

- restated

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS for the year 2008

(year)

(according to par. 86 s. 2 and par. 87 s. 4 of the Decree of Minister of Finance dated 19 October 2005 - Legal Journal of Laws No. 209, item 1744)
for the issuers in sectors of production, construction, trade or services
for the year 2008, i.e. from 1 January 2008 to 31 December 2008

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

date of issuance: 26 February 2009

TELEKOMUNIKACJA POLSKA S. A.	
(full name of issuer)	
TP S.A.	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	www.telekomunikacja.pl
(e-mail) (www)	
526-02-50-995	012100784
(NIP) (REGON)	

ERNST & YOUNG AUDIT Sp. z o.o.
(auditor)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	year / 2008	year / 2007	year / 2008	year / 2007
I. Revenues	18 165 000	18 244 000	5 142 833	4 830 544
II. Operating income	3 313 000	3 248 000	937 969	859 987
III. Profit before income tax	2 595 000	2 830 000	734 690	749 312
IV. Consolidated net income	2 190 000	2 275 000	620 028	602 362
V. Net income attributable to equity holders of TP S.A.	2 188 000	2 273 000	619 462	601 832
VI. Earnings per share (in PLN) (basic and diluted)	1.61	1.64	0.46	0.43
VII. Weighted average number of shares (in millions) (basic and diluted)	1 361	1 387	1 361	1 387
VIII. Net cash provided by operating activities	6 626 000	6 214 000	1 875 938	1 645 308
IX. Net cash used in investing activities	(2 946 000)	(2 945 000)	(834 065)	(779 761)
X. Net cash used in financing activities	(2 687 000)	(3 309 000)	(760 737)	(876 139)
XI. Total net change in cash and cash equivalents	996 000	(34 000)	281 985	(9 002)
	Balance as at 31/12/2008	Balance as at 31/12/2007	Balance as at 31/12/2008	Balance as at 31/12/2007
XII. Total current assets	4 254 000	3 462 000	1 019 557	966 499
XIII. Total non-current assets	26 980 000	28 471 000	6 466 302	7 948 353
XIV. Assets held for sale	-	489 000	-	136 516
XV. Total assets	31 234 000	32 422 000	7 485 859	9 051 368
XVI. Total current liabilities	7 415 000	11 272 000	1 777 155	3 146 845
XVII. Total non-current liabilities	6 589 000	3 343 000	1 579 187	933 277
XVIII. Total equity	17 230 000	17 773 000	4 129 518	4 961 754
XIX. Equity attributable to equity holders of TP S.A.	17 217 000	17 760 000	4 126 402	4 958 124
XX. Share capital	4 106 000	4 200 000	984 086	1 172 529
XXI. Liabilities of assets held for sale	-	34 000	-	9 492

The balance sheet data as at 31 December 2008 and 2007 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 profit and loss data, together with the cash flow data for the years ended 31 December 2008 and 2007, 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 2008 and 2007.

The exchange rates used in translation of balance sheet, profit and loss and cash flow data are presented below:

1 Euro	31 December 2008	31 December 2007
Balance Sheet	4.1724 PLN	3.5820 PLN
Profit and Loss, Cash Flow data	3.5321 PLN	3.7768 PLN

Dear Shareholders,

I am pleased to be able to reassure you that the Company stands strong despite that last year TP Group faced unprecedented challenges from market factors both local and global. We delivered a sound set of results, in line with guidance. We appealed to both new and existing customers with attractive packages, at the right price, designed to meet their evolving needs at home, at work and on the move. And throughout the year we continued to focus on the strategic objectives we announced in mid 2007, while also taking prompt and prudent measures to adapt to rapid changes in the economic climate. These achievements are a tribute to the dedication and hard work of TP Group's staff, and I would like to take this opportunity to express my gratitude and appreciation to all of them.

Poland's overall telecoms market regained some valuable momentum in 2008: according to our estimates it grew 5.5% in terms of value. This compares to just 1.4% growth in 2007, when a series of punishing regulatory decisions came into effect. However, the conditions we faced both internally and in the context of the wider financial markets were undeniably tough, particularly in the fourth quarter.

Nevertheless, in 2008 we retained our leadership in all three segments of the market in terms of value share. This achievement not only proves the resilience of TP Group; it is also a vindication of our strategic marketing approach. By focusing intensively on cross- and up-selling, we make sure our customers have access to the widest possible range of complementary products under both the Orange and TP brands.

As we look ahead to 2009 and beyond, visibility in terms of market evolution is very low and unfavourable trading conditions seem inevitable in the near term. In the circumstances, it is only prudent to adopt an even more cautious approach to our business, focusing on the initiatives already underway which will have the most immediate benefits for TP Group.

Finally, let me reiterate our commitment to the prudent financial principles that have served us well in the past year and will be even more of an asset in the difficult times ahead. Although many economic commentators regard the Polish market as the most resilient among its European neighbours, this is not a situation which we take for granted.

As a Company, we remain committed to the value leadership objectives that ultimately enable us to deliver stable financial results. Moving forward through 2009 we will continue to build on our existing strengths, and we will work tirelessly to sharpen the competitive advantages that will keep us ahead through challenging times to come. We will continue to take a thorough and systematic approach to risk analysis and contingency planning, and the management team and I will update you regularly on our progress during the months to come.

Maciej Witucki
President of the Board and CEO
of Telekomunikacja Polska

INDEPENDENT AUDITORS' OPINION

To the General Shareholders' Meeting of Telekomunikacja Polska S.A.

1. We have audited the attached consolidated financial statements of Telekomunikacja Polska Capital Group ('the Group'), for which the holding company is Telekomunikacja Polska S.A. ('the Company') located in Warsaw at 18 Twarda St, prepared for the year ended 31 December 2008 containing:
 - the consolidated balance sheet as at 31 December 2008 with total assets amounting to 31 234 million zlotys,
 - the consolidated income statement for the period from 1 January 2008 to 31 December 2008 with a net profit amounting to 2 190 million zlotys,
 - the consolidated statement of changes in equity for the period from 1 January 2008 to 31 December 2008 with a net decrease in equity amounting to 543 million zlotys,
 - the consolidated cash flow statement for the period from 1 January 2008 to 31 December 2008 with a net cash inflow amounting to 993 million zlotys, and
 - the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').
2. The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union as well as for the proper maintenance of consolidation documentation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair¹ presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.
3. We conducted our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:
 - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
 - the auditing standards issued by the National Chamber of Auditors,and International Standards on Auditing,

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has

¹ Translation of the following expression in Polish: "*prawidłowe, rzetelne i jasne*"

provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2008 to 31 December 2008, as well as its financial position² as at 31 December 2008;
 - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
 - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

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

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.

6. We have read the Directors' Report for the period from 1 January 2008 to 31 December 2008 and the rules of preparation of annual financial statements ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Maciej Konopko
Certified Auditor No. 11316/8113

Witold Czyż
Member of Management Board
Certified Auditor No. 90094/7969

Warsaw, 25 February 2009

² Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

CAPITAL GROUP
TELEKOMUNIKACJA POLSKA

**LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

I. GENERAL NOTES

1. Background

The holding company of the Telekomunikacja Polska Group (hereinafter 'the Group' or 'the Capital Group') is Telekomunikacja Polska S.A. ('the holding company', 'the Company'). The holding company was incorporated on the basis of a Notarial Deed dated 4 December 1991. The Company's registered office is located in Warsaw at Twarda 18 St.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.6a of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements for the financial year beginning in 2005 and later.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000010681 on 2 May 2001.

The Company was issued with tax identification number NIP: 526-02-50-995 on 4 June 1993 and statistical number REGON: 012100784.

The holding company is part of the France Telecom capital group.

The principal activities of the holding company are as follows:

- telecommunications services including voice telephony, data transmission, telemetrics, radiocommunications, 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.

Additionally, based on specific regulations, the holding company and other Group companies provide services related to national defense and security.

The operations of the Company's subsidiaries and associates were presented in Attachment no. 1.

As at 31 December 2008, the Company's issued share capital amounted to 4,106 million zlotys. Equity as at that date amounted to 17,230 million zlotys.

The ownership structure of the Company's share capital as at 31 December 2008 was as follows:

	Number of shares	Number of votes	Par value of shares	% of votes
France Telecom S.A.	664,999,999	664,999,999	1,994,999,997	49.79
Capital Research and Management Company ¹⁾	134,980,917	134,980,917	404,942,751	10.11
State Treasury ⁽²⁾	55,491,532	55,491,532	166,474,596	4.15
Other Shareholders	480,176,573	480,176,573	1,440,529,719	35.95
Subtotal	1,335,649,021	1,335,649,021	4,006,947,063	100.00
Treasury Shares	33,124,220	-	99,372,660	-
Total	1,368,773,241	1,335,649,021	4,106,319,723	100.00

⁽¹⁾ Data as of last notification submitted to the Company on 6 November 2008.

⁽²⁾ Data according to number of shares registered during Extraordinary General Meeting on 16 January 2009.

According to information provided by the Company on 19 March 2008, as a result of depository receipts' redemption, the Bank of New York holds 29,717,880 of Company's shares, constituting a 2.17% of votes at the General Shareholders' Meeting. Before the change, the Bank of New York held 70,211,279 of Company's shares, constituting a 5.02% of votes at the General Shareholders' Meeting.

On 6 November 2008, the Company received notification from the Capital Research and Management Company ("CRMC") that it holds 134,980,917 of TP S.A. shares, corresponding to 10.11% (after taking into account redemption of own shares) of votes at the Annual General Meeting of Shareholders. At the same time, CRMC informed that the shares are owned by accounts of individual funds under the discretionary investment management of CRMC, none of which owns shares in excess of 5% of the Company's shares.

On 4 February 2008, the Company was informed that on 22 January 2008 the share capital reduction from 4,200,000,000 zlotys to 4,106,319,723 zlotys, as a result of the redemption of 31,226,759 ordinary A-series bearer shares acquired by the Company in 2007 for the purpose of their redemption, had been registered by the Registry Court.

On 16 January 2009, an Extraordinary General Meeting adopted a resolution on redemption of the ordinary A-series bearer shares acquired by the Company in 2008 and a reduction of the Company's share capital from 4,106,319,723 zlotys to 4,006,947,063 zlotys, i.e. by 99,372,660 zlotys. The decrease of the Company's share capital has not been registered in the National Court Register until 25 February 2009.

As at 25 February 2009, the Company's Management Board was composed of:

- Maciej Witucki - President
- Roland Dubois - Member
- Ireneusz Piecuch - Member
- Jacek Kałaur - Member
- Richard Shearer - Member

- Piotr Muszyński - Member

During the financial year ended 31 December 2008 and after the balance sheet date up to the date of issuing this report the following changes in the holding Company's Management Board took place:

- On 24 January 2008 Ms. Iwona Kossmann resigned from the position of Member of the Company's Management Board with effect from 24 January 2008;
- On 24 January 2008 Mr. Pierre Hamon resigned from the position of Member of the Company's Management Board with effect from 29 February 2008;
- On 24 January 2008 Mr. Benoit Merel resigned from the position of Member of the Company's Management Board with effect from 29 February 2008;
- On 24 January 2008 Mr. Roland Dubois was appointed as Member of the Company's Management Board with effect from 1 March 2008;
- On 24 April 2008 Mr. Richard Shearer was appointed as Member of the Company's Management Board;
- On 25 September 2008 Mr. Ireneusz Piecuch was appointed as Member of the Company's Management Board;
- On 25 September 2008 Mr. Piotr Muszyński was appointed as Member of the Company's Management Board.

2. Group Structure

Subsidiaries (owned directly or indirectly by the holding company) included in the consolidated financial statements as at 31 December 2008 are presented in Attachment no. 1.

The shares in associates presented in Attachment no. 1 were accounted for in the consolidated financial statements as at 31 December 2008 using the equity method.

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 5 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the consolidated financial statements of the Group for the year ended 31 December 2008.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board of Telekomunikacja Polska S.A. on 19 June 2008 to audit the Group's financial statements.

Ernst & Young Audit sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the consolidated financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act.

Under the contract executed on 29 October 2008 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2008.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' opinion with an emphasis of matter dated 25 February 2009, stating the following:

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1. We have audited the attached consolidated financial statements of Telekomunikacja Polska Capital Group ('the Group'), for which the holding company is Telekomunikacja Polska S.A. ('the Company') located in Warsaw at 18 Twarda St, prepared for the year ended 31 December 2008 containing:
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 - the consolidated cash flow statement for the period from 1 January 2008 to 31 December 2008 with a net cash inflow amounting to 993 million zlotys, and
 - the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').
2. The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union as well as for the proper maintenance of consolidation documentation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair¹ presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.
3. We conducted our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:
 - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
 - the auditing standards issued by the National Chamber of Auditors, and International Standards on Auditing,

¹ Translation of the following expression in Polish: "*prawidłowe, rzetelne i jasne*"

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2008 to 31 December 2008, as well as its financial position² as at 31 December 2008;
 - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
 - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

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

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.

6. We have read the Directors' Report for the period from 1 January 2008 to 31 December 2008 and the rules of preparation of annual financial statements ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).'

The interim audit of the holding company was performed from May 2008 to December 2008. The final audit of the Company's financial statements was carried out from 5 January 2009 to 25 February 2009. The interim audits of consolidated subsidiaries were conducted from August 2008 to December 2008. The final audits of these entities were carried out in the period from January 2009 to 25 February 2009.

² Translation of the following expression in Polish: *'sytuacja majątkowa i finansowa'*

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness³ of the consolidated financial statements and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 25 February 2009, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete,
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements,

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2007 were audited by Wojciech Pułkownik, Certified Auditor No. 10477/7677, acting on behalf of Ernst & Young Audit sp. z o.o. Rondo ONZ 1, 00-124 Warszawa, no. 130. The certified auditor issued an opinion on the consolidated financial statements for the year ended 31 December 2007 with an emphasis of matter related to legal and administrative proceedings in which the Company was involved.

The consolidated financial statements for the year ended 31 December 2007 were approved by the General Shareholders' Meeting on 24 April 2008.

The consolidated financial statements of the Group for the financial year ended 31 December 2007, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 12 May 2008 with the National Court Register.

The introduction to the consolidated financial statements, the consolidated balance sheet as at 31 December 2007, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2007, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 931 on 2 July 2008.

³ Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2006 – 2008. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2008 and 31 December 2007.

	2008	2007	2006
Total assets	31 234	32 422	32 611
Shareholders' equity	17 230	17 773	18 103
Net profit/ loss	2 190	2 275	2 096
Return on assets (%)	7.0%	7.0%	6.4%
$\frac{\text{Net profit} \times 100\%}{\text{Total assets}}$			
Return on equity (%)	12.3%	12.6%	12.1%
$\frac{\text{Net profit} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	12.1%	12.5%	11.3%
$\frac{\text{Net profit} \times 100\%}{\text{Sales of services, goods for resale and raw materials}}$			
Liquidity I	0.57	0.31	0.40
$\frac{\text{Current assets}}{\text{Current liabilities}}$			
Liquidity III	0.22	0.06	0.09
$\frac{\text{Cash and cash equivalents}}{\text{Current liabilities}}$			
Debtors days	36	36	37
$\frac{\text{Trade receivables} \times 365 \text{ days}}{\text{Sales of services, goods for resale and raw materials}}$			

CAPITAL GROUP TELEKOMUNIKACJA POLSKA
Long-form auditors' report supplementing the independent auditors' opinion
for the year ended 31 December 2008
(in million zlotys)

	2008	2007	2006
Creditors days	147	185	132
Trade payables x 365 days External purchases			
Inventory days	14	16	10
Inventory x 365 days External purchases			
Stability of financing (%)	76.3%	65.1%	77.6%
(Equity + long-term provisions and liabilities) x 100% Total liabilities, provisions and equity			
Debt ratio (%)	44.8%	45.2%	44.5%
(Total liabilities and provisions) x 100% Total assets			
Net profit per ordinary share (in zlotys)	1.61	1.64	1.50
Net income Weighted average number of shares			
Net assets per share (in zlotys) *	12.90	12.98	12.93
Total equity Number of shares			
Rate of inflation:			
Yearly average	4.2%	2.5%	1.0%
December to December	3.3%	4.0%	1.4%

*) The ratio was calculated based on the issued number of shares excluding the purchase of treasury shares for redemption.

4.2 Comments

The following trends may be observed based on the above financial ratios:

- The return on assets ratio in 2008 equaled to 7.0% and remained at the same level as in 2007. In 2006 the return on assets ratio equaled 6.4%.
- The return on equity in 2008 equaled 12.3% and decreased in comparison to 2007, when it equaled 12.6%. In 2006 return on equity equaled 12.1%.

