

REPORT

on the activity of the Supervisory Board of Telekomunikacja Polska S.A. and its committees in 2010

I. TP S.A. SUPERVISORY BOARD COMPOSITION:

Supervisory Board composition as on January 1, 2010:

1. Prof. Andrzej K. Koźmiński - Chairman
2. Olivier Barberot - Deputy Chairman and Chairman of the Strategy Committee
3. Olivier Faure - Secretary
4. Antonio Anguita - Board Member
5. Vivek Badrinath - Board Member
6. Timothy Boatman - Board Member and Chairman of the Audit Committee
7. Jacques Champeaux - Board Member
8. Ronald Freeman - Board Member and Chairman of the Remuneration Committee
9. Dr. Mirosław Gronicki - Board Member
10. Marie-Christine Lambert - Board Member
12. Prof. Jerzy Rajski - Board Member
11. Raoul Roverato - Board Member
13. Dr. Wiesław Rozłucki - Board Member

In 2010, composition of the Supervisory Board changed as follows:

Mr Vivek Badrinath resigned from his position as member of the Supervisory Board with immediate effect as of 22 April 2010. The mandates of Messrs. Antonio Anguita, Jacques Champeaux, Ronald Freeman and Mirosław Gronicki expired on 23 April 2010. On the same day, Messrs. Jacques Champeaux, Ronald Freeman, Mirosław Gronicki, Thierry Bonhomme, Olaf Swantee were appointed by the Annual General Meeting as Members of the Supervisory Board.

Supervisory Board composition as on 31 December 2010:

1. Prof. Andrzej K. Koźmiński - Chairman
2. Olivier Barberot - Deputy Chairman and Chairman of the Strategy Committee
3. Olivier Faure - Secretary
4. Timothy Boatman - Board Member and Chairman of the Audit Committee
5. Thierry Bonhomme - Board Member
6. Jacques Champeaux - Board Member
7. Ronald Freeman - Board Member and Chairman of the Remuneration Committee
8. Dr. Mirosław Gronicki - Board Member
9. Marie-Christine Lambert - Board Member
10. Prof. Jerzy Rajski - Board Member
11. Raoul Roverato - Board Member
12. Dr. Wiesław Rozłucki - Board Member
13. Olaf Swantee - Board Member

In connection with resignation of Mr. Raoul Roverato from his position on the Supervisory Board of TP with effect from 26 January 2011, Gérard Ries was appointed as Supervisory Board member on January 27, 2011.

At present, TP has six independent members in the Supervisory Board, namely Messrs. Prof. Andrzej K. Koźmiński, Timothy Boatman, Ronald Freeman, Dr. Mirosław Gronicki, Prof. Jerzy Rajski, and Dr. Wiesław Rozłucki.

Three permanent committees operate within the Supervisory Board composed, as at 31 December 2010, of:

- **Audit Committee:** Timothy Boatman – Chairman, Ronald Freeman, Olivier Faure and Marie-Christine Lambert - members;
- **Remuneration Committee:** Ronald Freeman - Chairman, Olivier Barberot, Wiesław Rożłucki and Olaf Swantee - members;
- **Strategy Committee** – Olivier Barberot - Chairman, Jacques Champeaux, Olivier Faure, Mirosław Gronicki and Jerzy Rajski - members.

II. OPERATION

The Supervisory Board, acting according to the provisions of the Commercial Companies Code and the Company's Articles of Association, exercised permanent supervision over the Company's operations in all fields of its activities.

The Supervisory Board fulfilled in 2010 duties resulting from the provisions of the Commercial Companies Code:

1. Evaluated the Management Board's report on TP SA operations and the financial statements for the financial year 2009 and the Management Board's recommendation for distribution of the Company's profit,
2. Evaluated the Management Board's report on TP SA Capital Group's operations and the consolidated financial statements for the financial year 2009,
3. Filed with the General Shareholders' Meeting reports presenting results of the above-mentioned evaluation.

The Supervisory Board took due care in order to assure that the Management Board's reports and the financial statements were in compliance with the law.

The Supervisory Board also executed its rights and obligations arising from the Company's Articles of Association and Best Practices, of which the following should be mentioned:

- 1) recommendations of motions addressed to the General Meeting, including motion for amendment of the Articles of Association,
- 2) selection of an independent auditor to audit the Company's financial statements,
- 3) preparing an opinion on TP and TP Group budget,
- 4) supervision of the realisation of TP Group's operating and financial objectives,
- 5) expressing an opinion on financial commitments exceeding the amount of 100 M €,
- 6) concise assessment of TP Group situation.

Throughout 2010 the Supervisory Board and its permanent committees focused on the following issues:

- a) Group's financial results and performance compared to the budget,
- b) Group's strategy in an increasingly competitive market and continuing volatility of the financial markets,
- c) Execution of the Arrangement with the President of the UKE (Office of Electronic Communication),
- d) Refinancing of debt approaching maturity,
- e) TPSA versus DPTG litigation,
- f) Cost optimisation programme,
- g) Customer satisfaction.

