

LSE – Current report (25/2009)
Telekomunikacja Polska S.A
26 February 2009

Management Board of Telekomunikacja Polska S.A., Warsaw (hereinafter referred to as “the Company” or “TP” or “TP S.A.”), in accordance with art. 29, clause 5 of the Warsaw Stock Exchange by-laws, hereby encloses a report on compliance with corporate governance best practices in TP S.A.

I. TP S.A. Management Board hereby declares that in 2008 the Company complied with corporate governance best practices, referred to in art. 29, clause 1 of the Warsaw Stock Exchange by-laws.

II. Operations and main powers of the General Meeting, and rights of the shareholders together with the way of their execution

II.1. Operations of the General Meeting of TP S.A.

The General Meeting operates pursuant to the Regulations of the General Meeting of Telekomunikacja Polska S.A., adopted by means of the resolution no 38 of the Annual General Meeting of TP S.A. of April 23, 2003 (with later amendments by the resolution no 37 of the Annual General Meeting of TP S.A. dated April 24, 2008) .

Shareholders who have submitted to the Company inscribed deposit certificates at least one week before the date of the General Meeting and will not collect such certificates before the end of the Meeting, and members of the Management Board and of the Supervisory Board may take part in the General Meeting. Moreover, the Management Board may invite guests and experts to take part in the General Meeting as observers (§ 2).

After each subsequent matter on the agenda has been presented the Chairman of General Meeting shall open a discussion giving floor to speakers in the sequence in which they have submitted their willingness to speak. Upon the consent of the General Meeting several points from the agenda may be discussed jointly (§11.1).

The participants may rise to speak only in the matters which have been put on the agenda and are considered at the moment (§ 12.1).

Each shareholder has the right to ask questions in every matter on the agenda (§ 13).

Subject to situations set forth in the Code of Commercial Partnerships and Companies and in TP S.A. Statute resolutions of the General Meeting shall be adopted by a simple majority of votes cast (§ 18).

Voting shall be open. Voting by secret ballot shall be ordered: during election of and on motions for revoking members of Company authorities or receivers, on motions for holding liable members of Company authorities or receivers, in personal matters, if at least one of the shareholders present or represented at the General Meeting demands so (§ 20).

After closing discussion on each point on the agenda and before the voting is commenced the Chairman of General Meeting announces which motions have been put forward and determines the sequence in which they shall be voted on. Voting on motions is made in the sequence in which the motions have been put forward (§ 21.1).

II.2. Main powers of the General Meeting

Pursuant to § 13 of TP SA Articles of Association, the following matters shall be considered as the main powers of the General Meeting:

1. review and approval of the financial statement and report on the Company's activity in the previous financial year;
2. distribution of profits or coverage of losses;

3. confirming proper execution of duties by the members of the Boards of the Company;
4. change of the object of the Company's activity;
5. amendment of the Articles of Association, including an increase or reduction of the initial capital;
6. issuance of convertible bonds or first option bonds;
7. appointment and removal of the members of the Supervisory Board;
8. any decision on claims for compensation of damages suffered by the Company in the course of its establishment or during the execution of managerial or supervisory functions;
9. transfer or lease of the Company's business or its organized part or the grant of usufruct thereon;

II.3. Rights of the shareholders and the way of their execution

Pursuant to TP S.A. Articles of Association, the shareholders have the following rights:

1. The Shareholders representing at least 5% of the initial capital are entitled to request the Management Board to convene an Extraordinary General Meeting.
2. The Shareholders representing at least 5% of the initial capital may request that particular matters be included in the agenda of the next General Meeting.

Pursuant to the Regulations of the General Meeting of TP S.A., the shareholders have the following rights:

1. The shareholders may take part in the General Meeting and exercise the right of vote in person or by attorneys-in-fact (other representatives).
2. Every shareholder has the right to candidate for the Chairman of General Meeting or to put forward to the minutes one candidate for the position of the Chairman of General Meeting.
3. When every point on the agenda is considered each shareholder has the right to one speech of 5 minutes and a reply of 5 minutes.
4. Each shareholder has the right to ask questions in every matter on the agenda.
5. The shareholder has the right to object against a decision of the Chairman of General Meeting. The General Meeting shall decide in a resolution whether the decision of the Chairman be upheld or reversed.
6. Every shareholder has the right to suggest amendments and supplements to draft resolutions, which are covered by the agenda of General Meeting, by the time of closing the discussion over the point on the agenda referring to the draft resolution with which the suggestion is concerned.