- The profit margin ratio equaled 12.1% in 2008 and decreased in comparison to 2007 when it equaled 12.5%. In 2006 profit margin ratio equaled 11.3%.
- The liquidity ratio I increased from the level of 0.40 in 2006 and 0.31 in 2007 to the level of 0.57 in 2008. The liquidity ratio III increased from 0.09 in 2006, through 0.06 in 2007 to the level of 0.22 in 2008.
- The debtors days ratio equaled 36 days in 2008 and 2007 and decreased in comparison to 2006, when it equaled 37 days.
- The creditors days ratio increased from the level of 132 days in 2006 to 185 days in 2007 and then the ratio decreased to 147 days in 2008.
- The inventory days ratio in 2008 decreased in comparison to 2007 from 16 days to 14 days. The inventory days ratio in 2006 equaled 10 days.
- The stability of financing ratio decreased from 77.6% in 2006 to 65.1% in 2007 and then it increased to the level of 76.3% in 2008.
- The debt ratio decreased from 45.2% in 2007 to 44.8% in 2008, whereas in 2006 the ratio equaled 44.5%.
- The net profit per ordinary share fell to 1.61 zlotys in 2008 in comparison with 1.64 zlotys in 2007. In 2006 the ratio was equal to 1.50 zlotys.
- The net assets per share ratio decreased from the level of 12.93 zlotys in 2006 and 12.98 zlotys in 2007 to the level of 12.90 zlotys in 2008.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company and its subsidiaries are unable to continue as a going concern for at least twelve months subsequent to 31 December 2008 as a result of an intended or compulsory withdrawal from or a substantial limitation in their current operations.

The audited consolidated financial statements of the Group for the year ended 31 December 2008 were prepared by the Management Board of the holding company on the assumption that the holding company and the subsidiaries included in the consolidated financial statements will continue as a going concern for a period of at least twelve months subsequent to 31 December 2008.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 3.5 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2008.

3. Structure of assets, liabilities and equity

The structure of the Group's assets, liabilities and equity is presented in the audited consolidated financial statements for the year ended 31 December 2008.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method of determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in notes 3.5.7 and 8.1 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including minority interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Minority shareholders' interest amounted to 13 million zlotys as at 31 December 2008. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 30 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2008 and include the financial data for the period from 1 January 2008 to 31 December 2008.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

The effects of the sale of all the shares of Ditel S.A. were disclosed in the Group's consolidated financial statements in accordance with the appropriate legal documents and consolidation documentation.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2008.

The auditor's opinion includes an emphasis of matter related to legal and administrative proceedings in which the Group is involved.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors' opinion.

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2008 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the Directors' Report for the period from 1 January 2008 to 31 December 2008 and the rules of preparation of annual financial statements ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year ended 31 December 2008.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Maciej Konopko
Certified Auditor No. 11316/8113

Witold Czyż
Member of Management Board
Certified Auditor No. 90094/7969

Warsaw, 25 February 2009

Attachment no. 1

Consolidated subsidiaries and associates measured using equity method

<u>Name</u>	<u>location</u>	<u>scope of activities</u>	<u>nature of relationship</u>	<u>method of consolidation</u>	<u>Financial statements date</u>	<u>Opinion</u>	<u>Auditing entity</u>
Subsidiaries							
PTK-Centertel Sp. z o.o.	Warsaw, Poland	Mobile telecommunications, data transmission, retail sale of telecommunication equipment.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
TP EmiTel Sp. z o.o.	Kraków, Poland	Telecommunications services, especially radio diffusion, radio communication, data transmission, teleinformatics and lease of technical infrastructure.	subsidiary	acquisition accounting	31.12.2008	unqualified with an emphasis of matter	Ernst & Young Audit sp. z o.o.
Paytel Sp. z o.o.	Warsaw, Poland	E-commerce of prepaid services for mobile telecommunication bill charging and processing of electronic financial transactions.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
OPCO Sp. z o.o.	Warsaw,, Poland	Customer care services	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
Otwarty Rynek Elektroniczny S.A.	Warsaw, Poland	Data transmission, e-commerce, teleinformatics, software, data bases and data processing.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
TP Edukacja i Wypoczynek Sp. z o.o.	Warsaw, Poland	Hotels, organisation of training courses.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
TP Internet Sp. z o.o.	Warsaw, Poland	Call-center services and telemarketing.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
Wirtualna Polska S.A.	Gdańsk, Poland	Various internet and database services, software and advertising.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
TP Invest Sp. z o.o.	Warsaw,	Advisory and consulting services	subsidiary	acquisition	31.12.2008	unqualified	Ernst & Young

CAPITAL GROUP TELEKOMUNIKACJA POLSKA
Long-form auditors' report supplementing the independent auditors' opinion
for the year ended 31 December 2008
(in million zlotys)

<u>Name</u>	<u>location</u>	<u>scope of activities</u>	<u>nature of relationship</u>	<u>method of consolidation</u>	<u>Financial statements date</u>	<u>Opinion</u>	<u>Auditing entity</u>
	Poland	for the Group's entities, investment portfolio governance.		accounting			Audit sp. z o.o.
Telefon 2000 Sp. z o.o.	Warsaw, Poland	Designing and development of telecommunication systems.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
TP TelTech Sp. z o.o.	Łódź, Poland	Monitoring of alarm signals, servicing local networks.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
TP MED Sp. z o.o.	Warsaw, Poland	Medical and health care services.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	Warsaw, Poland	Management of employee pension fund.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
Fundacja Grupy TP	Warsaw, Poland	Charity organisation.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
Virgo sp. z o.o.	Warsaw, Poland	Advisory services, financial operations.	subsidiary	acquisition accounting	31.12.2008	unqualified	Ernst & Young Audit sp. z o.o.
TPSA Finance B.V.	Amsterdam, Netherlands	Investing and investment management.	subsidiary	acquisition accounting	31.12.2008	audit in progress	Ernst & Young Accountants
TPSA Eurofinance B.V.	Amsterdam, Netherlands	Investing and investment management.	subsidiary	acquisition accounting	31.12.2008	audit in progress	Ernst & Young Accountants
TPSA Eurofinace France S.A.	Paris, France	Investing and investment management.	subsidiary	acquisition accounting	31.12.2008	audit in progress	Ernst & Young France
Associates							
Telefony Opalenickie S.A.	Opalenica, Poland	Local telecommunication operator.	associate	equity method	31.12.2008	audit in progress	Morison Finansista Audit

This is a translation of a document originally issued in the Polish language.

CAPITAL GROUP TELEKOMUNIKACJA POLSKA
Long-form auditors' report supplementing the independent auditors' opinion
for the year ended 31 December 2008
(in million zlotys)

<u>Name</u>	<u>location</u>	<u>scope of activities</u>	<u>nature of relationship</u>	<u>method of consolidation</u>	<u>Financial statements date</u>	<u>Opinion</u>	<u>Auditing entity</u>
Polskie Badania Internetu Sp. z o.o.	Warsaw, Polska	Conducting studies on Internet use in Poland.	associate	equity method	31.12.2008	not required to be audited	sp. z o.o. Not applicable
Mobile TV Sp. z o.o.	Warsaw, Polska	If successful in its bid for the licence, it will provide services enabling access to multimedia content.	associate	equity method	31.12.2008	not required to be audited	Not applicable

This is a translation of a document originally issued in the Polish language.

**TELEKOMUNIKACJA POLSKA GROUP
IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

Telekomunikacja Polska Group
IFRS Consolidated Financial Statements – 31 December 2008

Translation of the financial statements originally issued in Polish

CONSOLIDATED INCOME STATEMENT

(Amounts in PLN millions, except for share data)

	Note	12 months ended	
		December 31, 2008	December 31, 2007
		<i>(audited)</i>	<i>(reclassified-see Note 3.4, audited)</i>
Revenues	6	18,165	18,244
External purchases	7	(7,599)	(7,436)
Other operating income	7	241	353
Other operating expense	7	(863)	(1,084)
Labour expenses:			
- Wages and employee benefit expenses	7	(2,305)	(2,399)
- Employee profit-sharing	7	(24)	(24)
- Share-based payments	7, 27	(30)	(2)
Depreciation and amortization	14, 15	(4,317)	(4,439)
Reversal of impairment of non-current assets	8	109	2
Gains on disposal of assets	9	110	34
Restructuring costs	10	(174)	(1)
Operating income		3,313	3,248
Interest income	11	58	39
Interest expense and other financial charges	11	(562)	(493)
Foreign exchange gains (losses)	11	(94)	97
Discounting expense	11	(120)	(61)
Finance costs, net		(718)	(418)
Income tax	12	(405)	(555)
Consolidated net income		2,190	2,275
Minority interest		2	2
Net income attributable to equity holders of TP S.A.		2,188	2,273
Earnings per share (in PLN) (basic and diluted)	3.4	1.61	1.64
Weighted average number of shares (in millions) (basic and diluted)	3.4	1,361	1,387

The notes to the consolidated financial statements are an integral part of this Consolidated Income Statement

Telekomunikacja Polska Group
IFRS Consolidated Financial Statements – 31 December 2008

Translation of the financial statements originally issued in Polish

CONSOLIDATED BALANCE SHEET

(Amounts in PLN millions)

	Note	At December 31, 2008	At December 31, 2007
		(audited)	(reclassified-see Note 3.4, audited)
ASSETS			
Goodwill, net	13	3,994	3,994
Other intangible assets, net	14	2,914	3,097
Property, plant and equipment, net	15	19,589	21,120
Interests in associates		3	3
Financial assets available for sale	17	4	4
Loans and receivables	17	17	10
Financial assets at fair value through profit or loss	17	44	-
Hedging derivatives	22	12	-
Other assets		3	2
Deferred tax assets	12	400	241
Total non-current assets		26,980	28,471
Inventories, net		292	316
Trade receivables, net	18	1,814	1,795
Other assets	18	102	263
Loans and receivables	17	9	282
Financial assets at fair value through profit or loss	17	118	35
Income tax assets		166	52
Prepaid expenses	18	113	77
Cash and cash equivalents	20	1,640	642
Total current assets		4,254	3,462
Assets held for sale	16	-	489
TOTAL ASSETS		31,234	32,422
EQUITY AND LIABILITIES			
Share capital	30	4,106	4,200
Share premium		832	832
Treasury shares	30	(704)	(702)
Other reserves	22, 27	8	(18)
Retained earnings		12,983	13,456
Translation adjustment		(8)	(8)
Equity attributable to equity holders of TP SA		17,217	17,760
Minority interest		13	13
Total equity		17,230	17,773
Financial liabilities at amortised cost excluding trade payables	21	5,075	1,920
Hedging derivatives	22	59	171
Trade payables	29	814	705
Employee benefits	26	282	295
Provisions	28	296	178
Other liabilities	29	-	1
Deferred tax liabilities	12	4	2
Deferred income	29	59	71
Total non-current liabilities		6,589	3,343
Financial liabilities at amortised cost excluding trade payables	21	2,100	3,009
Loan from related party	21	-	1,003
Financial liabilities at fair value through profit or loss	22	14	65
Hedging derivatives	22	-	1,250
Provisions	28	1,220	1,177
Trade payables	29	3,059	3,760
Employee benefits	26	272	301
Other liabilities	29	211	180
Income tax payable		15	13
Deferred income	29	524	514
Total current liabilities		7,415	11,272
Liabilities of assets held for sale	16	-	34
TOTAL EQUITY AND LIABILITIES		31,234	32,422

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 2008

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 adjustments	Retained earnings	Total	Minority interest	Total equity
					Financial assets available for sale	Hedging instruments	Deferred taxes	Share-based payments					
Balance at January 1, 2007 (audited)	1 400 000 000	4,200	832	-	-	(95)	18	-	(8)	13,143	18,090	13	18,103
Gains on financial assets available for sale taken to equity		-	-	-	1	-	-	-	-	1	-	-	1
Gains on cash flow hedges taken to equity		-	-	-	-	70	-	-	-	70	-	-	70
Tax on items taken directly to equity		-	-	-	-	-	(14)	-	-	(14)	-	-	(14)
<i>Total income and expense recognized in equity</i>		-	-	-	1	70	(14)	-	-	57	-	-	57
<i>Net income for the 12 months ended December 31, 2007</i>		-	-	-	-	-	-	-	-	2,273	2,273	2	2,275
Total recognized income and expense for the period		-	-	-	1	70	(14)	-	-	2,273	2,330	2	2,332
Share-based payments		-	-	-	-	-	-	2	-	2	-	-	2
Purchase of treasury shares	(31 226 759)	-	-	(700)	-	-	-	-	-	(700)	-	-	(700)
Transaction cost of treasury shares' purchase		-	-	(2)	-	-	-	-	-	(2)	-	-	(2)
Dividends		-	-	-	-	-	-	-	(1,960)	(1,960)	(1,960)	(2)	(1,962)
Balance at December 31, 2007 (reclassified – see Note 3.4, audited)	1 368 773 241	4,200	832	(702)	1	(25)	4	2	(8)	13,456	17,760	13	17,773
Balance at January 1, 2008 (reclassified – see Note 3.4, audited)	1 368 773 241	4,200	832	(702)	1	(25)	4	2	(8)	13,456	17,760	13	17,773
Losses on financial assets available for sale taken to equity		-	-	-	(1)	-	-	-	-	(1)	-	-	(1)
Losses on cash flow hedges taken to equity		-	-	-	-	(5)	-	-	-	(5)	-	-	(5)
Tax on items taken directly to equity		-	-	-	-	-	2	-	-	2	-	-	2
<i>Total income and expense recognized in equity</i>		-	-	-	(1)	(5)	2	-	-	(4)	-	-	(4)
<i>Net income for the 12 months ended December 31, 2008</i>		-	-	-	-	-	-	-	-	2,188	2,188	2	2,190
Total recognized income and expense for the period		-	-	-	(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)	(1)
Dividends		-	-	-	-	-	-	-	(2,053)	(2,053)	(2,053)	(1)	(2,054)
Balance at December 31, 2008 (audited)	1 335 649 021	4,106	832	(704)	-	(30)	6	32	(8)	12,983	17,217	13	17,230

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 2008

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CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in PLN millions)

	Note	12 months ended	
		December 31, 2008 (audited)	December 31, 2007 (reclassified- see Note 3.4, audited)
OPERATING ACTIVITIES			
Consolidated net income		2,190	2,275
<i>Adjustments to reconcile net income to funds generated from operations</i>			
Depreciation and amortization	14, 15	4,317	4,439
Gains on disposal of assets	9	(110)	(34)
Reversal of impairment of non-current assets	8	(109)	(2)
Change in other provisions		(88)	26
Income tax	12	405	555
Interest income and expense		473	452
Foreign exchange (gains)/losses, net		956	(520)
Derivatives		(558)	587
Share-based payments	7, 27	30	2
<i>Change in working capital (trade)</i>			
Decrease/(increase) in inventories (net)		6	(127)
Decrease/(increase) in trade receivables		64	187
Increase/(decrease) in trade payables		175	258
<i>Change in working capital (non-trade)</i>			
Decrease/(increase) in prepaid expenses and other receivables		116	(57)
Increase/(decrease) in accrued expenses, other payables and deferred income		20	39
Interest received		58	39
Interest and interest rate effects on derivatives paid, net		(649)	(668)
Exchange rate effect on derivatives, net		(3)	(31)
Income tax paid		(667)	(1,206)
Net cash provided by operating activities		6,626	6,214
INVESTING ACTIVITIES			
<i>Purchases/sales of property, plant and equipment and intangible assets</i>			
Purchases of property, plant and equipment and intangible assets	14, 15	(2,579)	(3,677)
Increase/(decrease) in amounts due to fixed asset suppliers		(1,012)	679
Proceeds from sale of property, plant and equipment and intangible assets		591	57
Proceeds from sale of subsidiaries, net of cash	5	64	-
Cash paid for acquisition of minority interest	5	(1)	-
Decrease/(increase) in marketable securities and other financial assets		(4)	7
Exchange rate effect on derivatives, net		(5)	(11)
Net cash used in investing activities		(2,946)	(2,945)
FINANCING ACTIVITIES			
Redemption of bonds	19, 21	(2,368)	(1,864)
Issuance of long-term debt	19, 21	3,091	-
Repayment of long-term debt	19, 21	(228)	(255)
Increase/(decrease) in bank overdrafts and other short-term borrowings	19, 21	-	1,800
Decrease/(increase) in debt-linked deposits (cash collateral)	17, 19	360	(125)
Purchase of treasury shares including transaction cost	30	(701)	(702)
Dividends paid	30	(2,054)	(1,962)
Exchange rate effect on derivatives, net		(787)	(201)
Net cash used in financing activities		(2,687)	(3,309)
Net change in cash and cash equivalents		993	(40)
Effect of changes in exchange rates on cash and cash equivalents		3	6
Cash and cash equivalents at the beginning of the period		644 ⁽¹⁾	678
Cash and cash equivalents at the end of the period		1,640	644⁽¹⁾

⁽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 telecommunication 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”). 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 provides also third generation UMTS services. In addition, the Group provides leased lines, radio-communications and other telecommunications value added services, sells telecommunications equipment, produces 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 operations are subject to regulatory interventions of Office of Electronic Communication (“UKE”), a government telecommunications market regulator. Under the Telecommunication Act, UKE can impose certain obligations on telecommunications companies that have a significant market power.

