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POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS for the year

2009

(year)

(according to par. 82 s. 2 of the Decree of Minister of Finance dated 19 February 2009 - Journal of Laws No. 33, item 259)

for the issuers in sectors of production, construction, trade or services

for the year 2009, i.e. from 1 January 2009 to 31 December 2009

including, consolidated financial statements prepared under: **International Financial Reporting Standards**
in currency: **PLN**

date of issuance: 23 February 2010

TELEKOMUNIKACJA POLSKA S. A.	
(full name of issuer)	
TPSA	Telecommunication (tel)
(abbreviated name of the issuer)	(classification according to WSE)
00-105	Warsaw
(post code)	(location)
Twarda	18
(street)	(number)
022 527 23 23	022 527 23 41
(telephone)	(fax)
investor.relations@telekomunikacja.pl	telekomunikacja.pl
(e-mail)	(www)
526 02 50 995	012100784
(NIP)	(REGON)

Deloitte Audyt Sp. z o.o.
(auditor)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	year / 2009	year / 2008	year / 2009	year / 2008
I. Revenue	16 560 000	18 165 000	3 815 141	5 142 833
II. Operating income	2 096 000	3 313 000	482 883	937 969
III. Profit before income tax	1 597 000	2 595 000	367 921	734 690
IV. Consolidated net income	1 282 000	2 190 000	295 351	620 028
V. Net income attributable to owners of TP S.A.	1 280 000	2 188 000	294 890	619 462
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.96	1.61	0.22	0.46
VII. Weighted average number of shares (in millions) (basic and diluted)	1 336	1 361	1 336	1 361
VIII. Total comprehensive income	1 324 000	2 186 000	305 027	618 895
IX. Total comprehensive income attributable to owners of TP S.A.	1 322 000	2 184 000	304 566	618 329
X. Net cash provided by operating activities	5 541 000	6 626 000	1 276 552	1 875 938
XI. Net cash used in investing activities	(2 281 000)	(2 946 000)	(525 503)	(834 065)
XII. Net cash used in financing activities	(2 680 000)	(2 687 000)	(617 426)	(760 737)
XIII. Total net change in cash and cash equivalents	578 000	996 000	133 161	281 985
	Balance as at 31/12/2009	Balance as at 31/12/2008	Balance as at 31/12/2009	Balance as at 31/12/2008
XIV. Total current assets	4 189 000	4 254 000	1 019 668	1 019 557
XV. Total non-current assets	25 167 000	26 980 000	6 126 041	6 466 302
XVI. Total assets	29 356 000	31 234 000	7 145 709	7 485 859
XVII. Total current liabilities	5 222 000	7 415 000	1 271 116	1 777 155
XVIII. Total non-current liabilities	7 541 000	6 589 000	1 835 597	1 579 187
XIX. Total equity	16 593 000	17 230 000	4 038 995	4 129 518
XX. Equity attributable to equity owners of TP S.A.	16 579 000	17 217 000	4 035 587	4 126 402
XXI. Share capital	4 007 000	4 106 000	975 366	984 086

The balance sheet data as at 31 December 2009 and 2008 presented in the table "Selected financial data" was translated into Euro at the average exchange rate of the National Bank of Poland on the balance sheet dates. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the years ended 31 December 2009 and 2008, were translated into Euro at an exchange rate which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of years ended 31 December 2009 and 2008.

The exchange rates used in translation of balance sheet, income statement, statement of comprehensive income and cash flow data are presented below:

1 Euro	31 December 2009	31 December 2008
Balance Sheet	4.1082 PLN	4.1724 PLN
Income statement, Comprehensive income, Cash Flow data	4.3406 PLN	3.5321 PLN

Dear Shareholders,

Please find enclosed TP Group 2009 full year results. 2009 was a breakthrough year for us, as well as for the whole telecommunications sector in Poland. Despite a significant market slowdown, we have been able to well achieve our net free cash flow objective, implement a robust cost optimization program and sign a groundbreaking Arrangement with the President of the Office of Electronic Communications.

2009 was characterized by a difficult and volative macroeconomic environment. We estimate an unprecedented decline of the Polish telecommunication market by 3.4%, mainly resulting from the regulated decrease of the mobile termination rate (MTR). This has been reflected in a decline of TP Group revenue.

In reaction to the unfavorable impact of the environment, TP Group has implemented a robust cost optimization program and aligned its capital expenses to lower demand. As a consequence, we have well achieved our guidance, by generating net free cash flow of over 3,2 billion polish zloty. We have decreased our net debt by over 1 billion polish zloty and we can be proud of the strength of our balance sheet, considered as one of the safest from European telecommunication operators. Thus we have again proved the resilience of our business model to adverse external changes. In effect, we are again able to make an attractive proposal of shareholder remuneration.

In 2009, we have signed an Arrangement with the President of the Office of Electronic Communications. This is a groundbreaking arrangement, both for TP Group and for the Polish telecommunication market. For us, it creates a more predictable and investment-supportive regulatory conditions. It also improves the perspectives for infrastructure development on the Polish telecommunication market and stimulates fair competition. Based on this arrangement, we have launched a country-wide investment program in 1,2 million broadband access lines, including roughly 1 million lines with speed of at least 6mbps. I am deeply convinced that this investment program will permanently change the Polish market and will allow TP Group to strengthen its leadership position on the broadband market in Poland.

We have realised the need for further changes, needed in order for TP Group to establish a commending leadership position in its core markets. Therefore, together with the 2009 results, the Management Board has launched a new medium term action plan, based on three pillars:

- **Re-focus:** on core business, following the groundbreaking Arrangement with the President of the Office of Electronic Communications
- **Re-engage:** with the markets, where TP Groups plans to achieve a commanding leadership position. This will be achieved on the back of a broad portfolio of highly innovative products, progressively sold under one brand, best-in-class customer care and commercially powerful, proactive sales force.
- **Re-balance:** the operating model. In order to secure sustainable results of TP Group, we will continue the 2009 cost optimization program, reshaping it into a Company transformation program. We plan to gradually reduce Company's total cost base. At the same time, within this smaller cost base, we will be able to allocate more resource to product development, promotion and sales of our services. The cost transformation will be accompanied by an extensive culture change program of the Group, turning it into an even more client-centric, innovative and agile.

I am deeply convinced, that this new medium term action plan will be a success. In turn, TP Group will strengthen its market position and achieve operating efficiency needed to secure sustainable financial results and attractive shareholder remuneration

Maciej Witucki
President of the Board and CEO
Telekomunikacja Polska

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Telekomunikacja Polska S.A.

We have audited the attached consolidated financial statements of the Telekomunikacja Polska Group ("the Group"), for which Telekomunikacja Polska S.A. ("TP S.A. / the Company") with the registered office in Warsaw, Twarda 18 St. is holding company, including:

- consolidated balance sheet prepared as at 31 December 2009, with total assets, total equity and liabilities of PLN 29,356 million,
- consolidated income statement for the period from 1 January 2009 to 31 December 2009, with a net income of PLN 1,282 million,
- consolidated statement of comprehensive income for the period from 1 January 2009 to 31 December 2009 with a total comprehensive income of PLN 1,324 million,
- consolidated statement of changes in equity for the period from 1 January 2009 to 31 December 2009, disclosing a decrease in equity of PLN 637 million,
- consolidated statement of cash flows for the period from 1 January 2009 to 31 December 2009, showing a net cash inflow of PLN 580 million,
- notes, comprising summary of adopted significant accounting policies and other explanatory information.

The fairness, correctness and clarity of information included in the attached consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. Our responsibility is to issue an opinion on these financial statements based on our audit.

The consolidated financial statements of the Group for the previous financial year ended 31 December 2008 were audited by another certified auditor, who issued an unqualified opinion, with emphasis of matter paragraph, as of 25 February 2009. Our opinion refers only to the consolidated financial statements for the financial year ended 31 December 2009.

Our audit of the consolidated financial statements was planned and performed in accordance with:

- section 7 of the Accounting Act of 29 September 1994 (Journal of Laws from 2009, No. 152, item 1223 with subsequent amendments),
- auditing standards issued by the National Council of Certified Auditors in Poland and
- International Standards on Auditing

in order to obtain reasonable and sufficient basis for expressing an opinion as to whether the consolidated financial statements were free of material misstatements. Our audit included in particular examination of the consolidation documentation supporting the amounts and disclosures in the consolidated financial statements, assessment of the accounting principles (policies) applied in the preparation of the consolidated financial statements, related material estimates made, as well as evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements of the Group for the 2009 financial year were prepared in all material aspects in accordance with the International Financial Reporting Standards as adopted by the European Union are consistent with adopted accounting policies and give a true and fair view of all the information essential for evaluating the financial position and financial result of the Group for the 12-month period ended 31 December 2009 and, as at that date.

Without qualifying our audit opinion, we draw attention to the following matter:

As more fully explained in explanatory note 32 to the attached consolidated financial statements, the Group is involved in a number of legal, arbitration and administrative proceedings. Any costs that may result from these proceedings are provided for when they become probable and when the amount may be reliably quantified. The amount of any provision is based on an assessment of the risk level in each case and represents the Group's best estimate of the amounts that are more likely than not to be payable. Occurrence of events during the proceedings, the outcome of which is uncertain, may lead to re-assessment of the risk and as a consequence the amount of the provisions may change.

The Management Board's Report on the Activity of the Group in the 2009 financial year is complete in the meaning of Article 49 clause 2 of the Accounting Act and Decree of the Minister of Finance of 19 February 2009 on current and periodic information to be disclosed by issuers of securities (Journal of Laws of 2009, no. 33, item 259), derived directly from the audited consolidated financial statements and reconciles with these financial statements.

.....
Krzysztof Sowada
Lead Certified Auditor
No. 10944

.....
Represented by

.....
Entity entitled to audit
financial statements entered under
number 73 on the list kept by the
National Council of Certified Auditors

Warsaw, 22 February 2010

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT SUPPLEMENTING THE OPINION ON THE AUDIT OF THE
CONSOLIDATED FINANCIAL STATEMENTS OF TELEKOMUNIKACJA
POLSKA GROUP FOR THE 2009 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Company

The holding company of the Group operates under the name Telekomunikacja Polska S.A. The Company's registered office is located in Warsaw, Twarda 18 St.

The Company operates as a joint stock company established by the notarial deed of 4th December 1991 in front of Katarzyna Szachułowicz-Barańska, Notary Public in Warsaw (Repertory A No. 6480/91).

The Company was entered in the Commercial Register kept by the District Court in Warsaw, XVI Business-Registry Division in Warsaw, section B, under the number RHB 29979, based on the decision of 13th December 1991. Currently, the Company is recorded in the Register of Entrepreneurs kept by the District Court in Warsaw, XII Business-Registry Division in Warsaw, under KRS No. 0000010681.

The Company has the tax identification number NIP: 526-02-50-995 assigned by Second Tax Office Warsaw - Centre on 4 June 1993.

The REGON number assigned by the Statistical Office is: 012100784.

The Company operates based on the provisions of the Code of Commercial Companies.

In accordance with the Company's Articles of Association, the scope of its activity includes:

- 1) Production equipment (tele)communications [PKD 26.30.Z];
- 2) Construction of electricity and telecommunications [PKD 42.22.Z];
- 3) Electrical installation [PKD 43.21.Z];
- 4) Retail sale of computers, peripherals and software in specialized stores [PKD 47.41.Z];
- 5) Retail sale of telecommunications equipment in specialized stores [PKD 47.42.Z];
- 6) Publishing of books [PKD 58.11.Z];
- 7) Issuing and mailing lists (such as address, telephone) [PKD 58.12.Z];
- 8) Other publishing [PKD 58.19.Z];
- 9) Production activities like movies, videos and television programs [PKD 59.11.Z];
- 10) Post-production activities Motion picture, video and television program [PKD 59.12.Z];
- 11) Distribution activities like movies, videos and television programs [PKD 59.13.Z];
- 12) Operation of sound recording and music [PKD 59.20.Z];
- 13) Television programming and broadcasting [PKD 60.20.Z];
- 14) Telecommunications activities wired [PKD 61.10.Z];
- 15) The activities in the field of wireless telecommunications, with the exception of satellite telecommunications [PKD 61.20.Z];
- 16) Activities in the field of satellite telecommunications [PKD 61.30.Z];
- 17) Activity in the rest of telecommunications [PKD 61.90.Z];
- 18) Activities with the software [PKD 62.01.Z];
- 19) Activities of the consultancy [PKD 62.02.Z];
- 20) Activities related to facilities management [PKD 62.03.Z];
- 21) Other service activities in the field of information technology and computer [PKD 62.09.Z];
- 22) Processing data management web (hosting) and related activities [PKD 63.11.Z];
- 23) The activities of insurance agents and brokers [PKD 66.22.Z];

- 24) The activities of accounting, tax advice [PKD 69.20.Z];
- 25) Other advice on business and management [PKD 70.22.Z];
- 26) Activities in the field of architecture [PKD 71.11.Z];
- 27) Engineering activities and related technical consultancy [PKD 71.12.Z];
- 28) Research and experimental development on other natural sciences and engineering [PKD 72.19.Z];
- 29) Intermediation in the sale of time and place for the purpose of advertising on radio and television [PKD 73.12.A];
- 30) Mediation in the sale of space for advertising purposes in the electronic media (Internet) [PKD 73.12.C];
- 31) Market research and public opinion [PKD 73.20.Z];
- 32) Other professional, scientific and technical activities nec [PKD 74.90.Z];
- 33) Renting and leasing of other machinery, equipment and tangible goods nec [PKD 77.39.Z];
- 34) The activities of security activities in the handling of safety systems [PKD 80.20.Z].

In the audited period, the Group conducted mainly the following business activities:

- Telecommunications services including voice telephony, data transmission, tele-info, radio-communications, visual, multimedia and related services provided on fixed line and mobile, land and satellite networks,
- Investing, production, service, trade and construction activities related to telecommunications services and infrastructure,
- Research and development activities in the field of telecommunications.

As of 31 December 2009, the Company's share capital amounted to PLN 4,007 million and was divided into 1,336 million ordinary shares with face value of PLN 3 each. The ownership structure of the share capital as at 31 December 2009 was as follows:

<i>(in PLN millions)</i>	<i>% of votes</i>	<i>Nominal value</i>
France Telecom S.A.	49.79	1,995
State Treasury ¹	4.15	166
Other shareholders	46.06	1,846
Total	100.00	4,007

The following changes in the Company's share capital took place during the financial year:

On 16 January 2009, an Extraordinary General Meeting adopted resolutions on redemption of 33 million treasury shares, and a reduction of the Company's share capital from PLN 4,106 million to PLN 4,007 million, i.e. by PLN 99 million, which was registered on 27 March 2009.

As at 31 December 2008, France Telecom owned 48.58% of shares of the Company and held 49.79% of votes at the General Shareholders' Meeting. As a result of the share capital reduction described above, the percentage of shares owned as at 31 December 2009 has increased to 49.79% and the percentage of votes held remained unchanged.

No material changes other than the aforementioned in the Company's shareholding structure took place in the audited period.

No changes in the Company's share capital took place after the balance sheet date.

As of 31 December 2009, the Group's total equity amounted to PLN 16,593 million.

¹ Data is the number of shares registered by the State Treasury during the General Meeting of Shareholders of TP S.A. on 23 April 2009.

The Group's financial year is the calendar year.

As at the opinion's date, the composition of the Company's Management Board was as follows:

- Maciej Witucki – President of the Management Board, Chief Executive Officer,
- Vincent Lobry – Vice President in charge of Marketing and Strategy,
- Piotr Muszyński – Vice President in charge of Operations,
- Roland Dubois – Board Member, Chief Financial Officer.

The following changes in the Company's Management Board took place during the audited period:

- On 26 March 2009, the Supervisory Board of TP S.A. reappointed Mr Maciej Witucki as the President of the Management Board of TP S.A. and appointed Mr Mariusz Gaca as a Member of the Management Board of TP S.A.
- On 6 August 2009, Mr Ireneusz Picuch resigned from the Management Board of TP S.A.
- On 15 September 2009:
 - the Supervisory Board of TP S.A. appointed Mr Vincent Lobry as a Vice President of the Management Board of TP S.A. in charge of Marketing and Strategy,
 - the Supervisory Board of TP S.A. appointed Mr Piotr Muszyński, a Member of the Management Board of TP S.A. in charge of Operations, as a Vice President of the Management Board of TP S.A.,
 - Mr Mariusz Gaca resigned from the Management Board of TP S.A. and was appointed as the President of the Management Board of PTK Centertel Sp. z o.o.,
 - Mr Richard Shearer resigned from the Management Board of TP S.A.
- Mr Jacek Kałaur resigned from the Management Board of TP S.A. and his mandate expired on 4 November 2009.

The above changes were filed and recorded in the proper court register.

As of 31 December 2009, the Group included:

- holding company – Telekomunikacja Polska S.A., and
- subsidiaries:
 - Polska Telefonía Komórkowa-Centertel Sp. z o.o.
 - TP EmiTel Sp. z o.o.
 - OPCO Sp. z o.o.
 - Otwarty Rynek Elektroniczny S.A.
 - TP Edukacja i Wypoczynek Sp. z o.o.
 - TP Invest Sp. z o.o.
 - Telefon 2000 Sp. z o.o.
 - TP TelTech Sp. z o.o.
 - Telefony Podlaskie S.A.
 - Contact Center Sp. z o.o.
 - Virgo Sp. z o.o.
 - Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.
 - Fundacja Orange
 - TP Finance B.V.
 - TPSA Eurofinance B.V.
 - TPSA Eurofinance France S.A.
 - Wirtualna Polska S.A.
 - PayTel S.A.
 - Ramsat S.A.
 - Prado Sp. z o.o.
- associated entities:

- Telefony Opalenickie S.A.
- Polskie Badania Internetu Sp. z o.o.
- Mobile TV Sp. z o.o.

The consolidated financial statements as of 31 December 2009 included the following entities:

- a) Holding company – Telekomunikacja Polska S.A.

We have audited the financial statements of Telekomunikacja Polska S.A. holding company for the period from 1 January to 31 December 2009. As a result of our audit, on 22 February 2010 we issued an unqualified opinion with emphasis of matter paragraph:

“As more fully explained in explanatory note 29 to the attached financial statements, the Company is involved in a number of legal, arbitration and administrative proceedings. Any costs that may result from these proceedings are provided for when they become probable and when the amount may be reliably quantified. The amount of any provision is based on an assessment of the risk level in each case and represents the Company’s best estimate of the amounts that are more likely than not to be payable. Occurrence of events during the proceedings, the outcome of which is uncertain, may lead to re-assessment of the risk and as a consequence the amount of the provisions may change.”

- b) Companies subject to full consolidation:

Name and address of the Company	Share in the share capital: (in %)	Name of entity that audited the financial statements and type of opinion issued	Opinion date
Polska Telefonia Komórkowa-Centertel Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified	17.02.2010
TP EmiTel Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified with an emphasis of matter paragraph	22.01.2010
OPCO Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
Otwarty Rynek Elektroniczny S.A.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
TP Edukacja i Wypoczynek Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
TP Invest Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
Telefon 2000 Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
TP TelTech Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
Telefony Podlaskie S.A.	55%	Deloitte Audyt Sp. z o.o. unqualified	27.01.2010
Contact Center Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
Virgo Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010

Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	100%	Deloitte Audyt Sp. z o.o. unqualified	26.01.2010
Fundacja Orange	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
TP Finance B.V.	100%	Deloitte Audyt Sp. z o.o. unqualified	18.02.2010
TPSA Eurofinance B.V.	100%	Deloitte Audyt Sp. z o.o. unqualified	18.02.2010
TPSA Eurofinance France S.A.	100%	Deloitte Audyt Sp. z o.o. unqualified	11.02.2010
Wirtualna Polska S.A.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
PayTel S.A.	100%	Deloitte Audyt Sp. z o.o. unqualified	29.01.2010
Ramsat S.A.	100%	Deloitte Audyt Sp. z o.o. unqualified	27.01.2010
Prado Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. unqualified	27.01.2010

c) Companies subject to equity method consolidation:

Name and address of the Company	Share in the share capital: (in %)	Name of entity that audited the financial statements and type of opinion issued	Opinion date
Telefony Opalenickie S.A.	25%	Morison Finansista Audit Sp. z o.o.	Audit in progress
Polskie Badania Internetu Sp. z o.o.	20%	Not required to be audited	Not applicable
Mobile TV Sp. z o.o.	25%	Not required to be audited	Not applicable

2. Information on the consolidated financial statements for the previous financial year

The activities of the Group in 2008 resulted in the net profit of PLN 2,190 million. The consolidated financial statements of the Group for the 2008 financial year were audited by a certified auditor. The audit was performed by authorised entity Ernst & Young Audit Sp. z o.o. On 25 February 2009, the certified auditor issued an unqualified opinion with an emphasis of matter paragraph, stating as follows:

“As more fully explained in note 32 of the other explanatory notes to the attached consolidated financial statements the Group is a party to a number of legal and administrative proceedings. To the extent the obligations in respect of these proceedings could be reliably measured the Group has made provisions in this respect, which represent the Group’s best estimate of the amounts that according to the Company’s Management Board are more likely than not to be paid. The amount of the liabilities depends on a number of future events, the outcome of which is uncertain and as a consequence the amount of the provisions may change at a future date.”

The General Shareholders’ Meeting which approved the consolidated financial statements for the 2008 financial year was held on 23 April 2009.

In accordance with applicable laws, the consolidated financial statements for the 2008 financial year were submitted to the National Court Register (KRS) on 5 May 2009. The financial statements were published in Monitor Polski B No. 1177 on 22 July 2009.

3. Details on the authorized entity and the Certified Auditor acting on its behalf

The audit of the consolidated financial statements was performed based on the agreement of 23 September 2009 concluded between Telekomunikacja Polska S.A. and Deloitte Audyt Sp. z o.o. with the registered office in Warsaw, Al. Jana Pawła II 19 registered under number 73 on the list of entities authorised to provide audit services kept by the National Council of Certified Auditors. On behalf of the authorised entity, the audit of financial statements was conducted under the supervision of Lead Certified Auditor Krzysztof Sowada (No. 10944), from 23 September 2009 to 22 February 2010.

The entity authorised to audit the financial statements was appointed by the resolution of the Supervisory Board of 18 June 2009 based on authorisation included in Article 23 p. 8 of the holding company's Articles of Association.

Deloitte Audyt Sp. z o.o. and the Lead Certified Auditor Krzysztof Sowada confirm that they are authorised to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws from 2009, No. 77, item 649) to express an unbiased and independent opinion on the consolidated financial statements of the Group.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorised entity and the Certified Auditor, as confirmed e.g. in the written representation of the Management Board of the holding company of 22 February 2010.

5. Economic and financial position of the Group

Presented below are the main items from the income statement as well as financial ratios describing the financial result of the Group and its financial position as compared to the same items in the previous year.

<u>Main items from the income statement (in million PLN)</u>	<u>2009</u>	<u>2008²</u>
Revenue	16,560	18,165
Operating expenses, net	(14,464)	(14,852)
Result from financial activity	(499)	(718)
Income tax	(315)	(405)
Net profit	1,282	2,190
	<u>2009</u>	<u>2008</u>
<u>Profitability ratios</u>		
- gross profit margin	13%	18%
$\frac{\text{Operating income} * 100\%}{\text{Revenue}}$		
- net profit margin	8%	12%
$\frac{\text{Net income} * 100\%}{\text{Revenue}}$		
- net return on equity	8%	15%
$\frac{\text{Net income} * 100\%}{\text{Total equity}}$		
<u>Effectiveness ratios</u>		
- assets turnover ratio	0.56	0.58
$\frac{\text{Revenue}}{\text{Total assets}}$		
- trade receivables turnover in days	36	36
$\frac{(\text{Trade receivables, net year end} + \text{Trade receivables, net opening balance}) / 2 * 365}{\text{Revenue}}$		
- trade liabilities turnover in days	125	147
$\frac{(\text{Short term trade payables year end} + \text{Short term trade payables opening balance}) / 2 * 365}{(\text{External purchases} + \text{Other operating expense})}$		
<u>Liquidity/Net working capital</u>		
- debt ratio	43%	45%
$\frac{(\text{Total current and non-current liabilities}) * 100\%}{\text{Total assets}}$		

² not audited by Deloitte Audyt Sp. z o.o.

- equity to assets ratio	<u>2009</u> 57%	<u>2008</u> 55%
<hr/>		
Equity *100%		
<hr/>		
Total assets		
- net working capital (in million PLN)	(1,033)	(3,161)
<hr/>		
Current Liabilities - Current assets		
- current ratio	0.80	0.57
<hr/>		
Current assets		
<hr/>		
Current liabilities		
- quick ratio	0.76	0.53
<hr/>		
(Current assets - Inventories, net)		
<hr/>		
Current liabilities		

The analysis of the above figures and ratios indicated the following trends occurring in the year 2009 in comparison to the year 2008:

- decrease of profitability ratios,
- decrease of trade liabilities turnover,
- increase of net working capital,
- increase of liquidity ratios.

II. DETAILED INFORMATION

1. Information on the audited consolidated financial statements

The audited consolidated financial statements were prepared as of 31 December 2009 and include:

- consolidated balance sheet prepared as of 31 December 2009, with total assets, total equity and liabilities of PLN 29,356 million,
- consolidated income statement for the period from 1 January 2009 to 31 December 2009, with a net income of PLN 1,282 million,
- consolidated statement of comprehensive income for the period from 1 January 2009 to 31 December 2009 with a total comprehensive income of PLN 1,324 million,
- consolidated statement of changes in equity for the period from 1 January 2009 to 31 December 2009, disclosing a decrease in equity of PLN 637 million,
- consolidated statement of cash flows for the period from 1 January 2009 to 31 December 2009, showing a net cash inflow of PLN 580 million,
- notes, comprising summary of adopted significant accounting policies and other explanatory information.

The structure of assets, equity and liabilities, as well as items affecting the financial result, was presented in the consolidated financial statements.

The audit covered the period from 1 January 2009 to 31 December 2009 and focused mainly on:

- verifying correctness and fairness of the consolidated financial statements prepared by the Management Board of the holding company,
- verifying the consolidation documentation,
- evaluating correctness of the consolidation methods and procedures applied during consolidation,
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

The audit of the consolidated financial statements was conducted in line with the relevant applicable laws, auditing standards issued by the National Council of Certified Auditors as well as International Standards on Auditing.

2. Consolidation documentation

The holding company presented the consolidation documentation including:

- 1) financial statements of the entities included in the consolidated financial statements;
- 2) financial statements of the controlled entities,
- 3) financial statements of subsidiaries translated into the Polish currency;
- 4) all consolidation adjustments and eliminations necessary for consolidated financial statements preparation;
- 5) calculation of goodwill as well as its impairment;
- 6) calculation of minority interest;
- 7) calculation of exchange differences arising on translation of the subsidiaries' financial statements denominated in foreign currencies.

Basis of the preparation of the consolidated financial statements

The consolidated financial statements of the Group for the 2009 financial year were prepared in accordance with the International Financial Reporting Standards in the form adopted by the European Union.

Determination of entities within the Group

When determining relationship between group entities, as well as consolidation scope and methods, the International Financial Reporting Standards criteria were applied.

Reporting period

The consolidated financial statements were prepared as of the same balance sheet date and the same financial year as the financial statements of the holding company – Telekomunikacja Polska S.A. Subsidiaries and associated companies included in consolidation prepared their financial statements as of the same balance sheet date as the holding company. The financial year of all subsidiaries and associated companies included in consolidation ended 31 December 2009.

Consolidation method

The consolidation of the financial statements of the Group was carried out based on the full method by summing up individual items of respective financial statements of the holding company and the subsidiaries included in consolidation.

After summing up the values, consolidation adjustments and exclusions were applied to:

- the value of purchase of shares held by the holding company in subsidiaries and the part of net assets of subsidiaries corresponding to the share of the holding company in the ownership of these companies,
- intercompany receivables and liabilities of entities included in consolidation,
- revenues and expenses related to operations between entities included in consolidation.

In case of associated entities, the equity method was applied. The value of the holding company's share in the associated entity was adjusted by increases or decreases in net assets of this entity to which the holding company was entitled and which occurred in the period covered by consolidation.

3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Group

The holding company applied to the consolidated financial statements the going concern principle. Notes and explanations to the consolidated financial statements give a correct and complete description of the valuation principles regarding assets, equity and liabilities, principles of measurement of the financial result as well as method of preparation of the consolidated financial statements.

The holding company provided notes and explanations consisting of tabular notes to individual items in the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows as well as narrative descriptions in line with IFRS.

Individual assets, equity and liabilities as well as revenues and expenses were correctly presented by the holding company in the consolidated financial statements. The consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated

statement of changes in equity and consolidated statement of cash flows with additional notes, information and explanations constituting their integral part contain all the material items required to be disclosed in the financial statements by the provisions of IFRS.

The Management Board prepared and enclosed to the consolidated financial statements the Report on the Activities of the Group in the 2009 financial year. The report contains all information required under Article 49 clause 2 of the Accounting Act and regulation of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information to be disclosed by issuers of securities (Journal of Laws of 2009, no. 33, item 259). We have audited the report with regard to the disclosed information derived directly from the audited consolidated financial statements.

Management Board's Representation

Deloitte Audyt Sp. z o.o. and the Certified Auditor received a representation letter from the Management Board of the holding company in which the Board stated that the Group complied with the laws in force.

.....
Krzysztof Sowada
Lead Certified Auditor
No. 10944

.....
Represented by

.....
Entity entitled to audit
financial statements entered under
number 73 on the list kept by the
National Council of Certified Auditors

Warsaw, 22 February 2010

**TELEKOMUNIKACJA POLSKA GROUP
IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

Telekomunikacja Polska Group
IFRS Consolidated Financial Statements – 31 December 2009

Translation of the financial statements originally issued in Polish

CONSOLIDATED INCOME STATEMENT

(Amounts in PLN millions, except for share data)

	Note	<i>12 months ended</i>	
		<i>31 December 2009</i>	<i>31 December 2008</i>
		<i>(audited)</i>	<i>(audited)</i>
Revenue	6	16,560	18,165
External purchases	7	(7,438)	(7,599)
Labour expenses	7	(2,353)	(2,359)
Other operating expense	7	(671)	(863)
Other operating income	7	169	241
Restructuring costs	8	(23)	(174)
Gains on disposal of assets	9	35	110
Depreciation and amortization	15, 16	(4,150)	(4,317)
(Impairment)/reversal of impairment of non-current assets	10	(33)	109
Operating income		2,096	3,313
Interest income	11	37	58
Interest expense and other financial charges	11	(400)	(562)
Foreign exchange losses	11	(30)	(94)
Discounting expense	11	(106)	(120)
Finance costs, net		(499)	(718)
Income tax	12	(315)	(405)
Consolidated net income		1,282	2,190
Net income attributable to owners of TP S.A.		1,280	2,188
Minority interest		2	2
Earnings per share (in PLN) (basic and diluted)	3.4	0.96	1.61
Weighted average number of shares (in millions) (basic and diluted)	3.4	1,336	1,361

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in PLN millions)

		<i>12 months ended</i>	
		<i>31 December 2009</i>	<i>31 December 2008</i>
		<i>(audited)</i>	<i>(audited)</i>
Consolidated net income		1,282	2,190
Losses on financial assets available for sale	13	-	(1)
Gains/(losses) on cash flow hedges	13	50	(5)
Income tax relating to components of other comprehensive income	13	(10)	2
Translation adjustment		2	-
Other comprehensive income, net of tax		42	(4)
Total comprehensive income		1,324	2,186
Total comprehensive income attributable to owners of TP S.A.		1,322	2,184
Minority interest		2	2

The notes to the Consolidated Financial Statements are an integral part of this Consolidated Income Statement and Consolidated Statement of Comprehensive Income

Telekomunikacja Polska Group
IFRS Consolidated Financial Statements – 31 December 2009

Translation of the financial statements originally issued in Polish

CONSOLIDATED BALANCE SHEET

(Amounts in PLN millions)

	Note	At 31 December 2009 (audited)	At 31 December 2008 (audited)
ASSETS			
Goodwill, net	14	4,016	3,994
Other intangible assets, net	15	2,767	2,914
Property, plant and equipment, net	16	17,743	19,589
Investments in associates		3	3
Financial assets available for sale	17	4	4
Loans and receivables excluding trade receivables	17	11	17
Financial assets at fair value through profit or loss	17	62	44
Hedging derivatives	22	55	12
Other assets		-	3
Deferred tax assets	12	506	400
Total non-current assets		25,167	26,980
Inventories, net		229	292
Trade receivables, net	18	1,475	1,814
Other assets	18	119	102
Loans and receivables excluding trade receivables	17	13	9
Financial assets at fair value through profit or loss	17	9	118
Hedging derivatives	22	2	-
Income tax assets		24	166
Prepaid expenses	18	100	113
Cash and cash equivalents	20	2,218	1,640
Total current assets		4,189	4,254
TOTAL ASSETS		29,356	31,234
EQUITY AND LIABILITIES			
Share capital	30	4,007	4,106
Share premium		832	832
Treasury shares	30	-	(704)
Other reserves	13, 27	91	8
Retained earnings		11,655	12,983
Translation adjustment		(6)	(8)
Equity attributable to owners of TP S.A.		16,579	17,217
Minority interest		14	13
Total equity		16,593	17,230
Financial liabilities at amortised cost excluding trade payables	19, 21	6,033	5,075
Financial liabilities at fair value through profit or loss	22	61	-
Hedging derivatives	22	148	59
Trade payables	29	790	814
Employee benefits	26	234	282
Provisions	28	215	296
Deferred tax liabilities	12	7	4
Deferred income	29	53	59
Total non-current liabilities		7,541	6,589
Financial liabilities at amortised cost excluding trade payables	19, 21	375	2,100
Financial liabilities at fair value through profit or loss	22	89	14
Hedging derivatives	22	2	-
Provisions	28	1,208	1,220
Trade payables	29	2,477	3,059
Employee benefits	26	302	272
Other liabilities	29	184	211
Income tax payable		2	15
Deferred income	29	583	524
Total current liabilities		5,222	7,415
TOTAL EQUITY AND LIABILITIES		29,356	31,234

The notes to the Consolidated Financial Statements are an integral part of this Consolidated Balance Sheet

Telekomunikacja Polska Group
IFRS Consolidated Financial Statements – 31 December 2009

Translation of the financial statements originally issued in Polish

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in PLN millions)

	Number of shares in issue (not in millions)	Share capital	Share premium	Treasury shares	Other reserves			Translation adjustment	Retained earnings	Total	Minority interest	Total equity	
					Financial assets available for sale	Hedging instruments	Deferred taxes						Share-based payments
Balance at 1 January 2008 (audited)	1 368 773 241	4,200	832	(702)	1	(25)	4	2	(8)	13,456	17,760	13	17,773
Total comprehensive income for the 12 months ended 31 December 2008		-	-	-	(1)	(5)	2	-	-	2,188	2,184	2	2,186
Share-based payments		-	-	-	-	-	-	30	-	-	30	-	30
Purchase of treasury shares	(33 124 220)	-	-	(700)	-	-	-	-	-	-	(700)	-	(700)
Transaction cost of treasury shares purchase		-	-	(4)	-	-	-	-	-	-	(4)	-	(4)
Cancellation of treasury shares	-	(94)	-	702	-	-	-	-	-	(608)	-	-	-
Acquisition of minority interest		-	-	-	-	-	-	-	-	-	-	(1)	(1)
Dividends		-	-	-	-	-	-	-	-	(2,053)	(2,053)	(1)	(2,054)
Balance at 31 December 2008 (audited)	1 335 649 021	4,106	832	(704)	-	(30)	6	32	(8)	12,983	17,217	13	17,230
Balance at 1 January 2009 (audited)	1 335 649 021	4,106	832	(704)	-	(30)	6	32	(8)	12,983	17,217	13	17,230
Total comprehensive income for the 12 months ended 31 December 2009		-	-	-	-	50	(10)	-	2	1,280	1,322	2	1,324
Share-based payments		-	-	-	-	-	-	43	-	-	43	-	43
Cancellation of treasury shares	-	(99)	-	704	-	-	-	-	-	(605)	-	-	-
Dividends		-	-	-	-	-	-	-	-	(2,003)	(2,003)	(1)	(2,004)
Balance at 31 December 2009 (audited)	1 335 649 021	4,007	832	-	-	20	(4)	75	(6)	11,655	16,579	14	16,593

The notes to the Consolidated Financial Statements are an integral part of this Consolidated Statement of Changes in Equity

Telekomunikacja Polska Group
IFRS Consolidated Financial Statements – 31 December 2009

Translation of the financial statements originally issued in Polish

CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in PLN millions)

	Note	12 months ended	
		31 December 2009 (audited)	31 December 2008 (audited)
OPERATING ACTIVITIES			
Consolidated net income		1,282	2,190
<i>Adjustments to reconcile net income to funds generated from operations</i>			
Depreciation and amortization	15, 16	4,150	4,317
Gains on disposal of assets	9	(35)	(110)
Impairment/(reversal of impairment) of non-current assets	10	33	(109)
Change in other provisions		(156)	(88)
Income tax	12	315	405
Interest income and expense		370	473
Foreign exchange (gains)/losses, net		(246)	956
Derivatives (gains)/losses, net		381	(558)
Share-based payments	7, 27	43	30
<i>Change in working capital (trade)</i>			
Decrease/(increase) in inventories, net		70	6
Decrease/(increase) in trade receivables		361	64
Increase/(decrease) in trade payables		(474)	175
<i>Change in working capital (non-trade)</i>			
Decrease/(increase) in prepaid expenses and other receivables		(8)	116
Increase/(decrease) in accrued expenses, other payables and deferred income		16	20
Interest received		37	58
Interest and interest rate effect on derivatives paid, net		(421)	(649)
Exchange rate effect on derivatives, net		125	(3)
Income tax paid		(302)	(667)
Net cash provided by operating activities		5,541	6,626
INVESTING ACTIVITIES			
<i>Purchases/sales of property, plant and equipment and intangible assets</i>			
Purchases of property, plant and equipment and intangible assets	15, 16	(2,185)	(2,579)
Increase/(decrease) in amounts due to fixed assets suppliers		(123)	(1,012)
Proceeds from sale of property, plant and equipment and intangible assets		33	591
Proceeds from sale of subsidiaries, net of cash	5	16	64
Cash paid for acquisition of subsidiaries, net of cash	5	(25)	-
Cash paid for acquisition of minority interest		-	(1)
Decrease/(increase) in marketable securities and other financial assets		10	(4)
Exchange rate effect on derivatives, net		(7)	(5)
Net cash used in investing activities		(2,281)	(2,946)
FINANCING ACTIVITIES			
Issuance of bonds	19, 21	3,101	-
Redemption of bonds	19, 21	-	(2,368)
Issuance of long-term debt	19, 21	-	3,091
Repayment of long-term debt	19, 21	(1,936)	(228)
Increase/(decrease) in bank overdrafts and other short-term borrowings	19, 21	(1,800)	-
Decrease/(increase) in debt-linked deposits (cash collateral)		-	360
Purchase of treasury shares including transaction cost	30	(4)	(701)
Dividends paid	30	(2,004)	(2,054)
Exchange rate effect on derivatives, net		(37)	(787)
Net cash used in financing activities		(2,680)	(2,687)
Net change in cash and cash equivalents		580	993
Effect of changes in exchange rates on cash and cash equivalents		(2)	3
Cash and cash equivalents at the beginning of the period		1,640	644 ⁽¹⁾
Cash and cash equivalents at the end of the period		2,218	1,640

⁽¹⁾ includes PLN 2 million of cash and cash equivalents classified as assets held for sale

The notes to the Consolidated Financial Statements are an integral part of this Consolidated Statement of Cash Flows

1. Corporate information

1.1. The Telekomunikacja Polska Group

Telekomunikacja Polska S.A. (“Telekomunikacja Polska” or “the Company” or “TP S.A.”), a joint stock company, was incorporated and commenced its operations on 4 December 1991. The Telekomunikacja Polska Group (“the Group”) comprises Telekomunikacja Polska and its subsidiaries.

The Group is the principal supplier of telecommunications services in Poland. Telekomunikacja Polska provides services, including fixed-line telecommunications services (local calls and long distance calls – domestic and international), Integrated Services Digital Network (“ISDN”), voice mail, dial-up and fixed access to the Internet and Voice over Internet Protocol (“VoIP”). Telekomunikacja Polska provides telecommunications services on the basis of entry number 1 in the register of telecommunications companies carried out by the President of Office of Electronic Communication (“UKE”). Through its subsidiary, Polska Telefonia Komórkowa-Centertel Sp. z o.o. (“PTK-Centertel”), the Group is one of Poland’s major DCS 1800 and GSM 900 mobile telecommunications providers. PTK-Centertel also provides third generation UMTS services and services based on the CDMA technology. In addition, the Group provides leased lines, radio-communications and other telecommunications value added services, sells telecommunications equipment, electronic phone cards and provides data transmission, multimedia services and various Internet services.

Telekomunikacja Polska’s registered office is located in Warsaw at 18 Twarda St.

The Group’s operations are subject to regulatory controls of UKE, the government telecommunications market regulator. Under the Telecommunication Act, UKE can impose certain obligations on telecommunications companies that have a significant market power (“SMP”): Telekomunikacja Polska S.A., PTK-Centertel Sp. z o.o., TP EmiTel Sp. z o.o. (“TP EmiTel”) are deemed to be SMPs on certain markets.

Telekomunikacja Polska Group
IFRS Consolidated Financial Statements – 31 December 2009

Translation of the financial statements originally issued in Polish

1.2. Entities of the Group

The Group comprises Telekomunikacja Polska and the following subsidiaries:

Entity	Location	Scope of activities	Share capital owned by the Group	
			31 December 2009	31 December 2008
PTK-Centertel Sp. z o.o.	Warsaw, Poland	Mobile telephony services, construction and operation of mobile telecommunications networks.	100.00%	100.00%
TP EmiTel Sp. z o.o.	Kraków, Poland	TV and radio signals broadcasting, construction, lease and maintenance of technical infrastructure.	100.00%	100.00%
OPCO Sp. z o.o.	Warsaw, Poland	Facilities management and maintenance.	100.00%	100.00%
Otwarty Rynek Elektroniczny S.A.	Warsaw, Poland	Provision of complex procurement solutions, including advisory, implementation and operation of e-commerce platform and IT systems, hosting.	100.00%	100.00%
TP Edukacja i Wypoczynek Sp. z o.o.	Warsaw, Poland	Hotel services, training and conference facilities.	100.00%	100.00%
TP MED Sp. z o.o. ⁽¹⁾	Warsaw, Poland	Medical and health care services.	-	100.00%
TP Invest Sp. z o.o. ("TP Invest")	Warsaw, Poland	Services for Group entities, holding management.	100.00%	100.00%
- Telefon 2000 Sp. z o.o.	Warsaw, Poland	No operational activity.	100.00%	100.00%
- TP TelTech Sp. z o.o.	Łódź, Poland	Monitoring of alarm signals, servicing telecommunications networks, design and development of telecommunications systems.	100.00%	100.00%
- Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	55.11%	55.11%
- Contact Center Sp. z o.o. ⁽²⁾	Warsaw, Poland	Call-center services and telemarketing.	100.00%	100.00%
- Virgo Sp. z o.o.	Warsaw, Poland	Advisory services, financial operations.	100.00%	100.00%
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	Warsaw, Poland	Management of employee pension fund.	100.00%	100.00%
Fundacja Orange ⁽³⁾	Warsaw, Poland	Charity foundation.	100.00%	100.00%
Wirtualna Polska S.A. ("WP")	Gdańsk, Poland	Internet portal and related services including internet advertising.	100.00%	100.00%
TPSA Finance B.V.	Amsterdam, The Netherlands	Financial and investment operations.	100.00%	100.00%
- TPSA Eurofinance B.V.	Amsterdam, The Netherlands	Financial and investment operations.	100.00%	100.00%
- TPSA Eurofinance France S.A.	Paris, France	Financial and investment operations.	99.99%	99.96%
PayTel S.A. ⁽¹⁾	Warsaw, Poland	E-commerce and electronic services, including GSM prepaid services, bill charging and processing of electronic financial transactions.	100.00%	-
- PayTel Sp. z o.o. ⁽⁴⁾	Warsaw, Poland	As at 31 December 2009 the entity no longer exists.	-	100.00%
Ramsat S.A. ⁽¹⁾	Modlnica, Poland	Distributor of PTK Centertel and TP S.A. products on mass and business market.	100.00%	-
- Prado Sp. z o.o. ⁽⁵⁾	Kraków, Poland	Distributor of PTK Centertel and TP S.A. products on business market.	100.00%	-

⁽¹⁾ see Note 5.

⁽²⁾ in May 2009 the previous name of TP Internet was changed to Contact Center.

⁽³⁾ in April 2009 the previous name of Fundacja Grupy TP was changed to Fundacja Orange.

⁽⁴⁾ in December 2009 the entity merged with PayTel S.A.

⁽⁵⁾ in January 2010 the entity merged with Ramsat S.A.

In the 12 months ended 31 December 2009 and 2008, the voting power held by the Group was equal to the Group's interest in the share capital of all of its subsidiaries. Significant acquisitions or divestitures are described in Note 5.

The Group owns shareholdings in the following associates:

As at 31 December 2009 and 2008, TP Invest held a 25% interest in Telefony Opalenickie S.A., a local fixed line telecommunications operator.

As at 31 December 2009 and 2008, WP held a 20% interest in Polskie Badania Internetu Sp. z o.o. which conducts studies on Internet use in Poland.

As at 31 December 2009 and 2008, PTK Centertel held a 25% interest in Mobile TV Sp. z o.o.

The investments in those associates are accounted for using the equity method.

1.3. The Management Board of the Company

The Management Board of the Company at the date of the preparation of these Consolidated Financial Statements was as follows:

Maciej Witucki – President of the Management Board, Chief Executive Officer,
Vincent Lobry – Vice President in charge of Marketing and Strategy,
Piotr Muszyński – Vice President in charge of Operations,
Roland Dubois – Board Member, Chief Financial Officer

The Supervisory Board of the Company at the date of the preparation of these Consolidated Financial Statements was as follows:

Prof. Andrzej K. Koźmiński – Chairman of the Supervisory Board, Independent Member of the Supervisory Board
Olivier Barberot – Deputy Chairman of the Supervisory Board
Olivier Faure – Secretary of the Supervisory Board
Antonio Anguita – Member of the Supervisory Board
Vivek Badrinath – Member of the Supervisory Board
Timothy Boatman – Independent Member of the Supervisory Board
Jacques Champeaux – Member of the Supervisory Board
Ronald Freeman – Independent Member of the Supervisory Board
Dr. Mirosław Gronicki – Independent Member of the Supervisory Board
Marie-Christine Lambert – Member of the Supervisory Board
Prof. Jerzy Rajski – Independent Member of the Supervisory Board
Raoul Roverato – Member of the Supervisory Board
Dr. Wiesław Rozłucki – Independent Member of the Supervisory Board

The following changes occurred in the Management Board of the Company in the year ended 31 December 2009:

On 26 March 2009, the Supervisory Board of TP S.A. reappointed Mr Maciej Witucki as the President of the Management Board of TP S.A. and appointed Mr Mariusz Gaca as a Member of the Management Board of TP S.A.

On 6 August 2009, Mr Ireneusz Piecuch resigned from the Management Board of TP S.A.

On 15 September 2009:

- the Supervisory Board of TP S.A. appointed Mr Vincent Lobry as a Vice President of the Management Board of TP S.A. in charge of Marketing and Strategy,
- the Supervisory Board of TP S.A. appointed Mr Piotr Muszyński, a Member of the Management Board of TP S.A. in charge of Operations, as a Vice President of the Management Board of TP S.A.,
- Mr Mariusz Gaca resigned from the Management Board of TP S.A. and was appointed as the President of the Management Board of PTK Centertel Sp. z o.o.,
- Mr Richard Shearer resigned from the Management Board of TP S.A.

Mr Jacek Kałaur resigned from the Management Board of TP S.A. and his mandate expired on 4 November 2009.

The following changes occurred in the Supervisory Board of the Company in the year ended 31 December 2009:

On 16 January 2009, the Extraordinary General Meeting appointed Mr Olivier Faure to the Supervisory Board of TP S.A. Mr Olivier Faure had been co-opted by the Supervisory Board of TP S.A. on 25 September 2008.

On 23 April 2009, the Annual General Meeting appointed Mrs Marie-Christine Lambert and Mr Raoul Roverato to the Supervisory Board of TP S.A. and renewed the mandates of the following Members, whose term of office expired as of the day of this General Meeting: Mr Andrzej K. Koźmiński, Mr Olivier Barberot, Mr Vivek Badrinath, Mr Jerzy Rajski and Mr Wiesław Rożucki. On the same day the term of office expired for the following Members of the Supervisory Board of TP S.A.: Mrs Stephane Pallez and Mr Georges Penalver.

2. Statement of compliance and basis for preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted for use by the European Union. IFRSs comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”).

Comparative amounts for the year ended 31 December 2008 have been compiled using the same basis of preparation.

The Consolidated Financial Statements have been prepared under the historical cost convention, except for the fair value applied to derivative financial instruments, financial assets available for sale, assets held for sale and debt that is hedged against exposure to changes in fair value.

The financial data of all entities constituting the Group included in these Consolidated Financial Statements were prepared using uniform group accounting policies.

These Consolidated Financial Statements are prepared in millions of Polish zloty (“PLN”) and were authorized for issuance by the Management Board on 22 February 2010.

