

Netia's report with regard to the corporate governance rules adopted by the WSE

Pursuant to §29, section 5 of the Rules of the Warsaw Stock Exchange adopted on the basis of the resolution No. 13/1171/2007 of the Supervisory Board of the Warsaw Stock Exchange dated 4 July 2007, the Management Board of Netia SA („Netia” or the „Company”) hereby presents the following report on the Company’s compliance with the corporate governance rules in 2010 as presented in the document entitled “Code of Best Practice for WSE Listed Companies” which is the appendix to Resolution No. 12/1170/2007 of the WSE Supervisory Board dated 4 July 2007, as amended by Resolution No. 17/1249/2010 dated May 19, 2010. The below report was published on February 22, 2011 in Netia’s corporate governance report (EBI system).

a) The Management Board of the Company represents that in 2010 the Company in principal complied with the corporate governance rules stated in the document entitled “Code of Best Practice for WSE Listed Companies”. The Management Board of the Company withheld its declaration published in the current report dated 28 February 2008 since the “Code of Best Practice for WSE Listed Companies” became effective on 1 January 2008, that it appreciates the importance of corporate governance rules provided in that document and the role played by those rules in enhancing the transparency of stock exchange listed companies, and it has exercised duly diligent efforts that those rules be observed in Netia to the greatest extent possible. With the reservation of the explanations presented above in this point a), according to the Management Board’s best knowledge none of the rules stated in the “Code of Best Practice for WSE Listed Companies” was breached by the Company during 2010. All rules were applied by the Company according to the wording presented in the above mentioned document.

With respect to the recommendation on the remuneration policy defined in section I of the “Code of Best Practice for WSE Listed Companies”, the Management Board of the Company informs that remuneration in the Company, except for the remuneration of the Management and Supervisory Board members, is established according to Rules of Remuneration, Remuneration Policy and payment grid indicating remuneration limits for certain grades.

Remuneration and other employment conditions for each member of the Management Board are adopted individually by the Supervisory Board based on the recommendations of the Supervisory Board Nomination and Remuneration Committee. The Supervisory Board also adopts targets and bonus criteria for the Management Board members for the given financial year as well as approves performance of the targets and bonus payments for the Management Board for the past financial year.

The principles of the Supervisory Board remuneration are described in the Rules of Remunerating of the Supervisor Board which were adopted by the General Shareholders’ Meeting.

According to the Stock Option Plan adopted by the Supervisory Board in 2003 based on the resolution of the General Shareholders’ meeting, the Management Board members and key employees were granted options authorizing them to acquire shares in the Company. On May 26, 2010 the Annual Shareholders’ Meeting adopted resolution describing general rules of granting options for Company’s shares to, among others, Management Board members, employees and collaborators of the Company. The General Shareholders’ Meeting authorized the Supervisory Board to establish terms and conditions of the stock option plan.

The remuneration of the Management and Supervisory Board members, as well as other provisions granted to such persons in the given financial year are described in the financial statement for such year.

The Management Board represents that the Company has a transparent remuneration policy.

In reference to the recommendation on a balanced proportion of women and men in management and supervisory functions, the Management Board of the Company emphasizes that knowledge, experience, competences and skills necessary to perform a certain functions within the Company are the crucial criteria for appointment of the Supervisory and Management Board members. Following the criteria described above helps to appoint such members who are able to ensure an effective functioning of the Company as well as execution of its targets, strategy and business plan.

b) Description of the operation of the General Shareholders' Meeting and its fundamental authorities, and shareholders' rights and ways in which they are exercised.

Netia's *General Shareholders' Meeting* ("GSM") operates on the basis of the Commercial Companies Code and Netia's statute. Unless the Commercial Companies Code or the Statute provide otherwise, the resolutions of the GSM are adopted by absolute majority of votes cast with abstentions counted as votes cast. Pursuant to the Statute of the Company, resolutions on a Company merger, Company dissolution or transfer of the Company's enterprise or a material part thereof are adopted by a 3/4 majority of the votes cast. Resolutions on withdrawing the Company's shares from public trading, or on de-listing the Company's shares from the Warsaw Stock Exchange, or on a merger having the same effects, are adopted by a 4/5 majority of the votes cast with those voting representing at least 1/2 of the Company's share capital. Resolutions of the GSM are required in matters provided for in the Commercial Companies Code, and in particular regarding decisions on the division and distribution of profit of the Company. No approval of the GSM is required for the purchase or sale of the ownership or the perpetual usufruct right to real estate or any share in such rights, irrespective of the value of such transaction.

