Comments are welcome: please provide comments to cignag@ebrd.com

European Bank
for Reconstruction and Development

Corporate Governance in Transition Economies

Poland Country Report

December 2017

Prepared by:
Gian Piero Cigna
Yaryna Kobel
Alina Sigheartau

Comments are welcome: please provide comments to cignag@ebrd.com

The report is based on information available at the end of April 2015.

If you believe that the information has changed or is incorrect, please contact Gian Piero Cigna at cignag@ebrd.com

* * *

The team is grateful for the assistance provided by all parties involved in this exercise.

In particular, the team would like to acknowledge the precious assistance offered by the law firm Allen & Overy and the auditing firm PwC.

This Report – along with all other country reports prepared within this initiative – is available at: http://www.ebrd.com/what-we-do/sectors/legal-reform/corporate-governance/sector-assessment.html

Foreword

As part of its Legal Transition Programme, the European Bank for Reconstruction and Development ("EBRD") has been assessing the state of legal transition in its countries of operations. These assessments provide an analysis of the progress of reform and identify gaps and future reform needs, as well as strengths and opportunities.

In 2012, the Legal Transition team within the EBRD Office of the General Counsel (LTT) developed with the Assistance of Nestor Advisors a methodology for assessing corporate governance frameworks and the governance practices in the EBRD countries of operations. This assessment was implemented in 2014-2015 (the "Assessment").

The Assessment aims at measuring the state of play (status, gaps between local laws/regulations and international standards, effectiveness of implementation) in the area of corporate governance.

The Assessment is meant to provide for (i) a comparative analysis of both the quality and effectiveness of national corporate governance legislation (including voluntary codes); (ii) a basis to assess key corporate governance practices of companies against the national legislation; (iii) an understanding whether the legal framework is coupled with proper enforcement mechanisms (e.g., sanctions) and/or with authorities able to ensure proper implementation; (iv) a support to highlight which are the major weaknesses that should be tackled by companies and legislators for improving the national corporate governance framework; and (v) a tool which will enable the EBRD to establish "reference points" enabling comparison across countries.

This country report is part of a series of 34 country reports. A general report synthesising all countries will close the Assessment.

Methodology

This Assessment is based on a methodology designed to measure the quality of legislation in relation to best practices requirements and the effectiveness of its implementation as evidenced by companies' disclosure, also taking into consideration the capacity of the institutional framework (e.g., courts, regulators) to sustain quality governance. The analytical grid developed for assessing the governance framework is based on international recognised best-practice benchmarks (e.g., OECD Corporate Governance Principles, Development Financial Institutions, EBRD, IFC and World Bank ROSC governance methodologies). The methodology is applied identically across all the countries reviewed. The process for gathering, analysing and reporting information is applied identically for each of the countries assessed, which allows comparing countries to each other across a long a set of benchmarking points.

For the purpose of the Assessment, the corporate governance framework and the practices were divided in five key areas: (i) Structure and Functioning of the Board; (ii) Transparency and Disclosure of company information; (iii) Internal Control; (iv) Rights of Shareholders; and (v) Stakeholders and Institutions. Each of these key areas is further divided in sections (for instance, the area "Structure and Functioning of the Board" is divided in five sections: Board composition; Gender diversity at the board; Independent directors; Board effectiveness; and Responsibilities of the board). Each section is further divided in subsections (for instance, the section "Independent Directors" is divided in three subsections: "Requirement to have independent directors"; "Definition of Independence"; and "Disclosed practices").

The assessment started by sending a questionnaire to law firms, audit firms, national regulator(s), ten largest (listed) companies, and stock exchange(s) in each country. Questions were different according to the respondents, which were asked to provide information on the legislation and on how they believe the legislation is implemented.

Responses were assigned to the corresponding subsection(s) and validated by the EBRD corporate governance specialists by looking at the applicable framework and at the disclosure offered by the ten largest (listed) companies in each country. In this respect, the working hypothesis was that the ten largest listed companies are those offering the best disclosure in each country. As such, we presumed that when certain practices were not disclosed by them, they were unlikely to be disclosed by smaller or unlisted companies. The ten largest companies were identified according to their market capitalisation. When a country did not have a stock exchange, there were less than ten listed issuers or there were no data on capitalisation of issuers, the ten largest companies were identified according to their revenues and size of the labour force. In case the largest companies were mostly of one sector (e.g., financial institutions), then the sample of ten companies was corrected to reflect other sectors of the economy.

