

**CORPORATE GOVERNANCE STATEMENT OF GRUPA KĘTY S.A.
FOR THE YEAR 2019**



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1) A collection of corporate governance principles and scope of their application

In 2019, Grupa Kęty S.A. complied with a collection of corporate governance principles annexed to the Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Board dated 13 October 2015 – the ‘Best Practice for GPW Listed Companies 2016’ (hereinafter referred to as the ‘Best Practice’).

The collection of corporate governance principles is available on the Warsaw Stock Exchange Website at: <https://www.gpw.pl/dobre-praktyki>, and on the Website of Grupa Kęty S.A. at: www.grupakety.com/pl/11,lad-korporacyjny.html.

The information on Grupa Kęty S.A. compliance with the recommendation and principles provided for in the ‘Best Practice 2016’ is available on the Website of Grupa Kęty S.A. at: www.grupakety.com/pl/11,lad-korporacyjny.html.

In 2019, Grupa Kęty S.A. complied with all of the principles and recommendations provided for in the ‘Best Practice’ collection, except for Recommendation IV.R.2, which has not been fully complied with:

Recommendation 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) *live 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 plenipotentiary.*

Grupa Kęty S.A. provides live broadcasts of its general meetings in accordance with clause 1 of the recommendation and displays the respective recordings on the Company Website at: www.grupakety.com/pl/77,transmisje.html.

At the same time, clauses 2 and 3 of the recommendation have not been fulfilled due to the shareholding structure, the absence of any shareholder notifications regarding their expectations as to conducting the general meetings with the use of electronic communications means, and no possibility to provide technical infrastructure necessary for the general meetings to proceed efficiently using electronic communication means and to ensure proper security of electronic communications during the general meetings of Grupa Kęty S.A.

In the event of a change in the actual or legal circumstances or the expectations of shareholders in that regard, the Company does not exclude the possibility of full compliance with the recommendation.

2) Major shareholders

The shares of Grupa Kęty S.A. have been quoted on Warsaw Stock Exchange since 16 January 1996. As at 31 December 2019, there were the total of 9,569,947 shares of Grupa Kęty S.A. issued, of the nominal value of PLN 2.50 each. As at the date of this document publication the Company shares were quoted as part of the mWIG40 index.

A list of the Company major shareholders with over 5% share in the total number of votes at the AGM as at 31 December 2019 and 31 December 2017 is presented in the table below*:

	Number of shares/ votes as at 31.12.2019	Percentage of capital/ share in the total number of votes at the General Meeting	Number of shares/ votes as at 31.12.2018	Percentage of capital/ share in the total number of votes at the General Meeting
Nationale Nederlanden OFE	1,829,832	19.12%	1,836,002	19.23%
OFE AVIVA Santander	1,735,302	18.13%	1,762,985	18.47%
OFE PZU ŻŁOTA JESIEŃ	943,654	9.86%	946,571	9.92%
AEGON PTE	694,474	7.26%	688,823	7.22%
MetLife OFE	534,584	5.58%	509,873	5.34%
PTE Allianz Polska	489,576	5.12%	491,227	5.15%
Others	3,342,525	34.93%	3,309,966	34.68%
Total	9,569,947	100.00%	9,545,447	100.00%

*Balance as at 31 December 2019 (based on the Open Pension Funds [OFE] annual reports)

Management Board

Membership of the Management Board and information on changes introduced

As at 1 January 2019, the Management Board of Grupa Kęty S.A. consisted of:

- Dariusz Mańko – President of the Management Board,
- Adam Piela – Member of the Management Board,
- Piotr Wysocki – Member of the Management Board,
- Tomasz Grela – Member of the Management Board,
- Rafał Lechowicz – Member of the Management Board.

In 2019 the membership of the Company Management Board changed as stated below. On 21 May 2019 Mr Adam Piela filed a declaration on resignation from the function of a member of the Management Board, effective of 31 May 2019. On 7 June 2019 Mr Rafał Lechowicz filed a declaration on resignation from the function of a member of the Management Board, effective of 7 June 2019. On 18 September 2019 the Supervisory Board passed a resolution on appointing Mr Rafał Warpechowski member of the Company Management Board, effective of 1 October 2019.

As at 31 December 2019, the Management Board of Grupa Kęty S.A. consisted of:

- Mr Dariusz Mańko – President of the Management Board,
- Mr Rafał Warpechowski – Member of the Management Board,
- Mr Piotr Wysocki – Member of the Management Board,
- Mr Tomasz Grela – Member of the Management Board.

The division of competencies and responsibility among the particular members of the Company Management Board is presented in the chart below.

President of the Management Board Dariusz Mańko	Member of the Management Board (in charge of financial affairs) Rafał Warpechowski	Member of the Management Board (in charge of the Extruded Products Segment) Piotr Wysocki	Member of the Management Board (in charge of the Aluminium Systems Segment) Tomasz Grela
Directing the Management Board work	Finance and accounting	Supervision and implementation of all strategic and operational affairs at the Extruded Products Segment	Supervision and implementation of all strategic and operational affairs at the Aluminium Systems Segment
Coordination of the segments operation	Management reporting	Cooperation with other segments	Cooperation with other segments
Sustainable development and corporate social responsibility	IT		
Human resources policy	Risk management policy		
Internal audit	Investor relations		
Legal service	Capital investments and restructuring		
Communication			
Supervision of all strategic and operational affairs at the Flexible Packaging Segment			

Detailed information about the particular members of the Management Board, including their qualifications and experience, is presented on the Company Website at: www.grupakety.com/pl/10,zarzad-i-rada-nadzorcza.html

Competences of the Management Board and information on the method of the Board appointment and operation

The Management Board consists of two to five members, including the President of the Management Board. The President of the Management Board and other members of the Board are appointed and recalled by the Supervisory Board. The term of office of the Management Board members is three years. The Management Board members are appointed for a joint term of office. If the membership of the Management Board no longer complies with the requirements of the Articles, the Supervisory Board shall immediately pass a resolution on changing the membership of the Management Board.