The principles applied to prepare financial data relating to the year ended 31 December 2009 are described in Note 3 and are based on:

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2009;
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2009 but for which the Group has opted for earlier application;
- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of IAS 8.

Use of estimates

In preparing the Group's accounts, the Company's management is required to make estimates, insofar as many elements included in the financial statements cannot be measured with precision. Management reviews these estimates if the circumstances on which they were based evolve, or in the light of new information or experience. Consequently, estimates made as at 31 December 2009 may be subsequently changed. The main estimates made are described in the following notes:

Note		Type of information disclosed
3.5.11, 10	Impairment of cash generating units and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
3.5.12, 17.2	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
3.5.14, 12	Income tax	Assumptions used for recognition of deferred tax assets.
3.5.16, 26	Employee benefits	Discount rates, inflation, salary increases, expected average remaining working lives.
3.5.12, 25	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
3.5.15, 28, 32	Provisions	Provisions for termination benefits and restructurings: discount rates and other assumptions. The assumptions underlying the measurement of provisions for claims and litigation.
3.5.8, 3.5.9	Useful lives of tangible and intangible assets	The useful lives and the amortization method.
3.5.17, 27	Share-based payments	Model and key assumptions used to determine fair value of equity instruments granted: exercise price, historical volatility, risk-free interest rate, expected dividend yield, etc.
28	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
3.5.3, 6	Revenue	Allocation of revenue between each separable component of a packaged offer based on its relative fair value. Straight-line recognition of revenue relating to service access fees. Reporting revenue on a net versus gross basis (analysis of Group's involvement acting as principal versus agent).
3.5.13	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

Use of judgements

Where a specific transaction is not dealt with in any standard or interpretation, management uses its judgement in developing and applying an accounting policy that results in information that is relevant and reliable, in that the financial statements:

- represent faithfully the Group's financial position, financial performance and cash flows,
- reflect the economic substance of transactions,
- are neutral,
- are prudent, and
- are complete in all material respects.

The main judgements made as at 31 December 2009 relate to provisions for claims and litigation and contingent liabilities. Details are described in Note 32.

3. Significant accounting policies

This note describes the accounting principles applied to prepare the consolidated financial statements for the year ended 31 December 2009.

3.1. Application of new standards, amendments and interpretations

Adoption of standards, amendments to standards and interpretations which are compulsory as at January 1, 2009

The following standards or amendments to standards and interpretations (already endorsed or in the process of being endorsed by the European Union) have become effective and are compulsory as at January 1, 2009:

- IFRS 8 "Operating Segments",
- Revised IAS 23 "Borrowing Costs",
- Revised IAS 1 "Presentation of Financial Statements",
- Amendment to IFRS 2 "Share-based Payment – Vesting Conditions and Cancellations",
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - improving disclosures about financial instruments,
- Amendments to IAS 32 "Financial Instrument: Presentation" and to IAS 1 "Presentation of Financial Statement – Puttable Financial Instruments and Obligations Arising on Liquidation",
- Improvements to International Financial Reporting Standards – a collection of amendments to IFRSs, the amendments are effective, in most cases, for annual periods beginning on or after 1 January 2009,
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements - Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate",
- IFRIC 15 "Agreements for the Construction of Real Estate",
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" applicable for financial years beginning on or after 1 October 2008,
- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement” and IFRS 7 „Financial Instruments: Disclosures” - Reclassification of financial assets.

Except for revised IAS 1, IFRS 8 and revised IAS 23, the adoption of the standards and interpretations presented above did not result in any significant changes to the Group accounting policies and to presentation of the financial statements.

Adoption of revised IAS 1 and IFRS 8

Changes resulting from adoption of IAS 1 (as revised in 2007) and IFRS 8 are described in the subsequent section "Changes in presentation of the financial statements".

Adoption of revised IAS 23

Starting from 1 January 2009, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. Until 2008 the Group followed the benchmark treatment suggested by IAS 23 and all borrowing costs were expensed as incurred. The Group has not acquired, constructed or produced assets that would necessarily take a substantial period of time to get ready for their intended use or sale during 2009. As a result the Group has not capitalized any borrowing costs in 2009.

Adoption of standards, amendments to standards and interpretations which are compulsory as at 1 July 2009

IFRIC 18 “Transfers of Assets from Customers” has become effective and compulsory for any transfer of assets from customers received on or after 1 July 2009. This interpretation has not been endorsed by the European Union. The adoption of this interpretation did not result in any significant changes to the Group accounting policies.

The adoption of the standards and interpretations described above did not result in any changes to the Group’s comparative consolidated balance sheet. The Group did not restate or reclassify any items presented in the comparative consolidated balance sheet and reclassifications in the consolidated income statement were insignificant. As a result the Group does not present the consolidated balance sheet as at 1 January 2008.

Standards and interpretations issued but not yet adopted

Management has not opted for early application of the following standards and interpretations (already endorsed or in the process of being endorsed by the European Union):

- Revised IFRS 3 “Business Combinations” applicable for financial years beginning on or after 1 July 2009,
- Revised IAS 27 “Consolidated and Separate Financial Statements” applicable for financial years beginning on or after 1 July 2009,
- Amendments to IAS 39 “Financial Instruments: Eligible Hedged Items” applicable for financial years beginning on or after 1 July 2009,
- IFRIC 17 “Distribution of Non-cash Assets to Owners” applicable for financial years beginning on or after 1 July 2009,
- Improvements to International Financial Reporting Standards – a collection of amendments to IFRSs, the amendments are effective, in most cases, for annual periods beginning on or after 1 January 2010. These amendments have not been endorsed by the European Union,
- Amendments to IAS 32 “Financial Instruments: Presentation” applicable for financial years beginning on or after 1 February 2010,
- Revised IAS 24 “Related Party Disclosures” applicable for financial years beginning on or after 1 January 2011. These amendments have not been endorsed by the European Union,
- IFRS 9 “Financial Instruments” applicable as of 1 January 2013. This standard has not been endorsed by the European Union,
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” applicable for financial years beginning on or after 1 July 2010. This interpretation has not been endorsed by the European Union,
- Amendments to IFRIC 14 “Prepayments of a Minimum Funding Requirement” applicable since 1 January 2011. These amendments have not been endorsed by the European Union.
- Amendments to IFRS 2 “Share-based Payment” - Group cash-settled share-based payment transactions, effective for annual periods beginning on or after 1 January 2010. These amendments have not been endorsed by the European Union.

Management is currently analyzing the practical consequences of these new standards and interpretations and the impact of their application on the financial statements.

3.2. Accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”

The accounting position described below is not specifically (or is only partially) dealt with by any IFRS standards or interpretations endorsed by the European Union. The Group has adopted accounting policies which it believes best reflect the substance of the transactions concerned.

Multiple-elements arrangements

When accounting for multiple-elements arrangements (bundled offers) the Group has adopted the provisions of Generally Accepted Accounting Principles in the United States, Emerging Issue Task Force No. 00-21 “Accounting for revenue arrangements with multiple deliverables” (see Note 3.5.3 *Separable components of packaged and bundled offers*).

3.3. Options available under IFRSs and used by the Group

Certain IFRSs offer alternative methods of measuring and recognizing assets and liabilities. In this respect, the Group has chosen:

Standards		Option used
IAS 2	Inventories	Recognition of inventories at their original cost determined by the weighted average unit cost method.
IAS 16	Property, plant and equipment	Property, plant and equipment are measured at amortized historical cost less any accumulated impairment loss.
IAS 19	Employee benefits	Recognition of actuarial gains and losses on pensions and other post employment benefit obligations according to the corridor method. This method consists of recognizing a specified portion of the net cumulative actuarial gains and losses that exceed 10% of the greater of (i) the present value of the defined benefit obligation; and (ii) the fair value of plan assets, over the average expected remaining working life of the employees participating in the plan.
IAS 20	Government grants and disclosure of government assistance	Government grants related to assets decrease the carrying amount of the assets. Government grants related to income are deducted from the related expenses.
IAS 38	Intangible assets	Intangible assets are measured at amortized historical cost less any accumulated impairment loss.

3.4. Presentation of the financial statements

Presentation of the balance sheet

In accordance with IAS 1 “Presentation of financial statements”, assets and liabilities are presented in the balance sheet as current and non-current.

In accordance with IFRS 5, non-current assets and all directly attributable liabilities that are considered as being held for sale are reported on a separate line in the consolidated balance sheet.

Presentation of the income statement

As allowed by IAS 1 “Presentation of financial statements”, expenses are presented by nature in the consolidated income statement.

Earnings per share

The net income per share for each period is calculated by dividing the net income for the period attributable to the equity holders of the Company by the weighted average number of shares outstanding during that period. The weighted average number of shares outstanding is after taking account of treasury shares (see Note 30) and the dilutive effect of the pre-emption rights attached to the bonds issued under TP S.A. incentive programme (see Note 27).

Changes in presentation of the financial statements

Adoption of revised IAS 1

As a result of the endorsement of IAS 1 (as revised in 2007) "Presentation of Financial Statements", the consolidated statement of changes in equity in these Consolidated Financial Statements presents only transactions between shareholders (owner changes), other components being included in a separate consolidated statement of comprehensive income.

Adoption of IFRS 8

IFRS 8 "Operating Segments" supersedes IAS 14 "Segment reporting". IFRS 8 requires the reporting of data relating to the Group operating segments based on the internal reporting used by the Chief Executive Officer in order to decide the allocation of resources and the assessment of the operating segments' performance. The amounts to be disclosed are reported internally to the Chief Executive Officer which may not be IFRS-based numbers. IAS 14 requires information on two levels: business segments based on the nature of the products and services and geographical segments.

For management purposes, the Group is organized into business units based on their products, and has two reportable operating segments as follows:

- Fixed line segment which includes entities offering predominantly telecom services based on fixed line technology, and
- Mobile segment which includes entities offering predominantly telecom services based on mobile technology.

Starting from 2009, the Group evaluates segments' performance on the basis of revenue, capital expenditures, EBITDA (Earnings before interest, tax, depreciation and amortization) and EBIT (Earnings before interest and tax). Revenue is measured as in the consolidated financial statements. EBITDA, EBIT and capital expenditures are not measures of financial performance under IFRS. EBITDA corresponds to operating income before depreciation and amortization expense and reversal of impairment/impairment of goodwill and other non-current assets. EBIT corresponds to operating income. Until the end of 2008, the Group evaluated segments' performance, among others, on the basis of GOM (Gross Operating Margin) which, similarly to EBITDA, EBIT and capital expenditures, was not defined under IFRS. GOM corresponded to operating income before employee profit-sharing, share-based payments, depreciation and amortization expense, reversal of impairment/impairment of goodwill and other non-current assets, gains/losses on disposal of assets and restructuring costs/reversal of restructuring provision.

Segment performance measures are disclosed in Note 4.

Intra Group sale transactions

In 2009, the Group changed its policy to present income from intra Group sale of goods or services that reflect either shared resources or an internal organization of an administrative process. Starting from 2009, income generated in such transactions is presented as other operating income. Previously this income was presented as revenue. Comparative amounts for 2008 presented in Note 4 "Segment information" were reclassified accordingly.

Management believes that the current presentation better reflects the nature of transactions concluded. As a result of this reclassification, revenue presented in Note 4 represents sales from activities in the mainstream business that provide goods and services to an external client (being the ultimate customer or an operator).

Changes in presentation of items of operating income

In 2009, the Group changed the presentation of certain items of operating income on the face of the consolidated income statement. The changes comprise the order of the items, presentation of labour expenses in aggregate as one item (wages and employee benefit expenses, employee profit-sharing and share-based payments for the 12 months ended 31 December 2008 amounting to PLN 2,305 million, PLN 24 million and PLN 30 million, respectively). These changes have no impact on operating income or net income for the period.

Management believes that the current presentation better reflects the nature of transactions concluded.

3.5. Significant accounting policies

3.5.1. Consolidation rules

Subsidiaries that are controlled by Telekomunikacja Polska, directly or indirectly, are fully consolidated. Control is deemed to exist when the Group owns more than 50% of the voting rights of an entity, unless it can be clearly demonstrated that such ownership does not constitute control, or when one of the following four criteria is met:

- power over more than one half of the voting rights of the other entity by virtue of an agreement,
- power to govern the financial and operating policies of the other entity under a statute or agreement,
- power to appoint or remove the majority of the members of the management board or equivalent governing body of the other entity,
- power to cast the majority of votes at meetings of the management board or equivalent governing body of the other entity.

Subsidiaries are consolidated from the date on which control is obtained by the Company and cease to be consolidated from the date on which the Company loses control over the subsidiary.

Intercompany transactions and balances are eliminated on consolidation.

3.5.2. Effect of changes in foreign exchange rates

Translation of financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries whose functional currency is not the Polish zloty are translated into the Group presentation currency as follows:

- assets and liabilities are translated at the National Bank of Poland (“NBP”) period-end exchange rate,
- items in the income statement are translated at the NBP average rate for the reporting period,
- the translation adjustment resulting from the use of these different rates is included as a separate component of shareholders’ equity.

Transactions in foreign currencies

The principles covering the measurement and recognition of transactions in foreign currencies are set out in IAS 21 “The Effects of Changes in Foreign Exchange Rates”. Transactions in foreign currencies are converted by the entities constituting the Group into their functional currency at the spot exchange rate prevailing as at the transaction date. Monetary assets and liabilities which are denominated in foreign currencies are remeasured at each balance sheet date at the period-end exchange rate quoted by NBP and the resulting translation differences are recorded in the income statement:

- in other operating income and expense for commercial transactions,
- in financial income or finance costs for financial transactions.

Derivative instruments are measured and recognized in accordance with the general principles described in Note 3.5.12.

Currency hedges that qualify for hedge accounting are recognized in the balance sheet at fair value at each period-end. Gains and losses arising from remeasurement to fair value are recognized:

- in other operating income and expense for fair value hedges of commercial transactions;
- in financial income or finance costs for hedges of financial assets and liabilities;
- in other comprehensive income for the effective portion of the net gain or loss on cash flow hedges.

Gains and losses arising from remeasurement to fair value of currency derivative instruments that economically hedge commercial or financial transactions and do not qualify for hedge accounting are recognized as other operating income / cost or financial income / expense depending on the nature of the underlying transaction. Gains and losses arising from remeasurement to fair value of other currency derivative instruments are recognized as financial income or finance cost.

3.5.3. Revenue

Revenue from the Group's activities is recognized and presented in accordance with IAS 18 "Revenue". Revenue comprises the fair value of the consideration received or receivable for the sale of services and goods in the ordinary course of the Group's activities. Revenue is recorded net of value-added tax and discounts.

Separable components of packaged and bundled offers

Sales of packaged mobile and Internet offers are considered as comprising identifiable and separate components to which general revenue recognition criteria can be applied separately. Numerous service offers on the Group's main markets are made up of two components, a product (e.g. mobile handset / internet modem) and a service. Once the separate components have been identified, the amount received or receivable from the customer is allocated based on each component's fair value. The sum allocated to delivered items is limited to the amount that is not dependent on the delivery of other items. For example, the sum allocated to delivered equipment generally corresponds to the price paid by the end-customer for that equipment and the balance of the amount received or receivable is contingent upon the future delivery of the service.

Offers that cannot be analyzed between separately identifiable components, because the commercial effect cannot be understood without reference to the series of transactions as a whole, are treated as bundled offers. Revenue from bundled offers is recognized in full over the life of the contract. The main example is connection fee: this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognized over the average expected life of the contractual relationship.

Equipment sales

Revenue from equipment sales is recognized when the significant risks and rewards of ownership are transferred to the buyer (see also paragraph "Separable components of packaged and bundled offers").

For mobile and broadband services, when equipment is sold through a distributor considered as an agent, handsets or modems/laptops and telecommunications services are a single bundled offering with multiple deliverables, and the handset or modem/laptop revenue from the sale is recognised when a subscriber is connected to the network.

Equipment leases

Equipment lease revenue is recognized on a straight-line basis over the life of the lease agreement, except in the case of finance leases which are accounted for as sales on credit.

Revenues from the sale or supply of content

The accounting for revenue from the sale or supply of content (audio, video, games, etc.) depends on the analysis of the facts and circumstances surrounding these transactions. To determine if the revenue must be recognized on a gross or a net basis, an analysis is performed using the following criteria:

- the Group has the primary responsibility for providing services desired by the customer;
- the Group has inventory risk (the Group purchases content in advance);
- the Group has discretion in establishing prices directly or indirectly, such as by providing additional services;
- the Group has credit risk.

Revenues from the sale or supply of content via the Group's various communications systems (mobile, TV, fixed line, etc.) are recognized:

- gross when the Group is deemed to be the primary obligor in the transaction with respect to the end-customer (i.e. when the customer has no specific recourse against the content provider), when the Group bears the inventory risk, when the Group has a reasonable latitude in setting prices charged to the end-customer, when the Group has credit risk and
- net of amounts due to the content provider when the latter is responsible for supplying the content to the end-customer and for setting the price to subscribers.

Service revenue

Telephone service and Internet access subscription fees are recognized in revenue on a straight-line basis over the service period.

Charges for incoming and outgoing telephone calls are recognized in revenue when the service is rendered.

Revenue from the sale of phone cards in fixed and mobile telephony systems is recognised when they are used or expire.

Revenue from Internet advertising and from the sale of advertising space in online telephone directories is recognized over the period during which the advertisement appears. Revenue from the sale of advertising space in printed telephone directories is recognized when the directory is distributed.

Promotional offers

For certain commercial offers where customers do not pay for service over a certain period in exchange for signing up for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the fixed, non cancellable period.

Loyalty programs

Loyalty programs consist of granting future benefits to customers (such as call credit and product discounts) in exchange for present and past use of the service or purchase of goods.

Points awarded to customers are treated as a separable component to be delivered out of the transaction that triggered the acquisition of the points. Part of the invoiced revenue is allocated to these points based on their fair value taking into account an estimated utilization rate, and deferred. If the Group supplies the awards itself, revenue allocated to the points is recognised in the income statement when points are redeemed and the Group fulfils its obligations to supply awards. The amount of revenue recognised is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed. When a third party supplies the awards and the Group is collecting the consideration on behalf of a third party, revenue is measured as a net amount retained on the Group's own account and is recognised when the third party becomes obliged to supply the awards and is entitled to receive consideration for doing so.

Loyalty programs that exist in the Group are without a contract renewal obligation.

Discounts for poor quality of services or for breaks in service rendering

The Group's commercial contracts may contain service level commitments (delivery time, service reinstatement time). If the Group fails to comply with these commitments, it is obliged to grant the discount to the end-customer. Such discounts reduce revenue. Discounts are recorded when it becomes probable that they will be due based on the non-achievement of contractual terms.

Barter transactions

When goods or services are exchanged for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. The revenue from barter transactions involving advertising is measured in accordance with Interpretation 31 of the Standing Interpretations Committee "Revenue – Barter Transactions Involving Advertising Services".

3.5.4. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs, other than loyalty program costs (see Note 3.5.3.), are recognized as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred.

3.5.5. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

3.5.6. Share issuance costs and treasury shares

External costs directly related to share issuance are deducted from the related share premium. Other costs are expensed as incurred.

If TP S.A. or its subsidiaries purchase equity instruments of the Company, the consideration paid, including directly attributable incremental costs, is deducted from equity attributable to the Company equity holders and presented in the balance sheet separately under "Treasury shares" until the shares are cancelled or reissued. The Group does not recognise in the income statement any gain or loss on the purchase, sale, issue or cancellation of its own equity instruments.

Treasury shares are recognised using settlement date accounting.

3.5.7. Goodwill

Goodwill is the excess of the purchase cost of a business combination, including transaction expenses, over the Group's corresponding share in the fair value of the underlying identifiable net assets, including contingent liabilities, at the date of acquisition. Goodwill represents a payment made in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised.

Impairment tests and Cash Generating Units

In accordance with IFRS 3 "Business Combinations", goodwill is not amortized but is tested for impairment at least once a year or more frequently when there is an indication that it may be impaired. IAS 36 "Impairment of Assets" requires these tests to be performed at the level of each Cash Generating Unit (CGU) to which the goodwill has been allocated (a Cash Generating Unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of business combination.

Recoverable amount

To determine whether an impairment loss should be recognised, the carrying value of the assets and liabilities of the CGU (or group of CGUs), including allocated goodwill, is compared to its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is the best estimate of the amount realizable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. This estimate is determined on the basis of available market information taking into account specific circumstances.

Value in use is the present value of the future cash flows expected to be derived from the CGU or group of CGUs, including goodwill. Cash flow projections are based on economic and regulatory assumptions, license renewal assumptions and forecast trading conditions drawn up by the Group management, as follows:

- cash flow projections are based on the business plan and its extrapolation to perpetuity by applying a declining or flat growth rate reflecting the expected long-term trend in the market,
- the cash flows obtained are discounted using appropriate rates for the type of business concerned.

If the recoverable amount of CGUs to which the goodwill is allocated is less than its carrying amount, an impairment loss is recognised in the amount of the difference. The impairment loss is firstly allocated to reduce the carrying amount of goodwill and then to the other assets of CGUs on a pro rata basis.

Goodwill impairment losses are recorded in the income statement as a deduction from operating income and are not reversed.

3.5.8. Intangible assets (excluding goodwill)

Intangible assets, consisting mainly of licenses, software and development costs, are initially stated at acquisition or production cost comprising its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any directly attributable costs of preparing the assets for their intended use or sale, and, if applicable, attributable borrowing costs.

When intangible assets are acquired in a business combination, they are initially stated at their fair values. They are generally determined in connection with the purchase price allocation based on their respective market values. When their market value is not readily determinable, cost is determined using generally accepted valuation methods based on revenue, costs or other appropriate criteria. The intangible assets are recognized at the acquisition date separately from goodwill if the asset's fair value can be measured reliably, is identifiable, (i.e. is separable) or arises from contractual or the legal rights irrespective of whether the assets had been recognised by the acquiree before the business combination.

Internally developed trademarks and subscriber bases are not recognized as intangible assets.

Telecommunication licenses

Expenditures to acquire telecommunication licenses are amortized on a straight-line basis over the license period from the date when the network is technically ready and the service can be marketed. For the details of concessions values see Note 15.

Research and development costs

Under IAS 38 "Intangible Assets", development costs are recognized as an intangible asset if and only if the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use,
- the intention to complete the intangible asset and use or sell it and the availability of adequate technical, financial and other resources for this purpose,
- the ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits for the Group,
- the Group's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Research costs, and development costs not fulfilling the above criteria, are expensed as incurred. The Group's research and development projects mainly concern:

- upgrading the network architecture or functionality;
- developing service platforms aimed at offering new services to the Group's customers.

Development costs recognized as an intangible asset are amortized on a straight-line basis over their estimated useful life, generally not exceeding four years.

Software

Software is amortized on a straight-line basis over the expected life, not exceeding five years.

Useful lives of intangible assets are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognized prospectively.

3.5.9. Property, plant and equipment

The cost of tangible assets corresponds to their purchase or production cost or price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, as well as including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and, if applicable, attributable borrowing costs.

It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, representing the obligation incurred by the Group.

The cost of networks includes design and construction costs, as well as capacity improvement costs. The total cost of an asset is allocated among its different components and each component is accounted for separately when the components have different useful lives or when the pattern in which their future economic benefits are expected to be consumed by the entity varies. Depreciation is established for each component accordingly.

Maintenance and repair costs (day to day costs of servicing) are expensed as incurred.

Government grants

The Group may receive non-repayable government grants in the form of direct or indirect funding of capital projects. These grants are deducted from the cost of the related assets and recognized in the income statement, as a reduction of depreciation, based on the pattern in which the related asset's expected future economic benefits are consumed.

Finance leases

Assets acquired under leases that transfer substantially all risks and rewards of ownership to the Group are recorded as assets and an obligation in the same amount is recorded in liabilities. Normally, the risks and rewards of ownership are considered as having been transferred to the Group when at least one condition is met:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the estimated economic life of the leased asset,
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,
- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Assets leased by the Group as lessor under leases that transfer substantially risks and rewards of ownership to the lessee are treated as having been sold.

Derecognition

An item of property, plant and equipment is derecognized on its disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is recognized in operating income and equals the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation

Items of property, plant and equipment are depreciated to write off their cost, less any estimated residual value on a basis that reflects the pattern in which their future economic benefits are expected to be consumed. Therefore, the straight-line basis is usually applied over the following estimated useful lives:

Buildings	10 to 30 years
Duct, cable and other outside plant	10 to 30 years
Telephone exchanges and other plant and equipment	5 to 10 years
Computer equipment	3 to 5 years
Vehicles and other	5 to 10 years

Land is not depreciated. Perpetual usufruct rights are amortised over the period for which the right was granted, not exceeding 99 years.

These useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognized prospectively.

3.5.10. Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. Those assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets and the sale is highly probable.

Non-current assets held for sale are measured at the lower of carrying amount and estimated fair value less costs to sell and are presented in a separate line in the balance sheet if IFRS 5 requirements are met.

Those assets are no longer depreciated. If fair value less costs to sell is less than its carrying amount, an impairment loss is recognised in the amount of the difference. In subsequent periods, if fair value less costs to sell increases the impairment loss is reversed up to the amount of losses previously recognised.

3.5.11. Impairment of non-current assets other than goodwill

International Accounting Standard 36 „Impairment of assets” requires that the recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired and an impairment loss should be recognized whenever the carrying amount of an asset exceeds its recoverable amount. Where possible, the recoverable amount is estimated for individual assets. The recoverable amount of such assets is determined at their fair value less cost to sell or their value in use. If it is not possible to estimate the recoverable amount of the individual asset, the Group identified the cash-generating unit (“CGU”) to which the asset belongs.

In the case of decline in the recoverable amount of an item of property, plant and equipment or an intangible asset to below its net book value, due to events or circumstances occurring during the period (such as obsolescence, physical damage, significant changes in the manner in which the asset is used, worse than expected economic performance, a drop in revenue or other external indicators), an impairment loss is recognized.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The recoverable amount of an asset is generally determined by reference to its value in use, corresponding to the future economic benefits expected to be derived from the use of the asset and its subsequent disposal. It is assessed by the discounted cash flow method, based on management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and the asset's expected conditions of use.

The impairment loss recognised equals the difference between net book value and recoverable amount.

Impairment tests are carried out on individual assets, except where they do not generate independent cash flows. The recoverable amount is then determined at the level of the cash-generating unit (CGU) to which the asset belongs, except where:

- the fair value less costs to sell of the individual asset is higher than its book value; or
- the value in use of the asset can be estimated as being close to its fair value less costs to sell, where fair value can be reliably determined.

Given the nature of its assets and operations, most of the Group's individual assets do not generate cash flow independently from other assets.

3.5.12. Financial assets and liabilities

Financial assets include assets available-for-sale, assets at fair value through profit or loss, hedging derivative instruments, loans and receivables and cash and cash equivalents.

Financial liabilities include borrowings, other financing and bank overdrafts, liabilities at fair value through profit or loss, hedging derivative instruments, trade accounts payable and fixed assets payable, including the UMTS license liability.

Financial assets and liabilities are recognized and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

A regular way purchase or sale of financial assets is recognized using settlement date accounting.

Management determines the classification of financial assets and liabilities at initial recognition.

Recognition and measurement of financial assets

When financial assets are recognized initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Assets available-for-sale

Available-for-sale assets consist mainly of shares in companies and marketable securities that are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. They are measured at fair value and gains and losses arising from remeasurement at fair value are recognized in other comprehensive income. Fair value corresponds to market price for listed securities and estimated fair value for unlisted securities, determined according to the most appropriate financial criteria in each case. Investments in unquoted equity instruments whose fair value cannot be reliably measured are measured at cost, less any impairment losses.

When there is objective evidence that available-for-sale assets are impaired, the cumulative loss included in other comprehensive income is taken to the income statement. A significant or prolonged decline in the fair value of equity instruments below costs is considered as an indicator that the securities are impaired. Impairment losses on equity instruments are not reversed through the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables, other loans and receivables and cash deposits paid to banks as a collateral for derivatives. They are recognized initially at fair value plus directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Cash flows on loans and receivables at variable rates of interest are remeasured periodically, to take into account changes in market interest rates.

Loans and receivables are carried in the balance sheet under “Loans and receivables excluding trade receivables”, “Trade receivables” and current “Other assets”.

At each balance sheet date, the Group assesses whether there is any objective evidence that loans or receivables are impaired. If any such evidence exists, the asset's recoverable amount is calculated. If the recoverable amount is less than the asset's book value, an impairment loss is recognized in the income statement.

Trade receivables that are homogenous and share similar credit risk characteristics are tested for impairment collectively. When estimating the expected credit risk the Group uses historical data as a measure for a decrease in the estimated future cash flows from the group of assets since the initial recognition.

In calculating the recoverable amount of receivables that are individually material and not homogenous, significant financial difficulties of the debtor or probability that the debtor will enter bankruptcy or financial reorganisation are taken into account.

The carrying amount of loans and receivables is reduced through an allowance account. Uncollectable receivables are written off against that account.

Assets at fair value through profit or loss

Financial assets at fair value through profit or loss are the following financial assets held for trading:

- financial assets acquired by the Group principally for the purpose of selling them in the near term;
- financial assets that form a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
- derivative assets not qualifying for hedge accounting as set out in IAS 39.

Cash and cash equivalents

Cash and cash equivalents are held primarily to meet the Group's short-term cash needs rather than for investment or other purposes. They consist of cash in bank and on hand and highly-liquid instruments that are readily convertible into known amounts of cash and are subject to insignificant changes in value.

Recognition and measurement of financial liabilities

Financial liabilities at amortised cost

Borrowings and other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Financial liabilities measured at amortised cost are carried in the balance sheet under “Financial liabilities at amortised cost excluding trade payables” and “Trade payables”.

Transaction costs that are directly attributable to the acquisition or issue of the financial liability are deducted from the liability's carrying value. This is because financial liabilities are initially recognized at fair value that usually corresponds to the fair value of the sums paid or received in exchange for the liability. The costs are subsequently amortized over the life of the debt by the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or, when appropriate, through the period to the next interest adjustment date, to the net carrying amount of the financial liability. The calculation includes all fees and costs paid or received between parties to the contract.

Certain borrowings are designated as being hedged by fair value hedges. Gain or loss on hedged borrowing attributable to a hedged risk adjusts the carrying amount of a borrowing and is recognized in the income statement.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivatives that do not qualify for hedge accounting as set out in IAS 39 and are measured at fair value.

Upon initial recognition the Group did not designate financial liabilities as financial liability at fair value through profit or loss.

Recognition and measurement of derivative instruments

Derivative instruments are recognized in the balance sheet and measured at fair value. Derivatives used by the Group are not traded in an active market and their fair value is determined by using standard valuation techniques. Fair value is calculated using the net present value of future cash flows related to these contracts, quoted market forward interest rates, quoted market forward foreign exchange rates or, if quoted forward foreign exchange rates are not available, forward rates calculated based on spot foreign exchange rates using the interest rate parity method.

Except for gains and losses on hedging instruments (as explained below), gains and losses arising from changes in fair value of derivatives classified as financial assets and liabilities at fair value through profit or loss are immediately recognized in the income statement. The interest rate component of derivatives held for trading is presented under interest expense within finance cost. The foreign exchange component of derivatives held for trading that economically hedge commercial or financial transactions is presented under foreign exchange gains or losses within other operating income / expense or finance cost, respectively, depending on the nature of the underlying transaction. The foreign exchange component of other derivatives held for trading is presented under foreign exchange gains or losses within finance cost, net.

The Group treats the whole derivative as its unit of account and presents derivatives either as current or non-current based on the date of last cash flows either within or beyond 12 months from the balance sheet date.

Hedging instruments

Derivative instruments may be designated as fair value hedges or cash flow hedges:

- a fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an identified portion of the asset or liability, that is attributable to a particular risk – notably interest rate and currency risks – and could affect profit or loss,
- a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (such as a future purchase or sale) and could affect profit or loss.

A hedging relationship qualifies for hedge accounting when:

- at the inception of the hedge, there is formal designation and documentation of the hedging relationship,
- at the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (i.e. the actual results of the hedge are within a range of 80-125 per cent).

The effects of applying hedge accounting are as follows:

- for fair value hedges of existing assets and liabilities, the change in fair value of the hedged portion of the asset or liability attributable to the hedged risk adjusts the carrying amount of the asset or liability in the balance sheet. The gain or loss from the changes in fair value of the hedged item is recognized in profit or loss and is offset by the effective portion of the loss or gain from remeasuring the hedging instrument at fair value. The adjustment to the hedged item is amortized starting from the earliest possible date, and not at the date when a hedged item ceases to be adjusted by a change in the fair value of the hedged portion of liability attributable to the risk hedged,
- for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss. Amounts recognized directly in other comprehensive income are subsequently recognized in profit or loss in the same period or periods during which the hedged item affects profit or loss. If a hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable a part of financial assets or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired,
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Fair value measurements

The Group classifies fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices),
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

3.5.13. Inventories

Inventories are stated at the lower of cost and net realizable value, except for mobile handsets or other terminals sold in promotional offers. Inventories sold in promotional offers are stated at the lower of cost or probable net realisable value, taking into account future revenue expected from subscriptions. The Group provides for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans.

Cost corresponds to purchase or production cost determined by the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

3.5.14. Income tax

The tax expense comprises current and deferred tax.

Current tax

The current income tax charge is determined in accordance with the relevant tax law regulations in respect of the taxable profit. Income tax payable represents the amounts payable at the balance sheet date. If the amount paid on account of current income tax is greater than the amount finally determined, the excess is recognised in the balance sheet as an income tax asset.

Deferred taxes

In accordance with IAS 12 "Income Taxes", deferred taxes are recognized for all temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, as well as for unused tax losses, using the liability method. Deferred tax assets are recognized only when their recovery is considered probable, that is when future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax is not accounted for if it arises from the initial recognition of an asset and liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss. IAS 12 requires, in particular, the recognition of deferred tax liabilities on all intangible assets recognized in business combinations (trademarks, subscriber bases, etc.).

A deferred tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilized.

A deferred tax liability is recognized for all taxable temporary differences associated with investments in subsidiaries and associates except to the extent that both of the following conditions are satisfied:

- the Group is able to control the timing of the reversal of the temporary difference (e.g. the payment of dividends); and
- it is probable that the temporary difference will not reverse in the foreseeable future.

In accordance with IAS 12, deferred tax assets and liabilities are not discounted. Deferred income tax is calculated using the enacted or substantially enacted tax rates at the balance sheet date.

3.5.15. Provisions

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a provision is recognized when the Group has a present obligation towards a third party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Group's actions where, by an established pattern of past practice, published policies or a sufficiently specific current statement, the Group has indicated to other parties that it will accept certain responsibilities, and as a result, has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Group to settle its obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded and the obligation is deemed to be a "contingent liability".

Contingent liabilities – corresponding to (i) possible obligations that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control, or (ii) to present obligations arising from past events that are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability – are disclosed in the notes to the Consolidated Financial Statements.

Restructuring

A provision for restructuring costs is recognized only when the general recognition criteria for provisions are met and when the Group:

- has a detailed formal plan for the restructuring, and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Provisions for dismantling and restoring sites

The Group is required to dismantle equipment and restore sites. In accordance with paragraphs 36 and 37 of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the provision is based on the best estimate of the amount required to settle the obligation. It is discounted by applying a discount rate that reflects the passage of time and the risk specific to the liability. The amount of the provision is revised periodically and adjusted where appropriate, with a corresponding entry to the asset to which it relates.

3.5.16. Pensions and other employee benefits

Certain employees of the Group are entitled to jubilee awards and retirement bonuses. Jubilee awards are paid to employees upon completion of a certain number of years of service whereas retirement bonuses represent one-off payments paid upon retirement in accordance with the Group's remuneration policies. Both items vary according to the employee's average remuneration and length of service. Jubilee awards and retirement bonuses are not funded. The Group is also obliged to provide certain post-employment benefits such as medical care to some of its retired employees.

The cost of providing benefits mentioned above is determined separately for each plan using the projected unit credit actuarial valuation method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation which is then discounted. The calculation is based on demographic assumptions concerning retirement age, rates of future salary increases, staff turnover rates, and financial assumptions concerning future interest rates (to determine the discount rate) and inflation.

Actuarial gains and losses on jubilee awards plans are recognized as income or expense when they occur. Actuarial gains and losses on post-employment benefits are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the defined benefit obligation at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans. The present value of the defined benefit obligations is verified at least annually by an independent actuary. Demographic and attrition profiles are based on historical data.

Termination benefits

The Group recognizes termination benefits as a liability and an expense when it is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. An entity is demonstrably committed to a termination when it has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

Profit sharing plan

A liability and expense for profit sharing with employees is recognised when the entity of the Group has legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

Benefits falling due more than 12 months after the balance sheet date are discounted.

3.5.17. Share-based payments

TP S.A. operates an equity-settled, share-based compensation plan under which employees render services to the Company and its subsidiaries as consideration for equity instruments of TP S.A. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense, with a corresponding increase in equity, over the period in which the service conditions are fulfilled (vesting period).

France Telecom operates its own equity-settled, share-based compensation plan under which employees of the Group render services to the Company and its subsidiaries as consideration for equity instruments of France Telecom. In accordance IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", the fair value of the employee services received in exchange for the grant of the equity instruments of France Telecom is recognised in these consolidated financial statements as an expense with a corresponding increase in equity, over the period in which the service conditions are fulfilled (vesting period).

The fair value of the employee services received is measured by reference to the fair value of the equity instruments at the grant date.

Vesting conditions, other than market conditions, were taken into account by adjusting the number of equity instruments included in the measurement of the transaction so that, ultimately, the expense recognised for services received is based on the number of equity instruments that are expected to vest.

4. Segment information

The Group has two reportable operating segments:

- Fixed line segment which includes entities offering predominantly telecom services based on fixed line technology, and
- Mobile segment which includes entities offering predominantly telecom services based on mobile technology.

Segment performance is evaluated based on revenue, EBITDA, EBIT and capital expenditures. EBITDA corresponds to operating income before depreciation and amortization expense and reversal of impairment/impairment of goodwill and other non-current assets. EBIT corresponds to operating income.

Telekomunikacja Polska operates in the fixed line telecommunications sector where it provides local, long distance domestic and international public telephony services. In addition, Telekomunikacja Polska provides leased lines, radio-communication and other telecommunications value added services.

The fixed line telecommunications segment also includes other operations linked with the fixed line telecommunications.

The Group's operational activities are conducted in one geographical area, the territory of the Republic of Poland.

The accounting policies are uniform for all segments. Transactions between segments are eliminated on consolidation.

Both segments have dispersed customer base – no single customer generates more than 10% of segment revenue.

Group financing and income tax are managed on a group basis and are not allocated to operating segments.

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Basic financial data on the business segments is presented below:

<i>(in PLN millions)</i>	Fixed line telecommunications	Mobile telecommunications	Eliminations and unallocated items	Consolidated
	<i>12 months ended 31 December 2009</i>			
Revenue	9,863	7,745	(1,048)	16,560
External	9,121	7,439	-	16,560
Inter-segment	742	306	(1,048)	-
External purchases	(3,586)	(5,028)	1,176	(7,438)
Labour expenses	(2,019)	(334)	-	(2,353)
Other operating expense	(432)	(240)	1	(671)
Other operating income	224	74	(129)	169
Restructuring costs	(23)	-	-	(23)
Gains on disposal of assets	35	-	-	35
EBITDA	4,062	2,217	-	6,279
Depreciation and amortization	(2,727)	(1,423)	-	(4,150)
Impairment of non-current assets	(32)	(1)	-	(33)
EBIT	1,303	793	-	2,096
Capital expenditures	1,419	788	-	2,207
- financed through own resources	1,397	788	-	2,185
- financed through finance leases	22	-	-	22
	<i>At 31 December 2009</i>			
Segment assets	16,029	10,650	(230)	26,449
Investments in associates	3	-	-	3
Unallocated assets	-	-	2,904	2,904
Total assets				29,356
Segment liabilities	3,534	2,742	(230)	6,046
Unallocated liabilities	-	-	6,717	6,717
Total liabilities				12,763
Equity	-	-	16,593	16,593
Total equity and liabilities				29,356

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<i>(in PLN millions)</i>	Fixed line telecommunications	Mobile telecommunications	Eliminations and unallocated items	Consolidated
	<i>12 months ended 31 December 2008</i>			
Revenue	10,414	8,620	(869)	18,165
External	9,959	8,206	-	18,165
Inter-segment	455	414	(869)	-
External purchases	(3,663)	(4,900)	964	(7,599)
Labour expenses	(2,055)	(304)	-	(2,359)
Other operating expense	(549)	(334)	20	(863)
Other operating income	196	160	(115)	241
Restructuring costs	(174)	-	-	(174)
Gains (losses) on disposal of assets	113	(3)	-	110
EBITDA	4,282	3,239	-	7,521
Depreciation and amortization	(2,892)	(1,425)	-	(4,317)
Reversal of impairment of non-current assets	109	-	-	109
EBIT	1,499	1,814	-	3,313
Capital expenditures	1,571	1,008	-	2,579
- <i>financed through own resources</i>	1,571	1,008	-	2,579
- <i>financed through finance leases</i>	-	-	-	-
	<i>At 31 December 2008</i>			
Segment assets	17,614	11,376	(169)	28,821
Investments in associates	3	-	-	3
Unallocated assets	-	-	2,410	2,410
Total assets				31,234
Segment liabilities	3,995	2,908	(166)	6,737
Unallocated liabilities	-	-	7,267	7,267
Total liabilities				14,004
Equity	-	-	17,230	17,230
Total equity and liabilities				31,234

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5. Main acquisitions and divestitures of companies

There were no significant acquisitions and divestitures in the 12 months ended 31 December 2009 except for the transactions described below.

On 24 March 2009, the Group and LUX MED Sp. z o.o. concluded a share sale agreement under which the Group disposed of its 100% shareholding in TP Med Sp. z o.o., for a sales price totalling PLN 19 million.

On 8 April 2009, the Group set up a company PayTel S.A., with a share capital amounting to PLN 12 million. The company was registered on 25 June 2009. The company's activities include electronic payment services.

In May 2009, the Group purchased 100% of the shares in Ramsat S.A. ("Ramsat") – an authorized dealer of PTK-Centertel. The purchase price amounted to PLN 25 million. As a result of accounting as a business combination the Group recognized goodwill in the amount of PLN 22 million, as well as PLN 8 million of the acquirees' non-current assets, PLN 45 million of the acquirees' current assets and PLN 50 million of the acquirees' liabilities which represent carrying amounts of each of those classes determined immediately before the combination.

6. Revenue

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Fixed line telephony services	5,908	6,783
Subscriptions and voice traffic revenue	4,800	5,775
Interconnect revenue	1,081	966
Payphone revenue	26	41
Other	1	1
Mobile telephony services	7,188	8,023
Voice traffic revenue	4,271	4,591
Interconnect revenue	1,423	1,927
Messaging services and content	1,437	1,495
Other	57	10
Data Services	2,591	2,479
Leased lines	313	358
Data transmission	686	646
Dial – up	14	29
Broadband revenue	1,578	1,446
Radio communications	213	215
Sales of goods and other	660	665
Total revenue	16,560	18,165

Revenue is generated mainly in the territory of Poland. Approximately 2.8% and 2.9% of the total revenue for the 12 months ended 31 December 2009 and 2008, respectively, was received from entities which are not domiciled in Poland, mostly from interconnect services.

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7. Operating income and expense

7.1. External purchases

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Commercial expenses	(2,543)	(2,416)
<i>- cost of handsets and other equipment sold</i>	(1,353)	(1,229)
<i>- commissions, advertising, sponsoring costs and other</i>	(1,190)	(1,187)
Interconnect expenses	(2,179)	(2,624)
Costs relating to network and IT expenses	(974)	(916)
Other external purchases	(1,742)	(1,643)
Total external purchases	(7,438)	(7,599)

Other external purchases include customer support and management services, postage cost, purchase of content qualified as expense, real estate operating and maintenance costs, subcontracting fees, advisory and legal services, rental costs, cost of other services, supplies and equipment for internal use.

During the 12 months ended 31 December 2009, foreign exchange gains/(losses) on cash flow hedges that were transferred from other comprehensive income to external purchases and adjusted rental costs amounted to PLN (3) million. During the 12 months ended 31 December 2008, the Group did not enter into hedges of rental commitments (see Note 13).

7.2. Labour expenses

<i>(in PLN millions, except for number of employees)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Average number of employees (full time equivalent)	28,096	29,481
Wages and salaries	(1,926)	(1,941)
Social security and other charges	(411)	(412)
Capitalized personnel costs	139	113
Other employee benefits	(94)	(65)
Wages and employee benefit expenses	(2,292)	(2,305)
Employee profit-sharing	(18)	(24)
Share based-payments	(43)	(30)
Total labour expenses	(2,353)	(2,359)

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7.3. Other operating income and expense

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Total other operating income	169	241
Impairment losses on trade and other receivables, net	(109)	(92)
Taxes other than income taxes	(325)	(404)
- <i>property tax and perpetual usufruct charges</i>	(196)	(280)
- <i>fees for subscribers' numbers and telecommunications charges</i>	(27)	(25)
- <i>frequency fee</i>	(66)	(67)
- <i>other taxes</i>	(36)	(32)
Operating foreign exchange losses, net	-	(110)
Other expense and changes in provisions, net	(237)	(257)
Total other operating expense	(671)	(863)

Other operating income includes operating foreign exchange gains, net (PLN 6 million in 2009, PLN 0 million in 2008), as well as late payment interest on trade receivables, recoveries of customer bad debts written-off and other individually immaterial items.

Other expense and changes in provisions include brand fees, changes in provisions for claims and litigation, risks and other charges (see Note 28).

During the 12 months ended 31 December 2009 and 2008, foreign exchange gains/(losses) on cash flow hedges that were transferred from other comprehensive income to other operating income/expense and adjusted foreign exchange differences on hedged UMTS liability amounted to PLN (3) million and PLN 29 million, respectively (see Note 13).

During the 12 months ended 31 December 2009 and 2008, foreign exchange gains/(losses) on derivatives classified as held for trading under IAS 39 and economically hedging commercial transactions presented in other operating income/expense amounted to PLN (21) million and PLN 137 million, respectively.

7.4. Research and development

In the 12 months ended 31 December 2009 and 2008, research and development costs expensed in the income statement amounted to PLN 74 million and PLN 61 million, respectively.

8. Restructuring costs

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Employee termination	(25)	(178)
Other	2	4
Total restructuring costs	(23)	(174)

Movements in restructuring provisions are described in Note 28.

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9. Gains on disposal of assets

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Disposal of subsidiaries ⁽¹⁾	13	56
Disposals of property, plant and equipment and intangible assets	22	54
Total gains on disposal of assets	35	110

⁽¹⁾ In the 12 months ended 31 December 2009 includes gain on disposal of TP Med Sp. z o.o.

In the 12 months ended 31 December 2008, gains on disposal of assets include gains on disposal of following assets held for sale:

On 30 July 2008, TP S.A. and the Danish Investor Group, Baltic Property Trust concluded the sale and lease by TP S.A. of a portfolio of selected office buildings in Warsaw for the aggregate price of EUR 168 million, fully paid. These assets belonged to the fixed-line telecommunications reporting segment with net book value of PLN 502 million.

On 20 June 2008, the Group signed a share sale agreement under which the Group disposed of its 100% shareholding in Ditel S.A., for a sales price totalling PLN 65 million. The gain on the disposal, before tax, amounted to PLN 56 million.

In the 12 months ended 31 December 2009, there was no disposal of assets held for sale.

10. Impairment

10.1. Information concerning the Cash Generating Units

Most of the Group's individual assets do not generate cash flow independently from other assets due to the nature of the Group's activities. The entire fixed network, the entire radio diffusion network, the entire mobile network and internet portal are treated as separate Cash Generating Units.

The Group considers certain indicators, including market liberalization and other regulatory and economic changes in the Polish telecommunications market, in assessing whether there is any indication that an asset may be impaired. As at 31 December 2009 and 2008 the Group performed impairment tests of all Cash Generating Units. No impairment loss was recognized in 2009 and 2008 as a result of these tests.

The following key assumptions were used to determine the value in use of the groups of CGUs:

- market value, penetration rate and market share decisions of the regulator in terms of pricing, accessibility of services, the level of commercial expenses required to replace products and keep up with existing competitors or new market entrants the impact of changes in net revenue on direct costs and
- the level of investment spending, which may be affected by the roll-out of necessary new technologies.

The amounts assigned to each of these parameters reflect past experience adjusted for expected changes over the timeframe of the business plan, but may also be affected by unforeseeable changes in the political, economic or legal framework.

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<i>Main CGUs</i>	Fixed network	Mobile network	Radio diffusion network	Internet portal
	<i>At 31 December 2009</i>			
Basis of recoverable amount	Value in use	Value in use	Value in use	Value in use
Source used	Business plan	Business plan	Business plan	Business plan
	5 years cash flow projections	5 years cash flow projections	5 years cash flow projections	5 years cash flow projections
Growth rate to perpetuity	0%	0%	1%	1%
Pre-tax discount rate	12.1	12.8	13.9	15.9

Sensitivity of recoverable amounts

At 31 December 2009, in case of fixed network, mobile network and radio diffusion network, a following change in the assumptions:

- a 2.0 basis point increase in the pre-tax discount rate or
- a 3.3 basis point decrease in the perpetual growth rate or
- a 23% fall in cash flow after the fifth year

would bring the value in use to the level of the book value.