The validation of responses was undertaken by the corporate governance specialists within the Legal Transition Team through desktop research. This research was conducted both on legislation and on the practices disclosed by the largest (listed) companies (e.g., companies' websites, annual reports, stock exchanges database etc.). In addition, the relevant reports by international financial institutions (e.g., IMF, World Bank, IFC, Transparency International, etc.) were analysed and taken into consideration. Answers received by respondents that were not grounded by specific references to legislation or consistent with the disclosed practices were not taken into consideration.

Following the validation process, each subsection was compiled by adding specific references to legislation and practices. Conclusions were then formulated for each subsection, each rated as per their adherence to international governance standards. The score ranges from 1 (very weak) to 5 (strong). The rating for each section was then calculated by averaging the ratings of the subsections.

Because understanding corporate governance requires a "holistic perspective", where each component needs to have a place in the overall picture – pretty much like a puzzle - in case one of the subsection was rated "weak" or "very weak", the resulting average was decreased by 0.2; in case more than one subsection was rated "weak" or "very weak", the resulting average was decreased by 0.5. This is because if just one component is not fitting well with the others, then all others are weakened. Similarly, the overall strength diminishes if there are more weak components.

Conversely, in order for the framework to be strong, all components need to be well fitting with each other. Hence, in case all subsections were scored "moderately strong" or "strong", then the resulting average was increased by 0.5. However, this "positive" adjustment was used with some care as the assessment looked at the top ten largest companies in the country, hence findings tended to be often overly optimistic.

Key areas were then rated according to the same criteria.

The ratings are presented through the colours detailed in the box below and they demonstrate the adequacy or need of reform in respect to each governance area and section.

Rating:

"Strong to very strong" (DARK GREEN) - The corporate governance framework / related practices of companies are fit-for-purpose and consistent with best practice.

"Moderately strong" (LIGHT GREEN) - Most of the corporate governance framework / related practices of companies are fit-for-purpose but further reform is needed on some aspects.

"Fair" (YELLOW) - The corporate governance framework / related practices of companies present some elements of good practice, but there are a few critical issues suggesting that overall the system should be assessed with a view of reform.

"Weak" (ORANGE) - The corporate governance framework / related practices of companies may present few elements of good practice, but overall the system is in need of reform.

"Very weak" (RED) - The corporate governance framework / related practices of companies present significant risks and the system is in need of significant reform.

We believe corporate governance cannot be captured and measured simply by numerical values. Hence, alongside the "quantitative" assessment obtained according to the methodology described above, a "qualitative" assessment was also undertaken, by classifying our findings for each section as "strengths" and "weaknesses". Because understanding corporate governance requires a "holistic perspective", when the "quantitative" assessment was finalised, the assessment team compared it with the "qualitative" assessment, and when any inconsistency (i.e. material weaknesses or strengths) was noticed, the average scores of the sections were adjusted by up to ±0.5.

A preliminary version of the Assessment was made public for consultation. The comments and corrections received during the process were analysed by the corporate governance specialists. When confirmed, the corrections were reflected in the final ratings and in this Assessment.

Overview

Legislative framework

The primary sources of corporate governance legislation in Poland are the Code of Commercial Companies; the Act On Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies; the Act On Trading Financial Instruments; the Accounting Act; the Act on Statutory Auditors; the Banking Act; and the Resolution of Banking Supervisory Commission on systems of internal control.

A Code of Best Practice for WSE Listed Companies was approved by Warsaw Stock Exchange in 2002, reviewed and amended in 2005, 2007 and 2012. A further revision is currently undergoing. Listed companies are required by law and the Listing Rules to report on their compliance with the Code (so-called "*comply or explain*" approach). All ten largest listed companies disclose how they comply with the Code. Nine companies also provide explanations in case of non-compliance. The majority of the explanations are meaningful. There seems to be a tendency that a quality of explanations declines with the size of the company.

Structure and functioning of the board

Joint stock companies are organised under a two-tier system, where the general shareholders meeting (GSM) appoints the supervisory board and the latter appoints the management board. However, the statute can provide otherwise. In banks, this option is not allowed and only the supervisory board has the authority to appoint the management board. We think the latter solution is a better one, as it provides a clear accountability line between the supervisory board and management. Supervisory boards of the ten largest listed companies are generally well-sized, with gender diversity nearing 20% of the board, one of the highest in the EBRD region. Legal entities cannot be supervisory board members. There are limited law requirements concerning the qualification of board members. The Polish Corporate Governance Code recommends boards to have appropriate expertise and it appears that the boards of the ten largest listed companies have a diversified mix of skills. The Code also recommends that at least two members of the supervisory board should be independent: eight among the ten largest listed companies declare to comply with this requirement. Four of these companies state that the majority of their board members are independent. The law does not seem to assign to the supervisory board some of key strategic functions. Board evaluation practices and corporate secretary function do not seem to be well developed. Fiduciary duties, liability of board members and conflicts of interest are regulated by law and elaborated quite extensively in the case law and judicial practice.

