



# **CI GAMES S.A.**

DECLARATION ON APPLICATION OF  
CORPORATE GOVERNANCE PRINCIPLES  
IN 2014



WARSAW, MARCH 23, 2015

**DECLARATION ON APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES  
BY CI GAMES S.A. IN 2014**

This declaration on the application of corporate governance principles by CI Games S.A. (the "**Issuer**", "**Company**") in 2014 was prepared in accordance with art. 91 sec. 5 point 4 of the Ordinance of the Minister of Finance of February 19, 2009 concerning current and periodical information disclosed by issuers of securities and on the terms for recognizing information required by the provisions of law of a non-member state as equivalent (Polish Journal of Laws of 2014 no. 133), resolution no. 647/2011 of the Management Board of the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A. – WSE*), dated May 20, 2011, and Commission Recommendation of April 9, 2014 on the quality of corporate governance reporting ('comply or explain') (2014/208/EU).

**I. Indication of the corporate governance principles to which CI Games S.A. is subject, together with the location where the text concerning such principles is publicly available**

During 2014, CI Games S.A. applied the corporate governance principles published in the document "**Best Practices of WSE Listed Companies**" in the wording constituting an appendix to Resolution no. 19/1307/2012 of the **WSE** Council dated November 21, 2012. The principles are publicly available on the website of the **WSE** at <http://www.corp-gov.gpw.pl>.

In 2014, the Issuer's Management Board took steps necessary to ensure observance of Best Practices of WSE Listed Companies to the fullest extent possible.

**II. Indication of the extent to which the Company has departed from the principles referred to above; indication of the specific principles concerned and explanation of the reasons for withdrawal**

In 2014, the Issuer applied the majority of corporate governance principles referred to above with the exception of the principles and recommendations described below, which were not applied or were applied with limitations:

- a) Recommendation 5, presented in part I of "Best practices for WSE-listed companies" concerning remuneration policies and the methodology for determining thereof, in particular specifying the form, structure and level of remuneration of management and supervisory bodies

**Justification:**

This recommendation is not being applied by the Issuer. Setting and approving remuneration for members of the Issuer's Supervisory Board is the exclusive competence of the Company's General Meeting (the "**General Meeting**"). The Issuer's Supervisory Board is a body that determines and approves remuneration for members of the Company's Management Board. Still, both the Management Board and Supervisory Board continuously monitor the level of remuneration of supervisory and management personnel so as to ensure the Company's long-term stability and in order to link it to the Company's current financial situation.

- b) Recommendation 9, contained in Part I of "Best Practices of WSE Listed Companies" concerning equal participation of women and men fulfilling corporate management and supervision roles

**Justification:**

This recommendation is not being applied by the Issuer. Composition of the Company's Supervisory Board is determined by shareholders (through a General Meeting resolution), over which the Issuer has no influence, whereas composition of the Issuer's Management Board is determined by the Company's Supervisory Board. There are currently no women among the two members of the Company's Management Board or the five members of the Supervisory Board. This is because the principal criteria for selecting management personnel within the Company are their competences, skills and professional experience – a candidate's gender is not an applicable determinant.

- c) Recommendation 12, contained in part I of "Best Practices of WSE Listed Companies" concerning the possibility for shareholders to take part in the general meeting, either in person or through an attorney, without being at the meeting's location, using electronic means of communication

**Justification:**

This recommendation is not being applied by the Issuer. The Company allows its shareholders to exercise voting rights in a general meeting, either in person or through an attorney, only at the location of the general meeting.

This results from the fact that the Company did not anticipate participation in general meetings using electronic communications, making verbal statements in the course of the general meeting using electronic communications or exercising voting rights using electronic communications or by mail. This was a consequence of having considered that, due to the potential risk of a legal and organizational and technical nature, which could disrupt general meetings due to having to enable all shareholders to be able to communicate and vote, the Company should stay with more traditional methods enabling the exercise of voting rights in person or through an attorney at the general meeting. According to the Company's Management Board, the Issuer's existing procedures for voting at the general meeting, either in person or through an attorney, make it possible for the Company's shareholders to effectively exercise voting rights, whilst sufficiently protecting the interests of all shareholders.