The Management Board runs the affairs of the Company and represents it. The Company is represented by two members of the Management Board or one member of the Management Board jointly with a proxy. Any matters related to running the affairs of the Company, which have not been reserved by the Articles or by law for the General Meeting or the Supervisory Board, fall within the competencies of the Management Board.

The methods of the Management Board operation are determined in detail in the Management Board By-law. The By-law is passed by the Management Board and approved by the Supervisory Board. Acting by the Management Board members as members of the management boards or supervisory boards of companies outside of the Capital Group requires consent of the Supervisory Board.

The resolutions of the Management Board are passed with absolute majority of votes. In the event of an equal number of votes for and against a resolution, decisive is the vote of the President of the Management Board. The following matters require a resolution of the Management Board:

- a) presenting to the General Meeting of the annual report on the Company operation and the financial statements for the previous reporting year along with a motion regarding profit distribution or loss coverage;
- b) presenting motions to the General Meeting in the following matters, along with an opinion of the Supervisory Board:

- change of the Company's line of business;
 - amendments to the Company Articles of Association;
 - share capital increase or decrease;
 - merger, transformation and demerger of the Company;
 - the Company winding-up and liquidation;
 - issue of bonds;
 - transfer and lease of the enterprise or an organized part thereof and creation of a limited right in property thereon;
 - acquisition or disposal of real estate related to the Company's key business;
- c) convening of ordinary or extraordinary General Meetings:
- on the Management Board's own initiative;
 - at a written request of the Supervisory Board;
 - at a written request of the shareholders representing at least one tenth of the share capital;
- d) division of duties among the Management Board members;
- e) establishment of the Company organisational regulations and organizational structure;
- f) creation and closure of branches, departments, plants and other separated business units of the Company;
- g) granting and revoking the commercial representation rights as well as appointing and dismissing the Management Board proxies for the particular matters;
- h) determining work regulations for the Company employees and rules applicable to the corporate payroll, awards and bonus systems for the employees;
- i) approving annual and long-term strategies, plans and action schemes, including changes in the directions of the Company's business;
- j) entering into contracts by the Company or performing other legal acts which bind the Company to the amount exceeding 40% of its share capital;
- k) approving disposal and lending for use of property, plant and equipment, except for any cases reserved for the competencies of the General Meeting;
- l) making donations to charities or for social purposes;
- m) making decisions on group redundancies.

The resolutions of the Management Board are also required for other matters put forward by the Management Board members.

The managing persons have no right to decide on the issue or redemption of shares but only to initiate actions in that regard.

In 2019 the Management Board of the Company held 61 meetings.

The principles of the Management Board operation are regulated by the Code of Commercial Companies. The detailed methods of the Management Board operation are determined in the Company Articles and the Management Board By-law, passed by the Management Board and approved by the Supervisory Board, available on the Company Website at: www.grupakety.com/pl/18,dokumenty-spolki.html.

3) Supervisory Board and Supervisory Board Committees

Membership of the Supervisory Board and information on changes introduced

In 2019 there were no changes in the membership of the Company Supervisory Board.

As at 31/12/2019, the Supervisory Board was composed of:

- Mr Szczepan Strublewski – Chairman of the Supervisory Board,
- Mr Paweł Niedziółka – Deputy Chairman of the Supervisory Board,
an independent Member of the Supervisory Board,
- Mr Piotr Kaczmarek – an independent Member of the Supervisory Board,
- Mr Bartosz Kazimierzuk – an independent Member of the Supervisory Board,
- Mr Piotr Stępiak – an independent Member of the Supervisory Board,
- Mr Wojciech Włodarczyk – an independent Member of the Supervisory Board.

Detailed information about the particular members of the Supervisory Board, including their qualifications and experience, is presented on the Company Website at: www.grupakety.com/pl/10,zarząd-i-rada-nadzorcza.html.

Competences of the Supervisory Board and information on the method of the Board appointment and operation

The Supervisory Board is composed of five or six members appointed and dismissed by the General Meeting. The term of office of the Supervisory Board is three years. The Supervisory Board members are appointed for a joint term of office. The General Meeting may dismiss any member of the Supervisory Board at any time. The membership of the Supervisory Board should comply with the legal regulations providing for the requirement of appointing independent members of the Supervisory Board.

The Supervisory Board elects the Chairman, the Deputy Chairman and, if needed, the Secretary of the Supervisory Board from among its members. The Chairman of the Supervisory Board convenes and chairs the Supervisory Board meetings and manages its work. If the Chairman is not able to perform his or her duties or is absent, the Deputy Chairman performs the Chairman's duties.

The Supervisory Board meetings are held at least once in each quarter. The Supervisory Board fulfils its tasks and exercises its rights by passing resolutions at meetings, and through control and advisory activities. The resolutions are passed with a simple majority of votes. In the case of an equal number of votes cast for and against a resolution, the casting vote is exercised by the Supervisory Board Chairman. Resolutions are passed in open voting, except for personnel matters which shall be decided in secret voting. Resolutions may be passed if all Board members have been invited.

The Supervisory Board's responsibilities include in particular:

- 1) evaluation of the Company financial statements and the Management Board reports on the Company operations;
- 2) assessment of the Management Board motions concerning profit distribution or loss coverage;
- 3) submitting written reports on the results of the actions referred to in items 1) and 2) above to the General Meeting;
- 4) submitting assessments regarding the Company standing and other opinions to the General Meeting, particularly in reference to the Company sponsoring and charity activities and fulfilment of disclosure obligations by the Company;
- 5) presenting reports on the Supervisory Board activities to the General Meeting;
- 6) appointing and dismissing the Management Board members and determining the rules of their remuneration;
- 7) suspending the individual or all Management Board members in their duties because of important reasons;
- 8) delegating members of the Supervisory Board to temporarily perform the duties of the Management Board members who are incapable of discharging their duties;
- 9) approval of the Management Board By-law;
- 10) approval of consolidated budgets, Company budgets, and strategy of the Capital Group;
- 11) electing the statutory auditor to audit the Company financial statements;
- 12) determining the value of remuneration of the members of the Supervisory Board delegated to temporarily perform the duties of a Management Board member.

