirements specified in separate regulations, and in particular do not violate restrictions or prohibitions on the position of a member of the management body in commercial companies;

2) there can not be a person who meets at least one of the following conditions:

a) acts as a social collaborator or is employed in a deputy, senatorial, deputies and senatorial office or an office of a Member of the European Parliament under a contract of employment or provides work on the basis of a contract of mandate or other agreement of a similar nature,

b) is part of the body of a political party representing an external political party and authorized to incur liabilities,

c) is employed by a political party under a contract of employment or provides work on the basis of a contract of mandate or another contract of a similar nature,

d) performs the function of choice in the company's trade union organization or in the company's trade union organization from the capital group,

e) its social or commercial activity raises a conflict of interest regarding the activities of the Company".

*II. Regarding the rules for shaping the remuneration of members of the Company's Supervisory Board:*

*§1*

*1. The monthly gross remuneration of the members of the Company's Supervisory Board in the amount of the average monthly remuneration in the enterprise sector excluding payments from profit in the fourth quarter of the previous year announced by the President of the Central Statistical Office is determined.*

*2. For the Chairman of the Supervisory Board, the monthly remuneration specified in para. 1 is raised by 20%.*

*3. For the Vice-President of the Supervisory Board, the monthly remuneration specified in para. 1, is raised by 10%.*

*4. For members of the Audit Committee, an additional monthly gross remuneration of 30% of the remuneration specified in para. 1, is established.*

## §2

To payment of remuneration referred to in § 1, the following rules apply:

- 1) in the case of performing a function for less than a month, the remuneration will be due for this period and it will be calculated in proportion to the number of days of performing functions in the month, save for item 2);
- 2) the remuneration shall not be due for a month in which a member of the Supervisory Board was not present at any properly convened meetings of the Supervisory Board and his absence was not recognized by the Supervisory Board as justified;
- 3) the remuneration shall be paid by the 10th day of the month following the month for which the remuneration is due;
- 4) the provisions of items 1) -3) above shall apply accordingly to additional remuneration for performing functions at the Audit Committee

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Regardless of the remuneration referred to in § 1, the members of the Supervisory Board of the Company are entitled to reimbursement of costs related to the participation in the proceedings of the Supervisory Board and the Audit Committee.

The company has developed principles that support counteracting discrimination, while encouraging the increase of diversity, especially in the area of gender, education, age, and professional experience in relation to key managers and employees of the Company, believing that this translates into work efficiency and thus the development of the Company.

The basis for diversity management in the Company is to create equal opportunities in access to professional development and promotion among the employed.

Issues related to diversity management are regulated in the following documents in force at the Company:

- a. Work Regulations in force at the Company,
- b. internal procedures defining the principles of recruitment,
- c. internal rules defining the rules for providing support to employees in difficult life situations,
- d. remuneration and bonus regulations, access to training,
- e. anti-mobbing policy, introducing regular education on anti-discrimination and mobbing, in order to raise awareness and knowledge on this subject through training and activities directed to all employees, in particular to the management; setting up a coordination team to counteract discrimination and mobbing at the workplace.