

# Telekomunikacja Polska 2008

## (Communication on Progress)

Warsaw, July 2008

Dear Sir, Dear Madam,

It has been more than two years since Telekomunikacja Polska joined the UN Global Compact initiative. I believe that this period has been very successful.

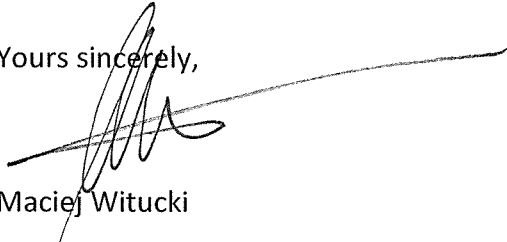
I hope that the initiatives we have taken allowed to make the world that surrounds us a better place, even if only in a small way. With our investments, state-of-the-art telecommunication infrastructure reaches the remotest parts of Poland. As the access to new technologies becomes more and more common, it also involves new challenges. The delivery of the technological solution itself is not a big issue. The real problem is to make it efficiently run. Therefore, we have initiated many activities aiming at widespread adoption of Internet, including the "TP Internet education" and the "Republic of Internet" programs. This allowed more than 4 millions Polish students and several thousands of village inhabitants to familiarize themselves with the Internet. Although the risk of digital divide still exists, we believe that as a company we have done a lot to bridge it. We also bridge the digital divide in other areas, not necessarily related to our business activity. Each year, our shareholders decide to donate a part of their profits to charity. With this money, we manage to rehabilitate children with hearing disabilities so that they never face any kind of exclusion.

The world is dynamically changing, and upcoming trends involve new challenges. The social role of a telecommunications company is to join the process of creating the information society while participating in the fight against social exclusion. However, beside this role, companies from our industry are facing a new challenge of global importance. The warming climate is an alarming issue for the entire society of the world. Therefore, we should all significantly reduce the emission of greenhouse gases as soon as possible while stopping the logging of forests that absorb the carbon dioxide. Today's ICT solutions allow us to limit out negative impact to some extent without impeding the development. Tele and videoconferences mean less business meetings that require physical presence. This, in turn, results in fewer people traveling by car, train or airplane. The model that combines traditional work with remote work also means less traffic congestions in the morning, less combustion gases, and additionally ensures important economies in terms of time and money. Electronic invoices, money transfers and other e-documents, even including books and their electronic editions allow to reduce consumption of paper and save more forests from logging.

I believe that we, as a business, may contribute to the social development with much more than just money. The capital is essential but plays a secondary role behind innovation and competencies. The best example is the aforesaid use of industry achievements to actually change the way of living and working towards a new, more climate-friendly approach. We need to realize that some of the key business

competencies are not only “keys” for the business. At the same time, these competencies play their key role for the society. We, as the entire industry, have developed our communications competencies. Therefore, we provide communications which is not only faster and cost-efficient but also more friendly to our Planet.

Yours sincerely,

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Maciej Witucki

President of the TP Management Board & CEO

## Human rights and working environment

Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights.

Principle 2. Businesses should make sure that they are not complicit in human rights abuses.

Principle 3. Businesses should uphold the freedom of association.

Principle 4. The elimination of all forms of forced and compulsory labor.

Principle 5. The effective abolition of child labor.

Principle 6. The elimination of discrimination in respect of employment and occupation.

### Rights of workers, freedom of association...

The regulations of law applicable in Poland are based on fundamental rules and on internationally proclaimed documents. Telekomunikacja Polska (TP) assumes that compliance with regulations regarding the employee relationships is the necessary condition allowing each market company to operate and constitutes a specific essential minimum. Therefore, TP imposes on itself many duties that exceed those required by law.

All employees of the company, except for the most senior levels of management, use the privileges specified in the Interagency Collective Bargaining Agreement (PUZP). The regulations of PUZP include the terms of employment and dismissal, the working time, holidays, the terms of remuneration and of assigning other work-related benefits, the occupational health and safety, trainings and social activities. PUZP provides our employees with a larger scope of rights than the one implied by common regulations. Moreover, it even grants some rights not included in these regulations, such as:

- higher severance payments if employees are dismissed for reasons that do not involve them,
- higher one-time retirement/disability benefits or long-service rewards,
- guaranteed reorientation training for employees who change their place of work within the company,
- the right to leave for health resort treatment,

- the right to reduced fees for telecommunication services.