According to the Company's statutes the Management Board submits proposed GSM resolutions for a prior opinion of the Supervisory Board of the Company not later than ten days prior to the scheduled date of the GSM. However in practice GSM draft resolutions are presented to the Supervisory Board in the earlier term in order to obtain the Supervisory Board's opinion prior to publishing them on the Company's corporate website. If the Supervisory Board fails to give its opinion on any proposed resolution at least one day before the scheduled date of the GSM, the Supervisory Board is deemed to have not given its opinion. A negative opinion or the lack of an opinion of the Supervisory Board does not hinder the adoption of such resolution by the GSM.

The Shareholders may participate in the GSM and exercise their right to vote in person or by proxies. The Statute of the Company provides that the GSM may adopt By-Laws of the GSM to specify the rules governing the operation thereof.

In 2010 the GSM of the Company was held twice. In each case the GSM was on-line broadcasted over the Internet, recorded and published on the Company's website. Both GSMs were convened by an announcements on the Company's website and current reports, powers of attorney could be made by writing or granted electronically, members of the Management Board of the Company and the Company's employees could act as proxies at the GSM. Shareholders could participate in both GSMs via electronic communications means according

to the detailed rules of such manner of Shareholder participation in the GSM determined by the Management Board. According to the Company Statute, save for one thousand ordinary registered series A shares and one thousand preferred registered series A1 shares, the Company's share capital consists of ordinary bearer shares. The holders of the preferred registered series A1 shares appoint and dismiss one member of the Company's Supervisory Board. The transfer of any preferred registered series A1 shares shall result in the loss of the above referenced preferences. Exchange of registered series A1 shares into bearer shares is inadmissible. The rights of Company shareholders, including minority shareholder rights are exercised within the scope and in the manner which complies with the Commercial Companies Code.

c) Composition of and rules of operation of the management and supervisory authorities of the Company and the committees thereof.

1. The Company's *Management Board* acts on the basis of the Commercial Companies Code and the Company Statute. Pursuant to the Company Statute, the Management Board consists of up to ten members, and the number of such members is established by the Supervisory Board. As of the end of 2010 financial year the Company's Management Board consisted of: Mirosław Godlewski – President of the Management Board., Jonathan Eastick, Grzegorz Esz, Piotr Nesterowicz and Tom Ruhan. In 2010 there were no changes in the composition of the Management Board. The Management Board members are appointed and dismissed by the Supervisory Board for a term of office of five years. The Supervisory Board establishes and changes the remuneration, and defines the terms of employment of the Management Board members, and it establishes and changes the incentive plans for the Management Board members. According to the Company Statute, the Management Board manages the activities of the Company, adopts resolutions necessary for performance of tasks and represents the Company before courts, authorities, offices and third parties. The Management Board handles the matters, which are not within the exclusive competence of the General Shareholders' Meeting or the Supervisory Board. Resolutions of the Management Board are adopted by a simple majority of votes. Two members of the Management Board acting together or one member of the Management Board acting together with a commercial proxy (prokurent) or two commercial proxies acting together are authorised to make declarations on behalf of the Company. The Supervisory Board may specify the rules governing the operation of the Management Board in the By-laws of the Management Board. The meetings of the Management Board are held regularly, almost every week.

2. The Company's *Supervisory Board* acts on the basis of the Commercial Companies Code, the Company Statute, and the By-laws of the Supervisory Board of Netia SA. The Supervisory Board consists of up to nine members. Members of the Supervisory Board are appointed and dismissed by the General Shareholders' Meeting for a term of office of five years, provided that one member of the Supervisory Board is appointed and dismissed by the holders of series A1 shares. As at the end of 2010 financial year the Supervisory Board consists of : Ben Duster – Chairperson, George Karaplis – Vice-Chairperson, Stan Abbeeloos, Raimondo Eggink, Jerome de Vitry, Nicolas Maguin, Ewa Pawluczuk and Tadeusz Radzimiński. In 2010 one change in the composition of the Supervisory Board took place: Piotr Żochowski resigned on 7 May effective as of 25 May 2010. The Chairperson and the Vice-Chairperson of the Supervisory Board are elected by the Supervisory Board from amongst the members of the Supervisory Board.

The *Vice-Chairperson* of the Supervisory Board performs the functions of the Chairperson of the Supervisory Board set forth in the Statute of the Company in case the mandate of the Chairperson of the Supervisory Board expires for any reason until a new Chairperson of the Supervisory Board is elected, as well as during their illness or when they are temporarily unable to fulfil their duties. The *Chairperson* has the casting vote in the event of a deadlock among the members of the Supervisory Board. In addition, the Chairperson has the right to call and preside over meetings of the Supervisory Board and other procedural rights normally associated with such office.

According to the Company Statute at all times at least two Supervisory Board members shall be independent members. In 2010 the Supervisory Board satisfied the criteria of the number of independent members as stated by the Company's Statute, the "Code of Best Practice for WSE Listed Companies" and the Act on Auditors. The members of the Supervisory Board are remunerated for serving as Supervisory Board members in accordance with the Rules of Remunerating Supervisory Board Members adopted by the General Shareholders' Meeting.