The Supervisory Board met 4 times in 2010. The Board adopted 24 resolutions, of which 2 in writing (by correspondence).

The Supervisory Board used in its operations the opinions of the Audit Committee, the Remuneration Committee and the Strategy Committee.

Reports of the Audit, Remuneration and Strategy committees on their activities in 2010 are attached as Attachments 1, 2 and 3 respectively.

The Supervisory Board formulated a number of recommendations, remarks and motions for the Management Board, referring to different aspects of the company's operations.

The Supervisory Board was abreast with examination of the execution of resolutions

and recommendations, analysing information of the Management Board presented on subsequent meetings.

III. EVALUATION OF THE WORK OF THE SUPERVISORY BOARD

Having in mind the above operations, the Supervisory Board is of the opinion that in 2010, showing due diligence, it exercised the supervision over all areas of the activities of Telekomunikacja Polska. Involvement of individual Supervisory Board members in supervision over a number of significant projects carried out by the Company enabled early consideration of risk and recommendations being made to the Management Board.

CONCISE ASSESSMENT OF THE GROUP'S STANDING IN 2010 PREPARED BY TP S.A. SUPERVISORY BOARD

This document is the Supervisory Board assessment of TP Group performance in 2010 in accordance with recommendation no. III.1.1 of the Code of Best Practices for WSE Listed Companies, introduced by the Warsaw Stock Exchange. The assessment is based on the 2010 Financial Results of the Group (the Company and its subsidiaries), as well as, on information obtained by the Supervisory Board during conducting of its statutory tasks.

Throughout 2010, the Supervisory Board focused on the following issues:

- a) Group's financial results and performance compared to the budget,
- b) Group's strategy in an increasingly competitive market and continuing volatility of the financial markets,
- c) Execution of the Arrangement with the President of the UKE (Office of Electronic Communication),
- d) Refinancing of debt approaching maturity,
- e) TPSA versus DPTG litigation,
- f) Cost optimisation programme,
- g) Customer satisfaction,

The Supervisory Board, through the work of its committees and all its members (including six independent), was actively engaged in the process of evaluation of the most important initiatives, having in mind the interest of all the Group's shareholders. In addition, it maintained oversight of the Group's operational and financial goals through management reporting at its quarterly meetings and was able, through the Audit Committee, to review and challenge the control, risk management and budgeting function performed by the Management.

TP Group operational review

Throughout 2010, the Group focused most of its efforts on execution of the medium term action plan, developed in 2009. In particular, this included meaningful changes to the mobile commercial offers, namely the launch of the 'Animal tariffs' in April 2010. The modified marketing approach has proved to be a success, enabling the Group to grow its mobile customer base by 618,000 (or 4.5%) in 2010, which was a significant improvement as compared to 2009 and allowed Orange to outpace the remaining two big rivals and regain its market share leadership. Mobile broadband was also very popular in 2010, growing by 41%. In order to facilitate this trend further, TP made the necessary investments to prepare full roll-out (already begun in 2011) of the HSPA DC network, with speeds up to 42Mb/s. Further mobile network development could significantly benefit from a network sharing initiative started with with Polska Telefonia Cyfrowa (PTC); in December 2010, TP Group and PTC have signed a letter of intent providing for future reciprocal use of each others' radio access networks and associated frequencies. In turn, upon implementation, this could increase TP Group's mobile coverage potential, whilst limiting investments needed to cope with increasing traffic.

In 2010, the Group also paid close attention to execution of the Arrangement with the President of UKE (signed in October 2009). Amongst other items, TP has gone to great efforts to ensure equal treatment of alternative operators and equivalence of access. The Group has also respected its investment commitments, as specified in the Arrangement, by investing into 416,000 broadband lines.

On the other hand, TP benefitted from the Arrangement, as the 'retail minus' pricing model was replaced by the 'cost plus' methodology. As a consequence, following a successful 'margin squeeze test' conducted by UKE, TP S.A.'s retail broadband prices were detached from bitstream access fees. This allowed TP S.A. to re-price its retail broadband offering, bringing its prices back to competitive levels, while increased broadband investments made it possible for TP S.A. to promote speed options exceeding 6Mb/s. This brought positive results, as the adverse trend in Group's retail broadband base was reversed in quarter 4 and simultaneously TP was able to increase the share of higher speed options in its sales numbers.

TP Group's TV offering continued to be popular amongst consumers, which was reflected in a 46% growth of the number of its subscribers, which in 2010 reached 544,000. In October 2010, TP Group signed an important agreement relating to its TV activity – a framework agreement with Poland's leading media group – TVN Group, amongst others providing for reciprocal sales of both sides services, co-operation in the field of content acquisition. It is expected to result, in 2011, in a best broadband-and-TV bundle in Poland, giving both partners a competitive advantage over the key rivals.

