

**Documents of Supervisory Board related to Corporate Governance to be presented to the Annual General Meeting of Shareholders of Telekomunikcja Polska S.A. include:**

1. Concise assessment of TP Group standing in 2010
2. Report on activities of Supervisory Board in 2010, including assessment of its work and reports of the committees

**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 Telefonii 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 stabile 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 23<sup>rd</sup> 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.

## 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
11. Prof. Jerzy Rajski - Board Member
12. 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.

#### **Activity of TP Group Audit Committee in 2010**

The Audit Committee was established by virtue of the Resolution of the TP Supervisory Board no. 324/V/2002 dated 14 June 2002 regarding the establishment of the Audit Committee as a consultative body acting under the Supervisory Board.

The task of the Committee is to advise the Supervisory Board on the proper implementation of budgetary and financial reporting and internal control (including risk management) principles in the TP Group and to liaise with the auditors of TP Group.

#### **Composition**

In 2010, the Audit Committee was composed of the following persons:

Chairman: Mr. Timothy Boatman ("Independent Director")

Members: Ms. Marie Christine Lambert  
Mr. Ronald Freeman ("Independent Director")  
Mr. Olivier Faure.

The Secretary of the Committee was Jerzy Klonecki.

#### **Functions of the Committee**

The key functions of the Audit Committee include:

- 1) Monitoring 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 accounting regulations;
- 2) 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;
- 3) Annual review of the internal audit program, including the review of independence of the internal audit function, and coordination between the internal and external auditors;
- 4) Analysis of reports of the Company's internal audit department and major findings of any other internal investigations and responses of the Management Board to them;

- 5) Make recommendations in relation to the selection and remuneration of the Director of the Internal Audit department and on such department's budget;
- 6) Review and providing an opinion to the TP Management Board on transactions with related parties;
- 7) 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 of the Company's auditors, with particular attention being paid to remuneration for additional services;
- 8) Discussion with the Company's external auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
- 9) Review the issues giving rise to the resignation of the external auditor;
- 10) Discussion (in or without the presence of the Company Management Board) of any problems or reservations, resulting from the financial statements audit;
- 11) Review the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
- 12) Consideration of any other matter noted by the Audit Committee or the Supervisory Board;
- 13) Regularly informing the Supervisory Board about all important issues within the Committee scope of activity;
- 14) Providing the Supervisory Board with its annual report on the Audit Committee's activity and results.

### **Activity in 2010**

The TP Group Audit Committee held 17 meetings in 2010, out of which 11 were regular meetings and 6 dedicated ad-hoc meetings, and in particular performed the following:

- 1) Reviewed the Company's and Group's published financial statements, notably the relevance and consistency of the accounting methods used by the Company and the TP Capital Group;
- 2) Reviewed the Group's system of internal control (including risk management) as reported by the Management Board and, in particular, the way risks were identified, managed and disclosed by the Management. The Audit Committee received reports from Management on action plans in response to comments on internal controls from the internal and external auditors;
- 3) Reviewed the annual plan of the Internal Audit Department, its budget and progress reports, as well as monitored the responsiveness of management to internal audit findings and recommendations. The Audit Committee was provided with a report regarding the renewal in 2009 of the certification of Internal Audit activities by Institut Français de l'Audit et du Contrôle Interne (IFACI). The Audit Committee reviewed also the independence of the Internal Audit Department.
- 4) Made recommendation to the Supervisory Board on the external auditor, its remuneration and terms of engagement. In accordance with the Code of the Best Practices for companies listed on the Warsaw Stock Exchange, the Audit Committee recommended to the Supervisory Board the appointment of Deloitte Audit Sp. z o.o. to the audit of TP S.A. and Telekomunikacja Polska Group for the financial year 2010 and to review half-yearly financial statements for the period of six months ended June 30, 2010.
- 5) Kept under review the scope and the results of the external audit, independence and objectivity of the auditors and reported its conclusions to the Supervisory Board; monitored the Company's responsiveness to the recommendations from the external auditor made in its management letter;
- 6) Reviewed the development and operation of the Group's Ethics Committee activity, anti-fraud and whistle-blowing programs managed by the Management Board; monitored results of investigations initiated by whistle-blowing;

- 7) Reviewed the Group's 2010 budget and addressed recommendations on it to the Supervisory Board;
- 8) Reviewed the 2010 dividend distribution policy proposed by the Management;
- 9) Issued opinions on other matters referred to the Committee by the Supervisory Board and/or the Management Board including M&A transactions, the medium and long term financing of the Company and its subsidiaries.