At 31 December 2009, a change in the assumptions for internet portal:

- a 2.5 basis point increase in the pre-tax discount rate or
- a 4.4 basis point decrease in the perpetual growth rate or
- a 26% fall in cash flow after the fifth year

would bring the value in use to the level of the book value.

10.2. Goodwill

In the 12 months ended 31 December 2009 and 2008, there was no goodwill written off. Details regarding impairment tests of goodwill are presented in Note 10.1.

10.3. Other property, plant and equipment and intangible assets

In the 12 months ended 31 December 2009, the impairment loss on property, plant and equipment charged to the income statement amounted to PLN 22 million, primarily including a net impairment reversal as a result of a review of the Group's properties and an impairment loss on liquidated network assets.

In the 12 months ended 31 December 2008, the impairment loss on property, plant and equipment reversed in the income statement amounted to PLN 19 million, primarily including a reversal of impairment loss as a result of a review of the Group's properties.

In the 12 months ended 31 December 2009, the impairment loss on other intangible assets charged to the income statement amounted to PLN 11 million and was recognized as a result of a review of expected future cash flows.

There was no impairment loss on other intangible assets charged to the income statement during the 12 months ended 31 December 2008.

10.4. Assets held for sale

In the 12 months ended 31 December 2009, the Group did not classify any asset as held for sale and there was no change in impairment on asset held for sale.

In the 12 months ended 31 December 2008, the Group reversed the impairment loss in the amount of PLN 90 million as a result of the revaluation of certain properties classified as assets held for sale.

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11. Financial income and expense

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Interest income	37	58
Interest expense	(441)	(591)
- of which derivatives held for trading	(91)	(2)
Changes in fair value of derivatives held for trading	42	(5)
Ineffectiveness on fair value hedges	2	34
- of which change in fair value of hedged debt	-	(6)
- of which change in fair value of fair value hedges	2	40
Ineffectiveness on cash flow hedges	(3)	-
Interest expense and other financial charges	(400)	(562)
Foreign exchange gains / (losses)	(30)	(94)
- on debt	218	(762)
- on hedging derivatives	(7)	513
- on derivatives held for trading	(251)	30
- on financial assets	10	125
Discounting expense	(106)	(120)
Finance costs, net	(499)	(718)

Interest income includes mainly interest on cash and cash equivalents.

Interest expense was calculated using the effective interest method. It includes mainly interest on bonds, bank borrowings, loans and other financial debt carried at amortised cost as well as interest on derivatives that are used to hedge the Group's debt against exposure to changes in fair value or cash flows attributable to interest rate risk.

During the 12 months ended 31 December 2009 and 2008, interest income/(expense) on fair value hedges that adjusted interest expense on hedged debt amounted to PLN (2) million and PLN (141) million, respectively.

During the 12 months ended 31 December 2009 and 2008, interest income/(expense) on cash flow hedges that were transferred from other comprehensive income and adjusted interest expense on hedged debt amounted to PLN (22) million and PLN (42) million, respectively (see Note 13).

During the 12 months ended 31 December 2009 and 2008, interest income/(expense) on derivatives classified as held for trading under IAS 39 and economically hedging debt, presented in interest expense amounted to PLN (83) million and PLN 5 million, respectively.

During the 12 months ended 31 December 2009 and 2008, net gain/(loss) on derivatives held for trading amounted to PLN (300) million and PLN 23 million, respectively and consisted of interest expense, changes in fair value in response mainly to changes in the interest rates and foreign exchange gains and losses.

Foreign exchange gains/(losses) include mainly foreign exchange differences on bonds, bank borrowings, loans and other financial debt carried at amortised cost as well as foreign exchange component of change in fair value of derivatives that are used to hedge the Group's debt against exposure to changes in fair value or cash flows attributable to foreign exchange risk.

During the 12 months ended 31 December 2009 and 2008, foreign exchange gains/(losses) on fair value hedged debt amounted to PLN 9 million and PLN (411) million, respectively. During the 12 months ended 31 December 2009 and 2008, foreign exchange gains/(losses) on fair value hedges that adjusted exchange differences on hedged debt amounted to PLN (12) million and PLN 409 million, respectively.

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During the 12 months ended 31 December 2009 and 2008, foreign exchange gains/(losses) on cash flow hedges that were transferred from other comprehensive income and adjusted foreign exchange differences on hedged debt amounted to PLN (7) million and PLN 104 million, respectively (see Note 13).

During the 12 months ended 31 December 2009 and 2008, foreign exchange gains/(losses) on derivatives classified as held for trading under IAS 39 and economically hedging debt, presented in foreign exchange gains/(losses) amounted to PLN (244) million and PLN 37 million, respectively.

During the 12 months ended 31 December 2009 and 2008, discounting expense includes mainly unwinding of discount on UMTS liability in the amount of PLN (47) million and (90) million, respectively, and on jubilee awards and post-employment benefits in the amount of PLN (16) million and PLN (17) million, respectively.

During the 12 months ended 31 December 2009 and 2008, foreign exchange gains/(losses) on derivatives classified as held for trading under IAS 39 and economically hedging discount of UMTS liability were presented in discounting expense and amounted to PLN (24) million and PLN 0 million, respectively.

12. Income tax

(in PLN millions)

	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Current income tax	429	560
Deferred tax change ⁽¹⁾	(104)	(157)
Less: Deferred tax charged to other comprehensive income	10	(2)
Total income tax	315	405

⁽¹⁾ Excludes deferred tax change as a result of acquisitions and divestitures of subsidiaries (see Note 5).

The reconciliation between the effective income tax expense and the theoretical tax calculated based on the Polish statutory tax rate is as follows:

(in PLN millions)

	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Consolidated net income before tax	1,597	2,595
Statutory tax rate	19%	19%
Theoretical tax	303	493
Change in valuation allowance and other ⁽¹⁾	(14)	(113)
(Income not taxable)/expense not deductible for tax purposes, net	26	25
Effective tax	315	405

⁽¹⁾ Includes reversal of valuation allowance on tax losses and reversal of unutilised deferred tax liability no longer required.

Expenses not deductible for tax purposes consist of certain cost items, which, under Polish tax law, are specifically determined as non-deductible.

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The Polish tax system has restrictive provisions for grouping of tax losses for multiple legal entities under common control, such as those of the Group. Thus, each of the Group's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years. Tax losses are permitted to be utilized over 5 consecutive years with a 50% utilization restriction for each annual tax loss in a particular year.

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The amounts and expiry dates of unused tax losses are as follows:

<i>year of expiration:</i>	<i>(in PLN millions)</i>
2010	62
2011	57
2012	5
2013	68
2014	64
Total	256

During the 12 months ended 31 December 2009 and 2008, the Group entities utilized PLN 40 million and PLN 77 million, respectively, of their tax losses previously incurred.

Deferred income tax

The net deferred tax liabilities/(assets) consist of the following:

<i>(in PLN millions)</i>	<i>Consolidated balance sheet</i>		<i>Consolidated income statement</i>	
	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>	<i>12 months ended 31 December 2009</i>	<i>12 months ended 31 December 2008</i>
Property, plant and equipment and intangible assets	146	232	86	116
Impairment of financial assets	(53)	(58)	(5)	18
Finance costs, net	6	13	17	5
Accrued income/expense	(393)	(366)	28	(3)
Employee benefit plans	(44)	(43)	1	(4)
Deferred revenue	(119)	(112)	7	1
Tax losses and other differences	(42)	(62)	(20)	22
Net deferred tax (assets) / liabilities	(499)	(396)	-	-
Deferred tax income / (expense)	-	-	114	155

Unrecognized deferred tax asset relates mainly to those tax losses, which are expected to expire rather than to be realized, and temporary differences, which based on the Group's management assessment could not be utilized for tax purposes. As at 31 December 2009 and 2008, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 195 million and PLN 371 million gross, of which PLN 168 million and PLN 97 million, respectively, related to tax losses and PLN 27 million and PLN 274 million, respectively, related to other temporary differences.

13. Components of other comprehensive income

13.1. Financial assets available for sale

During the 12 months ended 31 December 2009, no gain/(loss) on financial assets available for sale was recognised in other comprehensive income and there was no reclassification from other comprehensive income to the consolidated income statement.

During the 12 months ended 31 December 2008, losses on financial assets available for sale recognised in other comprehensive income amounted to PLN 1 million. During the 12 months ended 31 December 2008, there was no reclassification from other comprehensive income to the consolidated income statement.

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13.2. Cash flow hedges

The change in fair value of cash flow hedges charged to other comprehensive income is presented below:

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2009</i>			<i>12 months ended 31 December 2008</i>		
	<i>Before tax</i>	<i>Tax</i>	<i>After tax</i>	<i>Before tax</i>	<i>Tax</i>	<i>After tax</i>
Beginning of period	(30)	6	(24)	(25)	4	(21)
The effective part of gains/(losses) on hedging instrument	(17)	3	(14)	86	(16)	70
The amount transferred to the income statement	35	(7)	28	(91)	18	(73)
The amount transferred to the initial carrying amount of the hedged item	32	(6)	26	-	-	-
End of period	20	(4)	16	(30)	6	(24)

During the 12 months ended 31 December 2009 and 2008, interest income/(expense) on cash flow hedges that were transferred from other comprehensive income and adjusted interest expense on hedged debt amounted to PLN (22) and PLN (42) million, respectively (see Note 11).

During the 12 months ended 31 December 2009 and 2008, foreign exchange gains/(losses) on cash flow hedges that were transferred from other comprehensive income and adjusted foreign exchange differences on hedged debt amounted to PLN (7) and PLN 104 million, respectively (see Note 11).

During the 12 months ended 31 December 2009 and 2008, foreign exchange gains/(losses) on cash flow hedges that were transferred from other comprehensive income and adjusted foreign exchange differences on hedged UMTS licence payables presented under other operating income/expense, amounted to PLN (3) million and PLN 29 million, respectively (see Note 7.3).

During the 12 months ended 31 December 2009, foreign exchange gains/(losses) on cash flow hedges that were transferred from other comprehensive income to external purchases and adjusted rental costs amounted to PLN (3) million. During the 12 months ended 31 December 2008, the Group did not enter into hedges of rental commitments (see Note 7.1).

During the 12 months ended 31 December 2009, foreign exchange gains/(losses) on cash flow hedges of highly probable forecast transactions that were transferred from other comprehensive income and adjusted the initial carrying amount of property, plant and equipment and inventories amounted to PLN (32) million.

During the 12 months ended 31 December 2009, there was no material forecast transaction for which hedge accounting was discontinued as it was no longer expected to occur.

During the 12 months ended 31 December 2008, the Group did not enter into hedge of highly probable forecast transaction.

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14. Goodwill

Goodwill arising from consolidated subsidiaries is as follows:

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>			<i>At 31 December 2008</i>		
	<i>Cost</i>	<i>Accumulated impairment</i>	<i>Net</i>	<i>Cost</i>	<i>Accumulated impairment</i>	<i>Net</i>
Wirtualna Polska	247	(162)	85	247	(162)	85
PTK Centertel	3,909	-	3,909	3,909	-	3,909
Ramsat ⁽¹⁾	22	-	22	-	-	-
Total goodwill	4,178	(162)	4,016	4,156	(162)	3,994

⁽¹⁾ See Note 5.

15. Other intangible assets

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>			
	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Impairment</i>	<i>Net</i>
Telecommunications licenses	2,345	(921)	-	1,424
Software	4,186	(2,917)	-	1,269
Other intangibles	164	(78)	(12)	74
Total	6,695	(3,916)	(12)	2,767

<i>(in PLN millions)</i>	<i>At 31 December 2008</i>			<i>At 1 January 2008</i>	
	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Impairment</i>	<i>Net</i>	<i>Net</i>
Telecommunications licenses	2,345	(775)	-	1,570	1,715
Software	3,768	(2,484)	(7)	1,277	1,276
Other intangibles	129	(61)	(1)	67	106
Total	6,242	(3,320)	(8)	2,914	3,097

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Movements in the net book value of other intangible assets were as follows:

<i>(in PLN millions)</i>	<i>12 months ended</i> <i>31 December 2009</i>	<i>12 months ended</i> <i>31 December 2008</i>
Opening balance net of accumulated amortization and impairment	2,914	3,097
Acquisitions of intangible assets	546	461
Amortization	(675)	(617)
Impairment	(11)	-
Reclassifications and other, net	(7)	(27)
Closing balance	2,767	2,914

Details of the Group's principal intangible assets (telecommunications licenses) are as follows:

<i>(in PLN millions)</i>	<i>Acquisition date</i>	<i>Concession term</i>	<i>Acquisition value</i>	<i>Net book value</i>	
				<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
DCS 1800 Concession	1997	2012	318	66	90
GSM 900 Concession	1999	2014	402	116	142
UMTS Concession	2000	2023	2,495	1,242	1,338
Total telecommunications licenses			3,215	1,424	1,570

16. Property, plant and equipment

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>			
	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Impairment</i>	<i>Net</i>
Land and buildings	3,627	(1,241)	(93)	2,293
Networks and terminals	38,725	(23,684)	(12)	15,029
IT equipment	1,990	(1,504)	-	486
Investment grants	(246)	98	-	(148)
Other	426	(337)	(6)	83
Total	44,522	(26,668)	(111)	17,743

<i>(in PLN millions)</i>	<i>At 31 December 2008</i>			<i>At 1 January 2008</i>	
	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Impairment</i>	<i>Net</i>	<i>Net</i>
Land and buildings	3,622	(1,091)	(115)	2,416	2,477
Networks and terminals	37,575	(21,160)	(14)	16,401	18,002
IT equipment	2,066	(1,255)	-	811	774
Investment grants	(266)	103	-	(163)	(179)
Other	469	(341)	(4)	124	46
Total	43,466	(23,744)	(133)	19,589	21,120

Investment grants relate to certain property, plant and equipment received by TP S.A. from Public Telephone Committees (Spółeczne Komitety Telefonizacji).

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Movements in the net book value of property, plant and equipment were as follows:

<i>(in PLN millions)</i>	<i>12 months ended</i> <i>31 December 2009</i>	<i>12 months ended</i> <i>31 December 2008</i>
Opening balance net of accumulated depreciation and impairment	19,589	21,120
Acquisitions of property, plant and equipment	1,661	2,118
Disposals and retirements, net	(19)	(19)
Depreciation	(3,475)	(3,700)
(Impairment)/reversal of impairment	(22)	19
Reclassifications and other, net	9	51
Closing balance	17,743	19,589

The carrying value of equipment held under finance leases as at 31 December 2009 and 2008 amounted to PLN 22 million and less than PLN 1 million, respectively. During the 12 months ended 31 December 2009, acquisitions of equipment financed through finance leases amounted to PLN 22 million. There were no additions during the 12 months ended 31 December 2008 of equipment held under finance leases. Leased assets cannot be sold, donated, transferred by title or pledged and are a collateral for the related finance lease liability.

17. Financial assets

17.1. Assets available for sale

The Group's assets available for sale are presented below:

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>			<i>At 31 December 2008</i>		
	Cost/Fair value	Impairment	Net	Cost/Fair value	Impairment	Net
Main unlisted companies						
Exatel	14	(11)	3	14	(11)	3
Other	2	(1)	1	2	(1)	1
Total assets available for sale	16	(12)	4	16	(12)	4

Financial assets available for sale are measured at historical cost less impairment and mainly comprise shares for which there is no active market and fair value cannot be reliably measured except for the shares in ICO Global Communications (Holdings) Limited which are traded on NASDAQ.

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17.2. Loans and receivables excluding trade receivables

The Group's loans and receivables excluding trade receivables are presented below:

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>			<i>At 31 December 2008</i>		
	Cost	Impairment	Net	Cost	Impairment	Net
Finance lease receivables	19	-	19	13	-	13
Other	5	-	5	13	-	13
Total loans and receivables excluding trade receivables	24	-	24	26	-	26
Current	13	-	13	9	-	9
Non-current	11	-	11	17	-	17

The Group's maximum exposure to credit risk is represented by the carrying amounts of loans and receivables.

17.3. Financial assets at fair value through profit or loss

The Group's assets at fair value through profit or loss are presented below:

<i>(in PLN millions)</i>	<i>Fair value</i>	
	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
Derivatives – held for trading ⁽¹⁾	62	155
Marketable securities – held for trading ⁽¹⁾	9	7
Total assets at fair value through profit or loss	71	162
Current	9	118
Non-current	62	44

⁽¹⁾Included in net financial debt calculation (see Note 19).

The Group's maximum exposure to credit risk is represented by the carrying amounts of derivatives. The Group enters into derivatives contracts with leading financial institutions. Limits are applied to monitor the level of exposure on the financial counterparties. In case the counterparty's financial soundness is deteriorating, the Group applies the appropriate measures mitigating the default risk.

17.4. Financial assets measured at fair value

The following tables provide an analysis of the Group's financial assets that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable (see Note 3.5.12).

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>			
	<i>Fair value measurement</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets at fair value through profit or loss	9	62	-	71
<i>Derivatives – held for trading</i>	-	62	-	62
<i>Marketable securities – held for trading</i>	9	-	-	9
Hedging derivatives	-	57	-	57
Total	9	119	-	128

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(in PLN millions)	At 31 December 2008			
	Fair value measurement			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	7	155	-	162
<i>Derivatives – held for trading</i>	-	155	-	155
<i>Marketable securities – held for trading</i>	7	-	-	7
Hedging derivatives	-	12	-	12
Total	7	167	-	174

During the 12 months ended 31 December 2009 and 2008, there was no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurement.

18. Trade receivables, other assets (current) and prepaid expenses

(in PLN millions)	At 31 December 2009	At 31 December 2008
Trade receivables (net of impairment) ^{(1), (3)}	1,475	1,814
VAT receivables	39	30
Other taxes receivables	3	2
Employee-related receivables ⁽³⁾	2	5
Other ⁽²⁾	75	65
Other assets ⁽¹⁾	119	102
Inactivated mobile phones and terminals in the external dealership network	61	94
Other prepaid expenses	39	19
Prepaid expenses	100	113

⁽¹⁾ Additions to impairment of trade and other receivables (net of reversals) are presented in Note 7.3.

⁽²⁾ Mainly includes receivables related to: advances and prepayments to suppliers, sales of fixed assets, rental of equipment and usable areas, re-invoicing cost of advertising and promotion, penalties.

⁽³⁾ Classified as loans and receivables under IAS 39.

The Group considers there is no concentration of credit risk with respect to trade receivables due to its large and diverse customer base consisting of individual and business customers.

The Group's maximum exposure to credit risk at the reporting date is best represented by the carrying amounts of those instruments recognised in the balance sheet.

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Movement in the impairment of trade, employee-related and other receivables in the 12 months ended 31 December 2009 and 2008 is presented below:

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Beginning of period	323	375
Net change in impairment	(25)	(52)
End of period	298	323

In the 12 months ended 31 December 2009 and 2008, impaired receivables written off amounted to PLN 250 million and PLN 237 million, respectively.

As at 31 December 2009 and 2008, the analysis of trade receivables that are past due but not impaired is as follows:

At 31 December 2009:

<i>(in PLN millions)</i>	Carrying amount	Neither impaired nor past due	Past due in the following periods		
			Less than 180 days	Between 180 and 360 days	More than 360 days
Trade receivables - collectively analysed for impairment	1,463	858	526	51	28
Trade receivables - individually analysed for impairment	12				
Total trade receivables, net	1,475				

At 31 December 2008:

<i>(in PLN millions)</i>	Carrying amount	Neither impaired nor past due	Past due in the following periods		
			Less than 180 days	Between 180 and 360 days	More than 360 days
Trade receivables - collectively analysed for impairment	1,733	1,045	649	16	23
Trade receivables - individually analysed for impairment	81				
Total trade receivables, net	1,814				

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19. Net financial debt

19.1. Analysis of net financial debt by composition and maturity

Net financial debt corresponds to the total gross financial debt (converted at the period-end exchange rate), after net derivative instruments (liabilities less assets) classified as at fair value through profit or loss, cash flow hedges and fair value hedges, less cash and cash equivalents, cash collateral paid related to derivatives and including the impact of the effective portion of cash flow hedges.

The maturity analysis of the Group's financial liabilities is based on contractual undiscounted payments. As at 31 December 2009 and 2008 amounts in foreign currency were translated at the NBP period-end exchange rates. The variable interest payments arising from the financial instruments were calculated using the latest interest rates fixed before 31 December 2009 and 2008, respectively. Financial liabilities that can be repaid at any time at the Group's discretion are classified as current or non-current, depending on the expected repayment date; non-current balance is assigned to the period of the final contractual maturity date.

The table below provides a breakdown of net financial debt by category and maturity analysis of financial liabilities based on contractual undiscounted cash flows:

At 31 December 2009:

(in PLN millions)	Note	Carrying amount	Undiscounted contractual cash flows ⁽¹⁾						Total non-current	Total
			Within 1 year	1-2 years	2-3 years	Non-current				
						3-4 years	4-5 years	More than 5 years		
Trade payables (excl. UMTS) (A)	29	2,418	2,418	-	-	-	-	-	-	2,418
UMTS license payables (B)	29	849	62	62	62	62	115	931	1,232	1,294
Bonds	21	4,259	228	1,461	172	172	3,048	-	4,853	5,081
Bank borrowings	21	2,128	302	297	700	953	40	64	2,054	2,356
Finance lease liabilities		21	6	6	6	3	2	-	17	23
Financial liabilities at amortized cost ⁽²⁾		6,408	536	1,764	878	1,128	3,090	64	6,924	7,460
Derivatives - net ⁽³⁾	22	181	190	90	55	54	173	-	372	562
Gross financial debt after derivatives (C)		6,589	726	1,854	933	1,182	3,263	64	7,296	8,022
Total financial liabilities (A) + (B) + (C)		9,856	3,206	1,916	995	1,244	3,378	995	8,528	11,734
Marketable securities	17	9								
Cash and cash equivalents	20	2,218								
Sub - total (D)		2,227								
Effective portion of cash flow hedges (E)		20								
Net financial debt (C)-(D)+(E)		4,382								

⁽¹⁾ Includes both nominal and interest payments.

⁽²⁾ Excluding trade payables and UMTS license payables.

⁽³⁾ Both assets and liabilities are included.

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At 31 December 2008:

(in PLN millions)	Note	Carrying amount	Undiscounted contractual cash flows ⁽¹⁾						Total non-current	Total
			Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years		
Trade payables (excl. UMTS) (A)	29	3,000	3,000	-	-	-	-	-	-	3,000
UMTS license payables (B)	29	873	63	63	63	63	63	1,062	1,314	1,377
Bonds	21	1,276	58	58	1,310	-	-	-	1,368	1,426
Bank borrowings	21	5,899	2,296	963	1,551	734	968	108	4,324	6,620
Financial liabilities at amortized cost ⁽²⁾		7,175	2,354	1,021	2,861	734	968	108	5,692	8,046
Derivatives - net ⁽³⁾	22	(94)	(71)	19	-	(2)	-	(3)	14	(57)
Gross financial debt after derivatives (C)		7,081	2,283	1,040	2,861	732	968	105	5,706	7,989
Total financial liabilities (A) + (B) + (C)		10,954	5,346	1,103	2,924	795	1,031	1,167	7,020	12,366
Marketable securities	17	7								
Cash and cash equivalents	20	1,640								
Sub - total (D)		1,647								
Effective portion of cash flow hedges (E)		(30)								
Net financial debt (C)-(D)+(E)		5,404								

⁽¹⁾ Includes both nominal and interest payments.

⁽²⁾ Excluding trade payables and UMTS license payables.

⁽³⁾ Both assets and liabilities are included.

As at 31 December 2009 and 2008, most of the Group's trade payables mature within 3 months.

19.2. Analysis of net financial debt by currency

(equivalent value in PLN millions at the period-end exchange rate)	At 31 December 2009				
	GBP	PLN	EUR	USD	Total
Net financial debt by currency	(1)	(415) ⁽¹⁾	4,760	38	4,382
Impact of derivatives notional amount	-	6,934	(6,823)	(111)	-
Net financial debt by currency after impact of derivatives notional amount	(1)	6,519	(2,063)	(73)	4,382

⁽¹⁾ Including market value of derivatives.

(equivalent value in PLN millions at the period-end exchange rate)	At 31 December 2008			
	PLN	EUR	USD	Total
Net financial debt by currency	3,490 ⁽¹⁾	1,876	38	5,404
Impact of derivatives notional amount	2,242	(2,242)	-	-
Net financial debt by currency after impact of derivatives notional amount	5,732	(366)	38	5,404

⁽¹⁾ Including market value of derivatives.

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20. Cash and cash equivalents

The Group's cash and cash equivalents are as follows:

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
Cash on hand	-	1
Current bank accounts and overnight deposits	324	981
Deposits up to 3 months	1,022	107
Securities with a maturity up to 3 months	872	551
Total cash and cash equivalents	2,218	1,640

The Group's cash surplus is invested into short-term highly-liquid financial instruments e.g. bank deposits and T-bills. The term of the investments depends on the immediate cash requirements of the Group. Short term deposits are made for varying periods of between one day and one month while investments into T-bills are typically for one to three months. The instruments earn interest which depends on the current money market rates and the term of investment.

As at 31 December 2009 and 2008, cash and cash equivalents included an equivalent of PLN 52 million and PLN 142 million, respectively, denominated in foreign currencies.

The Group's maximum exposure to credit risk at the reporting date is best represented by carrying amounts of cash and cash equivalents. The Group deposits its cash and cash equivalents with leading financial institutions with investment grade. Limits are applied to monitor the level of exposure on the financial counterparties. In case the counterparty's financial soundness is deteriorating, the Group applies the appropriate measures mitigating the default risk.

21. Financial liabilities at amortised cost excluding trade payables

21.1. Bonds

The table below provides an analysis of bonds issued by the Group:

<i>(in PLN millions)</i>						<i>Amount outstanding at ⁽¹⁾</i>	
<i>Issuer</i>	<i>Series</i>	<i>Nominal value (in millions of currency)</i>	<i>Nominal interest rate</i>	<i>Issue date</i>	<i>Redemption date</i>	<i>31 December 2009</i>	<i>31 December 2008</i>
TPSA Eurofinance France S.A.	T	300 EUR	4.625%	5 July 2004	5 July 2011	1,258	1,276
TPSA Eurofinance France S.A.	A1	500 EUR	6.000%	22 May 2009	22 May 2014	2,115	-
TPSA Eurofinance France S.A.	A2	200 EUR	6.000%	17 July 2009	22 May 2014	886	-
Total bonds issued by the Group						4,259	1,276
Current						132	28
Non-current						4,127	1,248

⁽¹⁾ Includes accrued interest and the fair value adjustment to the bonds hedged by fair value hedge.

The weighted average effective interest rate on the Group's bonds, before swaps, amounted to 5.41% as at 31 December 2009 and 4.72% as at 31 December 2008.

The European Medium Term Note issuance programme

On 20 March 2009, the Supervisory Board of TP S.A. formulated a positive opinion on the Management Board's proposal to establish and carry out the European Medium Term Note issuance programme ("the Programme"). The purpose of the Programme is to raise external capital for financing the Group's needs. The Management Board of TP S.A. established the Programme on 6 May 2009. Under the Programme, TPSA Eurofinance France S.A., a subsidiary of TP S.A., may issue debt in the European market up to the aggregate amount equivalent to EUR 1,500 million.

On 22 May 2009, TPSA Eurofinance France S.A. issued under the Programme debt notes totalling EUR 500 million par ("the Debt Notes"). TPSA Eurofinance France S.A. has raised EUR 497 million net from the issue of the Debt Notes. The interest coupon on the Debt Notes is 6.00% of their nominal value per annum, the issue price was at 99.764 per 100 units of their nominal value and their redemption date is 22 May 2014.

On 17 July 2009, TPSA Eurofinance France S.A. issued under the Programme debt notes totalling EUR 200 million par ("the Debt Notes"). The interest coupon on the Debt Notes is 6.00% of their nominal value per annum, the issue price was at 105.12 per 100 units of their nominal value and their redemption date is 22 May 2014. Following the issuance of debt notes of EUR 500 million par that took place on 22 May 2009, the total amount of debt notes issued under the Programme increased to EUR 700 million par.

The arrangers and the initial subscribers were Societe Generale Corporate & Investment Banking and Barclays Capital. The Debt Notes are traded on the Luxembourg Stock Exchange. The Debt Notes are subject to an unconditional and irrevocable guarantee granted by TP S.A. on 6 May 2009. The guarantee covers the performance of all potential obligations of the debt note issuer, i.e. TPSA Eurofinance France S.A., towards the debt note holders, particularly an obligation to effect the redemption payment for the debt notes issued in the Programme, the payment of the interest on the debt notes and any other payments due according to the issue terms and conditions.

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21.2. Bank borrowings

The table below provides an analysis of bank borrowings by creditor:

Creditor	Interest rate as at 31 December 2009	Repayment date	Amount outstanding at ⁽¹⁾			
			31 December 2009		31 December 2008	
			Currency (millions)	PLN (millions)	Currency (millions)	PLN (millions)
Floating rate						
European Investment Bank	1.39% ⁽²⁾	15 December 2015	50 EUR	206	58 EUR	244
European Investment Bank	0.84% ⁽²⁾	15 June 2012	83 EUR	343	117 EUR	488
European Investment Bank	4.35% ⁽²⁾	15 June 2012	130 PLN	130	182 PLN	182
Bayern LandesBank (syndicated)	-	20 February 2011	(1) PLN ⁽⁴⁾	(1)	2,517 PLN	2,517
Bank Pekao S.A.	-	30 June 2010	-	-	1,010 PLN	1,010
Bank Handlowy (syndicated)	-	18 April 2010	(1) PLN ⁽⁴⁾	(1)	(1) PLN ⁽⁴⁾	(1)
European Investment Bank	4.21%-4.60% ^(2,3)	17 September 2012 - 15 September 2013	1,399 PLN	1,399	1,403 PLN	1,403
Other bank borrowings	-	-	3 PLN	3	-	-
Fixed rate						
Instituto de Credito Oficial	1.25%	2 January 2021	17 USD	49	19 USD	56
Total bank borrowings borrowed by the Group				2,128	5,899	
Current				238	2,072	
Non-current				1,890	3,827	

⁽¹⁾ Includes accrued interest and bank borrowings issue costs.

⁽²⁾ Floating rate determined by the bank every three months.

⁽³⁾ Floating rate determined by the bank individually for every drawing.

⁽⁴⁾ Paid arrangement fees.

The weighted average effective interest rate on the Group's bank borrowings, before swaps, amounted to 3.49% as at 31 December 2009 and 6.31% as at 31 December 2008.

22. Derivatives

As at 31 December 2009 and 2008, the majority of the Group's derivatives portfolio constitutes financial instruments for which there is no active market (over-the-counter derivatives) i.e. the interest rate and currency swaps. To price these instruments the Group applies standard valuation techniques, where the prevailing market zero-coupon curves constitute the base for calculation of discounting factors. A fair value of swap transaction represents a discounted future cash flows converted into PLN at the period-end exchange rate. The derivative financial instruments used by the Group are presented below:

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Type of instrument ⁽¹⁾	Hedged item	Hedged nominal amount	Maturity	Fair value ⁽⁴⁾ (in PLN millions)	
				Financial Asset	Financial Liability
<i>At 31 December 2009</i>					
Derivative instruments - fair value hedge					
CCS	Bonds, currency risk	10 EUR	2011	1	-
CCIRS	Bonds, currency and interest rate risk	180 EUR	2011-2014	6	(4)
IRS	Bonds, interest rate risk	180 EUR	2014	20	-
Total of fair value hedges				27	(4)
Derivative instruments - cash flow hedge					
CCS ⁽²⁾	Bank borrowings, currency risk	31 EUR	2012	-	(8)
IRS	Bank borrowings, interest rate risk	130 PLN	2012	-	(4)
CCS	Bonds, currency risk	130 EUR	2011	9	(24)
CCIRS	Bonds, currency and interest rate risk	303 EUR	2014	-	(78)
IRS	Bonds, interest rate risk	53 EUR	2014	6	-
IRS	Bonds, interest rate risk	1,341 PLN	2014	-	(30)
CCS	UMTS, currency risk	44 EUR	2014	13	-
NDF	Commercial transactions, currency risk	66 EUR	2010	1	(2)
NDF	Commercial transactions, currency risk	10 USD	2010	1	-
Total of cash flow hedges				30	(146)
Derivative instruments – held for trading					
CCIRS ⁽³⁾	Bank borrowings, currency and interest rate risk	28 EUR	2012	14	-
IRS	Bank borrowings, interest rate risk	100 PLN	2010	-	(3)
NDF	Bank borrowings, currency risk	29 USD	2010	-	(6)
NDF	Bank borrowings, currency risk	75 EUR	2010	0	(5)
CCIRS	Bonds, currency and interest rate risk	217 EUR	2011-2014	1	(41)
IRS	Bonds, interest rate risk	951 PLN	2011-2014	-	(19)
IRS	Bonds, interest rate risk	217 EUR	2014	24	-
NDF	Bonds, currency risk	160 EUR	2010	0	(13)
IRS	UMTS, interest rate risk	208 PLN	2014	-	(1)
NDF	UMTS, currency risk	136 EUR	2010	0	(18)
CCIRS	Commercial transactions, currency risk	40 EUR	2011	23	-
NDF	Commercial transactions, currency risk	241 EUR	2010	-	(44)
Total of derivatives held for trading				62	(150)
Total of derivative instruments				119	(300)
Current				2	(91)
Non-current				117	(209)

⁽¹⁾ CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, NDF – non-deliverable forward, FWD – forward

⁽²⁾ Interest is calculated on notional amounts of EUR 31 million and PLN 137 million, which are subject to adjustment in accordance with repayment schedule.

⁽³⁾ Interest is calculated on notional amounts of EUR 28 million and PLN 100 million, which are subject to adjustment in accordance with repayment schedule.

⁽⁴⁾ Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

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Type of instrument ⁽¹⁾	Hedged Item	Hedged nominal amount	Maturity	Fair value ⁽⁴⁾ (in PLN millions)	
				Financial Asset	Financial Liability
<i>At 31 December 2008</i>					
Derivative instruments - fair value hedge					
CCS	Bonds, currency risk	10 EUR	2011	1	-
Total of fair value hedges				1	-
Derivative instruments - cash flow hedge					
CCS ⁽²⁾	Bank borrowings, currency risk	44 EUR	2012	-	(15)
IRS	Bank borrowings, interest rate risk	182 PLN	2012	-	(10)
CCS	Bonds, currency risk	130 EUR	2011	4	(34)
CCS	UMTS, currency risk	53 EUR	2014	7	-
Total of cash flow hedges				11	(59)
Derivative instruments – held for trading					
CCIRS ⁽³⁾	Bank borrowings, currency and interest rate risk	39 EUR	2012	22	-
IRS	Bonds, bank borrowings, interest rate risk	50 PLN	2011	0	-
CCIRS	Commercial transactions, currency risk	40 EUR	2011	21	-
NDF, FWD	Commercial transactions, currency risk	132 EUR	2009	71	(14)
Structured FX options	Commercial transactions, currency risk	90 EUR	2009	41	-
Total of derivatives held for trading				155	(14)
Total of derivative instruments				167	(73)
Current				111	(14)
Non-current				56	(59)

⁽¹⁾ CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, NDF – non-deliverable forward, FWD – forward

⁽²⁾ Interest is calculated on notional amounts of EUR 44 million and PLN 192 million, which are subject to adjustment in accordance with repayment schedule.

⁽³⁾ Interest is calculated on notional amounts of EUR 39 million and PLN 140 million, which are subject to adjustment in accordance with repayment schedule.

⁽⁴⁾ Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

The periods when the cash flows on cash flow hedges are expected to occur and when they are expected to affect profit and loss are presented below.

At 31 December 2009:

Type of instrument	Hedged item	Principal			Interest			
		From	To	Receive and Pay	From	To	Receive	Pay
CCS	Bank borrowings	Jun 2009	Jun 2012	Semi-annually	Sep 2004	Jun 2012	-	Quarterly
CCS	Bonds	-	Jul 2011	Maturity	Jan 2005	Jul 2011	-	Semi-annually
IRS	Bank borrowings	-	-	-	Jun 2004	Jun 2012	Quarterly	Quarterly
CCS	UMTS	Sep 2007	Sep 2014	Annually	Dec 2006	Sep 2014	-	Quarterly
CCIRS	Bonds	-	May 2014	Maturity	May 2009	May 2014	Quarterly to Annually	Quarterly
IRS	Bonds	-	-	-	May 2009	May 2014	Quarterly to Annually	Quarterly to Annually
NDF	Commercial transactions	Jan 2010	Jun 2010	Monthly	-	-	-	-

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At 31 December 2008:

Type of instrument	Hedged item	Principal			Interest			
		From	To	Receive and Pay	From	To	Receive	Pay
CCS	Bank borrowings	Jun 2009	Jun 2012	Semi-annually	Sep 2004	Jun 2012	-	Quarterly
CCS	Bonds	-	Jul 2011	Maturity	Jan 2005	Jul 2011	-	Semi-annually
IRS	Bank borrowings	-	-	-	Jun 2004	Jun 2012	Quarterly	Quarterly
CCS	UMTS	Sep 2007	Sep 2014	Annually	Dec 2006	Sep 2014	-	Quarterly

The Group's maximum exposure to credit risk is represented by the carrying amounts of derivatives. The Group enters into derivatives contracts with leading financial institutions. Limits are applied to monitor the level of exposure on the financial counterparties. In case the counterparty's financial soundness is deteriorating, the Group applies the appropriate measures mitigating the default risk.

The following tables provide an analysis of the Group's financial liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable (see Note 3.5.12).

(in PLN millions)	At 31 December 2009			
	Fair value measurement			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	150	-	150
<i>Derivatives – held for trading</i>	-	150	-	150
Hedging derivatives	-	150	-	150
Total	-	300	-	300

(in PLN millions)	At 31 December 2008			
	Fair value measurement			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	14	-	14
<i>Derivatives – held for trading</i>	-	14	-	14
Hedging derivatives	-	59	-	59
Total	-	73	-	73

During 12 months ended 31 December 2009 and 2008, there was no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurement.

23. Objectives and policies of financial risk management

23.1. Principles of financial risk management

The Group is exposed to some risks arising mainly from financial instruments that are issued and held as part of its operating and financing activities. That exposure can be principally classified as market risk (encompassing currency risk and interest rate risk), liquidity risk and credit risk. The Group manages the financial risks with the objective to limit its exposure to adverse changes in foreign exchange rates and interest rates, to stabilize cash flows and to ensure an adequate level of financial liquidity and flexibility.

The principles of the Group Financial Risk Management Policy have been approved by the Management Board. Operationally, financial risk management is conducted by the Corporate Finance Branch according to developed strategies confirmed by the Treasury Committee under the direct control of the Chief Financial Officer.

Group Financial Risk Management Policy defines principles and responsibilities within the context of an overall financial risk management and covers the following elements:

- risk measures used to identify and evaluate the exposure to financial risks,
- selection of appropriate instruments to hedge against identified risks,
- valuation methodology used to determine the fair value of derivatives,
- methods for testing hedging effectiveness for accounting purposes,
- transaction limits for and credit ratings of the leading financial institutions with which the Group concludes hedging transactions.

23.2. Hedge accounting

The Group has entered into numerous derivative transactions to hedge exposure to currency risk and interest rate risk. The derivatives used by the Group include: cross currency interest rate swaps, cross currency swaps, interest rate swaps, currency options, currency forwards and non-deliverable forwards.

Certain derivative instruments are designated as fair value hedges or cash flow hedges and the Group applies hedge accounting principles as stated in IAS 39 (see Note 3.5.12). The fair value hedges are used for hedging changes in the fair value of financial instruments that are attributable to particular risk and could affect the income statement. Cash flow hedges are used to hedge the variability of future cash flows that is attributable to particular risk and could affect the income statement.

Derivatives are used for hedging activities and it is the Group's policy that the derivative financial instruments are not used for trading (speculative) purposes. However, certain derivatives held by the Group are classified as held for trading as they do not fulfil all requirements of hedge accounting as set out in IAS 39 and hedge accounting principles are not applied to those instruments. The Group considers those derivative instruments as economic hedges because they, in substance, protect the Group against currency risk and interest rate risk.

Detailed information on derivative financial instruments, including hedging relationship, that are used by the Group is presented in Note 22.

23.3. Currency risk

The Group is exposed to foreign exchange risk arising from financial liabilities denominated in foreign currencies, namely bonds and bank borrowings denominated in EUR and USD (see Note 21) and trade receivables, trade payables and provisions of which a significant balance relates to the UMTS license payable denominated in EUR (see Note 19 and Note 29).

The Group's foreign exchange hedging policy, minimizing the impact of fluctuations in exchange rates, is set on a regular basis. The acceptable exposure to a selected currency is a result of the risk analysis in relation to an open position in that currency, given the financial markets' expectations of foreign exchange rates movements during a specific time horizon.

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Within the scope of the given hedging policy, the Group hedges its exposure entering mainly into cross currency swaps, cross currency interest rate swaps and forward currency contracts, under which the Group agrees to exchange a notional amount denominated in a foreign currency into PLN. As a result, the gains/losses generated by derivative instruments compensate the foreign exchange losses/gains on the hedged items. Therefore, the variability of the foreign exchange rates has a limited impact on the consolidated income statement, as well as consolidated other comprehensive income.

As at 31 December 2009, 99.9% (as at 31 December 2008, 45.6%) of the outstanding balance of bonds and bank borrowings denominated in foreign currencies were hedged against currency risk by use of derivative instruments. As at 31 December 2009, 57.0% (as at 31 December 2008, 15.9%) of the outstanding nominal amount of the UMTS license payable was hedged against currency risk.

Starting from the second quarter of 2009, the Group began to hedge the exposure to foreign exchange risk generated by operating and capital expenditures.

The Group uses the sensitivity analysis described below to measure currency risk.

The Group's major exposures to foreign exchange risk (net of hedging activities) and potential foreign exchange gains/losses on these exposures resulting from a hypothetical 10% appreciation/depreciation of the PLN against other currencies are presented in the following table.

<i>(in millions of currency)</i>	<i>Effective exposure after hedging impacting consolidated income statement</i>				<i>Sensitivity to a change of the PLN against other currencies</i>			
	<i>At 31 December 2009</i>		<i>At 31 December 2008</i>		<i>At 31 December 2009</i>		<i>At 31 December 2008</i>	
	<i>Currency</i>	<i>PLN</i>	<i>Currency</i>	<i>PLN</i>	<i>+10% PLN</i>	<i>-10%</i>	<i>+10% PLN</i>	<i>-10%</i>
<i>Financial instrument</i>								
Bonds and bank borrowings (EUR)	-	-	252	1,051	-	-	105	(105)
Bonds and bank borrowings (USD)	2	6	19	56	1	(1)	6	(6)
UMTS license payable (EUR)	135	555	277	1,156	56	(56)	116	(116)
Total		561		2,263	57	(57)	227	(227)

The sensitivity analysis presented above is based on the following principles:

- unhedged portion of the notional amount of financial liabilities (including the UMTS license) is exposed to foreign exchange risk (effective exposure),
- derivatives satisfying hedge accounting requirements and those classified as economic hedges are treated as risk-mitigation transactions,
- cash and cash equivalents are excluded from the analysis.

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect consolidated other comprehensive income. The potential foreign exchange gains/losses on these hedges resulting from a hypothetical 10% appreciation/depreciation of the PLN against other currencies are as follows:

<i>(in millions of PLN)</i>	<i>Sensitivity of fair value of cash flow hedges to a change of the PLN against other currencies</i>					
	<i>At 31 December 2009</i>			<i>At 31 December 2008</i>		
	<i>+10%</i>	<i>PLN</i>	<i>-10%</i>	<i>+10%</i>	<i>PLN</i>	<i>-10%</i>
<i>Hedged item</i>						
Commercial transactions (EUR)	(27)		27	-		-
Commercial transactions (USD)	(3)		3	-		-
Total amount impacting other comprehensive income	(30)		30	-		-

23.4. Interest rate risk

The interest rate risk is a risk that the fair value or future cash flows of the financial instrument will change due to interest rates changes. The Group has interest bearing financial liabilities consisting mainly of bonds and bank borrowings (see Note 21).

The Group's interest rate hedging policy limiting exposure to unfavourable movements of interest rates is set on a regular basis. The preferable split between fixed and floating rate debt is the result of the analysis indicating the impact of the potential interest rates evolution on the financial costs.

According to the given hedging strategy, the Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As a result of the hedge, the structure of the liabilities changes to the desired one, as liabilities based on the floating/fixed interest rates are effectively converted into fixed/floating obligations.

As at 31 December 2009 and 2008, the Group's proportion between fixed/floating rate debt (including hedging activities) was 46/54% and 21/79%, respectively.

The Group uses the sensitivity analysis described below to measure interest rate risk.

The table below provides the Group's exposures to interest rate risk (net of hedging activities) assuming a hypothetical decrease/increase in the interest rates by 1 percent.

<i>(in PLN millions)</i>	<i>Potential increase /(decrease) in value resulting from 1% change of interest rates</i>			
	<i>At 31 December 2009</i>		<i>At 31 December 2008</i>	
	<i>+1%</i>	<i>-1%</i>	<i>+1%</i>	<i>-1%</i>
Finance costs, net	63	(64)	58	(58)
Other comprehensive income	2	(2)	3	(3)
Fair value of gross financial debt after derivatives	(88)	88	(41)	41

The sensitivity analysis presented above is based on the following principles:

- finance costs, net include the following items exposed to interest rate risk: a) interest cost on financial debt based on floating rate, after derivatives classified as hedges for accounting purpose and b) the change in the fair value of derivatives that do not qualify for hedge accounting,
- the effective portion of the change in the fair value of derivatives classified as cash flow hedges is recognized directly in other comprehensive income,
- as at 31 December 2009, the fair value of gross financial debt after derivatives (excluding finance lease) was PLN 6,705 million (as at 31 December 2008, PLN 7,059 million).

23.5. Liquidity risk

The liquidity risk is a risk of encountering difficulties in meeting obligations associated with financial liabilities. The Group's liquidity risk management involves forecasting future cash flows, analysing the level of liquid assets in relation to cash flows, monitoring balance sheet liquidity and maintaining a diverse range of funding sources and back-up facilities.

In order to increase efficiency, the liquidity management process is optimised through a centralised treasury function of the Group, as liquid asset surpluses generated by entities constituting the Group are invested and managed by the central treasury. The Group's cash surplus is invested into short-term highly-liquid financial instruments e.g. bank deposits and T-bills.

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. As at 31 December 2009, the Group had the following unused credit facilities amounting to PLN 5,801 million (as at 31 December 2008, PLN 2,336 million):

- PLN 3,521 million and EUR 5 million of the credit lines,
- EUR 550 million of back-up credit facility.

Liquidity risk is measured by applying following ratios calculated and monitored by the Group regularly:

- liquidity ratios,
- maturity analysis of undiscounted contractual cash flows resulting from the Group's financial liabilities,
- average debt duration.

The liquidity ratio, which represents the relation between available financing sources (i.e. cash, cash collateral and credit facilities) and debt repayments during next 12 and 18 months is presented in the following table.

<i>(in PLN millions)</i>	<i>Liquidity ratios</i>	
	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
Liquidity ratio - next 12 months (%)	3,517%	196%
Unused credit facilities	5,801	2,336
Cash and cash equivalents	2,218	1,640
Debt repayments ⁽¹⁾	228	2,030
Liquidity ratio (incl. cash collaterals and derivatives) - next 12 months (%)	1,918%	203%
Derivatives ⁽²⁾	190	(71)
Cash collateral paid	-	-
Liquidity ratio - next 18 months (%)	2,345%	150%
Unused credit facilities	5,801	2,336
Cash and cash equivalents	2,218	1,640
Debt repayments ⁽¹⁾	342	2,645
Liquidity ratio (incl. cash collaterals and derivatives) - next 18 months (%)	1,399%	154%
Derivatives ⁽²⁾	231	(55)
Cash collateral paid	-	-

⁽¹⁾ Undiscounted principal payments on debt.

⁽²⁾ Undiscounted net cash flows on derivatives; negative / positive amount represents positive / negative net result on cash flows.

The maturity analysis for the remaining contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2009 and 2008 is presented in Note 19. The average duration for the existing debt portfolio as at 31 December 2009 is 3.3 years (as at 31 December 2008, 2.2 years).

23.6. Credit risk

There is no significant concentration of credit risk within the Group.

The main function of the Credit Committee under the control of the Chief Financial Officer is to coordinate and consolidate credit risk management activities across the Group, which involve:

- clients' risk assessment,
- monitoring clients' business and financial standing,
- managing accounts receivable and bad debts.

The policies and rules regarding consolidated credit risk management for the Group were approved by the Credit Committee.

Further information on credit risk is discussed in Notes 17, 18, 20 and 22.

23.7. Price risk

Pursuant to the Polish telecommunication law, prices for telecommunication services should be based on transparent and objective criteria.

In case of operators which are SMPs, UKE determines requirements for regulatory accounting and calculation of costs of telecommunication services. Fees for services provided on the relevant markets in which TP S.A., PTK–Centertel or TP EmiTel is a SMP must be approved by UKE before they become binding.

Cost calculations of wholesale services, which are provided based on regulatory obligations, are subject to examination and approval by UKE. If fees proposed by the operator, which is a SMP, are assessed as not in conformity with relevant regulations, UKE may change these fees.

As described in Note 31.1 c, the President of UKE declared in Memorandum of Understanding that wholesale rates for regulated services, and for Bitstream Access (under certain conditions), will be maintained at unchanged levels until the end of 2012.