In addition, the Management Board shall obtain the consent of the Supervisory Board before performing any of the following acts:

- 1) disposing of and putting into use the Company assets of the value exceeding PLN 50,000,000 (say: fifty million zlotys), except for disposing of and putting into use any assets for the benefit of the companies of the Capital Group or within the ordinary course of business;
- 2) activities, as a result of which the financial debt limit of the Capital Group will be exceeded jointly for more than PLN 50,000,000 (say: fifty million zlotys) or further increase of the excess level;
- 3) activities, as a result of which the off-balance-sheet debt of the Capital Group will be exceeded jointly for more than PLN 50,000,000 (say: fifty million zlotys) or further increase of the excess level;

- 4) taking out cash liabilities in the value exceeding PLN 1,000,000 (say: one million zlotys), under the agreements on providing advisory services to the Company, except for taking out liabilities under advisory agreements signed with the companies of the Capital Group;
- 5) taking out cash liabilities in the value exceeding PLN 12,500,000 (say: twelve and a half million zlotys), in relation to activities which have not been listed in this § 14.3, except for liabilities provided for in the Company budget and liabilities taken out within the Company ordinary course of business;
- 6) creating and joining companies, an taking up or acquiring interest or shares);
- 7) disposing of the interest or shares vested in the Company of the value exceeding PLN 10,000,000 (say: ten million zlotys), including by encumbering them, except for managing for the benefit of the companies within the Capital Group;
- 8) granting finance by the Company based on lending agreements or other activities of similar nature for the amount exceeding PLN 1,000,000 (say: one million) to companies from outside of the Capital Group, except for the cases specified in the approved Company budget, and except for finance granted within the ordinary course of business;
- 9) exercising the right of vote on shares or interest of the Company in key companies in the matters related to granting a consent for:
 - a) disposing of and putting into use the Company assets of the value exceeding PLN 20,000,000 (say: twenty million zlotys), except for disposing of and putting into use any assets for the benefit of the companies of the Capital Group or within the ordinary course of business of the key company;
 - b) activities, as a result of which the financial debt limit of the Capital Group will be exceeded jointly for more than PLN 50,000,000 (say: fifty million zlotys) or further increase of the excess level;
 - c) activities, as a result of which the off-balance-sheet debt of the Capital Group will be exceeded jointly for more than PLN 50,000,000 (say: fifty million zlotys) or further increase of the excess level;
 - d) creating and joining companies, an taking up or acquiring interest or shares);
 - e) disposing of the interest or shares vested in the Company of the value exceeding PLN 10,000,000 (say: ten million zlotys), including by encumbering them, except for managing for the benefit of the companies within the Capital Group;
- 10) conclusion of an agreement with a member of the Supervisory Board;
- 11) conclusion of a major agreement with a shareholder of the Company who holds at least 5% (say: five percent) of the total number of votes in the General Meeting;
- 12) opening or closing a branch.

In 2019 the Supervisory Board of the Company held 13 meetings.

The principles of the Supervisory Board operation are regulated by the Code of Commercial Companies. The detailed methods of the Supervisory Board operation are determined in the Company Articles and the Supervisory Board By-law, passed by the Supervisory Board, available on the Company Website at: www.grupakety.com/pl/18,dokumenty-spolki.html.

The Supervisory Board is a collective body, however, it has delegated some of its powers to the specific committees described below.

COMMITTEES OF THE SUPERVISORY BOARD

The following committees of the Supervisory Board operate at Grupa Kęty S.A.:

- Audit Committee,
- Nomination and Remuneration Committee.

The committees are appointed to make the current work of the Supervisory Board more efficient by preparing, on a current basis, draft decisions of the Supervisory Board concerning its own motions or the motions submitted by the Management Board for examination. The committee members are appointed by virtue of a resolution passed by the Supervisory Board, from among the Board members, and perform their functions until their resignation has been accepted or until their dismissal, in accordance with the appointment procedure. The committee members do not receive any additional remuneration for their work in the committees.

AUDIT COMMITTEE

Membership of the Audit Committee and information on changes introduced

There were no changes in the membership of the Audit Committee in 2019. As at 31/12/2019, the Audit Committee was composed of:

- Mr Piotr Stępniaak – Chairman of the Committee

Mr Piotr Stępniaak fulfils the statutory independence criteria and possesses knowledge in accounting and auditing financial statements, as referred to in the Act on Statutory Auditors [...].

Mr Piotr Stępniaak has many years of experience in management and supervision, gained also at the highest levels of organisations (for example as a CEO or Supervisory Board Chairman), at many Polish and foreign companies. The professional experience of Mr Piotr Stępniaak covers but is not limited to financial institutions related to (i) banking (e.g. Lukas Bank S.A. or Getin Group companies) or (ii) assets management (e.g. Skarbiec Group). During his professional career Mr Piotr Stępniaak has taken part in many investment processes, which included due diligence studies of Polish, Russian, Ukrainian and Belarusian companies (Getin Group). Additionally, at Getin Group, Mr Piotr Stępniaak dealt with ownership supervision of the Group companies. Further, he has been member of a number of Audit Committees at public companies (including Kruk S.A., Skarbiec Holding S.A., Magellan S.A.). He also possesses theoretical expertise in accounting or financial audit within the meaning of Article 129.1 sentence 2 of the Act, which he gained by getting a Double Major B.A. degree in Management and Economics with Financial Accounting and an EMBA degree (Executive Master in Business Administration).

