

Code of Best Practice for WSE Listed Companies

Preamble

The Polish stock exchange market is in the process of dynamic growth and is steadily building its regional position among other European capital markets, especially in Central and Eastern Europe.

This growth requires that the competitiveness of the Polish exchange market be strengthened and deepened, a task made even more important by the increased competition among capital markets striving to attract investments and capital. Another condition necessary to build and expand the regional position is to take an innovative approach to capital market problems, thus making it attractive to investors and issuers, and helping it stand out of the many other capital trading venues.

As a set of corporate governance rules and standards governing relations between listed companies and their market environment, the Code of Best Practice is an important instrument that strengthens the competitiveness of the market and a tool that promotes an innovative approach to the exchange market, building its international attractiveness.

The relevance of corporate governance rules is a consequence of developments in the capital markets. The validity of a set of corporate governance rules depends on the proper definition of the expectations of exchange market players and on the effective application in the form of best practice guidelines serving as a benchmark for corporate behaviours of listed companies

In order to strengthen corporate governance rules that may be used as a means to enhance the competitiveness of the market, the Warsaw Stock Exchange coordinates the process of defining corporate governance rules arising from a broad consensus, including in general the opinions and expectations of WSE investors and listed issuers.

In order to create conditions of universal and full compliance with the Best Practice principles, the Warsaw Stock Exchange will ensure that the Code of Best Practice addresses issues of significant interest to the participants of the capital market to ensure a voluntary application of the Code of Best Practice as opposed to a forced or fictitious approach.

The Warsaw Stock Exchange provides a mechanism based on the “comply or explain” principle which gives the market clear and unequivocal information on the compliance with corporate governance rules by listed companies.

The Warsaw Stock Exchange commits itself to promoting corporate governance by awarding companies that fully comply with the Best Practices.

“The Code of Best Practice for WSE Listed Companies” draws upon and embodies the tradition of Polish corporate governance, whose first formal paper was the set of rules known as “The Best Practices of Public Companies 2002” developed by a range of individuals and institutions connected with the financial market with a significant expert and practical contribution by the Best Practices Committee, and in the course of discussions with the Gdańsk Institute for Market Economics. As a result, a set of corporate governance rules was submitted for implementation by the WSE, which enabled the dynamic dissemination of the practical application of the rules.

“The Code of Best Practice for WSE Listed Companies” aims at enhancing transparency of listed companies, improving quality of communication between companies and investors, and strengthening the protection of shareholders’ rights, including those not regulated by legislation, while refraining from imposing a burden on listed companies that may outweigh the benefits resulting from market needs. The Code of Best Practice therefore addresses only those areas where its application may have a positive impact on the market capitalisation of companies, thus reducing the cost of capital.

The Best Practices defined in sections II, III and IV hereof introduce rules subject to the “comply or explain” principle, where companies provide clear information about any non-compliance with best practices and where companies ensuring full compliance with the Code of Best Practice are awarded.

The rules defined in section I hereof are recommendations which are not subject to this principle; instead, they represent trends in the optimum internal relations within listed companies, as well as their relations with the business environment; as a result, as the rules in sections II, III and IV, they are covered by annual reports on compliance with the corporate governance rules prepared by listed companies (Corporate Governance Statements).

I. Recommendations for Best Practice for Listed Companies

1. A company should pursue a transparent and effective information policy using both traditional methods and modern technologies ensuring fast, secure and broad access to information. Using such communication methods to the broadest extent possible, a company should ensure adequate communication with investors and analysts, enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website.
2. A company should ensure effective access to information necessary to assess the company's situation and outlook as well as its operations.
3. A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the shareholders' right to participate in a General Meeting.
4. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.
5. Remuneration of members of the company's governing bodies should correspond to the scope of tasks and responsibilities of their function and be proportionate to the size of the company's business and reasonable in relation to its financial results.
6. A member of the Supervisory Board should have the appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about matters significant for the company.

7. Each member of the Supervisory Board should act in the interests of the company and take independent decisions and express independent judgments, and in particular:
 - refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments,
 - raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest of the company.
8. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.