Telekomunikacja Polska Group
IFRS Consolidated Financial Statements – 31 December 2008

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 2008	31 December 2007
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, lease and maintenance of technical infrastructure.	100.00%	100.00%
- Paytel Sp. z o.o.	Warsaw, Poland	E-commerce and electronic services, including GSM prepaid services, bill charging and processing of electronic financial transactions.	100.00%	100.00%
DITEL S.A. ⁽¹⁾	Warsaw, Poland	Maintenance of subscribers' database, production and distribution of telephone directories.	-	100.00%
OPCO Sp. z o.o.	Warsaw, Poland	Customer care services.	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 Invest Sp. z o.o. ("TP Invest")	Warsaw, Poland	Advisory and consulting services provided to the Group entities, holding management.	100.00%	100.00%
- Telefon 2000 Sp. z o.o. ⁽²⁾	Warsaw, Poland	Design and development of telecommunications systems. ⁽⁴⁾	100.00%	95.38%
- Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	55.11%	55.11%
- TP TelTech Sp. z o.o.	Łódź, Poland	Monitoring of alarm signals, servicing telecommunications networks, design and development of telecommunications systems. ⁽⁴⁾	100.00%	100.00%
- TP Internet Sp. z o.o. ("TP Internet")	Warsaw, Poland	Call-center services and telemarketing.	100.00%	100.00%
TP MED Sp. z o.o.	Warsaw, Poland	Medical and health care services.	100.00%	100.00%
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	Warsaw, Poland	Management of employee pension fund.	100.00%	100.00%
Fundacja Grupy TP	Warsaw, Poland	Charity foundation.	100.00%	100.00%
Virgo Sp. z o.o.	Warsaw, Poland	Advisory services, financial operations.	100.00%	100.00%
- Wirtualna Polska S.A. ("WP")	Gdańsk, Poland	Internet portal and related services including internet advertising; mobile virtual network operator.	100.00%	100.00%
- Sklep Wirtualnej Polski S.A. in liquidation ⁽³⁾	Gdańsk, Poland	No operational activities.	-	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.	99.96%	99.96%

⁽¹⁾ the company was disposed of in 2008 (see Note 5). As at 31 December 2007, the company's assets and liabilities were presented as assets held for sale and liabilities of assets held for sale, respectively (see Note 16)

⁽²⁾ in 2008 the Group purchased additional shareholdings in the company (see Note 5)

⁽³⁾ the company was liquidated in 2008

⁽⁴⁾ in November 2008, operational activities of Telefon 2000 Sp. z o.o. were transferred to TP TelTech Sp. z o.o.

In the 12 months ended 31 December 2008 and 2007, 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.

As at 31 December 2008 and 2007 TP Invest held 25% interest in Telefony Opalenickie S.A., a local fixed line telecommunications operator and the voting power held by TP Invest was equal to the interest in the share capital of this associate.

As at 31 December 2008 and 2007 WP held 20% interest in Polskie Badania Internetu Sp. z o.o. which conducts studies on Internet use in Poland, and the voting power held by WP was equal to the interest in the share capital of this associate.

As at 31 December 2008 PTK Centertel held 25% interest in Mobile TV Sp. z o.o. and the voting power held by PTK Centertel was equal to the interest in the share capital of this associate. The company was established in 2008 (see Note 5).

The investments in those associates are accounted for under 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 & CEO,
Roland Dubois – Board Member (CFO),
Richard Shearer – Board Member (Mass Market),
Jacek Kałaur – Board Member (Human Resources)
Piotr Muszyński – Board Member (Operations),
Ireneusz Piecuch – Board Member (Corporate Strategy and Business Development).

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
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
Stéphane Pallez – Member of the Supervisory Board
Georges Penalver – Member of the Supervisory Board
Prof. Jerzy Rajski – Independent member of the Supervisory Board
Dr. Wiesław Rozłucki – Independent member of the Supervisory Board
Ronald Freeman – Independent member of the Supervisory Board
Dr. Mirosław Gronicki – Independent member of the Supervisory Board

Changes in the Management Board and in the Supervisory Board of the Company in the year ended 31 December 2008:

On 24 January 2008, Ms Iwona Kossmann, Mr Pierre Hamon and Mr Benoit Merel resigned from the Management Board of TP S.A. The resignations became effective on: 24 January 2008 for Ms Iwona Kossmann, 29 February 2008 for Mr Pierre Hamon and Mr Benoit Merel.

On the same day, the Supervisory Board of TP S.A. appointed Mr Roland Dubois as a Member of the Management Board of TP S.A., effective 1 March 2008.

On 24 April 2008, the Supervisory Board of TP S.A. appointed Mr Richard Shearer as a Member of the Management Board of TP S.A.

On 25 September 2008, the Supervisory Board of TP S.A. appointed Mr Ireneusz Piecuch and Mr Piotr Muszyński as Members of the Management Board of TP S.A.

On 25 September 2008, Mr Michel Monzani resigned from the Supervisory Board of TP S.A.

On the same day, the Supervisory Board of TP S.A. co-opted Mr Olivier Faure as a Member of the Supervisory Board of TP S.A.

On 16 January 2009, the Extraordinary General Meeting appointed Mr Olivier Faure to the Supervisory Board of TP S.A.

2. Statement of compliance and basis for preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and all applicable IFRSs as 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 2007 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 25 February 2009.

The principles applied to prepare financial data relating to the year ended 31 December 2008 are described in Note 3 and are based on:

- all standards and interpretations endorsed by the European Union and applicable with effect from 1 January 2008;
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2008 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 2008 may be subsequently changed. The main estimates made are described in the following notes:

Note		Type of information disclosed
8	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	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.
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.
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 are disclosed in Note 32.
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.

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 2008 relate to provisions for litigation and claims, 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 2008.

3.1. Application of new standards, amendments and interpretations

Adoption of standards, amendments to standards and interpretations which are compulsory as at January 1, 2008

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, 2008:

- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions". The Group decided to adopt earlier this interpretation in 2007,
- IFRIC 12 "Service Concession Arrangements". This interpretation has not been endorsed by the European Union,
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The adoption of these interpretations did not result in any significant changes to the Group accounting policies.

Management decided to adopt earlier IFRIC 13 "Customer Loyalty Programmes" since 1 January 2008. This interpretation changes the accounting treatment applied by the Group until December 31, 2007 (see note 3.5.3 to the Consolidated Financial Statements for the year ended December 31, 2007) mainly in respect of the timing of revenue recognition.

Under the previous policy, part of the revenue that was allocated to the award credits under the Group loyalty programme was deferred until the date on which the points are definitively converted into benefits.

Currently the Group recognizes revenue allocated to the awards based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

The change in the accounting policy was applied retrospectively and it had no impact on consolidated equity as at 1 January 2007 and 31 December 2007, or on consolidated net profit for 12 months period ended 31 December 2007.

On 15 October 2008, the European Union endorsed amendments to IAS 39 "Financial instruments: recognition and measurement" and IFRS 7 "Financial instruments: disclosures" with regard to reclassification of financial

assets. These amendments shall be applied on or after 1 July 2008. The amendments have not resulted in any reclassification of Group's financial assets.

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):

- IFRS 8 "Operating Segments" applicable for financial years beginning on or after 1 January 2009,
- Revised IAS 23 "Borrowing costs" applicable for financial years beginning on or after 1 January 2009,
- Revised IAS 1 "Presentation of Financial Statements" applicable for financial years beginning on or after 1 January 2009,
- Revised IFRS 3 "Business Combinations" applicable for financial years beginning on or after 1 July 2009. This standard has not been endorsed by the European Union,
- Revised IAS 27 "Consolidated and Separate Financial Statements" applicable for financial years beginning on or after 1 July 2009. This standard has not been endorsed by the European Union,
- Amendment to IFRS 2 "Share-based Payment – Vesting conditions and cancellations" applicable for financial years beginning on or after 1 January 2009,
- Amendments to IAS 32 "Financial Instrument: Presentation" and to IAS 1 "Presentation of Financial Statement – Puttable Financial Instruments and Obligations Arising on Liquidation" applicable for financial years beginning on or after 1 January 2009. These amendments have not been endorsed by the European Union,
- 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" applicable for financial years beginning on or after 1 January 2009,
- IFRIC 15 "Agreements for the Construction of Real Estate" applicable for financial years beginning on or after 1 January 2009. This interpretation has not been endorsed by the European Union,
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" applicable for financial years beginning on or after 1 October 2008. This interpretation has not been endorsed by the European Union,
- Amendments to IAS 39 "Financial Instruments: Eligible hedged items" applicable for financial years beginning on or after 1 July 2009. These amendments have not been endorsed by the European Union,
- Revised IFRS 1 "First-time Adoption of International Financial Reporting Standards" applicable for financial years beginning on or after 1 July 2009. This standard has not been endorsed by the European Union,
- IFRIC 17 "Distribution of Non-cash Assets to Owners" applicable for financial years beginning on or after 1 July 2009. This interpretation has not been endorsed by the European Union,
- IFRIC 18 "Transfers of Assets from Customers" applicable for financial years beginning on or after 1 July 2009. This interpretation has 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 its 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 positions described below are not specifically (or are 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.

Acquisitions of minority interests in a subsidiary already controlled by the Group

These transactions have not been addressed in IFRSs until revised IAS 27 "Consolidated and Separate Financial Statements" has been issued. The revised IAS 27 is applied prospectively to business combinations

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occurring in the first accounting period beginning on or after 1 July 2009. At present goodwill is recognised as the difference between the cost of acquisition of minority interests and the book value of the acquired share in underlying net assets, without making any fair value adjustments to the assets and liabilities acquired.

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 and amendments		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 lives of the employees participating in the plan.
IAS 23	Borrowing costs	Borrowing costs incurred during the construction and acquisition period of property, plant and equipment and intangible assets are not capitalized.
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).

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	12 months ended	
	December 31, 2008	December 31, 2007
Net income attributable to the equity holders of the Company (in PLN millions)	2,188	2,273
Weighted average number of shares outstanding (in millions) – basic and diluted	1,361	1,387
Earnings per share – basic and diluted (in PLN)	1.61	1.64

Changes in presentation of the financial statements

Changes in presentation of derivatives and related securing deposits

Management reclassified:

- Cash flows related to interest effect and exchange rate effect on derivatives classified as held for trading that economically hedge commercial or financial transactions, and related securing deposits, were reclassified from investing activities to operating or financial activities, respectively, depending on the category of cash flows of underlying transaction;
- Foreign exchange effect on derivatives classified as held for trading that economically hedge commercial transactions were reclassified from foreign exchange gains (losses) to the category of expenses related to the underlying transaction.

Changes in presentation of cash flows of bond discounts paid

Management reclassified cash flows occurring at redemption of bonds issued, which amounts to the difference between the nominal value and the issue price of bonds, from financing cash flows to operating cash flows. The reclassification was made in order to standardize presentation of all interest paid, which represents the cost of obtaining financial resources, in operating cash flows.

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

The changes in the presentation affected the consolidated income statement and consolidated statement of cash flows as follows:

Consolidated income statement	12 months ended December 31, 2007			Data reclassified
	Data previously reported	Reclassifications		
		Economic hedges	Bonds discount	
<i>(in PLN millions)</i>				
Other operating income	315	38	-	353
Other operating expense	(1,012)	(72)	-	(1,084)
Foreign exchange gains/ (losses)	63	34	-	97

Consolidated statement of cash flows	12 months ended December 31, 2007			Data reclassified
	Data previously reported	Reclassifications		
		Economic hedges	Bonds discount	
<i>(in PLN millions)</i>				
Net cash provided by operating activities	6,327	(92)	(21)	6,214
Net cash used in investing activities	(3,046)	101	-	(2,945)
Net cash used in financing activities	(3,321)	(9)	21	(3,309)

Changes in presentation of net cash provided by operating activities in the consolidated statement of cash flows

The cash flows provided by operating activities in the consolidated statement of cash flows are determined by adjusting consolidated net income after tax. In previously published financial statements, the cash flows provided by operating activities in the consolidated statement of cash flows were determined by adjusting net income attributable to equity holders of TP S.A. by minority interest. This change has no impact on the consolidated statement of cash flows provided by operating activities.

Changes in presentation of transaction cost of treasury shares' purchase

The transaction cost of treasury shares' purchase was reclassified from retained earnings to treasury shares in the consolidated statement of changes in equity and in the consolidated balance sheet. For the 12 months of 2007 and as at 31 December 2007, the transaction cost of treasury shares' purchase amounted to PLN 2 million. This change has no impact on total equity.

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 statement of income 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 equity for the effective portion of the net gain or loss on the cash flow hedging instruments.

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 / expense 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

Revenues from the Group's activities are 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, rebates 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. Revenues from bundled offers are 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

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

In the mobile business and broadband services offered by the fixed line business, 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 rentals

Equipment lease revenues are 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.

Content sales and revenue-sharing arrangements

Revenues from the sale or supply of content (audio, video, games) via the Group's various communications systems (mobile, fixed line, etc.) are recognized gross when the Group is deemed to be the primary obligor in the transaction vis-à-vis the end-customer, i.e. when the Group has credit risk, when the customer has no specific recourse against the content provider, when the Group has reasonable latitude in the selection of content providers, and in setting prices charged to the end-customer. These revenues are recognized 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.

Similarly, revenue-sharing arrangements (audiotel, premium rate number, special numbers for Internet dial-up) are recognized gross when the Group has reasonable latitude in setting prices and determining the key features of the content (service or product) sold to the end-customer. They are recognized, net of amounts due to the service provider, when the latter is responsible for the service and for setting the price to be paid by subscribers.

Service revenues

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.

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

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

Promotional offers

For certain commercial offers where customers are offered a free 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.

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. 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.

There is a loyalty program that exists in the Group which is without a contract renewal obligation.

Penalties

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 pays compensation to the end-customer, usually in the form of a price reduction which is deducted from revenues. Such penalties 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

The Group does not capitalize borrowing costs for the period of construction and acquisition of property, plant and equipment and intangible assets.

3.5.6. Share issuance costs and treasury shares

External costs directly related to share issues 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 assumptions, license renewal assumptions and forecast trading conditions drawn up by the Group management, as follows:

- cash flow projections are based on the five-year 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 first 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; and any directly attributable cost of preparing the assets for their intended use.

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 revenues, 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 in intangible assets.

Licenses

Licenses to operate mobile telephone networks 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 14.

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.

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, mainly provided by local and regional authorities. 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. The risks and rewards of ownership are considered as having been transferred to the Group when:

- 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 the 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 (and all directly attributable liabilities, if any) 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 (and all directly attributable liabilities, if any) 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 revenues 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 measured and recognized in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

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

Measurement and recognition 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 equity. 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 equity 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", "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 accounts 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. Uncollectible receivables are written off against that account.

Assets at fair value through profit or loss

Upon initial recognition the Group did not designate financial assets as financial assets at fair value through profit or loss other than assets held for trading (i) that the Group acquired principally for the purpose of selling them in the near term in order to realize a profit, that form 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; (ii) derivatives that do not qualify for hedge accounting as set out in IAS 39.

Assets at fair value through profit or loss, consist mainly of derivatives and mutual fund units, are carried in the balance sheet under "Financial assets at fair value through profit or loss"

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.

Measurement and recognition 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 by 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. A fair value hedge is a hedge of the exposure to changes in fair value of a recognized liability or an identified portion of the liability, that is attributable to a particular risk and could affect profit or loss. 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.

Certain borrowings are designated as being hedged by cash flow hedges. 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 liability or a highly probable forecast transaction (such as a purchase or sale) and could affect profit or loss.

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.

Measurement and recognition 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 the financial assets and liabilities at fair value through profit or loss are immediately recognized in the income statement. Interest rate component of derivatives held for trading are 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.

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 equity – because the change in the fair value of the hedged portion of the underlying item is not recognized in the balance sheet – and the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss. Amounts recognized directly in

equity are subsequently recognized in profit or loss in the same period or periods during which the hedged item affects profit or loss.

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.

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 revenues 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. Tax expense

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 book values 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 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 a 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 primary segment reporting format is determined to be business segments since the Group's risks and rates of return are affected predominantly by differences in services delivered. The Group operates in two major reportable segments, fixed line telecommunications and mobile telecommunications. The two segments are strategic business units.

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.

Mobile telecommunications services are provided by PTK-Centertel, a provider of DCS 1800, GSM 900 and UMTS mobile telecommunications in Poland.

The Group operates in one geographical segment, the territory of the Republic of Poland. The accounting policies are uniform for all segments. Transactions between segments take place on commercial terms. These transactions are eliminated on consolidation.

Gross operating margin ("GOM") is one of the key measures used by the Group internally to i) manage and assess the results of its business segments, ii) make decisions with respect to investments and allocation of resources, and iii) assess the performance of the Group executive management. The Group's management believes that GOM is meaningful for investors because it provides an analysis of its operating results and segment profitability using the same measure as used by management. As a consequence and in accordance with IAS 14 par. 46 GOM is presented in the analysis by business segment.

