

Best Practices of Companies Listed on the Stock Exchange

Preamble

The Polish stock market is developing dynamically, while building its supralocal position among other European capital markets, especially those in the Central and Eastern Europe.

The development is contingent upon the strengthening and improving of competitiveness of the Polish stock market. With the competition between capital markets for attracting investments and capital becoming stronger, the development gains even more importance. The development and building of a supralocal position also hinges on the innovativeness in tackling problems of the capital market which, as a result, becomes attractive for investors and issuers, and stands out in this respect from among many other places where capital trading is concentrated.

Best practices, as a set of rules of corporate governance and rules governing standards for relations building of listed companies with their market environment, may be an important instrument strengthening competitiveness of the market. They can also be a vehicle of an innovative approach towards the problems of the stock market, and consequently build its attractiveness on the international scale.

The relevance of a set of corporate governance rules results then from processes taking place on capital markets. The importance of a set of corporate governance rules depends on whether they can recognise expectations of stock market players accurately and on whether they are effective, that is to say, whether they take the form of the best practice shaping corporate behaviour of companies listed on the stock exchange.

While intending to strengthen the rules of corporate governance as an instrument improving competitiveness of the market, the Warsaw Stock Exchange coordinates the process of establishing the content of the rules of corporate governance as being

an effect of a wide consensus, involving mainly the beliefs and expectations of investors related to the WSE and issuers listed on the Stock Exchange.

In aiming to create conditions for the common and full use of Best Practices, the Warsaw Stock Exchange will ensure that the Best Practices relate to issues belonging to the sphere of genuine interests of the capital market players so that the use of Best Practices is something natural and not an imposed or fictitious procedure.

The Warsaw Stock Exchange ensures the functioning of a mechanism which, according to the "comply or explain" rule, allows the market to obtain full and unambiguous information on the use of corporate governance rules by the listed companies.

The Warsaw Stock Exchange has also committed to promote the rules of corporate governance by solutions which are based on awarding bonuses to companies that meet the expectation that all Best Practices are used.

"Best Practices of Companies Listed on the Stock Exchange" refer to and express the tradition of the Polish corporate governance movement, whose first formalised work was a set of rules: "Best Practices in Public Companies in 2002", prepared by a number of people and institutions associated with the financial market, with a major opinion-making and executive role of the Best Practices Committee and in the course of discussions with the Institute for Market Economics. Consequently, a set of corporate governance rules was submitted to the Stock Exchange for further implementation, which allowed to dynamically propagate the use of rules in practice.

The objective of "Best Practices of Companies Listed on the Stock Exchange" is to increase transparency of listed companies, to improve the quality of communication of the companies with investors, to strengthen protection of shareholders' rights also in matters not regulated by law, all without adding burden to listed companies which would not be offset by benefits resulting from the market needs. Therefore, Best Practices relate only to areas, in which their use may have a positive effect on the value of companies, and as a result, lower the cost of raising capital.

Best Practices, as specified in parts II, III, and IV of this set are rules, to which, according to the "comply and explain" rule, a mechanism applies with regard to the conveyance by a company of unambiguous information to the market on a breach of best practice, and a bonus awarding to those listed companies which meet the expectation of the use of all Best Practices. The rules specified in the first part of this set are recommendations which are not subject to such a mechanism in full but express tendencies as regards the proper manner of internal relations building and relations of listed companies with their environment. For this reason, similarly to the rules covered by parts II, III, and IV, they are subject to annual reports prepared by listed companies with regard to the respect of corporate governance rules.