In the year under review, the Audit Committee, especially its two independent members, reviewed and gave opinion to the Management Board of TP on transactions with related parties and received reports on them from the Company's Internal Audit department.

The Audit Committee took note of the *Recommendations on the work of the Audit Committee* issued in November 2010 by the Office of The Financial Supervision Authority in Poland and in the course of 2011 will be considering appropriate changes, if necessary.

Timothy Boatman  
Chairman of the Audit Committee of the Supervisory Board

#### **Report on the activity of the Remuneration Committee of the Supervisory Board of Telekomunikacja Polska S.A. in 2010**

The Remuneration Committee was established by virtue of the Resolution of the TP Supervisory Board no. 385/04 dated 16 June 2004 regarding TP S.A. Supervisory Board's Remuneration Committee establishment as consultative body acting under the Supervisory Board.

The task of the Committee is to advise the Supervisory and Management Board on general remuneration policy of TP Group and to make recommendations on appointment, performance objectives, remuneration procedures and amounts to the Supervisory and Management Board.

#### **Composition:**

In 2010, the Remuneration Committee was composed of the following persons:

##### **until April 22, 2010**

Chairman:  
Ronald Freeman ("Independent Director")

Members:  
Olivier Barberot  
Jacques Champeaux  
Wiesław Rozłucki ("Independent Director")

##### **from April 23, 2010**

Chairman:  
Ronald Freeman ("Independent Director")

Members:  
Olivier Barberot  
Wiesław Rozłucki ("Independent Director")  
Olaf Swantee

The Secretary of the Committee was Jacek Kowalski, TP Group Executive Director in charge of Human Resources (from January 27, 2011 TP Management Board Member in charge of Human Resources).



**Activity in 2010:**

The Remuneration Committee held four meetings in 2010 and in particular developed recommendations for Supervisory Board consideration focused on the following remuneration-related issues:

1. Benefits under the employment contract for the Management Board Members.
2. Discussion of CEO proposal on new solution of Management Board Members motivational system - to be decided on March 24, 2011.
3. Assessment of performance relative to objectives and decision on the bonus percentage for Management Board Members for H2 2009 and H1 2010.
4. Validation of objectives for Management Board Members for 2010 and H1 2011.

Ronald Freeman

Chairman of TP S.A. Supervisory Board's Remuneration Committee

**Annual Report from the activities of the Strategy Committee of the Supervisory Board of Telekomunikacja Polska S.A.**

Major goals for the Strategy Committee is to give necessary support and advice for the Management Board in the area of TP Group strategic plans and initiatives of strategic importance.

**Strategy Committee members in 2010:**

Chairman of the Strategy Committee:

Olivier Barberot

Other members of the Strategy Committee:

Jacques Champeaux

Olivier Faure

Mirosław Gronicki

Jerzy Rajski

Vincent Lobry was Secretary of the Strategy Committee in 2010.

**Activities in 2010:**

In 2010 the activities of the Strategy Committee of TP Group Supervisory Board concentrated on the Action Plan of TP Group for 2010-11.

Strategy Committee also widely discussed the key drivers for shareholders remuneration, strategy for TP Group subsidiaries, TP contribution to five year strategic plan of France Telecom, strategic implications of Orange Customer Services as well as long-term content agreement with TVN.

In all these areas the members of TP Group Management Board actively participated.

There were three Strategy Committee meetings in 2010 during which other Supervisory Board Members also participated: Chairman of the Supervisory Board, prof. Andrzej K. Koźmiński, Chairman of the Audit Committee, Timothy Boatman and Chairman of the Remuneration Committee, Ronald Freeman.

Olivier Barberot

Chairman of the Strategy Committee