GOM is not an explicit measure of financial performance under IFRS and may not be comparable to other similarly titled measures for other companies. GOM should not be considered an alternative to operating income as an indicator of the Group's operating performance, or an alternative to cash flows from operating activities as a measure of liquidity.

GOM corresponds 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,
- restructuring costs/reversal of restructuring provision.

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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 December 31, 2008</i>			
Revenue	10,494	8,635	(964)	18,165
External	9,959	8,206	-	18,165
Inter-segment	535	429	(964)	-
Gross operating margin	4,394	3,245	-	7,639
Employee profit-sharing	(24)	-	-	(24)
Share-based payments	(27)	(3)	-	(30)
Depreciation and amortization	(2,892)	(1,425)	-	(4,317)
Impairment of goodwill	-	-	-	-
Reversal of impairment of non-current assets	109	-	-	109
Gains (losses) on disposal of assets	113	(3)	-	110
Restructuring costs	(174)	-	-	(174)
Operating income	1,499	1,814	-	3,313
Interest income	65	85	(92)	58
Interest expense and other financial charges			(562)	(562)
Foreign exchange losses			(94)	(94)
Discounting	(27)	(93)	-	(120)
Income tax			(405)	(405)
Consolidated net income				2,190
Significant non-cash items included in operating income – other than those mentioned above	(98)	(164)	-	(262)
Capital expenditures	1,571	1,008	-	2,579
	<i>At December 31, 2008</i>			
Segment assets	17,614	11,376	(169)	28,821
Investment 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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<i>(in PLN millions)</i>	Fixed line telecommunications	Mobile telecommunications	Eliminations and unallocated items	Consolidated
<i>12 months ended December 31, 2007</i>				
Revenue	10,914	8,064	(734)	18,244
External	10,620	7,624	-	18,244
Inter-segment	294	440	(734)	-
Gross operating margin	4,523	3,155	-	7,678
Employee profit-sharing	(24)	-	-	(24)
Share-based payments	(2)	-	-	(2)
Depreciation and amortization	(3,200)	(1,239)	-	(4,439)
Impairment of goodwill	-	-	-	-
Reversal of impairment of non-current assets	2	-	-	2
Gains (losses) on disposal of assets	40	(6)	-	34
Restructuring costs	(1)	-	-	(1)
Operating income	1,338	1,910	-	3,248
Interest income	90	35	(86)	39
Interest expense and other financial charges	-	-	(493)	(493)
Foreign exchange gains	-	-	97	97
Discounting	(28)	(33)	-	(61)
Income tax	-	-	(555)	(555)
Consolidated net income				2,275
Significant non-cash items included in operating income – other than those mentioned above	(320)	(105)	-	(425)
Capital expenditures	2,412	1,276	(11)	3,677
<i>At December 31, 2007</i>				
Segment assets	19,442	11,886	(175)	31,153
Investment in associates	3	-	-	3
Unallocated assets	-	-	1,266	1,266
Total assets				32,422
Segment liabilities	4,585	2,806	(175)	7,216
Unallocated liabilities	-	-	7,433	7,433
Total liabilities				14,649
Equity	-	-	17,773	17,773
Total equity and liabilities				32,422

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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 2008 and 2007 except for transactions described below.

As a result of a transaction executed in the first quarter of 2008, the Group increased its share in its subsidiary, Telefon 2000 Sp. z o.o., from 95.38% as at 31 December 2007 to 100%.

On 20 June 2008, the Group and a subsidiary of European Directories Group concluded 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. The assets and liabilities of Ditel S.A. were classified in the consolidated financial statements as assets held for sale and liabilities of assets held for sale as at 31 December 2007 (see Note 16).

On 10 December 2008, the Group (through its subsidiary PTK-Centertel), Polska Telefonia Cyfrowa Sp. z o.o., P4 Sp.z o.o. and Polkomtel S.A. signed the Deed of Establishment of the limited liability company Mobile TV Sp. z o.o. ("Mobile TV"). If Mobile TV is successful in its bid for the licence, it will provide services enabling access to multimedia content (particularly audio and audiovisual) on the basis of DVB-H or other technology. PTK Centertel acquired 30 shares of the nominal value of PLN 500 each, that is a 25% stake in Mobile TV, which corresponds to 25% of the voting shares of Mobile TV.

6. Revenue

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Fixed line telephony services	6,783	7,616
Subscriptions and voice traffic revenues	5,775	6,772
Interconnect revenues	966	783
Payphone revenues	41	59
Other	1	2
Mobile telephony services	8,023	7,462
Voice traffic revenues	4,591	4,289
Interconnect revenues	1,927	1,863
Messaging services and content	1,495	1,277
Other	10	33
Data Services	2,479	2,255
Leased lines	358	367
Data transmission	646	590
Dial – up	29	63
Broadband revenues	1,446	1,235
Radio communications	215	207
Sales of goods and other	665	704
Total revenue	18,165	18,244

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Revenues are generated mainly in the territory of Poland. Approximately 2.9% and 2.0% of the total revenues for the 12 months ended 31 December 2008 and 2007, respectively, were received from entities which are not domiciled in Poland, mostly from interconnect services.

7. Operating income and expense

7.1 External purchases

<i>(in PLN millions)</i>	<i>12 months ended</i> <i>December 31, 2008</i>	<i>12 months ended</i> <i>December 31, 2007</i>
Commercial expenses ⁽¹⁾	(2,416)	(2,450)
Purchases and payments to other operators	(2,624)	(2,518)
Costs relating to network and IT expenses	(916)	(950)
Other external purchases ⁽²⁾	(1,643)	(1,518)
Total external purchases	(7,599)	(7,436)

⁽¹⁾ In the 12 months ended 31 December 2008 and 2007, it includes cost of handsets and other equipment sold in the amount of PLN 1,229 million and PLN 1,317 million, respectively. It also includes commissions, advertising and sponsoring costs.

⁽²⁾ Includes retail fees and overheads, real estate costs, subcontracting fees, rentals and purchases of equipment.

In the 12 months ended 31 December 2008 and 2007, research and development costs expensed in the income statement amounted to PLN 61 million and PLN 60 million, respectively.

7.2 Other operating income and expense

<i>(in PLN millions)</i>	<i>12 months ended</i> <i>December 31, 2008</i>	<i>12 months ended</i> <i>December 31, 2007</i>
Late payment interest on trade receivables	23	29
Recoveries on customer bad debts written-off	39	71
Charges on termination of post-paid contracts (mobile), net	23	46
Changes in inventories of work in progress	19	59
Operating foreign exchange gains, net	-	38
Other income ⁽¹⁾	137	110
Total other operating income	241	353
Impairment losses on trade and other receivables, net	(92)	(74)
Taxes other than income taxes ⁽²⁾	(404)	(467)
Operating foreign exchange losses, net	(110)	-
Other expense and changes in provisions, net ⁽³⁾	(257)	(543)
Total other operating expense	(863)	(1,084)

⁽¹⁾ Includes other individually immaterial items.

⁽²⁾ In the 12 months ended 31 December 2008 and 2007, it includes property tax in the amount of PLN 268 million and PLN 329 million, respectively, fees for subscriber's numbers and telecommunications permits in the amount of PLN 25 million and PLN 27 million, respectively, and frequency fee in the amount of PLN 67 million and PLN 71 million, respectively.

⁽³⁾ Includes brand fees, donations, changes in provisions for claims and litigation, risks and other charges (see Note 28).

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In the 12 months ended 31 December 2008 and 2007, foreign exchange gains/(losses) on cash flow hedges that were transferred from equity to other operating income/expense and adjusted foreign exchange differences on hedged UMTS liability amounted to PLN 35 million and PLN (14) million, respectively (see Note 22).

During the 12 months ended 31 December 2008 and 2007, 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 137 million and PLN (34) million, respectively.

7.3 Labour expenses

<i>(in PLN millions, except number of employees)</i>	<i>12 months ended</i> <i>December 31, 2008</i>	<i>12 months ended</i> <i>December 31, 2007</i>
Average number of employees (full time equivalent)	29,481	31,789
Wages and salaries	(1,941)	(1,950)
Social security charges	(390)	(430)
Capitalized personnel costs	113	91
Other ⁽¹⁾	(87)	(110)
Wages and employee benefit expenses	(2,305)	(2,399)
Employee profit-sharing	(24)	(24)
Share based-payments	(30)	(2)
Total labour expenses	(2,359)	(2,425)

⁽¹⁾ Includes payroll taxes (obligatory charges for National Fund for Rehabilitation of Disabled Persons - PFRON) for the 12 months ended 31 December 2008 and 2007 amounting to PLN 22 million and PLN 22 million, respectively, and other employee benefits (including change in provisions) for the 12 months ended 31 December 2008 and 2007 amounting to PLN 63 million and PLN 88 million, respectively.

8. Impairment

8.1 Information concerning the Cash Generating Units

Most of the Group's individual assets do not generate cash flow independently from other assets due to 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 a consequence as at 31 December 2008 and 2007 the Group performed impairment tests of the fixed network and radio diffusion network. No impairment loss was recognized in 2008 and 2007 as a result of these tests.

As at 31 December 2008 and 2007 goodwill with the net book value of PLN 3,909 million and PLN 85 million was allocated to mobile network and internet portal, respectively. Consequently, at the end of 2008 and 2007 the Group performed annual impairment tests of the mobile network and internet portal. No impairment losses were recognized as a result of these tests.

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

- market level, penetration rate and market share; decisions of regulators in terms of the 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 on costs of changes in net revenues; 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.

<i>Main CGUs</i>	Fixed network	Mobile network	Radio diffusion network	Internet portal
	<i>At December 31, 2008</i>			
Basis of recoverable amount	Value in use	Value in use	Value in use	Value in use
Source used	Budget and business plan	Budget and business plan	Budget and business plan	Budget and 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%	1%	0%	1%
Discount rate applied ⁽¹⁾	13.0	12.4	12.7	16.1

⁽¹⁾The discount rate is based on a pre-tax discount rate defined by IAS 36.

Management believes that no reasonable change to any of the above key assumptions would cause the carrying value of any of the cash generating unit to materially exceed their recoverable amount.

8.2 Goodwill

In the 12 months ended 31 December 2008 and 2007, there was no goodwill written off. Details regarding impairment tests of goodwill are presented in Note 8.1.

8.3 Other property, plant and equipment and intangible assets

In the 12 months ended 31 December 2008 and 2007, the impairment loss on property, plant and equipment reversed in the income statement amounted to PLN 19 million and PLN 2 million, respectively. The impairment loss reversal was primarily a result of an annual review of the Group's properties and other tangible assets.

There was no impairment loss on intangible assets charged to the income statement during the 12 months ended 31 December 2008 and 2007.

8.4 Assets 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. In the 12 months ended 31 December 2007, there were no changes in impairment loss on assets held for sale (see Note 16).

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9. Gains on disposal of assets

<i>(in PLN millions)</i>	<i>12 months ended</i> <i>December 31, 2008</i>	<i>12 months ended</i> <i>December 31, 2007</i>
Disposal of Ditel S.A. shares	56	-
Disposals of property, plant and equipment and intangible assets	54	34
Total gains on disposal of assets	110	34

In the 12 months ended 31 December 2008 and 2007, gains on disposal of assets include gain on disposal of properties classified as held for sale (see Note 16).

10. Restructuring costs

<i>(in PLN millions)</i>	<i>12 months ended</i> <i>December 31, 2008</i>	<i>12 months ended</i> <i>December 31, 2007</i>
Employee termination	(178)	(6)
Other	4	5
Total restructuring costs	(174)	(1)

Movements in restructuring provisions are described in Note 28.

11. Financial income and expense

<i>(in PLN millions)</i>	<i>12 months ended</i> <i>December 31, 2008</i>	<i>12 months ended</i> <i>December 31, 2007</i>
Interest income	58	39
Interest expense	(591)	(603)
<i>- of which derivatives held for trading</i>	(2)	(53)
Changes in fair value of derivatives held for trading	(5)	83
Changes in fair value of assets held for trading	-	9
Ineffectiveness on fair value hedges	34	18
<i>- of which change in fair value of hedged debt</i>	(6)	(44)
<i>- of which change in fair value of fair value hedges</i>	40	62
Interest expense and other financial charges	(562)	(493)
Foreign exchange gains / (losses) ⁽¹⁾	(94)	97
<i>- of which derivatives held for trading</i>	30	(32)
Discounting expense	(120)	(61)
Finance costs, net	(718)	(418)

⁽¹⁾ Including currency derivatives.

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, under hedge accounting as set out in IAS 39, 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 2008 and 2007, interest income/(expense) on fair value hedges that adjusted interest expense on hedged debt amounted to PLN (141) million and PLN (101) million, respectively.

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During the 12 months ended 31 December 2008 and 2007, interest income/(expense) on cash flow hedges that were transferred from equity and adjusted interest expense on hedged debt amounted to PLN 8 million and PLN (4) million, respectively (see Note 22).

During the 12 months ended 31 December 2008 and 2007, net gain/(loss) on derivatives held for trading amounted to PLN 23 million and (2) million, respectively and consisted of interest expense, changes in fair value in response mainly to changes in the interest rates and foreign exchange gain and loss.

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, under hedge accounting as set out in IAS 39, 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 2008 and 2007, foreign exchange gains/(losses) on fair value hedged debt amounted to PLN (411) million and PLN 386 million, respectively. During the 12 months ended 31 December 2008 and 2007, foreign exchange gains/(losses) on fair value hedges that adjusted exchange differences on hedged debt amounted to PLN 409 million and PLN (386) million, respectively.

During the 12 months ended 31 December 2008 and 2007, foreign exchange gains/(losses) on cash flow hedges that were transferred from equity and adjusted foreign exchange differences on hedged debt amounted to PLN 121 million and PLN (34) million, respectively (see Note 22).

For the 12 months ended 31 December 2008 and 2007, discounting expense includes unwinding of discount on UMTS liability in the amount of PLN (90) million and (33) million, respectively, and jubilee awards and post-employment benefits in the amount of PLN (17) million and PLN (16) million, respectively.

12. Income tax

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>December 31, 2008</i>	<i>December 31, 2007</i>
Current income tax	560	765
Deferred tax change	(157)	(196)
Less: Deferred tax charged to equity	(2)	14
Total income tax	405	555

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

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>December 31, 2008</i>	<i>December 31, 2007</i>
Consolidated net income before tax	2,595	2,830
Statutory tax rate	19%	19%
Theoretical tax	493	538
Change in valuation allowance and other ⁽¹⁾	(113)	(24)
Income and expense not subject/deductible for tax purposes, net	25	41
Effective tax	405	555

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

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

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.

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

<i>year of expiration:</i>	<i>(in PLN millions)</i>
2009	26
2010	16
2011	121
2012	7
2013	7
Total	177

During the 12 months ended 31 December 2008 and 2007, the Group entities utilized PLN 77 million and PLN 49 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 December 31, 2008</i>	<i>At December 31, 2007</i>	<i>12 months ended</i>	
			<i>December 31, 2008</i>	<i>December 31, 2007</i>
Property, plant and equipment and intangible assets	232	348	116	78
Impairment of financial assets	(58)	(41)	18	(121)
Finance costs, net	13	20	5	3
Accrued income/expense	(366)	(370)	(3)	258
Employee benefit plans	(43)	(47)	(4)	-
Deferred revenue	(112)	(111)	1	14
Tax losses and other differences	(62)	(41)	22	(22)
Net deferred tax (assets) / liability ⁽¹⁾	(396)	(242)	-	-
Deferred tax income / (expense)	-	-	155	210

⁽¹⁾ As at 31 December 2007 the balance of deferred tax asset included PLN 3 million of deferred tax recognised by Ditel S.A., which was presented in the consolidated balance sheet as assets held for sale (see Note 16).

As at 31 December 2008 and 2007, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 371 million and PLN 453 million gross, of which PLN 97 million and PLN 300 million, respectively, related to tax losses the realisation of which was not probable, and PLN 274 million and PLN 153 million, respectively, related to other temporary differences, which based on the Group's management assessment would not be utilised for tax purposes.

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13. Goodwill

Goodwill arising from consolidated subsidiaries is as follows:

<i>(in PLN millions)</i>	<i>At December 31, 2008</i>			<i>At December 31, 2007</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
Total goodwill	4,156	(162)	3,994	4,156	(162)	3,994

There were no movements in the net book value of goodwill in the 12 months ended 31 December 2008 and 2007.