- Mr Szczepan Strublewski – Member of the Committee

Mr Szczepan Strublewski possesses knowledge in accounting and auditing financial statements, as well as the sector of Grupa Kęty S.A. operation, as referred to in the Act on Statutory Auditors [...].

During his professional career Mr Szczepan Strublewski has been mainly related to the financial sector, where he dealt with banking and investments, consulting for M&A transactions (ABN AMRO Corporate Finance Polska sp. z o.o., or Dresdner Kleinwort Wasserstein in London) as well as attracting capital and restructuring of companies (as an independent consultant). Moreover, at the beginning of his career Mr Szczepan Strublewski acted as a financial consultant at the Audit Department of Arthur Andersen in Warsaw, and subsequently with the financial analysis of Polish and Central European stock companies (at SBC Warburg in Warsaw, and then in London). As a result of his professional activity, Mr Szczepan Strublewski gained qualifications in auditing financial statements, which he used during his work at the Audit Department, providing business and financial consulting and analysing stock companies, which is performed, among other things, through analysis and examination of financial statements.

Mr Szczepan Strublewski has acted as a Member of the Supervisory Board of Grupa Kęty S.A. since 2004, which makes him an expert in understanding the operation of the Grupa Kęty S.A. Capital Group and the whole sector of the Company activity.

- Mr Piotr Kaczmarek – Member of the Committee

Mr Piotr Kaczmarek fulfils the statutory independence criteria and possesses knowledge in accounting and auditing financial statements, as referred to in the Act on Statutory Auditors [...].

Mr Piotr Kaczmarek is the holder of a CFA (Chartered Financial Analyst) title and a securities broker licence. Related to the capital market since the beginning of his professional career, he has 19 years of experience in analysing and measuring financial instruments. He managed the portfolios of two largest pension funds in Poland: ING OFE and Aviva OFE. He is the co-author of the first model of 'Corporate Governance Principles' on the pension funds market. Initially, he worked as a securities broker at the BMT S.A. brokerage house (1994–1995), and Bank Handlowy in Warsaw (1997–1998), and

subsequently as a capital market dealer at Bank Amerykański w Polsce S.A. (1999–2000). In the years 2000–2008 he was related with ING Nationale-Nederlanden Polska PTE S.A., where he acted as a shares analyst, shares portfolio manager and Investment Director for Shares, respectively. In 2006 he was appointed member of the society Management Board and took the position of the Investment Department Director. In 2009–2010 he was employed as a manager at Skarbiec TFI S.A. From 2011 to May 2016 he worked at Aviva PTE BZWBK S.A. holding the position of a senior analyst and afterwards the shares portfolio manager.

He has long years of experience in working at audit committees of stock companies. In the years 2016–2018 he acted as a member of the Supervisory Board and Chairman of the Audit Committee at ROBYG S.A., as well as a member of the Supervisory Board and the Audit Committee at HARPER HYGIENICS S.A.

At the moment he is member of the Supervisory Boards and Audit Committees at public companies: GRUPA KĘTY S.A., FERRO S.A., DEVELIA S.A., Erbud S.A., VRG S.A., as well as a member of the Supervisory Board at a private company NOVASERVIS spol. s.r.o.

- Mr Bartosz Kazimierczuk – Member of the Committee

Mr Bartosz Kazimierczuk fulfils the statutory independence criteria referred to in the Act on Statutory Auditors [...].

- Mr Wojciech Włodarczyk – Member of the Committee

Mr Wojciech Włodarczyk fulfils the statutory independence criteria and possesses knowledge in accounting and auditing financial statements, as well as the sector of Grupa Kęty S.A. operation, as referred to in the Act on Statutory Auditors [...].

In his professional career Mr Wojciech Włodarczyk dealt, among other things, with creating an Audit and Control Department and managing it (Gobarto S.A.), ensuring cash flows and financing capital expenditure (Voxel S.A.), preparing business plans and financial analyses (Doradztwo Gospodarcze DGA S.A.), verification of financial models, optimisation of investments and raw materials costs (a business consulting entity within the Ernst & Young Group), preparing strategies, financial and investment plans as well as financial reports (PKN Orlen S.A.), designing and implementing accounting procedures (Biuro Maklerskie Certus sp. z o.o.). Further, Mr Wojciech Włodarczyk held the position of a Member of the Audit Committee of Qumak S.A.

He also has many years of experience at manufacturing companies, for example as a Supervisory Board Member at Ceramika Nowa Gala S.A. (ceramic products industry), at Projprzem S.A. (steel structures manufacturing company), and Deputy Manager of the Strategic Projects Office at PKN Orlen S.A. (oil processing industry), which puts him in a position to fully understand the sectors and the business environment of Grupa Kęty S.A.

- Mr Paweł Niedziółka – Member of the Committee

Mr Paweł Niedziółka fulfils the statutory independence criteria referred to in the Act on Statutory Auditors [...].

Mr Paweł Niedziółka has over 20 years of experience in analyses and risk management with regard to financing business companies and structuring of bank financing. He acted as an expert on behalf of the Polish Banks Association (ZBP) in assessing projects to be financed by the Polish Agency for Enterprise Development (PARP). He works at the Faculty of Banking of the SGH Warsaw School of Economics, as associate professor, where he lectures risk management and corporate banking related subjects. He is an author of court expert papers related to financing within a project-finance formula.