II. Best Practice for Management Boards of Listed Companies

1. A company should operate a corporate website and publish:

- 1) basic corporate regulations, in particular the Articles of Association and internal regulations of its governing bodies;
- 2) professional CVs of members of its governing bodies;
- 3) current and interim reports;
- 4) the date and place of a General Meeting, its agenda and draft resolutions together with their legal basis as well as other available materials related to the company's General Meetings, at least 14 days before the set date of the General Meeting;
- 5) where members of the company's governing body are elected by the General Meeting – justification of candidatures for the company's Management Board and Supervisory Board members available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;
- 6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board;
- 7) shareholders' questions on matters on the agenda submitted before and during a General Meeting together with answers to those questions;
- 8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with their justification;
- 9) information about breaks in a General Meetings and the reasons for those breaks;
- 10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such transactions.

Such information should be published within a timeframe enabling investors to take investment decisions;

- 11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting;
 - 12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company in relation to its introduction;
 - 13) Corporate Governance Statement regarding compliance with the corporate governance rules contained in this document.
2. A company should publish its website in English, at least to the extent described in section II.1. *This rule should be applied not later than as of 1 January 2009.*
 3. Before a company signs a material agreement with a related party, its Management Board shall request the Supervisory Board for the approval of any such transaction or agreement. This condition does not apply to typical transactions made at arm's length in the scope of the company's operations with a subsidiary where the company holds a majority stake. For the purpose of this document, a related party shall be understood within the meaning of the Regulation of the Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities.
 4. A member of the Management Board should notify the Management Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the matter which gives rise to such a conflict of interest.
 5. Draft resolutions of a General Meeting should have their rationale attached, with the exception of resolutions on procedural matters and typical resolutions adopted in the course of an Annual General Meeting.

In view of the foregoing, the Management Board should present the reasoning or request the person putting a motion for the inclusion of a matter in the agenda of a General Meeting to provide such reasoning.

6. A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.
7. A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders.

III. Best Practice for Supervisory Board Members

1. In addition to its responsibilities laid down in legal provisions, the Supervisory Board should:
 - 1) once a year, prepare a brief assessment of the company's standing, including an evaluation of the internal control system and the significant risk management system, and present it to the Annual General Meeting;
 - 2) once a year, prepare an evaluation of its work and present it to the Annual General Meeting;
 - 3) review and present opinions on matters subject to resolutions of the General Meeting.
2. A member of the Supervisory Board should inform the company's Management Board of any relations with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may influence the position of the member of the Supervisory Board on matters decided by the Supervisory Board.
3. A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.
4. A member of the Supervisory Board should notify the Supervisory Board of any conflicts of interest which have arisen or may arise and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the matter which gives rise to such a conflict of interest.
5. A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's legal capacity, including the adoption of resolutions by the Supervisory Board.
6. At least two members of the Supervisory Board should meet the criteria of being independent of the company and entities with significant relations with the company.

The independence criteria should be applied pursuant to Annex II to the *Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board*. Notwithstanding the provisions of subparagraph (b) of the said Annex, a person who is an employee of the company or its subsidiary or associate cannot be deemed to meet the independence criteria described in the Annex. In addition, a relation with a shareholder precluding the independence of a member of the Supervisory Board as understood herein shall mean an actual and significant relation with any shareholder who has the right to exercise at least 5% of votes at the General Meeting.

7. The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant relations with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board.
8. Annex I to the *Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors...* should apply to the tasks and the operation of the committees of the Supervisory Board.
9. Conclusion of an agreement or transaction with a related party which meets the conditions of section II.3 requires the approval of the Supervisory Board.

IV. Best Practices of Shareholders

1. Representatives of the media should be allowed to participate in General Meetings.
2. Regulations of General Meetings should not restrict the participation of shareholders in General Meetings and the exercise of their rights. Amendments to these Regulations should take effect as of the next General Meeting at the earliest.
3. Any shareholder who puts forward a motion for the inclusion of a matter in the agenda of the General Meeting, including a motion to take any item off the agenda, should provide justification to enable an informed decision on the resolution.
4. A resolution of the General Meeting concerning any issue of shares with pre-emptive rights should specify the issue price or the pricing mechanism, or obligate the competent body to set this price before the date of pre-emption, within a timeframe enabling an investment decision.
5. Resolutions of the General Meeting should allow for a sufficient period of time between decisions resulting in specific corporate events and the date of setting the rights of shareholders pursuant to such events.
6. The dividend record date and the date of dividend payment should be set so as to ensure the shortest possible time between them, in each case not longer than 15 business days. A longer period between these dates requires detailed justification.
7. A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment must take place before the dividend record date.
8. The General Meeting or the Supervisory Board should ensure that the entity authorised to audit financial statements changes at least once every seven financial years.