14. Other intangible assets

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

<i>(in PLN millions)</i>	<i>At December 31, 2007</i>			<i>At December 31, 2006</i>	
	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Impairment</i>	<i>Net</i>	<i>Net</i>
Telecommunications licenses	2,345	(630)	-	1,715	1,861
Software	3,530	(2,247)	(7)	1,276	1,373
Other intangibles	149	(42)	(1)	106	52
Total	6,024	(2,919)	(8)	3,097	3,286

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

<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>December 31, 2008</i>	<i>December 31, 2007</i>
Opening balance net of accumulated amortization and impairment	3,097	3,286
Acquisitions of intangible assets	461	693
Amortization	(617)	(688)
Reclassifications and other, net	(27)	(194)
Closing balance	2,914	3,097

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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 December 31, 2008</i>	<i>At December 31, 2007</i>
DCS 1800 Concession	1997	2012	318	90	115
GSM 900 Concession	1999	2014	402	142	167
UMTS Concession	2000	2023	2,495	1,338	1,433
Total telecommunications licenses			3,215	1,570	1,715

Telekomunikacja Polska's rights to provide telecommunications services are based on a permit granted free of charge on the basis of the Telecommunications Act. The permit expires in 2026.

15. Property, plant and equipment

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

<i>(in PLN millions)</i>	<i>At December 31, 2007</i>			<i>At December 31, 2006</i>	
	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Impairment</i>	<i>Net</i>	<i>Net</i>
Land and buildings	3,383	(788)	(118)	2,477	2,707
Networks and terminals	36,164	(18,136)	(26)	18,002	18,518
IT equipment	2,110	(1,335)	(1)	774	581
Investment grants	(281)	102	-	(179)	(196)
Other	924	(855)	(23)	46	76
Total	42,300	(21,012)	(168)	21,120	21,686

Investment grants relate to certain property, plant and equipment received by Telekomunikacja Polska from Public Telephone Committees (Społeczne 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>December 31, 2008</i>	<i>12 months ended</i> <i>December 31, 2007</i>
Opening balance net of accumulated depreciation and impairment	21,120	21,686
Acquisitions of property, plant and equipment	2,118	2,984
Disposals and retirements, net	(19)	(16)
Depreciation	(3,700)	(3,751)
Reversal of impairment	19	2
Reclassifications and other, net	51	215
Closing balance	19,589	21,120

The carrying value of plant and equipment held under finance leases as at 31 December 2008 and 31 December 2007 was less than PLN 1 million. There were no additions during the 12 months ended 31 December 2008 and 2007 of plant and equipment held under finance leases. Leased assets are pledged as security for the related finance lease and hire purchase liabilities.

16. Assets held for sale

The Group completed a Real Estate Optimisation Programme, under which a project was in place with an objective to dispose of certain properties on the market. As a result of this programme, the Group identified properties with a value amounting to PLN 444 million as at 31 December 2007 and classified them as assets held for sale. These properties belonged to the fixed-line telecommunications reporting segment.

On 30 July 2008, TP S.A. and the Danish Investor Group, Baltic Property Trust ("BPT") concluded the agreement for the sale and lease by TP S.A. of a portfolio of selected real estate in Warsaw, which consists of office buildings at the following locations: Twarda 18, Moniuszki 1, Obrzeźna 7. The aggregate price of the aforementioned properties was set at EUR 167.9 million and was fully paid. The net book value of these assets as at the date of the sale agreement was PLN 502 million and they were classified as assets held for sale. As a result of the transaction, BPT as the new owner leases back approximately 47 thousand square meters in these buildings to TP S.A., until such time as the Company moves to new headquarters.

Changes in the carrying amount of properties classified as assets held for sale are presented below:

<i>(in PLN millions)</i>	<i>12 months ended</i> <i>December 31, 2008</i>	<i>12 months ended</i> <i>December 31, 2007</i>
Opening balance	444	425
Additions	7	37
Disposals	(514)	(18)
Reversal of impairment	90	-
Reclassifications	(27)	-
Closing balance	-	444

Additionally, as at 31 December 2007 the assets and liabilities of Ditel S.A. were classified as assets held for sale and liabilities of assets held for sale and amounted to PLN 45 million and PLN 34 million, respectively. 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 (see Note 5).

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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 December 31, 2008</i>			<i>At December 31, 2007</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	4	(3)	1
Total assets available for sale ⁽¹⁾	16	(12)	4	18	(14)	4

⁽¹⁾ 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.

17.2 Loans and receivables

The Group's loans and receivables are presented below:

<i>(in PLN millions)</i>	<i>At December 31, 2008</i>			<i>At December 31, 2007</i>		
	Cost	Impairment	Net	Cost	Impairment	Net
Cash collateral ⁽¹⁾	-	-	-	281	-	281
Other	26	-	26	11	-	11
Total loans and receivables	26	-	26	292	-	292
Current	9	-	9	282	-	282
Non-current	17	-	17	10	-	10

⁽¹⁾ Included in net debt calculation (see Note 19). As at 31 December 2007, represented cash deposits paid to banks as collateral for derivatives. Cash collateral reflects marked-to-market valuation of derivative transactions with various banks and its amount varies as the value of derivative transactions change in line with interest and exchange rates, and the thresholds set in the agreements.

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>	Fair value	
	<i>At December 31, 2008</i>	<i>At December 31, 2007</i>
Derivatives – held for trading ⁽¹⁾	155	30
Marketable securities – held for trading ⁽¹⁾	7	5
Total assets at fair value through profit or loss	162	35
Current	118	35
Non-current	44	-

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

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

<i>(in PLN millions)</i>	<i>At December 31, 2008</i>	<i>At December 31, 2007</i>
Trade receivables (net of impairment) ^{(1), (3)}	1,814	1,795
VAT receivables	30	71
Other taxes receivables	2	4
Employee-related receivables ⁽³⁾	5	7
Other ⁽²⁾	65	181
Other assets ⁽¹⁾	102	263
Inactivated mobile phones and terminals maintained in the external dealership network	94	60
Other prepaid expenses	19	17
Prepaid expenses	113	77

⁽¹⁾ Additions to impairment of trade and other receivables (net of reversals) are presented in Note 7.2.

⁽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. The Group holds bills of exchange as a collateral which are considered upon review of related impairment of trade accounts receivable.

Movement in the impairment of trade, employee-related and other receivables in the 12 months ended 31 December 2008 and 2007 is presented below:

<i>(in PLN millions)</i>	<i>12 months ended December 31, 2008</i>	<i>12 months ended December 31, 2007</i>
Beginning of period	375	527
Net change in impairment	(52)	(152)
End of period	323	375

In the 12 months ended 31 December 2008 and 2007, impaired receivables written off amounted to PLN 237 million and PLN 277 million, respectively.

As at 31 December 2008 and 2007, the analysis of trade receivables that are past due but not impaired is as follows:

At December 31, 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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At December 31, 2007:

<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	1,756	1,153	571	9	23
Trade receivables - individually analysed for impairment	39				
Total trade receivables, net	1,795				

19. Net debt

19.1 Analysis of net debt by composition and maturity

Net debt corresponds to the total gross 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 marketable securities and including the impact of the effective portion of cash flow hedges.

The analysis of maturity of the Group's financial liabilities is based on contractual undiscounted payments. As at 31 December 2008 and 2007 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 2008 and 2007, 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. Previously, such liabilities were assigned to the earliest possible time period.

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

At December 31, 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	Non-current				
						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 collateral paid	17	-								
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 due to changes in fair values.

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At December 31, 2007:

(in PLN millions)	Note	Carrying amount	Undiscounted contractual cash flows ⁽¹⁾						Total non-current	Total
			Within 1 year	Non-current						
			1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years			
Trade payables (excl. UMTS) (A)	29	3,707	3,707	-	-	-	-	-	-	3,707
UMTS license payables (B)	29	758	54	54	54	54	54	967	1,183	1,237
Bonds	21	3,049	2,149	50	50	1,124	-	-	1,224	3,373
Bank borrowings	21	1,880	1,079	244	234	223	127	130	958	2,037
Loan from related party	21	1,003	1,014	-	-	-	-	-	-	1,014
Financial liabilities at amortized cost ⁽²⁾		5,932	4,242	294	284	1,347	127	130	2,182	6,424
Derivatives - net ⁽³⁾	22	1,455	1,432	50	44	129	11	9	243	1,675
Gross financial debt after derivatives (C)		7,387	5,674	344	328	1,476	138	139	2,425	8,099
Total financial liabilities (A) + (B) + (C)		11,852	9,435	398	382	1,530	192	1,106	3,608	13,043
Marketable securities	17	5								
Cash collateral paid	17	281								
Cash and cash equivalents	20	642								
Sub - total (D)		928								
Effective portion of cash flow hedges (E)		(25)								
Net financial debt (C)-(D)+(E)		6,434								

⁽¹⁾ Includes both nominal and interest payments.

⁽²⁾ Excluding trade payables and UMTS license payables.

⁽³⁾ Both assets and liabilities are included due to changes in fair values.

As at 31 December 2008 and 2007 most of the Group's trade payables mature within 3 months.

19.2 Analysis of net debt by currency

At December 31, 2008

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

⁽¹⁾ Including market value of derivatives in local currency

At December 31, 2007

(equivalent value in PLN millions at the period-end exchange rate)	PLN	EUR	USD	Total
Net debt by currency ⁽¹⁾	2,866	1,806	1,762	6,434
Impact of derivatives notional amount	3,506	(1,816)	(1,690)	-
Net debt by currency after impact of derivatives notional amount	6,372	(10)	72	6,434

⁽¹⁾ Including market value of derivatives in local currency

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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 December 31, 2008</i>	<i>At December 31, 2007</i>
Cash on hand	1	2
Current bank accounts and overnight deposits	981	607
Deposits up to 3 months	107	29
Securities with a maturity up to 3 months	551	-
Other	-	4
Total cash and cash equivalents	1,640	642

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

As at 31 December 2008 and 2007, cash and cash equivalents include an equivalent of PLN 142 million and PLN 40 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. The Group constantly monitors market indicators describing the financial standing of the counterparties. In case of deteriorating the financial soundness of the counterparty, the Group applies the appropriate measures/limits mitigating the default risk.

21. Financial liabilities at amortised cost

21.1 Bonds

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

<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>Amount outstanding at⁽¹⁾</i>	
						<i>December 31, 2008</i>	<i>December 31, 2007</i>
TPSA Finance B.V.	A	800 USD	7.750%	10 December 1998	10 December 2008	-	1,955
TPSA Eurofinance France S.A.	T	300 EUR	4.625%	5 July 2004	5 July 2011	1,276	1,094
Total bonds issued by the Group						1,276	3,049
Current						28	1,980
Non-current						1,248	1,069

⁽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 4.72% as at 31 December 2008 and 6.74% as at 31 December 2007.

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21.2 Bank borrowings

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

Creditor	Interest rate as at 31 December 2008	Repayment date	Amount outstanding at ⁽¹⁾			
			December 31, 2008		December 31, 2007	
			Currency (millions)	PLN (millions)	Currency (millions)	PLN (millions)
Floating rate						
International Bank for Reconstruction and Development	-	15 March 2008	-	-	4 USD	10
European Investment Bank	3.35% ⁽²⁾	15 December 2015	58 EUR	244	67 EUR	239
European Investment Bank	3.35% ⁽²⁾	15 June 2012	117 EUR	488	150 EUR	539
European Investment Bank	6.46% ⁽²⁾	15 June 2012	182 PLN	182	234 PLN	234
Bayern LandesBank (syndicated)	6.32% - 7.02% ^(3,4)	15 January 2009 - 30 June 2009 / 20 February 2011	2,517 PLN	2,517	801 PLN	801
Bank Pekao S.A.	6.80% - 7.35% ^(3,5)	8 January 2009 - 30 June 2009 / 30 June 2010	1,010 PLN	1,010	-	-
Bank Handlowy (syndicated)	-	18 April 2010	(1) PLN	(1)	(3) PLN	(3)
European Investment Bank	6.47%-6.76% ^(2,3)	15 September 2012 - 10 September 2013	1,403 PLN	1,403	-	-
Fixed rate						
European Investment Bank	-	10 June 2008	-	-	1 USD	2
European Investment Bank	-	10 June 2008	-	-	2 EUR	8
Instituto de Credito Oficial	1.25%	2 January 2021	19 USD	56	20 USD	50
Total bank borrowings borrowed by the Group				5,899		1,880
Current					2,072	1,029
Non-current					3,827	851

⁽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⁾ Amounts drawn should be repaid or rolled over by 15 January 2009 – 30 June 2009. Final repayment date for this revolving credit facility is 20 February 2011.

⁽⁵⁾ Amounts drawn should be repaid or rolled over by 8 January 2009 – 30 June 2009. Final repayment date for this revolving credit facility is 30 June 2010.

The weighted average effective interest rate on the Group's bank borrowings, before swaps, amounted to 6.31% as at 31 December 2008 and 5.45% as at 31 December 2007.

21.3 Loan from related party

On 8 March 2007, TP S.A. drew down a loan facility amounting to PLN 1,000 million from France Telecom on the basis of an annex to the agreement signed in December 2006. On 14 December 2007 the loan was extended for a further three-month period. The interest on the loan was based on the 1M WIBOR variable interest rate plus a margin of 0.14%.

There was no amount outstanding under this loan as at 31 December 2008. As at 31 December 2007 the Group's loan liability to related party amounted to PLN 1,003 million (see Note 33.2).

22. Derivatives

As at 31 December 2008 and 2007, 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	Principal (millions)		Interest		Maturity	Fair value ⁽⁴⁾ (in PLN millions)	
		Receive	Pay	Receive	Pay		Financial Asset	Financial Liability
<i>At December 31, 2008</i>								
Derivative instruments - fair value hedge								
CCS	Bonds	10 EUR	42 PLN	-	6M WIBOR - 3.92%	2011	1	-
Total of fair value hedges							1	-
Derivative instruments - cash flow hedge								
CCS ⁽²⁾	Bank borrowings	44 EUR	192 PLN	-	2.91% to 3.09%	2012	-	(15)
CCS	Bonds	130 EUR	549 PLN	-	1.57% to 2.95%	2011	4	(34)
IRS	Bank borrowings	182 PLN	182 PLN	3M WIBOR - 0.17%	6.89% to 6.99%	2012	-	(10)
CCS	UMTS	53 EUR	208 PLN	-	1.23% to 1.41%	2014	7	-
Total of cash flow hedges							11	(59)
Derivative instruments – held for trading								
CCIRS	-	40 EUR	145 PLN	4.63%	5.99% to 6.17%	2011	21	-
CCIRS ⁽³⁾	-	39 EUR	140 PLN	3M EURIBOR	3M WIBOR	2012	22	-
IRS	-	50 PLN	50 PLN	3M WIBOR	3M WIBOR + 0.05%	2011	0	-
NDF, FWD	-	132 EUR	496 PLN	-	-	2009	71	(14)
Structured FX options	-	90 EUR	338 PLN	-	-	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.

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Type of instrument ⁽¹⁾	Hedged Item	Principal (millions)		Interest		Maturity	Fair value ⁽⁷⁾ (in PLN millions)	
		Receive	Pay	Receive	Pay		Financial Asset	Financial Liability
<i>At December 31, 2007</i>								
Derivative instruments - fair value hedge								
CCIRS	Bonds	775 USD	3,051 PLN	7.75% to 7.86%	6M WIBOR + 1.75% to 6M WIBOR + 5.60%	2008	-	(1,211)
CCS	Bonds	10 EUR	42 PLN	-	6M WIBOR - 3.92%	2011	-	(6)
Total of fair value hedges							-	(1,217)
Derivative instruments - cash flow hedge								
CCIRS ⁽²⁾	Bank borrowings	17 EUR	79 PLN	3M EURIBOR	4.52% to 5.30%	2008	-	(22)
CCIRS ⁽³⁾	Bonds	54 EUR	207 PLN	4.63%	5.03% to 6.17%	2008 - 2011	-	(19)
CCS ⁽⁴⁾	Bank borrowings	44 EUR	192 PLN	-	2.91% to 3.09%	2012	-	(40)
CCS	Bonds	130 EUR	549 PLN	-	1.57% to 2.95%	2011	-	(96)
IRS	Bank borrowings	234 PLN	234 PLN	3M WIBOR - 0.17%	6.89% to 6.99%	2012	-	(6)
CCS	UMTS	62 EUR	246 PLN	-	1.23% to 1.41%	2014	-	(21)
Total of cash flow hedges							-	(204)
Derivative instruments – held for trading								
CCIRS	-	25 USD	75 PLN	7.75%	6M WIBOR + 2.98%	2008	-	(17)
CCIRS ⁽⁵⁾	-	76 EUR	292 PLN	3M EURIBOR	3M WIBOR -1.02% to 3M WIBOR + 1.56%	2008 - 2012	-	(25)
CCIRS ⁽⁶⁾	-	1 USD	6 PLN	1.25%	6M WIBOR - 3.11%	2008	-	(3)
CCS	-	1 EUR	2 PLN	0.80%	PLN 1 mln quarterly	2008	-	(2)
IRS	-	3,720 PLN	3,720 PLN	3M WIBOR to 6M WIBOR	5.24% to 6.95%	2008	21	(4)
NDF	-	138 EUR	507 PLN	-	-	2008	1	(14)
FX swap	-	-	-	-	-	2008	9	-
Embedded derivatives	-	-	-	-	-	-	0	-
Total of derivatives held for trading							31	(65)
Total of derivative instruments							31	(1,486)
Current							31	(1,315)
Non-current							-	(171)

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

⁽²⁾ Interest is calculated on notional amounts of EUR 75 million and PLN 354 million, which are subject to adjustment in accordance with repayment schedule.