Detailed information about the particular members of the Audit Committee of the Supervisory Board of Grupa Kęty S.A., including their qualifications and experience, is presented on the Company Website at: www.grupakety.com/pl/10,zarzad-i-rada-nadzorcza.html

Competences of the Audit Committee and information on the method of the Committee appointment and operation

The Audit Committee consists of at least three members, including the Chairman, appointed by the Supervisory Board for its term of office from among its members. The Committee members appointed by the Supervisory Board elect one of them as the Chairman of the Committee. At least one Committee member possesses knowledge and qualifications in accounting or auditing financial statements. A majority of the Audit Committee members, including the Chairman, are independent of the respective public-interest entity. The Committee members possess knowledge and qualifications related to the industry in which the Company operates. This condition is deemed fulfilled if at least one Committee member has the knowledge and qualifications related to that industry, or individual members – within certain areas – have the knowledge and qualifications related to that industry. A Committee member may be dismissed from the Committee at any time by virtue of a Supervisory Board resolution.

The Committee meetings are convened by the Committee Chairman. The Committee shall adopt resolutions if at least half of its members are present at the meeting and all of the members have been duly invited. The Committee resolutions are passed by a simple majority of the votes cast. In the case of an equal number of votes for and against a resolution, the casting vote is exercised by the Committee Chairman.

The main objective of the Audit Committee is the cooperation with the Management Board of Grupa Kęty S.A. in order to ensure coherence of the Company financial statements, compliance with legally binding regulations and principles, independence of the auditor's opinion and conducting of internal audits at the Company, as well as drawing up the Committee reports to be attached to the annual reports on the operations of the Company Supervisory Board, subsequently submitted to the General Meeting.

Specifically, the tasks of the Audit Committee include:

- 1) monitoring of:
 - a) the financial reporting process;
 - b) the effectiveness of internal control systems, risk management systems and internal audit, also with regard to financial reporting;
 - c) the performance of auditing activities, in particular carrying out of audits by an audit firm, taking into account any findings and conclusions of the Polish Audit Supervision Commission arising from the audits carried out at an audit firm;
- 2) control and monitoring of independence of the statutory auditor and the audit firm, specifically if the audit firm provides the Company with services other than audit;
- 3) informing the Company Supervisory Board about the audit results and explaining how the audit contributed to the fairness of the Company financial reporting, and about the role of the Audit Committee in the auditing process;
- 4) assessing the independence of the statutory auditor and giving consent to the provision by them of the permitted non-audit services to the Company;
- 5) developing a policy of selection of the audit firm to carry out the audit;
- 6) developing a policy on the provision of the permitted non-audit services by the audit firm to carry out the audit, the entities related to that audit firm or a member of the audit firm's network;
- 7) establishing the procedure for the selection of an audit firm by the Company;
- 8) presenting recommendations to the Supervisory Board with regard to the selection of an audit firm;
- 9) presenting recommendations to ensure the integrity of the Company financial reporting process.

In 2018, the audit firm carrying out the audit of the financial statements provided the permitted non-audit services which referred to training in business processes ('Analysis of organisational processes for internal auditors' and 'Practical project management') for the employees of Grupa Kęty S.A., in accordance with the request of the Company Management Board.

The detailed methods of the Audit Committee operation are determined in the Company Articles and the By-law of the Audit Committee of the Supervisory Board of Grupa Kęty S.A., passed by the Supervisory Board, available on the Company Website at: www.grupakety.com/pl/18.dokumenty-spolki.html.

Main assumptions of the policy of selection of the audit firm to carry out the audit of the financial statements of Grupa Kęty S.A.

In accordance with the applicable law, Grupa Kęty S.A. shall have its separate and consolidated financial statements reviewed and audited by an audit firm. The selection of an entity authorised to audit the Company financial statements should be carried out on the basis of the following principles.

1. The entity authorised to audit financial statements shall be selected in a tender procedure by the Supervisory Board of Grupa Kęty S.A., on the basis of a recommendation by the Audit Committee of the Supervisory Board. The decision on the selection is taken in the form of a resolution of the Supervisory Board.
2. When selecting the entity authorised to audit the financial statements, the Supervisory Board of Grupa Kęty S.A. focuses on the experience of the audit team as regards auditing financial statements of stock-listed companies. An important element in selecting an audit firm is the firm's experience in the area of financial hedging, risk management, internal audit, as well as IT and corporate governance audit.
3. The selection is made taking into account the principles of impartiality and independence of the audit firm as well as analysis of the projects carried out by the firm at the Company, going beyond the audit of the financial statements, in order to avoid a conflict of interest (preserving impartiality and independence).
4. The basis for carrying out an audit by a statutory auditor are the binding legal regulations, and specifically the Polish Act on Accounting, the International Financial Reporting Standards and the requirements of the Stock Exchange. The purpose of the audit is the expression by the audit firm of their opinion and preparing a report in Polish and English as to the compliance with the applied accounting principles and the true and fair presentation of assets, financial standing and the financial result of the Company.
5. The Supervisory Board shall be guided by the principle of rotation of the key statutory auditor, namely that a key statutory auditor may perform their auditing activities for a period not longer than five years, whereas their services may be provided again after the lapse of two years.

The Policy of Grupa Kęty S.A. with regard to the selection of an audit firm to carry out the audit of statutory financial statements, and the procedure of selecting an audit firm to audit the statutory financial statements are available on the Company Website at: www.grupakety.com/pl/68,regula-wyboru-podmiotu-uprawnionego-dobadania-sprawozdan-finansowych.html

Main assumptions of the policy on the provision of permitted non-audit services by the audit firm carrying out the audit, the entities related to that audit firm or a member of the audit firm's network

1. The Company does not order any prohibited non-audit services in the following periods:
 - a. in the period from the commencement of the respective audited period to the issue of the audit report; and
 - b. in the reporting year directly preceding the period referred to in letter a), in reference to the services listed in Section 3 letter e).
2. The Company may order non-audit services, other than the prohibited non-audit services, subject to their approval by the Audit Committee and after carrying out of the respective assessment of threats and assuring independence in compliance with Article 22b of Directive 2006/43/EC.
3. Prohibited non-audit services are understood to be the services listed below, in accordance with the REGULATION (EU) No 537/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL:
 - a. tax services relating to:
 - i. preparation of tax forms;
 - ii. payroll tax;
 - iii. customs duties;
 - iv. identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law;
 - v. support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law;
 - vi. calculation of direct and indirect tax and deferred tax;
 - vii. provision of tax advice;
 - b. services that involve playing any part in the management or decision-making of the audited entity;
 - c. bookkeeping and preparing accounting records and financial statements;
 - d. payroll services;