The Company's Management Board does not rule out the application of this rule in the future, particularly if it decides that this will allow the Company's shareholders to more effectively exercise voting rights.

- d) Principle 1 point 2a specified in part II of "Best Practices Applied by WSE Listed Company Management Boards", pursuant to which the Company should publish on its website annual information, in the fourth quarter, regarding participation by women and men in the Company's Management Board and Supervisory Board over the two preceding years

**Justification:**

This recommendation is not being applied by the Issuer. All of the Company's annual reports since its IPO on the Warsaw Stock Exchange in 2007 are available in the Investor Relations section of the Company's website: [www.cigames.com](http://www.cigames.com). This includes information concerning the composition of and potential changes in the personnel participating in the Company's management and supervisory bodies and covers each financial year respectively. Furthermore, all changes in the composition of the Company's supervisory and management bodies are immediately published under observance of the Company's disclosure requirements. In connection with the above, the Company does not publish any further such information separately on its website. See comment in point II letter b) above.

- e) Principle 1 point 9a specified in part II of "Best Practices Applied by WSE Listed Company Management Boards", pursuant to which the Issuer's website should contain recordings from general meetings in audio or video format

**Justification:**

This recommendation is not being applied by the Issuer. The Company has not made recordings of its general meetings in audio or video format so far, believing that the Issuer's existing information policy and formula for conducting general meetings is sufficient and satisfactory for all of the Company's shareholders. The Company's shareholders have not made any comments regarding the formula of the Issuer's general meetings. Irrespective of the above, the Company's Management Board makes every effort to ensure that the formula of the Company's general meeting meets the expectations of shareholders and investors, and will take into consideration any requests regarding audio or video recordings of general meetings in the future. Only once such formula is adopted by the Company, will it be possible and justified to publish recordings on the Issuer's corporate website.

- f) Principle 1 point 14 specified in part II of "Best Practices Applied by WSE Listed Company Management Boards", pursuant to which information regarding the Company's existing procedure for replacing the entity authorized to audit financial statements or information regarding the lack of such procedure should be placed on the Company's website

**Justification:**

This recommendation is not being applied by the Issuer. In compliance with the Company's Articles of Association and the provisions of the Polish Commercial Companies Code, the Company's

Supervisory Board selects an auditor on an annual basis to review the interim financial statements and audit the Company's and Group's annual financial statements. There is no rule in force at the Company concerning change of the entity authorized to audit the financial statements, a fact the Company did not disclose on its website. The Company, as a public interest entity in the meaning of the Act of May 7 2009 on Statutory Auditors and their Self-Government as well as on Entities Authorized to Audit Financial Statements and on Public Oversight (Polish Journal of Laws of 2009 no. 77 item 649, as amended), observes the requirement resulting from art. 89 of said act, pursuant to which the lead statutory auditor cannot perform financial revision functions at the same public interest entity for more than five years.

- g) Principle 8 specified in part III of "Best Practices Applied by Supervisory Board Members", stating that for the tasks and operations of committees functioning within the Supervisory Board, Annex I to the European Commission Recommendation of February 15, 2005 on the role of non-executive or supervisory directors (...) should be applied

**Justification:**

The principle is being partially applied by the Issuer. In 2011 an Audit Committee was organized within the Supervisory Board. The Committee continues to operate.

The Audit Committee's tasks include in particular:

- a) monitoring the financial reporting process,
- b) monitoring the effectiveness of internal control, internal audit and risk management systems,
- c) monitoring financial audit,
- d) monitoring the independence of the statutory auditor and entity authorized to audit financial statements,

Because of the scope of its tasks and competences, the Audit Committee appears to be the most important Supervisory Board committee, as referred to in Commission Recommendation 2005/162. This justifies its being a separate unit within the Issuer's structure. No other committees were organized within the Supervisory Board since remaining tasks are undertaken by the Supervisory Board as a whole, operating in its five-person composition. In light of the Issuer's existing structure, its size and division of competences and duties among the Issuer's bodies, having standalone committees for nominations and remuneration does not appear to be justified.