I. Recommendations regarding Best Practices of listed companies

1. The company should carry out a transparent and effective information policy, both by means of traditional methods and modern technologies which ensure speed, safety and a wide access to information. In using these methods of communication to the greatest extent possible, the company should ensure proper communication with investors and analysts, enable transmission of the General Meeting sessions through the Internet, register the sessions and make them public on the website.
2. The company should ensure an effective access to information which is necessary to assess the company's position and prospects as well as its way of functioning.
3. The company should make every effort to ensure that the cancellation of the General Meeting or a change of its date does not make impossible or limit the exercise of a shareholder's right to participate in the General Meeting.
4. Where securities issued by the company are traded in different countries (or on different markets) and under different jurisdiction the company should endeavour to make corporate events relating to the acquisition of rights by a shareholder occur on the same dates in all countries where the securities are listed.
5. The remuneration of members of the company's bodies should be associated with the scope of tasks and responsibilities assigned to the function held; they should also correspond with the size of the company and remain in a reasonable proportion to its financial results.
6. A member of the Supervisory Board should have relevant knowledge and experience and be able to devote necessary time to perform its duties. A member of the Supervisory Board should take appropriate action to make sure that the Supervisory Board receives information on important matters relating to the company.
7. Each member of the Supervisory Board should be guided in its action by the Company's interest and independence of opinions and judgments, in particular:

- he should not accept unjustified benefits which would affect the independence of his opinion and judgments,
 - he should raise his objection and give a dissenting opinion expressly where he finds that a decision of the Supervisory Board is in conflict with the company's interest.
8. No shareholder should have preferences over other shareholders in respect of transactions and agreements entered into by the company and shareholders or entities related with them.

II. Good practices realized by the Management Boards of listed companies

1. The company maintains a corporate website and puts the following information in it:
 - 1) basic corporate documents, particularly the statute and rules of procedure of the company's bodies,
 - 2) professional CV's of members of the company's bodies,
 - 3) current and periodic reports,
 - 4) information on the date and venue of the General Meeting, agenda and draft resolutions along with their justification and other available materials relating to the company's General Meetings, at least 14 days prior to the set date of the meeting,
 - 5) where members of the company's body are elected by the General Meeting – justification provided to the company for nominating the candidates proposed to the Management Board and Supervisory Board along with their professional CV's in sufficient time to familiarize oneself with them and make an informed decision on the adoption of the resolution
 - 6) annual reports on the activity of the Supervisory Board, taking account of the work of its committees, along with the evaluation of work of the Supervisory Board and the system of internal controls and the company's significant risk management system, as submitted by the Supervisory Board
 - 7) questions of shareholders relating to matters put on the agenda, asked prior to or in the course of the General Meeting, along with answers to the questions asked,
 - 8) information on the reasons for cancellation of the meeting, change of date or agenda along with justification,
 - 9) information on the pause in sessions of the General Meeting and reasons for ordering such pause,
 - 10) information on corporate events, such as payment of dividend, and other events that result in the acquisition or limitation of a shareholder's rights, taking into account the dates and rules of conduct of those operations. This information should be made available in sufficient time to enable investors to take investment decisions,

- 11) information on relations of a member of the Supervisory Board with a shareholder holding shares that represent no less than 5% of the total number of votes at the company's General Meeting as received by the Management Board based on the statement of the member of the Supervisory Board,
- 12) in the event of introduction of an incentive program to the company based on shares or similar instruments – information on projected costs to be incurred by the company in respect of its introduction,
- 13) a report regarding the use of corporate governance rules contained in this set.

2. The Company ensures the functioning of its website in English, at least to the extent indicated in part II point 1. This rule should be applied no later than on 1 January 2009.
3. Before the company enters into an important agreement with a related entity, the Management Board requests approval of this transaction/agreement of the Supervisory Board. This obligation does not concern typical arm's length transactions entered into by the company as part of its operating activities with a related entity in which the company has a majority stake. For the purposes of this set of rules, a related entity is defined within the meaning of the Ordinance of the Minister of Finance of 19 October 2005 on the current and periodic information submitted by issuers of securities.
4. Where a conflict of interests arises or where it may arise in the future, a Management Board Member should inform the Management Board of this fact and refrain from taking the floor in discussions and from voting on the resolution in a matter where a conflict of interest has arisen.
5. Draft resolutions of the General Meeting should be justified, except for resolutions in procedural and formal matters, and resolutions which are typical resolutions adopted in the course of a session of an ordinary General Meeting. Having regard to the above, the Management Board should provide relevant justification or request an entity that has requested to put the matter on the agenda of the General Meeting to provide such justification.