Disclosure

Disclosure requirements are detailed in the law and appear to be generally well implemented. Companies are required to publish an annual report, which should include both financial and non-financial information. The Code recommends that the annual report is published on the company's website and all ten largest listed companies comply with this requirement. The law and the Listing Rules require listed companies to report their compliance with the Code of Best Practice. All ten largest listed companies disclose how they comply with the Code. Nine companies also provide explanations in case of non-compliance. In general, disclosure of non-financial information is sound, but some key information (e.g., the activities and meetings of board and committees) is not regularly available. Financial information is in line with IFRS. Disclosure on external audit is comprehensive, however because the provision of non-auditing services by the external auditors is allowed, companies should clearly disclose whether they receive any non-auditing service from their external auditor.

Internal Control

Internal control is regulated only for banks. Banks are also required to establish a compliance function and internal audit. The Code of Best Practice recommends the supervisory board to regularly evaluate the internal control system and present this evaluation to shareholders. Large companies are required to be subject to independent external audit. Companies are required to rotate the audit partner (not the firm) every five years. Provision of non-auditing services by the external auditor is allowed. The external auditor's "*independence test*" is to be performed by the audit committee. Public interest companies are required to create an audit committee, appointed by the supervisory board among its members. The audit committee must include at least one independent member, qualified in accounting and finance. The large majority of the companies in our sample disclose having an audit committee. In five cases, the committee is made by a majority of independent directors. Only a minority of companies disclose the number of audit committee's meetings. Seven companies report the functions of the audit committee but only one disclosed a detailed report on the committees' activities. There is no comprehensive standalone law that protects whistleblowers. Related party transactions and conflict of interest appear to be well regulated and implemented. However, there seem to be no conflict of interest provisions for supervisory board members.

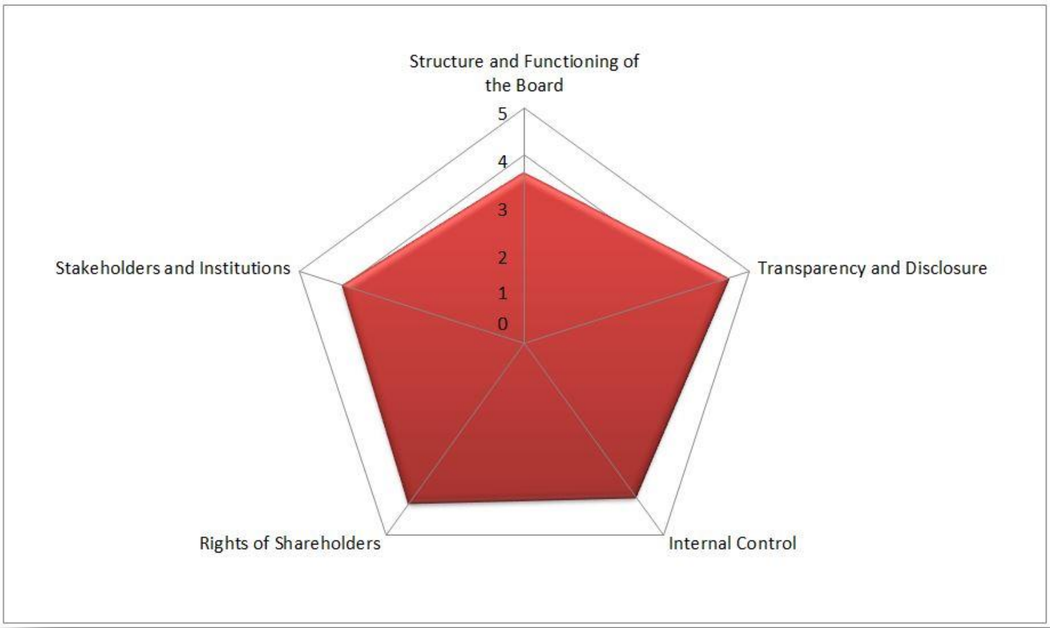
Rights of Shareholders

Basic shareholders rights are granted by law and seem generally well implemented. Minority shareholders can call a general shareholders meeting (GSM), propose new items to the GSM agenda and start a derivative suit. Cumulative voting (so-called "*split vote*") is regulated and available upon request by shareholders representing 25% of the capital. Shareholders enjoy pre-emptive rights in case of capital increase. Pre-emptive rights can only be waived by 4/5 majority vote. The company's statute might grant so-called "*personal rights*" to some shareholders, which might consist in having the right to nominate members of the management board or the supervisory board. In addition, certain shares can have double voting rights. Resolutions concerning major corporate changes require a majority of two-thirds of votes. In this case, the "*one-share-one-vote*" principle applies. The power to increase the capital might be delegated to the management board. Insider trading and self-dealing are regulated and appear to be well implemented. Shareholders of listed companies are only required to inform the company about the shareholder agreement – and not to disclose it - if it is considered confidential information or such information can have impact on the price of shares. Shareholder agreements are considered to be enforceable only between the parties. Share registers of companies are not required to be maintained by the independent registry institution. They are maintained by the management board.