- h) Principle 10 specified in part IV of Best Practices - "Best Practices for Shareholders", pursuant to which the Company should enable shareholders to participate in general meetings using electronic means of communication, i.e.:
- 1) real-time broadcast of general meetings.
  - 2) two-way communication in real time, by way of which shareholders can make verbal statements during general meetings without being physically present at the meeting location

**Justification:**

The principle is not being applied by the Issuer. Following an analysis of all technical, organizational, financial and legal aspects, in 2014 the Management Board decided against broadcasting general meetings in real time and providing two-way communications in real time. However, the Company's Management Board declares that it will update the above analysis for future general meetings and will rationally consider allowing the use of electronic communications during meetings.

**III. Description of the principal features of internal control and risk management systems applied at the Company with regard to the process of drawing up financial statements**

The Company has a system of internal control relating to accounting and the preparation of financial statements which ensures reliable and clear presentation of the Issuer's financial situation. The Company's Management Board oversees the system of control. Where applicable to the financial statements, the system of internal control covers in particular control of purchase and sales processes and turnover in cash and cash equivalents. The Company has implemented and applies appropriate methods for securing access to data and the computer systems used for data processing, including the storage and protection of accounting documentation and account books. The Company's annual financial statements are subject to audit, while interim reporting is subjected to review by an entity holding the appropriate authorizations, which is selected in each instance by the Supervisory Board.

The Company's financial statements are published in accordance with the applicable legal regulations. Risk management is conducted on the basis of an effective system of internal control in financial reporting, the objective of which it to ensure the adequacy and correctness of the financial information contained in the financial statements and periodic reports.

During the process of drawing up the Company's financial statements, one of the principal elements of control is verification of the financial statements by an independent auditor whose tasks include in particular: review of the interim and audit of the annual financial statements – both separate and consolidated. Selection of an independent statutory auditor is made by the Supervisory Board through adoption of an appropriate Resolution. Once per year the Board assesses the Company's previously audited financial statements with regard to their compliance with the accounts, documents and the actual state of affairs. The Supervisory Board informs shareholders of the results of its assessment in its annual report.

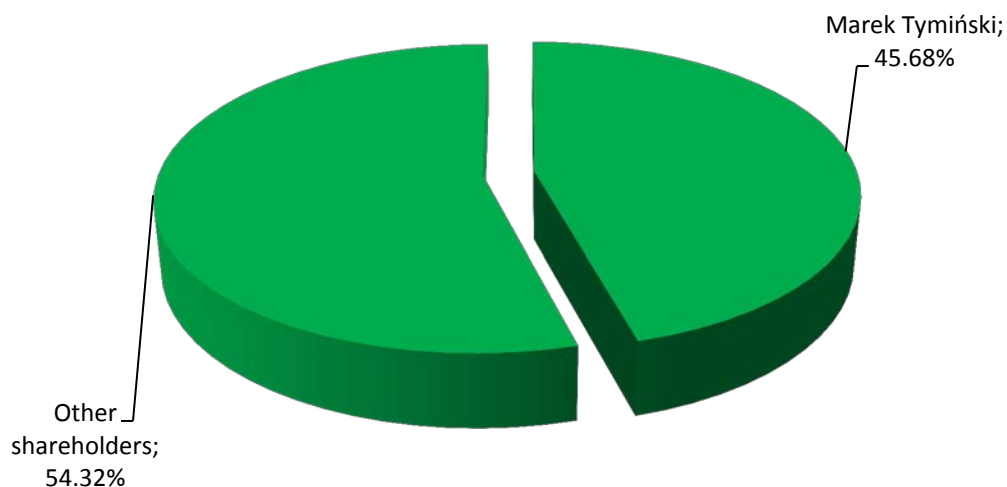
#### **IV. Indication of shareholders directly or indirectly holding significant stakes together with indication of the number of shares held by such entities, their share in capital, the number of votes carried by such shares and their share in the total number of votes at the general meeting**

The total number of votes at the general meeting of the parent, CI Games S.A., is 13 914 999.