- e. designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
- f. valuation services, including valuations performed in connection with actuarial services or litigation support services;
- g. legal services, with respect to:
 - i. the provision of general counsel;
 - ii. negotiating on behalf of the audited entity; and
 - iii. acting in an advocacy role in the resolution of litigation;
- h. services related to the audited entity's internal audit function;
- i. services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;
- j. promoting, dealing in, or underwriting shares in the audited entity;
- k. human resources services, with respect to:
 - i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
 - searching for or seeking out candidates for such position; or
 - undertaking reference checks of candidates for such positions;
 - ii. structuring the organisation design; and
 - iii. cost control.

In 2019 the Audit Committee of the Supervisory Board of Grupa Kęty S.A. held 6 meetings.

The policy of Grupa Kęty S.A. with regard to providing the permitted non-audit services by the audit firm carrying out the audit, by entities related to that audit firm and by a member of the audit firm's network is available on the Company Website at: www.grupakety.com/pl/68,regula-wyboru-podmiotu-uprawnionego-dobadania-sprawozdan-finansowych.html

NOMINATION AND REMUNERATION COMMITTEE

Membership of the Nomination and Remuneration Committee and information on changes introduced

In 2019 by way of Resolution No. X/11/19 of 5 June 2019, the Supervisory Board changed the name of the Remuneration Committee into the Nomination and Remuneration Committee and passed a new By-law.

In 2019 there were no changes in the membership of the Nomination and Remuneration Committee. As at 31 December 2019, the Nomination and Remuneration Committee was composed of:

- Mr Paweł Niedziółka – Chairman of the Committee,
- Mr Bartosz Kazimierzuk – Member of the Committee,
- Mr Wojciech Włodarczyk – Member of the Committee.

Competences of the Nomination and Remuneration Committee and information on the method of the Committee appointment and operation

The basic objectives of the Nomination and Remuneration Committee are as follows:

- control and supervision of the system of remuneration of the Grupa Kęty S.A. Management Board Members as well as recruitment for the positions of the Management Board members;
- analysis of the system of remuneration of the Company Management Board Members in comparison to the systems binding at other companies operating on the market;
- preparing reports of the Committee to be attached to the annual report on the activities of the Company Supervisory Board, subsequently presented to the Company General Meeting.

The Committee consists of at least two members, and their specific number is determined every year by the Supervisory Board. The Committee members are appointed by virtue of a resolution of the Supervisory Board, from among the Board's members, whereas the committee members perform their functions until their resignation has been accepted or until their dismissal, in accordance with the appointment procedure.

In 2019 the Nomination and Remuneration Committee held 8 meetings.

The detailed methods of the Nomination and Remuneration Committee operation are determined in the Company Articles and the By-law of the Nomination and Remuneration Committee of the Supervisory Board of Grupa Kęty S.A., passed by the Supervisory Board, which are available on the Company Website at: <http://www.grupakety.com/pl/18.dokumenty-spolki.html>.

4) General Meeting and rights of the shareholders

The methods of Grupa Kęty S.A. General Meeting operation and the basic rights of the General Meeting are regulated by the Company Articles of Association and the General Meeting By-law. The documents are available on the Company Website at: <http://www.grupakety.com/pl/18.dokumenty-spolki.html>

General Meetings are held at the registered office of the Company in Bielsko-Biała or in Warsaw. They are convened by the Management Board on the basis of an announcement published on the Company Website, in the manner specified for current information disclosure, in accordance with the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies. A General Meeting may also be convened by the Supervisory Board or shareholders representing at least half of the share capital. The shareholders representing at least 5% of the share capital may request the convening of a General Meeting and including certain items in the agenda of the Meeting.

A General Meeting is valid regardless of the number of the shares represented at it. In accordance with the approved By-law of the General Meeting of Grupa Kęty S.A., the session of the General Meeting is opened by an authorised person, in accordance with the Articles provisions. The person opening the General Meeting orders the selection of the General Meeting Chairman from among the participants. Every participant is entitled to report into the minutes one candidate for the function of the General Meeting Chairman. The persons reported are entered in the list of candidates, providing that they agree to stand as candidates.

The selection of the General Meeting Chairman takes place in secret voting by way of voting for each of the candidates separately. The Chairman is the person with the largest number of votes cast. If more than one candidate receive the equal largest number of votes, the person opening the General Meeting orders supplementary voting for the candidates with the equal largest number of votes. The Chairman is the person with the largest number of votes cast in the supplementary voting.

After having selected the Chairman of the General Meeting, the person opening the General Meeting hands over the conducting of the General Meeting to the Chairman of the General Meeting, who verifies the correctness of preparing the list of attendance at the General Meeting and in the absence of reservations signs the same, and confirms the correctness of convening the General Meeting as well as its capacity to pass resolutions in the matters included in the agenda of the meeting, based on the submitted documents related to the convening of the General Meeting, the attendance list and the original powers of attorney, and also the possible motions filed in that regard by a person entitled to vote, orders the acceptance of the agenda, and orders voting on the selection of the vote-counting committee, if they deem the commission appointment needed. In the absence of grounds for determining the correctness of convening the Meeting or capacity to pass resolutions, the Chairman of the General Meeting closes the Meeting session.