Telekomunikacja Polska respects the right to associate and conducts ongoing dialogue with trade unions. Although this right results from the act on trade unions, TP supports it by detailing or extending the privileges of trade union organizations and their members. This is implied by the aforesaid Collective Bargaining Agreement (PUZP) which includes regulations regarding the cooperation of trade union organizations with the company and by mutual cooperation agreements signed by the employer with trade unions. Thus, TP has established a standard that governs mutual contacts, exchange of information, pecuniary assistance for the operations of trade unions or support in organizing trainings for members of trade unions. TP, as an employer, is committed to provide information that includes the conditions of work, the terms of remuneration, the economic and financial situation of the company etc. on demand of trade union organizations. The TP Management Board is directly assisted by the Representative for Contacts with Trade and Social Organizations. On July 24th, 2006 a Work Council has been established with seven members from representative trade union organizations of the company. The employer is obliged to consult the Council on all matters regarding the level, structure and planned changes of employment as well on activities which aim at maintaining the employment level and on any actions that may involve significant changes in the organization of work or in the terms of employment.

The social arrangement for 2007-2009 has been negotiated and signed with the majority of trade union organizations in December 2006. This document includes the terms that govern the most important issues regarding the employees within the next three years, such as: employment policy and perspectives of development for particular business functions; the possibility of systematic pay rise on the basis of a transparent and competitive remuneration policy; place and role of in-house recruitment and outsourcing within the company's employment policy; offering a fair severance pay to long-term employees.

These Social Arrangements have been recognized by the Responsible Business Forum in their "2006 Responsible Business in Poland" report as a good business practice worth to be followed.

Currently, TP maintains a dialogue with 18 trade union organizations which associate 31% TP employees as of December 31st, 2007.

**Fighting against discrimination, protecting the rights of minorities...**

In accordance with the applicable law, Telekomunikacja Polska renounces all forms of employment of children and of forced labor within the meaning of the Convention No. 29, article 2 of the International Labor Organization. No forms of forced labor are allowed. As TP does not directly operate outside Poland, the issue of respecting the rights of native people is not strictly applicable to our company. However, all forms of discrimination, in particular with regard to origin, skin color, race or culture are prohibited both by the law and by the TP Ethics Code. Any such incidents, if any, would be ruthlessly punished and condemned. Although the strategic investor is a foreign company, three out of five Management Board Members were Poles, including the President, as of the end of 2007. There was one woman among the Management Board Members. The Supervisory Board consisting of 13 persons including 6 independent members.

The aforesaid Ethics Code is the document and the tool that guarantees the compliance with human rights. Respect for individuals as well as for their right to privacy and to diversity is the core value of the Code. TP also espouses tolerance in terms of origin, race, gender, culture, age, marital status or ability, as well as in terms of personal convictions, whether religious, political or related to union activity.

The principles specified in the Code shall apply to all employees of TP, regardless of their line of business or level of responsibility. All Telekomunikacja Polska employees are required to practice the agreements of the Ethics Code and senior managers are expected to promote these principles and stay in line with the TP values they profess. Disrespect for these values and guidelines shall be considered as an action counter to TP interests and may even lead to sanctions for breaching the employees' duties.

The company also wants to make sure that companies arousing suspicion of unethical attitude are not among its suppliers. TP actively participates in the QREDIC program of supplier evaluation that includes the entire FT Group as a part of the Top Sourcing project. One of the evaluation criteria is the issue of ethical and ecological values being respected by the supplier, including those regarding human rights and the particular protection of children rights. The evaluation takes place periodically and is based upon all available information on those companies. Whenever doubts arise, the supplier is requested to present explanations and eliminate any irregularities. The results of evaluation are used in the process of supplier negotiation and selection at enterprise level. A definitely negative result in terms of respecting ethical and ecological standards (especially lack of activities taken in order to eliminate the discovered irregularities) disqualifies the supplier. The QREDIC evaluation program applies to global suppliers. As far as local Polish suppliers are concerned, they are requested to complete the "Social

responsibility and sustainable development” questionnaire and to include the sustainable development clause in their agreements. Currently, this is a common and compulsory clause applied in all purchase agreements concluded with TP business partners.