#### **CI Games S.A. (parent to CI Games Group) shareholding structure as at the publication date of this report/declaration on application of corporate governance standards in 2014**

Shareholder	Number of shares	% in share capital	Number of votes at GM	% of votes at GM
Marek Tymiński	6 356 357	45.68%	6 356 357	45.68%
Other shareholders	7 558 642	54.32%	7 558 642	54.32%

### CI Games S.A. shareholders



#### V. Indication of the holders of any securities that carry special control entitlements

The Company does not have any securities which carry special entitlements for their holders. All of the Company's shares are ordinary shares, without personal entitlements or preferences. This share structure does not give any special control entitlements. The only determinant in exercising of control over the Company (at the general meeting) by shareholders is the number of shares (% share of the Company's share capital, translating to each shareholder's share of the Company's total voting rights), which is in line with general regulations under the Polish Commercial Companies Code and corresponds to the two key principles for a listed company: the 'one share - one vote' rule and the proportionality rule for shareholder entitlements in relation to the shares that they hold.

#### VI. Indication of all limitations relating to exercise of the right to vote, such as a limitation concerning exercise of voting rights by holders of a specified share or number of votes, time limitations concerning exercise of the right to vote - pursuant to which and with the Company's support the entitlements attached to securities are separated from ownership of such securities

There are no limitations relating to exercise of the right to vote in the scope indicated above.

#### VII. Indication of all limitations concerning transfer of ownership to securities

All shareholders whose stake in the Issuer's share capital as at the date of approving the prospectus exceeded 2% undertook towards the Parent that during the twelve-month period from the date of the first listing of rights to the Issuer's shares on the Warsaw Stock Exchange they would not encumber or pledge – with the exception of the possibility to establish a pledge for a bank in order to provide collateral for loans, nor dispose nor in any other manner transfer ownership, nor undertake to perform such action in relation to the entirety or part of shares, in any manner for the benefit of any person or entity unless consent for such action is expressed by the Parent's Supervisory Board. The obligation was intended to cease being binding in the event that City Interactive S.A.'s share price (closing rate on the WSE) exceeded the issue price by at least 20%.

The above obligation concerned a total of 8 987 265 series A shares held by the above-mentioned shareholders, which constituted 90% of shares held by them as at the date on which the prospectus was approved.

All shares which were subject to agreements on limitation of their assignability were deposited in brokerage accounts held by DM IDMSA.

In July 2007, the Company issued 40 000 series B shares at an issue price of PLN 1 under a motivational program for its employees and significant associates. Persons subscribing for series B

shares entered into a lock-up agreement with the Parent, limiting the assignability of shares for a period of either two or three years. In this manner the Issuer's employees and associates holding a total of 40 000 series B shares in City Interactive S.A., constituting in total 100% of series B shares in the Issuer, entered into an agreement with the Parent pursuant to which they undertook not to dispose of any of series B shares held for a period of one year and:

- 70% of series B shares held for a period of one subsequent year for a total of 20 150 shares,

- 90% of series B shares held for a period of one subsequent year for a total of 19 850 shares,

Furthermore some persons under the aforementioned motivational program also became the holders of series A shares at a price of PLN 1. Employees and associates holding a total of 35 650 series A shares in City Interactive S.A. submitted an official obligation not to dispose of any of the shares held for a period of 1 year and 90% of shares held for a period of two subsequent years.

All shares which were subject to agreements on limitation of their assignability were deposited in brokerage accounts held by DM IDMSA.

In the event of employment or cooperation being terminated with a shareholder holding shares covered by the motivational program, his/her shares were or are transferred to another person designated by the Company's Management Board.

110 000 ordinary series D shares in the Parent were issued on 30 June 2009. These shares were subscribed for by the Parent's employees at the issue price – PLN 1 per share. There are no limitations on exercising voting rights carried by shares in the Issuer under the employee scheme.

In December 2013, 1 264 999 ordinary shares series E were issued under a private subscription. The shares were acquired at the issue price of PLN 9 per share. There are no limitations on exercising voting rights carried by series E shares in the Issuer under the employee scheme.