During a session the duties and rights of the Chairman include caring for the compliance of the course of proceedings with the provisions of the Code of Commercial Companies, the Articles and the By-law, giving the floor and asking questions to the participants, as well as the persons identified in § 6.2 of the General Meeting By-law, taking the floor away from the participants, ordering voting on removing from the meeting room any persons which grossly breach the law, the provisions of the Articles, the provisions of the By-law or good manners, ordering breaks during the meeting, cooperation with the notary public taking down the minutes from the General Meeting, ordering voting on the resolutions of the General Meeting, determining the correctness of the course of voting and the voting results, taking a stand with regard to the motions reported by the participants and, when such need is determined, ordering voting in the subject-matter of the motions, introducing into the agenda any matters of organisational nature, solving doubts as to the interpretation of the provisions of the General Meeting By-law.

Due to the fact that the Company is stock listed, only the shareholders who had obtained their status at 16 days prior to the date of the General Meeting at the latest may participate in it and exercise their voting rights. Furthermore, the Members of the Management and Supervisory Boards, the Company auditor and other persons invited by the governing body convening the General Meeting, including the representatives of media, may participate in the Meeting, unless, at the request of a participant filed before proceeding to the discussion over the issues included in the agenda, the General Meeting decides otherwise with a simple majority of votes.

The list of shareholders entitled to participate in the General Meeting, signed by the Management Board, and including the names and surnames or business names of the entitled persons or companies, their addresses (addresses of registered offices), the number of their shares and votes, is available at the registered office/on the premises of the Company Management Board three business days prior to the General Meeting.

Pursuant to the Company Articles of Association, the General Meeting of Grupa Kęty S.A. By-law as well as the legal regulations, the Company shareholders may:

- participate in the General Meeting and exercise their voting rights in person or through plenipotentiaries;
- run for the position of the General Meeting Chairman or propose one candidate for the position to be included in the minutes;
- report draft resolutions on matters included in the agenda but not related to organisational matters;
- submit proposals of amendments and supplements to draft resolutions included in the General Meeting agenda by the time of closing the discussion on the items of the agenda concerning the draft resolutions to which such proposals pertain;
- take the floor and ask questions concerning each item on the agenda;
- demand secret voting;
- demand inclusion in the minutes of their objections and other statements;
- demand information from the Company Management Board concerning the items on the General Meeting agenda in the case of and subject to exceptions provided for in legal regulations;
- demand the list of shareholders to be e-mailed to them free of charge, indicating the e-mail address to which such a list should be sent. A shareholder may examine the list of shareholders on the Management Board's premises and demand a copy of the list, paying the costs of its preparation;
- examine the books of minutes of the General Meeting and request copies of resolutions certified by the Management Board;
- appeal against resolutions of the General Meeting in the cases provided for in legal regulations.

The participants attending the General Meeting confirm their presence with their own signature in the attendance list laid out in the meeting room and collect the voting sheets. The representatives and attorneys, before entry into the attendance list, submit to the minutes the documents which undoubtedly prove their legal authorisation to representation in the General Meeting, unless the power of attorney has been granted in electronic form, and they sign the attendance list legibly with their full name and surname, next to the surname or name of the principal. The attendance list must include specifically: the name and surname or company name of each participant, determination of the document based on which the identity of the participant has been confirmed, and in the case of representatives and attorneys of the participants, additionally specified should be: the name and surname or company name of the participant replaced by the representative or the attorney, and the source of representation (e.g. attorney, statutory representative), identification of the basis on which the participant is entitled to participate in the General Meeting (e.g. shareholder, pledgee), the number of shares held by the participant and the number of votes vested in the respective participant.

The attendance list is laid out throughout the term of the General Meeting, until the Meeting session is closed. The persons preparing the attendance list are obliged to include therein any changes in the membership and the number of the represented shares before each voting. The attendance list is signed by the participants and by the Chairman of the General Meeting.

The course of the General Meeting is recorded in the minutes by a notary public, and the minutes must include specifically a statement on the correctness of convening the General Meeting and its capacity to pass resolutions in the matters covered by the agenda, the text of the resolutions passed, as well as the number of votes cast for each resolution and the reported reservations. The minutes are signed by the Chairman of the General Meeting and the notary public. An excerpt from the minutes together with the evidence of convening the General Meeting and the documents referred to in § 12.2 of the By-law are attached by the Management Board to the book of minutes. The book of minutes includes the minutes of the vote-counting committee from the results of voting, if the committee has been appointed, as well as the voting sheets, if the voting has been carried out with the use of the voting sheets.

The resolutions of a General Meeting are passed with the majority of votes, as set out in the Articles of Association and the Code of Commercial Companies. The voting is carried out with the use of a vote counting system ensuring that the number of votes cast is equivalent to the number of votes possessed, as well as eliminating – in the event of secret voting – the possibility of identifying the method of casting votes by the particular persons authorised to vote. The voting is open. Secret voting is ordered during the elections and with regard to motions regarding dismissal of the members of the Company governing bodies, bringing them to justice as well as with respect to personal issues. Secret voting is also ordered when at least one shareholder present or represented at the General Meeting so requests.

After discussing all the matters included in the agenda, the Chairman announces the closing of the General Meeting. The proceedings of the General Meeting are broadcast live on the Internet, and also recorded and uploaded to the Website of Grupa Kęty S.A. to be watched at a chosen time.

In 2019 there was held one General Meeting, i.e. the Annual General Meeting on 30 May 2019, which passed 17 resolutions. Detailed information on General Meetings, and the resolutions passed are available on the Company Website at: <http://www.grupakety.com/pl/38.wza.html>.

5) Amendments to the Company Articles of Association

Any amendment to the Articles of Association requires a resolution of the General Meeting passed with the majority of 3/4 of votes, and the amendment must be entered in the National Court Register (Article 430 of the Code of Commercial Companies). Reporting of the amendment to the Articles is the responsibility of the Company Management Board. The Management Board is obliged to report an amendment to the Articles within three months of the adoption of the respective resolution.