#### **Acting against the exclusion in Company’s environment...**

Beside taking care of compliance with human rights in the company itself and in the chain of its suppliers, TP Management Board pays attention to the particular role that may be played by the company against social exclusion.

Article 26(1) of the Universal Declaration of Human Rights guarantees the right of education to each individual and states that education shall be free, at least in the elementary and fundamental stages. Additionally, the second Millennium Development Goal of the United Nations Program assumes that elementary education should be ensured to each child. As Telekomunikacja Polska takes part in Global Compact, pursuant to Principle 1, it wants to support both the guarantee of fundamental rights and the compliance with Millennium Development Goals.

We believe that in today’s dynamically developing world where the society becomes a knowledge based society, the lack of IT skills will be a specific modern form of Illiteracy. Therefore, the acquisition of basic skills regarding PCs and Internet should be considered as the key element of elementary education. Otherwise, the alternative is the social exclusion of individuals as well as of entire nations and communities. We are confident that as the largest telecommunication company of Central Europe we are able to support our society in order to provide our assistance in ensuring fundamental IT education.

This is why TP Group takes consistent measures for wider adoption of broadband Internet in Polish schools. In 2004, TP initiated the “TP Internet education” program providing elementary schools, junior high schools and high schools with Internet access in their IT labs under preferential terms, i.e. from symbolic fee of PLN 1 per month. Additionally, as we are aware both of opportunities and of threats involved in Internet access, we ensure complementary education regarding the security of Web surfing in cooperation with our social partners. Due to the diagnosed competency gap, the program also includes teacher training that promotes the working method of the project and encourages the use Internet as an essential tool of modern education.

- 14,000 schools use TP’s fixed Internet access services,
- over 4,000,000 students are provided with fixed Internet access in their

schools,

According to the report of the European Commission published in May 2006, Poland was the only new EU member to be classified among 8 EU countries with more than 80% of PCs in schools featuring Internet access. The implementation of the program directly contributed to this result. The program has also been included among very few practices presented during the *European Marketplace on CSR* in Brussels in November 2007.

As villages represent the highest risk of social exclusion, rural zones require the utmost care. However, missing infrastructure and unprofitable potential investments are the main obstacles. In order to overcome this problem, TP cooperates with the local government and prepares its investments with the support of EU funds. This is the only way to provide Internet to inhabitants of rural areas. Investments are accompanied by activities taken in order to increase skills and, especially, to encourage the individuals to use Internet as a practical tool. Within the "Republic of Internet", Polish largest grant program, TP granted funds to local activity groups in order for them to implement proprietary projects of practical use of Internet. This program was carried out in cooperation with the United Nations Development Program Poland.

- In the first edition, 640 out of 1595 rural communes have submitted their requests for subventions to support local initiatives. This represents about 40% of all rural communes in Poland. 333 communes participated in the second edition
- Funds were granted to local activity groups from 170 communes (over 10% of all rural communes)
- 62,582 individuals benefited from the activities taken within the program. Nearly 700 trainings were conducted.

- One of out 8 local activity groups transformed in non-governmental organizations which provide sustainable support to the local society and acquire further funds on their own.

Beside the activities related to the direct involvement in the creation of information society, Telekomunikacja Polska contributed to the fight against other forms of exclusion. This is witnessed by the Virtual Museum program which supports the museums in creating virtual exhibitions, allows to view their collections through state-



of-the-art telecommunications technologies and makes them available to internauts all over the world. With this program, exhibitions are also available to inhabitants of rural zones and to disabled persons who may encounter difficulties when trying to access the cultural heritage in a traditional way. Currently, the resources of the Museum of Warsaw Insurrection are available online. This project is a good example of how business competencies may be used in a theoretically distant areas and how to combine innovative technologies with historical heritage.

Another example of activities that fight against social exclusion is the "Sounds of Dreams" program. This is an initiative that takes care of small children with hearing disabilities from the very first months of their lives (from 0 to 3 years) when their chance of successful rehabilitation is the greatest.

Visit [www.fundacijagrupytp.pl](http://www.fundacijagrupytp.pl) for more information on social programs carried out by the TP Group Foundation.