Stakeholders and Institutions

The Warsaw Stock Exchange is a well-functioning exchange, and there seems to be a number of players in the country supporting good corporate governance in the country. The Code of Best Practice for WSE Listed Companies is a comprehensive, regularly updated and well implemented corporate governance code. However, it appears that there are no institutions actively monitoring companies' compliance with the Code. The Code is also not referred to by courts. In general, it appears that the institutional framework supporting good corporate governance is sound. This is also confirmed by international organisations indicators.

Corporate Governance Legislation and Practices in Poland



Source: EBRD, Corporate Governance Assessment 2016

Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in best practices and international standards (e.g., OECD Corporate Governance Principles). The fuller the 'web', the closer the corporate governance legislation and practices of the country approximates best practices.

Key: Very weak: 1 / Weak: 2 / Fair: 3 / Moderately Strong: 4 / Strong to very strong: 5

Comments are welcome: please provide comments to cignag@ebrd.com

Key Areas and Rating	Strengths and Weaknesses
1. Structure and Functioning of the Board *Fair*	*Joint stock companies are organised under a two-tier system, where the general shareholders meeting (GSM) appoints the supervisory board and the latter appoints the management board. However, the statute can provide otherwise. In banks, this option is not allowed and only the supervisory board has the authority to appoint the management board. We think the latter solution is a better one, as it provides a clear accountability line between the board and management.* *Boards of the ten largest listed companies are generally well-sized, with gender diversity nearing 20% of the board, one of the highest in the EBRD region. Legal entities cannot be board members.* *There are limited law requirements concerning the qualification of board members. The Polish Code of Best Practice recommends boards to have appropriate expertise and it appears that the boards of the ten largest listed companies have a diversified mix of skills. The Code also recommends that at least two members of the supervisory board should be independent: eight among the ten largest listed companies declare to comply with this requirement. Four of these companies state that the majority of their board members are independent.* *The law does not seem to assign to the supervisory board some of key strategic functions. Board evaluation practices and corporate secretary function do not seem to be well developed.* *Fiduciary duties, liability of board members and conflicts of interest are regulated by law and elaborated quite extensively in the case law and judicial practice.*
1.1. Board Composition *Moderately Strong*	***Strengths:*** • *Boards are generally well-sized (average 8 members) and evidence has shown that smaller boards tend to perform better, provided that they have the necessary mix of skills and support (e.g., corporate secretary) – as it seems to be the case in Poland.* • *Legal entities cannot serve as board members.* • *By law, there are limited qualification requirements for board members. The Code of Best Practice for WSE Listed Companies (i.e., the Polish Corporate Governance Code) recommends board members to appropriate expertise and appears to be generally well implemented.* • *The law requires public interest entities to set up an audit committee made of at least one independent member with knowledge and experience in the area of finance and accounting. The audit committee is appointed by the supervisory board among its members. The majority of the board of the ten largest listed in the country appear to have at least one member with the required expertise or experience. Nine companies disclosed having an audit committee in place and five of them disclosed that their committee is made of a majority of independent board members.* • *The Code of Best Practice recommends that at least two members of the supervisory board should be independent and eight among the ten largest listed companies declare to comply with this requirement. The other two companies explained the reasons for non-compliance. Four companies state that the majority of their board members are independent.* ***Weaknesses:*** • *In companies, the general shareholders meeting might have the authority – if so provided by the statute – to appoint both the members of the supervisory board and of the management board. In addition, the general shareholders meeting can revoke or suspend members of the supervisory board. This solution raises some doubts as it breaks the accountability line between the supervisory board and the management board.*
1.2. Gender Diversity at the Board (18.6%) *Fair*	• *The Code of Best Practice recommends companies to ensure a balanced proportion of women and men in management and supervisory functions. This seems to be a well-established practice.* • *All ten largest listed companies among the ten largest listed disclosed the composition of the board.* • *It appears that there women on board of eight companies (with an average of 23.3%). In one company women are half of the board.* • *In total considering, the ten largest listed companies there are 16 women among 85 board members with an average of 18.6 %.*
1.3. Independent Directors *Moderately Strong*	***Strengths:*** • *The Code of Best Practice recommends that at least two members of the supervisory board should be independent. Eight among the ten largest listed companies declare to comply with the Code. The other two companies explained the reasons for non-compliance.* • *The Code refers to the independence criteria under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. However, there is little focus on what it is expected in practice from independent directors.* • *The law requires public interest companies to set up an audit committee where at least one member is*