⁽³⁾ Including EUR 14 million which constitutes hedging of only coupon payments on bond series T

⁽⁴⁾ Interest is calculated on notional amounts of EUR 44 million and PLN 192 million, which are subject to adjustment in accordance with repayment schedule.

⁽⁵⁾ Interest is calculated on notional amounts of EUR 192 million and PLN 786 million, which are subject to adjustment in accordance with repayment schedule.

⁽⁶⁾ Interest is calculated on notional amounts of USD 20 million and PLN 75 million, which are subject to adjustment in accordance with repayment schedule.

⁽⁷⁾ Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

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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 December 31, 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

At December 31, 2007:

Type of instrument	Hedged item	Principal			Interest			
		From	To	Receive and Pay	From	To	Receive	Pay
CCIRS	Bank borrowings	Jun 2004	Dec 2008	Semi-annually	Mar 2004	Dec 2008	Quarterly	Quarterly
CCIRS	Bonds	-	Jul 2011	Maturity	Jan 2005	Jul 2011	Annually	Semi-annually
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. The Group constantly monitors market indicators describing the financial standing of the counterparties. In case of deteriorating the financial soundness of the counterparty, the Group applies the appropriate measures/limits mitigating the default risk.

The change in fair value of cash flow hedges charged to equity is presented below:

(in PLN millions)	12 months ended	
	December 31, 2008	December 31, 2007
Beginning of period	(21)	(77)
The effective part of the gain/loss on hedging instrument	159	18
The amount transferred to the income statement	(164)	52
Deferred tax effect	2	(14)
End of period	(24)	(21)

During the 12 months ended 31 December 2008 and 2007, interest income/(expense) on cash flow hedges that were transferred from equity and adjusted interest expense on hedged debt amounted to PLN 8 and PLN (4) million respectively (see Note 11).

During the 12 months ended 31 December 2008 and 2007, foreign exchange gains/(losses) on cash flow hedges that were transferred from equity and adjusted foreign exchange differences on hedged debt amounted to PLN 121 and (34) million respectively (see Note 11).

During the 12 months ended 31 December 2008 and 2007, foreign exchange gains/(losses) on cash flow hedges that were transferred from equity and adjusted foreign exchange differences on hedged payables relating to UMTS licences presented under other operating income/expense, amounted to PLN 35 and (14) million respectively (see Note 7.2).

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 and namely encompasses currency risk, 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 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 against 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. The Group does not use non-derivative instruments to hedge against financial risks.

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 fulfill 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 of 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 preferable 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.

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. As a result, the variability of the foreign exchange rates has a limited impact on the consolidated income statement, as well as consolidated equity.

As at 31 December 2008, 45.6% (as at 31 December 2007, 79.8%) 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 2008, 15.9% (as at 31 December 2007, 18%) of the outstanding nominal amount of the UMTS license payable was hedged against 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</i>				<i>Sensitivity to a change of the PLN against other currencies</i>			
	<i>December 31, 2008</i>		<i>December 31, 2007</i>		<i>December 31, 2008</i>		<i>December 31, 2007</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	202	724	105	(105)	72	(72)
Bonds and bank borrowings (USD)	19	56	24	58	6	(6)	6	(6)
UMTS license payable (EUR)	277	1,156	283	1,014	116	(116)	101	(101)
Total		2,263		1,796	227	(227)	179	(179)

The Polish zloty deteriorated 14% during 2008 against the Euro. That negative trend continued abnormally at the beginning of 2009.

Since early January 2009, the Group entered into a number of new hedging transactions aimed at further mitigating foreign exchange risk arising from debt and UMTS licence payable. As a result, 97.1% of the outstanding balance of bonds and bank borrowings denominated in foreign currencies and 47.7% of the outstanding nominal amount of UMTS licence payable (74.6% of the carrying amount of UMTS liability) are now hedged against currency risk.

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

- unhedged portion of the notional amount of both financial liabilities and 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.

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 unfavorable 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.

As per 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 2008 and 31 December 2007, the Group's proportion between fixed/floating rate debt (including hedging activities) were 21/79% and 74/26%, respectively.

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>December 31, 2008</i>		<i>December 31, 2007</i>	
	<i>+1%</i>	<i>-1%</i>	<i>+1%</i>	<i>-1%</i>
Financial expense	58	(58)	38	(37)
Equity	3	(3)	9	(9)
Fair value of gross financial debt after derivatives	(41)	41	(76)	79

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

- financial expense includes 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 equity,
- as at 31 December 2008, the fair value of gross financial debt after derivatives was PLN 7,059 million (as at 31 December 2007, PLN 7,420 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. banking 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 2008, the Group had the following unused credit facilities amounting to PLN 2,336 million (as at 31 December 2007, PLN 5,151 million):

- EUR 550 million available to TP S.A.
- EUR 5 million and PLN 20 million available to PTK Centertel.

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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>December 31, 2008</i>	<i>December 31, 2007</i>
Liquidity ratio - next 12 months (%)	196%	183%
Unused credit facilities	2,336	5,151
Cash and cash equivalents	1,640	642
Debt repayments ⁽¹⁾	2,030	3,172
Liquidity ratio (incl. cash collaterals and derivatives) - next 12 months (%)	203%	132%
Derivatives ⁽²⁾	(71)	1,432
Cash collateral paid	-	281
Liquidity ratio - next 18 months (%)	150%	177%
Unused credit facilities	2,336	5,151
Cash and cash equivalents	1,640	642
Debt repayments ⁽¹⁾	2,645	3,275
Liquidity ratio (incl. cash collaterals and derivatives) - next 18 months (%)	154%	128%
Derivatives ⁽²⁾	(55)	1,460
Cash collateral paid	-	281

⁽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 2008 and 31 December 2007 is presented in Note 19.1. The average duration for the existing debt portfolio as at 31 December 2008 is 2.2 year (as at 31 December 2007, 1.5 year).

23.6 Credit risk

There is no significant concentration of credit risk within the Group. Credit risk is discussed in detail in Notes 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. Detailed conditions are set for all significant types of services. Consequently, specific requirements relating to regulatory accounting and cost calculations are defined for SMP operators. Certain charges have to be approved by UKE before they are applicable and price increases have to be announced at a minimum, one settlement period in advance. In addition, cost calculations of an SMP operator are subject to UKE audit and approval. If prices of certain services are assessed to be inconsistent with the law, UKE may adjust charges, taking into account their level on similar markets ('benchmarks').

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 2008 and 31 December 2007, the Group did not have any credit facilities or borrowings subject to specific covenants with regard to financial ratios.

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 to be respected. The current Group's objectives in that area are the following:

- Net Gearing ratio - maximum at the range of 35% - 40%
- Net Debt to GOM ratio - remaining below 1.5

The table below provides the capital ratios for the last two years and presents the sources of capital involved in their calculation. The Group regards capital as the total of equity and net debt.

<i>(in PLN millions)</i>	<i>December 31, 2008</i>	<i>December 31, 2007</i>
Interest bearing bonds and bank borrowings	7,175	5,932
Cash and cash equivalents	1,640	642
Cash collateral paid	-	281
Marketable securities	7	5
Net Debt	5,528	5,004
Derivatives ⁽¹⁾	(124)	1,430
Net Debt after hedging	5,404	6,434
Equity	17,230	17,773
Equity and Net Debt	22,758	22,777
Equity and Net Debt after hedging	22,634	24,207
GOM	7,639	7,678
Net Gearing ratio ⁽²⁾	24.3%	22.0%
Net Gearing after hedging ratio ⁽³⁾	23.9%	26.6%
Net Debt / GOM ratio	0.7	0.7
Net Debt after hedging / GOM ratio	0.7	0.8

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

⁽²⁾ Net Gearing = Net Debt / (Net Debt + Equity)

⁽³⁾ Net Gearing after hedging = Net Debt after hedging / (Net Debt after hedging + Equity)

The above policy imposes maintenance of 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.

The Group's capital management also focuses on maintaining some liquidity against current debt repayments and providing security against business risks, as reflected in maintaining available back-up funding possibilities.

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25. Fair value of financial instruments

As at 31 December 2008 and 2007, the carrying amount of cash and cash equivalents, cash deposits paid to bank as collateral for derivatives (classified as loans and receivables), 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 (cash collateral paid).

As at 31 December 2008 and 2007, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximates their fair value.

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 December 31, 2008</i>		<i>At December 31, 2007</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	1,276	1,269	3,049	3,090
Bank borrowings with fixed interest rate	56	47	60	49
Payables related to UMTS licenses	873	823	758	751
Total	2,205	2,139	3,867	3,890

⁽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 NBP period-end exchange rate.

26. Employee benefits

<i>(in PLN millions)</i>	<i>At December 31, 2008</i>	<i>At December 31, 2007</i>
Jubilee awards	152	167
Retirement bonuses and other post-employment benefits	145	153
Salaries, other employee-related payables and payroll taxes due	257	276
Total carrying value of employee benefit obligations	554	596
Current	272	301
Non-current	282	295

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 2008 and 2007 are detailed in the table below:

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<i>(in PLN millions)</i>	12 months ended December 31, 2008				12 months ended December 31, 2007			
	<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	167	91	78	336	177	85	80	342
Current service cost ⁽¹⁾	11	9	2	22	11	7	1	19
Interest cost ⁽²⁾	8	5	4	17	8	4	4	16
Benefits paid	(35)	(4)	(7)	(46)	(34)	(4)	(5)	(43)
Recognized actuarial (gains)/losses for the period ^{(1) (3)}	16	-	-	16	6	-	-	6
Unrecognized actuarial (gains)/losses for the period	-	-	20	20	-	-	(2)	(2)
Plan amendments ⁽¹⁾	-	-	-	-	-	-	-	-
Curtailment ⁽¹⁾	(15)	(14)	(3)	(32)	-	-	-	-
Reclassifications ⁽⁴⁾	-	-	-	-	(1)	(1)	-	(2)
Present value of obligation at the end of the period	152	87	94	333	167	91	78	336

⁽¹⁾ Recognised under labour expense

⁽²⁾ Recognised under discounting expense

⁽³⁾ If any

⁽⁴⁾ In 2007 reclassification of employee benefits of Ditel S.A. to assets held for sale (see Note 16)

A valuation of obligations as at 31 December 2008 and 2007 was performed using the following assumptions:

	<i>At December 31, 2008</i>	<i>At December 31, 2007</i>
Discount rate	6%	5.50%
Wage increase rate	3.5%-4%	3%
Inflation rate	2.5%	2%
Pension indexing	up to 4%	up to 2%
Expected average remaining working lives (in years)	12.6 – 22.1	12.6 – 22.1

The reconciliation of recognized and unrecognized actuarial gains and losses for the 12 months ended 31 December 2008 and 2007 is presented below:

<i>(in PLN millions)</i>	12 months ended December 31, 2008				12 months ended December 31, 2007			
	<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	- ⁽¹⁾	(11)	(5)	(16)	- ⁽¹⁾	(11)	(7)	(18)
Actuarial gains/(losses) for the period	(16)	-	(20)	(36)	(6)	-	2	(4)
Subtotal	(16)	(11)	(25)	(52)	(6)	(11)	(5)	(22)
Actuarial (gains)/losses recognized	16	-	-	16	6	-	-	6
Unrecognized actuarial gains/(losses) at the end of the period	- ⁽¹⁾	(11)	(25)	(36)	- ⁽¹⁾	(11)	(5)	(16)

⁽¹⁾ recognized as income or expense when occur (see Note 3.5.16)

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The reconciliation between present value and carrying value of defined benefit obligation as at 31 December 2008 and 2007 and is as follows:

<i>(in PLN millions)</i>	<i>At December 31, 2008</i>				<i>At December 31, 2007</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	152	87	94	333	167	91	78	336
Net cumulative unrecognized actuarial losses at the end of the period	- ⁽¹⁾	(11)	(25)	(36)	- ⁽¹⁾	(11)	(5)	(16)
Carrying value of DBO	152	76	69	297	167	80	73	320

⁽¹⁾ recognized as income or expense when occur (see Note 3.5.16)

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>				
December 31, 2008	152	87	94	333
December 31, 2007	167	91	78	336
December 31, 2006	177	85	80	342
December 31, 2005	208	98	86	392
December 31, 2004	318	84	76	478

27. Share-based payments

27.1 TP 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.:

	12 months ended December 31, 2008		12 months ended December 31, 2007	
	number	weighted average exercised price (PLN)	number	weighted average exercised price (PLN)
Outstanding at the beginning of the period	6,033,024	21.57	-	-
Granted during the year	-	-	6,047,710	21.57
Forfeited during the year	(1,286,922)	-	(14,686)	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	4,746,102	21.57	6,033,024	21.57
- of which exercisable	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 period ended 31 December 2008 and 31 December 2007 the fair value of services received recognised in labour expenses and equity amounted to PLN 8 million and PLN 2 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 TP 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 TP 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 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 22 million.

28. Provisions

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

<i>(in PLN millions)</i>	<i>At January 1, 2008</i>	<i>Increases</i>	<i>Reversals (utilizations)</i>	<i>Reversals (releases)</i>	<i>Discounting effect</i>	<i>At December 31, 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

For the 12 months ended 31 December 2007 the movements within particular classes of provisions were as follows:

<i>(in PLN millions)</i>	<i>At January 1, 2007</i>	<i>Increases</i>	<i>Reversals (utilizations)</i>	<i>Reversals (releases)</i>	<i>Discounting effect</i>	<i>Reclassifi- cations⁽¹⁾</i>	<i>At December 31, 2007</i>
Restructuring provisions	292	9	(131)	(8)	8	-	170
Provisions for claims and litigation (see Note 32), risks and other charges	727	369	(14)	(97)	-	(2)	983
Provisions for dismantling	138	70	(4)	(10)	6	-	200
Provision for potential tax risks	4	-	-	(2)	-	-	2
Total provisions for risks and charges	1,161	448	(149)	(117)	14	(2)	1,355
Current	890						1,177
Non-current	271						178

⁽¹⁾ Reclassification of provisions of Ditel S.A. to assets held for sale (see Note 16).

The discount rate used to calculate the present value of restructuring and dismantling provisions amounted to 5.50% to 6% as at 31 December 2008 and 5.25% to 5.50% as at 31 December 2007.

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Restructuring provision

The restructuring provision consists of the estimated amount of termination benefits for employees scheduled to terminate employment in the Group under the 2009-2011 Social Agreement and of 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 replaces 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 dependent 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 2008, 4,365 persons took advantage of the departure package under the 2007-2009 Social Agreement.

The provision for restructuring of satellite activities of the Group is 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. 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, period of utilization (8-28 years), current utilization 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 December 31, 2008</i>	<i>At December 31, 2007</i>
Trade payables	2,097	1,802
Fixed assets payables	903	1,905
UMTS licence payables	873	758
Total trade payables ⁽¹⁾	3,873	4,465
Current	3,059	3,760
Non-current ⁽²⁾	814	705

⁽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 December 31, 2008</i>	<i>At December 31, 2007</i>
VAT payable	168	129
Other taxes payables	27	37
Other	16	15
Total other liabilities	211	181
Current	211	180
Non-current	-	1

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29.3 Deferred income

<i>(in PLN millions)</i>	<i>At December 31, 2008</i>	<i>At December 31, 2007</i>
Sales of products and services billed in advance, including telephone subscriptions, phone cards, prepaid unused minutes of talk plans and loyalty programs benefits	538	536
Revenue from inactivated mobile phones and terminals in the external dealership network	31	29
Other	14	20
Total deferred income	583	585
Current	524	514
Non-current	59	71

30. Equity

30.1 Share capital

As at 31 December 2007, the share capital of the Company amounted to PLN 4,200 million and was divided into 1,400 million fully paid ordinary bearer shares of PLN 3 each. During year ended 31 December 2008, the Company acquired 33,124,220 of its own shares for the total consideration of PLN 700 million (see Note 30.3). 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.

The ownership structure of the share capital as at 31 December 2008 was as follows:

<i>(in PLN millions)</i>	<i>% of votes ⁽³⁾</i>	<i>Nominal value</i>
France Telecom S.A.	49.79	1,995
Capital Research and Management Company ⁽¹⁾	10.11	405
State Treasury ⁽²⁾	4.15	166
Other shareholders	35.95	1,441
Total	100.00	4,007
Treasury shares		99
Total		4,106

⁽¹⁾ Data as of last notification submitted to the Company by Capital Research and Management Company on 6 November 2008.

⁽²⁾ Presented data is according to the number of shares registered by the State Treasury during the General Meeting of Shareholders of TP S.A. on 16 January 2009.

⁽³⁾ As a result of purchase of the Company's own shares for the purpose of their redemption (see Note 30.3) the percentage of votes held by the Shareholders at the General Meeting of Shareholders has increased as at 31 December 2008.