III. Composition and operations of the managing and supervising bodies of the company and their committees

III.1. Composition and operations of the Management Board of TP S.A.

As of February 25, 2009 the Management Board of TP S.A. consists of six members. Members of the Management Board are: Maciej Witucki as the President of the Board, Roland Dubois, Jacek Kałaur, Piotr Muszyński, Ireneusz Piecuch and Richard Shearer.

The scope of the Board's remit includes the management of all aspects of the Company's affairs, with the exception of those matters which are stipulated by the Polish Commercial Code and the Company's Articles of Association as being within the competence of the General Meeting of Shareholders or the Supervisory Board. The responsibilities and obligations of the Board, together with its rules of procedure, are defined in a formal statement of the Board's role. Particular members of the Management Board manage the areas of the Company's operations dedicated to each of them.

III.2. Composition and operations of the Supervisory Board of TP S.A. and its committees

As of February 25, 2009, the Supervisory Board comprises thirteen members. Members of the Supervisory Board are: Andrzej K. Koźmiński as the Chairman, Olivier Barberot as the Deputy Chairman, Olivier Faure as the Secretary and Antonio Anguita, Vivek Badrinath, Timothy Boatman, Jacques Champeaux, Ronald Freeman, Mirosław Gronicki, Stéphane Pallez, Georges Penalver, Jerzy Rajski, Wiesław Rozłucki.

At present, TP S.A. has six independent members in the Supervisory Board, namely: prof. Andrzej K. Koźmiński, Timothy Boatman, Ronald Freeman, dr. Mirosław Gronicki, prof. Jerzy Rajski i dr. Wiesław Rozłucki.

The term of office of each member of the Supervisory Board is three years, and their remuneration is determined by the General Meeting of Shareholders. The Supervisory Board meets at least once a quarter and among others is responsible for the appointment and remuneration of the members of the Management Board, the appointment of the Company's independent auditors, and the supervision of the Company's business.

As part of this process, it examines the Company's strategic plan and annual budget and monitors the Company's operating and financial performance. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to TP Group's businesses.

The work of the Supervisory Board is co-ordinated by the Board Chairman, with the assistance of the Board Secretary; and the responsibilities and obligations of the Board, together with its rules of procedure, are defined in a formal statement of the Board's role. Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in further paragraphs.

The following Committees operate within the Supervisory Board:

The Audit Committee

As of February 25, 2009, the members of the Committee are: Timothy Boatman, Ronald Freeman, Olivier Faure and Stéphane Pallez. The Audit Committee is chaired by Mr. Timothy Boatman, an independent member of the Supervisory Board. He has relevant and up to date financial experience and has qualifications in accounting and finance.

The task of the Committee is to advise the Supervisory Board on proper implementation of financial reporting, budgetary and internal control, including risk management, principles in TP Group and to co-operate with the auditors of TP S.A.

The key functions of the Audit Committee include:

- 1) monitoring the independence and objectivity of the Company's external auditors and presentation of recommendations to the Supervisory Board with regard to selection and remuneration for the Company's auditors, particular attention is paid to remuneration for additional services;
- 2) discussion with the Company's auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
- 3) Review the issues giving rise to the resignation of the external auditor;
- 4) Monitor the integrity of the financial information provided by the Company in particular by reviewing:
 - a. The relevance and consistency of the accounting methods used by the Company and the TP Capital Group, including the criteria for the consolidation of the financial results;

- b. Any changes to accounting standards, policies and practices;
 - c. Major areas of financial reporting subject to judgment;
 - d. Significant adjustments arising from the audit;
 - e. Statements on going concern;
 - f. Compliance with the binding accounting regulations;
- 5) Review and providing opinion to the TP Management Board on transactions with related parties;
 - 6) Discussion (in or without the presence of the Company Management Board) of any problems or reservations, resulting from financial statements audit;
 - 7) Review the effectiveness of the external audit process, and the responsiveness of the Management Board to the recommendation made by the external auditor;
 - 8) Review at least annually the Group's system of internal control and risk management systems with a view to ensuring that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed;
 - 9) Analysis of reports of the Company's internal audit and major findings of any other internal investigations and response to the Management Board to them, including review of freedom allowed to internal auditors;
 - 10) Annual review of the internal audit program, coordination between the internal and external auditors;
 - 11) Make recommendation in relation to the selection of the Director of the Internal Audit and on such department's budget;
 - 12) Consideration of any other matter noticed by the Audit Committee or the Supervisory Board;
 - 13) Regular informing the Supervisory Board about all important issues within its scope of activity;
 - 14) Providing the Supervisory Board with its annual reports on the Audit Committee's activity and results.