Key Areas and Rating	Strengths and Weaknesses
	independent. ***Weaknesses:*** • *There are two definitions of independence: one in the Code (referring to the board) and one in the law (referring to the audit committee). The two definitions are different. This might raise some confusion.* • *The definition of independence seems to concentrates on negative "non-affiliation" criteria, without spelling out which positive requirements (i.e., objectivity of character and mind) are required from independent directors. It should be pointed out that the concepts of "non-affiliation" and "independence" are different. While non-affiliation can be established by negative criteria, independence necessarily needs objectivity of mind and character, which is a positive characteristic that should be demonstrated, disclosed and explained in practice.*
1.4. Board Effectiveness *Weak*	***Strengths:*** • *In public interest companies, the audit committee is appointed by the supervisory board, among its members. The functions and responsibilities of the audit committee are well detailed in the law.* ***Weaknesses:*** • *By law, the supervisory board in companies has no clear authority by law to approve the company's strategy, risk profile and budget. Further, the authority to appoint the management board can be assigned to the general shareholders'' meeting, which also retain the power to dismiss them. In banks the framework appears better structured.* • *The Code of Best Practices recommends companies' boards to perform regular evaluation of their work and present it at the general shareholders' meeting. Only three companies in our sample disclosed performing regular evaluation. However, according to the information disclosed in their annual reports, it seems that this evaluation is limited to the description of boards' activities, and not an evaluation of board's effectiveness and appropriateness of its mix of skills. No other follow-up documents on board evaluation are disclosed online.* • *There is no requirement or recommendation to have a corporate secretary. In practice, in all ten largest listed companies one of the board members is named "secretary of the board". This solution raises some doubts, as board members should not act corporate secretary. This might also create conflicts of interests. Further, the functions of the corporate secretary are to provide support and advice to the board and not only to draft the minutes.* • *Only four among the ten largest listed companies disclose the board activities and number of meetings and three the audit committee's ones. From the limited information available, it seems that boards and committees are well engaged within the company.*
1.5. Responsibilities of the Board *Fair*	***Strengths:*** • *Fiduciary duties, liability of board members and conflicts of interest are regulated by law, and elaborated quite extensively in the case law and judicial practice. For a detailed analysis see: http://ec.europa.eu/internal_market/company/docs/board/2013-study-reports_en.pdf* ***Weaknesses:*** • *As mentioned above, the law does not clearly confer to the board some of its key functions.*