#### **VIII. Description of principles concerning the appointment and dismissal of management personnel and their entitlements, in particular the right to take decisions on the issue or buy-back of shares**

The principles concerning the appointment and dismissal of management personnel within the Company are specified in the provisions of the Polish Commercial Companies Code and the Articles of Association of CI Games S.A.

The most significant principles in force in this area are as follows:

- the number of Management Board members is established by the Company's Supervisory Board – between 1 and 5 members;
- members of the Management Board are appointed and dismissed by the Supervisory Board; a 5-year joint term of office is in force;
- the Management Board represents the Company externally and manages the Company's business, with the exception of issues reserved for the general meeting or Supervisory Board.

Resolutions concerning the issue or buyback of shares are adopted by the general meeting. Resolutions of the general meeting concerning the issue of convertible bonds and bonds with a priority right concerning subscription for shares, amendment to the Articles of Association, redemption of shares and increase or decrease of share capital are passed with a 3/4 majority of votes, as per the Polish Code of Commercial Companies.

#### **IX. Description of the principles for amending the Company's articles of association**

The principles concerning amendment to the Company's Articles of Association are specified in the Polish Commercial Companies Code and the Articles of Association of the Company. The Articles of Association are available on the Company's website: [www.cigames.com](http://www.cigames.com) in the Investor Relations section. Pursuant to the Company's Articles of Association, any amendment requires a resolution to be adopted by a 3/4 majority of votes at the general meeting.

#### **X. Description of the means by which the general meeting operates and its principal entitlements together with shareholder rights and the means by which these are exercised**

The Company's general meeting takes place in accordance with the principles specified in the Polish Commercial Companies Code, the Company's Articles of Association and the Bylaws of the general meeting.

The Articles of Association and Bylaws of the general meeting are available on the Company's website: [www.cigames.com](http://www.cigames.com) in the Investor Relations section.

The rights and obligations of Company shareholders concerning participation in general meetings and exercise of the right to vote are specified in the Polish Commercial Companies Code, the Company's Articles of Association and other legal regulations concerning the operation of the capital market.

## **XI. Composition and means of operation for management and supervisory authorities at the Company and their committees**

### **Management Board of CI Games S.A.**

<b>Marek Tymiński</b>	President of the Company's Management Board throughout 2014
<b>Adam Pieniacki</b>	Member from June 16, 2014

### **Supervisory Board of CI Games S.A.**

<b>Krzysztof Sroczyński</b>	Chairperson of the Supervisory Board throughout 2014
<b>Marek Dworak</b>	Member throughout 2014
<b>Lech Tymiński</b>	Member throughout 2014
<b>Grzegorz Leszczyński</b>	Member throughout 2014
<b>Tomasz Litwiniuk</b>	Member throughout 2014

The principles for the operation of the Company's management and supervisory authorities are specified in the Polish Commercial Companies Code, the Company's Articles of Association, the Bylaws of the Management Board and the Bylaws of the Supervisory Board. The Articles of Association, Bylaws of the Management Board and Bylaws of the Supervisory Board are available in the IR section of the Company's website: [www.cigames.com](http://www.cigames.com).

An Audit Committee operated within the Supervisory Board in 2014.

#### **The Audit Committee comprised:**

<b>Marek Dworak</b>	Chairperson of the Audit Committee;
<b>Tomasz Litwiniuk</b>	Deputy Chairperson of the Audit Committee;
<b>Krzysztof Sroczyński</b>	Member of the Audit Committee.

Marek Dworak and Tomasz Litwiniuk are members of the Audit Committee meeting the independence criteria and having the qualifications in accounting and financial audit referred to in the Act on May 7, 2009 on Statutory Auditors and their Self-Government as well as on Entities Authorized to Audit Financial Statements and on Public Oversight (Polish Journal of Laws of 2009 no. 77 item 649, as amended).

**Marek Tymiński**

President of the Management Board

**Adam Pieniacki**

Member of the Management Board

Warsaw, March 23, 2015