The Remuneration Committee

As of February 25, 2009, the members of the Committee are: Ronald Freeman, Olivier Barberot, Jacques Champeaux and Wiesław Rozłucki. The Remuneration Committee is chaired by Mr. Ronald Freeman, an independent member of the Supervisory Board.

The Remuneration Committee's task is to advise the Supervisory Board and Management Board on the general remuneration and nomination policy of TP Group, determining the conditions of employment and remuneration (including the setting of objectives) of the Members of Management Board and giving recommendations to the Supervisory Board regarding salaries and the amounts of bonuses for the members of the Management Board.

The Strategy Committee

As of February 25, 2009, the members of the Committee are: Olivier Barberot, Jacques Champeaux, Mirosław Gronicki, Olivier Faure and Jerzy Rajski. The Strategy Committee is chaired by Mr. Olivier Barberot.

The tasks of the Committee include:

- giving its opinion and recommendation to the Supervisory Board on the strategic plans put forward by the Management Board and any further suggestions made by the Supervisory Board regarding such strategic plan(s), and in particular on the main strategic options involved;
- consulting on all strategic projects related to the development of TP Group, the monitoring of the evolution of industrial partnerships within TP Group and projects involving strategic agreements for TP Group. It then reports and makes recommendations on each of these projects to the Supervisory Board.

In particular, the Committee is invited to consider projects such as:

- strategic agreements, alliances, and technological and industrial co-operation agreements, including aspects of the strategic partnership between France Telecom and TP Group;
- significant acquisitions and sales of assets.

IV Internal control and risk management related to the process of preparing financial statements

The system of internal control and risk management is designed and implemented by Management to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key elements of such system include the following procedures:

1. An internal audit function, which reports directly to the Chief Executive Officer. The internal audit programme is annually reviewed by the Audit Committee which also analyses the Group's Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit Department, Management Board decisions regarding the appointment and remuneration of the Head of the Internal Audit Department require, since 2005, an opinion of the Audit and Remuneration Committees.
2. The Group conducts ongoing assessments of the quality of risk management and control. As part of this process, a Risk Map which identifies and classifies the Group's financial and non-financial risks is maintained. This Map was developed as a self-assessment exercise, but also includes findings from the risk assessment project carried out with the support of external experts.
3. Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental, financial reporting and operational) effectively on an ongoing basis. It provides a framework for the Internal Audit Department's ongoing risk-controlling activities.

In 2008, Management again completed a comprehensive assessment of the Group's internal control over financial reporting. Main deficiencies were identified and corrected or appropriate action points have been launched. As a result of the assessment, the Management concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at 31 December 2008.

Management has enhanced procedures to ensure proper identification, review and approval of transactions with related parties. In 2008, such transactions continued to be audited by Internal Audit and the results were submitted to the Management and also to the Audit Committee.

Disclosure

TP Group is diligent in its approach to reporting financial results and its ongoing communication with the Polish and international investment community, as well as fulfilling its disclosure obligations. The TP Group Disclosure Committee is chaired by the Chief Financial Officer. Its role is to oversee public disclosures made by TP Group, ensuring that they are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of the Group. In 2008, the Committee had four meetings to discuss the following:

1. evaluation of the statutory financial reports (quarterly, half-year, full year);

2. evaluation of quarterly investors' presentations.

In 2008 TP published 191 regulatory announcements (as well as quarterly, half-year statements of results and full year results) that were sent to the Warsaw and London Stock Exchanges. Moreover, in the field of Investor Relations activities, TP Group held around 100 meetings with investors and analysts.

Code of Ethics

A new TP Group Code of Ethics was implemented in 2008 which encompasses our relationship with TP customers, shareholders, employees, suppliers, competition and also with respect to the environment where we operate. Key principles set out by the Code include:

1. abiding by ethical principles in business activities;
2. fair competition;
3. employee care;
4. high corporate governance and management
5. standards;
6. absolutely no tolerance for corruption;
7. apolitical stance;
8. environmental care.

An alert handling system related to ethics and reporting of potential and actual fraud has been enhanced by the Group which is coordinated by the TP Group Ethics Committee. Training on ethics is provided to employees which is confirmed by a personal certification. Formal channels for whistle blowing have been established, including reporting to the Chairman of the TP Audit Committee of the Supervisory Board, the Chairman of the TP Group Ethics Committee and the Director of Internal Audit.