Key Areas and Rating	**Strengths and Weaknesses**
2. Transparency and Disclosure *Moderately Strong/Strong*	*Disclosure requirements are detailed in the law and appear to be generally well implemented. Companies are required to publish an annual report, which should include both financial and non-financial information. The Code recommends that the annual report is published on the company's website and all ten largest listed companies comply with this requirement. The law and the Listing Rules require listed companies to report their compliance with the Code of Best Practice. All ten largest listed companies disclose how they comply with the Code. Nine companies also provide explanations in case of non-compliance. In general, disclosure of non-financial information is sound, but some key information (e.g., the activities and meetings of board and committees) are not regularly available. Financial information is in line with IFRS.* *Disclosure on external audit is comprehensive, however because the provision of non-auditing services by the external auditors is allowed, companies should clearly disclose whether they receive any non-auditing service from their external auditor.*
2.1. Non-Financial Information Disclosure *Moderately Strong*	***Strengths:*** • *Companies and banks are required by law to prepare and publish an annual report, including detailed non-financial information. The Code recommends that the annual report is published on the company's website. All ten largest listed companies appear to comply.* • *The majority of the ten largest listed companies provide some information about their strategy in their annual reports or websites.* • *Listed companies should adopt a model website and organise their own website according to this standard - http://naszmodel.gpw.pl/podstrona_05_01_en.html) .On average, the websites of the ten largest listed companies are informative, well updated and relatively easy to find. Sometimes the information is incomplete.* • *The law and the Listing Rules require listed companies to report their compliance with the Code of Best Practice. All ten largest listed companies disclose how they comply with the Code. Nine companies also provide explanations in case of non-compliance. Explanations are generally meaningful.* • *Listed companies are required to post their articles on the website and all ten largest listed companies comply with this recommendation.* • *Listed companies are required to disclose information on board composition and qualification of members. All ten largest listed companies disclose the names of their directors and their qualifications.* • *All ten largest listed companies provide up to date information on their shares and capital on their own websites.* • *All ten largest listed companies disclose the minutes of their general shareholders'' meeting on their own websites.* ***Weaknesses:*** • *Only four among the ten largest listed companies disclose the number of supervisory board meetings and its activities and only three disclosed online the number of audit committee meetings. Seven companies report the functions of the audit committee but this is mostly a "copy and paste" exercise from the company's articles. Only one company disclosed a detailed report on the committees' activities.* • *All companies disclosed information on their shareholders. However, only two of those companies seem to disclose information on their main beneficial owners as well.* • *Only one company disclosed having a code of ethics.* • *Disclosure on transactions in company's shares of supervisory and management board members is limited.*
2.2. Financial Information Disclosure *Strong*	***Strengths:*** • *Since 2005, listed companies and banks are required to prepare and disclose their financial statements in line with IFRS and all ten largest listed companies appear to comply with this requirement. According to a recent World Bank ROSC "The review of the financial statements indicates that companies implemented IFRS to a high quality standard. The team noted that a substantive effort was made by most of the companies to avoid boiler-plate language and to link disclosures to their transactions. The role of audit committees within listed companies needs to be reinforced to ensure timely and reliable financial reporting for investors and ensure the integrity of Poland's capital market"*
2.3. Reporting to the Market and to Shareholders *Strong*	***Strengths:*** • *All ten largest listed companies post their annual reports on their websites.* • *Breach of disclosure obligation is subject to sanction. Disclosure obligations appear to be monitored.* • *All ten largest listed companies disclose the minutes of their general shareholders' meeting on their own websites.* • *The law requires companies to disclose price sensitive information.*

Key Areas and Rating	***Strengths and Weaknesses***
2.4. Disclosure on the External Audit *Moderately Strong*	***Strengths:*** • *Companies are required to disclose detailed information on the external auditor, and auditors are required to make a yearly declaration of independence to the audit committee. All ten largest listed companies disclose the name of their external auditor. All are international audit firms.* • *The law requires the external auditor to be independent and provides a definition of independence. The audit committee is in charge of monitoring its independence. Nine out of the ten largest listed companies disclosed having established an audit committee.* • *Provision of non-audited services by the external auditor is allowed but restricted under the scrutiny of the audit committee. Four companies among the ten largest listed declared receiving other non-audit (and tax) services from their external auditor.* ***Weaknesses:*** • *The authority to appoint the audit is assigned to the general shareholders' meeting, however this authority might be delegated by the articles to the supervisory board. As the external auditor is accountable to shareholders, we think that the authority to appoint it should stay with shareholders.*

Key Areas and Rating	***Strengths and Weaknesses***
3. Internal Control *Moderately strong*	*Internal control is regulated only for banks. Banks are also required to establish a compliance function and internal audit.* *The Code of Best Practice recommends the supervisory board to regularly evaluate the internal control system and present this evaluation to shareholders.* *Large companies are required to be subject to independent external audit. Companies are required to rotate the audit partner (not the firm) every five years. Provision of non-auditing services by the external auditor is allowed. The external auditor's "independence test" is to be performed by the audit committee.* *Public interest companies are required to create an audit committee, appointed by the supervisory board among its members. The audit committee must include at least one independent member, qualified in accounting and finance. The large majority of the companies in our sample disclose having an audit committee. In five cases, the committee is made by a majority of independent directors.* *Only a minority of companies disclose the number of audit committee's meetings. Seven companies report the functions of the audit committee but only one disclosed a detailed report on the committees' activities.* *There is no comprehensive standalone law that protects whistleblowers.* *Related party transactions and conflict of interest appear to be well regulated and implemented. However, there seem to be no conflict of interest provisions for supervisory board members.*
3.1. Quality of the Internal Control Framework *Moderately strong*	***Strengths:*** • *All ten largest listed companies disclosed having appointed an external auditor (all are international audit firms) and nine established an audit committee. Six have an internal audit function in place.* • *Banks are required to establish an internal audit function and a standalone compliance function.* • *The audit committee is appointed by the supervisory board and made only of supervisory board members.* • *The internal audit reports to the audit committee.* ***Weaknesses:*** • *Only one of the ten largest listed companies disclose having a code of ethics in place* • *There is no comprehensive whistleblowing legislation.*
3.2. Quality of Internal and External Audit *Moderately strong*	***Strengths:*** • *All companies must be subject to an external independent audit. The law details the requirement for independence of the external auditors.* • *The audit committee is in charge of monitoring the independence of the external auditor.* • *Provision of non-audited services by the external auditor is allowed but restricted under the scrutiny of the audit committee. Four companies among the ten largest listed declared receiving other non-audit (and tax) services from their external auditor.* • *Companies are required to rotate the audit partner (not the firm) every 5 years.* ***Weaknesses:*** • *Internal audit is required only for banks.*
3.3. Functioning and Independence of the Audit Committee *Moderately strong*	***Strengths:*** • *Public interest entities are required to establish audit committees and nine among the ten largest listed companies disclose having established one.* • *The audit committee must be made of board members.* • *At least one member of the audit committee should be independent and have experience in accounting and finance.* ***Weaknesses:*** • *The Code of Best Practice does not require that – at least – the majority of the audit committee should be independent. It limits to recommend that the choirman should be independent. It appears that only in two out of the ten largest listed companies, the audit committee is made entirely of independent director (in other three, the majority of the audit committee is independent).* • *Only three among the ten largest listed companies disclose the number of audit committee meetings. Seven companies report the functions of the audit committee but, this is mostly a "copy and paste" exercise from the company's articles. Only one company disclosed a detailed report on the committee's activities.*