As at 31 December 2008, France Telecom owned 48.58% 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.

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.

On 6 November 2008 the Company received notification from the Capital Research and Management Company ("CRMC") that it holds 134,980,917 of TP S.A. shares, corresponding to 10.11% (after taking into account redemption of own shares – see Note 30.3) of votes at the Annual General Meeting of Shareholders. At the same time, CRMC informed that the shares are owned by accounts of individual funds under the discretionary investment management of CRMC, none of which owns shares in excess of 5% of the Company's shares.

Apart from the above and the programme on the buy back of own shares for the purpose of their redemption (see Note 30.3), 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 24 April 2008, the General Shareholders' Meeting of TP S.A. adopted a resolution regarding payment of an ordinary dividend of PLN 2,053 million, i.e. PLN 1.50 per share. On 11 June 2008, TP S.A. distributed PLN 2,053 million of dividends, including PLN 825 million in respect of 2007 profit and PLN 1,228 million of undistributed profits from previous years.

30.3 Redemption of own shares

On 4 February 2008, the Company was informed by the Registry Court that on 22 January 2008 the share capital reduction from PLN 4,200 million to PLN 4,106 million, as a result of the redemption of 31,226,759 ordinary A-series bearer shares acquired by the Company in 2007 for the purpose of their redemption, had been registered.

On 24 April 2008, the General Shareholders' Meeting of TP S.A. adopted a resolution authorizing the Company to buy back its own shares for the purpose of their redemption ("the Programme"). The amount of funds allocated to the Programme was PLN 700 million. On 15 July 2008 TP S.A. Management Board determined detailed terms of the Programme.

The Programme pertained to the Company's shares listed on the Warsaw Stock Exchange ("WSE"). A brokerage bank, acting on the basis of a contract executed with the Company, purchased the Company's shares exclusively through the WSE, first on behalf of its own and for its own benefit and subsequently all such acquired shares were resold to the Company. TP S.A. has received information from France Telecom S.A. that it did not participate in the Programme.

During the Programme execution, that is between 5 August 2008 and 25 November 2008, the Company purchased a total of 33,124,220 own shares, which account for 2.42% of the Company's share capital, for a total consideration of PLN 700 million. Transaction cost of shares' purchase recognized in equity amounted to PLN 4 million.

On 16 January 2009, an Extraordinary General Meeting adopted resolutions on redemption of the ordinary A-series bearer shares acquired by the Company in 2008 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.

31. Contractual obligations and off balance sheet commitments

31.1 Off-balance sheet contractual obligations and other commitments

At 31 December 2008, 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.

31.1.1 Investment, purchase and leasing commitments

a) Commitments related to operating leases – the Group as lessee

Operating lease commitments mainly relate to the lease of buildings, land, computer equipment and vehicles. Lease costs recognised in the consolidated income statement for the years ended 31 December 2008 and 2007 amounted to PLN 322 million and PLN 293 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.

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Future minimum lease payments under non-cancellable operating leases, as at 31 December 2008 and 2007, were as follows:

<i>(in PLN millions)</i>	<i>At December 31, 2008</i>	<i>At December 31, 2007</i>
within one year	178	219
after one year but not more than five years	524	428
more than five years	163	181
Total minimum future lease payments	865	828

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2008 and 2007 amounted to PLN 40 million and PLN 1 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 December 31, 2008</i>	<i>At December 31, 2007</i>
Property, plant and equipment	676	695
Intangibles	78	59
Total	754	754
Amounts contracted to be payable within 12 months from the balance sheet date	699	716

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

31.1.2 Other off-balance sheet commitments

31.1.2.1 Guarantees

Bank guarantees as at 31 December 2008 and 2007 amounted to PLN 1 million and PLN 7 million, respectively, and related mainly to leasing transactions.

31.2 Assets covered by commitments

The gross book value of the assets held under finance leases amounted to PLN 2 million and PLN 2 million as at 31 December 2008 and 2007, respectively.

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 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.

Since 1998, the Company has implemented action plans aimed at the limitation of its impact on the environment and at maintaining compliance with Polish regulations on environment protection. In 2002 and 2003, the Company commissioned an environmental audit which 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. Dedicated regional teams have been established to carry out on-going supervision regarding regulatory compliance, emission levels, as well as to provide employees training in the area of environmental protection.

The Group has recorded the 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 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. Investigations by UKE and UOKiK

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 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 not implementing the offer to sell Neostrada (Internet services) separately from the 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. On 28 June 2007, UKE appealed this verdict. On 10 April 2008, the Appeal Court revoked the judgment of SOKiK and the case will be reconsidered by SOKiK.

On 22 February 2007, 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. 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. A decision from SOKiK is awaited to set a hearing date.

On 20 December 2007, the Office of Competition and Consumer Protection ("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 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. A decision from SOKiK is awaited to set a hearing date.

Moreover, there is a number of other proceedings against the Group initiated by UKE and UOKiK. As at 31 December 2008 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.

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 Polish Post, Telegraph and Telephone, 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. DPTG's claims, calculated up to January, 2006, amounted to 670 million euros excluding interest. On 10 October 2008 DPTG extended its complaint for the period up to the end of 2007 and calculated the claimed amount at, in total, EUR 840 million, excluding interest. The Company disputes both the basis of the claim and the amounts claimed by DPTG.

In 2004, the Arbitration Tribunal appointed an expert to evaluate the revenue "from the NSL" to be used as a basis for calculating the share attributable to DPTG until June 2004. Between November 2005 and December 2007, this expert has delivered three reports proposing widely differing estimates. In October

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2007, the Arbitration Tribunal named a second expert to assess the appropriateness and the consistency of the first expert's models. In January 2008, the second expert concurred, in all material respects, with the conclusions of the latest report of the first expert.

On 8 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 as a result of that decision. On 12 June 2008 the Arbitration Tribunal scheduled procedural dates until April 2009. On 15 and 16 January 2009, the Arbitration Tribunal held a hearing. The next hearing is scheduled on 20-24 April 2009. The Company anticipates some significant developments in 2009.

Information regarding the amount of the provision has not been separately disclosed, as in the opinion of the Company's Management such disclosure could prejudice the outcome of the pending case.

f. Other contingent liabilities

Apart from the above mentioned, 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 in this respect.

In September 2008, the European Commission conducted an inspection at the premises of TP and PTK-Centertel. The aim of the inspection was to gather evidence of a possible breach by TP of competition rules on the broadband Internet market. At this stage of the proceedings, it is not feasible to foresee the consequences of such inquiry. The European Commission has no deadline to complete an antitrust investigation. The Company has challenged, before the European Court of First Instance, the decision of the European Commission that was the basis for its inspection. Under European law, in the event of infringement of rules on competition, the Commission may impose a fine on an entity of up to 10% of its total turnover in the preceding business year, as well as a fine of up to 1% for providing incorrect or misleading information.

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>December 31, 2008</i>	<i>December 31, 2007</i>
Short-term benefits excluding employer social security payments ⁽¹⁾	9,905	10,488
Post-employment and other benefits	1,756	3,438
Termination costs	1,470	4,591
Total	13,131	18,517

⁽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 by Telekomunikacja Polska S.A. to TP S.A.'s Management Board and Supervisory Board members in the 12 months ended 31 December 2008 and 2007 are presented below.

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Management Board (in PLN thousands)	12 months ended	12 months ended
	December 31, 2008	December 31, 2007
Maciej Witucki	2,945	2,148
Jacek Kałaur	1,910	1,754
Roland Dubois	1,360	n/a
Richard Shearer	1,570	n/a
Piotr Muszyński	298	n/a
Ireneusz Piecuch	357	n/a
Benoit Merel ⁽¹⁾	1,332	1,915
Pierre Hamon ⁽¹⁾	1,674	2,339
Iwona Kossmann ⁽¹⁾	1,685	726
Konrad Kobylecki ⁽¹⁾	n/a	1,275
Jean-Marc Vignolles ⁽¹⁾	n/a	-
Marek Józefiak ^(1,2)	n/a	6,444
Alain Carlotti ^(1,2)	n/a	1,916
Total	13,131	18,517

⁽¹⁾ Persons that were not members of the Management Board of the Company as at 31 December 2008 but were members of the Management Board of the Company in previous periods.

⁽²⁾ The amount paid in the 12 months ended 31 December 2007 includes PLN 5,340 thousand and PLN 879 thousand accrued in 2006 for Mr. Marek Józefiak and Mr. Alain Carlotti, respectively.

In addition to the amounts presented above, during the 12 months ended 31 December 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 1.3 million. During the 12 months ended 31 December 2007, the estimated cost of share-based payments under TP S.A.'s incentive programme allocated to the Company's Management Board amounted to PLN 0.3 million. No cost was recognised in respect of France Telecom S.A.'s incentive programme in the 12 months ended 31 December 2007 as it was implemented in the first quarter of 2008. In the 12 months ended 31 December 2008 and 2007, the amount of accrued costs for bonuses for the Company's Management Board amounted to PLN 1.3 million and PLN 0.9 million, respectively.

Supervisory Board (in PLN thousands)	12 months ended	12 months ended
	December 31, 2008	December 31, 2007
Prof. Andrzej Koźmiński	304	276
Andrew Seton ⁽¹⁾	n/a	167
Timothy Boatman	228	207
Prof. Jerzy Rajski	152	138
Dr. Wiesław Rozłucki	152	125
Olivier Barberot ⁽²⁾	-	-
Olivier Faure ⁽²⁾	-	n/a
Michel Monzani ^{(1)/(2)}	-	-
Jacques Champeaux ^{(2)/(3)}	64	-
Georges Penalver ⁽²⁾	-	-
Vivek Badrinath ⁽²⁾	-	-
Stephane Pallez ⁽²⁾	-	-
Antonio Anguita ⁽²⁾	-	-
Phillipe Andres ^{(1)/(2)}	n/a	-
Ronald Freeman	228	26
Dr. Mirosław Gronicki	152	21
Tadeusz Han ⁽¹⁾	n/a	61
Julien Billot ^{(1)/(2)}	n/a	-
Total	1,280	1,021

⁽¹⁾ Persons that were not members of the Supervisory Board of the Company as at 31 December 2008 but were members of the Supervisory Board of TP S.A. in 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 fourth quarter of 2008 Mr. Jacques Champeaux started to receive remuneration for the function performed.

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 during the 12 months ended 31 December 2008 were as follows: Maciej Witucki PLN 2 thousand, Pierre Hamon PLN 17 thousand, Jean-Marc Vignolles PLN 203 thousand, Alain Carlotti PLN 16 thousand.

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 during the 12 months ended 31 December 2007 were as follows: Maciej Witucki PLN 2 thousand, Pierre Hamon PLN 17 thousand, Iwona Kossmann PLN 355 thousand, Jacek Kałkaur PLN 38 thousand, Konrad Kobylecki PLN 9 thousand, Jean-Marc Vignolles PLN 1,304 thousand, Alain Carlotti PLN 12 thousand.

In the years ended 31 December 2008 and 2007, 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.

In the years ended 31 December 2008 and 2007, 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 2008 and 2007, TP S.A. did not grant any loans to members of the Management Board and the Supervisory Board.

As at 31 December 2008 and 2007, 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 2008 and 2007, 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 2008 and 2007, 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.

33.2 Related party transactions

As at 31 December 2007, France Telecom owned 47.5% of shares of the Company and held 48.58% of votes at the General Shareholders' Meeting. As a result of the share capital reduction and the purchase of the Company's own shares for the purpose of their redemption (see Note 30.3), the percentage of shares owned and votes held as at 31 December 2008 has increased to 48.58% and 49.79%, respectively. France Telecom has the power to appoint a majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

Related party transactions were made on normal commercial terms.

The Group's revenues 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, IT services, consulting services and brand fees.

The Group's financial costs in transactions with related parties comprise interest on a loan received by TP S.A. from France Telecom. The Group's financial payables to related parties as at 31 December 2007 comprised the above mentioned loan together with interest (see also Note 21.3).

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<i>(in PLN millions)</i>	<i>12 months ended</i>	<i>12 months ended</i>
	<i>December 31, 2008</i>	<i>December 31, 2007</i>
Sales of goods and services to:	176	153
- France Telecom (parent)	101	78
- France Telecom (group)	75	75
Purchases of goods (including tangible and intangible assets) and services from:	276	493
- France Telecom (parent)	108	256
- France Telecom (group)	168	237
Financial expense:	11	39
- France Telecom (parent)	11	39
- France Telecom (group)	-	-
Dividends paid:	997	931
- France Telecom (parent)	997	931
- France Telecom (group)	-	-

In April 2005, PTK-Centertel and 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 revenues 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 Brand Services Limited (UK) (hereinafter referred to as "Orange") concluded a license 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 revenues 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 134 million for the 12 months ended 31 December 2008 (PLN 131 million for the 12 months ended 31 December 2007).

<i>(in PLN millions)</i>	<i>At December 31,</i>	<i>At December 31,</i>
	<i>2008</i>	<i>2007</i>
Receivables from:	85	42
- France Telecom (parent)	65	36
- France Telecom (group)	20	6
Payables to:	224	270
- France Telecom (parent)	103	187
- France Telecom (group)	121	83
Financial payables to:	-	1,003
- France Telecom (parent)	-	1,003
- France Telecom (group)	-	-

34. Subsequent events

There were no significant events after the balance sheet date.

Management Board's Report on the Activity of

TELEKOMUNIKACJA POLSKA GROUP

in 2008

25 February 2009

This report on the activity of the Telekomunikacja Polska Group (“the TP Group” or “the Group”) in 2008 has been drawn up in compliance with articles 95 and 96 of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information disclosed by issuers of securities (Journal of Laws of 2005, no. 209, item 1744).

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CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS
as of 31 December 2008 and for the 12-month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

	for 12 months ended				Change
	31 December 2008		31 December 2007		
	in PLN mln	in EUR ¹ mln	in PLN mln	in EUR ² mln	
Consolidated Income Statement					
Revenues, including:	18,165	5,143	18,244	4,831	-0.4%
Fixed line services	10,494	2,971	10,914	2,890	-3.8%
Mobile services	8,635	2,445	8,064	2,135	7.1%
Eliminations and unallocated items	(964)	(273)	(734)	(194)	31.3%
GOM	7,639	2,163	7,678	2,033	-0.5%
Gross operating margin	42.1%		42.1%		-
Operating income	3,313	938	3,248	860	2.0%
Operating margin	18.2%		17.8%		-0.4pp
Consolidated net income after tax	2,190	620	2,275	602	-3.7%
Net income attributable to equity holders of TP SA	2,188	619	2,273	602	-3.7%
Weighted average number of shares (in millions)*	1,361	1,361	1,387	1,387	-1.9%
Earnings per share (in PLN) (basic and diluted)	1.61	0.46	1.64	0.43	-1.8%

Consolidated Cash Flow Statement

Net cash provided by operating activities	6,626	1,876	6,214	1,645	6.6%
Net cash used in investing activities, including	(2,946)	(834)	(2,945)	(780)	-
Capital expenditure (on accrual basis)	(2,579)	(730)	(3,677)	(974)	-29.9%
Net cash used in financing activities	(2,687)	(761)	(3,309)	(876)	-18.8%
Net change in cash and cash equivalents	993	281	(40)	(11)	n/a

	as of				Change
	31 December 2008		31 December 2007		
	in PLN mln	in EUR ³ mln	in PLN mln	in EUR ⁴ mln	
Consolidated Balance Sheet					
Cash and cash equivalents	1,640	393	642	179	155.5%
Total current and non-current assets	31,234	7,486	31,933	8,915	-2.2%
Other intangible assets, net	2,914	698	3,097	865	-5.9%
Property, plant and equipment, net	19,589	4,695	21,120	5,896	-7.2%
Total assets	31,234	7,486	32,422	9,051	-3.7%
Financial liabilities at amortised costs, of which:	7,175	1,720	4,929	1,376	45.6%
Current	2,100	503	3,009	840	-30.2%
Non-current	5,075	1,216	1,920	536	164.3%
Other liabilities, current and non-current	6,829	1,637	9,686	2,704	-29.5%
Total equity	17,230	4,130	17,773	4,962	-3.1%

Notes:

1 – PLN/EUR fx rate of 3.5321 applied

2 – PLN/EUR fx rate of 3.7768 applied

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

3 – PLN/EUR fx rate of 4.1724 applied

4 – PLN/EUR fx rate of 3.5820 applied

1.1 Comments to the Income Statement Items

In 2008, TP Group's revenues amounted to PLN 18,165 million and were lower by PLN 79 million compared to 2007. The decrease in revenues resulted mainly from a decrease of PLN 420 million in fixed line revenues, which was offset by an increase of PLN 571 million in mobile revenues.

Gross Operating Margin (GOM) amounted to PLN 7,639 million in 2008 and remained almost stable compared with 2007.