Retail prices for services provided on the relevant retail markets where TP S.A. is a SMP and under universal service obligation are subject to UKE acceptance. TP S.A. may launch promotions and price changes which have not been objected to by the President of UKE. Moreover, the retail price increases should be announced with at least one settlement period in advance.

The Group believes that it fulfils all requirements in relation to regulatory accounting and cost calculations as stipulated in the telecommunication law.

23.8. Management of covenants

As at 31 December 2009 and 2008, the Group had no credit facilities or borrowings subject to specific covenants with regard to financial ratios.

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24. Management of capital

The Group manages its capital through a balanced financial policy, which aims at providing both relevant funding capabilities for business development and at securing a relevant financial structure and liquidity.

The Group's capital management policy takes into consideration three key elements:

- business performance together with applicable investments and development plans,
- cash distribution policy and debt repayment schedule,
- the Group's rating and financial market environment.

In order to combine these factors the Group periodically establishes a framework for the financial structure. The current Group's objectives in that area are the following:

- Net Gearing ratio - maximum at the range of 35% - 40%,
- Net financial debt to EBITDA ratio - remaining below 1.5

The table below provides the capital ratios as at 31 December 2009 and 2008 and presents the sources of capital involved in their calculation. The Group regards capital as the total of equity and net financial debt.

<i>(in PLN millions)</i>	<i>At 31 December</i> <i>2009</i>	<i>At 31 December</i> <i>2008</i>
Interest bearing bonds and bank borrowings and finance lease	6,408	7,175
Cash and cash equivalents	2,218	1,640
Marketable securities	9	7
Net financial debt before hedging	4,181	5,528
Derivatives ⁽¹⁾	201	(124)
Net financial debt	4,382	5,404
Equity	16,593	17,230
Equity and Net financial debt before hedging	20,774	22,758
Equity and Net financial debt	20,975	22,634
EBITDA	6,279	7,521
Net Gearing before hedging ratio ⁽²⁾	20.1%	24.3%
Net Gearing ratio ⁽³⁾	20.9%	23.9%
Net financial debt before hedging / EBITDA ratio	0.7	0.7
Net financial debt / EBITDA ratio	0.7	0.7

⁽¹⁾ Marked-To-Market valuation of derivative portfolio (excluding effective portion of cash flow hedges).

⁽²⁾ Net Gearing before hedging = Net financial debt before hedging / (Net financial debt before hedging + Equity).

⁽³⁾ Net Gearing = Net financial debt / (Net financial debt + Equity).

The above policy imposes financial discipline, providing appropriate flexibility needed to sustain profitable development and the Group's cash distribution policy as set on an annual basis with a focus on delivering an attractive remuneration to Group's shareholders. There are no external imposed capital requirements on the Group.

25. Fair value of financial instruments

As at 31 December 2009 and 2008, the carrying amount of cash and cash equivalents, current trade receivables and trade payables, current loans and receivables and current financial liabilities at amortised cost approximates their fair value due to relatively short term maturity of those instruments or cash nature.

As at 31 December 2009 and 2008, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximates their fair value.

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A comparison by classes of carrying amounts and fair values of those Group's financial instruments, for which the estimated fair value differs from the book value, is presented below.

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>		<i>At 31 December 2008</i>	
	<i>Carrying amount⁽¹⁾</i>	<i>Estimated fair value</i>	<i>Carrying amount⁽¹⁾</i>	<i>Estimated fair value</i>
Bonds with fixed interest rate	4,259	4,403	1,276	1,269
Bank borrowings with fixed interest rate	49	42	56	47
UMTS license payables	849	899	873	823
Total	5,157	5,344	2,205	2,139

⁽¹⁾ Carrying amount includes accrued interest.

The fair value of financial instruments is calculated by discounting expected future cash flows at the prevailing zero coupon rate. In order to obtain all the necessary zero coupon rates, a theoretical zero coupon curve is constructed for each currency. Such a curve is derived from the SWAP rate curve adjusted by adding the prevailing credit spread for the debt issued by a telecom company with the same rating as the Group has. All the fair value amounts are translated to PLN at the National Bank of Poland period-end exchange rate.

26. Employee benefits

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
Jubilee awards	151	152
Retirement bonuses and other post-employment benefits	127	145
Salaries, other employee-related payables and payroll taxes due	258	257
Total carrying value of employee benefit obligations	536	554
Current	302	272
Non-current	234	282

Certain employees and retirees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 3.5.16). These benefits are not funded. The changes in the present value of liabilities related to employee benefits for the 12 months ended 31 December 2009 and 2008 are detailed in the table below:

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2009</i>				<i>12 months ended 31 December 2008</i>			
	<i>Jubilee awards</i>	<i>Retirement bonuses</i>	<i>Other post-employment benefits</i>	<i>Total</i>	<i>Jubilee awards</i>	<i>Retirement bonuses</i>	<i>Other post-employment benefits</i>	<i>Total</i>
Present value of obligation at the beginning of the period	152	87	94	333	167	91	78	336
Current service cost ⁽¹⁾	9	7	1	17	11	9	2	22
Interest cost ⁽²⁾	7	5	4	16	8	5	4	17
Benefits paid	(36)	(5)	(8)	(49)	(35)	(4)	(7)	(46)
Recognized actuarial (gains)/losses for the period ⁽¹⁾	19	-	1	20	16	-	-	16
Unrecognized actuarial (gains)/losses for the period	-	9	4	13	-	-	20	20
Curtailment ⁽¹⁾	-	-	(23) ⁽³⁾	(23)	(15)	(14)	(3)	(32)
Present value of obligation at the end of the period	151	103	73	327	152	87	94	333

⁽¹⁾ Recognised under labour expense

⁽²⁾ Recognised under discounting expense

⁽³⁾ Curtailment of medical care provided to some of the Group's retired employees following the disposal of the Group's shareholding in TP Med Sp. z o.o. (see Note 5).

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The valuation of obligations as at 31 December 2009 and 2008 was performed using the following assumptions:

	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
Discount rate	6.1%	6%
Wage increase rate	3%	3.5%-4%
Inflation rate	2.5%	2.5%
Pension indexing	up to 4%	up to 4%
Expected average remaining working lives (in years)	12.6 – 22.9	12.6 – 22.1

The reconciliation of recognized and unrecognized actuarial gains and losses for the 12 months ended 31 December 2009 and 2008 is presented below:

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2009</i>				<i>12 months ended 31 December 2008</i>			
	<i>Jubilee awards</i>	<i>Retirement bonuses</i>	<i>Other post- employment benefits</i>	<i>Total</i>	<i>Jubilee awards</i>	<i>Retirement bonuses</i>	<i>Other post- employment benefits</i>	<i>Total</i>
Unrecognized actuarial gains/(losses) at the beginning of the period	-	(11)	(25)	(36)	-	(11)	(5)	(16)
Actuarial gains/(losses) for the period	(19)	(9)	(5)	(33)	(16)	-	(20)	(36)
Subtotal	(19)	(20)	(30)	(69)	(16)	(11)	(25)	(52)
Actuarial (gains)/losses recognized	19	-	1	20	16	-	-	16
Unrecognized actuarial gains/(losses) at the end of the period	-	(20)	(29)	(49)	-	(11)	(25)	(36)

The reconciliation between present value and carrying value of defined benefit obligation (DBO) as at 31 December 2009 and 2008 is as follows:

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>				<i>At 31 December 2008</i>			
	<i>Jubilee awards</i>	<i>Retirement bonuses</i>	<i>Other post- employment benefits</i>	<i>Total</i>	<i>Jubilee awards</i>	<i>Retirement bonuses</i>	<i>Other post- employment benefits</i>	<i>Total</i>
Present value of DBO	151	103	73	327	152	87	94	333
Net cumulative unrecognized actuarial losses at the end of the period	-	(20)	(29)	(49)	-	(11)	(25)	(36)
Carrying value of DBO	151	83	44	278	152	76	69	297

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Present value of defined benefit obligation for the current period and previous four annual periods is presented below:

<i>(in PLN millions)</i>	<i>Jubilee awards</i>	<i>Retirement bonuses</i>	<i>Other post-employment benefits</i>	<i>Total</i>
<i>As at</i>				
31 December 2009	151	103	73	327
31 December 2008	152	87	94	333
31 December 2007	167	91	78	336
31 December 2006	177	85	80	342
31 December 2005	208	98	86	392

27. Share-based payments

27.1. Group incentive programme

On 28 April 2006, the General Meeting of Shareholders of TP S.A. approved an incentive programme (“the Program”) for the key managers and executives (“the Beneficiaries”) of Telekomunikacja Polska and its selected subsidiaries in order to further motivate management in their efforts aimed at the Group development and the Company’s value maximisation. On 12 December 2006, the Management Board of TP S.A adopted the Incentive Programme Rules for the members of the Management Board and the key managers of the Group. In order to fulfil the assumptions of the Program on 28 April 2006 the General Shareholders’ Meeting decided that TP S.A. will issue not more than 7,113,000 A series bearer bonds (“the Bonds”) with priority right over existing shareholders to subscribe for B series shares issued by the Company.

As a result of the Program, on 9 October 2007 TP S.A. issued 6,202,408 registered bonds with a nominal value, equal to issue price, of PLN 0.01 each with a pre-emption rights attached to the Bonds to subscribe for Company shares with priority over the existing shareholders. A total of 6,047,710 Bonds were subscribed and allocated to the Beneficiaries. The remaining Bonds which had not been subscribed, in the amount of 154,698 were acquired by an agent acting as a custodian. These Bonds may be allocated in the future to existing or new Beneficiaries in accordance with the terms and conditions of the Program.

A pre-emption rights attached to the Bonds to subscribe for the Company’s shares may be exercised within seven years after the end of the restricted period. The restricted period ends on the third anniversary of the issue of the Bonds, inclusive. The redemption of the Bonds will take place on the 10th anniversary of the issue date or, in the case of the Bonds kept by the Agent acting as the custodian, after the expiration of the restricted period. One Bond gives a right to subscribe for one ordinary share with a nominal value of PLN 3. The shares acquired upon exercising pre-emption right attached to the Bond are ordinary bearer shares and are not subject to any restriction in trading. The right to subscribe for the shares shall be vested exclusively in the bondholders. The issue price of the shares is PLN 21.57 per share.

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The following table illustrates the number and weighted average exercised price of equity instruments granted by TP S.A.:

	<i>12 months ended 31 December 2009</i>		<i>12 months ended 31 December 2008</i>	
	<i>number</i>	<i>weighted average exercised price (PLN)</i>	<i>number</i>	<i>weighted average exercised price (PLN)</i>
Outstanding at the beginning of the period	4,746,102	21.57	6,033,024	21.57
Granted during the year	-	-	-	-
Cancelled during the year	(388,677)	-	(1,286,922)	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	4,357,425	21.57	4,746,102	21.57
- of which exercisable	55,072	-	55,072	-

The following table illustrates the key assumptions used in calculation of the fair value of equity instruments granted by TP S.A.:

Key assumptions	TP S.A. plan
Dividend yield	6%
Expected volatility	30%
Risk-free interest rate	5.59%
Exercised price	21.57
Vesting period	3 years
The weighted average expected life	7 years
Model used	binomial

During the 12 months ended 31 December 2009 and 2008 the fair value of services received recognised in labour expenses and equity amounted to PLN 4 million and PLN 8 million, respectively.

27.2. France Telecom free share award plan

In 2007 France Telecom established a free share, equity-settled, award plan ("NEXT plan"). Under the plan 988,400 shares were offered to employees and executives of the Group. The grant date was established on 18 March 2008 that is the date when the main terms and conditions of the plan were announced personally to TP Group employees. The shares granted can not be sold for a period of two years after the vesting date. The fair value of shares at grant date was PLN 63.57 (an equivalent of EUR 17.95 translated at NBP period-end exchange rate at 18 March 2008).

The plan is contingent upon meeting the following criteria in France Telecom Group:

- performance conditions: achievement of the cash flow set out in the NEXT plan in 2007 and 2008 (EUR 6.8 billion and EUR 6.8 billion, respectively), and cost of the plan to be covered by additional cash flow generated over the same period. The cash flow performance condition has been met in 2007 and 2008.
- beneficiaries must be contractually employed by the France Telecom Group at the end of the vesting period.

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The following table illustrates the key assumptions used in calculation of the fair value of equity instruments granted by France Telecom to the Group employees:

Key assumptions	France Telecom free share plan
Price of the underlying at the grant date	PLN 76.15 ⁽¹⁾
Subscription price – zero in case of free share award plan	PLN 0.00
Dividend yield	6%
Performance conditions	100%
Risk-free interest rate	3.48%
Lending-borrowing rate	5.24% ⁽²⁾
Vesting period	2 years
Model used	binomial

⁽¹⁾ An equivalent of EUR 21.50 translated at NBP period-end exchange rate at 18 March, 2008

⁽²⁾ Corresponds to the lending-borrowing rate on France Telecom shares used to calculate the non-transferability costs.

During the 12 months ended 31 December 2009 and 2008, the fair value of services received, recognised in accordance with IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions” in labour expenses and equity, amounted to PLN 39 million and PLN 22 million, respectively.

28. Provisions

For the 12 months ended 31 December 2009 the movements of provisions were as follows:

<i>(in PLN millions)</i>	<i>At 1 January 2009</i>	<i>Increases</i>	<i>Reversals (utilizations)</i>	<i>Reversals (releases)</i>	<i>Discounting effect</i>	<i>At 31 December 2009</i>
Restructuring provisions	229	25	(134)	(2)	8	126
Provisions for claims and litigation (see Note 32), risks and other charges	1,092	73	(42)	(25)	-	1,098
Provisions for dismantling	194	16	(5)	(17)	11	199
Provision for potential tax risks	1	-	-	(1)	-	-
Total provisions for risks and charges	1,516	114	(181)	(45)	19	1,423
Current	1,220					1,208
Non-current	296					215

For the 12 months ended 31 December 2008 the movements of provisions were as follows:

<i>(in PLN millions)</i>	<i>At 1 January 2008</i>	<i>Increases</i>	<i>Reversals (utilizations)</i>	<i>Reversals (releases)</i>	<i>Discounting effect</i>	<i>At 31 December 2008</i>
Restructuring provisions	170	183	(118)	(9)	3	229
Provisions for claims and litigation (see Note 32), risks and other charges	983	221	(102)	(10)	-	1,092
Provisions for dismantling	200	4	(19)	(1)	10	194
Provision for potential tax risks	2	-	-	(1)	-	1
Total provisions for risks and charges	1,355	408	(239)	(21)	13	1,516
Current	1,177					1,220
Non-current	178					296

The discount rate used to calculate the present value of restructuring and dismantling provisions amounted to 6.1% as at 31 December 2009 and 5.50% to 6% as at 31 December 2008.

Restructuring provisions

The restructuring provisions consist of the estimated amount of termination benefits for employees scheduled to terminate employment in the Group under the 2009-2011 Social Agreement. As at 31 December 2008, the restructuring provisions included also the costs related to the operational restructuring of satellite capacity rental activities of the Group.

In the fourth quarter of 2008, TP S.A. concluded a new Social Agreement for years 2009-2011 with all TP S.A. trade unions. The new agreement replaced arrangements made in December 2006. Up to a maximum of 4,900 employees may take advantage of the voluntary departure package between 2009 and 2011. The amount of termination benefit varies depending on individual salary, employment duration and year of resignation. The basis for calculation of the employment restructuring provision is the estimated number, remuneration and service period of employees who will accept the voluntary termination until the end of 2011. As at 31 December 2009, 2,440 persons took advantage of the departure package under the 2009-2011 Social Agreement.

The provision for restructuring of satellite activities of the Group was based on the difference between lease costs of transponders and minimum future revenue from this activity resulting from the current customer contracts.

Dismantling provision

The dismantling provision relates to dismantling or removal of items of property, plant and equipment and restoring the site on which it is located. Based on environmental regulations in Poland, items of property, plant and equipment which may contain hazardous materials should be dismantled and utilized by the end of their useful lives by entities licensed by the State for this purpose.

The amount of dismantling provision is based on the estimated: number of items that should be utilized / sites to be restored, period of utilization / restoration (17-100 years), current utilization / restoration cost (obtained through a tender process conducted on normal commercial terms) and inflation.

29. Trade payables, other liabilities and deferred income

29.1. Trade payables

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
Trade payables	1,606	2,097
Fixed assets payables	812	903
UMTS licence payables	849	873
Total trade payables ⁽¹⁾	3,267	3,873
Current	2,477	3,059
Non-current ⁽²⁾	790	814

⁽¹⁾ Classified as financial liabilities measured at amortised cost under IAS 39

⁽²⁾ It includes only UMTS licence liability

29.2. Other liabilities

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
VAT payable	143	168
Other taxes payables	20	27
Other	21	16
Total other liabilities	184	211
Current	184	211
Non-current	-	-

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29.3. Deferred income

(in PLN millions)

	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
Sales of products and services billed in advance	603	538
Revenue from inactivated mobile phones and terminals in the external dealership network	24	31
Other	9	14
Total deferred income	636	583
Current	583	524
Non-current	53	59

30. Equity

30.1. Share capital

As at 31 December 2008, the share capital of the Company amounted to PLN 4,106 million and was divided into 1,369 million fully paid ordinary bearer shares of PLN 3 each: 1,336 million shares in issue and 33 million treasury shares acquired for the purpose of their redemption. On 16 January 2009, the Extraordinary General Meeting adopted resolutions on redemption of these 33 million treasury shares, and a reduction of the Company's share capital from PLN 4,106 million to PLN 4,007 million, i.e. by PLN 99 million, which was registered on 27 March 2009.

As at 31 December 2009, the share capital of the Company amounted to PLN 4,007 million and was divided into 1,336 million fully paid ordinary bearer shares of PLN 3 each.

The ownership structure of the share capital as at 31 December 2009 was as follows:

<i>(in PLN millions)</i>	<i>% of votes</i>	<i>Nominal value</i>
France Telecom S.A.	49.79	1,995
State Treasury ⁽¹⁾	4.15	166
Other shareholders	46.06	1,846
Total	100.00	4,007

⁽¹⁾ Data is the number of shares registered by the State Treasury during the General Meeting of Shareholders of TP S.A. on 23 April 2009.

As at 31 December 2008, France Telecom owned 48.58% of shares of the Company and held 49.79% of votes at the General Shareholders' Meeting. As a result of the share capital reduction described above, the percentage of shares owned as at 31 December 2009 has increased to 49.79% and the percentage of votes held remained at 49.79%.

According to the Company's best knowledge, the Polish government has committed itself to grant a priority purchase right to France Telecom S.A. in case of a sale of its remaining share in the Company's capital in a public offer.

Apart from the above, the Company has no information regarding other valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

30.2. Dividends

On 23 April 2009, the General Shareholders' Meeting of TP S.A. adopted a resolution regarding payment of an ordinary dividend of PLN 2,003 million, i.e. PLN 1.50 per share. On 2 July 2009, TP S.A. distributed PLN 2,003 million of dividends, including PLN 510 million in respect of 2008 profit and PLN 1,493 million of undistributed profits from previous years.

31. Contractual obligations and off balance sheet commitments

31.1. Off-balance sheet contractual obligations and other commitments

At 31 December 2009, Management considers that, to the best of its knowledge, there are no existing off-balance sheet commitments, other than those described below, likely to have a material impact on the current or future financial position of the Group.

a) Commitments related to operating leases

When considering the Group as a lessee, operating lease commitments mainly relate to the lease of buildings, land, vehicles and computer equipment. Lease costs recognised in the consolidated income statement for the years ended 31 December 2009 and 2008 amounted to PLN 412 million and PLN 322 million, respectively. Approximately half of the agreements is denominated in foreign currencies. Some of the above agreements are indexed with price indices applicable for a given currency.

Future minimum lease payments under non-cancellable operating leases, as at 31 December 2009 and 2008, were as follows:

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
within one year	329	178
after one year but not more than five years	509	524
more than five years	191	163
Total minimum future lease payments	1,029	865

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2009 and 2008 amounted to PLN 76 million and PLN 40 million, respectively.

b) Investment commitments

Capital commitments contracted for at the balance sheet date but not recognized in the financial statements were as follows:

<i>(in PLN millions)</i>	<i>At 31 December 2009</i>	<i>At 31 December 2008</i>
Property, plant and equipment	224	676
Intangibles	59	78
Total	283	754
Amounts contracted to be payable within 12 months after the balance sheet date	263	699

Capital commitments represent mainly purchases of telecommunications network equipment, IT systems and other software.

c) Memorandum of Understanding with UKE

On 22 October 2009, TP S.A. and UKE signed a Memorandum of Understanding (“MoU”) concerning implementation of transparency and non-discrimination in inter-operator relations. According to the MoU, TP S.A. will implement technical and organisational solutions, instead of physical separation of information systems, in order to secure non-discriminatory relations with other operators including equal access to information. It is anticipated that as TP S.A. fulfils the arrangements, the President of UKE will withdraw the consideration of functional separation of TP S.A. which had been considered by UKE as a regulatory tool to implement effective competition on regulated telecommunication wholesale markets in Poland.

The President of UKE confirmed that wholesale rates for regulated services, and for Bitstream Access (under certain conditions), will be maintained at current levels until the end of 2012. Over the next three years, TP S.A. will invest in the development of 1.2 million broadband access lines (0.479 million new lines and 0.721 million upgraded existing lines), of which 1 million lines will provide bandwidths of at least 6 Mbps.

Management currently estimates that the total cost of this investment would be in the order of PLN 3 billion.

31.2. Assets covered by commitments

The gross book value of the assets held under finance leases amounted to PLN 23 million and PLN 2 million as at 31 December 2009 and 2008, respectively. Leased assets cannot be sold, donated, transferred by title or pledged and are a collateral for the related finance lease liability.

32. Litigation and claims

Contingencies

a. Issues related to the incorporation of Telekomunikacja Polska

Telekomunikacja Polska was established as a result of the transformation of the state-owned organisation Poczta Polska Telegraf i Telefon (“PPTiT”) into two entities – the Polish Post Office and Telekomunikacja Polska. During the transformation process and transfer of ownership rights to the new entities, certain items of property and other assets that are currently under Telekomunikacja Polska’s control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that Telekomunikacja Polska’s rights to certain properties may be questioned.

In addition, as the regulations concerning the transformation of PPTiT are unclear, the division of certain responsibilities of PPTiT may be considered to be ineffective, which may result in joint and several liability in respect of Telekomunikacja Polska’s predecessor’s obligations existing at the date of transformation.

The share premium in the equity of Telekomunikacja Polska includes an amount of PLN 713 million which, in accordance with the Notary Deed dated 4 December 1991, relates to the contribution of the telecommunication business of PPTiT to the Company. As the regulations relating to the transformation of PPTiT are unclear, the division of certain rights and obligations may be considered to be ineffective. As a result, the share premium balance may be subject to changes.

b. Environmental risk

The Group believes that its activities in respect of telecommunications services do not pose a serious threat to the environment. The Group’s business does not engage in any production process which creates a significant threat to rare or non-renewable resources, natural resources (water, air, etc.) or to biodiversity.

The Group activities generate “non-household” waste for which recycling is closely controlled, such as: waste electronic equipment, electronics at end-of-life, batteries and storage cells, cables and treated poles as well as other waste.

The Group has implemented action plans aimed at the limitation of its impact on the environment and at maintaining compliance with Polish regulations on environment protection. The Group has been a subject of environmental audits which have confirmed its compliance with Polish regulations and highlighted achievements in the field of limiting the impact on the environment. To achieve improvements in the area of environmental protection the Group has established an on-going system for monitoring and reporting environmental impact. A dedicated team has been established to carry out on-going supervision regarding regulatory compliance, emission levels, as well as to meet other legal requirements in the area of environmental protection.

The Group has recorded a dismantling provision for obligations related to dismantlement and removal of items of its property, plant and equipment as required by the environmental regulations (see Note 28).

c. Tax contingent liability

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes which often leads to the lack of well established regulations or legal precedents. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine accounting records up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. Telekomunikacja Polska and certain of its subsidiaries were subject to audits by the tax office in respect of taxes paid. Certain of these audits have not yet been finalised. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard (see Note 28).

d. Proceedings by UKE, UOKiK and the European Commission

According to the Telecommunications Act, the President of UKE may impose on a telecommunications operator a penalty of up to a maximum amount of 3% of the operator's prior year's revenue, if the operator does not fulfil certain requirements of the Telecommunications Act. According to the amended Act on Competition and Consumer Protection, which came into force on 21 April 2007, in case of non-compliance with its regulations, the President of the Office of Competition and Consumer Protection ("UOKiK") is empowered to impose on an entity penalties of up to a maximum amount of EUR 50 million for refusal to provide requested information or up to a maximum amount of 10% of an entity's prior year's revenue for a breach of the law.

On 25 September 2006, UKE imposed a fine of PLN 100 million on TP S.A. for the infringement of the obligation to determine service prices on the basis of the cost of its provision, as a result of not implementing the offer to sell Neostrada (Internet services) separately from the fixed line subscription (allocating costs of local loop entirely to fixed line subscription). TP S.A. appealed to the Court of Competition and Consumer Protection ("SOKiK"). On 22 May 2007, the Court invalidated the fine on procedural grounds. UKE appealed this verdict and on 10 April 2008, the Appeal Court revoked the judgment of SOKiK and remanded the case back to consideration by SOKiK. On 2 June 2009, SOKiK suspended the proceeding until the end of the European Commission proceeding against Poland in the European Court of Justice on attempts of UKE to regulate retail prices of broadband services without a prior analysis of a relevant market, the result of which may, in SOKiK opinion, impact the proceeding suspended by SOKiK.

On 22 February 2007, after TP S.A. had separated providing Neostrada from fixed line services, UKE imposed a fine of PLN 339 million on TP S.A. for non-performance of the regulatory obligation to submit its Neostrada price list for UKE's approval, and for failing to meet the requirements of the Polish telecommunication law that prices of services be based on the cost of their provision (subscription fee for local loop maintenance for Neostrada purpose in case of not using fixed line on the same local loop). TP S.A. maintains that UKE has no right to challenge the Neostrada price since it is not defined as a regulated service. On 7 March 2007, TP S.A. appealed against the decision. SOKiK has suspended the proceeding until the end of another proceeding before the European Court of Justice, initiated by the Polish Supreme Administrative Court, the result of which may, in SOKiK opinion, impact the proceeding suspended by SOKiK (a question whether, according to European law, it is possible to implement a general ban on the sale of linked services - as it is stated in art. 57 section 1 item 1 of Polish Telecommunication Act).

On 20 December 2007, UOKiK issued a decision concluding that TP S.A. had engaged in practices restricting competition when it downgraded IP traffic coming from domestic operators' networks to TP S.A.'s network via foreign operators' networks and imposed a fine of PLN 75 million on the Company. At the same time, UOKiK ordered TP S.A. to immediately cease this practice. TP S.A. disagrees with the decision of UOKiK. On 2 January 2008, TP S.A. appealed to SOKiK against the decision. The matter is currently being investigated by SOKiK.

Moreover, there is a number of other proceedings against the Group initiated by UKE and UOKiK. As at 31 December 2009 the Group recognised provisions for known and quantifiable risks related to these proceedings, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed, as in the opinion of the Company's Management such disclosure could prejudice the outcome of the pending cases.

In September 2008, the European Commission conducted an inspection at the premises of TP S.A. and PTK-Centertel Sp. z o.o. The aim of the inspection was to gather evidence of a possible breach by TP S.A. of competition rules on the broadband Internet market. The Company has challenged, before the European Court of First Instance, the decision of the European Commission that was the basis for its inspection. On 17 April 2009, the European Commission notified TP S.A. of initiation of proceedings on the supposed refusal to provide services and non-price discrimination on the Polish wholesale market of broadband access to the Internet. On 27 April 2009, the European Commission published a memo confirming that the opening of the proceedings did not in itself imply that the European Commission had proof of infringements by Telekomunikacja Polska. Under European law, the Commission may impose a fine on an entity of up to 10% of its total turnover of the preceding business year if it proves infringement of rules on competition. Moreover, the Commission may impose any behavioural or structural remedies which are proportionate to the infringement committed and necessary to bring the infringement effectively to an end. Such a decision can be appealed to the Court of First Instance. The Commission may also impose a fine of up to 1% of the total turnover of the preceding business year for providing incorrect or misleading information. The European Commission has no deadline to complete an antitrust investigation. At this stage of the proceedings, it is not feasible to foresee the consequences of such proceedings.

e. Dispute with DPTG

In 2001, a dispute arose over the interpretation of a contract for the sale and installation by the Danish company DPTG of a fiber optical transmission system (known as "North-South Link", or "NSL") for the State-owned PPTiT, the predecessor of TP SA. The contract, signed in 1991 and for which work was completed in 1994, provided for payment of part of the contract price by allocating to DPTG 14.8% of certain profit from the NSL for fifteen years from the system's installation, that is, from February 1994 to January 2009. In 1999, the parties came into disagreement regarding the calculation of this revenue. In 2001, DPTG initiated ad hoc arbitration proceedings before the Arbitration Tribunal (under UNCITRAL rules) sitting in Vienna.

The Arbitration Tribunal appointed a first expert in 2004 to evaluate the revenue “from the NSL” to be used as a basis for calculating the share attributable to DPTG. Between November 2005 and December 2007, this expert delivered three reports proposing widely differing estimates. In January 2008, a second expert named by the Tribunal to assess the appropriateness and the consistency of the first expert’s models, concurred, in all material respects, with the conclusions of the latest report of the first expert. In February 2008, the President of the Austrian Federal Economic Chamber sustained the challenge filed by TP S.A. against the chairman of the Arbitration Tribunal for lack of impartiality and a new chairman was named.

In June 2008, the Arbitration Tribunal decided to split the case into two periods and to render firstly an award settling DPTG’s rights for the period from February 1994 to June 2004. In January 2009, the Arbitration Tribunal held a hearing on the merits of the claim and then issued a first set of Directions to the experts of the parties and of the Tribunal for the quantification of DPTG’s rights. After a second hearing held in April 2009, dedicated to the examination of the experts, the Tribunal issued a second set of Directions for quantification by the experts of the parties only. The experts responded in July and, on 28 August 2009, the parties filed post-hearing-briefs including legal opinions on the merits of the claim.

In the course of the proceedings, DPTG modified the amount of its claim. In October 2008, it calculated its claim at DKK 6,278 million (approximately EUR 840 million) excluding interest for the period up to the end of 2007. In its post-hearing-brief dated 28 August 2009, DPTG amended its claim in principal adjusting it to the period from February 1994 to June 2004 at DKK 2,781 million (approximately EUR 370 million) and calculated the interest claim on that principal for the period until 28 August 2009 at an amount ranging up to DKK 2,257 million (approximately EUR 300 million). Such amended claim replaced the previous one. The claim for the period from July 2004 to the end of the contract period (January 2009) will be presented to the Tribunal at a later date.

The Company strongly disputes both the contractual basis of the claim and the amounts claimed. It has presented to the Tribunal an alternative position based on its clear understanding, and intent, of the contract.

Whilst the Company had anticipated that the Tribunal would make a partial award for the first period before the end of 2009 this has not proved to be the case. On 12 February 2010, the Company received a procedural order from the Tribunal asking TP S.A. to submit the final quantification of its position for the first period (“final prayers for relief”) by 11 March 2010.

Management has made what it considers to be an appropriate provision for this matter, as supported by outside Counsel and other professional advisors. Information regarding the amount of the provision has not been separately disclosed as, in the opinion of Management, such disclosure could prejudice the outcome of the pending case.

f. Other contingent liabilities

Apart from the above mentioned, operational activities of the Group are subject to regulations of legal-administrative nature and the Group is a party to a number of legal proceedings and commercial contracts related to its operational activities. The Group believes that adequate provisions have been recorded for known and quantifiable risks.

The MoU with UKE, as referred to in Note 31.1 c, also deals with a number of legal cases and claims between TP S.A., UKE and alternative operators. These are being gradually withdrawn, following implementation of certain elements of the MoU.

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33. Related party transactions

33.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

<i>(in PLN thousands)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Short-term benefits excluding employer social security payments ⁽¹⁾	13,647	9,905
Post-employment and other benefits	1,860	1,756
Termination costs	2,550	1,470
Total	18,057	13,131

⁽¹⁾ Gross salaries, compensation, bonuses and non-monetary benefits, profit-sharing, incentive bonuses

Remuneration and bonuses, compensation and termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) paid in accordance with contractual commitments, by TP S.A. to Management Board and Supervisory Board members in the 12 months ended 31 December 2009 and 2008 are presented below.

Persons that were Members of the Management Board of the Company as at 31 December 2009

<i>(in PLN thousands)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Maciej Witucki	2,687	2,945
Vincent Lobry	350 ⁽¹⁾	-
Piotr Muszyński	1,496	298 ⁽¹⁾
Roland Dubois	2,047	1,360 ⁽¹⁾
Total	6,580	4,603

⁽¹⁾ From the date of appointment

Persons that were Members of the Management Board of the Company in 2009 or previous periods

<i>(in PLN thousands)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Mariusz Gaca	617 ⁽³⁾	-
Pierre Hamon	-	1,674 ⁽²⁾
Jacek Kałaur	4,157 ⁽²⁾	1,910
Iwona Kossmann	-	1,685 ⁽²⁾
Benoit Merel	-	1,332 ⁽²⁾
Ireneusz Piecuch	3,308 ⁽²⁾	357 ⁽¹⁾
Richard Shearer ⁽⁴⁾	3,395 ⁽²⁾	1,570 ⁽¹⁾
Total	11,477	8,528

⁽¹⁾ From the date of appointment

⁽²⁾ Until the termination date

⁽³⁾ For the period of appointment

⁽⁴⁾ In addition to the amounts presented above, as at 31 December 2009 termination benefits payable in 2010 amounted to PLN 2.2 million.

In addition to the amounts presented above, during the 12 months ended 31 December 2009 and 2008, the estimated cost of share-based payments under TP S.A.'s and France Telecom S.A.'s incentive programmes allocated to the Company's Management Board amounted to PLN 0.7 million and PLN 1.3 million, respectively. In the 12 months ended 31 December 2009 and 2008, the amount of accrued costs for bonuses for the Company's Management Board amounted to PLN 1.5 million and PLN 1.3 million, respectively.

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In the year ended 31 December 2009 the members of TP S.A.'s Management Board did not receive any remuneration and bonuses (cash, benefits in kind or any other benefits) from TP S.A.'s subsidiaries and associates.

Remuneration and bonuses (cash, benefits in kind or any other benefits) paid or payable by TP S.A.'s subsidiaries and associates to TP S.A.'s Management Board members in the year ended 31 December 2008 were as follows: Maciej Witucki PLN 2 thousand, Pierre Hamon PLN 17 thousand, as well as Jean-Marc Vignolles PLN 203 thousand and Alain Carlotti PLN 16 thousand who were members of the TP S.A.'s Management Board in previous periods.

In the years ended 31 December 2009 and 2008, the members of TP S.A.'s Management Board did not receive any compensation or termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) from TP S.A.'s subsidiaries and associates.

Supervisory Board (in PLN thousands)	12 months ended	12 months ended
	31 December 2009	31 December 2008
Prof. Andrzej Koźmiński	318	304
Olivier Barberot ⁽²⁾	-	-
Olivier Faure ⁽²⁾	-	-
Antonio Anguita ⁽²⁾	-	-
Vivek Badrinath ⁽²⁾	-	-
Timothy Boatman	239	228
Jacques Champeaux ^{(2) (3)}	159	64
Ronald Freeman	239	228
Dr. Mirosław Gronicki	159	152
Marie-Christine Lambert ⁽²⁾	-	-
Prof. Jerzy Rajski	159	152
Raoul Roverato ⁽²⁾	-	-
Dr. Wiesław Rożucki	159	152
Michel Monzani ^{(1) (2)}	-	-
Stephane Pallez ^{(1) (2)}	-	-
Georges Penalver ^{(1) (2)}	-	-
Total	1,432	1,280

⁽¹⁾ Persons that were not members of the Supervisory Board of the Company as at 31 December 2009 but were members of the Supervisory Board of TP S.A. in 2009 or previous periods.

⁽²⁾ Persons appointed to the Supervisory Board of the Company employed by France Telecom do not receive remuneration for the function performed.

⁽³⁾ Following retirement from France Telecom in the third quarter of 2008, Mr. Jacques Champeaux started to receive remuneration for the function performed.

In the years ended 31 December 2009 and 2008, the members of TP S.A.'s Supervisory Board did not receive any remuneration, bonuses, compensation or termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) from TP S.A.'s subsidiaries and associates.

In the years ended 31 December 2009 and 2008, TP S.A. did not grant any loans to members of the Management Board and the Supervisory Board.

As at 31 December 2009 and 2008, members of the Management Board and the Supervisory Board had no liabilities arising from loans granted by the Company.

In the years ended 31 December 2009 and 2008, TP S.A. did not enter into any transactions with companies in which the members of its authorities had significant shareholdings.

In the years ended 31 December 2009 and 2008, the Company did not enter into any significant transactions with members of the Management Board and the Supervisory Board and their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections or with the entities in which these persons are members of the Management or Supervisory Board, and did not grant them any loans, advances, guarantees or other agreements resulting in significant benefits for TP S.A, its subsidiaries and associates.

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33.2. Related party transactions

As at 31 December 2009, France Telecom owned 49.79% of shares of the Company. France Telecom has the power to appoint the majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

The Group's income earned from related parties comprise mainly interconnect, leased lines, data transmission and research and development services. The purchases from the France Telecom Group mainly comprise costs of interconnect and leased lines, network services, IT services, consulting services and brand fees.

During the 12 months ended 31 December 2008, the Group's financial costs in transactions with related parties comprised interest on a loan received by TP S.A. from France Telecom. The loan was repaid in full on 14 March 2008.

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>31 December 2009</i>	<i>31 December 2008</i>
Sales of goods and services to:	195	176
- France Telecom (parent)	129	101
- France Telecom (group)	66	75
Purchases of goods (including inventories, tangible and intangible assets) and services from:	331	276
- France Telecom (parent)	123	108
- France Telecom (group)	208	168
Financial expense:	-	11
- France Telecom (parent)	-	11
- France Telecom (group)	-	-
Dividends paid:	997	997
- France Telecom (parent)	997	997
- France Telecom (group)	-	-

In April 2005, PTK-Centertel and Orange Brand Services Limited (UK) (hereinafter referred to as "Orange") concluded a licence agreement, on the basis of which PTK-Centertel acquired rights to operate under the Orange brand. The brand licence agreement provides that Orange receives a fee of 1.6% of operating revenue for full use of the Orange brand as well as access to the Orange roaming and interconnection arrangements, technology, advanced mobile handsets and consultancy services. The agreement has been concluded for 10 years with the possibility of renewal.

On 24 July 2008, TP S.A., France Telecom S.A. and Orange concluded a licence agreement, on which basis TP S.A. will acquire rights to use the Orange brand (trade marks) in relation to the provisioning of TV, ISP and B2B goods and services. The license fee for the use of the Orange trade mark by TP S.A. will amount to 1.6% of the Company's operating revenue earned under the Orange brand. The agreement has been concluded for 10 years with the possibility of renewal.

In relation to the above mentioned transactions, purchases of goods and services from France Telecom Group include brand fees of PLN 117 million for the 12 months ended 31 December 2009 (PLN 134 million for the 12 months ended 31 December 2008).

<i>(in PLN millions)</i>	<i>At 31 December</i>	<i>At 31 December</i>
	<i>2009</i>	<i>2008</i>
Receivables from:	87	85
- France Telecom (parent)	59	65
- France Telecom (group)	28	20
Payables to:	230	224
- France Telecom (parent)	124	103
- France Telecom (group)	106	121

34. Subsequent events

On 25 January 2010, TP S.A. concluded a revolving loan agreement with an international syndicate of banks for a total amount of EUR 400 million. The purpose of the new back-up line is to refinance the EUR 550 million revolving back-up facility that supports the Group's liquidity. The agreement was signed for a period of three years and expires on 18 April 2013. The loan interest is based on the EURIBOR rate for the relevant interest periods plus a bank margin. Under a financial covenant included in the agreement, the Group should meet the following financial ratio: Net Debt / EBITDA to be not higher than 3.5:1 confirmed on a semi-annual basis, which level is perceived as reasonable compared with the current level of the ratio at 0.7:1 as at 31 December 2009. Taking into account the new back-up facility, the liquidity coverage as at 31 December 2009 would have amounted to 3,246% and 2,164% of the 12 months and 18 months debt repayments, respectively (see Note 23.5).

Management Board's Report on the Activity of

TELEKOMUNIKACJA POLSKA GROUP

in 2009

22 February 2010

This report on the activity of the Telekomunikacja Polska Group ("the TP Group" or "the Group") in 2009 has been drawn up in compliance with articles 91 and 92 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2009 No. 33, item 259, as amended).

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CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of 31 December 2009 and for the twelve-month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

	For 12 months ended				Change
	31 December 2009		31 December 2008		
	in PLN mln	in EUR ¹ mln	in PLN mln	in EUR ² mln	
Consolidated Income Statement					
Revenues, including:	16,560	3,815	18,165	5,143	-8.8%
Fixed line services	9,863	2,272	10,414	2,948	-5.3%
Mobile services	7,745	1,784	8,620	2,440	-10.2%
Eliminations and unallocated items	(1,048)	(241)	(869)	(246)	20.6%
EBITDA	6,279	1,447	7,521	2,129	-16.5%
<i>EBITDA margin</i>	37.9%		41.4%		-3.5pp
Operating income	2,096	483	3,313	938	-36.7%
<i>Operating margin</i>	12.7%		18.2%		-5.5pp
Consolidated net income after tax	1,282	295	2,190	620	-41.5%
<i>Net income attributable to owners of TP SA</i>	1,280	295	2,188	619	-41.5%
<i>Weighted average number of shares (in millions)*</i>	1,336		1,361		-1.8%
<i>Earnings per share (in PLN) (basic and diluted)</i>	0.96	0.22	1.61	0.46	-40.4%
Consolidated Statement of Cash Flow					
Net cash provided by operating activities	5,541	1,277	6,626	1,876	-16.4%
Net cash used in investing activities, including	(2,281)	(526)	(2,946)	(834)	-22.6%
Capital expenditure (on accrual basis)	(2,185)	(503)	(2,579)	(730)	-15.2%
Net cash used in financing activities	(2,680)	(617)	(2,687)	(761)	-0.3%
Net change in cash and cash equivalents	580	134	993	281	
As of					
	31 December 2009		31 December 2008		Change
	in PLN mln	in EUR ³ mln	in PLN mln	in EUR ⁴ mln	
Consolidated Balance Sheet					
Cash and cash equivalents	2,218	540	1,640	393	35.2%
Other intangible assets, net	2,767	674	2,914	698	-5.0%
Property, plant and equipment, net	17,743	4,319	19,589	4,695	-9.4%
Total assets	29,356	7,146	31,234	7,486	-6.0%
Financial liabilities at amortised costs, of which:	6,408	1,560	7,175	1,720	-10.7%
Current	375	91	2,100	503	-82.1%
Non-current	6,033	1,469	5,075	1,216	18.9%
Other liabilities, current and non-current	6,355	1,547	6,829	1,637	-6.9%
Total equity	16,593	4,039	17,230	4,130	-3.7%

Notes:

1 – PLN/EUR fx rate of 4.3406 applied

3 – PLN/EUR fx rate of 4.1082 applied

2 – PLN/EUR fx rate of 3.5321 applied

4 – PLN/EUR fx rate of 4.1724 applied

* Weighted average number of shares in 12 months ended 31 December 2009 and 2008

1.1 Comments to Income Statement Items

In 2009, TP Group's consolidated revenues amounted to PLN 16,560 million and were lower by PLN 1,605 million compared to 2008. The decrease in revenues resulted from a decrease of PLN 551 million in fixed line revenues, mainly due to further erosion of the fixed line customer base, and a decrease of PLN 875 million in mobile revenues, mainly due to the effects of reductions in mobile termination rates and competitive pressure on retail prices.

Operating income before depreciation and amortisation expense, and impairment of goodwill and other non-current assets (EBITDA) amounted to PLN 6,279 million in 2009 and was PLN 1,242 million lower than in 2008.

Operating income (EBIT) amounted to PLN 2,096 million in 2009 and was PLN 1,217 million lower than in 2008.

In particular, year-on-year, in 2009:

- Commercial expenses increased by PLN 127 million, due to weaker Polish zloty and intensified competition;
- Network and IT costs increased by PLN 58 million;
- Real estate costs were up PLN 109 million, partly as a result of sale-and-lease-back agreements concluded by TP in July 2008 for selected office buildings and an increase in energy costs;
- Purchases and payments to other operators (interconnect and roaming costs) decreased by PLN 445 million, predominately driven by three cuts of the MTR rates (36% in March, 23% in July, and 15% in May 2008);
- Impairment of non-current assets totalled PLN 33 million, as compared to reversal of impairment of non-current assets totalling PLN 109 million in 2008;
- Gain on sale of assets was lower by PLN 75 million, due to sale of Warsaw properties in 2008;
- Non-income taxes decreased by PLN 79 million, as a result of lower gross book value of tax assets;
- Net result on foreign exchange gains (losses) increased by PLN 116 million, due to effective hedging implemented by TP;
- Restructuring costs were down PLN 151 million, as 2008 accounts included the provision for the three-year social agreement.

In 2009, net finance charges were PLN 219 million lower than in 2008, which resulted mainly from a decrease of PLN 162 million in interest expense and a reduction of PLN 64 million in foreign exchange losses.

Consolidated net income attributable to owners of Telekomunikacja Polska S.A. ("the Company", "the Parent Company", "TP") amounted to PLN 1,280 million in the reported period, which is a 41.5% decrease compared with 2008. Earnings per share decreased from PLN 1.61 to PLN 0.96.

1.2 Comments to Cash Flow Statement Items

In 2009, net cash provided by operating activities totalled PLN 5,541 million and was lower by PLN 1,085 million year-on-year, despite a decrease of PLN 228 million in net interest paid, an increase of PLN 128 million in net inflow from exchange rate effect on derivatives and a decrease of PLN 365 million in income tax paid.

Net cash used in investing activities amounted to PLN 2,281 million in 2009 and was lower by PLN 665 million compared to 2008, which was attributable mainly to a decrease of PLN 1,283 million in cash outflow on property, plant, equipment and intangible assets (year-on-year), which was accompanied by a decrease of PLN 558 in proceeds from sale of property, plant, equipment and intangible assets.

Net cash outflows from financing activities amounted to PLN 2,680 million in 2009 and were comparable to those in 2008.

1.2.1 Capital Expenditures (CAPEX)

In 2009, TP Group's capital expenditures amounted to PLN 2,185 million. Specifically, fixed line segment and mobile segment capital expenditure amounted to PLN 1,397 million and PLN 788 million respectively.

In 2009, the TP Group continued to focus on its capital expenditure optimisation program, limiting investments to the following projects:

- Sales-related projects aimed at increasing and defending revenues;
- Regulatory projects implemented in connection with the TP Group's universal service obligation and significant market position in the telecommunications market; and
- Infrastructure projects required to assure the proper quality of services.

Fixed Line Segment

In 2009, fixed line CAPEX totalled PLN 1,397 million and was PLN 174 million lower than in 2008.

In the fourth quarter of 2009, TP began implementing the Investment Declaration resulting from the Memorandum of Understanding, which was signed on 22 October 2009 with the Office of Electronic Communications. Under the terms of the agreement, within 36 months TP is to construct and provide fixed broadband infrastructure enabling addition of 1,200,000 new broadband lines.

The investment projects in 2009 included:

- Access network expansion to enable new additions;
- Development of broadband internet access base, particularly TV services (TVoSAT and TVoIP), through purchases of subscriber terminals (Livebox modems and Set-Top-Box TV decoders), as well as video-on-demand (VoD);
- Expansion of the MAN Metro and MAN Access networks;
- Enhancement of DSLAM nodes and network to incorporate the latter into DAMBACK network and enhancement of transmission capacity to enable provision of IP TV service;
- Maintenance, improvement and expansion of data transmission network and IT infrastructure, particularly installation of new DSLAM IP equipment and enhancement of the IP backbone network infrastructure as a transport layer for the existing and newly introduced IP/MPLS network services;
- Enhancement of the satellite TV (TVoSAT) and video-on-demand (VoD) services;
- Enhancement of optical fibre network and transmission equipment to enable new ACCESS network and MAN BBN (UMTS) backbone network lines;
- Modernisation of exchange monitoring and management system;
- Projects implemented in line with UKE's requirements (construction of the corresponding cables for the purpose of local loop unbundling; development/expansion of distribution and optical fibre networks and SDH transmission systems; switching system enhancement; and release of radio frequencies);
- Optimisation of customer service processes and costs;
- TV studio expansion and fitting and film co-production;
- Maintenance of the existing billing system and implementation of a new billing system that will enable introduction of convergent products;
- Development of local area networks (LANs) and adaptation/modernisation of office space;
- IT system development (introduction of new offers and functionalities, modernisation and system support);
- Implementation of an interconnect service model for the telecommunication access service provided to alternative operators; and
- Research and development (innovative projects related to the development of infrastructure and equipment for the presentation of prototypes and maintenance of the existing infrastructure).

Mobile Segment – PTK Centertel

In 2009, PTK Centertel's capital expenditures totalled PLN 788 million and were PLN 220 million lower than in 2008.

