

LSE – Current report (18/2008)
Telekomunikacja Polska S.A
5 February 2008

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 the Company complied in 2007 with the governance practices being in force in 2007, referred to in art. 29, clause 1 of the Warsaw Stock Exchange by-laws, except for the recommendation no. 20 in a part providing that at least half of the members of the Supervisory Board should be independent members.

According to this recommendation, in companies where the sole shareholder holds more than 50% of the voting rights, the presence of two independent Supervisory Board members was sufficient. France Telecom is a strategic shareholder of TP S.A., although it only held 47.5% of the voting rights.

In 2007 the Supervisory Board had five to six independent members (currently it has six independent members). The presence of such number of independent Supervisory Board members is in line with the spirit of the *Best Practices in Public Companies 2005* and intended to protect the interest of minority investors.

Pursuant to the recommendation no. III.6 of the “Best Practices of WSE Listed Companies”, that since January 1, 2008 replaced the hitherto document, at least two members of the supervisory board should be independent from the company and entities significantly related with the company. Therefore, based on the fact that there have been no changes in the number of independent Supervisory Board members, TP complies with this rule since January 1, 2008.

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 of the Annual General Meeting of TP S.A. of April 23, 2003.

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 5, 2008 the Management Board of TP S.A. consists of four members. Members of the Management Board are: Maciej Witucki as the President of the Board, Benoit Merel, Pierre Hamon and Jacek Kallaur.

The mandates of Benoit Merel and Pierre Hamon will expire on February 29, 2008 due to the resignations handed in on January 24, 2008.

On January 24, 2008 the Supervisory Board of TP S.A. appointed with effect from March 1, 2008 Roland Dubois as the member of the Management Board.

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 5, 2008, the Supervisory Board comprises thirteen members. Members of the Supervisory Board are: Andrzej K. Koźmiński as the Chairman, Olivier Barberot as the Deputy Chairman, Michel Monzani 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 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 persons and committees to whom these tasks are delegated are described in further paragraphs.

The following Committees operate within the Supervisory Board:

The Audit Committee

The members of the Committee are: Timothy Boatman, Ronald Freeman, Michel Monzani and Stéphane Pallez.

The Audit Committee reviews financial reports (periodical) and reports of both internal and external auditors. 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.

The Remuneration Committee

The members of the Committee are: Ronald Freeman, Olivier Barberot, Jacques Champeaux and Wiesław Rozłucki.

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 Committee is chaired by Ronald Freeman – an independent member of the Supervisory Board.

The Strategy Committee

The members of the Committee are: Olivier Barberot, Jacques Champeaux, Mirosław Gronicki, Michel Monzani and Jerzy Rajski.

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.

The present Chairman of the Committee is Olivier Barberot.

IV Internal control and risk management

The Supervisory Board is responsible for reviewing the effectiveness of the Group's system of internal control and risk management established by the Management Board. Such a system is designed 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 this system include the following procedures:

- An internal audit function, which reports directly to the Management Board. The internal audit programme is annually reviewed by the Audit Committee which also analyses the Company'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.

- The Company 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.
- Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental and operational) effectively on an ongoing basis. It provides a framework for the Internal Audit Department's ongoing risk-controlling activities.

In 2007, the Company again completed a comprehensive assessment of the Group's processes of internal control over financial reporting. Main deficiencies both in design and in effectiveness of the internal control have been either identified and remediated 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 2007.

The external auditors also report to the Management Board and the Audit Committee on control weaknesses which they find during their financial statements audit. The recommendations arising from the review of risk management procedures and systems of internal controls are successively implemented.