The powers of the Supervisory Board include general supervision of the activities of the Company. Resolutions of the Supervisory Board are required in matters provided for in the Commercial Companies Code and §16.3 of the Company Statute. Save as prescribed otherwise in the Company Statute all resolutions of the Supervisory Board are adopted by an absolute majority of votes cast in favour of such resolution (abstentions being counted as votes cast). Resolutions of the Supervisory Board are only valid if a quorum is present at such meeting. The quorum consists of a majority of the total number of Supervisory Board members. According to the Statute the Meetings of the Supervisory Board are convened at least once every quarter. The Chairperson also convenes meetings of the Supervisory Board at the written request of the Management Board of the Company or any member of the Supervisory Board. In 2010 the Supervisory Board held 9 meetings.

3. The Supervisory Board has three standing committees: the **Audit Committee**, **Nominations and Remuneration Committee** and **Capex Committee**. The Committee members are elected by the Supervisory Board from among its members. As at the end of 2009 financial year the membership of the committees is as follows:

- Audit Committee: Raimondo Eggink, Tadeusz Radzimiński and Ewa Pawluczuk (appointed to the Committee on May 26, 2010);
- Nominations and Remuneration Committee: Jerome de Vitry, Raimondo Eggink and Ewa Pawluczuk;
- Capex Committee: Stan Abbeloos, George Karaplis, Nicolas Magiun and Jerome de Vitry.

The duties of the **Audit Committee** include advising the Supervisory Board on issues of proper implementation of the budget and financial reporting standards and internal audit of the Company and the capital group (as defined in the Accounting Act dated 29 September 1994, as amended), proceeding with the overall and comprehensive review of the Company's annual and periodic financial statements, both unconsolidated and consolidated, analysing the Company's authorised auditor's letters to the Management Board, monitoring the integrity of the financial information provided by the Company, cooperation with external and internal auditors of the Company, as well as with the Company's departments responsible for audit

and checking, reviewed internal control and risk management systems. The Audit Committee meetings are held at least once every quarter prior to the Company's publication of the financial statements.

The duties of the **Nominations and Remuneration Committee** is to support the Company's achievement of its strategic objectives by presenting the Supervisory Board with opinions and motions related to the shaping of the management structure, including on organisation solutions, the remuneration system and selection of personnel having the qualifications required to ensure success of the Company.

The duties of the **Capex Committee** are, among others, monitoring key drivers of capital investment spendings within the Netia group in order to be able to properly advise the Supervisory Board on capital investments, reviewing Management's proposals for the annual capital investment budget and monitoring progress on implementation of such budget. The principles, scope and methods of operation of the Supervisory Board Committees have been regulated in detail in the By-laws of the Supervisory Board of Netia SA.

d) Description of the basic characteristics of the internal control and risk management systems applied by the Company in the preparation of its financial statements.

The Management Board of the Company is responsible for the internal control system at the Company and for the effectiveness thereof in the process of preparing financial statements and interim reports which are made and published by the Company. Therefore the Netia Group has implemented controls to ensure that financial reporting is reliable. Those controls are tested and assessed on effectiveness by internal audit, finance department managers and external auditors.

The financial department headed by the Chief Financial Officer – Management Board member, is responsible for the preparation of the financial statements and interim reports of the Company.

The financial data which is the basis for the financial statements and interim reports are taken from the Company's monthly financial and management reporting. Once the accounts for each calendar month are closed the mid level and senior management at the financial department headed by the Chief Financial Officer – Management Board member jointly analyse the financial results of the Company as compared to the assumptions made in the budget. All identified errors are corrected in the Company's books without delay in accordance with the accounting policy adopted by the Company. The Company applies the rule of independent review of the published financial reports whether or not such review or audit is required by law.

The quarterly reports, interim statements and financial data which is the basis of the reports are reviewed by the Company auditor. The review applies in particular to the adequacy of financial data and the scope of the required disclosures. The results of the quarterly review or audit are presented by the auditor to the management of the Company financial department at summary meetings and to the Audit Committee. After the review or audit is completed, the financial statements and interim reports are delivered to the members of the Company's Audit Committee. Moreover, prior to the Management Board's approval of the interim financial statements for publication, the Chief Financial Officer – Management Board member presents the Audit Committee with important aspects of a quarterly/annual financial statement,

particularly with changes in the accounting principles, if any, important revaluations or accounting opinions, material disclosures and business transactions. The interim financial statements are approved for publication after acceptance by the Audit Committee. Moreover, the auditors present the Audit Committee with information on any shortcomings of the control mechanisms which they established in the course of auditing the financial statements. Any recommendations made after a review of risk management procedures and internal control mechanisms are gradually implemented.