Capital expenditures in 2009 focused on:

- Development of the CDMA network in the 450 MHz band to enable access to broadband data transmission in the areas where it is otherwise difficult;
- Expansion of the UMTS/HSPA network in order to provide PTK Centertel's customers with the highest service quality and access to rapid data transfer based on cutting-edge technologies.

The CDMA network covered 76.1% of Poland's territory, while the UMTS/HSPA network covered 55% of Poland's population at the end of 2009.

Other key areas of investments were:

- Capacity for voice services aimed at maintaining quality;
- Service platforms for Orange multimedia services; and
- New generation (R4) core network infrastructure.

1.3 Comments to Balance Sheet Items

As of 31 December 2009, total equity amounted to PLN 16,593 million and was PLN 637 million lower than one year before. The change is attributed mainly to the dividend payment (from retained profits) of PLN 2,004 million, which was partially offset by net income of PLN 1,282 million generated in 2009.

In 2009, property, plant, equipment and intangible assets (including goodwill) decreased by PLN 1,971 million year-on-year, mainly as a result of amortisation and depreciation of PLN 4,150 million, which was only partially offset by capital expenditures amounting to PLN 2,207 million (including PLN 2.185 million of capital expenditures financed through own resources, and PLN 22 million financed through finance leases)

Total assets decreased by PLN 1,878 million in the reported period. The change resulted mainly from the aforementioned decrease of PLN 1,971 million in property, plant, equipment and intangible assets (including goodwill), which was accompanied by an increase of PLN 578 million in cash and cash equivalents, a decrease of PLN 142 million in income tax assets, an increase of PLN 106 million in deferred tax assets, a decrease of PLN 339 million in net trade receivables and an increase of PLN 45 million in hedging derivatives.

Total non-current and current liabilities decreased by PLN 1,241 million to PLN 12,763 million as of 31 December 2009. The primary factors that contributed to the change included a decrease of PLN 606 million in trade payables and a reduction of PLN 767 million in the Group's debt on account of bonds, bank borrowings and financial leasing.

The structure of liabilities changed in 2009. Current liabilities decreased by PLN 2,193 million, while non-current liabilities rose by PLN 952 million. It was mainly a result of a decrease of PLN 1,725 million in short-term financial liabilities on account of bonds, bank borrowings and financial leasing and a decrease of PLN 582 million in short-term trade payables, which were accompanied by an increase of PLN 958 million in long-term financial liabilities on account of bonds, bank borrowings and financial leasing.

1.4 Transactions with Related Parties

For information about TP Group's transactions with related entities, please see Note 33 to the Consolidated Financial Statements enclosed.

1.5 Description of Significant Agreements

In 2009, outside the group of associated companies TP concluded no agreements the value of which exceeded 10% of TP's total equity.

For major loan and borrowing agreements, please see section 1.9.2 below.

1.6 Subsequent Events

For information on subsequent events, please see Note 34 to the Consolidated Financial Statements enclosed.

1.7 Scope of Consolidation within the TP Group

For information about the scope of consolidation within the TP Group, including the list of TP Group's organisations, please see Note 1.2 to the Consolidated Financial Statements enclosed.

1.8 Information about Loan or Borrowing Collaterals or Guarantees Provided by the Issuer or Its Subsidiaries

For information about loan or borrowing collaterals or guarantees provided by the issuer or its subsidiaries, please see Note 21 to the Consolidated Financial Statements enclosed.

1.9 Management of Financial Resources and Liquidity of the TP Group

In the reported period, the TP Group financed its activities mostly using cash generated from operating activities as well as obtained from loans and bond issues.

In 2009, the TP Group repaid long-term debt of PLN 3,987 million. All debt repayments were carried out on schedule.

Additional financing was raised through debt note issue totalling PLN 3,093 million under the Euro Medium Term Note Programme, which was launched in the reported period.

As of 31 December 2009, TP Group's interest-bearing liabilities totalled PLN 6,408 million (before derivatives), which is a decrease of PLN 767 million compared to 31 December 2008.

TP Group's liquidity remained solid, owing to strong cash position, amounting to PLN 2,218 million at 31 December 2009, and available credit facilities totalling the equivalent of PLN 5,801 million (please see section 1.9.3 for details).

Based on available cash, back-up and revolving credit facilities, as well as external sources of financing, the TP Group has sufficient funds to carry out its investment projects, including capital investments, scheduled for implementation in 2010.

1.9.1 Bonds

On 6 May 2009, TPSA Eurofinance France S.A., a subsidiary of TP, set up a Programme for the issuance of Euro Medium Term Notes totalling EUR 1,500 million, subject to TP's guarantee.

On 22 May 2009, TPSA Eurofinance France S.A. issued five-year notes totalling €500,000,000 par in the Programme. The redemption date of the notes is 22 May 2014. The notes bear a fixed interest of 6.00% per annum. On 17 July 2009, TPSA Eurofinance France S.A. increased the tranche of notes issued in the Programme in May by €200,000,000 to the total amount of €700,000,000 par.

The purpose of the debt note issues was to optimise the TP Group's financing structure by extending the debt repayment period and to secure the Group's current and future financing needs, especially in consideration of the fact that the majority of its debt matures in 2010 or 2011.

At the end of 2009, the unused debt note issuance limit in the Programme was €800,000,000.

For the detailed information on outstanding long-term debt notes, including their terms and redemption details, please see Note 21.1 to the Consolidated Financial Statements enclosed.

1.9.2 Loan and Borrowings Agreements

In 2009, the TP Group concluded the following loan agreements:

- An overdraft facility agreement for the amount of PLN 62 million with ABN Amro Polska S.A. on 11 February 2008, which enabled TP to use the overdraft facility for current financing and liquidity management until 29 June 2009;
- An overdraft facility agreement for the amount of PLN 62 million with ABN Amro Polska S.A. on 26 June 2009, which enables TP to use the overdraft facility for current financing and liquidity management between 1 July 2009 and 29 December 2009;
- An uncommitted credit line agreement for the amount of €100 million with Bayerische Landesbank AG on 24 September 2009. This general agreement enables conclusion of individual loan agreements depending on the bank's ability to provide financing;
- An amendment on 2/3 November 2009 to the Financial Contract with the European Investment Bank dated 16 December 1996 in connection with a change of the loan from secured with a bank guarantee to unsecured;
- An annex on 31 December 2009 to the loan agreement for PLN 20 million with Societe Generale S.A., Polish Branch, which extended the agreement until 31 December 2010 (the loan is used for financing PTK Centertel's current liquidity); and
- On 10 December 2009, Ramsat S.A., a TP's subsidiary, concluded a multi-purpose loan and guarantee facility agreement with Bank Przemysłowo-Handlowy, which provides for a revolving loan and current account overdraft facility totalling PLN 3 million.

In the reported period, TP exercised an option to extend by twelve months, i.e. to 30 June 2010, a facility of PLN 1,000 million provided by Bank Polska Kasa Opieki S.A. under a revolving loan agreement of 30 June 2008.

In 2009, TP Group drew a total of PLN 1,752 million under a revolving loan agreement of February 2006 and a revolving loan agreement of June 2008 with Bank Polska Kasa Opieki S.A., as well as a circulating loan agreement of December 2009 with Bank BPH. In the same period, bank borrowings totalling PLN 5,487 million were repaid.

For the detailed information on all bank loans (including their maturity dates) and guarantees, please see Note 21.2 to the Consolidated Financial Statements enclosed.

1.9.3 Unused Credit Facilities

As of 31 December 2009, the TP Group had unused general-purpose credit facilities amounting to an equivalent of PLN 5,801 million, including:

- EUR 550 million and PLN 3,500 million available to TP;
- EUR 5 million and PLN 20 million available to PTK Centertel; and
- PLN 1 million available to Ramsat.

1.9.4 Loan Covenants

In 2009, the loan and guarantee agreements to which TP was a party imposed no obligations to meet financial ratios on TP or the TP Group.

1.9.5. Guarantees and Collaterals

On 6 May 2009, in connection with the establishment of the Euro Medium Term Note Programme up to the amount of €1,500,000,000 par, the Parent Company granted an irrevocable and unconditional guarantee to the holders of the debt notes issued in the programme. The guarantee covers the performance of all potential obligations of the issuer, i.e. TPSA Eurofinance France S.A., a TP wholly-owned subsidiary, towards the debt note holders, particularly an obligation to effect the redemption payment for the debt notes, the interest payment and any other payments due according to the issue terms and conditions.

On 27 November 2009, the Parent Company granted a guarantee totalling PLN 1.9 million to Raiffeisen Bank Polska S.A. with respect to liabilities of PayTel S.A., a TP's subsidiary, on account of credit and guarantee facilities provided by the bank.

In the reported period, TP requested that the Polish branch of Societe Generale S.A. issue bank guarantees with respect to liabilities of Ramsat S.A., a TP wholly-owned subsidiary, towards its business partners, while TP promised to cover any claims related to payments under the guarantee. As of 31 December 2009, those guarantees totalled PLN 0.9 million.

1.9.6 Ratings of the TP Group

The ratings at 31 December 2009 were as follows:

Moody's Investor Services	A3, stable outlook
Standard and Poor's Rating Services	BBB+, stable outlook
Fitch IBCA	BBB+, stable outlook

1.9.7 Hedging Transactions

TP Group further minimised its exposure to foreign exchange volatility in 2009, covering almost 100% of its debt denominated in foreign currencies and 87% of the UMTS discounted liabilities (the carrying amount). TP Group has also enhanced its hedging policy and secures the portions of the exposure on its operational liabilities (e.g. handsets purchase).

For detailed information about foreign exchange and interest rate hedging, please see Notes 22 and 23 to the Consolidated Financial Statements enclosed.

For the accounting structure of the net debt by currencies (after valuation of hedging instruments) please see Note 19.2 to the Consolidated Financial Statements enclosed.

1.9.8 TP Group's Financial Liquidity, Net Financial Debt and Status as a Going Concern.

At the end of 2009, TP Group's liquidity ratios increased compared to the end of 2008. The improvement in TP Group's liquidity was driven by a decrease of PLN 1,814 million in current liabilities.

The liquidity ratios for the TP Group at 31 December 2009 and 31 December 2008, respectively, are presented in the table below.

	31 December 2009	31 December 2008
Current ratio	1.22	0.75
Current assets / current liabilities*		
Quick ratio	1.15	0.70
Total current assets – inventories / current liabilities*		
Super-quick ratio	0.72	0.35
Total current assets – inventories – receivables / current liabilities*		

*Current liabilities less provisions and deferred credits were used to determine the ratio.

TP Group's net financial debt (after valuation of derivatives) decreased to PLN 4,382 million at the end of 2009 (from PLN 5,404 million at the end of 2008).

For additional information about TP Group's liquidity, please see Note 23.5 to the Consolidated Financial Statements enclosed.

2 STATEMENTS OF THE MANAGEMENT BOARD

2.1 Statement on Adopted Accounting Principles

TP Management Board, composed of:

1. Maciej Witucki - President of the Board
2. Vincent Lobry - Vice President of the Board
3. Piotr Muszyński - Vice President of the Board
4. Roland Dubois - Board Member

hereby confirms that according to its best knowledge the consolidated financial statements and comparable data have been drawn up in compliance with the accounting regulations in force and reflect the TP Group's property, financial standing and financial result in an accurate, reliable and transparent manner.

This Management Board's Report provides accurate depiction of the development, achievements and standing of the issuer's group, including the description of major threats and risks.

2.2 Statement on Appointment of the Licensed Auditor of the TP Group's Consolidated Financial Statements

TP's Management Board hereby declares that the licensed auditor of the TP Group's financial statements has been appointed in compliance with the relevant regulations and that both the auditor and the chartered accountants carrying out the audit meet the requirements to develop an impartial and independent opinion on the audited statements in compliance with the relevant regulations and professional standards.

2.3 Agreement with the Licensed Auditor

On 23 September 2009, TP concluded an agreement with an entity licensed to audit financial statements for auditing and reviewing its standalone and consolidated financial statements for reporting periods of 2009. Based on the agreement, Deloitte Audyt Sp. z o.o. has performed the following:

- the audit of the standalone financial statements of the Company and the consolidated financial statements of the TP Group for 2009 prepared in accordance with IFRS;
- reviews of the standalone and consolidated financial statements for I half 2009;
- agreed procedures concerning audit and reviews of standalone and consolidated financial statements in 2009 .

The aggregate remuneration (in PLN '000) for auditing and reviewing the above-mentioned financial statements and other services rendered by Deloitte Audyt Sp. z o.o. for 2009 is presented below:

	2009
Audit of annual financial statements of the TP Group, including:	4,622
- Audit of annual financial statements of TP and the consolidated financial statements of the TP Group;	2,991
- Audit of annual financial statements of subsidiaries*.	1,631
Other authentication services to the TP Group, including:	3,498
- Review of financial statements of TP and the consolidated financial statements of the TP Group;	1,754
- Verification procedures related to internal control over financial reporting;	1,624
- Other authentication services.	120
Total amount payable by TP Group	8,120

* The remuneration for audits of subsidiaries is payable under separate contracts between the auditor and each subsidiary.

The aggregate remuneration for auditing and reviewing the above-mentioned financial statements and other services rendered by Ernst & Young Audit Sp. z o.o. as of 2008 was as follows: PLN 5,140 thousand for audits/reviews of TP; PLN 1,571 thousand for auditing TP's regulatory statements in compliance with the Telecommunications Law; PLN 642 thousand for audit-related and other services to TP; PLN 1,790 thousand for audits/reviews of subsidiaries; and PLN 1,770 thousand for verification procedures related to internal control over financial reporting.

2.4 Management Board's Position as to the Achievement of the Previously Published Financial Projections for the Given Period

TP published no financial projections concerning the results of the TP Group for 2009.

3 CORPORATE GOVERNANCE STATEMENT

(a) TP's corporate governance policy

The Company, as an issuer of securities listed on the Warsaw Stock Exchange (WSE), shall comply with the corporate governance practices set out in the *Code of Best Practice for WSE Listed Companies*, which is available at <http://corp-gov.gpw.pl>.

(b) Corporate governance compliance

In 2009, the Company complied with the corporate governance best practice referred to above.

(c) Description of major features of TP's internal control and risk management systems with respect to the process of development of standalone and consolidated financial statements

The system of internal control and risk management has been designed and implemented by the Management Board to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

A new TP Group Code of Ethics was adopted within the Company in 2008 which encompasses TP's relationship with customers, shareholders, employees, suppliers, competition and also with respect to the environment in which the TP Group operates. An alert handling system related to ethics and reporting of potential and actual fraud has been enhanced by the Group which is coordinated by the TP Group Ethics Committee. Training on ethics is provided to employees, which is confirmed by a personal certification. Formal channels for whistle blowing have been established, including reporting to the Chairman of the TP Audit Committee of the Supervisory Board, the Chairman of the TP Group Ethics Committee and the Director of Internal Audit.

TP Group is diligent in its approach to reporting financial results and its ongoing communication with the Polish and international investment community, as well as fulfilling its disclosure obligations. The TP Group Disclosure Committee is chaired by the Chief Financial Officer. Its role is to oversee public disclosures made by TP Group, ensuring that they are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of the Group. In 2009, the Committee had four meetings.

The key elements of such system include the following procedures:

(1) An internal audit function, which reports directly to the President of the Management Board. The internal audit programme is annually reviewed by the Audit Committee which also analyses the Group's Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit Department, Management Board decisions regarding the appointment and remuneration of the Head of the Internal Audit Department require, since 2005, an opinion of the Audit and Remuneration Committees.

(2) The Group conducts ongoing assessments of the quality of risk management system and controls. As part of this process, a Risk Map which enables identification and classification of the Group's financial and non-financial risks is maintained. This Map was developed internally, but also includes findings from the risk assessment project carried out with the support of external experts.

(3) Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental, financial reporting and operational) effectively on an ongoing basis. It provides a framework for the Internal Audit Department's ongoing risk-controlling activities.

In 2009, the Management Board again completed a comprehensive assessment of the Group's internal controls over financial reporting. Main deficiencies were identified and corrected or appropriate action points have been launched. As a result of the assessment, the Management concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at 31 December 2009.

(d) Indication of shareholders holding, directly or indirectly, significant batches of shares, including the number of shares held, the interest in the Share Capital, the corresponding number of votes and the percentage of the total voting power at the General Meeting

Shareholder	Number of shares held	Number of votes at the General Meeting	Percentage of the total voting power at the General Meeting	Nominal value of shares held (in PLN)	Interest in the Share Capital
France Telecom S.A.	664,999,999	664,999,999	49.79%	1,994,999,997	49.79%
State Treasury ⁽¹⁾	55,491,532	55,491,532	4.15%	166,474,596	4.15%
Other shareholders	615,157,490	615,157,490	46.06%	1,845,472,470	46.06%
TOTAL	1,335,649,021	1,335,649,021	100.00%	4,006,947,063	100.00%

⁽¹⁾ The figures presented are based on the number of shares registered by the State Treasury at the Annual General Meeting of Shareholders of TP S.A. held on 23 April 2009.

(e) Indication of holders of any securities granting special control rights and description of such rights

The Company has not issued any securities granting any special control rights to shareholders or other entities.

(f) Indication of any restrictions concerning the exercise of the voting rights on shares, such as restriction of the voting rights to a certain percentage or number of votes or temporary restriction of the voting rights, or regulations according to which, in conjunction with the Company, the rights on securities are separated from the ownership of securities

The Company has not introduced any special restrictions concerning the exercise of the voting rights on shares.

(g) Indication of any restrictions concerning transfer of ownership of the securities issued by TP

The transfer of ownership of the securities issued by the Company is subject to no restrictions.

(h) Description of procedures for appointment and removal of managing persons and their rights, particularly the right to make decisions regarding the issuance or redemption of shares

The Management Board consists of between 3 and 10 members, including the President. They are appointed and removed by the Supervisory Board by a simple majority of the votes cast. The term of office of each member of the Management Board shall be three years. The Management Board's remit comprises the management of all aspects of the Company's affairs, with the exception of the matters which under the Polish Commercial Companies Code or the Articles of Association shall be within the competence of the General Meeting or the Supervisory Board. In particular, the powers of the Management Board include development of the Company's strategy, economic and financial plans; establishment, transformation and liquidation of the Company's business units; and governance of TP Group subsidiaries. Any decisions regarding the issuance or redemption of the Company's shares are exclusively within the competence of the General Assembly.

The powers of the Management Board are detailed in the Management Board by-laws, available at www.tp-ir.pl.

(i) Description of procedures for amending the Articles of Association or the deed of the company

Any amendment to the Articles of Association shall be effected only by a resolution of the General Assembly adopted by a majority of the three quarters of votes.

(j) Rules of operation of the general meeting and its major responsibilities, and description of the shareholders' rights and the way of exercise thereof, particularly the rules resulting from the general meeting by-laws, if any, unless the information in this respect results directly from mandatory regulations

I. General Assemblies shall be held in Warsaw. The General Meeting shall be valid irrespective of the number of shares represented. According to the adopted by-laws, the General Meeting shall be opened by the Chairman of the Supervisory Board or his deputy, or, in case of their absence, by the President of the Management Board or a person designated by the Management Board. Thereafter, the Chairman shall be elected from among the persons entitled to take part in the General Meeting. After each subsequent matter on the agenda has been presented the Chairman of the General Meeting shall open a discussion giving floor to speakers in the sequence in which they have declared their willingness to speak. Upon the consent of the General Meeting several items of the agenda may be discussed jointly. The participants may speak only on the matters which have been put on the agenda and are being considered at that moment.

II. Pursuant to the Regulations of the General Meeting of TP S.A., the shareholders have the following rights:

- (1) The shareholders may take part in the General Meeting and exercise the right of vote in person or by attorneys-in-fact (other representatives).
- (2) Each shareholder has the right to candidature for the Chairman of the General Assembly or to put forward one candidature for the position of the Chairman of the General Meeting to the minutes.
- (3) When every point on the agenda is considered each shareholder has the right to one speech of 5 minutes and a reply of 5 minutes.
- (4) Each shareholder has the right to ask questions on any matters on the agenda.
- (5) The shareholder has the right to object a decision of the Chairman of the General Meeting. The General Meeting shall decide in a resolution whether the decision of the Chairman be upheld or reversed.
- (6) Each shareholder has the right to suggest amendments or additions to draft resolutions, which are covered by the agenda of the General Meeting, by the time of closing the discussion over the item on the agenda referring to the draft resolution to which the suggestion is related.
- (k) Composition and changes thereof in the last financial year, and description of bodies that manage, supervise or administer TP and any committees thereof

I. Composition of the Management Board and changes thereof in 2009

Composition on 1 January 2009:

1. Maciej Witucki - President of the Board
2. Roland Dubois - Board Member
3. Jacek Kałaur - Board Member
4. Piotr Muszyński - Board Member
5. Ireneusz Piecuch - Board Member
6. Richard Shearer - Board Member

On 26 March 2009, Mr Mariusz Gaca was appointed by the Supervisory Board as a Member of the Management Board.

The mandate of the President Maciej Witucki expired at the Annual General Meeting held on 23 April 2009, which approved the 2008 financial statements. On the same day, Mr Maciej Witucki was appointed by the Supervisory Board for another term as the President of the Management Board.

On 6 August 2009, the mandate of Mr. Ireneusz Piecuch expired upon his resignation.

On 15 September 2009, the mandates of Messrs. Mariusz Gaca and Richard Shearer expired upon their resignation.

On 15 September 2009, Mr. Vincent Lobry was appointed by the Supervisory Board as a Member of the Management Board.

On 4 November 2009, the mandate of Mr. Jacek Kałaur expired upon his resignation.

Composition on 31 December 2009:

1. Maciej Witucki - President of the Board
2. Vincent Lobry - Vice President of the Board
3. Piotr Muszyński - Vice President of the Board
4. Roland Dubois - Board Member

II. Composition of the Supervisory Board and its Committees and changes thereof in 2009

Composition on 1 January 2009:

1. Prof. Andrzej K. Koźmiński - Chairman and Independent Board Member
2. Olivier Barberot - Deputy Chairman and Chairman of the Strategy Committee
3. Olivier Faure - Board Member and Secretary
4. Antonio Anguita - Board Member
5. Vivek Badrinath - Board Member
6. Timothy Boatman - Independent Board Member and Chairman of the Audit Committee
7. Jacques Champeaux - Board Member
8. Ronald Freeman - Independent Board Member and Chairman of the Remuneration Committee

9. Dr. Mirosław Gronicki - Independent Board Member
10. Stéphane Pallez - Board Member
11. Georges Penalver - Board Member
12. Prof. Jerzy Rajski - Independent Board Member
13. Dr. Wiesław Rozłucki - Independent Board Member

On 16 January 2009, the mandate of Mr. Olivier Faure expired. On the same day, Mr. Olivier Faure was appointed by the Extraordinary General Meeting as a Member of the Supervisory Board.

On 23 April 2009, the mandates of Messrs. Andrzej K. Koźmiński, Olivier Barberot, Vivek Badrinath, Ms. Stéphane Pallez, Mr. Georges Penalver, Prof. Jerzy Rajski and Dr. Wiesław Rozłucki expired. On the same day, Messrs. Vivek Badrinath, Olivier Barberot, Andrzej K. Koźmiński, Ms. Marie-Christine Lambert, Messrs. Jerzy Rajski, Raoul Roverato and Dr. Wiesław Rozłucki were appointed by the Annual General Meeting as Members of the Supervisory Board.

Composition on 31 December 2009:

1. Prof. Andrzej K. Koźmiński - Chairman and Independent Board Member
2. Olivier Barberot - Deputy Chairman and Chairman of the Strategy Committee
3. Olivier Faure - Board Member and Secretary
4. Antonio Anguita - Board Member
5. Vivek Badrinath - Board Member
6. Timothy Boatman - Independent Board Member and Chairman of the Audit Committee
7. Jacques Champeaux - Board Member
8. Ronald Freeman - Independent Board Member and Chairman of the Remuneration Committee
9. Dr. Mirosław Gronicki - Independent Board Member
10. Marie-Christine Lambert - Board Member
11. Prof. Jerzy Rajski - Independent Board Member
12. Raoul Roverato - Board Member
13. Dr. Wiesław Rozłucki - Independent Board Member

At present, TP S.A. has six independent members in the Supervisory Board, namely: Prof. Andrzej K. Koźmiński, Timothy Boatman, Ronald Freeman, Dr. Mirosław Gronicki, Prof. Jerzy Rajski and Dr. Wiesław Rozłucki.

Composition of Committees of the Supervisory Board on 31 December 2009:

The Audit Committee

1. Timothy Boatman – Chairman
2. Olivier Faure
3. Ronald Freeman
4. Marie-Christine Lambert

The Remuneration Committee

1. Ronald Freeman – Chairman
2. Olivier Barberot
3. Jacques Champeaux
4. Dr. Wiesław Rozłucki

The Strategy Committee

1. Olivier Barberot – Chairman
2. Jacques Champeaux
3. Olivier Faure
4. Dr. Mirosław Gronicki
5. Prof. Jerzy Rajski

III. Operations of the Management Board

The operations of the Management Board shall be managed by its President, who shall be the superior of all the Company's employees. Meetings of the Management Board are chaired by the President of the Management Board or, in case of his absence, another member of the Management Board designated by the President. Resolutions may be adopted if all members of the Management Board have been duly notified about the meeting. Resolutions of the Management Board shall be adopted by absolute majority

of votes of all appointed members of the Management Board. Individual members of the Management Board shall manage the areas of the Company's operations assigned to them.

The responsibilities and obligations of the Management Board are detailed in the Management Board by-laws, available at www.tp-ir.pl.

IV. Operations of the Supervisory Board

The work of the Supervisory Board is co-ordinated by the Board Chairman with the assistance of the Board Secretary. The Supervisory Board shall hold a meeting at least once a quarter. The Management Board or a member of the Supervisory Board may demand convening a meeting, specifying a suggested agenda thereof. The Chairman of the Supervisory Board shall call a meeting within two weeks of the receipt of the aforementioned motion. In case the Chairman of the Supervisory Board fails to call a meeting within two weeks, the applicant may call it on his own, specifying the date, place and suggested agenda of the meeting. The Supervisory Board shall adopt resolutions by a simple majority of the votes cast and in the presence of at least half of all members of the Supervisory Board. In case of equal votes, the Chairman of the Supervisory Board shall have the decisive vote.

Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in further paragraphs.

The Supervisory Board by-laws are available at www.tp-ir.pl.

In particular, the Supervisory Board is responsible for the appointment and remuneration of the members of the Management Board, the appointment of the Company's independent auditors, and the supervision of the Company's business. As part of its supervisory responsibilities, it examines the Company's strategic plan and annual budget, monitors the Company's operating and financial performance, formulates opinions on incurring liabilities that exceed the equivalent of €100,000,000, formulates opinions on disposal of the Company's assets in exceed the equivalent of €100,000,000, evaluates the Management Board's report on the Company's activities and the Management Board's proposals regarding distribution of profits or covering losses. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to TP Group's businesses.

V. Operations of the Committees of the Supervisory Board

(A) The Audit Committee

The task of the Committee is to advise the Supervisory Board on proper implementation of financial reporting, budgetary and internal control, including risk management, principles in TP Group and to co-operate with the auditors of TP Group.

The key functions of the Audit Committee include:

- (1) Monitoring the integrity of the financial information provided by the Company in particular by reviewing:
 - (a) The relevance and consistency of the accounting methods used by the Company and the TP Capital Group, including the criteria for the consolidation of the financial results;
 - (b) Any changes to accounting standards, policies and practices;
 - (c) Major areas of financial reporting subject to judgment;
 - (d) Significant adjustments arising from the audit;
 - (e) Statements on going concern; and
 - (f) Compliance with the accounting regulations;
- (2) Review at least annually the Group's system of internal control and risk management systems with a view to ensuring that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed;
- (3) Annual review of the internal audit programme, including the review of independence of the internal audit function, and co-ordination between the internal and external auditors;
- (4) Analysis of reports of the Company's internal audit department and major findings of any other internal investigations and responses of the Management Board to them;
- (5) Make recommendations in relation to the selection and remuneration of the Director of the Internal Audit department and on such department's budget;
- (6) Review and providing an opinion to the TP Management Board on transactions with related parties;

- (7) Monitoring the independence and objectivity of the Company's external auditors and presentation of recommendations to the Supervisory Board with regard to selection and remuneration of the Company's auditors, with particular attention being paid to remuneration for additional services;
- (8) Discussion with the Company's external auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
- (9) Review the issues giving rise to the resignation of the external auditor;
- (10) Discussion (in or without the presence of the Company Management Board) of any problems or reservations, resulting from the financial statements audit;
- (11) Review the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
- (12) Consideration of any other matter noted by the Audit Committee or the Supervisory Board;
- (13) Regularly informing the Supervisory Board about all important issues within the Committee scope of activity; and
- (14) Providing the Supervisory Board with its annual report on the Audit Committee's activity and results.

(B) The Remuneration Committee

The Remuneration Committee's task is to advise the Supervisory Board and Management Board on the general remuneration and nomination policy of TP Group, determining the conditions of employment and remuneration (including the setting of objectives) of the Members of Management Board and giving recommendations to the Supervisory Board regarding salaries and the amounts of bonuses for the members of the Management Board.

(C) The Strategy Committee

The tasks of the Strategy Committee include:

- (1) giving its opinion and recommendation to the Supervisory Board on the strategic plans put forward by the Management Board and any further suggestions made by the Supervisory Board regarding such strategic plan(s), and in particular on the main strategic options involved; and
- (2) consulting on all strategic projects related to the development of TP Group, the monitoring of the evolution of industrial partnerships within TP Group and projects involving strategic agreements for TP Group. It then reports and makes recommendations on each of these projects to the Supervisory Board.

In particular, the Committee is invited to consider projects such as:

- (1) strategic agreements, alliances, and technological and industrial co-operation agreements, including aspects of the strategic partnership between France Telecom and TP Group; and
- (2) significant acquisitions and sales of assets.

CHAPTER II
MANAGEMENT BOARD'S REPORT ON OPERATING
AND FINANCIAL PERFORMANCE OF THE TP GROUP
IN 2009

4 FIXED LINE SEGMENT

4.1 Financial Performance

Fixed Line Segment: Income Statement

PLN million	for 12 months ended		
	31 December 2009	31 December 2008	Change
Revenues	9,863	10,414	-5.3%
EBITDA	4,062	4,282	-5.1%
<i>Margin, %</i>	41.2%	41.1%	0.1pp
Operating income	1,303	1,499	-13.1%
<i>Margin, %</i>	13.2%	14.4%	

TP Group's fixed business remains under strong regulatory and competitive pressure. The revenue decline can be attributed to the following factors:

- Increased fixed-to-mobile substitution in access and traffic, exacerbated by a price war in pre-paid mobile offers.
- Higher customer price sensitivity resulting from the economic slowdown, which is reflected in a rebound of migration to Wholesale Line Rental-based offers from alternative operators.
- Regulatory reduction of retail fixed-to-mobile prices, following MTR cuts in March and July this year.

As a result, retail fixed voice base declined by 11.6% while fixed voice average revenue per line dropped by 7.3%.

At the same time, broadband service revenue continued to show progress with revenue growth at 9.1%, mainly thanks to:

- Growth in both retail and wholesale broadband customer base (+6.3%).
- Continuing upward trend in retail broadband ARPU (+1.9%).
- Very good market reception of TV bundled with broadband services.
- Stable revenue stream from business data transmission services.

Fixed line EBITDA margin was up 0.1 percentage points. Operating expenses were down PLN 331 million, or 5.4%, mainly as a result of payments to other operators lower by PLN 198 million, other operating expenses net down by PLN 161 million and commercial expenses lower by PLN 49 million. These cost decreases were partially offset, mainly by property costs higher by PLN 68 million, driven by lease costs of Warsaw properties, and content services up PLN 40 million as a result of further development of TV services.

In order to mitigate the trend of decreasing revenues and profitability of the fixed line segment, the TP Group continues to focus on increasing its revenues from data services, mainly broadband and data transmission and value-added services based thereon, such as VoIP, television and multimedia services, as well as to continue streamlining its cost base (please see section 7.3 for details).

4.2 Market and Competition

Market for Fixed Line Voice Services

In 2009, the fixed line penetration rate continued to fall, reaching 27% of the population in December 2009 (compared to 28% at the end of 2008).

Growing mobile penetration and increasing popularity of mobile technologies has been greatly contributing to voice traffic migration to mobile networks. In Central and Eastern Europe (including Poland), where the fixed line penetration at the time of introduction of mobile technology was much lower than in West European countries, the mobile telephony is much more a direct substitute to fixed line telephony than a complementary service.

In addition, competition further intensified in the fixed line telecommunications market in Poland, putting additional pressure on TP's voice fixed line revenues.

Cable television operators focused on extending the range of fixed line voice and internet access services. Mobile operators continued to develop and promote Home Zone offers and launched voice tariff reductions in an attempt to take market share away from fixed line voice. An increase in WLR (wholesale line rental) lines was accompanied by steady growth in local loops purchased by alternative operators on a wholesale basis under LLU (local loop unbundling) agreements.

The influence of regulatory measures negatively impacted the top line as a result of the reductions in interconnection rates, that is both mobile termination rates (which for TP Group result in the requirement to lower retail fixed-to-mobile prices) and F2F termination rates (under RIO). The on-going fixed/mobile substitution mainly contributes to deterioration of the fixed line customer base in Poland. This applies not only to TP, but also to a number of other fixed line local access operators.

TP faces competition virtually in each fixed line voice market segment.

Broadband internet access market

According to TP Group's internal estimates, in 2009 Poland's fixed broadband market expanded by 9% in terms of access lines (year-on-year), which is a significant slowdown compared with the 14% growth one year before.

The broadband market growth by value was approximately 11% in 2009 (year-on-year).

The growth of Poland's broadband market largely depends on the ownership of personal computers. The household penetration of computers in Poland was estimated at approximately 60% at the end of 2009.

The TP Group is still under the strongest competitive pressure from cable television (CaTV) operators. Their aggregate market share has been systematically growing, though a majority of the biggest CaTV operators reported lower additions for nine months (year-on-year) in their Q3 2009 results. As of the end of December 2009, CaTV operators' market share was estimated at 26% by volume or 22% by value. The gradually strengthening market position of cable TV providers results from growing popularity of package offers, that may be effectively sold owing to CaTV operators' strong position on the television market.

Development and growing popularity of new technologies, including radio access, contributes to the emergence of small local internet providers, especially outside big cities. Such players, though very fragmented, represent together a marked competitive force in the broadband market.

In 2009, BSA-based operators attracted almost two-fold fewer new customers, namely 108,000 (compared to 216,000 in 2008). At the end of December 2009, BSA-based broadband lines represented a 7.5% share in the broadband market (by volume).

The number of LLU-based lines reached 52,000 at the end of 2009, the largest customer base increase having been observed in the second half of the year. Further growth in the popularity of the LLU access is expected (also as a result of migration from BSA).

The TP Group has taken active measures to maintain its competitive edge in this rapidly growing market. Orange's market share in the BSA segment was approximately 28% at the end of December 2009. Since December 2008, the TP Group (under the Orange brand) has been also offering broadband services based on the CDMA radio technology. Orange's aggregate share in the broadband market at the end of 2009 is estimated at over 3%.

4.3 Fixed Line Voice Services

Fixed line voice services: revenues and key performance indicators

PLN million, unless indicated otherwise	For 12 months ended		
	31 December 2009	31 December 2008	Change
Revenues from fixed line services:	5,908	6,783	-12.9%
Subscription and traffic	4,800	5,775	-16.9%
Payphone revenues	26	41	-36.6%
Interconnect	1,081	966	11.9%
Number of fixed lines, '000 (excl. WLR and VoIP)	7,033	7,957	-11.6%

Retail fixed voice service revenues saw further erosion in 2009 as a result of continuous competitive pressure coming from WLR-based operators and fixed-to-mobile substitution. These revenues decreased by PLN 875 million (or 12.9%) compared to 2008. The impact on retail revenues was slightly compensated with higher interconnect revenues which were up PLN 115 million (+11.9% year-on-year) driven mainly by sales of WLR and TP's more active operations on the international transit traffic

market. TP's revenues were also negatively impacted by the regulatory environment, in particular reduction of retail fixed-to-mobile prices as well as reference interconnect offer (RIO) rates.

Total number of lines served by TP decreased net by 561,000, which is a 6.3% decline compared to the end of 2008. This erosion was driven by a 924,000 drop in retail lines (-11.6% year-on-year), partially offset by growth in wholesale lines (WLR and LLU) by 363,000 (+38.6%).

TP is actively working towards further limiting erosion of its retail subscriber base by active sales of new tariff plans ('doMowy 60' [Home 60], 'doMowy 300' [Home 300] and 'doMowy 1200' [Home 1200]) and value added services as well as intensified sales of fixed broadband internet access. TP lowered the entry barrier for new customers by reducing the fixed line activation fee to PLN 1 in a promotional campaign. In addition, 12-month/24-month loyalty agreements were introduced to increase the loyalty of TP's customers. For remaining with TP, customers are offered attractive subscription discounts, modern terminals or shopping vouchers. These initiatives resulted in limiting TP's traffic market share erosion in all traffic types. According to TP's estimates, the Company had the following market shares:

Fixed voice market share at the end of December 2009

	31 December 2009 (estimate)	31 December 2008	Change
Overall traffic ¹	75.6%	77.7%	-2.1pp
of which Domestic Long Distance calls	72.7%	74.5%	-1.8pp
of which Fixed-to-Mobile calls	77.2%	78.9%	-1.7pp
of which International calls	64.7%	66.7%	-2.0pp
of which Local calls	76.5%	78.9%	-2.3pp
Retail local access ²	68.7%	74.6%	-5.9pp
Total local access ³	80.6%	83.4%	-2.8pp

4.4 Fixed Line Data Services

Fixed line data services: revenues and key performance indicators

PLN million, unless indicated otherwise	For 12 months ended		
	31 December 2009	31 December 2008	Change
Revenues from data services	2,591	2,479	4.5%
of which broadband internet services	1,578	1,446	9.1%
of which dial-up internet services	14	29	-51.7%
of which data transmission	686	646	6.2%
of which leased lines	313	358	-12.6%
xDSL* lines, '000	2,072	2,097	-1.1%
Broadband** lines, '000	2,652	2,446	8.4%

* Excluding wholesale (BSA/LLU)

** Including SDI, CDMA-based access and wholesale (BSA) and LLU

In 2009, the TP Group continued to pursue the strategy of compensating lower revenues from fixed voice services with growth in broadband internet access services. The total number of retail broadband lines increased by 3.6% year-on-year. At the same time, broadband revenues increased by PLN 131 million. The retail ARPU grew from PLN 58.4 in the fourth quarter of 2008 to PLN 60.3 in the fourth quarter of 2009. Growth in broadband internet access leads to further decline in dial-up internet revenues which were down by 51.7% year-on-year. This combined with 6.2% growth in data transmission revenues and a 12.6% decrease in leased line revenues resulted in data revenues increasing by PLN 111 million, i.e. 4.5% as compared to 2008.

In 2009, data services of the fixed line segment accounted for 15.6% of TP Group's total revenues (as compared to 13.6% in 2008). TP expects to see further growth in its share of TP Group's total revenues.

¹ Traffic share on TP's network in Q4 2009 (mass and business segments)

² Excluding customers using TP lines under WLR agreements

³ Including customers using TP lines under WLR agreements

Broadband access market – key indicators:

	31 Dec 2009	31 Dec 2008	31 Dec 2007
Market penetration rate in Poland – broadband lines (in total population)	15.9%	14.6%	12.8%
Total number of broadband lines in Poland	6,057	5,564	4,884
Market share of TP Group (TP + PTK Centertel)	37.5%	39.4%	41.5%

4.4.1 Mass Market

In 2009, TP Group's fixed broadband customer base had expanded by 2.1% compared to 2008, a significant slowdown compared with the 7.6% growth in 2008. This was mainly caused by rapid development of competitive offers, including those based on LLU and BSA services with "retail minus" pricing structure. Another factor affecting the rate of growth of the customer base is the economic slowdown, which has been clearly visible since March 2009.

The trend of growing bandwidth of broadband lines subscribed to by customers, backed with marketing initiatives involving price reductions for higher access speeds, continued. In Christmas promotions, the 1 Mbps or higher options of the *Neostrada* service accounted for over 80% and the 2 Mbps or higher options for approximately 30% of new additions. As a result of a strong increase in competition from cable television operators and BSA/LLU-based service providers in 2008 and 2009, TP's share in net additions in this segment dropped from 23% in 2008 to 11% in 2009.

According to TP's estimates, in terms of total number of customers the mass market had grown by 7.8% in 2009 (year-on-year) to almost 5.5 million, taking the household penetration rate (as defined by the Central Statistical Office) to 39.9% at the end of 2009, which is still a relatively low level compared to other countries. The 2.4 percentage points increase in penetration rate was also a slowdown compared with 2008.

Given that almost 100% of TP's fixed line subscribers are within xDSL coverage (as at the end of 2009), xDSL services have a solid growth potential.

Facing this very competitive environment and economic slowdown, TP remained the innovative leader, competing with other operators on service quality by encouraging customers to use higher bandwidth options and cutting-edge access terminals. TP continued to promote greatly popular bundle offers of broadband service plus digital TV, offered in both xDSL and DTH (satellite digital TV) technologies, which were accompanied by a rich content offer.

The most interesting broadband offers available in 2009 included:

- 'Superinternet' promotion (continued as 'Superinternet Pro' from 23 November), that is a bundle promotion combining the internet access service with an anti-virus software licence, which enabled TP to promote the Safe Media standard; and
- 'Superinternet with Livebox' promotion (continued as 'Superinternet Pro with Livebox' from 23 November), which in addition to a security package offered a wireless *Livebox* modem included in the access fee.

Broadband ARPU in the mass market increased by 4% year-on-year. This was a result of TP's efforts to increase sales by promoting higher bandwidth options, cutting-edge access terminals and packages with a TV service included. Also promoting longer loyalty agreements with incentives other than access fee reduction had a positive effect.

Consequently, according to TP's estimates, despite strong competition following the BSA introduction the TP Group's value share in the broadband market decreased much less than its volume share.

4.4.2 Business Market

TP's business portfolio is an extensive range of services which are tailored to meet the expectations of both small to medium enterprises and large corporations of complex structure. The Company offers data transmission and internet access solutions, which follow the latest trends and are based on modern technologies, which can satisfy the communication needs of companies from different market sectors. TP has been systematically adapting its offer to rapidly changing market needs and expanding its portfolio to include modern services. In particular, responding to market expectations, the TP Group has been expanding its portfolio of telecom outsourcing services, providing a broad and comprehensive offer to its customers. The offered solutions are to be increasingly customised. As a telecom operator, TP offers a comprehensive portfolio of services, from providing and installing telecommunication equipment to set-up, management and monitoring of equipment, providing software applications and consulting. Oriented on customer needs, the Company prioritises quality of both services and equipment, offering high

customer service standards. TP has focused on the security of its services in order to guarantee high level of data protection to its customers. As a telecom operator and business partner, it has supported companies by providing solutions that contribute to their stable development.

An upward trend in sales of sophisticated data solutions of managed networks for medium to large companies continued in 2009. In response to the market demand, TP further expanded its data transmission portfolio, particularly in the managed services segment. These services are increasingly popular among business customers, who expect a telecom operator to offer telecommunication outsourcing. Within the outsourcing scheme, an operator not only renders telecommunication services themselves, but also provides comprehensive service management and maintenance and supplies the equipment, so that the customer does not have to purchase it on his own.

2009 saw a rapid development of business-dedicated IP VPN solutions. The growth in sales of these services increased despite the on-going global financial crisis. The service take-up was particularly high among large corporations; the service was also increasingly popular among medium enterprises from various industries. The IP VPN service enables unification and simplification of data, video and voice communications between the company's headquarters and branches. Companies that use the service are able to optimise their business expenses and achieve a competitive edge. Customers are offered a number of additional service options, such as Advanced Firewall, which enables non-standard policy of internet traffic filtration to increase the security of the company's intranet. The IP VPN Protected option provides for additional protection of the IP VPN network against external or internal attacks. Also POTS TV gains popularity among business customers, who learn how to use IP VPN for distribution of information and advertising content on their network. The IP VPN service may be easily integrated with the IP PABX service. The service offers free calls between the company's branches within the IP VPN network. TP is responsible for the start-up, maintenance and management of the service platform, so customers do not bear any additional costs (e.g. for maintenance or certification). A value-added service is TP's business voice service, which provides a voice gateway to the public network. The service offers a private numbering plan and is a modern solution that uses the IP technology for voice calls.

Like in previous years, TP's DSL data transmission and DSL internet access services continued to be very popular in the SME segment. In 2009, there was a substantial increase in the take-up of the DSL internet access service in that segment; customers are willing to sign up for the service, as they are ready to pay more than for internet access solutions offered on a mass basis. The aftermath of the financial crisis did not affect the growth in sales of the service. Customers were attracted mainly by very attractive promotions, including 'Flexible Promotion', 'Flexible Promotion for Loyal Customers', 'DSL for NEO Flexible Promotion' and 'Upload Test Promotion'.

VoIP: TP Business IP Package

New options were added to the TP Business IP Package service in the first half of 2009. The first one is 2-2000 ADSL Analog Package, which offers two simultaneous phone calls and provides ADSL-based broadband access. The offer is addressed mainly to small companies looking for a cost-effective and simple solution for voice and rapid internet access services. Another new product is Business MicroPBX Package, which is available in three options and addressed to SME companies (with up to 20 employees). As part of the package, the TP Group provides a small IP PBX exchange. A clear benefit for SME customers is that the package offers all telephone services that they need, such as conference calls and call transfer and forwarding, and facilitates service and user management through a www interface. In addition, customers can use IP phones, which extend the voice functionality available to employees.

5 MOBILE SEGMENT

5.1 Financial Performance

Mobile services segment: income statement

PLN million	For 12 months ended		Change
	31 December 2009	31 December 2008	
Segment revenue	7,745	8,620	-10,1%
of which retail	6,039	6,332	-4,6%
of which wholesale	1,704	2,288	-26,0%
EBITDA	2,217	3,239	-31,6%
<i>Margin, %</i>	28,6%	37,6%	
Operating income	793	1,814	-56,3%
<i>Margin, %</i>	10,2%	21,0%	

The mobile services market in the second quarter of 2009 declined for the first time ever with a 1.5% decrease in value. This trend intensified in the second half of the year, which depressed full year market revenues to erosion of 4.4%. Most of this loss in value can be attributed to the impact of MTR reductions by 36% in March and by a further 23% in July 2009. In addition, a price war in pre-paid coupled with economic slowdown impacting customer behaviour put additional pressure on the mobile market evolution.

In such market conditions, mobile segment revenue fell by 10.1%. Retail revenue was down 4.6% as a result of competitive pressure on prices, combined with customers starting to economise their spending. Again, these effects were partially offset by higher revenue generated by fixed services sold under Orange brand, mainly WLR and CDMA based broadband, the customer base of which more than doubled, reaching 201,000 subscribers.

Wholesale revenue accelerated its decline to 26.0%, a result of MTR cuts, partially offset by growth in traffic.

Orange increased its post-paid subscriber base by 7.4%, reconfirming TP Group's strategic focus on value. Dedicated mobile broadband subscriptions were also further up by 10.2%. Pre-paid base was down 11.5%, a result of the rationalisation process completed in the first quarter this year but also subsequent pre-paid churn, driven by customer migration to attractively marketed new offers of the fourth mobile operator.

Reported EBITDA margin for mobile segment was down to 28.6%, a combination of decline in revenue and weakness of the Polish zloty that maintained its pressure on operating expenses denominated in Euro. The decrease in EBITDA was also a result of two MTR reductions and expansion of the active customer base, which generated higher interconnect costs.

5.2 Market and Competition

The mobile market has entered the saturation phase. The rate of growth of active SIM cards has fallen significantly. The number of mobile users increased by just 2% (year-on-year) and reached 45 million at the end of December 2009. This was the lowest growth in the history of Poland's mobile market. As a result, the mobile penetration rate (among population) reached 117.8% (up from 115.6% at the end of December 2008). In 2009 the mobile market saw fierce competition. A price war in the pre-paid and mix segment, which had been initiated by the fourth mobile operator, P4 (acting under the PLAY brand), triggered considerable reductions in price per minute of calls.

The three leading mobile operators have been losing their market shares to P4 and virtual operators. In total, they lost 3.4 percentage points of market share (a decrease from 95.1% to 91.7% between the end of December 2009 and the end of December 2008).

Further mobile virtual network operators (MVNOs), including tuBiedronka, GaduAir, wRodzinie and FM Group Mobile, entered the market in 2009. The fifth infrastructure-based operator, CenterNet, launched commercial services on 30 May 2009 to meet the network launch deadline set by the regulator; then, it introduced the first offer to mass market customers in July; in addition, since 11 July 2009 it has been an MVNO operator for the wRodzinie network. The sixth infrastructure-based operator, Mobyland, that has a frequency in the 1800 MHz band, obtained UKE's approval for extending the launch deadline to 30 August 2009. So far, users can only make calls on the network and works on development of gateways to other operators' networks are still going on. In July 2009, Aero2 purchased a 99% stake in

Mobyland from Italian-based Eutelia and in November concluded a final agreement with Mobyland's shareholders.

- PTK Centertel's estimated market share by volume was 30.5% at the end of December 2009 (down from 32.1% at the end of December 2008);
- PTK Centertel's estimated market share by value was 31.2% in 2009 (compared to 33.3% in 2008). Non-core services have a growing share by value in the revenue structure of mobile operators.