#### Employment and remuneration

	<b>12.31.2007</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
Jobs	25,436	27,400	27,590

<b>Total number of employees</b>			
	<b>Men</b>	<b>Women</b>	<b>Percent of women</b>
12.31.2005	14,826	12,764	46.3%
12.31.2006	14,620	12,780	46.6%
12.31.2007	13,627	11,809	46.4%

The reduction of employment in TP in 2007 results mainly from optimization activities performed within the voluntary redundancy program. The employment optimization program of 2007 was based on terms of the 2007-2009 Social Arrangement. In 2007, severance pay was granted to 2,350 employees who quit TP. This number does not

include approximately 600 persons who terminated their employment contract at the end of December and received their severance pay in January 2008. The average severance pay for employees who quit was PLN 54,400. In 2007, as a result of external recruitment, 581 have been employed in TP (excluding substitute workers) which is 26% more than in 2006.

The Management Board believes that fair and transparent terms of promotions and salaries are the key factor which impacts the workplace climate and is the criterion of non-discrimination. This assumption was the foundation of the SKOR evaluation program implemented in 2007 with the support of appropriate IT tools. The comprehensive and impartial evaluation is the basis of career planning as well as of training and development programs. Furthermore, it is the index that specifies the level of salaries.

The table below presents the salaries paid by Telekomunikacja Polska in 2007 in comparison with the salary level in Poland:

Average gross salary in Telekomunikacja Polska (PLN)	Average gross salary of the "Post and telecommunications" sector in Poland (PLN) <sup>1</sup>	Average gross salary in Poland (PLN) <sup>2</sup>
4,917	3,686	2,691
183%	140%	100%

### Forms of additional financial support

In order to meet the expectations of its employees, Telekomunikacja Polska has created and funded an additional pension program not required by law. Although it represents an extra cost for the employer, it ensures better living standards to long-term employees after they retire. The premium depends on the amount of reference salary and accounts for 7% of the gross salary of the participant.

Over 20,772 employees (approximately 82% of workforce) were members of PPE as at the end of 2007. The basic premium has been paid to their PFE TP account.

<sup>1</sup> "Statistics Newsletter", Central Statistical Office, Warsaw 2008 (No. 5 (607)), p. 74

<sup>2</sup> "Statistics Newsletter", Central Statistical Office, Warsaw 2008 (No. 5 (607)), p. 68

The company also offers the additional advantage of financial support. Employees may apply for non-interest-bearing loans to purchase, build or renovate houses or apartments. Priority is given to employees who change their place of work within TP. The company is committed to minimize the impact of changing the place of work on employees' family life which fundamentally depends on living conditions.

Employees of Telekomunikacja Polska working under indefinite-period contracts with at least two years' service in companies of the TP Group may obtain subsidies to complete graduate or post-graduate studies, including MBA. They also may apply for a partial refunding of one language course (English or French).

TP also helps employees, pensioners and their family members who suffered from severe accidents and found themselves in a difficult life situation (such as serious illness, fire, flood etc.). In special cases, employees can also count on the support of the TP Group Foundation.

### **Occupational safety**

As in the previous year, no fatal work accidents have taken place in TP in 2007. The number of work accidents has slightly risen by 3% as against 2006. A total of 104 work accidents have been registered and the index of work accident frequency equaled 3.9 (i.e. an average of 3.9 work accidents per 1,000 employees). For comparison purposes, this index equals 8.9 for the entire country.

In comparison to 2006, sick absence related to work accidents in 2007 has risen slightly by 86 days to the level of 3,809 days.

## Natural environment

Principle 7. Businesses should support a precautionary approach to environmental challenges.

Principle 8. Undertake initiatives to promote greater environmental responsibility.

Principle 9. Encourage the development and diffusion of environmentally friendly technologies.

The telecommunications business does not represent any significant risk to the natural environment. However, the Company pays more and more attention to minimize the existing impact.

The TP Group owns several properties supervised by the wild life inspector. The Ślęza mountain (718 meters) with its Holy Cross (595 meters) is certainly the most amazing place among all localizations of premises managed by TP. Part of a nature reserve and of the Świętokrzyski National Park, the mountain may be seen already from the suburbs of Wrocław. A transceiver station is located there.