Key Areas and Rating	Strengths and Weaknesses
3.4. Control over Related Party Transactions and Conflict of Interest *Moderately strong*	***Strengths*** • *The law defines related party transactions and the procedure for their approval.* • *The competence to approve related party transactions is assigned to the board and in some cases to the general shareholders' meeting.* • *All ten largest listed companies appear to disclose information on related party transactions within the notes to the financial statements.* • *It seems that the regulation on related party transactions and conflict of interest is well enforced. Case law exists on the matter.* ***Weaknesses*** • *There is no requirement for the (independent) audit committee to review related party transactions.* • *It appears that there are no conflict of interest provisions for supervisory board members. Only the Code of Best Practice provides some recommendations in this respect. For further information on this issue, see: http://ec.europa.eu/internal_market/company/docs/board/2013-study-reports_en.pdf*

Key Areas and Rating	Strengths and Weaknesses
4. Rights of Shareholders *Fair/Moderately strong*	*Basic shareholders rights are granted by law and seem generally well implemented. Minority shareholders can call a general shareholders meeting (GSM), propose new items to the GSM agenda and start a derivative suit. Cumulative voting (so-called "split vote") is regulated and available upon request by shareholders representing 25% of the capital. Shareholders enjoy pre-emptive rights in case of capital increase. Pre-emptive rights can only be waived by 4/5 majority vote.* *The company's statute might grant so-called "personal rights" to some shareholders, which might consist in having the right to nominate members of the management board or the supervisory board. In addition, certain shares can have double voting rights. Resolutions concerning major corporate changes require a majority of two-thirds of votes. In this case, the "one-share-one-vote" principle applies.* *The power to increase the capital might be delegated to the management board.* *Insider trading and self-dealing are regulated and appear to be well implemented.* *Shareholders of listed companies are only required to inform the company about the shareholder agreement – and not to disclose it - if it is considered confidential information or such information can have impact on the price of shares. Shareholder agreements are considered to be enforceable only between the parties.* *Share registers of companies are not required to be maintained by the independent registry institution. They are maintained by the management board.*
4.1. General Shareholders' Meeting (GSM) *Fair*	***Strengths:*** • *Shareholders representing 5% of the shares can call a GSM and can propose new items to the GSM agenda.* • *By law, notification with the agenda of the GSM needs to be sent to the shareholders at least 26 calendar days before the meeting. All ten largest listed companies published notifications and documentations related to the GSM on their websites.* • *Shareholders can ask questions at the GSM.* • *Shareholders representing at least 25 % of share capital may request that the board election is done by a variation of cumulative vote: the so-called "split vote".* • *Major corporate changes require 2/3 majority at the GSM (the blocking minority is 33%+1).* • *All largest listed companies provide information about voting rights and their exercise by shareholders on their websites.* ***Weaknesses:*** • *The company's statute might grant so-called "personal rights" to some shareholders, which might consist in having the right to nominate members of the management board or the supervisory board.* • *The power to increase the capital might be delegated to the management board. Even if this authority needs to be exercised in line with the GSM mandate, it might raise issues.* • *Certain shares can have double voting rights and "personal rights" to certain shareholders can be granted. Voting caps are allowed.* • *The GSM can suspend or recall members of the supervisory board. We are not sure about the appropriateness of this provision as it seems to break the accountability line between the supervisory board and the management board.*
4.2. Protection against Insider Trading and Self-dealing *Moderately strong*	***Strengths:*** • *Insider trading is regulated and prohibited by law and appear to be well enforced in practice.* • *Related party transactions are regulated by law.* • *All ten largest listed companies disclose related party transactions within the notes to the financial statements.* ***Weaknesses:*** • *The regulation on self-dealing does not provide for an appraisal by an independent evaluator to establish if the price paid is fair or equal to market value. The audit committee is not required by law to be involved in the analysis and approval of related party transactions.*
4.3. Minority Shareholders Protection and Shareholders' Access to Information *Moderately Strong*	***Strengths:*** • *All ten largest listed companies publish their annual reports on their websites. Corporate governance reports can form a part of the annual report or be posted to company's website as a separate document.* • *Existing shareholders have pre-emptive rights in all cases of capital increase and can only be waived by 4/5 majority vote at the GSM.* • *Shareholders representing at least 25 % of share capital may request that the board election is done by a variation of cumulative vote: the so-called "split vote".* • *Any shareholder can start a derivative suit on behalf of the company.*