5.3 Mobile Voice Services

Mobile voice services sub-segment: key performance indicators

PLN '000, unless indicated otherwise	For 12 months ended		
	31 December 2009	31 December 2008	Change
Total customers	13,714	14,182	-3.3%
of which pre-paid	7,090	8,015	-11.5%
of which post-paid	6,624	6,168	7.4%
Net additions	-469	24	-2,071%
of which pre-paid	-925	-588	57%
of which post-paid	456	612	-25%
Churn rate			
of which pre-paid	69.4%	63.4%	
of which post-paid	11.8%	11.4%	
SAC, PLN	131	117	12%
Monthly blended ARPU, PLN	44	49	-11%

PTK Centertel's customer base was 13,714 thousand at the end of 2009 (down 3% year-on-year, as compared to the average market growth estimated at +2%). Lower subscriber base dynamics can be attributed to two factors:

- In 2009 pre-paid subscriber base was rationalised by termination of the SIM cards the effective lifetime of which was extended in 2008 based on promotions for low usage customers;
- New aggressive market players, mainly P4 (PLAY) but also MVNOs, accounted for over 172% of the mobile market growth by volume.

Net evolutions of the base amounted to -469 thousand: a 925 thousand decline in the pre-paid base was not fully offset by a 456 thousand increase in post-paid customers, taking the share of post-paid customers in the customer structure to 48% at the end of 2009 (up from 43% at the end of 2008).

PTK Centertel increased its post-paid subscriber base and the post-paid share in net additions, which contributed to an increase in acquisition costs. Blended unitary SAC (subscriber acquisition cost) was PLN 131 in 2009, up 12% year-on-year.

Blended ARPU was at PLN 44 in 2009, down 11% year-on-year. The decrease in ARPU resulted mainly from a decrease in the average price per minute and a reduction of mobile termination rates.

5.4 Mobile Data Services

In 2009, PTK Centertel continued to expand the range of rapid data transmission technology, HSUPA 2.0 (High Speed Uplink Packet Access) and HSDPA 7.2 (High Speed Downlink Packet Access) with the maximum speed of 7.2 Mbps, on its network. This is already available in Poland's major cities, which enables Orange customers to transfer data at higher bandwidth. As of the end of December 2009, 55.3% of Poland's population was covered with the UMTS/HSDPA technology. Over 150 new UMTS stations were launched in 2009.

Currently, the data portfolio includes Business Everywhere service for business customers as well as Orange Free service (pre-paid or post-paid) for residential customers.

In July, Orange introduced a new category of mobile internet services, which combine GSM/3G and CDMA access, by launching two new offers: Orange Free Pro and Business Everywhere Pro. As a result of simultaneous access to CDMA and GSM/3G (HSDPA and UMTS) networks, Orange mobile internet services have the largest range in Poland. In cities customers can connect using the 3G technologies, while elsewhere they can use the CDMA network.

In the second half of 2009, Orange offered an increased data transfer limit to its customers. It now offers the highest limit in the market, i.e. 35 GB (or 36 GB for e-shop at www.orange.pl). Since mid-November business and residential customers have been offered a fixed/mobile broadband bundle: while purchasing any option of fixed broadband service they can sign up for a promotional offer of mobile internet access (Orange Free 39.5 or Business Everywhere Mini), which features a 2 GB transmission limit and the market-lowest subscription fee of PLN 9 (+ VAT).

The mobile broadband internet access customer base (EDGE and 3G dedicated data services) reached 388 thousand customers at the end of 2009 (from 352 thousand at the end of 2008).

5.5 Other Developments in the Mobile Segment

5.5.1 Roaming

The number of roaming partners further increased in 2009. As of the end of December 2009, Orange offered roaming services on 429 networks in 192 countries worldwide, including GPRS roaming on 209 networks in 83 countries and 3G roaming on 61 networks in 35 countries. Roaming revenue growth slowed down as a result of another stage of roaming regulation initiated in June 2007 by the European Commission. In July 2009, the regulation further reduced wholesale and retail price caps for calls within the EU and capped wholesale and retail SMS and data transmission rates. Roaming revenue was also affected by the global economic situation, which greatly reduced foreign travel.

5.5.2 Hosting

As at the end of 2009, PTK Centertel's infrastructure was used by four virtual operators:

- Avon Mobile Sp. z o.o., offering myAvon service;
- MNI Telecom Sp. z o.o., offering different brands, including Simfonia and Ezo;
- Aster Sp. z o.o., offering mobile services under its own brand name;
- Telogic Polska Sp. z o.o., a virtual operator enabler (agreement signed in 2009).

On 24 June 2009, the TP Group decided that Wirtualna Polska S.A. would discontinue telecommunications services in the MVNO model under the Wpmobi brand, focusing on the development of its core business instead.

In addition, on 6 May 2009 PTK Centertel received from CenterNet S.A. a notice of termination of the domestic roaming agreement forthwith. According to PTK Centertel, this notice is not binding and thus the agreement with CenterNet is still in force. Further measures will be taken in this case based on an independent legal expert appraisal of the agreement with CenterNet S.A.

CenterNet S.A. concluded a domestic roaming agreement with Polska Telefonia Cyfrowa Sp. z o.o. on 6 May 2009 and launched commercial services as a new infrastructure-based mobile operator on 30 May 2009.

5.5.3 Fixed Broadband Services

In 2007, PTK Centertel signed a Bitstream Access service agreement with TP in order to offer fixed broadband services to Orange customers.

Towards the end of 2008, the Orange Freedom functionality was extended to include CDMA-based broadband internet access, which greatly expanded its potential customer base. The Orange BSA-based offer proved a great success with the take-up reaching 201 thousand subscribers at the end of 2009, which corresponded to a share of over 3% in the fixed broadband market.

Ultimately, CDMA is to cover the majority of Poland's territory. By the end of 2009, the coverage had reached 76.1% of Poland's territory. The use of the CDMA technology considerably raises the broadband internet availability in rural and poorly urbanised areas, contributing to their competitive potential and economic development. It also radically contains the problem of digital exclusion.

5.5.4 Fixed Line Services

Towards the end of 2008, PTK Centertel launched a fixed line service based on WLR access to TP's network. Dedicated offers to business and mass markets were introduced on this basis. By the end of 2009, the take-up of these offers had reached almost 44 thousand lines.

6 MATERIAL EVENTS THAT HAD OR MAY HAVE INFLUENCE ON TP GROUP'S OPERATIONS

Below are presented the key events that in the Management opinion have influence on TP Group's operations now or may have such influence in the near future. Apart from this section, the threats and risks that may impact the Group's operational and financial performance are reviewed in detail in the Chapter IV hereof.

6.1 Regulatory Obligations

Pursuant to President of UKE's decisions issued in 2007, TP was designated as an operator having significant market power ("an SMP operator") in relevant retail markets 1 to 7 (according to the European Commission's recommendation of 2003). As a result, some regulatory obligations were imposed on TP with respect to its activity in retail markets. These include:

- Obligation not to overprice retail services of connecting to a fixed public telephone network and being on standby to provide telecommunications services;
- Obligation not to hinder other operators' entry into the retail market for services of connecting to a fixed public telephone network and being on standby to provide telecommunications services;
- Obligation not to restrict competition by underpricing services in the market for services of connecting to a fixed public telephone network and being on standby to provide telecommunications services;
- Obligation of regulatory accounting in line with the manual approved by the President of UKE and service cost calculation based on the Forward Looking Fully Distributed Cost (FL-FDC) methodology in line with the costing description approved by the President of UKE.

In addition, TP is subject to an obligation to submit its price lists and terms of service provision for the President of UKE's approval with respect to services covered by the markets 1 to 7.

Pursuant to President of UKE's decisions, TP is also an SMP operator in relevant wholesale markets 8, 9, 11, 12, 13 and 14 (according to the European Commission's recommendation of 2003). The resulting regulatory obligations imposed on TP include:

- Obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to:
 - provide call origination on a fixed network (it involves enabling end-user service management, offering wholesale services for the purposes of resale (WLR), providing telecommunications infrastructure and enabling collocation and other forms of facility sharing) – the obligation resulting from the decision for the market 8,
 - provide call termination on a fixed public telephone network (it involves enabling end-user service management, offering wholesale services for the purposes of resale (WLR), providing telecommunications infrastructure and enabling collocation and other forms of facility sharing) – the obligation resulting from the decision for the market 9;
- Obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to provide unbundled access (including shared access) to the subscriber metallic loop or a segment of the subscriber metallic loop for the provision of broadband and voice services – the obligation resulting from the decision for the market 11;
- Obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to provide broadband services, including broadband data transmission services – the obligation resulting from the decision for the market 12;
- Obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to provide leased line terminating segment services – the obligation resulting from the decision for the market 13;
- Obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to provide leased line trunk segment services – the obligation resulting from the decision for the market 14.

The obligations imposed on TP in the markets 8, 9, 11 & 12 include an obligation to calculate costs of service provision and charge access fees based on the operator's justified costs.

Pursuant to SMP decisions for the markets 13/2003 and 14/2003, TP has an obligation to determine cost-based access fees.

In addition, an obligation of regulatory accounting has been imposed on TP in all the aforementioned wholesale markets.

In performance of its regulatory obligations, TP submitted the relevant draft reference offers for the President of UKE's approval. As a result of related proceedings, in 2008 and 2009 the President of UKE decided to change RIO, reference BSA offer and RUO. For the detailed information about new offers, please see section 12.1 below.

On 6 March 2009, the President of UKE issued a decision to remove regulatory obligations imposed on TP in the market 10/2003 (call transit). This resulted from the President of UKE's resolution of 17 October 2008 to discontinue the proceedings to determine whether the domestic market for transit services on a fixed public telephone network was effectively competitive. The decision is final and valid.

On 24 April 2009, the President of UKE issued a decision designating TP as an operator having significant market power in the market 14/2003 (leased line trunk segment services) and imposing the relevant regulatory obligations (access, non-discrimination, cost-based pricing, regulatory accounting, reference offer subject to approval by UKE). However, these regulatory regulations do not apply to connections between 145 locations specified in the decision, which were considered effectively competitive.

On 22 September 2009, the President of UKE issued a decision for the market 3/2007 (call termination on TP's fixed line network). The decision is a result of the second round of analyses of relevant markets. Compared to the previous decision for this relevant market, the President of UKE modified the access obligation, eliminating the forms of access irrelevant to the call termination service and removed an interim obligation to publish information on the terms of access. In addition, the President of UKE replaced an obligation to calculate justified costs, which involved an audit, with an obligation to calculate actual costs (to be audited by no auditor but rather by UKE only). In its opinion of 24 April 2009, the European Commission pointed out that the methodology chosen by the President of UKE seemed not to promote effectiveness and thus should be considered a temporary measure. The Commission called upon the President of UKE to revise its analysis in line with the Commission's Recommendation of 7 May 2009 on the regulation of fixed and mobile termination rates. TP appealed against the decision with respect to the costing obligation, requesting a change thereof in line with the Commission's opinion. However, TP modified service costing descriptions for 2011 in line with the decision.

6.2 Development of Subsequent Infrastructure-based Operators in the Mobile Market

PLAY, the fourth mobile operator, experienced exceptional growth in 2009. In view of increasingly evident saturation of the mobile market, PLAY's main objective became to win customers over from other operators. As a result of aggressive marketing and pricing policy and intensive advertising campaigns, particularly regarding number portability, PLAY became the leader in the mobile number portability market (281,000 customers decided to move their numbers to PLAY in 2009, which represented a 54% share in total mobile number migrations).

At the end of December 2009, PLAY's customer base reached 3.4 million and its share by volume in the mobile market was estimated at 7.7%. P4 reported revenues of PLN 1.34 billion in 2009. The revenue growth resulted mainly from a rapid increase in the customer base and MTR asymmetry to the benefit of P4.

In 2009, P4 heavily invested in the development of its own network, particularly in order to become independent of domestic roaming (via Polkomtel's network). The operator constructed 2,300 GSM900 stations in 2009. It also operates 3,500 3G stations that reach 61% of Poland's population (the coverage of P4's 2G stations is 85%). Including roaming based on Polkomtel's stations, P4's range is now 99% of Poland's population.

In addition to further extensive efforts in the mobile internet market, P4 is interested in entering other telecom market segments, namely fixed line market (UKE has allocated a fixed numbering pool in all zones to P4; the operator is also testing GSM gateways to which a fixed line could be connected, as it intends to launch a service modelled on 'Home Era') and the MVNO hosting market (CaTV operators willing to launch voice services may be potentially interested in co-operation with P4). P4 has declared its intention to take part in a bidding procedure for the LTE network, which is to be opened by UKE in 2010.

The fifth operator, CenterNet, officially launched its services on 30 May 2009 to meet the network launch deadline set by the regulator; then, it introduced the first offer to mass market customers in July.

CenterNet has concluded agreements with the Lux Veritatis Foundation (connected with *Radio Maryja* station, *Trwam* TV station and *Nasz Dziennik* daily), for which it provides network services for the wRodzinie virtual operator (the customer base of which is now estimated at several dozen thousand customers), and the Polish Fishing Portal, Rybobranie.pl. It plans to introduce also its own brand, Extreme. At present, CenterNet provides services via PTC's network and despite declarations on the expansion of its own network, it still operates only three base stations of its own in Toruń. In December 2009, CenterNet signed an agreement with Aero2, under which the latter is to provide its infrastructure for transmission in the 1800 MHz band.

Aero2 also holds some frequencies in the 900 MHz band, which it won in a bidding procedure in the second half of 2008. The company does not use the frequencies on its own, but has signed an agreement for their joint use with Sferia. Aero2, which is linked to Zygmunt Solorz-Żak, has been also allocated some frequencies in the 2.6 GHz band, which are to be used for internet access services.

Aero2 intends to provide particularly wholesale data services.

Sferia, a portable fixed line network operator, has rendered CDMA-based services in the cities of Warsaw and Ostrołęka and their vicinity. It has 299 base stations and their number is to grow to 817 by 2011. The company's main shareholder is Zygmunt Solorz-Żak. Sferia co-operates with Aero2, another company linked to Mr. Solorz-Żak. Both companies are developing a rapid mobile internet access network and will sell access thereto on a wholesale basis.

6.3 Mobile Virtual Network Operators (MVNOs)

Virtual operators debuted in the Polish market in 2007. The main competitive advantage of MVNOs is low price of services, though it is expected that MVNOs will modify their business strategy and focus more on added value related to the mobile service links with their core business than on price while designing their offers.

According to TP Group's internal estimates, 11 MVNOs had an aggregate base of approximately 300,000 SIM cards at the end of 2009, which corresponded to merely 0.7% of Poland's mobile market by volume. The exact customer base is hard to estimate due to the fact that MVNOs are not required to publish such data and due to unclear interpretation of their announcements concerning sold and active SIM cards. It is estimated that less than 50% of SIM cards are used on a regular basis.

By value, the aggregate market share of MVNOs is approximately 0.3%.

2009 saw the following developments in the MVNO market:

- wpMobi decided to withdraw from the market. Although the decision was related to TP Group's strategy to consolidate telecommunications services under the Orange brand, wpMobi's results were not satisfactory. It used to have approximately 2,500 active customers at its peak and this figure fell to less than 1,000 towards the end of its operations.
- Penta Investments decided to sell the Mobilking network operator. Despite excellent results in winning customers, the company's financial performance was not satisfactory. The Fund did not decide to make any further investments and sold Mobilking to MoCoHub Technology Development, a former subsidiary of the listed company MNI.
- The price war initiated by PLAY in the pre-paid segment affected also the MVNO market. In order to remain competitive, virtual operators should reduce their rates to PLN 0.30 per minute. TuBiedronka, mBank and Ezo Mobile responded to PLAY's campaign.
- The economic crisis and difficult situation in the MVNO market have led to the verification of the plans for the entry of new mobile virtual operators and to the revision of the strategy of some players. Poor performance of Cyfrowy Polsat made the company modify the concept of its further development. The company intends to re-launch the brand in a new offer targeted more on the existing customer base of the digital platform, which means that the company's plans for dynamic growth outside television service customers have been abandoned. QXL Poland, the owner of the Allegro.pl portal, has given up the MVNO market entry. Dialog and INEA are still willing to launch MVNO services.

6.4 New Brands in the Mobile Market

Although no MVNO has been a spectacular success in Poland so far, further brands continue to enter this market.

- TuBiedronka launched its services at the beginning of 2009. It offers its cards in over 1,360 stores of the Biedronka chain all over Poland. On 11 May 2009, in response to price cuts initiated by PLAY, it introduced a rate of PLN 0.25 per minute to all networks excluding PLAY;

- At the end of May 2009, GG Network, the owner of the Gadu-Gadu internet communicator, started its own mobile network, GaduAir;
- A new mobile network, wRodzinie, which is a joint venture of the Lux Veritatis Foundation and CenterNet, was launched on 11 July 2009;
- In October 2009, FM Group Mobile launched services using Effortel Polska's MVNE infrastructure on Polkomtel's network. It offered both pre-paid and post-paid services.

In addition, rebranding of two out of three largest brands in the Polish mobile market, Plus and Era, is possible within the next few years.

6.5 CaTV Operators

In the broadband market, the TP Group is under the strongest competitive pressure from cable television (CaTV) operators, whose aggregate market share has been systematically growing. In 2009, CaTV operators' share in the broadband market was estimated at 26% by volume (at year-end) or 22% by value.

CaTV operators may be divided into two categories, namely operators concentrated in Poland's biggest cities (UPC, Aster and new players in Warsaw: Multimedia Polska and Vectra) and operators active in smaller towns (e.g. Multimedia Polska, Vectra, Inea and Toya). Vectra was particularly active in 2009; through the acquisition of the Spray network it entered the Warsaw market in March 2009 and has been carrying out an intensive marketing campaign there since then.

In fact, CaTV operators are sometimes perceived as having a kind of monopoly in big cities, as a number of residential estates is dominated by the infrastructure of one operator and its rivals have little chances of effectively competing with their offer in the given location. As a result of constant development of their infrastructure, cable operators are able to provide higher internet access rates than those offered by fixed operators using the copper technology. In Q3 2009, UPC launched a 120 Mbps internet service based on the DOCSIS 3.0 technology for PLN 200 per month. Vectra and Inea launched rates of up to 24 Mbps and up to 10 Mbps, respectively. Toya, a regional operator in the Łódź market, increased internet access rates, e.g. from 2 Mbps to 5 Mbps, without changing the price and introduced a 25 Mbps option. Aster increased the internet access rate at night-time. Multimedia Polska announced it would provide fast internet service in the DOCSIS 3.0 technology (so far, the operator has not launched this service on a commercial basis, contenting itself with 12 and 20 Mbps options).

A common practice of cable operators is to offer higher transfer rates without increasing the service price. In addition, CaTV operators search for market niches, as illustrated by student-dedicated offers of UPC, Multimedia Polska, Inea and Toya. Other trends include adding mobile broadband to fixed broadband service for a small charge (such bundles are offered by Aster and Multimedia Polska) and portfolio regionalisation, e.g. UPC has offered higher rates in Warsaw where its network has higher capacity (e.g. for a monthly fee of PLN 75 customers get 15 Mbps in Warsaw or 8 Mbps elsewhere).

Cable operators have still considerable growth potential in terms of broadband services. This results from growing popularity of package offers, that may be effectively sold owing to CaTV operators' strong position on the television market. CaTV operators have been very actively promoting their package offers (e.g. UPC's promotional campaigns: 'Take 3, Pay for 2 Forever' or 'Pay Nothing Till the End of the Year'). Poland's market for cable television is still fragmented, though there is a growing number of reports about potential consolidation (however, acquisitions were rare in 2009).

6.6 Infrastructure Development

In 2009, TP continued to enhance the infrastructure of its data networks, including IP VPN and broadband networks. This involved an increase of the capacity of global internet links, IP backbone network expansion, enhancement of a network for aggregation of data traffic to and from customers, and an increase of the capacity of DSLAM access equipment.

As part of the ADSL broadband network optimisation, a new system for dynamic management of access line parameters was implemented, which will improve the quality and capacity parameters of access lines for the majority of customers of both TP's retail services (Neostrada, Internet DSL) and wholesale services based on regulated BSA offers.

In addition, the infrastructure for providing multimedia services, *Videostrada tp*, Video-on-Demand (VoD) and Digital-to-Home (DTH) satellite television, was further expanded. The on-going efforts are to increase the geographical coverage of these services and to extend the service portfolio to include additional TV channels and more films available on a VoD basis.

PTK Centertel has been carrying out a project aimed at increasing the core network capacity in order to meet the growing demand for voice and data services on both 2G (GSM) and 3G (UMTS) networks. The project involves the implementation of new core network infrastructure generation (R4; based on 3GPP standards).

PTK Centertel not only expanded the reach of its UMTS services and increased the capacity of its GSM network, but also continued investments in the CDMA network. A commercial CDMA service was launched in December 2008. It is PTK Centertel's priority to eliminate coverage gaps and offer wireless broadband internet access in the areas where such a service has not been available hitherto. The use of the CDMA technology will considerably raise the broadband internet availability in rural and poorly urbanised areas, contributing to their competitive potential and economic development. It will also radically contain the problem of digital exclusion.

6.7 Claims, Disputes and Fines

For detailed information about material disputes and proceedings against the TP Group companies as well as fines imposed thereon, please see Note 32 to the Consolidated Financial Statements enclosed.

6.8 Investigation by the European Commission

For detailed information about investigations by the European Commission please see Note 32 to the Consolidated Financial Statements enclosed.

6.9 Cost Calculation Results

TP

Under the regulatory obligations imposed on TP as an operator having significant market power in the relevant markets for interconnect (markets 8 & 9), unbundled local loop access (market 11), bitstream access (market 12) and retail services (markets 1 to 7) as well as its obligations as a universal service provider, in 2009 TP was to carry out costing of services covered by the aforementioned markets for 2010, and submit the results thereof to an independent auditor selected by UKE. In addition, TP had an obligation to prepare regulatory accounting statements for 2008.

In performance of its regulatory obligations, TP submitted a manual for drawing up regulatory statements for 2008 as well as descriptions of service costing for 2010 for the President of UKE's approval. On 26 May 2009, the President of UKE issued a final decision on TP's service costing descriptions and regulatory reporting manual. Owing to the fact that this decision imposed on TP an obligation to implement changes in the wholesale service costing methodology, which in TP's opinion are inconsistent with both EU and Polish regulations, TP filed a complaint against the decision with the Regional Administrative Court on 25 June 2009. In addition, on 17 June 2009 TP notified the European Commission of the President of UKE's decision. A court hearing concerning the costing descriptions challenged by TP, which had been scheduled for 9 December 2009, was cancelled. A new date of hearing will be set in the beginning of 2010.

On 26 May 2009, the President of UKE called upon Ernst&Young to conduct an audit at TP. The audit started on June 9 and ended on August 27, when the auditor's opinion was issued. The auditor's opinion included some reservations regarding service costing, which had been inconsistent with the auditor's interpretation of costing descriptions challenged by TP. TP calculated the costs of loop access services accounting for incremental costs and common network costs. In the audit report the auditor presented a comparison between the service costs calculated by TP and the costs calculated according to the descriptions approved by the President of UKE. The costs resulting from UKE's approach were many times lower and did not reflect the actual and justified costs borne by TP.

PTK Centertel

Under the MTR costing obligations imposed on mobile operators by the President of UKE, PTK Centertel shall submit cost calculation results based on MTR actual costs on an annual basis, within a hundred and twenty days after the end of each financial year. In performance of this obligation, PTK Centertel completed the cost calculation for MTRs and submitted the relevant information to the President of UKE within the statutory time limit.

Regardless of the results of cost calculation for MTRs submitted by PTK Centertel, the President of UKE imposed an obligation to adjust MTRs to the level set in the President of UKE's decision.

On 7 May 2009, the European Commission published its recommendation on the methodology to be used when calculating the costs of the MTR service. The recommendation provides for using the Long Run Incremental Costing (LRIC) methodology and assuming that a transport network will be based on the

Next Generation Network (NGN) technology. There is a substantial risk that UKE will impose the literal application of the recommendation for the subsequent calculation of MTR costs (for 2010). Then, PTK Centertel will be able to account only for incremental costs (i.e. the costs which can be avoided if the MTR service is not provided) in its MTR cost calculation. At present, PTK Centertel uses the Fully Distributed Cost (FDC) method, i.e. full allocation of historical costs, for the purpose of the service cost calculation.

On 26 November 2009, the European Commission communicated its position to the President of UKE. The Commission pointed out that MTRs should be set on the basis of the costs borne by an efficient operator and that rate asymmetry should be contained to justified cases and used in transition periods only.

TP Emitel

Under the regulatory accounting obligations imposed on TP Emitel by the President of UKE, in 2009 TP Emitel was to develop regulatory accounting statements for 2008 and submit them to an independent audit.

On 17 December 2008, the President of UKE, having reviewed TP Emitel's request of 29 April 2008, approved TP Emitel's manual for isolating and allocating assets and liabilities, income and expense to regulated activities for 2008.

On 25 February 2009, following a competition held by the President of UKE, Deloitte Audyt Sp. z o.o. in conjunction with Deloitte Business Consulting S.A. were selected to audit TP Emitel's regulatory accounting statements for 2008 and 2009.

The audit of TP Emitel's regulatory accounting statements for 2008 was completed on 31 July 2009 with submission of audited costing results together with the auditor's opinion to the President of UKE. The auditor's opinion did not include any reservations.

6.10 Functional Separation (UKE's Plans)

In December 2009, functional separation was included into the EU regulatory framework. Member states should implement the package within eighteen months (i.e. by May 2011). The European Commission holds that implementation of functional separation and its imposition on an SMP operator shall be considered only after careful market analysis, provided that other remedies have clearly failed to establish effective competition and prospectively will fail to do it in the future. Therefore functional separation shall be only regarded as a last resort remedy. A decision by the President of UKE on imposing extraordinary measures, such as functional separation, can be done only based on agreement from the European Commission. TP would have a right to appeal from such potential decision.

In the first half of 2009, TP continued its talks with the President of UKE towards implementing actions that would provide alternative operators with access to TP infrastructure equal to the access available to retail organisation of TP. The proposed action plan (the Equal Access Program) was aimed at solving problems very similar to the ones addressed by functional separation.

TP's proposal was based on three main foundations that would provide equal access. These are:

- Equal products provided to customers of other operators;
- Equal quality of services provided to the customers of other operators and TP's own retail customers;
- Equal access to information on the terms of network access to the customers of other operators.

The Equal Access Program details have been formulated in the Equal Access Charter, which was submitted to the President of UKE on 30 March 2009 and then released for public consultation. On 20 May 2009, the public consultation summary was published on UKE's website. Out of 19 presented opinions, three were against the Equal Access Charter; the remaining ones either supported TP's proposal or, while indicating its weaknesses, recommended further work on its final version. A revised version of the Charter was submitted to the President of UKE in September 2009.

On 22 October 2009, following negotiations, TP and the President of UKE signed a Memorandum of Understanding, under which the President of UKE decided to suspend works on the functional separation of TP.

6.11 Memorandum of Understanding with UKE

On 22 October 2009, TP and the President of the Office of Electronic Communications ("UKE") signed a memorandum of understanding ("MoU") for the implementation of transparency and non-discrimination

procedures in inter-operator relations. According to MoU, UKE declares freezing wholesale rates till 2012, while TP is to invest in 1.2 million broadband access lines within that period. Instead of physical separation of IT systems TP will implement technical and organisational solutions to differentiate access rights to information within the organisation (“Chinese Walls”) and to secure non-discriminatory access to information by alternative operators.

The President of UKE is expected to abandon plans of functional separation of TP, provided that the latter implements the agreed solutions.

Stabilisation of conditions for business operations and investments in the telecommunications market is another major element of MoU. The President of UKE declared freezing wholesale rates till the end of 2012 at the level defined in the current reference offers. The “retail minus” methodology for defining wholesale rates will be replaced with the “cost plus” model. As a result, over the next three years TP will be in a position to invest in 1.2 million broadband accesses, including 0.5 million new lines and 0.7 million to be upgraded. It is expected that approximately 1 million lines will have bandwidths of 6 Mbps or more. This infrastructure will be deployed not only in conurbations, but also in small towns and across rural areas. The management currently estimates that related capital expenditures would amount to around PLN 3 billion.

The MoU provides for gradual withdrawal of legal cases and claims between TP, UKE and alternative operators, which is to be aligned with the implementation of the agreement.

Since the conclusion of MoU, TP has been implementing all the agreed solutions in line with a schedule adopted together with UKE, namely:

- The wholesale portfolio has been gradually extended and the quality of alternative operator service has been improved. In November 2009, in line with reference offers, three new services, i.e. WLR RIO, BSA IP access (managed) and BSA DSLAM access, were implemented and launched on a commercial basis;
- The Investment Program has been launched with an investment budget for the stage one of the broadband development, the notable effects of which will be comprehensive investments in access lines for fast internet and TV services in new residential districts and across the existing infrastructure gaps;
- There has been intensive work on the implementation of Margin Squeeze and Price Squeeze tests for broadband services;
- Aside from system changes, the operations to prepare the organisation for the implementation of Chinese Walls have been completed. The Good Practice Code has been adopted and so have been the names of information domains corresponding to different access rights for particular business units. This has been accompanied by intensive training and communication efforts to promote the new organisational culture.

6.12 Compensation for Universal Service Costs

Pursuant to the President of UKE’s decision of 5 May 2006, TP is an operator designated to provide the universal service. Owing to the special economic nature of this service, an operator designated to render it is eligible for compensation equal to the universal service net costs, which is the costs which the operator would not have borne if not for the obligation to provide the universal service. The compensation is paid pro rata by all the operators (including TP and PTK Centertel) with revenues of more than PLN 4 million in the year for which the compensation is due.

On 29 June 2007, TP applied to UKE for compensation for 2006 (8 May to 31 December). The Company calculated the deficit related to provision of the universal service at PLN 139.93 million. UKE refused to grant any compensation to TP. The Company appealed against the refusal to the Regional Administrative Court, which on 25 June 2008 reversed UKE’s decision refusing to grant the compensation. The ruling was appealable and UKE appealed to the Supreme Administrative Court, which on 5 August 2009 rejected UKE’s cassation appeal. Consequently, UKE has to re-examine TP’s application for compensation of the net costs for 2006.

On 27 June 2008, TP filed an application with UKE for compensation for 2007. The net costs were stated at PLN 219.19 million. On 30 October 2009, the Regional Administrative Court examined TP’s complaint for the President of UKE’s inactivity with respect to the decision for 2007. The court ordered UKE to issue the decision within two months after the case file transfer. The ruling is appealable. The procedure at UKE is pending.

On 26 June 2009, TP filed an application with UKE for compensation for 2008. The net costs were stated at PLN 208.4 million. The procedure at UKE is pending.

After the share of TP and PTK Centertel in the compensation for universal service costs, the net amount applicable to TP Group is: PLN 70.2 million for the period from 8 May to 31 December 2006, PLN 115.6 million for 2007 and PLN 129.1 million for 2008.

On 12 March 2009, the President of UKE started a bidding procedure for auditing TP's net deficit for 2006, 2007 and 2008. The winner was announced in June 2009. It was Ernst&Young Audit Sp. z o.o., but Deloitte Audyt Sp. z o.o. and Deloitte Business Consulting S.A. challenged the result. Upon re-examination of the bids, UKE re-appointed Ernst&Young for conducting the audit. On November 24, upon another appeal filed by Deloitte Audyt Sp. z o.o. and Deloitte Business Consulting S.A., the National Chamber of Appeal of the Public Procurement Office ordered the President of UKE to repeat the auditor selection procedure. The auditor has not been chosen to this date.

6.13 Decision to Reduce MTRs for P4

On 26 June 2009, the President of UKE issued administrative decisions changing mobile termination rates (MTRs) on the P4 network for TP and PTK Centertel. Similar decisions were issued for PTC and Polkomtel. The decisions regulate the asymmetry index between MTRs for P4 and MTRs on PTK Centertel, PTC and Polkomtel's networks between July 2009 and 1 January 2014.

Pursuant to the decision, the MTR spread between P4 and the incumbent operators (PTK Centertel, PTC and Polkomtel) will be 141% from 1 July 2009. In subsequent years, the asymmetry index will be gradually reduced, so that MTRs for P4 and for PTK Centertel, PTC and Polkomtel become symmetric on 1 January 2014.

The decision leads to a reduction in MTRs payable by TP and PTK Centertel for calls to P4's network. From July 1, the rate for call termination on P4's network will be PLN 0.404157 per minute. The decision was issued for specified time of six months and was binding upon PTK Centertel to 15 December 2009. However, UKE may be expected to issue a similar decision for unspecified time before that deadline.

This decision is inconsistent with an opinion of the European Regulators Group and the European Commission, which support the introduction of symmetric MTRs, while asymmetry may be justified only in case of cost differences outside operator's control. In addition, the European Commission has indicated that asymmetry should not be maintained for more than four years after the market entry of a new operator.

7 OUTLOOK FOR THE DEVELOPMENT OF THE TP GROUP

7.1 Market Outlook

According to TP Group's estimates, Poland's telecommunication services market declined by 3.4% (by value) in 2009 compared to growth of 6.6% in 2008. The main factors which contributed to the decline in the reported period were falling wholesale revenues of mobile operators as a result of UKE's decision on radical MTR reduction and a price war in the pre-paid segment, which in the fourth quarter extended also to the post-paid segment. The broadband market maintained its double-digit growth (by value), though this was lower than in 2008.

The Polish economy significantly slowed down in 2009:

- According to the initial estimate published by the Central Statistical Office on 28 January 2010, the GDP growth rate in 2009 was 1.7% (much lower than in 2008).
- Inflation rate at year-end was 3.5%;
- Unemployment is estimated to have risen to 11.9% at year-end.

A slight increase in the GDP growth rate to 1.8%, with inflation at the Monetary Policy Council's lower limit for deviations, i.e. at 1.5% are expected in 2010.

Although the global financial crisis affects the Polish economy, the potential impact on the telecommunications services market in Poland is not straightforward. On the one hand companies are reducing their capital expenditures, but on the other hand they are seeking cost optimisation solutions, also with the technologies offered by the telecommunications industry.

All types of internet access services and, in line with their growing popularity, also e-commerce and web advertising services will remain relatively insensitive to the economic slowdown. Similarly, further increase in value may be expected in 2009 in home entertainment products, such as pay TV.

The main factors negatively affecting the telecommunications market value throughout 2009 were related to the mobile market developments: the double MTR reduction (in Q1 and in Q3) reducing the revenue from call termination on operators' own networks and the price war in the pre-paid segment (subsequently extended to the post-paid segment), which was initiated by PLAY in March 2009 and continued by all the other players. In the first half of 2009, an additional factor negatively affecting the mobile market was visible growth slowdown by volume, resulting from the market saturation (the mobile penetration reached 117.8% at the end of 2009). Another MTR reduction and the continuation of the price war in the mobile market may be expected in 2010.

The price war in the mobile market indirectly intensified fixed-to-mobile substitution due to a further improvement in the cost ratio between mobile and fixed rates.

In terms of the Group's competitive environment, an expected market trend is further bundling by alternative operators of their core services with fixed internet access solutions and multimedia content.

7.2 TP Group's Strengths

TP Group faces a competitive challenge in Poland's increasingly difficult telecommunications market. Strong competitive and regulatory pressures lead to price erosion. Technological advances and changing requirements and expectations of customers force constant and flexible offer development by operators.

In this challenging market environment, TP Group has some unique strengths that enable it to compete effectively with other players. Owing to these strengths, TP Group has sustained leadership in the major market segments.

The TP Group's major strength that not only enables it to successfully continue its core activity but also expand to non-core areas is its unique resources:

- Largest customer base in the market, including both households and business customers; with 7 million fixed and 13.7 million mobile customers, TP Group's is in unique position to reach a broad base of potential users of other services of the TP Group;
- Best developed telecommunication and IT infrastructure in Poland, enabling a broad range of modern services;
- Well-developed and modern sales & distribution and customer service networks, including use of modern channels to reach customers;

- Strength of TP Group's brands (TP, Orange, Neostada), which are broadly recognised in the Polish market, and the image of a reliable company;
- Broad portfolio of products that meet different customer needs;
- Sound financial base for future growth;
- Access to FT Group's experience and best practices; international expertise and knowledge from different telecom markets are a clear benefit for TP Group's development.

Owing to all these strengths, TP Group has all the capabilities to provide each category of customers with exactly the quality products they are looking for at the price they are prepared to pay.

7.3 TP Group's Medium Term Action Plan

Definitely, one of the most important developments affecting the TP Group's action plan for the next few years was the Memorandum of Understanding signed with UKE. It enables stable growth in established and predictable regulatory environment.

The agreement provides also for extensive infrastructure investments. TP Group will invest in 1.2 million broadband lines in 2010–2012, including 0.5 million new ones. In addition, TP Group is to provide 1 million lines of bandwidth of 6 Mbps or more to its customers. These investments will increase the broadband coverage and enhance the quality of the existing access lines, which will enable TP Group to offer advanced internet services at improved quality.

The agreement will also result in changes in the Group's organisation and culture and extended cooperation with alternative operators.

TP Group's objective for the next few years is to fully exploit the opportunities brought by the Memorandum of Understanding with UKE. In addition, the Group will still focus on its core activity, competing in the markets with growth potential, where it will be able to make the optimum use of its strengths.

TP Group's action plan aims at strengthening its leadership in core markets, while preserving the Group's financial strength and revenues. The Group will flexibly respond to changing customer needs, offering an attractive range of services. It means the following efforts in particular markets:

- Fixed line segment – to maintain and defend TP Group's position by maximising retention initiatives and minimising revenue erosion in the segment. The key activity in the fixed line market is securing customer loyalty through the introduction of attractive tariff plans.
- Mobile segment – TP Group's goal is to regain leadership in this market. In order to achieve it is necessary to further strengthen the Orange brand through an attractive portfolio of both pre-paid and post-paid services. In addition, TP Group wants to be the innovation leader in the mobile internet market and set development trends there.
- Internet access – further improvement in service quality by increasing transfer rates and extending the portfolio to include services based on innovative technologies. In addition, TP Group will expand the geographical range of services, e.g. by offering CDMA-based internet access.
- Data services – to maintain the leadership in the data transmission market. This goal will be achieved by providing a complete service portfolio, offering both proven (ATM, FR) and innovative (IP VPN, Metroethernet) technologies.
- Television – further customer base expansion and service quality improvement through technology and content development. TP Group will introduce cutting-edge technologies to assure the top quality of television to its customers. In addition, the scope and attractiveness of the content offer will further increase.
- Integrated offer – responding to customer needs, TP Group will aim at attractive integrated offers combining modern products. Both TP and Orange will use a broad portfolio of their products to offer integrated solutions that will address the needs of their customers.
- Continuation of saving and transformation projects launched last year, which are aimed at reducing the cost base and improving the operating efficiency.

8 TP GROUP'S MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

8.1 Research and Development

TP's Research and Development Centre (TP R&D) conducts research that supports the development of TP Group. In line with its statutory tasks, it carries out tests of new equipment and systems which are developed or newly introduced on TP's network, investigations into existing systems, ergonomic testing of new services, network quality monitoring and testing, as well as development and advance work on new technologies and services (currently, a total of 100 projects). In addition, TP R&D cooperates with other TP's business units in the development of network and service development strategy.

- TP R&D was recognised as one of international Orange Labs. This was celebrated at a meeting of TP and France Telecom managers in the TP Group Innovation Gardens. Joining Orange Labs will facilitate cooperation with all R&D units within the FT Group, thus enabling the use of full potential of TP R&D as a research and development unit, project synergy and constant competence development.
- TP R&D actively promotes innovation across the TP and FT Groups. In 2009, TP R&D in conjunction with B2B, B2C, FT and suppliers implemented some 85 prototype or commercial solutions in the Innovation Gardens. The Innovation Gardens saw 218 meetings attended by 4,168 visitors.
- TP R&D was actively involved in the organisation of the Innovation Day – Telecommunication of the Future conference, which was attended by innovation experts, telecom industry representatives and scientists from Poland and other countries.
- In recognition of their achievements, TP R&D employees were invited twice, in June and December 2009, to present their work at the Orange Labs Research Exhibition (formerly Salon de la Recherche) in the Innovation Gardens in Issy les Moulineaux near Paris. Prototypes of convergent, interactive and e-health services as well as topical conferences were presented.
- TP R&D continued research and development works on the future implementation of e-health services for Poland's healthcare sector. The first e-Health Conference was held by the partners to a memorandum of understanding for the development of a dedicated broadband network for such services, which had been signed in December 2008 between TP and the Interdisciplinary Centre for Modelling (ICM), Medical University of Warsaw and seven clinics. In addition, the memorandum of understanding was signed by another partner, CSI OZ. As part of the e-health project, TP R&D developed the b-Link application, which enables physically disabled persons to operate a computer by blinking their eyes. This is open source software, so it can be further developed by the web community.
- The New Spirit project was completed in May 2009. It resulted in a new organisational structure of TP R&D, which is now based on six research areas agreed upon with the FT Group. These are:
 - Service Coverage Extension;
 - Multi-modal Applications for Home Devices;
 - IMS Mobile&VoIP;
 - IP Service & Aggregation Routers;
 - AS Products and Services; and
 - Dedicated Residential Gateways and STBs.
- A TP R&D specialist was appointed the President of the Broadband Forum, an international standardisation organisation. His term of office expires in the first quarter of 2010. Owing to the fact that its employee sits on the Board of Directors, TP is able to influence international telecommunication standards in the access network area.
- TP R&D organised the 7th 'Telecreator' contest aimed at promoting innovative projects and ideas of TP Group's employees. Out of 338 entries, 15 projects in 5 categories were awarded; in addition, 5 special awards of TP President were granted.
- CLIP, a new creative work environment, was launched in February 2009. 187 creative meetings were held within it in 2009, including the Blooming Innovation Country, Creative Problem Solving (CPS) workshops, project team meetings, etc.

- Owing to TP R&D's involvement in the work of international standardisation organisations, such as ITU CEN, CENELEC, Broadband Forum, TeleManagement Forum and Home Gateway Initiative, and a number of contributions, TP could influence the content of new telecommunication standards in such areas as people and environment protection against electromagnetic radiation, new generation networks (NGNs), signalling protocols, etc.
- TP R&D completed its participation in an international project co-financed by EU under the sixth edition of the European Union Framework Program (ISTFP-6), receiving €55,877 from EU funds. The SUPER project was continued, while the MUSE and SPICE projects were completed. Some new projects started under FP-7 IST-7. These include: 4WARD (post-IP-network), NAPA (TV network development), TALOS (special project for EU border protection) and OneLab2 (follow-up of Onelab). In addition, 22 new project proposals were prepared (for FP-7 Call4 and Call5).
- In 2009, TP employees submitted 12 patent applications (only one was not submitted by TP R&D).
- In the beginning of 2009, TP R&D established the Consumer Research Centre to carry out ergonomic tests of business and mass market services.

8.2 R&D Cooperation with France Telecom

In 2009, for the first time France Telecom concluded a contract with TP R&D for the purchase of 9 projects, that have been launched on a national basis as part of Local Initiatives, to be implemented at FT.

TP R&D is involved in the implementation of some projects for the FT Group. The priority projects include:

- Projects related to services based on application server technologies: Jain SLEE, Parlay/ParlayX and SIP Servlets;
- Projects related to the development of Telco 2.0-based services, particularly web services;
- Projects related to the development of services for IMS and IN networks, including services based on application server technologies;
- Research and development projects for IMS, mobile and VoIP networks;
- VoIP project for the mass market and the business market;
- Corporate validation of media gateways used on FTG's networks (IP-TDM gate);
- Core network Call Server Class 4 and 5 (ISUP/SIP/H323);
- Intelligent Network development in terms of new services for the mass market;
- Projects related to home gateway based services and home gateway equipment evaluation;
- Billing functionality of the SAAS (Software as a Service) platform;
- Projects related to the evolution of IP and mobile networks;
- Projects related to the evolution of access networks, including FTTH and VDSL2 (TP R&D has become the FT Group's leader in the validation of Huawei DSL and GPON equipment);
- Projects aimed at integration of FT R&D and TP R&D environments for the purpose of joint research and development;
- Projects related to CDMA, microwave and Wimax radio systems;
- Co-operation with the Technology Skill Center (TSC) with respect to the SMSC platform;
- Co-operation with the Technology Skill Center (TSC) with respect to the ZTE SCP NG platform;
- Co-operation with TSC and FT R&D with respect to IMS NSN platform tests for OPF and OSP;
- In 2010, TP R&D will carry out research and development related to the Ericsson's IMS platform for OPF.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

9 CHANGES IN THE TP GROUP'S STRUCTURE IN 2009

9.1 Changes in the Corporate Structure

In 2009, there were the following organisational changes in the TP Group's structure:

- TP Group Executive Committee was discontinued;
- Two Vice Presidents were appointed to TP Management Board;
- The position of Management Board Member in charge of Human Resources was replaced by the position of TP Group Executive Officer in charge of Human Resources;
- Under the Memorandum of Understanding of 22 October 2009 between TP and the President of UKE, TP's business units were divided into restriction domains (wholesale, retail, corporate) in terms of access to unauthorised information and non-discrimination provisions were introduced into TP Organisational Regulations.

9.1.1 Management Board

The number of the Management Board Members decreased. The Management Board is now composed of four Members, who have been assigned the direct supervision over the following Company's matters:

- President of the Management Board;
- Vice President of the Management Board in charge of Marketing and Strategy;
- Vice President of the Management Board – Chief Operating Officer; and
- Management Board Member – Chief Financial Officer.

9.1.2 Business Units

The total number of business units within TP's organisation slightly changed.

As of 31 December 2009, TP Group had the following business units:

- 1) 1 Office (TP Management Board Office);
- 2) 23 Departments reporting directly to the President of TP Management Board, TP Management Board Members or TP Group Executive Officers;
- 3) 28 Branches;
- 4) 5 TP Group Regions: North, South, East, West and Central.

9.1.3 TP's Subsidiaries

PTK Centertel

The main organisational changes in 2009 included:

- 1) Changes in the composition of the Management Board of PTK Centertel, namely appointment of a new President and a new Chief Financial Officer;
- 2) Pursuant to the Memorandum of Understanding of 22 October 2009 between TP and the President of UKE, PTK Centertel's business units were divided into restriction domains (wholesale, retail, corporate) in terms of access to unauthorised information.

9.1.4 Group's New Premises

On 22 December 2009, TP signed an agreement with Bouygues Immobilier Polska for the development and lease of new premises for the TP Group. The new location, a low rise and energy efficient complex of buildings in a proximity of the city centre, will be able to comfortably host approximately 3,500 employees. The development is to be concluded by 2013, while the lease period will be ten years, with extension options secured. The cost of lease under the agreement will provide the Group with approximately EUR 9 million savings per annum compared to the current situation.

9.2 Ownership Changes within the TP Group in 2009

9.2.1 Sale of TP Med Sp. z o.o. to LUX Med Sp. z o.o.

On 24 March 2009, TP and TP Invest Sp. z o.o. and LUX Med Sp. z o.o. concluded an agreement, pursuant to which TP and TP Invest Sp. z o.o. sold all shares of nominal value of PLN 500 each held in

Warsaw-based TP Med Sp. z o.o. The shares sold by TP and TP Invest Sp. z o.o. are a 100% stake in TP Med Sp. z o.o., which corresponds to the same voting power at the General Assembly of the latter. The total sale price of the shares was PLN 18,748,000.

9.2.2 Establishment of PayTel S.A.

On 8 April 2009, TP executed the deed of establishment of Warsaw-based PayTel S.A. The share capital of PayTel S.A. amounts to PLN 12,000,000 and is divided into 24,000 ordinary registered shares of the nominal value of PLN 500 each. TP subscribed to 24,000 shares at nominal price, corresponding to 100% voting power at the General Assembly of PayTel S.A., against a contribution in cash of PLN 12,000,000. The objects of PayTel S.A. include electronic payment services, particularly execution and settlement of card transactions, transfer of payments for third party's bills, sales of charging for telecom operators and services offered on ATM chains.

On 25 June 2009, pursuant to a decision of the District Court in Warsaw, PayTel S.A. was registered in the Register of Entrepreneurs.

9.2.3 Purchase of Ramsat S.A. by TP

On 21 May 2009, TP and natural persons, Seweryn Łukasiewicz, Jacek Szurlej, Tomasz Derejski, Robert Jaracz, Adam Gembala, Tomasz Rogoz, Mariusz Radłowski and Marzena Matyja, concluded an agreement under which the said individuals sold all the shares of the nominal value of PLN 1.00 each in Modlnica-based Ramsat S.A. The shares purchased by TP are a 100% stake in Ramsat S.A., which corresponds to the same voting power at the General Assembly of the latter. The sale price of the shares totalled PLN 24,100,000.

Ramsat S.A. is an authorised representative of PTK Centertel, the Orange network operator. It offers Orange services, TP's products and handset accessories. Ramsat S.A.'s sales network covers the whole territory of Poland and consists of approximately 130 outlets (including 22 Orange Corporate Outlets) and Poland's largest business sales department, which hires more than 150 Business Account Consultants.

Ramsat S.A. holds a 100% stake in Cracow-based Prado Sp. z o.o. The share capital of Prado Sp. z o.o. amounts to PLN 50,000 and is divided into 100 shares of the nominal value of PLN 500 each.

The objects of Prado Sp. z o.o. include provision of telecommunications services for and on behalf of PTK Centertel and/or TP as well as sales of handsets and accessories under a sub-agency agreement with Ramsat S.A. regarding its network of Business Account Consultants.