6. Members of the Management Board should participate in sessions of the General Meeting in a composition which would allow it to provide an answer on the relevant subject matter to questions asked at the General Meeting.
7. The Company sets a venue and date of the General Meeting so that as many shareholders as possible may participate in the meeting.

III. Good practices used by members of Supervisory Boards.

1. Apart from acts prescribed by law the Supervisory Board should:
 - 1) prepare and present to the Ordinary General Meeting a brief assessment of the company's position once a year, taking account of the internal control system and the company's significant risk management system,
 - 2) prepare and present an evaluation of its work to the Annual General Meeting once a year,
 - 3) examine and give an opinion on matters which are to be the subject of resolutions of the General Meeting.
2. A member of the Supervisory Board should give information to the company's Management Board regarding its relations with a shareholder holding shares that represent no less than 5% of the total number of votes at the General Meeting. The above obligation concerns economic, family, and other relations, which may have an influence on the position of the member of the Supervisory Board in a matter under consideration by the Board.
3. Members of the Supervisory Board should participate in sessions of the General Meeting in a composition which would allow it to provide an answer on the relevant subject matter to the questions asked at the General Meeting.
4. If a conflict of interests arises or it may arise in the future a Member of the Supervisory Board should inform the Management Board of this fact and refrain from taking the floor in discussions and from voting on the resolution in a matter where a conflict of interest has arisen.
5. A member of the Supervisory Board should not resign from the Board in a situation where it could jeopardise the functioning of the Supervisory Board, including the adoption of resolutions by the Board.
6. At least two members of the Supervisory Board should meet the criteria of independence of the company and entities remaining in a significant relation with the company. In respect of the independence criteria for the members of the Supervisory Board Annex II of *European Commission Recommendations of 15 February 2005 on the role of non-executive directors or supervisory directors of listed companies and on the committees of the (supervisory) board*

should apply. Irrespective of provisions of point b) of the above Annex a person who is an employee of the company, a subsidiary or an associated entity may not be deemed to meet the independence criteria referred to in the Annex. Moreover, within the meaning of this rule a relation with a shareholder precluding independence of a Supervisory Board member shall be understood as an actual and significant relation with a shareholder who has the right to exercise 5% or more of the total number of votes at the General Meeting.

7. Within the Supervisory Board at least an audit committee should be created. The committee should be composed of at least one member who is independent of the company and entities remaining in a significant relation with the company, and who is competent in finance and accounting. In companies where the Supervisory Board consists of the minimum number of members as required by law, the tasks of the committee may be performed by the Supervisory Board.
8. In respect of the tasks and functioning of committees within the Supervisory Board Annex I to the *European Commission Recommendation of 15 February 2005 on the role of non-executive directors (...)* should apply.
9. Entering into an agreement/transaction by the company with a related entity, where the agreement/transaction meets the terms set out in part II point 3, requires approval of the Supervisory Board.

IV. Best practices used by shareholders

1. The presence of media representatives at the General Meetings should be allowed.
2. The rules of procedure of the General Meeting may not hinder the participation of shareholders in General Meetings and the exercise of their rights. Any changes in the rules of procedure should become effective at the next General Meeting at the earliest.
3. A shareholder submitting a motion in respect of the agenda of the General Meeting, including a motion to take an issue off the agenda, should provide justification enabling to take an informed decision on the adoption of the resolution.
4. A resolution of the General Meeting on the rights issue should specify the issue price or a mechanism of setting that price or commit an authorized body to set the price before the rights date in sufficient time enabling to take an investment decision.
5. Resolutions of the General Meeting should ensure a necessary interval between decisions causing specific corporate events and dates on which the shareholders rights arising from those corporate events are established.
6. The date of establishing the rights to dividend and the date of dividend payment should be such that the period between them is as short as possible and in all cases no longer than 15 working days. A longer period between those dates requires detailed justification.
7. A resolution of the General Meeting on the payment of conditional dividend may contain only those conditions which may potentially be met before the date of establishing the right to dividend.
8. The General Meeting or the Supervisory Board should ensure that an entity authorized to audit financial statements changes at least once every seven accounting years.