Key Areas and Rating	Strengths and Weaknesses
	Weaknesses: • *As mentioned above, certain shares can have double voting rights and "personal rights" to certain shareholders can be granted. Voting caps are allowed.* • *In practice, it seems that cumulative voting is not commonly used. Further, we think that the 25% threshold is too high.*
4.4. Registration of Shareholdings *Fair*	***Strengths:*** • *Shareholders of listed companies must inform the company of any shareholder agreement in existence. However, they do not need to be disclosed.* • *Shareholders agreements are enforceable among the parties, but they cannot regulate actions by directors.* • *Significant shareholding variations must be disclosed.* ***Weaknesses:*** • *Share registers of companies are not required to be maintained by the independent registry institution. They are maintained by the management board.*

Key Areas and Rating	Strengths and Weaknesses
5. Stakeholders and Institutions *Moderately strong*	*The Warsaw Stock Exchange is a well-functioning exchange, and there seems to be a number of players supporting good corporate governance in the country.* *The Code of Best Practice for WSE Listed Companies is a comprehensive, regularly updated and well implemented corporate governance code. However, it appears that there is no institution actively monitoring companies' compliance with the Code. The Code is also not referred to by courts.* *In general, it appears that the institutional framework supporting good corporate governance is sound. This is also confirmed by international organisations indicators.*
5.1. Corporate Governance Structure and Institutions *Moderately strong*	***Strengths:*** • *The Warsaw Stock Exchange (WSE) is the dominant exchange in Central and Eastern Europe, and ranks second only to the London Stock Exchange in the number and value of initial public offerings in Europe.* • *International audit and law firms have a material presence in the country.* • *The WSE provides for an informative website page (http://www.gpw.pl/root_en) with all regulatory submissions by listed companies.* • *International audit and law firms have material presence in the country.* • *International rating agencies are active in Poland. We found ratings of six companies among the ten largest listed companies.* • *It appears that there are a number of corporate governance training providers for directors.* • *It appears that there are a number of institutions and NGOs in Poland active in the promotion of good corporate governance.* ***Weaknesses:*** • *There are no listing segments requiring listed companies to have significantly higher corporate governance standards than those required for other listed companies.*
5.2. Corporate Governance Code *Moderately Strong*	***Strengths:*** • *The Code of Best Practice for WSE Listed Companies was firstly adopted in 2002, reviewed and amended in 2005, 2007 and 2012. A further revision is currently undergoing.* • *Listed companies are required by law and the Listing Rules to report on their compliance with the Code (so-called "comply or explain").* • *All ten largest listed companies disclose how they comply with the Code. Nine companies also provide explanations in case of non-compliance. On average, companies do not comply with 1-3 recommendations. The majority of the explanations are meaningful. There seems to be a tendency that a quality of explanations declines with the size of the company.* ***Weaknesses:*** • *The Warsaw Stock Exchange is believed to be the body in charge of monitoring companies' compliance with the Code. However, we could not locate any monitoring report on the companies' compliance with the Code.* • *We have no evidence of courts referring to the Code as a source of rights or obligations.*
5.3. Institutional Environment *Strong*	***Strengths:*** • *No major inconsistencies between laws and regulations in matters regarding corporate governance have been reported.* • *Case law collections appear easily accessible by lawyers in the country.* • *A good number of listed companies actively provided information about their corporate governance practices, highlighting the attention by companies on queries posed by stakeholders.* • *Indicators by international organisations show a sound framework, among the best in the EBRD region.*