9.2.4 Sale of PayTel Sp. z o.o. to PayTel S.A.

On 29 June 2009, Emitel Sp. z o.o. and PayTel S.A. concluded an agreement for the sale of PayTel Sp. z o.o. for PLN 11,159,404.27. Following the transaction, PayTel S.A. holds a 100% stake in PayTel Sp. z o.o.

9.2.5 Sale of Wirtualna Polska S.A. to TP S.A.

On 29 September 2009, Virgo Sp. z o.o. and TP concluded an agreement for the sale of Wirtualna Polska S.A. for PLN 197,202.33 thousand. Following the transaction, TP holds a 100% stake in Wirtualna Polska S.A.

9.2.6 Sale of Virgo Sp. z o.o. to TP Invest Sp. z o.o.

On 9 October 2009, TP Invest Sp. z o.o. and TP concluded an agreement for the sale of Virgo Sp. z o.o. for PLN 197,202.33 thousand. Following the transaction, TP Invest Sp. z o.o. holds a 100% stake in Virgo Sp. z o.o.

9.2.7 Merger of PayTel Sp. z o.o. and PayTel S.A.

On 25 November 2009, the District Court in Warsaw registered a merger of PayTel Sp. z o.o. and PayTel S.A.

9.2.8 Changes of Equity in Other Subsidiaries/associates

Virgo Sp. z o.o.

On 19 January 2009, the District Court for Warsaw registered an increase in the share capital of Virgo Sp. z o.o. from PLN 50,000 to PLN 289,262,000, i.e. by PLN 289,212,000. The increase was effected through the issue of 578,424 new equal and indivisible shares of the nominal value of PLN 500 each. All

the new shares were taken up by TP against a non-cash contribution in the form of receivables amounting to PLN 289,212,000 and resulting from loan agreements concluded between Virgo Sp. z o.o. (as the borrower) and TP (as the lender) on 21 July 2005 for PLN 220,000,000, on 21 July 2005 for PLN 8,400,000, on 21 July 2005 for PLN 500,000 and on 22 March 2007 for PLN 18,600,000, with subsequent annexes. Following the registration, the share capital of Virgo Sp. z o.o. amounts to PLN 289,262,000 and is divided into 578,524 shares of the nominal value of PLN 500 each. TP holds a 100% stake in Virgo Sp. z o.o., which corresponds to the same percentage of votes at the General Assembly of the latter.

TPSA Eurofinance France S.A.

On 24 March 2009, the Registration Court for Paris registered an increase and a subsequent decrease in the share capital of TPSA Eurofinance France S.A. First, the share capital was increased from EUR 225,015 to EUR 741,015, i.e. by EUR 516,000. The increase was effected through the issue of 34,400 new shares of the nominal value of EUR 15 each. The new shares in the increased share capital of TPSA Eurofinance France S.A. were acquired by the existing shareholders, TPSA Eurofinance BV and TPSA Finance BV. Namely, TP SA Eurofinance BV based in Amsterdam (Netherlands) acquired 17,200 new shares in the increased share capital of TPSA Eurofinance France S.A., totalling EUR 258,000 par, against a contribution in cash of EUR 258,000 and TPSA Finance BV based in Amsterdam (Netherlands) acquired 17,200 new shares in the increased share capital of TPSA Eurofinance France S.A., totalling EUR 258,000 par, against a contribution in cash of EUR 258,000. Next, the share capital of TPSA Eurofinance France S.A. was decreased from EUR 741,015 to EUR 226,750.59, i.e. by EUR 514,264.41. The decrease was effected by reducing the nominal value of shares from EUR 15 to EUR 4.59 each in order to cover the balance deficit from previous years.

Following the registration, the share capital of TPSA Eurofinance France S.A. amounts to EUR 226,750.59 and is divided into 49,401 shares of nominal value of EUR 4.59 each. TPSA Finance BV, a wholly owned subsidiary of TP, holds a 49.995% stake in TPSA Eurofinance France S.A., which corresponds to 49.995% of the total voting power, while TPSA Eurofinance BV, a wholly owned subsidiary of TPSA Finance BV, holds a further 49.995% stake in TPSA Eurofinance France S.A., which corresponds to 49.995% of the total voting power.

Mobile TV Sp. z o.o.

On 11 May 2009, the District Court for Warsaw registered an increase in the share capital of Mobile TV Sp. z o.o. from PLN 60,000 to PLN 440,000, i.e. by PLN 380,000. The nominal value of each share remained the same at PLN 500 and the increase was effected through the issue of 760 new equal and indivisible shares. The new shares in the increased share capital of Mobile TV Sp. z o.o. were acquired by the existing shareholders pro rata to their respective stakes. PTK Centertel acquired 190 equal and indivisible shares of the total nominal value of PLN 95,000 against a non-cash contribution of PLN 95,000. Following the registration, the share capital of Mobile TV Sp. z o.o. amounts to PLN 440,000 and is divided into 880 shares of the nominal value of PLN 500 each. PTK Centertel holds a 25% stake in Mobile TV Sp. z o.o., which corresponds to the same percentage of votes at the General Assembly of the latter.

9.2.9 Sale of Assets

On 31 January 2009, TP and its wholly owned subsidiary TP Invest Sp. z o.o. ("TPI"), both being members of the same tax group, concluded an agreement on an asset sale-and-lease-back transaction and its financing. The agreement is part of initiatives aimed at the optimisation of TP Group's general and administrative expenses.

Pursuant to the agreement, TP sold TPI a portion of its network infrastructure for PLN 4,958 million plus VAT. The agreement further provides that TP will lease the subject of the agreement back from TPI for ten years. TP has an option to purchase the infrastructure for PLN 1 per asset upon the expiration of the lease period. Net lease payments will total PLN 7,212 million during the ten-year period.

The aforementioned infrastructure will be used by TP to provide telecommunications services in line with its purpose and the manner it was used before the conclusion of the transaction. The book value of the assets in TP's accounting records was PLN 5,501 million as on 31 January 2009. In order to pay the purchase price of the assets, TPI issued bonds that were acquired exclusively by TP. The aggregate value of the bonds was PLN 5,964 million par and their issue price totalled PLN 4,957 million. The maturity dates of the bonds were set at subsequent periods between 1 month and 10 years. As a result of the transaction, on 31 January 2009 TP posted financial assets of PLN 3,879 million and financial liabilities of PLN 3,909 million, as well as a PLN 29 million increase in investment in TPI's shares. The valuation or presentation of TP's property, plant and equipment has not changed and will have no impact on the Company's profit and loss statement.

9.3 Parent Company's Shareholders

As of 31 December 2009, the share capital of the Company amounted to PLN 4,007 million and was divided into 1,336 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital as registered on 23 February 2010 was as follows:

<i>(in PLN millions)</i>	<i>% of votes⁽²⁾</i>	<i>Nominal value</i>
France Telecom S.A.	49.79	1,995
State Treasury ⁽¹⁾	4.15	166
Other shareholders	46.06	1.846
Total	100.00	4.007

⁽¹⁾ The figures presented are based on the number of shares registered by the State Treasury at the Extraordinary General Assembly of TP held on 23 April 2009.

On 27 March 2009, the District Court of the Capital City of Warsaw, XII Commercial Department for the National Court Register registered a decrease in the share capital of TP. The Company's share capital was reduced from PLN 4,106,319,723 to PLN 4,006,947,063, that is by PLN 99,372,660. The decrease was effected by redeeming 33,124,220 A-series shares of nominal value of PLN 3 each, corresponding to the same number of votes at the General Assembly, which had been purchased for redemption in the share buy-back programme pursuant to a resolution of the Annual General Assembly dated 24 April 2008.

As of 31 December 2009, France Telecom held a 49.79% stake in the Company. France Telecom has the power to appoint the majority of TP Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

As of 31 December 2009, the Company has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

TP did not issue any employee shares in 2009, but an Incentive Programme for the Key Managers was launched in 2007 (please see section 10.2.1 for further details).

10 TP GROUP'S STRUCTURE AS OF 31 DECEMBER 2009

10.1 Corporate Governance Bodies of the Parent Company

For detailed information about the Management Board and Supervisory Board of TP please see section 3 above.

10.1.1 TP Shares Held by Persons Who Manage or Supervise TP

No Members of the Management Board or Supervisory Board hold TP or related entities' shares.

As part of the Company's incentive program, members of the Management Board of the Company acquired TP S.A. registered A-series first option bonds, giving the right to subscribe for the Company's shares with priority over existing shareholders.

The number of first option bonds held by members of the Management Board of the Company on 31 December 2009 was as follows:

	31 December 2009
Maciej Witucki	305,557
Piotr Muszyński	190,896

The members of the Supervisory Board of TP do not participate in the Company's incentive program and as at 31 December 2009 held no first option bonds.

As at 31 December 2009, the persons managing or supervising the Company held no TP S.A. shares.

For information on the remuneration (including profit sharing) paid or payable by the Company to the persons appointed to its management and supervisory bodies please see Note 33.1. to the Consolidated Financial Statements enclosed.

Employment contracts of the Members of TP Management Board include provisions concerning severance pay payable in the case of the contract termination by the Company (and in some cases due to the resignation of a Board Member) and provisions concerning compensation payable for the ban on competing activity after the termination of employment. The severance pay related to the employment contract termination is equal to six monthly salaries. The compensation for restraining from any activity competitive to that of TP for a period of twelve months after the termination of employment is up to six monthly salaries, calculated as cash equivalent for unused leave (this applies to the Management Board Members who were in charge as of the date of the Financial Statements enclosed).

10.1.2 General Assembly

On 23 April 2009, the General Assembly of TP approved a dividend of PLN 2,003 million (equivalent to PLN 1.5 per share), including PLN 510 million from income for 2008 and PLN 1,493 million from retained income for previous years. The dividend, net of withholding tax, was paid on 2 July 2009.

10.2 Employment in the TP Group

As of 31 December 2009, TP Group employed 27,667 people (in full-time equivalents) and was down 5.4% year-on-year.

The workforce reduction resulted mainly from a decrease in TP (by 2,395 employees) and the sale of TP Med (with 50 employees) in March 2009. This was partially offset by an increase in workforce mainly in PTK Centertel (by 299 employees) and the purchase of Ramsat and its subsidiary Prado (with 358 employees) in May 2009.

In 2009, TP continued its efforts aimed at workforce optimisation. The optimisation process was based on the provisions of the Social Agreement signed in November 2008.

TP's workforce reduction is mainly a result of a voluntary departure programme. In 2009, severance pay was paid to 2,440 employees, out of which approximately 96% left TP under the voluntary departure programme, and averaged PLN 54.3 thousand per employee.

The workforce restructuring provision after discount and utilisation was PLN 126 million at the end of December 2009.

In 2009, external recruitment in the TP Group totalled 1,537 positions (excluding temporary replacement agreements), down 22.1% year-on-year. External recruitment was mainly related to sale positions and customer service staff (mainly at TP, PTK Centertel, Teltech, Emitel and Wirtualna Polska).

Costs of wages, social insurance contributions and other employee benefits in the TP Group amounted to PLN 2,353 million in 2009 (down 0.3% year-on-year).

10.2.1 Incentive Programs

TP Group Incentive Program

On 28 April 2006, the General Assembly of TP approved an Incentive Program based on a "Stock Option Plan". On 12 December 2006, the Management Board of TP adopted the resolution No. 149/0/06 on adopting the Incentive Program Rules for the Members of the Management Board of TP and the Incentive Program Rules for the Key Managers of the TP Group.

The main purpose of the Program is to link the remuneration of key managers with their contribution into TP Group's development through enabling them to benefit from the planned growth of the Company's value; getting them more involved in the active management of the TP Group in order to increase its profitability. In addition, the Management Board believes that the Program is currently the best way to stimulate the managerial staff, which will positively contribute to the implementation of the Group's development strategy.

The additional incentive for the key managers shall allow the Company to retain most valuable managers with the TP Group in the longer perspective.

First Option Bonds

The Program is carried out through issuing TP first option bonds. The issued bonds are registered bonds giving the right to subscribe, before the existing shareholders, for B-series shares issued by TP.

Pursuant to the resolution on the issue of bonds proposed by the Management Board the bonds have the nominal value of PLN 0.01 per piece and are to be issued at the issue price equal to the nominal value. Owing to the purpose of the Program, the bonds will not bear coupons. One bond will enable the subscription for one B-series share.

B-series shares carry the right to the dividend on the terms described in the information memorandum.

The issue of new B-series shares has an impact on reducing the percentage share of the existing shareholders in the share capital of TP. In the case that the bondholders exercise the rights under all the bonds, the percentage share in the share capital of all existing shareholders will be reduced by 0.508%.

Size of the Program

In total, 7,113,000 of bonds enabling the subscription for 7,113,000 B series shares are to be issued in the Program.

Size of Individual Award

The number of bonds granted to particular Beneficiaries depends on the assessment of performance and operational involvement of each Beneficiary and the level of responsibility.

Exercise Period

The bondholders' right to subscribe for B-series shares might be exercised within seven years, i.e. from the third anniversary of the bonds issue date to the 10th anniversary of this date. The exercise of this right will be possible, in principle, only if the Beneficiary, on the day of its exercise, is the employee or member of the governing bodies of the Company or companies from the TP Group covered by the Program. As a general rule, if the Beneficiary stops being the employee or the member of TP governing bodies or those companies before the subscription date of B-series shares, all their bonds will be redeemed by way of payment of the nominal value of these bonds.

Issue Price of Shares

The issue price of B-series shares taken up by the bondholders was set by the Management Board of TP on the bonds issue day and was equal to the average market price of TP shares from 20 sessions on the Warsaw Stock Exchange immediately preceding the bonds issue day.

In September 2007, TP Management Board implemented the Program and the information memorandum was sent to potential Beneficiaries. Subscription letters were sent to 356 employees (including Executive Committee members); 339 managers subscribed for options (96% of potential Beneficiaries). The grant date was set up on 9 October 2007 and the option exercise price at PLN 21.57 (average TP close price of 20 sessions on Warsaw Stock Exchange preceding the grant date). 6,047,710 A-series bonds were allotted to eligible managers and 154,698 bonds were taken by the trustee (KBC Securities). 0.9 million options out of 7.1 million were not issued. Dilution of the existing shares upon the issue of the new ones

will be 0.43% (instead of assumed 0.51%). Cost of the Program will be PLN 25 million to be booked over the vesting period. By 31 December 2009, a total of 1,690,285 options had been redeemed as a result of the termination of Beneficiaries' contracts of employment in the cases set out in the Program.

The Program is secured by a control system according to the resolution that implemented the Program in the TP Group. The Program is subject to a special procedure consistent with the reporting standards that is implemented across France Telecom Group. The controls will include the verification of the number of Program beneficiaries, Program revaluation and settlements with the employees leaving the Company.

France Telecom free share award plan

In 2007 France Telecom set up a free share, equity-settled, award plan (NExT). Under the plan, 988,400 shares were offered to employees and executives of TP Group.

The vesting date, when the terms and conditions of the plan were communicated to employees, was 18 March 2008. The shares awarded may not be sold for a period of two years after the vesting date. The fair value of shares on the grant date was PLN 63.57 (the equivalent of EUR 17.95 converted according to the National Bank of Poland's exchange rate as of 18 March 2008).

The plan is contingent upon meeting the following conditions by France Telecom Group:

- Performance conditions: achievement of the cash flow set out in the NExT plan in 2007 and 2008 (EUR 6.8 billion and EUR 6.8 billion, respectively), and cost of the plan to be covered by additional cash flow generated over the same period; the cash flow performance condition was met in 2007 and 2008;
- Beneficiaries must be employed by the France Telecom Group continually between 4 December 2007 and 4 December 2009 and must meet the share disposal criteria set out in the Terms of the France Telecom Free Share Award Plan.

10.2.2 Social Agreement

In December 2009, it was agreed with trade unions that the departure limit set for 2009 could be exceeded due to higher than expected number of applications for voluntary departure.

In addition, a limit for 2010 was set (at 1,980) within the aggregate limit specified in the 2009-2011 Social Agreement. The terms of compensation payments to employees, particularly long seniority ones, that would voluntarily leave the Company in 2010 were revised.

Other provisions, which concern the most important employee-related issues, such as employment policy, regular pay rises based on the Company's remuneration policy and the role of internal mobility, recruitment and outsourcing in the Company's employment policy, did not change.

CHAPTER IV
KEY THREATS AND RISK FACTORS

11 TP GROUP'S INTERNAL RISKS

The risks mentioned in this report are not intended to constitute an exhaustive list of all possible risks, which may impact the Group. The system of internal control and risk management is designed and implemented by the Management to manage the risk of failure to achieve business objectives. It can only provide reasonable and not absolute assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures when justified).

Since 2007, TP Group has been implementing subsequent stages of a program of comprehensive risk management solutions in the Group's major companies. The Risk Management Policy has been developed and implemented within TP Group to determine the key risk management procedures and responsibilities. These solutions include procedures for risk identification, analysis and assessment, implementation of risk mitigation measures and verification of action results. Proper risk reporting provides the Management Board with information about the key risk factors within the Group, so preventive actions may be additionally supported. The major risk identification and selection process is carried out by the Enterprise Risk Management team across TP and other major TP Group companies. The identified risks are assessed and the action plans are implemented by the Group's top management, using the information provided by the Internal Audit.

The priority risks are subject to continuous monitoring. For such risks, preventive measures aimed at reducing the probability of their occurrence and limiting their potential impact on the Group's operations are implemented.

In line with the *TP Group Risk Management Policy*, an updated TP Group Risk Map is submitted to the Management Board and the Audit Committee of the Supervisory Board twice a year. The internal audit plan for each year is developed on the basis of a list of priority risks selected by TP Management Board Members and TP Group Executive Officers.

11.1 TP Group's Action Plan Implementation

In response to changes in the telecommunications market, especially increasing competition and growing regulatory pressure, the TP Group has been implementing its medium-term strategy announced in July 2007. However, owing to substantial changes in the economic and competitive environment it has been replaced with a revised medium-term action plan.

Due to a risk of delays in the implementation of this action plan caused by both internal and external factors and lower than expected revenue streams from new services, there is no guarantee that this strategy and its implementation will be successful. Any failure thereof may negatively influence the Group's performance and financial standing.

11.2 Timely Implementation of Regulatory Requirements

If TP Group companies are unable to satisfy the imposed regulatory requirements or fail to meet the indicated time limit, they may be at risk of administrative procedures and, consequently, administrative fines.

As provided in the Telecommunications Law, the President of UKE may impose on a telecommunications operator a penalty of up to 3% of its prior calendar year's revenues, if the operator does not fulfil certain requirements thereof.

As provided in the Law of 16 February 2007 on competition and consumer protection, in case of confirmed monopolistic practices or abuse of the collective interest of customers, the President of the Office for Competition and Consumer Protection (UOKiK) may impose on a company a penalty of up to 10% of its prior financial year's revenues or, for failing to provide the information requested or providing misleading information, a penalty of up to EUR 50 million.

According to article 13(11) of the Memorandum of Understanding between TP and UKE, in case of non-performance or improper performance by TP of the MoU provisions, including non-compliance with the auditor or President of UKE's recommendations regarding the IT audit, failure to meet the relevant deadlines or any actions inconsistent with the principles set out in the MoU, the President of UKE may resume works on imposing a regulatory obligation of functional separation on TP. Under current legal regime, no fines can be imposed on TP for non-performance or improper performance of MoU.

11.3 Availability of Skilled Employees

TP Group operates in a market which is affected by a constant risk related to attracting or retaining skilled employees in all business areas. This risk is particularly noticeable in customer service and sales, where personnel rotation is relatively high, and in the technology area, where highly competent employees need to be attracted. Understaffing of these functions may pose a threat to the timely performance and quality of TP Group's core business processes and may hinder the achievement of the Group's business objectives.

11.4 Technical Infrastructure

The technical infrastructure required to offer TP Group's products and services is exposed to a risk of failure and interruption resulting from natural disasters or intentional human actions. Interruptions in technical infrastructure operations have a direct impact on provision of services and supply of products by the TP Group, which in turn translates into lower revenues from such products and services and a decrease in customer satisfaction. This risk is mitigated by the proper network development planning, preventive maintenance, implementation of business continuity plans and insurance schemes.

TP Group is exposed to the risk of incorrect selection of access infrastructure technology, as a result of an unexpected shift towards other, previously underestimated or non-existing, technologies. The currently recommended network access technologies could turn out to be unfit or insufficient for the implementation of the products expected by customers, while the services provided on the basis of such technologies may fail to meet customer expectations. Owing to the volume of investments involved, such a development may have a long-term and significant negative impact on financial results and profitability of the Group companies.

11.5 IT Systems

As rapid implementation of IT systems has become a necessity to meet changing customer demands and keep pace with the rapid development of competitive offers, there may be a risk of errors or lack of data integrity within connected systems resulting from insufficient testing. Potential failures and reduced availability of critical systems, resulting from frequent changes in the used applications, can lead to decreased quality of services and deteriorated response to customer requests.

11.6 Launch of New Products and Services

To maintain its competitive advantage, TP Group has been launching innovative products and services. Although the Company performs marketing tests, there is a risk that some products or services may not be successful and have to be withdrawn from the market or amended to meet customer expectations. Such potential negative marketing effect could also lead to increased marketing spending for additional marketing actions or failure to generate expected revenues.

In addition, new products and services necessitate adjustment of network and IT systems. This is a complex and frequently time-consuming process, which poses a risk of delays in the market introduction of products and services. Another risk to timely implementation is consultations with UKE, which are often prolonged. Delays in the launch of new products and services may result in lower than planned take-up, posing a risk to the achievement of the Group's budgeted financial results.

11.7 Dependence on External Partners

TP Group concludes contracts with external partners for maintenance of its networks and for other services. Although adequate safety measures are included in the contracts, there is always a risk of deficiencies from the Company's partners, resulting in delays in maintenance work and a decrease in quality of services provided by the Group. Similarly, the Group has partially outsourced operation and supervision of IT systems and processes to external suppliers of computer hardware and software. These are complex processes, therefore any change of suppliers within a short time is impractical. Although it is TP Group's policy to diversify outsourcing, there is a risk that major deficiencies from any key suppliers may negatively affect Group's operational and financial performance.

11.8 Environmental Risk

The Management Board believes that the TP Group's activities in respect of telecommunications services do not pose a serious threat to the environment, because the Group's business does not engage in any production process which creates a significant threat to rare or non-renewable natural resources (water, air, etc.) or to biodiversity. Any hazards related to TP Group's activities, such as noise emission or liquid waste discharge, are monitored by competent business units on a current basis, while "non-household"

waste generated by the Group's activities, such as waste electronic equipment, electronics at end-of-life, batteries and storage cells, cables and treated poles, is subject to industrial waste management programs and waste avoidance/reduction procedures.

TP Group applies accounting rules relating to environmental liabilities, and notably those concerning reserves for dismantling and disposal of things which may contain hazardous materials, in accordance with current legislation and regulations (see Note 29 to the consolidated financial statements for the period ended on 31 December 2009).

According to the state of knowledge as of 31 December 2009, TP Group cannot rule out future changes in legislation or regulations that would require it to incur additional expenditure and set aside larger provisions in this respect.

11.9 Issues Related to the Incorporation of TP

TP was established as a result of the transformation of the former state-owned organisation PPTiT into two entities – the Polish Post Office and TP. During the transformation process and transfer of ownership rights to the new entities, certain items of property and other assets that are currently under the Company's control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that TP's rights to certain properties may be questioned.

Responding to this issue, TP Group launched the Polish Post Office project in 2009. It is aimed at identifying any real estates being the subject of dispute with the Polish Post Office, reaching an agreement as to their division and developing a legal strategy towards the real estate for which TP Group's rights have been questioned.

In addition, as the regulations concerning the transformation of PPTiT are unclear, the division of certain responsibilities of PPTiT may be ineffective, which may result in joint and several liability in respect of TP's predecessor's obligations existing at the date of transformation. The share premium in the equity of TP includes an amount of PLN 713 million which, in accordance with the Notary Deed dated 4 December 1991, relates to the contribution of the telecommunication business of PPTiT to the Company. As the regulations relating to the transformation of PPTiT are unclear, the division of certain rights and obligations may be considered to be ineffective. As a result, the share premium balance may be subject to changes.

11.10 Tax Contingent Liability

Value added tax, corporate income tax, personal income tax or social security regulations are subject to frequent changes which often leads to the lack of well established regulations or legal precedents. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems. Tax authorities may examine accounting records up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. TP and certain of its subsidiaries were subject to audits by the tax office in respect of taxes paid. Certain of these audits have not yet been finalised.

12 TELECOMMUNICATIONS SECTOR RISKS

This section describes potential risks in the telecommunications sector that may affect TP Group's operations except for the developments described in the section 6 above.

12.1 Regulatory Risks

Changes in the regulatory environment combined with increasing competition added to the pressure on the TP Group's top line in 2009.

TP takes actions towards the Regulator and competitors to solve such issues as Wholesale Line Rental (WLR), Bitstream Access (BSA) or Local Loop Unbundling (LLU) in order to meet its regulatory obligations in the optimum way. However, TP is regularly facing situations where UKE is introducing changes, which sometimes impose unrealistic timetables or challenging technical implementations.

TP Group has explored all possible legal means to protect its interest (appeals against all unjustified UKE's decisions are pending). The Group intends to turn to relevant EU institutions whenever it believes that European law is being breached.

12.1.1 Single Reference Offer

In July 2009, the President of UKE released for public consultation a draft single reference offer regarding LLU, RIO, WLR and BSA telecommunications access. The draft offer introduces a single common process referred to as the Interconnect Co-operation Model, which comprises a number of component processes, including subscriber line orders, assignments, migration with/without number portability (NP), full/shared access deactivation and subscriber's decision to give up service subscription. Consequently, the deadlines for providing access to particular Regulated Services and other deadlines related to the co-operation between TP and other operators have been unified. In addition, the draft single reference offer includes uniform collocation terms.

On 1 October 2009, the President of UKE opened administrative proceedings to obligate TP to change RIO, BSA and LLU offers in their entirety. On 19 October 2009, TP communicated its position to UKE, indicating that there were no legal grounds to change the three offers in the manner proposed by UKE. The proceedings are pending.

12.1.2 WLR Service

By the end of 2009, the President of UKE had issued decisions for 19 companies. These are: Tele2 Polska Sp. z o.o., GTS Energis Sp. z o.o., Telefonía Dialog S.A., Premium Internet S.A., Polkomtel S.A., eTel Polska Sp. z o.o., EXATEL S.A., Polska Telefonía Cyfrowa Sp. z o.o., E-Telko Sp. z o.o., MNI S.A., Multimedia Polska S.A., Długie Rozmowy S.A., Multimedia Polska-Południe S.A., Multimedia Polska-Zachód Sp. z o.o., Telekomunikacja Kolejowa Sp. z o.o., Netia S.A., MediaTel S.A., Telekomunikacja Novum Sp. z o.o. (2009) and In2Loop Sp. z o.o. (2009). TP has appealed against all the decisions, except for the one for In2Loop.

Pursuant to the Memorandum of Understanding between TP and UKE of 22 October 2009, at the end of October TP withdrew appeals against the majority of WLR decisions, except for decisions for GTS Energis, Dialog, Exatel, Premium Internet, E-Telko, Tele2, Mediatel and Netia. TP promised to withdraw appeals against the latter within 7 days after the conclusion of agreements with the relevant operators that would be consistent with Appendix 4 to the Memorandum of Understanding between TP and UKE.

12.1.3 Local Loop Unbundling

On 28 November 2008, the President of UKE changed TP's draft offer and approved *TP's reference offer determining the general terms of local subscriber loop access agreements (full or shared access)*. TP as an SMP operator in the market for unbundled access to the subscriber loop or a segment of the subscriber loop (market 11/2003) had submitted that draft offer in September 2007. The new RUO has set new prices for access to the local subscriber loop, partially in line with TP's cost calculation results for 2008. On 15 December 2008, TP applied to UKE for the re-examination of the case. On 29 May 2009, the President of UKE partially amended the RUO of 28 November 2008. The amended offer does not provide for TP's request for introduction of service fee based on TP's justified costs in line with the costing model; in addition, the interconnect gateway model proposed by TP in an extended form was not introduced. On 1 July 2009, TP lodged a complaint with the Regional Administrative Court.

Pursuant to the Memorandum of Understanding between TP and UKE, TP withdrew the appeal from the Regional Administrative Court at the end of October 2009.

12.1.4 Bitstream Access

On 4 November 2008, the President of UKE decided to partially amend the decision of 6 May 2008, which approved TP's draft reference offer for broadband access, including BSA (i.e. 2008 BSA offer). The decision of 4 November 2008 clarified and straightened out the terms of the decision of 6 May 2008.

On 4 December 2008, TP appealed against the decision of 4 November 2008 to the Regional Administrative Court, petitioning for declaring the invalidity thereof and the invalidity of the preceding decision of 6 May 2008. Pursuant to the Memorandum of Understanding between TP and UKE, TP withdrew the appeal from the Regional Administrative Court at the end of October 2009.

In line with the Memorandum of Understanding between TP and UKE, on 6 November 2009, TP filed an application with the President of UKE for revising the BSA Reference Offer with respect to Section 8 (Price List). The application aims at introduction of a new 'cost plus' model in accordance with the Memorandum of Understanding.

12.1.5 Reference Interconnect Offer

On 7 May 2008, TP lodged a complaint with the Regional Administrative Court against the President of UKE's decision of 4 April 2008, which upheld the decision of 10 January 2008, refusing to amend RIO by introducing a price list reflecting the audited TP costs. Pursuant to the Memorandum of Understanding between TP and UKE, TP withdrew the appeal from the Regional Administrative Court at the end of October 2009.

On 4 November 2008, the President of UKE, having examined TP's application for the re-examination of the case, decided to partially amend the decision of 8 April 2008 on approval of the Reference Interconnect Offer. The changes concerned mainly the definition of shared location and shared location area, assignment of rights, traffic settlements based on flat interconnect rates and procedures for order execution. On 4 December 2008, TP filed a complaint on the aforementioned decision with the Regional Administrative Court in Warsaw. Pursuant to the Memorandum of Understanding between TP and UKE, TP withdrew the appeal from the Regional Administrative Court at the end of October 2009.

On 31 October 2008, the President of UKE issued a decision to discontinue the proceedings initiated upon TP's application for the re-examination of the case, that ended with the decision of 7 April 2008 obliging TP to adjust its call origination, call termination and WLR rates and setting ceilings thereof. On 3 December 2008, TP filed a complaint against the discontinuation decision with the Regional Administrative Court in Warsaw. Pursuant to the Memorandum of Understanding between TP and UKE, TP withdrew the appeal from the Regional Administrative Court at the end of October 2009.

12.1.6 Leased Lines

Pursuant to a decision of 23 October 2008, the President of UKE designated TP as an SMP operator in the terminating segment of the domestic market for leased lines services (market 13/2003) and imposed the relevant regulatory obligations on TP.

On 24 April 2009, the President of UKE issued a decision regarding the market 14/2003, designating TP as an SMP operator in the trunk segment of the domestic market for leased lines services and imposing the relevant regulatory obligations on TP with respect to part of the relevant market (and leaving the remaining part non-regulated). Under the regulator's decision, the leased lines between Poland's 145 biggest towns are not subject to regulation. Consequently, TP will provide wholesale leased lines services upon the cancellation of the former regulatory obligations by the President of UKE.

In line with the aforementioned decisions, in January 2009 TP submitted a draft leased lines reference offer for the market 13 for the President of UKE's approval. Then, in July 2009 TP submitted a draft reference offer for markets 13 and 14 combined, withdrawing the draft reference offer for the market 13 alone and requesting that it be replaced with the combined reference offer. The procedure was closed on 31 December 2009, when a new reference offer was issued.

12.1.7 Cable Ducts (ROI)

On 27 November 2008, the Regional Administrative Court delivered a judgement on TP's complaint against the President of UKE's decisions of 30 June 2006 and 4 August 2006 that amended and approved the Reference Infrastructure Offer (ROI), with respect to cable ducts. The Court did not consider TP's objections to be grounded and rejected the complaint. On 16 March 2009, the Company lodged a cassation appeal with the Supreme Administrative Court. Pursuant to the Memorandum of Understanding between TP and UKE, TP withdrew the cassation appeal at the end of October 2009.

In June 2009, TP applied to UKE for a decision confirming the expiration of the decision which implemented ROI. The Company argued that owing to the completion of the analysis of relevant

markets, the grounds for the implementation of ROI (namely interim provisions of the Telecommunication Law) were no longer valid. The procedure is pending.

In line with UKE's decision of 17 July 2009, that was issued upon NASK's request in August 2009, TP submitted a new draft ROI for the President of UKE's approval. The changes included incorporation of a cable chamber into the scope of a cable duct and enabling installation of operators' equipment therein, more strict regulations regarding duct obstruction removal, construction of branches connected to TP's cable ducts and procedures for reporting and handling complaints. The revised offer has not been approved by UKE yet.

12.1.8 Mobile Termination Rates (MTR)

Under the President of UKE's decision of 30 September 2008 (the 2008 MTR decision), the rates for the mobile termination service on the PTK Centertel's network should be set at PLN 0.2162 per minute from 1 January 2009 on and to PLN 0.1677 per minute from 1 July 2009 on. The decision was issued even though a decision of 26 April 2007 which determined subsequent MTR reductions until mid-2010 (the 2007 MTR decision) was in force; consequently, on 30 December 2008, the President of UKE issued a decision on the expiration of the 2007 MTR decision.

In spite of serious legal doubts, this action by the President of UKE necessitates the use of MTRs set out in the decision of 30 September 2008. Therefore, PTK Centertel commenced negotiations with other operators to conclude the relevant annexes to the interconnect agreements to account for new rates for call termination on the PTK Centertel's network. However, none of the operators agreed to the annexes proposed by PTK Centertel, so the negotiations were submitted to the President of UKE, who issued the relevant decisions replacing the interconnect agreements in this respect.

By the third quarter of 2009, UKE had issued decisions for unspecified time amending the interconnect agreements for PTK Centertel, PTC and Polkomtel by reducing the mobile termination rates on the networks of these operators to PLN 0.1677 per minute.

On 4 May 2009, PTK Centertel sent a letter to the European Commission, complaining about the President of UKE's failure to meet the obligation to carry out a process of consolidation of the decision of 30 September 2008 and the decisions changing MTRs in settlements between PTK Centertel and other telecom operators. PTK Centertel has not received any reply to the letter yet.

Under the President of UKE's decisions, which replace interconnect agreements, asymmetric rates for call termination on PLAY and Cyfrowy Polsat's networks are applied in settlements with TP; these are T1 – PLN 0.65, T2 – PLN 0.48 and T3 – PLN 0.40 per minute in case of PLAY and T1/T2/T3 – PLN 0.40 per minute in case of Cyfrowy Polsat. On 26 June 2009, the President of UKE reduced the asymmetric MTR on the PLAY network to 141% or PLN 0.404157 per minute as from 1 July 2009.

On 18 June 2009, PTK Centertel sent a letter to the European Commission in connection with the fact that the President of UKE infringed Article 7 of the framework directive by failing to provide notification under Article 44 of the SMP decision for P4. On July 15, PTK Centertel received a reply from the Commission, which had not found any irregularities with respect to regulatory obligations imposed on P4 or the duration or spread of asymmetric rates set by UKE.

On November 26, the European Commission addressed the draft decision providing for MTR asymmetry on the Play network until 2014, which had been notified to the Commission. The Commission called upon UKE to reconsider the duration of asymmetry in line with the Commission's recommendations (which provide for a maximum period of 4 years, while UKE has proposed a period of 7 years) as well as the cost calculation methodology for the PLAY network.

The work on the development of a call termination costing model based on LRIC methodology, which was continued by the President of UKE in 2008, did not result in any specific cost calculation model. On 9 June 2009, the President of UKE announced another version of the bottom-up modelling methodology for mobile networks and released it for public consultation. Upon the completion of the consultation procedure, the President of UKE is to publish a final version of the document.

Meanwhile, the President of UKE was still collecting data from operators in this respect, arguing that these were necessary to determine the costs of services on mobile networks, including SMS and MMS services. In addition, the President of UKE's actions in the third quarter of 2009 (i.e. publishing a draft definition of the relevant market, collecting data about SMS/MMS services) seemed to imply that she intended to start the analysis of the market for SMS and MMS termination.

12.1.9 Fixed Termination Rates on Networks of Alternative Operators (Designated as SMP Operators in the Market 9)

On 16 December 2008, upon completion of the public consultation process, the President of UKE adopted a position on the symmetry of voice call termination rates on fixed public telephone networks. According to the President of UKE's position, the maximum asymmetry index for fixed termination rates (FTRs) for call termination on TP's network within a numbering zone should be 92% from 1 January 2009 on and then should be gradually reduced to reach 0% on 1 January 2014, whereas in case of call termination outside the transit area, the FTR asymmetry with respect to TP's rates should decrease from 9% to 0% between 1 January 2009 and 1 January 2014.

This position is inconsistent with the opinion of the European Regulators Group and the European Commission, which point out that the introduction of the FTR symmetry is the optimum solution.

Prior to the announcement of the aforementioned position, in 2008 the President of UKE issued decisions amending TP's agreements with alternative operators (for a total of 10 operators), introducing a considerable asymmetry in FTRs to TP's disadvantage. TP has appealed against these decisions.

In the second half of 2009, the President of UKE took steps aimed at the implementation of the FTR spread reduction in line with the time schedule presented in December 2008 and issued decisions regulating TP's cooperation with Netia, Telgam and Intelligent Technologies.

12.1.10 European Commission's Recommendation on the Regulation of Fixed and Mobile Termination Rates

On 7 May 2009, the European Commission published its recommendation for national telecommunications regulators on the cost-based methodology to be used when calculating the regulated wholesale rates for call termination on fixed and mobile networks. National regulators are required to take "utmost account" of the Commission's recommendation. In particular, the recommendation provides that termination rates on the national level should be set on the basis of the real costs of connecting calls borne by an efficient operator and should be the same for all operators. For a limited time and on certain conditions some exceptions are possible in case of cost differences outside operator's control.

In particular, the European Commission's announcement indicates that the implementation of the recommendation will lead to a reduction in mobile termination rates much below the current level (to between 1.5 and 3 eurocents per minute by 2012 according to a working document of the Commission's services that accompanied the recommendation).

12.1.11 Telecommunication Law Amendment

The Telecommunication Law amendment of 24 April 2009 came into force on 5 July 2009. The major changes are as follows:

1. The scope of data collected by the President of UKE from telecom operators has been extended;
2. With respect to provisions that regulate the procedure for the relevant market determination, the phrase "in accordance with the competition law" has been replaced with "considering local conditions and, to utmost account, the Commission's recommendations and guidelines referred to in Article 19(3)." In addition, there has been a departure from the fixed determination of relevant markets by way of a decree towards the analysis on a case-by-case basis and indicating by way of a decision whether the relevant EU requirements have been met. The decisions on removal of regulatory obligations have lost their status of immediate enforceability, as the relevant substantive provisions now refer to such decisions as "a decision stating the date of removal of obligations";
3. The regulations have been changed to comply with the ruling of 13 November 2008 in a case regarding invalid transposition of the Access Directive (case C-227/07).
4. The regulations regarding the calculation of justified costs and application of access fees have been changed. Under the new regulations, apart from an audit by external auditors the President of UKE shall verify the level of charges by other means. This provision is directly inconsistent with Article 13 and motives 20 and 21 of the Access Directive, which provide for the verification of the cost calculation results by an independent body or by the regulator, provided that it has qualified personnel. The Directive does not provide for parallel verification of the results by both an independent auditor and the regulatory authority which does not have the personnel meeting the community law requirements for auditors.
5. A number of changes have been introduced to enhance the consumer protection. These include:
 - (a) The right to amend an agreement by means of remote communications, particularly by phone,

- (b) The obligation to publish the terms of provision of telecommunications services and to attach a copy thereof to an agreement as well as to indicate the scope and conditions of the service provision to the pre-paid service end-users,
 - (c) The obligation to deliver any amendment to the agreement; no right to claim compensation,
 - (d) No charge for providing number portability,
 - (e) The issue of the termination of the agreement in case of a number portability request has been regulated,
 - (f) "Special-price packages" have been introduced for low-income customers and customers with special social needs;
6. With respect to obligations connected with the national defence, state security and public safety and order, the performance of the obligation to provide data to UKE may be now outsourced to another telecom operator. In addition, the list of entities towards which such obligations shall be performed has been extended;
 7. A number of changes related to the communications administration have been introduced;
 8. The catalogue of punishable actions has been extended to include non-performance or improper performance of the following obligations:
 - (a) The obligation to register and provide access to data required to identify the network termination or terminal of the end-user initiating the call or the one called as well as the date and time of call, type of call and location of the telecommunications terminal,
 - (b) Obligations resulting from the EC roaming regulation,
 - (c) Regulatory regulations related to regulatory accounting/costing and access reference offers.

The Ministry of Infrastructure is currently working on another amendment to the Telecommunication Law. In particular, the draft bill provides for:

1. Change of a definition of subscriber in line with EU requirements;
2. Introduction of new regulatory tools, that involve imposing an obligation to implement telecommunication projects and an obligation of functional separation;
3. New spam regulations;
4. New regulations regarding disputes at civil law;
5. New regulations regarding collection of amounts due from subscribers by operators;
6. Extended catalogue of fines.

In addition, on 16 December 2009 a draft act on supporting the development of telecommunication services and networks was submitted to the Parliamentary Infrastructure Committee.

In particular, the draft bill provides for:

- Equal access of companies to infrastructure and networks;
- Potential telecommunication activity of local government bodies within their tasks, that is construction of passive networks and provision of services if no operator is interested in investments;
- Obligation to adapt newly constructed buildings and facilities to cabling needs (e.g. related to fibre-optic telecommunication systems), which will enable internet providers to demand access to flats in a building once they extend their network to that building;
- Access of telecommunication investors to the land and buildings owned by the Treasury or local governments and introduction of easement of transit (which seems to excessively interfere with ownership rights, while there is no guaranteed compensation for land owners);
- Regulations that simplify subsequent stages of investments in telecommunication networks (e.g. regulations regarding local land development plans, access of telecommunication investors to masts, poles and ducts, and building permits);
- The right to challenge a resolution on local land development plan with respect to telecommunication issues by telecom operators or the President of UKE;
- Obligation to provide technological ducts along newly constructed or repaired roads (so that telecommunication infrastructure may be located within the roadway);

- Indication of the sources of financing of internet construction by local governments, including local taxes, providing that the needs for rapid internet access are not satisfied in the given area;
- Interim regulations regarding agreements concluded by local government bodies or utilities, which are referred to in the public-private partnership act and which were signed prior to coming into effect of the bill;
- Submission of a telecommunication market report for the previous year by the President of UKE (it is to be published in the Public Information Bulletin).

12.1.12 New Decree on the Terms of Exercising Rights on Public Telephone Networks

On 23 June 2009, the Decree of the Minister of Infrastructure of 17 June 2009 on the terms of exercising rights on public telephone networks was published. The main changes compared to the previous decree are related to deadlines for examining number portability applications (which should be examined by the new provider within six working hours on mobile networks or within one working day on fixed networks), number portability deadlines (one working day on mobile networks or seven working days on fixed networks) and interruption in the service provision due to the number transfer (this should not be longer than three hours on mobile networks or 24 hours on fixed line networks). Until the Central Database is launched by UKE, the deadline for examining applications of fixed line subscribers is seven days. Under the Telecommunication Law amendment of 24 April 2009, the number portability service shall be free of charge.

12.1.13 New Regulation on Data Retention

The Decree of the Minister of Infrastructure of 28 December 2009 on the detailed data specifications and types of public telecommunication network operators and public telecommunication service providers obligated to data retention and storage was issued pursuant to delegation set out on article 180c(2) of the Telecommunication Law. The obligation to retain, store, protect and provide applies to the data required to determine the network termination point, the telecommunication terminal, the end user, the date, time and duration of a call, the type of call and the location of the telecommunication terminal. The scope of data differs depending on the type of network and the type of service. Article 180c(2.2) of the Telecommunication Law provides that the types of public telecommunication network operators and public telecommunication service providers obligated to data retention and storage shall be determined in a decree. The new decree has imposed this obligation on operators of fixed or mobile public telecommunication networks and providers of public telecommunication services on such networks, as well as providers of public internet access, email and VoIP services. The decree came into force on 1 January 2010.

12.2 Competitive Risks

12.2.1 Fixed/Mobile Substitution

Fixed/mobile substitution is one of the major development challenges for the fixed line segment across Europe. The process of F2M substitution has been particularly intensive in Central and Eastern Europe (including Poland), where the fixed line penetration at the time of popularisation of mobile telephony was much lower than in West European countries.

The fixed/mobile substitution continued in 2009. The access substitution intensified particularly heavily and remained the main reason for a drop in fixed access lines in Poland. According to the preliminary results of Delta market survey conducted in Q4 2009 by GfK Polonia, 45% of households in Poland⁴ owned both mobile and fixed line phones, 10% used only 'traditional' telephony, while as much as 41% decided to use only a mobile phone.

The fixed/mobile substitution in Poland, like in other CEE countries, has more impact than in the majority of West European countries and the ratio of 'only-mobile' users is generally higher.

The great majority of mobile operators offer MTM (mobile-to-mobile) rates, especially on-net, that are competitive to F2M rates.

F2M substitution depends mainly on two factors:

- ratio of fixed line to mobile penetration; and

⁴ Penetration for Poland's households according to the residential definition (figures based on statement of Poland's residential resources)

- the relation between mobile and fixed line prices.

Another important factor is habits of customers, who still use fixed line phones to call fixed line numbers and mobile phones to call mobile numbers, which owing to high mobile penetration contributes to customer migration to mobile operators. Consequently, a great number of customers prefers to purchase a bundle of mobile/internet/convergent services rather than use fixed line services alone.

At present, it is fixed line voice services which are becoming an added value to internet or mobile services rather than the other way round. VoIP services are particularly popular in this context. They are activated over a broadband line as the equivalent of a traditional fixed line. This includes a dedicated fixed-line number, which enables easy two-way communication with public telephone networks.

Finally, the aggressive pricing and communication policy of the PLAY network (operated by P4) has also significantly added to the F2M substitution. This operator has been making use of the asymmetry of mobile termination rates on its network with respect to other mobile operators (which aims at winning over customers from other mobile networks), thus adding to the F2M substitution.

In addition to the pure F2M substitution, bundled mobile and fixed offers have been gaining popularity in the market. These include the 'Era Fixed Line' service (two numbers available on one SIM card for a low monthly fee of PLN 5, the fixed line number being active within the home zone of several kilometres) as well as 'Home Era' and 'Era Home Line' (WLR) offers. By offering attractive bundling offers (pure mobile service + home phone) on their networks, wireless operators win over customers from traditional 'wired' telecom operators.

12.2.2 WLR, BSA and LLU Wholesale Markets

On 22 October 2009, TP and UKE concluded a Memorandum of Understanding, under which wholesale rates are to be frozen by UKE till 2012 and new procedures in inter-operator relations are to be introduced.

The access to TP's network based on wholesale line rental (WLR) has been provided since 2006. By the end of 2009, the relevant regulatory decisions had been issued for Tele2, GTS Energis, Telefonía Dialog, Premium Internet (Netia's subsidiary), PTC, eTelko, Exatel, MNI, Polkomtel, Długie Rozmowy, eTel, Multimedia Polska, Multimedia Południe, Multimedia Zachód, Mediatel, Telekomunikacja Kolejowa, Netia, In2Loop (Netia's subsidiary) and Telekomunikacja Novum.

In 2009, TP signed RIO 2008-compliant WLR agreements with the following operators: DID, Crowley Data Poland, VTR, Telekontakt24 and Telestrada, as well as an annex to an agreement with GTS Energis adjusting the terms of provision of the WLR service to RIO 2008.

In 2009, the President of UKE issued two RIO 2008-compliant WLR decisions for new WLR operators: In2Loop (member of the Netia Group) and Telekomunikacja Novum, as well as two WLR decisions for the existing operators: Telefonía Dialog and Długie Rozmowy S.A., partially adapting the terms of provision of the WLR service to RIO 2008.

In 2009, on average, TP handled 52.3 thousand WLR orders of alternative operators per month, while the average monthly net increase in executed WLR orders was 25.3 thousand.

The access to TP's broadband services based on access to a local subscriber loop through access to network nodes (bitstream access – BSA) has been provided since 2006.

By the end of 2009, TP had signed BSA agreements with 21 companies: ATM, Długie Rozmowy, ESPOL, E-Telko, eTOP, Exatel, GTS Energis, Intertele Mediatel 4B (formerly eTel), MNI, Netia, Petrotel, Polkomtel, PTC, PTK, Sferia, Supermedia, Tele2 (currently Netia), Telefonía Dialog, Telekomunikacja Kolejowa, Telekomunikacja Novum and VECTRA. In addition, an individual decision was issued by UKE in one case (Supermedia).

The BSA Reference Offer 2008, which is currently binding, has imposed on TP an obligation to provide the BSA service at the following levels: Non-managed IP, Managed IP, DSLAM and ATM (currently provided). Upon implementation of all the functionalities specified in the offer, alternative operators will be free to choose the service option that they consider best for them, including the Non-managed IP option, in which a BSA operator needs no infrastructure of its own.

In 2009, TP signed three BSA agreements based on the BSA Reference Offer in force with the existing BSA operators: Exatel, GTS Energis and PTC.