However, the key issue from the perspective of natural environment is the positive role that may be played by the entire industry, including Telekomunikacja Polska, in limiting the emission of greenhouse gases. More and more popular and advanced telecommunication services become an alternative to traditional means of communicating. The use of tele and videoconferences is a great opportunity for the business, in the broad sense of the word, to limit the number of business trips (via airways, railways and roadways) and, thus, to limit the emission of greenhouse gases related to transport means. Furthermore, these solutions provide business benefits in parallel. Beside the protection of environment, they enable significant economies of time and money needed for travel purposes. Analogically, the common use of remote work solutions results in decreasing the number of day-to-day travels to work and allows a more regular distribution of traffic during the day. Therefore, it may limit traffic congestions which are an important charge to the environment due to significantly higher fuel consumption. These solutions also enable financial benefits, such as the potential reduction of rental fees, the possibility to cooperate with employees working far from the company (which often are most cost-effective). The last case is also an opportunity for underdeveloped regions.

At the same time, the digitalization of all kinds of documents that may be sent through e-mail (e-invoices, electronic bank statements, e-books) provides many possibilities

worth to be remembered. Such solutions and related promotion activities are advantageous not only to the development of the ICT industry but also, or even especially, to the protection of forests and therefore are climate-friendly.

In 2007, TP initiated a campaign encouraging its customers to abandon traditional invoices in favor of their electronic equivalent. The company believes that saving paper is a relevant idea with more than just business impact. Therefore, at the end of 2007, TP initiated the implementation of an organized selective collection of waste paper in offices. The first bins are already installed in company's headquarters. Beside the environmental benefits, there is one more important business advantage: collected documents are shredded which reduces the threat of information being intercepted by unauthorized persons.

#### Raw materials and energy consumption

	unit	2007
Electricity	GWh	374.67
Paper	t	3,043
Water	m <sup>3</sup>	781,393

The communications infrastructure and its operation is directly related to continuous consumption of electric power. According to estimations, the ICT sector consumes 3-4% of electricity in Europe. The problem of the telecommunications industry is that the energy consumption is highly inflexible and therefore the carriers have very limited possibilities to reduce it in short term. In Poland, most of electric energy is generated as a result of coal combustion (hard coal, brown coal) which makes the issue even more difficult. Therefore, the production of electricity in Poland involves the emission of disproportionately large amounts of carbon dioxide.

#### Estimate direct and indirect emission of CO<sub>2</sub> per source (in tons)

Estimate direct and indirect emission of CO <sub>2</sub> by most important sources (in tons)	2007
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Fuel combustion in company's premises	16,588.16
– heating oil combustion	8400.35
– gas combustion	7477.06
– coal combustion	710.75
Production of electricity purchased by the company	249,152.29
Total vehicles	20,100.70
– unleaded fuel	14,129.12
– leaded fuel	0.0
– diesel oil	5,971.58
– LPG	0.0
<b>Total</b>	<b>285,841.15</b>

**Waste (in tons)**

	<b>2007</b>
Wooden poles (written off)	917.59
Copper cables (written off)	747.70
Network batteries over 3 kg (written off)	29.70
Toners	4.85
Other waste (considered to be safe)	764.91

Wooden phone poles are considered as dangerous waste due to petroleum-derived preservatives. These are gradually being recycled by a specialized company. 1012.54 tons have been recycled in 2007 (i.e. 110% of written-off poles; the volume of poles subject to neutralization in 2007 also included some poles written off in 2006).

Written-off copper cables are transported to non-ferrous scrap metal yard. Cables that might involve an environmental risk due their insulation are sent to specialized waste utilization companies. However, copper of which the wires are made is 100% recyclable. In 2007, 727.6 tones i.e. 97% were recycled, as some cables have been already dismantled but not yet delivered to recycling companies.

Similarly, 100% of network batteries are neutralized by qualified companies. According to signed agreements, TP's battery providers are required to remove and neutralize worn out equipment within their maintenance tasks. This approach is also enforced by framework agreements with providers of office supplies for copy machines, printers and faxes.

TP still uses two last transformers with PCB (polychlorinated biphenyls). This substance improves the performance index but is harmful to the ozone layer. These transformers are gradually written off since several years. Recycling works are consigned to specialized companies with required authorizations for this type of activity.

