Corporate Governance and risk reporting

How Can Environmental Issues Affect Company Ratings and Future Environmental Reporting Requirements

Warsaw, March 16, 2005

Agenda

- Corporate Governance in TP Group
- Risk Management in TP Group

Principles of Corporate Governance

Key rules:

- fairness,
- transparency,
- accountability
- responsibility

- **Corporate Governance** – the way a company manages itself in order to ensure fair and equitable returns to all financial stakeholders.

TP Group and its environment

Internal

Supervisory Board

TP Management Board

Corporate Governance principles

External

Warsaw Stock Exchange

SEC

NYSE

Institutional Investors

Rating agencies

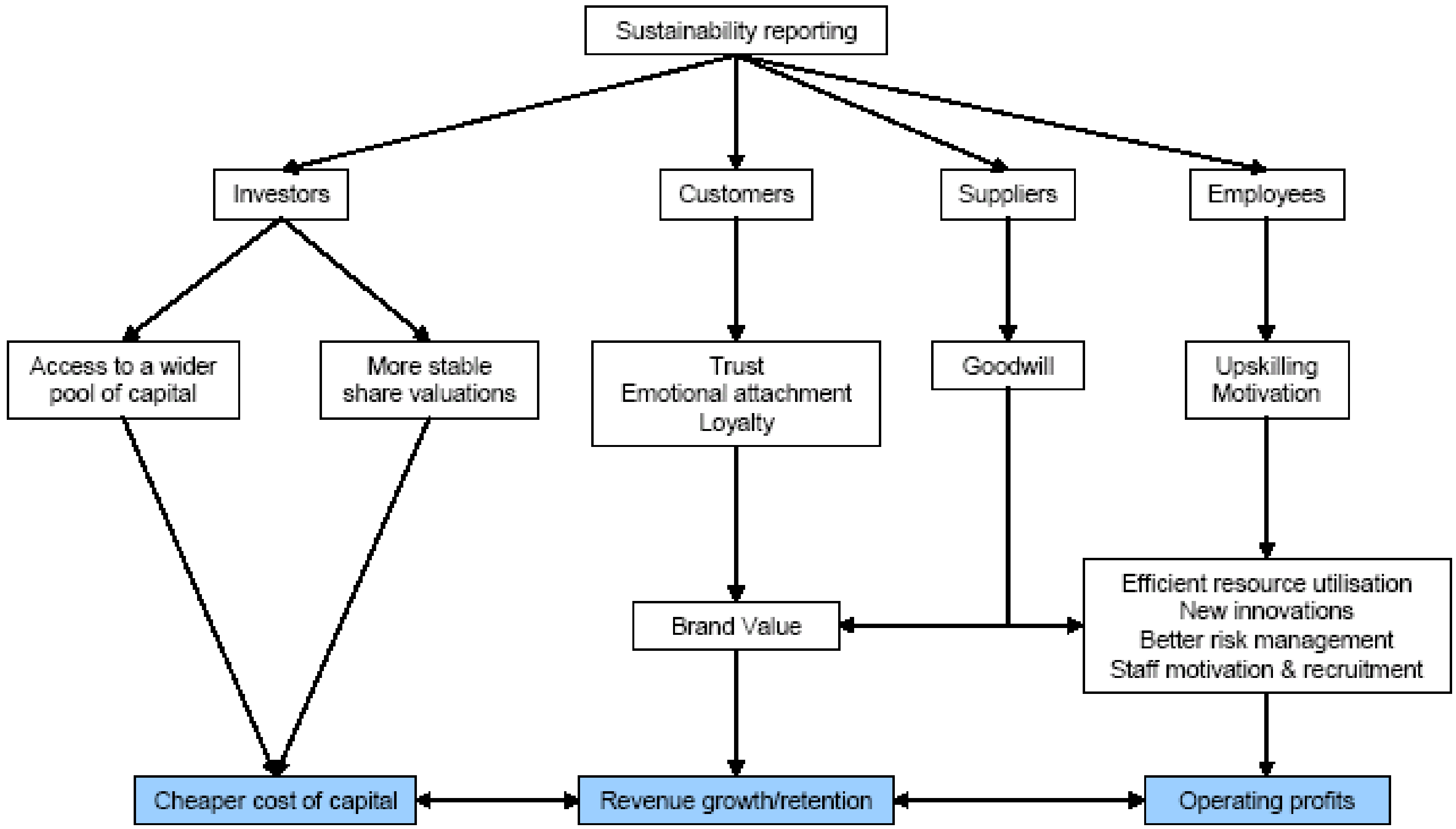
TP initiatives

As a publicly listed company TP Group has takes several initiatives to comply with international corporate governance best practices and to meet expectations of the investment community:

- **Establishment of Risk Committee**
  - supervise the risk management process in TP;
  - approve TP Risk Map and all modifications to this Map;
  - assess the system of risk identification as well as the control and risk monitoring environment;
  - offer an opinion on the extent to which the annual plans of the Internal Audit divisions address the company's material business risks.
- **Development and adoption of Corporate Governance Charter**
- **Establishment of Disclosure Committee**
  - The role of the Committee is to supervise that public disclosures made by TP Group should be timely, exact, transparent, complete, and in accordance with laws, applicable regulations, recognized practices and representative of the financial and operational condition of the Group.

Risk management

The hypothesised benefits of sustainability reporting*



Source: Lintstock analysis

Steps in risk management

Risk Committee → **Risk mapping** → **Evaluation** → **Reporting**

- Establishment of the Risk Committee to co-ordinate risk management and reporting activity

Domains of risks:

- Strategic and regulatory
- Operational
- Environmental

- The **key criteria for risk evaluation are:**
  - nature and extent of risks facing the company,
  - the extent and categories of risk regarded as acceptable;
  - the likelihood of the risks materialising;
  - the company's ability to reduce the incidence and impact on the business;
  - the costs and benefits related to operating the relevant controls

Environmental reporting

- Environmental reporting covers issues including the use of energy and renewable resources, pollution, and the use of recycling within the company.
- Investors should expect higher levels of reporting for companies in industries that can have large effects on the environment – mining, oil and gas, and other extractive industries are good examples.
- While disclosure of this nature can be helpful and supportive of stakeholder relationships, its technical/scientific nature can be difficult for generalist financial analysts to interpret in economic terms.
- Analysts should also be alert to the possibility of “greenwashing”—companies portraying themselves in an inaccurate or misleading way with regard to social or environmental issues.

S&P assessment

In reference to environmental issues S&P's assessment of stakeholder relations included the following questions:

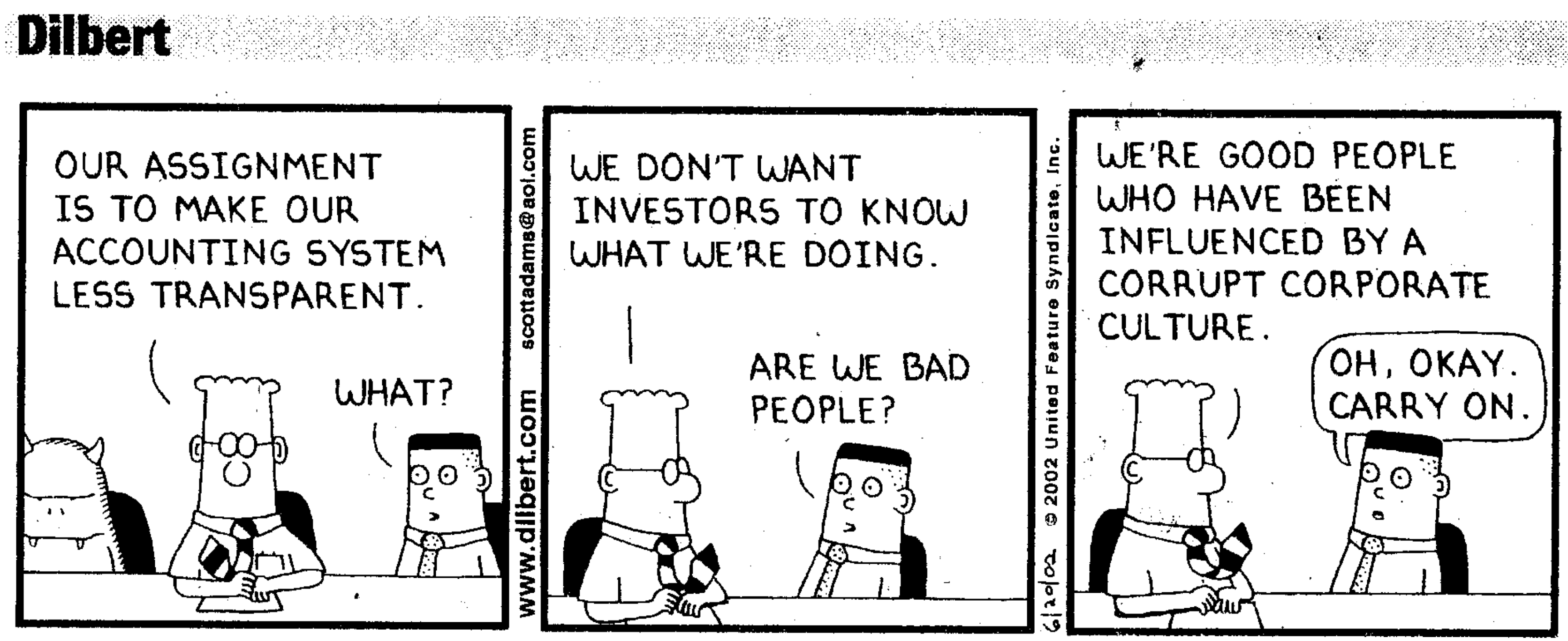
- How are social and environmental issues identified and managed by the company's management? What is the role of the board with regard to oversight in this domain?
- Have the company or its senior officials been convicted of offences relating to its social or environmental activities?
- Do shareholder resolutions exist that relate to social and environmental matters?
- How extensive is the company's own social and environmental reporting? Does it fully or partially disclose in accordance with the Global Reporting Initiative?
- To the extent that the company does provide disclosure with regard to its social and environmental performance, how do these external controls link to how the company is managed on a day-to-day basis? What reports, if any, does the board receive on social and environmental performance?

There is evidence that the company has identified material social and environmental risks and has introduced processes and controls to manage and govern the company with regard to these risks. These matters have explicit board oversight.

There is no evidence that the company has identified material social and environmental risks and there do not exist processes and controls to manage and govern the company with regard to these risks. Board oversight over social and environmental issues is either non existent or minimal.

Source: Risk & Opportunity - The Global Reporters 2004 Survey of Corporate Sustainability Reporting

To report or not to report…



Back-up

List of risks

NON-FINANCIAL RISKS:

External sources of non-financial risk:

- competition,
- market regulator
- labour market regulations

Internal sources of non-financial risk:

- re-structuring,
- system and network failure, health & safety,
- loss of key personnel,
- exploitation of R&D,
- supplier risk
- **Environmental issue**

FINANCIAL RISKS

- Inflation
- Exchange rates
- Interest rates
- Unemployment
- GDP
- Taxes

Standard & Poor's

- Standard & Poor's has begun to address more systematically the linkage between a company's management and governance processes and its overall financial risk profile.
- Governance Services unit was formed in 2000 to provide comprehensive evaluations and benchmarking of corporate governance to financial stakeholders.
- Corporate governance as a risk factor > analysis comprised of criteria that are of greatest relevance to a company's financial stakeholders. This includes the assessment of a company's ownership structure, investor rights, transparency and disclosure, management culture, board effectiveness and stakeholder relations.

Source: Risk & Opportunity - The Global Reporters 2004 Survey of Corporate Sustainability Reporting