TP Group financial overview

Operating in more stable regulatory conditions and yet, in a very competitive markets, the Group's key strategic goals in 2010 were to:

- regain momentum on the mobile market and restore growth in the number of clients and revenue
- revamp the broadband offering, preparing grounds for a return to growth in this area in 2011,
- strengthen promotion of integrated services to increase ARPU and improve customer retention and customer satisfaction;
- further integrate fixed and mobile units and gain efficiency from integrated business processes;
- further rationalize Group's operations and processes in order to optimize operating expenses
- meet the investment targets in broadband, as committed in the Arrangement with UKE
- continue to optimize Capex spending based on sound investment criteria and without hampering growth;
- generate Net Free Cash Flow of at least PLN 2 billion
- continue Group's balance sheet optimization to improve return on assets base, including optimisation of the real estate portfolio;
- improve quality of service and shorten time to market for new products by continuing IT systems transformation and integration with CRM systems;
- deliver an attractive return to shareholders keeping in mind conditions set up in the shareholder remuneration policy;
- promote predictable regulations according to the European Regulatory Framework and consistent with comparable benchmarks;
- further enhance internal control and risk management measures.

In 2010, due to consistency in the deployment of the medium term action plan and to a stable regulatory environment, TP Group reported meaningful progress in each quarter of the year, both in the commercial field and the cost optimisation program. In turn, this allowed the Management to meet its outlook for revenue decline, EBITDA margin and Capex as percentage of revenue. TP Group has also delivered on the Management's Cash Flow guidance, by reporting Net Free Cash Flow for 2010 of PLN 2.45bn, despite capex ramp-up linked to the Arrangement with the UKE.

Facing a partial award issued by the Arbitration Tribunal in Vienna, in the case TPSA vs. DPTG (in September 2010), amounting to PLN 1,568mn for Phase I of the dispute, as well as the possible risk with regards to Phase 2, TP Group's Management raised its provision for this litigation up to approximately PLN 2.2bn, whilst pursuing legal actions in Austria and Poland aimed at challenging the award and its enforceability. The Supervisory Board supports the Management in its actions taken both with regards to the provision and the dispute, as more fully described in the notes to the financial statements.

TP Group has followed on the Supervisory Board recommendations and continued its progress in terms of the financing activity. Throughout 2010, the Company has reduced its net debt by roughly PLN 565 million, maintaining its net gearing at ~21%. It continued to pay focus to its gross debt structure, keeping a high share of bonds (at ~66%). Coupled with a strong liquidity position and an effective hedging policy, this enabled TP to maintain its credit rating of A3/BBB+ with a stable outlook.

TP Management Board has proposed an ordinary dividend of PLN 2,003 million, an equivalent of PLN 1.5 per share, payable in cash in the first half of 2011. That proposal obtained a positive opinion of the Supervisory Board and is subject to approval by the General Assembly of TP shareholders.

Conclusions and 2011 recommendations

Despite intensive competition across all segments as well as regulatory pressure, TP Group has delivered satisfactory results in 2010. The Supervisory Board believes TP's Management Board has made the appropriate efforts to reach the 2010 objectives. Moreover, the Group, with its integrated offers and the new commercial and investment program for broadband, is in a strong position to continue creating and exploiting the new opportunities on the Polish market.

The Supervisory Board's opinion is that in 2011 the Group should focus its activities to continue to implement the medium term action plan and also to:

- Monitor business performance closely so as to be able to react quickly to unfavourable trading conditions caused by the continued volatility of the financial markets;
- Strive for leadership in value on fixed voice, mobile and broadband markets;
- Increase customer satisfaction and loyalty, also by implementing the newly launched customer excellence program;
- Monitor TP Group EBITDA margin, with particular reference to the mobile segment
- Monitor capital expenditure, with a specific focus on the spend and efficiency of the broadband investment program, which is executed in connection with the Arrangement with the Regulator
- Mitigate foreign exchange effect on commercial expenses, financial costs and capital expenditure;
- Further optimize operating cost base;
- Maintain financial stability;
- Generate Net Free Cash Flow of at least PLN 2.4billion;
- Successfully implement the Arrangement with the Regulator
- Sustain its actions in the dispute with DPTG
- Deliver an attractive return to shareholders keeping in mind conditions set up in the shareholder remuneration policy;
- Further enhance internal control and risk management measures.

Assessment of the Group's internal control including 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 of internal control, including risk management were presented in the Management Board's Report on the Activity of Telekomunikacja Polska Group for 2010, published on February 23rd 2011.

In 2010, the Group again completed a comprehensive assessment of its processes of internal control over financial reporting within the framework of Sarbanes-Oxley Program of France Telecom Group. Main deficiencies both in design and in effectiveness of the internal control have been either 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 2010. Continued efforts by Management in this regard are also needed in 2011.

The external auditors report to the Management Board and also to the Audit Committee on control deficiencies which they identified during their financial statements audit. Their recommendations are being implemented.