On 30 May 2019 there was held an Extraordinary General Meeting of Grupa KĘTY S.A., in which the shareholders accepted the new wording of the Company Articles, based on resolution No. 16/19 of 30 May 2019.

Information on the issued securities and limitations in the exercise of the right of vote

a) Holders of securities with special control powers

The Company has not issued any securities with special control powers. The Company Articles of Association do not provide for any powers in that regard. The shares of Grupa Kęty S.A. are ordinary bearer shares. Each share entitles its holder to one vote at the General Meeting.

b) Indication of any limitations with regard to the exercise of the right of vote

The Company has not introduced any special limitations on the exercise of the right of vote. The Company Articles of Association do not provide for any limitations in that regard.

c) Restrictions on the transfer of securities ownership rights

The transfer of ownership rights with regard to the securities issued by the Company is not restricted. The Company Articles of Association do not provide for any limitations in that regard.

6) Diversity Policy with regard to the managing and supervisory bodies of Grupa Kęty S.A.

Grupa Kęty S.A. (hereinafter referred to as the Company) has not developed or applied any diversity policy with regard to the Company managing and supervisory bodies. The Company has not ensured a balanced proportion of men and women within the Management and Supervisory Boards. The members of the 4-person Management Board and the 6-person Supervisory Board are only men. The Management Board Members were appointed by the Supervisory Board, whereas two Members of the Management Board were appointed at the request of the President. The Supervisory Board Members have been appointed by the General Meeting from among the candidates proposed by the Company shareholders.

To the best knowledge of the Company Management Board, the appointment of the Management and Supervisory Board Members has been based on their subject-matter knowledge, competencies and experience, and has not been discriminating in any manner with regard to gender, type of education or age.

A Diversity Policy is binding at the Company and the Capital Group with regard to all of their employees, which supplements the guidelines provided for in the Code of Ethics, whereas the basic element of the Diversity Policy is to prevent any forms of employees or contractors discrimination because of their sex, age, disability, health, race, nationality, ethnic origin, religion, denomination, atheism, political views, trade union affiliation, psycho-sexual orientation, gender identity, family status, lifestyle, the form, scope and basis of employment or other discriminatory grounds.

7) Internal control and risk management systems in the process of financial statements preparation

The Management Board of Grupa Kęty S.A. is responsible for the development and implementation of appropriate, effective and efficient internal control and risk management systems in relation to the process of preparing financial statements. The Financial Division, supervised by the Member of the Management Board of Grupa Kęty S.A. acting as the Financial Director, is responsible for the preparation of financial statements, interim financial reporting and provision of management information.

The Supervisory Board supervises the operation of the internal control system, evaluating its relevance, effectiveness and efficiency via the Audit Committee and the Internal Audit Department, whose objective is to systematically and orderly review and evaluate the functioning of risk management, internal control and corporate governance processes. The internal audit function has been built on the basis of the International Standards of Internal Audit Professional Practice published by the Institute of Internal Auditors. As at the end of 2019, four people were employed at the Internal Audit Department.

The financial statements are prepared in cooperation with Dekret Centrum Rachunkowe sp. z o.o., a wholly-owned subsidiary of Grupa Kęty S.A. Dekret employs accounting specialists whose knowledge is supported with the required certificates and education as well as adequate experience.

Grupa Kęty S.A. adopted the Accounting Policy conforming to the International Financial Reporting Standards, the chart of accounts and reporting databases, having regard for the format and detailed nature of the financial figures presented in financial statements.

The aim of the internal control system within the process of preparing financial statements is to ensure accurate, complete and correct accounting for all business transactions in a given period. The system is based on the division of duties, the approval of transactions and data on multiple levels, and verification of correctness of the obtained information.

Additionally, in accordance with the binding legal regulations, the Company has its financial statements audited (annual statements) or reviewed (semi-annual statements) by an independent statutory auditor. The statutory auditor is selected by the Supervisory Board from among the established audit firms, based on the Audit Committee recommendations. Within the audit work, the statutory auditor provides an independent assessment of the fairness and correctness of separate and consolidated financial statements and takes into account the efficiency of the internal control and risk management systems.

The process of preparing financial statements comprises control mechanisms of technical nature (numerical and logical control formulas) and substantive nature (the analysis of control reports outcomes). The following risks have been identified in the process of preparing financial statements:

- erroneous input data;
- faulty data presentation;
- application of erroneous estimates;
- missing IT systems integration.

The risks are mitigated by:

- maintenance of a uniform system of data mapping from the source systems to financial statements, which ensures the proper presentation of data;
- periodical reviews conducted by internal specialists, with the main purpose to confront their knowledge with the financial figures and detect any possible improper presentations of data and erroneous input data;
- making estimates based on the best knowledge of the Management Board, including also with the assistance of independent advisers (e.g. licensed actuaries or property appraisers), if needed;
- auditing the annual separate and consolidated financial statements as well as reviewing the semi-annual separate and consolidated financial statements of the Company and the Capital Group by an independent auditor, for the purpose of detecting the possible major irregularities, including omissions in the process of financial reporting;
- use of an integrated in-house IT system (ensuring complete data integration), which is subject to control in accordance with the Company security procedures binding for that system;
- application of uniform principles in the reporting process of the Capital Group companies, and compliance with the uniform chart of accounts binding at the Group.

Observance of the respective laws and regulations (compliance-related tasks)

The organisational structures of Grupa Kęty S.A. enable the coordination of measures aimed at ensuring compliance with the respective laws and regulations, both at the business segments and at the Capital Group level. The structures comprise the selected departments of Grupa Kęty S.A. responsible for separate areas, the corresponding structures at the subsidiaries, the Group procedures system called OrangeBook as well as the defined competencies and responsibilities of each area.

The OrangeBook – being an established system of guidelines – enables the Capital Group companies to take advantage of the common knowledge and apply a proper approach to any matters related to legal requirements and conducting business.