The access to TP's local subscriber loop (LLU service) has been provided since 2005. LUPRO, WDM Computers and Netia were the first operators to offer LLU-based services. Multimedia Polska and NASK followed in 2009, while Telekomunikacja Kolejowa and SSH are about to finalise agreements with TP.

Rates for wholesale line rental (WLR), bitstream access (BSA) and local loop unbundling (LLU) on TP's network were determined in the Memorandum of Understanding of 22 October 2009 between TP and UKE.

In 2009, TP Reference Offer of Regulated Services (BSA, WLR, LLU, RIO and 'Superoffer'), which significantly changes the terms of the reference offers in force, was released for public consultation.

12.2.3 Mobile Internet Access

The mobile internet has continued its rapid growth in 2009. In fact, it has been the fastest growing segment of the telecommunication market in Poland. The mobile internet penetration of Poland's population was estimated at almost 5% at the end of 2009. At the current stage of development of this market it is hard to clearly determine whether mobile internet access will be more a substitution or complementary service with respect to fixed internet access.

Last year, the leading providers of mobile broadband services aimed at enhancing their technological capacity in order to offer higher data transmission rates as well as at increasing the network throughput and the service range.

Steadily falling prices of terminals have eliminated the entry barrier, which until recently was the modem price. Another important factor is the price of the service itself. Operators compete not only by increasing data transfer limits but also by offering lower subscription fees.

There was a clear trend of mobile and fixed access bundling among the operators that launched commercial services in 2009.

In addition, new telecom operators have announced their plans to launch mobile broadband services.

12.2.4 MVNO Hosting

Some new players have entered the MVNO hosting market, namely:

- tuBiedronka: Poland's biggest market chain in Poland (in January 2009); and
- GaduAIR: Poland's biggest communications portal (in May 2009).

However, the situation of MVNOs in the Polish market is still very difficult, mainly as a result of the unequal treatment of market players by the regulator, particularly the asymmetry in MTRs, which reached 160% in the first half of 2009. Using high financing from incoming traffic, in March 2009 Play introduced new rates to all networks of PLN 0.29 per minute and free SMSs. This initiated a price war among pre-paid players and, consequently, an approximately 50% cut in prices. In this situation, MVNOs have limited chances to come up with a competitive and profitable offer.

The latest market developments have resulted also from WP's decision to withdraw from the MVNO market and Allegro's decision to postpone the commercial launch of its offer despite the preparations and the expenses borne hitherto.

12.2.5 Leased Lines Market

On 31 December 2009, the President of UKE approved the Reference Offer for telecommunication access with respect to leased line terminating segment, leased line trunk segment and leased end-to-end lines services (RLLO).

Thus, the markets 13 and 14 were regulated, except for connections between 145 locations listed in the Appendix to the President of UKE's decision of 24 April 2009 (regarding regulatory obligations for the market 14).

On 22 January 2010, the President of UKE issued a decision recognising the market for leased line trunk segment services in connections between 145 locations listed in an appendix thereto as effectively competitive with no significant market players.

TP's principal competitors in the leased lines interconnect (wholesale) market are Exatel, Telekomunikacja Kolejowa, GTS Energis and Netia. These companies have network resources that enable them to compete with TP's offer in terms of both quality and price. A major part of the leased lines market is the retail segment with additional competition from smaller market players that develop their retail offer on the basis of lines leased from TP or other large players.

The current RLLO provides access to this service for a broad group of customers. The companies that have used the retail leased lines services so far, may, upon registration in the register of telecom operators, use the preferential wholesale price list. The existing regulations, especially in terms of pricing, contribute to the market erosion by value. The offer is particularly attractive with respect to analog lines without an allocated frequency band.

At the same time, 2009 saw the continuation of an upward trend in the market for sophisticated data transmission services on managed networks. These solutions are increasingly popular in the business market, as they unify and simplify corporate communications and enable easy incorporation of a number of value-added services. They also enable companies to optimise their capital and operating expenses and, as a result of telecom outsourcing, focus on their core activity. For this reason, in Poland, like in other European countries, customers have been migrating from traditional data transmission services (including leased lines) to managed solutions (IP VPN / MPLS). Both TP and alternative operators follow this trend, expanding their service portfolio in this direction.

12.2.6 Interconnect Market

On 6 March 2009, the President of UKE issued a decision removing the regulatory obligations imposed on TP with respect to the provision of transit services on a fixed public telephone network (market 10).

On 6 May 2009, the President of UKE issued a decision on IN service (70X/80X numbering) settlements between TP and PTC and between TP and Polkomtel.

In connection with the fact that on 7 May 2009 the European Commission published its recommendation on the cost-based methodology to be used when calculating call termination rates, which particularly applied to interconnect settlements for a service of call termination on fixed networks (market 9), and with reference to the President of UKE's position of 16 December 2008 on the symmetry of voice call termination rates on fixed public telephone networks, on 26 June 2009 the President of UKE called upon fixed line network operators to comply with the aforementioned documents in any contractual relations with other operators that are based on the symmetry of call termination services. At the same time, the President of UKE issued decisions for Netia, PT Telegram and Internet Intelligent Technologies S.A., using the asymmetry model consistent with the President of UKE's position of 16 December 2008 on the symmetry of voice call termination rates on fixed public telephone networks.

In the second half of 2009, UKE decided to introduce lower wholesale rates for termination of calls from TP's fixed network to mobile networks operated by Polkomtel S.A., PTC Sp. z o.o., PTK Centertel and P4. MTRs were reduced to PLN 0.1677 per minute (regardless of the tariff period) on Polkomtel S.A., PTC Sp. z o.o. and PTK Centertel networks and to a uniform rate of PLN 0.404157 per minute (regardless of the tariff period) on P4 network.

Until October 2009, TP was introducing changes on its network to implement the Decree of the Minister of Infrastructure of 28 February 2008 on national numbering plan for public telephone networks.

12.2.7 ILD (International Long Distance) Inbound and Gateway Markets

Competition in the ILD inbound and gateway markets has reached the highest ever intensity. While the international market has been highly competitive for many years, though the global economic crisis and active efforts of Regulators, especially in Europe, have even further stimulated competitive activities in the sector, the competition in the domestic market has taken on unknown before proportions.

This is a consequence of a dramatic decrease in domestic interconnect rates and active search by domestic operators for additional sources of revenue. As a result, mobile and fixed network operators establish more and more direct interconnections with both incumbent operators and international operators that focus on voice traffic wholesale, trying to attract traffic to their own networks and win transit traffic to other domestic networks. The struggle is most dynamic in the market for mobile calls, which are still a source of relatively high revenues.

Another important trend in the market for voice calls (including ILD) is a rapid increase in VoIP household penetration rate across Europe (especially Western Europe), which in turn stimulates growth in calls effected in this technology. Therefore, a number of operators is migrating or planning to migrate from the existing TDM technology to the IP technology both within their own networks and in the interconnect traffic (also international). TP is also planning to launch first IP-based interconnect gateways in the next few years. However, it is worth noting that migration to the IP technology is a multi-stage process and involves considerable investments in new infrastructure. Therefore, the start of the migration process will depend on the actual market needs and the Company's internal resources.

As shown by the experience of TP's foreign partners, such as Telecom Italia, British Telecom, Deutsche Telecom or France Telecom, even though the VoIP technology has been functioning in the market for several years, the migration of complete service portfolio is a difficult and time-consuming process, so both the aforementioned operators and other foreign partners of TP are still using mixed technology and have not entirely given up TDM.

12.2.8 International IP Transit Market

TP's principal competitors in this market are the biggest national operators, which develop or lease international lines to the main traffic exchange points in the CEE region, as well as international operators active in Poland (e.g. Tier-1 operators: Level 3 Communication, Tata Communication, Verizon Business and Telia Sonera).

12.2.9 VoIP Segment

Voice over Internet Protocol (VoIP) service growth in Poland is driven mostly by subscribers' pursuit of lower voice rates. Owing to VoIP technology, some calls, namely between the users of the same VoIP internet application, are fully free of charge, which largely contributes to the popularity of this channel of communications.

TP is able to compete with VoIP providers with three of its services: *telefonía internetowa tp*, *neofon tp* and *pre-paid neofon tp*.

TP anticipates that growth of broadband internet access services based on bitstream access will stimulate increased use of the VoIP technology.

13 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

13.1 Macroeconomic Factors and Factors Related to Poland

13.1.1 Economic Growth

The Polish economy was probably the only one in the European Union to report growth in 2009. According to the Central Statistical Office's initial estimates published at the end of January 2010, real growth rate was 1.7% in 2009 (year-on-year). Thus, it was higher than any previous forecasts, which ranged 1.4–1.5%. The GDP growth was fuelled mainly by a 2.3% increase in private consumption, which was accompanied by a rather moderate decrease (0.3%) in investments.

However, it seems impossible to clearly assess Poland's economic outlook based on this positive trend in GDP growth rate, as it largely depends on the condition of other European economies, and the Euroland countries have plunged into the worst crisis in decades. According to the European Commission's estimates, GDP in the European Union as a whole fell by 4.1% in 2009.

The main risk factor for the forecast is the length of recession in the Euroland countries, which are Poland's main trade partners. Prolonged recession may further decrease foreign trade, cut the employment in Poland's export sector and reduce the investment activity. An additional risk factor is the situation of the public sector finance. The potential fiscal measures (both on the revenue and expense side) may affect the economic growth rate in the short run.

In view of the economic slowdown in other European countries, stable domestic demand should be a growth engine in Poland. However, prolonged slowdown in Europe may also affect the condition of the Polish economy.

According to official assumptions adopted in the budget bill for 2010, economic growth in 2010 will be 1.2%. The Monetary Policy Council in a projection included in its Inflation Report of October 2009 gives a higher estimate of 1.8%. After surprisingly good results at the end of 2009, even more optimistic GDP growth forecast stems from bank predictions, which average at 2.3%. As for now, the Management Board has assumed in TP Group budget plans that GDP growth will reach 1.8% in 2010.

13.1.2 Inflation

The inflation rate was 3.5% at the end of December 2009 (year-on-year). The cumulative increase in consumer price index in twelve months of 2009 was the same. The year-average inflation rate was exceptionally stable in 2009, as it has been at 3.5% since May.

The Monetary Policy Council's four decisions on interest rate cuts (including one deep reduction by 75 basis points) implied that the Central Bank did not expect a significant inflationary pressure in 2009 and that inflation was not considered a major risk for the Polish economy.

The inflation rate is expected to fall in 2010 as a result of appreciation of the Polish zloty (and resulting drop in costs of imported goods) and reduced growth of food and energy prices. The budget bill assumes inflation at 1%. The Monetary Policy Council is slightly less optimistic, estimating price growth at 1.5% (year-on-year).

13.1.3 Unemployment and Labour Costs

Over the last few years Poland has seen rapid growth in wages accompanied by a decrease in the unemployment rate. In 2008, the wage growth reached its peak (10.2%), while the unemployment rate fell to the historical low (8.8%) in October 2008. However, last year saw deterioration in the labour market and a rise in the unemployment rate. In 2009, upon an initial rise to 11.2% in March, unemployment fell in the springtime (to 10.6% in June) and then gradually rebounded to 11.49% at the end of December 2009.

The deterioration in the labour market led to significant slowdown in wage growth, the rate of which gradually fell throughout the year. In 2009, nominal wage growth in the business sector averaged 4.4%, but in real terms it was only 1.1%. It is worth noting that in several months of 2009 real wages were reported to be lower than in the corresponding months of 2008.

Further growth of unemployment to approximately 12.8–13.0% at the end of December is assumed in the budget bill for 2010 and forecast by analysts. In addition, further slowdown of wage growth is expected. According to the general market consensus, the year-average wage growth (in nominal terms) should not exceed 2.4% in 2010.

13.1.4 Political and Economic Factors

Poland has undergone significant political, economic and social change in the last 20 years. Changes in political, economic, social and other conditions may have material effects on the business, financial condition and results of operations of the Group in the future. There can be no assurance that future political decisions will not adversely affect the business, financial condition or results of operations of the Group.

An important event in 2010 will be presidential elections, that may significantly influence Poland's political and economic situation.

13.1.5 Changes in Regulation

Changes in law or regulations (or in the interpretation of existing law or regulations), whether caused by change in the Polish government or implementation of European Community law as a result of Poland's membership in the EU, could materially adversely affect the Group's business, financial condition and operations. Competition, securities and other laws and regulations have been and continue to be subject to substantial changes in Poland.

13.1.6 Polish Tax System

Polish tax laws and regulations, in particular as regards value added tax and income tax provisions are complex and subject to frequent change, varying interpretations and inconsistent and selective enforcement by the Ministry of Finance and local authorities. Such changes in Polish tax regulations may adversely affect the legal, business and financial situation of the Group in the future.

13.2 Factors Related to Financial Markets

13.2.1 General Risks Related to the Polish Market

Although Poland reported a positive rate of GDP growth in 2009, in which it stands apart from other European countries, it is still considered a less stable market, which is exposed to higher fluctuations in case of negative developments in global markets. Therefore, investors should exercise caution while assessing the risk of purchase of financial assets of Polish companies. In consideration of the above, investment decisions should be made by experienced investors who are able to fully assess all risks involved in such investments.

13.2.2 Interest Rates

A deteriorating economic climate worldwide and recession at Poland's main trade partners, as well as signs of a significant decrease in the economic activity in 2009 made the Monetary Policy Council soften its monetary policy. Consequently, the Monetary Policy Council cut the reference interest rate to 3.50% in the first half of 2009, then kept it unchanged until the end of the year. The term of office of nine out of ten members of the Council expires between December 2009 and January 2010. New members will be appointed in January 2010 by the Sejm, the Senate and the President. However, the market does not expect any major changes in the attitude of the new Council. In view of expected decreasing inflation pressure, the Monetary Policy Council will probably postpone any decisions regarding interest rates until mid-2010.

A potential increase in interest rates in the second half of 2010 is estimated at up to 50 basis points. This should not have any major influence on TP Group's debt service costs, owing to high hedging ratio.

13.2.3 Banking Sector Liquidity

Upon the sudden intensification of the global financial crisis in the second half of 2008 and in 2009, the global capital markets liquidity was significantly upset. The TP Group responded to this risk by securing funds for refinancing of its debt that matures in the next few years through the set-up of the EMTN programme and the issuance (in May and July) of debt notes totalling EUR 700 million (maturing in five years' time). As a result, the considerably reduced liquidity in the banking sector does not pose a risk for the TP Group in terms of sustained access to external financing. In addition, the note issues have improved the Group's debt structure by increasing a share of capital market debt (compared to the prevalence of banking debt (80%) in the debt structure hitherto) and by increasing the average maturity of TP's debt to 3.3 years.

13.2.4 Foreign Exchange Rates

Foreign exchange rate fluctuations affect TP's obligations denominated in foreign currencies and settlements with foreign operators. However, this influence is greatly contained by a portfolio of hedging instruments held by TP.

In addition, the fluctuations of the PLN/EUR exchange rate may affect comparative analyses conducted by UKE, in which TP's price offer is referred to the offers of its European peers. The strong Polish Zloty may have an adverse effect, when the prices of new services are determined by UKE on the basis of the EUR-denominated benchmarks.

In 2009, the rate of exchange of the Polish Zloty (PLN) against the US dollar and the Euro was subject to considerable fluctuations. The exchange rate of PLN against the Euro fell by 17% in February, then rebounded to the year-start level in December. The average exchange rates of PLN against the US dollar and the Euro in 2009 were 3.12 and 4.33 respectively.

13.2.5 Warsaw Stock Exchange

2009 saw a rise in the indices on the Warsaw Stock Exchange (WSE). The prime index, WIG, was up 46.9%. At the same time, TP shares lost 17.3%, whereas the large-cap index, WIG20, gained 33.5%.

13.2.6 Other Factors That May Influence the Price of TP Shares

Other than major factors already mentioned earlier in this document, the following may also result in TP share price fluctuations:

- Change in TP Group's ratings;
- Change in TP Group's debt;
- Sale or purchase of assets by the TP Group;
- Significant changes in the shareholder structure; and
- Changes in the capital market analysts' forecasts and recommendations concerning the TP Group, its competitors and partners, or business sectors in which the Group operates.

14 APPENDICES

Appendix 1: Secondary Legislation

The following secondary legislation, which is important for TP Group companies, had been issued by the end of 2009:

1. Decree of the Minister of Infrastructure of 28 December 2009 on the detailed data specifications and types of public telecommunication network operators and public telecommunication service providers obligated to data retention and storage.
2. Decree of the Minister of Infrastructure of 11 September 2009 amending the decree on the national numbering plan for public telephone networks (Journal of Laws of 2009, No. 153, item 1225);
3. Decree of the Council of Ministers of 4 August 2009 amending the decree on annual fees for the right to use frequencies by organisational units, agencies and entities for government service purposes (JoL of 2009, No. 134, item 1105);
4. Decree of the Council of Ministers of 3 August 2009 amending the decree on the annual Frequency Allocation Table (JoL of 2009, No. 132, item 1086);
5. Decree of the Minister of Infrastructure of 17 July 2009 on the bidding procedure and contest for frequency or frequency resource allotment (JoL of 2009, No. 118, item 990);
6. Decree of the Minister of Infrastructure of 17 June 2009 on the conditions for exercising rights on public telephone networks (JoL of 2009, No. 97, item 810);
7. Decree of the Minister of Infrastructure of 31 March 2009 amending the decree on the regulatory accounting and service costing by telecommunication operators (JoL of 2009, No. 58, item 480);
8. Decree of the Minister of Infrastructure of 9 February 2009 amending the decree on the amount, terms and manner of payment for the right to use numbering resources (JoL of 2009, No. 24, item 148);
9. Decree of the Minister of Infrastructure of 28 January 2009 amending the decree on the national numbering plan for public telephone networks (JoL of 2009, No. 24, item 147);

Appendix 2. Analysis of Relevant Markets

Decisions issued in 2009:

In 2009, UKE notified draft decisions to the European Commission with respect to the following issues:

1. On 8 September 2009, the President of UKE notified a draft decision recognising effective competition in the market for leased lines between 145 locations specified in the decision. This is to precede a decision lifting regulatory obligations. The Commission approved the draft decision, pointing out the need to lift regulatory obligations promptly.
2. On 27 November 2009, the President of UKE notified two draft decisions to the European Commission:
 - Designating TP as an operator having significant market power in the domestic IP transit market and imposing regulatory obligations (access, equal treatment, cost calculation and use of a reference offer); and
 - Designating TP as an operator having significant market power in the IP peering market and imposing regulatory obligations (access, equal treatment, cost calculation and use of a reference offer).

Appendix 3. Products and Services

Fixed Line Voice

Business Customers

In 2009, in order to meet customer expectations and to improve its competitive position, TP introduced the following modifications in its business portfolio:

Price Reductions

The first F2M rate cut in business tariff plans was introduced on 15 April 2009.

Another reduction followed on 1 November 2009. In all tariff plans the F2M rates were reduced to PLN 0.26 (to Orange, Plus and Era networks), regardless of the time of the day.

Tariff Solutions

The leading offer was Business Plans 100, 300 and 500 for analog access and Business Plans 150, 450 and 750 for digital access. The offer is addressed mainly to SOHO customers. Major benefits of the Business Plan include: a pool of minutes for local or DLD calls on TP's network, transfer of unused minutes to the subsequent period (for the first time in TP's business plans) and the lowest ILD rates within the entire portfolio of TP's services (PLN 0.35 for calls within the European Union).

In October, the '50% More in the Business Plan' promotion was launched. It offers 50% more minutes for local and DLD calls. It is the first retention offer with respect to TP's tariff plans for the business market (customers need to sign an agreement for a specified time). A customer who signs a twelve-month agreement/annex for the selected Business Plan receives 50% more minutes for local and DLD calls for the same subscription fee. Unused minutes from this extra pool are transferred to the subsequent period and used first then.

The leading activation offer was 'Connection for PLN 1', which was introduced in February 2009 and lasted until the end of January 2010. It concerned analog line activation. Sales of digital lines were supported with the permanent 'Package for New Companies' offer.

Value Added Services (VAS)

While not necessarily an important revenues contributor, IN-based advanced services are a very important element of a service portfolio, providing special functionalities to customers that often constitute the basis for their business activity. VAS business portfolio includes mainly a broad range of corporate hotlines as well as TP Short Numbers and Teleconference services.

Two major projects were carried out in 2009:

Pursuant to the Decree of the Minister of Infrastructure, TP changed numbering for short numbers (AUS) in the National Numbering Plan. "1" was added to four-digit 9XYZ numbers, changing them to the 19XYZ format. It freed 198YZ and 199YZ numbering ranges for commercial purposes. These are very interesting for customers that seek unique and easy numbers for their hotlines.

In addition, TP signed two agreements, with PTC and Polkomtel, which opened traffic from their mobile networks to TP's 0 80X numbers. Now, all hotlines are accessible from the top three mobile networks. It has significantly increased the value of TP's hotline service, as a single common number may be now communicated for access to one's services and information.

Campaigns

On November 13, a multimedia campaign promoting the TP brand for business was launched. It was the only such campaign in 2009. It extended into television, radio, press and internet, and communicated low prices for calls on TP's network, particularly FTM rate of PLN 0.26 per minute.

Residential Customers

Promotional Offers and Initiatives

- Nationwide campaign to promote reduced F2M prices started in January 2009;
- Nationwide promotional campaign, 'Twice As Many Minutes in TP Home Plans', was launched in May 2009 to inform customers that they could double their pool of minutes. Within the available plan options, customers can decide whether to use their pool of minutes on a 24 hours basis or off peak.
- Nationwide promotional campaign, 'TP Plan at a Discount', was launched in October 2009.

New Services and Tariff Plans

In order to meet customer expectations and to improve its competitive position, TP launched the following promotions in 2009:

- In February 2009, 'TP Plan For Less' promotion: a 30% discount on monthly subscription fee for three or six months, provided that a 12-month or 24-month loyalty agreement was signed;
- Also in February 2009, 'TP Discounted Calls All Year Long' promotion: a 100% discount on TP Discounted Calls service, option of 50% discount for local and DLD calls, provided that a 12-month loyalty agreement was signed;
- In July 2009, 'TP Home Phone' promotion, which offered a Siemens wireless telephone set for a price reduced even to PLN 1, provided that a loyalty agreement was signed;
- Also in July 2009, 'Go Shopping with TP Plan' promotion, which offered Sodexho Pass vouchers to customers who have concluded a 24-month loyalty agreement and signed up to one of the tariff plans covered by the promotional offer. These were:
 - 'TP Home 60', option of 60 or 120 minutes,
 - 'TP Home 300', option of 300 or 600 minutes,
 - 'TP Home 1200', only option of 1200 minutes (the promotional offer was not available for the unlimited option of the TP Home 1200 plan);
- In September 2009, the 'Free CLIP for 3 Months' promotion was extended;
- In October 2009, 'TP Plan at a Discount' promotion, which offers a 30% or 50% discount on subscription fee in the following tariff plans:
 - 'TP Home 60', option of 60 minutes,
 - 'TP Home 60', option of 120 minutes,
 - 'TP Home 300', option of 300 minutes,
 - 'TP Home 300', option of 600 minutes,
 - 'TP Home 1200', only option of 1200 minutes

for a period of three or six months, provided that a 12-month or 24-month loyalty agreement is signed;

Tariff Plan	Home 60		Home 300		Home 1200	
	12 months	24 months	12 months	24 months	12 months	24 months
Subscription fee (PLN)	50	50	70	70	90	90
Discounted subscription fee (PLN)	35	25	49	35	63	45

- In November 2009, TP introduced another reduction of FTM prices;
- The TP Mix service was extended to include additional tariff plans.

Connection Offers

In 2009, TP offered the following network connection promotions for its customers:

- The 'Connection for PLN 10' offer continued until the end of January;
- On 1 February 2009, the 'Connection for PLN 1' offer was introduced. The promotion offers a discount on a one-off fee for connecting the first terminal to TP's network via analog (POTS) lines. The offer includes two loyalty agreement options:
 - POTS connection fee of PLN 10 (incl. VAT) in case of a 12-month agreement; or
 - POTS connection fee of PLN 1 (incl. VAT) in case of a 24-month agreement.

Payphones

In 2009, TP continued the process of adjusting the number and density of payphones to UKE's new payphone regulations: As at 31 December 2009, the total number of payphones was 44,268.

In 2009, the project aimed at adapting Economy semi-booths to the needs of the disabled was completed. In line with the settlements with the Polish Association of Blind People, floors, orange strips on shelters and orange horizontal strips at the back were provided in 1,800 semi-booths installed in pedestrian traffic routes nationwide in order to facilitate access by the disabled.

The additional units promotion was carried once again in 2009. A total of 675,581 promotional '30+10 units free' and '60+20 units free' cards were sold.

Other Promotions and Services

- In September 2008, the 'CLIP for 3 Months' promotion was introduced. It was extended for another period, to 31 August 2010. It was addressed to TP's new customers and those who had never used the Calling Line Identification Presentation (CLIP) service before. The promotion offered a 100% discount on the service for three consecutive months;
- The 'Voucher with TP Plan' promotion was launched. Customers were offered an e-voucher to be used in an e-store for subscribing to a tariff plan, provided that they had signed a 12-month or 24-month loyalty agreement;
- A new functionality, 'Search and Call', which enables customers to call the subscriber they are looking for, was added to the 118913 Nationwide Directory Assistance service. In addition, access to the subscriber data held by other operators was provided via the E115 protocol (in line with the European standard);
- According to UKE's requirements, the Nationwide Directory was published in the traditional form (on paper) and on electronic carriers (CD and DVD);
- A new functionality, information about bus lines, was added to the 9491 City Information service.

Data Segment

Business Customers

IP VPN Service for the Most Demanding Customers

Owing to a variety of configurations, very high flexibility and the fact that it can be perfectly tailored to customer needs, the IP VPN service offered by TP can satisfy even the most demanding customers. It is a cutting-edge solution that involves high security and impressive speeds of data transmission, including multimedia transmission. MPLS-based IP VPN offers high flexibility and enables companies to connect a number of branches in Poland and abroad into a corporate WAN intranet. As part of the service, employees may be provided with fast and safe access to the internet. It is an example of a comprehensively managed service and a typical telecom outsourcing scheme. Virtually no additional expenses are required from TP's customers that sign up for the service. There is no need for investments in equipment or human resources to handle the corporate network, as everything is done by TP's network engineers and specialists. As a result, customers can focus just on their core business instead of dealing with equipment, set-up, repairs or fault removal.

On 1 December 2009, TP introduced an option of 2G/3G wireless access to IP VPN. The access is provided via Orange and TP networks. This has enabled TP to extend the range of technologies available in its IP VPN service and offer additional services based on wireless technologies (GSM, GPRS, UMTS, EDGE and HSDP). Customers can use their backup or primary (temporary) line based on these technologies.

A new service option, IP VPN protected, was launched commercially on 1 December 2009. This extended the IP VPN offer to include solutions that considerably increase the security of the whole corporate intranet. Owing to additional security systems, the IP VPN network in customer's branches is better protected against both external attacks and internal threats. IP VPN protected increases the protection of customer's locations against various internet attacks, unauthorised access to the intranet, bugs, viruses, harmful software (adware, spyware), etc. This option is located at the LAN and VPN rim and uses Cisco ISR and Cisco MARS routers. The service is fully maintained and managed by TP.

DSL Internet Access

The internet offers extraordinary opportunities to any company that fully uses its potential. First, the internet provides unlimited access to information (knowledge). It also enables various types of e-business. The internet access offered by TP provides solutions for running one's own business on-line. It fits the financial constraints of even small companies, while offering high quality and safety of service. TP's DSL internet access services are modern tools that meet the requirements of the growing e-commerce market. The DSL 4000 option has been particularly popular, as it is a perfect solution for running e-business, such as e-store. Customers can increase the maximum upload rate in the service. Hosting packages offered together with the service enable customers to secure the disc space of up to 10 GB. The 'Domain at TP' service offers registration of one's internet domain name for an attractive price. The customer base of the DSL Internet Access service further increased in 2009. Several promotions of the service were launched in 2009. These included: 'Flexible Promotion', 'Flexible Promotion for Loyal Customers', 'DSL for NEO Flexible Promotion' and 'Upload Test Promotion'. TP Education with Internet (DSL BIS) programme was reintroduced on 7 October 2009. The programme will continue under the current terms until 31 August 2010. In the programme, schools that have computer rooms may get internet access on preferential installation and subscription terms. By implementing such programmes addressed to the youngest internet users, TP has been actively supporting the development of information society in Poland.

New Offer: Computers For Business

Responding to demand from customers, particularly SME companies, on 10 August 2009 TP added laptop computers to its portfolio. These are fully equipped first-class laptops, which are available to customers for a very attractive price. All laptops have Windows 7 Pro 32 operating system and anti-virus software, and are mobile-broadband enabled. Currently, customers can choose from among a dozen or so models of Hewlett-Packard or NTT System. The offer, which perfectly supplements TP's business portfolio, has been increasingly popular among customers, who demand high quality equipment, unique set-up and special maintenance service. Customers have also appreciated that they can order laptops on-line.

Leased Lines

A new price list of domestic leased lines services offered in the retail market was introduced on 31 March 2009. Compared to the previous one, monthly access fees for long digital and analog lines were reduced, the procedure for determining the line length was simplified and an option to migrate from analog to digital lines free of charge was introduced. As a result, TP's portfolio of leased lines services became more attractive to customers. On 1 November 2009, TP introduced another change favourable to customers in its leased lines price list by reducing a fee for installation of digital or analog lines. Customers are offered free migration from the lease of analog lines to the lease of digital lines, which will considerably streamline business.

DSL Data Transmission

In order to make its business portfolio for small to medium enterprises more attractive, TP introduced an attractive offer, which provides for a reduced monthly subscription fee for a LINK line when a DSL Data Transmission service agreement is signed or extended for 24 or 36 months. TP's DSL Data Transmission service enables companies to effectively connect their different locations into a corporate intranet and use a number of convenient functionalities offered. The offer of a Cisco Huawei AR 1833 / AR 2809 router for a CENTER line, which was launched in 2008, generated a substantial take-up.

Frame Relay/ATM Data Transmission

'CIR For Pennies' promotion was available to new customers in 2009. It offered a reduced activation fee of PLN 1 (net of VAT) and reduced monthly subscription fees starting from PLN 0.01 per equivalent of the guaranteed minimum CIR speed for a PVC channel.

SLA Quality Certificate

TP Group assures the quality of its services rendered to business customers. In fact, it is one of the Company's top priorities. Therefore, the quality related offer of Service Level Agreements (SLA) has been constantly expanded. TP offers a number of SLA services for business customers who use its data transmission services. SLA is a good option for customers who need data transmission continuity and reliability and want a guarantee of service quality parameters.

IP PABX and DIATONIS Business Solutions

The upward trend in sales of the DIATONIS exchange, which was very popular among customers, continued in 2009. The enhanced IP PABX service based on Cisco Call Manager solution with a large potential also remained an important element.

Internet Solutions

Business Customers

Internet For Business (Orange Brand)

The customer base of the Internet For Business service, which is based on the BSA model, was up 44% in 2009. Promotional efforts which contributed to that achievement were mainly related to bundled sales with other Orange services: Fixed Orange For Business (PTK Centertel's WLR-based service), Orange mobile offers or Business Everywhere mobile data transmission service. Also the CDMA-based Internet For Business Pro option, which was launched in December 2008, significantly contributed to the customer base expansion. The option provides for internet access speeds of up to 1 Mbps in 'white zones', that is areas where no broadband services were available prior to the introduction of that service. The Try&Buy model for the service was extended to include an option of a 36-month loyalty agreement (in addition to the previous option of a 24-month agreement).

Orange Fixed For Business (Orange Brand)

The Fixed Orange For Business/Analog Line for Business service based on TP's wholesale line rental (WLR) offer, that was introduced on a commercial basis in December 2008, enables voice calls via a fixed analog line. It offers a predefined pool of up to 121 minutes for FTM calls to Orange and up to 333 minutes for FTF calls for a monthly access fee. The customer base of this service accounts for 16% of all WLR customers of Orange.

VoIP: TP Business IP Package (TP)

In 2009, TP offered a bundle of internet access service, voice service based on VoIP technology, service integrating IP PABX functionalities and, optionally, VPN data transmission service. The key benefits for a customer are as follows:

- Free voice calls to TP's network;
- Monthly fee inclusive of telephone exchange functionality via a website panel without paying any additional fees for exchange maintenance;
- Attractive rates for F2M and ILD calls.

In addition, customers can still use their existing telephone infrastructure (analog terminals and PABXs) and keep their telephone numbers. TP Business IP Package is a convergent service that was launched in April 2007. Currently, the development of the service aims at unified communication.

Business Everywhere Intranet & Business Everywhere Intranet APN Option (TP)

In October 2009, an occasional package with a loyalty period was introduced. In addition, fees for a gateway on shared lines were reduced and the Business Everywhere Intranet offer was modified.

Business Everywhere (Orange Brand)

In 2009, PTK Centertel further developed its mobile internet offer, Business Everywhere. Owing to modifications and new options, sales remained stable in 2009, despite growing competitive pressure. A new service option, Business Everywhere Mini, was introduced in April for customers seeking lower monthly costs of internet access. It is the least expensive (PLN 32) mobile internet access offer in the market. In addition, the new option was bundled with Internet For Business fixed internet access service in a special promotion.

In May 2009, Business Everywhere Premium packages were added to the portfolio. These offer selected Business Everywhere service on promotional terms to customers that buy an Orange phone. Each package consists of the selected service plus one or two bonuses: additional discount on phone or additional discount on monthly service fee.

In July, Business Everywhere customers were provided access to CDMA technology and network. Consequently, a new Business Everywhere offer (new promotions, revised limits, changed names of packages) and a new range of modems (enabling customers to freely choose network and technology: GSM or CDMA) were introduced. To make the BE Premium and BE Platinum options more attractive, a 2 GB pendrive with Arcabit anti-virus and ArcaNix data recovery software was added to them. In November, data transfer limits were increased for all Business Everywhere options.

In addition, the service software was systematically modified throughout the year. New versions with drivers for new modems from the portfolio, for both Windows and MAC operating systems, were developed. The modem portfolio was repeatedly updated in 2009. In addition, a bundled offer based on a joint internet platform of Orange, Dell, Microsoft and eMarket was prepared for customers willing to buy a laptop computer, while activating the Business Everywhere service. As a result, a laptop may be purchased during a visit to an Orange sales outlet.

Telemetry (Orange)

One of the TP Group's main achievements in the M2M market was that its M2M service activations almost doubled (up 109%) vs. 2008. It reflects Orange's commitment to the rapidly expanding telemetry market. In September 2009, Orange became the first mobile operator in Poland to offer vehicle positioning service, *Autolokalizator*, that enables customers to manage corporate vehicle fleet using GPS positioning and GPRS data transmission technologies.

In addition, M2M portfolio on the Orange network was extended to include new roaming services tailored to the needs of telematic customers. Within the domestic offer, M2M customers now have two-fold higher cash pools for data transfer and SMSs for the same price. Telemetric customers expect operators to assure top service quality. Owing to the establishment of a dedicated consultant team within the Customer Service Centre, M2M customers that use private APNs have access to technical assistance on a 24-hour basis.

Orange Navigation

The customer base of the Orange navigation service was up 46% (year-on-year). Various efforts that contributed to this achievement included modification of service parameters, introduction of an anti-churn algorithm, addition of new sales channels and launch of discounted sales of the service with handsets. These efforts were supported by navigation service promotions: 'All for PLN 1' and 'One-Month Try&Buy'. In addition, the service name was changed from Navifon to Orange Navigation in 2009.

Email Solutions (Orange)

The portfolio of communication solutions for business customers was significantly extended and modified. In the first half of 2009, a data packet in the Email Package for Business was increased from 10 MB to 50 MB. The change applied to both new and existing customers. The data packet increase did not change the service price and was introduced in response to the existing upward trend in data volumes sent within the service.

On 17 November, Orange Polska launched Nokia Mail service for its customers. This is a push email service based on the Nokia Messaging platform. In this technology, emails are quickly and automatically sent to mobile phones and do not need to be specifically downloaded. Orange Polska customers could use the Nokia Mail service as the first in Poland. The service gives access to email accounts offered by major providers, including Gmail, Windows Live Hotmail, Yahoo! Mail and Ovi Mail, as well as some local providers, such as Wirtualna Polska, Onet.pl, Interia, O2, Home.pl, etc.

Residential Customers

Broadband Internet Access

The most interesting broadband promotions available in 2009 included:

- 'Superinternet' promotion (continued as 'Superinternet Pro' from 23 November), that is a bundle promotion combining the internet access service with an anti-virus software licence, which enabled TP to promote the Safe Media standard; and
- 'Superinternet with Livebox' promotion (continued as 'Superinternet Pro with Livebox' from 23 November), which in addition to a security package offered a wireless *Livebox* modem included in the access fee.

The aforementioned bundled promotions were warmly welcomed by the market.

VoIP Services

In 2009, TP continued to develop its portfolio of VoIP services offered under the commercial brands: *telefonía internetowa tp* [TP Internet Telephony], *neofon tp* [TP softphone] and *pre-paid neofon tp*. *Telefonia internetowa tp* enables customers to use VoIP services like a traditional fixed line phone. In order to use VoIP, a customer who has signed up for TP's VoIP service needs to connect a standard analog terminal to a Livebox modem with access to TP's *Neostrada* broadband service. TP softphone services enable subscribers to make voice calls at any place in the world using a VoIP application installed on a PC with any internet connection. Each subscriber is granted a non-geographical telephone number (399 xxx xxx) for both making and answering voice calls. In practice, this means that a TP softphone user who is abroad pays domestic rates for any calls to Polish telephone networks.

In March 2009, prices for calls to mobile networks were reduced.

In May 2009, a new pre-paid softphone service, *pre-paid neofon tp*, was added to the VoIP portfolio. This enables customers to make VoIP calls by recharging their account as required instead of paying a monthly access fee.

In 2009, VoIP services were transferred to a new SIP platform, which offers greater opportunities in terms of service development.

TP aims at making its offer more and more attractive in terms of prices and quality of VoIP services by introducing new attractive tariff plans and adding innovative functionalities.

In 2010, TP intends to introduce geographical numbers for VoIP subscribers, new value-added services and new first-line tariff plans.

Multimedia Services

In the first half of 2009, TP's efforts in the area of multimedia services focused on stimulating sales of its *Neostrada with TV* bundled offer through attractive price promotions. *Neostrada with TV* offers over 30 TV channels in digital quality; market's broadest video-on-demand (VoD) service with a library of over 1,800 films, television programs, language courses, etc.; and internet access at 512 kbps to 2 Mbps.

Subscribers are offered different television packages, which were initially provided exclusively using cable technology (IP), but since September 2009 have been available also in the satellite technology (DTH). In total, the offer already consists of over 90 TV channels in digital quality of sound and image, which are grouped into three main packages (M, L and HBO), as well as TP Group's own TV channel, *Orange sport*, which was launched in the third quarter of 2008.

The most important development at the turn of the third and fourth quarters of 2009 was the introduction of a new attractive promotion of TV packages and VoD service in the DTH technology (these were previously available exclusively to customers using IP cable technology). As a result, TP's customers were offered a service trial and TP's digital TV service portfolio significantly gained attractiveness. In addition, retention offers functioned throughout the year to retain TV service customer base attracted by earlier promotions.

Mobile Segment

Owing to a broad range of offers based on loyalty agreements, with or without subsidised handsets (in the latter case, a customer is offered more attractive prices of services), it is possible to adapt to the requirements of both existing and new customers.

In 2009, the most popular post-paid offers for residential customers were:

- Orange Subscription and Orange Mix for voice services; and
- Orange Free and Orange Free Pro for mobile broadband services.

In 2009, the most popular offers for business customers were:

- Orange For Business and Orange Mix For Business (introduced in November 2008) for voice services; and
- Business Everywhere, Business Everywhere Pro and telemetric plans for mobile broadband services.

In the pre-paid segment, PTK Centertel has continued its market segmentation strategy with two leading offers: POP and Go. Both pre-paid tariff plans are also available in the Zetafon [a handset for a penny] formula. It is an innovative form of subscription, in which customers are offered handsets at attractive prices (starting from PLN 1), while they retain all the functionalities characteristic of the pre-paid offer.

All customers of PTK Centertel can choose from among several dozen cutting-edge mobile services. These include: video calls on the 3G network, mobile television and video, mobile music, TV packages, Orange World packages, interactive Orange Voice Mail, voice and SMS packages, data and fax transmission, internet access (Orange World, MultiBox, HotSpots, W-LAN), GPRS./EDGE/UMTS-HSDPA rapid data transmission, MMS multimedia services, SMS Premium Rate services, mobile banking services, news and information services, SMS text messages, MMS services, Intelligent Network (IN) services and positioning services (What/Where/Which Way, Orange Navigator, Where Are You, Where Are They, Where Is the Child, What to See). The Orange offer to all customers includes also a broad range of roaming services and Orange handsets featuring special Orange menu, that provides fast and easy access to the most commonly used services.

The 'Try And Choose' trial offer enables customers to test a bundle of services (e.g. data packages or multimedia services) for at a promotional price, which adds to their knowledge and popularity among customers.

PTK Centertel has been developing insurance sales by SMS services on behalf of underwriters, including travel insurance, flat insurance, handset insurance, health insurance and bill payment insurance (in case of loss of job).

A new multi-partner bonus programme, Payback, was launched in 2009. It replaced the Profit programme. In the Payback programme, Orange customers collect points for timely payments and purchases from other partners. These points can be converted to attractive prizes, including Orange services.

PTK Centertel's customers can use 'Orange On-line': an Orange portal functionality that enables the subscriber account management (service activation and deactivation, account balance checking, tariff plan changes) via the internet. The Orange portal provides also a rapidly growing sales channel for new and retained customers. For conducting transactions on-line, customers receive attractive bonuses (lower service prices and larger pools compared to the standard offer, as well as lower handset and modem prices). A new functionality is free website hosting and a website generator on the orangespace.pl portal.

As part of business offer, customers may also use the following services: email by phone (BlackBerry, E-mail Box, MSE Mail, MultiBox, Nokia Mail), Fleet Manager (for managing corporate handsets), call paid by the recipient, Call Now and Somebody Has Called services, as well as a number of cost-reducing services (5 Free Numbers For Business, Cheap Calls and Connections, Electronic Billing, Business Group, SMS packages, etc.). There is a special service for doctors, Virtual Office, which enables patients to make an appointment on-line.

Business Customers

In 2009, the leading offer in the business market was Offer For Business (introduced in October 2008): tariff plans with pools of minutes available for a monthly subscription fee. The pool may be used for domestic voice calls, video calls, SMSs or MMSs. The plans features:

- Lower rates per minute for calls to all networks;
- One option of the Business Group service for a monthly fee of PLN 1 (net of VAT) and a price per minute of PLN 0.10;

- Promotional activation fee of PLN 1 (net of VAT) in all promotional offers;
- Pool of Zlotys: unused amount of subscription fee is transferred to six subsequent periods and used once the primary pool has been used up.

Leading promotions and services launched in 2009:

- **Chosen Numbers to All** (January 2009): the first promotional offer in the market that reduces prices for calls to five chosen numbers on any network. The promotion is based on Offer For Business tariff plans, for which the Chosen Numbers to All service is offered for a promotional price. Customers can choose up to five numbers on any network and calls to such numbers are then charged starting from PLN 0.20 per minute.
- **Extra Minutes to Orange** (April 2009): promotional offer, which provides an additional pool of minutes for calls on-net. The rate per minute starts from PLN 0.15.
- **Extra Minutes to All** (April 2009): promotional offer, which provides an additional pool of minutes for calls on-net and off-net. The rate per minute starts from PLN 0.20.
- **Choose Discount** (May 2009): promotion addressed to the SME segment. It enables customers to customise an offer that will perfectly meet their needs. Each customer can choose from among two options of an additional pool of minutes in Extra Minutes to All and Extra Minutes to Orange promotions and may get additional attractive discounts for buying a certain number of SIM cards.
- **Offer with Internet** (June 2009): promotional offer combined with HTC Magic. The promotion combines voice and internet services, which enables customers to make voice calls and access the internet based on the fastest data transmission (UMTS/HSDPA and WiFi).
- **Everything for PLN 1** (July 2009): promotional offer, in which a monthly subscription fee is reduced to PLN 1 (incl. VAT) for the first two, three or four months depending on the term of a loyalty agreement. In addition, customers get Orange Navigation, E-mail package and SMS 100 to All package for a reduced fee of PLN 1 (incl. VAT) for the first two months.
- **Cheap to All** for a promotional price (October 2009): reduced price per minute of calls to all networks, namely:
 - PLN 0.15 (or PLN 0.18 incl. VAT) for calls to Orange or fixed network,
 - PLN 0.20 (or PLN 0.24 incl. VAT) for calls to Era or Plus network (within the subscription pool),
 - PLN 0.50 (or PLN 0.61 incl. VAT) for calls to Play or Cyfrowy Polsat network;
- **Cheap Calls** (October 2009): reduced price of PLN 0.15 (or PLN 0.18 incl. VAT) per minute of calls to Orange Polska or fixed network. It is active from the first second in parallel to a pool of minutes and may be combined with any other services. It is available in Offer For Business tariff plans. It remains active also when the basic subscription pool has been used up.
- **Cut Rates** (November 2009): promotional offer of an extra pool of minutes for calls to all networks. Price per minute within the subscription pool starts from PLN 0.17.

Roaming Services

For roaming services, the leading tariff offer is Eurotariff at Orange Travel. The most important changes in the roaming offer in 2009 was a reduction in outgoing call prices to €0.43 within that tariff and the introduction of time-based billing. In addition, business customers can use additional tariff products to reduce roaming costs of voice calls. The Favourite Country service is popular with low-end customers, while high-end customers can choose from among solutions for offer tailoring.

Residential Customers

The following solutions were introduced in 2009 in the mass-market post-paid voice segment:

- For the first time in the mobile market history, a retention offer has been communicated to customers, who can get a better basic rate and always one gift more. The purpose of the campaign was to build customer awareness that “The existing customers of Orange get more.”
- For the first time, a handset-free offer, in which customers get 100% of subscription fee free of charge, was broadly communicated.
- ‘Friend Without Limits’ promotion was launched. It offers free calls to a selected number on Orange network free of charge even for one year.

- For the first time, an opportunity to purchase voice services in e-store was broadly communicated. The e-store offers extra 100 minutes to all free of charge, one gift more and lower handset prices.
- A new promotional tariff plan 55 was introduced in response to Plus' new tariff plans (Rarka). It offered 150 minutes to all for the subscription fee and a rate of PLN 0.29 per minute once the subscription pool has been used up. The purpose of this initiative was to keep the offer competitive vs. other operators and simultaneously increase the average subscription fee in attraction and retention offers in the post-paid segment.

2009 also saw the introduction of some innovative solutions in the pre-paid segment:

- Poland's first fully exchangeable package of minutes, SMSs and MMSs was introduced in the Orange POP tariff in February. The product introduction was accompanied by a large-scale advertising campaign.
- Taking advantage of falling MTRs, Orange introduced a pool of free minutes to all networks in the Orange Go tariff (for the first time to such an extent). The pool size depends on the last recharge value, which is consistent with the underlying principle of the Orange Go decreasing-rate tariff, in which customers get lower rates or higher benefits as the recharge value increases.
- In the summer, Orange launched the unprecedented 2×2 promotion, in which customers were rewarded for recharging, provided that recharging operations were effected in pairs. The promotion met with a very positive attitude among customers. The promotional scheme was considered simple, easy and attractive, as evidenced by the high penetration rate of the promotion.
- Another move consistent with the decreasing-rate mechanism, which is appreciated by customers, was the launch of the Happy Day service in autumn, in which each recharge is rewarded with a large pool of minutes that can be used on the recharging day. The higher the recharge the bigger the pool of minutes; customers can get up to six hours of free calls to Orange or fixed network.
- In 2009, while focusing on an area of key importance to mobile operators, that is development of new services and tariff plans tailored to customer needs, Orange also searched for new ways of contact with customers. In summer, it launched a community portal, populacja.pl, on which Orange POP customers can use not only standard services, such as micro-blogging, but also functionalities that link the use of handsets and the internet, such as positioning and publication of photographs.

15 GLOSSARY OF TELECOM TERMS

Access Fee – revenues from monthly fee from New Tariff Plans (incl. Free minutes)

ARPL – Average Revenues per Line

ARPU – Average Revenues per User

AUPU – Average Usage per User

BSA – Bitstream Access Offer

CDMA (Code Division Multiple Access) – second generation wireless mobile network used also as a wireless local loop for locations where cable Access Is not economically justified

CPS/CS - Carriers Pre-Selection/ Carriers Selection

DLD – Domestic Long Distance Calls

DSLAM - Digital Subscriber Line Access Multiplexer

F2M – Fixed to Mobile Calls

FVNO – Fixed Virtual Network Operator

ILD – International Calls

IP TV – TV over Internet Protocol

LC – Local Calls

LLU – Local Loop Unbundling

MPLS – MultiProtocol Label Switching

MTR – Mobile Termination Rates

MVNO – Mobile Virtual Network Operator

Net FCF – Net Free Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables)

POTS – Plain Old Telephone Service

RIO – Reference Interconnection Offer

SAC – Subscriber Acquisition Costs

SDI – Permanent (Rapid) Access to Internet

SMP – Significant Market Power

USO – Universal Service Offer

VoIP – Voice over Internet Protocol

WLR – Wholesale Line Rental