TP follows uniform rules of waste classification as per the regulation of the Minister of Environment of September 27th, 2001 on waste catalog (Journal of Laws (Dz. U.) of 2001, No. 112, item 1206) as well as uniform rules of waste recording as per the regulation of the Minister of Environment of December 11th, 2001 on templates of documents used for waste recording purposes (Journal of Laws (Dz. U.) of 2001, No. 152, item 1736). TP owns essential administrative authorizations to generate waste.

TP Group enters into framework agreements and cooperates only with those waste recyclers who take full responsibility of further processing of waste (collection, transport, recycling or neutralization) and are able to document each step of the route between the entity who generates the waste to the neutralizing company.

Pursuant to the Waste Electrical and Electronic Equipment (WEEE) Directive, redundant and useless electric or electronic equipment is transferred as waste to companies provided with appropriate authorizations of waste management and, from October 1st, 2006, additionally registered by the General Inspectorate of Environment Protection.

**TP driving the use of environment-friendly technologies...**

The analysis of limiting the impact of electromagnetic radiation to humans remains TP's most important contribution to the fulfillment of the 10 Global Compact principles in 2007 within the area of environment protection. International Telecommunication Union (ITU) has adopted an official Recommendation referred to as ITU-T K.70: *Mitigation techniques to limit human exposure to EMFs in the vicinity of radiocommunication stations*, which nearly totally results from research and development works performed by the Telekomunikacja Polska team from Wrocław.

The Recommendation features a valuable addendum of algorithms and related software that allows to estimate the levels of electromagnetic fields in the vicinity of planned base stations, especially when many different sources of radiation are considered. This software is free and available to all interested parties on ITU's website. Therefore, the results of several months of work of the Polish team may directly contribute to the reduction of environment risks related to excessive human exposure to electromagnetic fields generated by base stations in Poland and throughout the world. This will directly contribute to improving the quality of human life.



## Fighting against corruption

Rule 10. Businesses should work against corruption in all its forms, including extortion and bribery.

The Ethics Code introduced by TP in 2006 explicitly condemns unethical behavior. It includes the terms of relationships with particular groups of stakeholders. Beside the general terms of the Ethical Code, an additional document has been introduced to establish ethical principles to be followed by each employee of the Purchasing Department in their direct and indirect contacts with suppliers. Among other terms, in order to ensure impartiality, Purchasing Department employees are not allowed to receive or require any advantages that might create some kind of dependency on a specific supplier, consultant or competition representative. In special cases, it is only allowed to accept courtesy gifts with symbolical value, however employees are recommended to inform their superiors of this fact. Any gift which exceeds the specified symbolic value should be returned to the donor along with a letter describing the ethical rules adopted by TP.

The purchasing domain is subject to strict proceeding terms applicable to each step of this process as specified by the resolution of the TP Management Board and by internal procedures of the Purchasing Department. Objectives of these procedures include to ensure equal conditions of purchase proceedings to all suppliers and to protect the confidentiality of transferred commercial information. The purchasing process is performed as a team activity that involves different structures of TP's organization. Acceptance procedures include many steps and levels. The purchasing process is subject to reporting and monitoring.

The implementation of an eProcurement system in TP was preceded by the analysis of supply processes. The implementation scope included the support of electronic workflow regarding all kinds of purchases, from simple administrative ones to complex investments. The project was based on SAP's Enterprise Buyer Professional (EBP) which allows to aggregate purchases in the dispersed organizational structure of the company. Additionally, this application also supports the distribution of commercial goods to TP's sales network points. Such solution allows to achieve substantial economies due to the scale of centrally negotiated purchases while eliminating the risk of unethical behavior.

In case of any ethical doubts or if any unethical behavior is discovered, employees should address their concerns to the Ethical Counselor (send the question to the generally available e-mail address). Each message of this type will be thoroughly

analyzed. In 2007, an additional system has been introduced that allows to report unethical attitudes while remaining fully anonymous.

TP is a member of the Polish Chamber of Information Technology and Telecommunications (PIIT), of the Polish Confederation of Private Employers "Lewiatan" (PKPP) and of the European Telecommunications Network Operators' Association (ETNO). Through these organizations, TP pronounces its opinions on proposed solutions, confronts them with those of other members and cooperates on lobbying activities, if needed. Telekomunikacja Polska and its affiliates follow the rule of political indifference and do not provide financial support to any political parties. As per the applicable Ethics Code, the company abstains from financing political parties or organizations whose purpose is primarily political.