A number of savings initiatives and means of cost control over general and administrative expenses were introduced in 2008. In particular, year-on-year, in 2008:

- Taxes other than income taxes were down by PLN 63 million;
- Commercial expenses decreased by PLN 34 million;
- Network and IT costs decreased by PLN 34 million;
- Labour expenses were lower by PLN 94 million.

The aforementioned cost reductions were offset by the following items:

- Purchase and payment to other operators (interconnect and roaming costs), which increased by PLN 106 million;
- Net result on foreign exchange gains (losses), which decreased by PLN 148 million.

Operating income in 2008 was PLN 3,313 million, which is an increase of PLN 65 million compared with 2007. This reflected:

- Gain (loss) on sale of assets up PLN 76 million (compared with 2007), mainly as a result of sale of real estates and Ditel (a TP Group company);
- Reversal of impairment of non-current assets up PLN 107 million (compared with 2007);
- Restructuring costs up PLN 173 million (compared with 2007), as a result of the conclusion of the 2009-2011 Social Agreement.

In 2008, net financial charges were by PLN 300 million higher than in 2007, which resulted mainly from a decrease of PLN 191 million in foreign exchange gains (losses) and an increase of PLN 69 million in interest expense.

Net income attributable to equity holders of Telekomunikacja Polska S.A. (“the Company”, “the Parent Company”, “TP”) amounted to PLN 2,188 million in the reported period, which is a 3.7% decrease compared with 2007. Share buy-back partially offset the decrease in net income per share. Earnings per share decreased from PLN 1.64 to PLN 1.61, i.e. by 1.8%.

1.2 Comments to the Cash Flow Statement Items

In 2008 net cash flows provided by operating activities totalled PLN 6,626 million and were higher by PLN 412 million compared with 2007. This was attributable mainly to a decrease of PLN 539 million in income tax paid and almost stable net interest paid (year-on-year).

Net cash used in investing activities amounted to PLN 2,946 million in 2008 and was comparable to that in 2007. An increase of PLN 593 million in cash outflow on property, plant, equipment and intangible assets (year-on-year) was offset by an increase of PLN 534 million in proceeds from sale of property, plant, equipment and intangible assets.

Net cash outflows from financing activities amounted to PLN 2,687 million in 2008 and were by PLN 622 million lower than in 2007. The primary factor contributing to this decrease was higher proceeds from long-term bank loans (up PLN 3,091 million), which outweighed higher outflow on redemption of bonds (up PLN 504 million) and lower net proceeds from short-term bank loans and a loan from a related entity (down PLN 1,800 million). In 2008, purchase of treasury shares (including payment of related transaction cost) remained stable at PLN 701 million.

1.2.1 Capital Expenditures (CAPEX)

In 2008, TP Group’s capital expenditures amounted to PLN 2,579 million. Specifically, fixed line and mobile capital expenditure amounted to PLN 1,571 million and PLN 1,008 million respectively.

In 2008, the TP Group continued its on-going capital expenditure optimisation program by:

- prioritising the projects that offer best returns in the short to medium term (top priority is assigned to projects related to generating and defending revenues, in particular non-regulated);
- project efficiency monitoring;
- implementation of common investment projects across TP Group companies.

Fixed Line Segment

In 2008, fixed line CAPEX totalled PLN 1,571 million and was PLN 841 million lower than in 2007.

The investment projects included:

- Access network expansion to enable new additions;
- Development of broadband internet access base through purchases of subscriber terminals (mainly Livebox modems and Set-Top-Box TV decoders);
- Data transmission network expansion: ATM network edge;
- 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;
- Installation of new DSLAM IP equipment and enhancement of the IP backbone network as a transport layer for the existing and new IP/MPLS network services, and maintenance, improvement and expansion of the data transmission network and IT infrastructure;
- Launch of the satellite TV (TVoSAT) service and enhancement of the video-on-demand (VoD) service;
- Expansion of the MAN Metro and MAN Access networks;
- Enhancement of optical fibre network and transmission equipment to enable new ACCESS network and MAN BBN (UMTS) backbone network lines;
- Projects aimed at updating network resource records (collecting data about access network condition and capacity for providing services at particular locations);
- Service level diversification and adjustment to the customer needs and importance (segmentation of business customers);
- Modernisation of exchange monitoring and management system;
- Service and product unification across IT systems;
- Projects implemented in line with UKE's requirements (providing network nodes for local loop unbundling, payphone modernisation, release of radio frequencies);
- Launch of the "Electronic Invoice" service;
- Optimisation of customer service processes and costs;
- Market introduction of new, and restructuring of the existing, retail outlets (change of visualisation and ownership structure);
- Film co-production, TV studio expansion and TV channel development;
- Maintenance of the existing billing system and start of the implementation of a new billing system that will enable introduction of convergent products;
- Development of a tool for analysing parameters that affect the convergent service quality (e.g. collecting performance indicator data about network equipment, monitoring service level and generating warning and alarm signals that indicators are out of acceptable range);
- IT system development (introduction of new offers and functionalities, modernisation and system support for sales processes);
- Implementation of a system that integrates manufacturers' monitoring systems, which is used to control all heterogeneous network elements that make up the VIP service technological chain.

Mobile Segment – PTK Centertel

In 2008, PTK Centertel's capital expenditures totalled PLN 1,008 million and were PLN 268 million lower than in 2007.

Capital expenditures in 2008 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 51.4% of the territory, while the UMTS/HSPA network covered 51.8% of the population at the end of 2008.

Other key areas of investments were:

- Capacity for voice services aimed at maintaining quality;
- Coverage extension for improved mobility;
- Service platforms for Orange multimedia services.

1.3 Comments to the Balance Sheet Items

As of 31 December 2008, total equity amounted to PLN 17,230 million and was PLN 543 million lower than a year before. The change is attributed mainly to the dividend payment (from retained profits) of PLN 2,054 million and buyback of shares (including related transaction costs) of PLN 704 million, partially offset by net income of PLN 2,190 million generated in 2008.

Net property, plant, equipment and intangible assets decreased by PLN 1,714 million over 2007, mainly as a result of amortisation and depreciation of PLN 4,317 million, which was only partially offset by investments in tangible and intangible fixed assets amounting to PLN 2,579 million.

Total assets decreased by PLN 699 million in the reported period. The change resulted mainly from the aforementioned decrease of PLN 1,714 million in property, plant, equipment and intangible assets and a decrease of PLN 281 million in cash hedges related to derivative instruments, which were accompanied by an increase of PLN 998 million in cash and cash equivalents, an increase of PLN 114 million in income tax prepayments and an increase of PLN 159 million in deferred tax assets. Assets held for sale decreased by PLN 489 million in 2008, mainly as a result of sale of selected properties and Ditel (a TP Group company).

Non-current and current liabilities decreased by PLN 611 million to PLN 14,004 million as of 31 December 2008. The primary factors that contributed to the change were as follows: an increase of PLN 1,243 in the Group's debt (bonds, bank loans, a loan from related party) and an increase of PLN 161 million in provisions, which were more than offset by a decrease of PLN 1,413 million in liabilities on account of derivatives and a decrease of PLN 592 million in trade payables.

The structure of liabilities changed in 2008. Current liabilities decreased by PLN 3,857 million, while non-current liabilities increased by PLN 3,246 million. It was mainly a result of a decrease of PLN 3,213 million in short-term financial liabilities on account of bonds, bank loans, a loan from related party and derivative instruments, which was accompanied by an increase of PLN 3,043 million in long-term financial liabilities on account of bonds, bank loans and derivative instruments.

1.4 Transactions with Related Parties

For information about TP Group's transactions with related entities, see Note 33.2 to the Consolidated Financial Statements enclosed.

1.5 Description of Significant Agreements

In 2008, TP concluded no other agreements the value of which exceeded 10% of TP's total equity.

For loan and borrowing agreements are described in note 1.8.2.

1.6 Subsequent Events

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

1.7 Scope of Consolidation within the TP Group

For detailed information about the scope of consolidation within the TP Group, see Note 1.2 to the Consolidated Financial Statements enclosed.

1.8 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 and loans and borrowings.

In 2008, the TP Group repaid long-term debt of PLN 228 million and a loan of PLN 1,000 million to France Telecom, and redeemed bonds totalling USD 800 million. Loan and borrowing repayment and bond redemption were carried out on schedule.

Additional financing was raised through:

- Drawdown of a loan totalling PLN 4,500 million under a syndicated revolving loan agreement, with subsequent repayment of PLN 2,800 million of it in 2008 of which PLN 800 million drawn in 2007;
- Drawdown of a loan totalling PLN 1,000 million under a revolving loan agreement with Bank Pekao S.A.;
- Drawdown of a loan of PLN 1,391 million from the European Investment Bank.

As of 31 December 2008, TP Group's interest-bearing liabilities totalled PLN 7,175 million (before derivatives), which is an increase of PLN 1,243 million compared to 31 December 2007.

TP Group's liquidity remained solid, owing to strong cash position, amounting to PLN 1,640 million at 31 December 2008, and available credit facilities totalling the equivalent of PLN 2,336 million (please see Section 1.8.3 for details).

Based on available cash and 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 2009.

1.8.1 Bonds

On 10 December 2008, TPSA Finance BV, a subsidiary of TP, redeemed at maturity ten-year bonds totalling USD 800 million par, that had been issued on 10 December 1998 under the Senior Notes Program totalling USD 1,000 million.

For the detailed information on all outstanding external long-term debt securities and the description of the redemption terms, please see Note 21.1 to the Consolidated Financial Statements enclosed.

1.8.2 Loan and Borrowings Agreements

In 2008, the TP Group concluded the following loan agreements:

- A revolving loan agreement totalling PLN 1,000 million with Bank Polska Kasa Opieki S.A. for the purpose of financing of general corporate needs. The agreement was concluded for a period of 12 months, but the final repayment date may be extended to 24 months after the date of the agreement. The loan interest is based on the WIBOR rate for the relevant interest periods plus a bank margin, and charged annually;
- An overdraft facility agreement for the amount of PLN 62 million with ABN Amro Polska S.A. in February 2008, which enables TP to use the overdraft facility for current financing and liquidity management until 29 December 2008;
- An amendment to the loan agreement with the European Investment Bank ("EIB") of 25 May 2007 on technical aspects of the loan use;
- Annex dated 22 January 2008 to a loan agreement with Societe Generale, Polish Branch for the amount of PLN 20 million, extending its validity until 31 December 2008 and annex dated 11 February 2008 to a loan agreement with Calyon for the amount of PLN 10 million, extending its validity until 31 October 2008, for the purpose of the overdraft facility for current financing and liquidity management of PTK Centertel Sp. z o.o.

In 2008, TP Group drew PLN 6,891 million under the revolving loan agreement of February 2006, a revolving loan agreement of June 2008 with Bank Polska Kasa Opieki S.A., and a loan agreement with EIB of May 2007. In the same period, TP repaid PLN 4,028 million.

In the reported period, the loans drawn from the European Investment Bank and the International Bank for Reconstruction and Development under the relevant loan agreements of 1991, and a loan from France Telecom were fully 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.

1.8.3 Unused Credit Facilities

As of 31 December 2008, the TP Group had unused general-purpose credit facilities amounting to an equivalent of PLN 2,336 million, including:

- EUR 550 million available to TP;
- EUR 5 million and PLN 20 million available to PTK Centertel.

1.8.4 Loan Covenants

The loan and guarantee agreements to which TP is a party impose no obligations to meet financial ratios on TP or the TP Group.

1.8.5 Ratings of the TP Group

The ratings at 31 December 2008 were as follows:

Moody's Investor Services	A3/Stable (upgraded in February 2008)
Standard and Poor's Rating Services	BBB+/Stable (confirmed in November 2007)
Fitch IBCA	BBB+/Stable (confirmed in March 2007)

1.8.6 Hedging Transactions

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

For the currency structure of net debt (after valuation of derivatives) see Note 19.2 to the Consolidated Financial Statements enclosed.

1.8.7 Description of Significant Off-Balance Sheet Items

For the detailed description of significant off-balance sheet items, please see Note 31 to the Consolidated Financial Statements enclosed.

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

At the end of December 2008, TP Group's liquidity ratios increased compared to the end of 2007.

The liquidity ratios for the TP Group at 31 December 2008 and 31 December 2007, respectively, are presented in the table below. TP Group financial liquidity improved as a result of lower current liabilities (redemption of USD 800 million bonds, partially from non-current liabilities) and cash increased by PLN 998 million.

	31 December 2008	31 December 2007
Current ratio Current assets / current liabilities	0.75	0.36
Quick ratio Total current assets – inventories / current liabilities	0.70	0.33
Super-quick ratio Total current assets – inventories – receivables / current liabilities	0.35	0.14

Current liabilities do not include provisions and deferred credits.

TP Group's net financial debt (after valuation of derivatives) decreased to PLN 5,404 million at the end of 2008 (from PLN 6,434 million at the end of 2007).

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

2 STATEMENTS OF THE MANAGEMENT BOARD

2.1 Statement on Adopted Accounting Principles

TP's Management Board 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 (IFRS) 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 TP Group's development, achievements and standing, including the description of major risks and uncertainties.

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

TP's Management Board hereby confirms that the licensed auditor of the TP Group's consolidated 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.

2.3 Agreement with the Licensed Auditor

In October 2008, 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 2008. Based on the agreement, Ernst and Young Audit 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 2008 prepared in accordance with IFRS;
- reviews of the standalone and consolidated financial statements for half year 2008;
- agreed procedures related to the audit and review of the standalone and consolidated financial statements in 2008.

The aggregate remuneration for auditing and reviewing the above-mentioned financial statements and other services rendered by Ernst and Young Audit Sp. z o.o. is presented below (in thousands PLN).

	2008	2007
Audits/reviews of TP	5,140	5,005
Audit related and other services for TP	642	123
Audits/reviews of subsidiaries*	1,790	1,795
Total amount paid by TP Group	7,572	6,923

* The remuneration for audits/reviews of subsidiaries is paid based on individual contracts between Ernst and Young Audit Sp. z o.o. and the relevant subsidiary.

In addition, PLN 1,571 thousand were paid to Ernst and Young Audit Sp. z o.o. in relation to the audit of the 2007 regulatory statements based on the telecommunication law (compared to PLN 1,661 thousand in 2007).

Apart from the above-mentioned remuneration, for additional agreed procedures on internal control over financial reporting PLN 1,770 thousand was paid in 2008 to Ernst and Young Audit Sp. z o.o. (compared to PLN 2,800 thousand in 2007).

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 2008.

CHAPTER II
**MANAGEMENT BOARD'S REPORT ON OPERATING
AND FINANCIAL PERFORMANCE OF THE TP GROUP**
in 2008

3 FIXED LINE SEGMENT

3.1 Financial Performance

Fixed Line Segment: Income Statement

PLN million	for 12 months ended		
	December 31, 2008	December 31, 2007	Change
Revenues	10,494	10,914	-3.8%
Gross Operating Margin (GOM)	4,394	4,523	-2.9%
<i>Margin, %</i>	41.9%	41.4%	
Operating income	1,499	1,338	12.0%
<i>Margin, %</i>	14.3%	12.3%	

Fixed line revenues amounted to PLN 10,494 million in 2008 and were PLN 420 million lower than in 2007, which represents an 3.8% decrease year-on-year.

The decrease is caused by fixed-to-mobile substitution, decrease of mobile termination rates (MTR) reflected also in retail fixed-to-mobile prices, as well as ongoing market liberalisation, including wholesale line rental (WLR). The decline in retail fixed voice revenues was partially compensated with growth in revenues from broadband Internet access, data transmission, leased lines and wholesale services.

The PLN 129 million decrease in GOM, compared with 2007, is lower than the decrease in revenue by PLN 291 million, mainly because of a PLN 245 million difference between changes of provisions for claims and litigations, risks and other charges booked in 2008 and 2007. Despite inflationary pressure on wages in Poland, labour costs decreased by PLN 84 million (-4%) compared with 2007: the 3.5% rise in average personal cost was offset with surplus by the headcount at the end of 2008 lower by 1,752 employees (-6.3%) as a result of implementing the Social Agreement. Excluding on-off actuarial corrections of PLN 33 million, labour costs decreased by PLN 51 million (-2.4%) with average personnel cost increased by 5.3 %. Based on optimisation of general expenses, non-income taxes were lower by PLN 61 million compared with 2007. The cost savings described above were compensated with PLN 76 million increase in other external purchases, mainly in property costs due to lease-back of Warsaw premises sold in mid-2008 and higher prices for energy and heating. The net change in foreign exchange gains and losses between 2008 and 2007 amounted to PLN -42 million which had additional negative impact on Gross Operating Margin.

GOM as a % of revenues was therefore at 41.9% during the reported period, an increase of 0.5 percentage points compared to 2007.

Given the PLN 308 million decrease in depreciation and amortisation, PLN 56 million gain on sale of Ditel, PLN 33 million gain on sale of Warsaw premises, PLN 91 million reversal of impairment of these assets and PLN 178 million increase in restructuring costs related to new Social Agreement (see Section 9.2.2 for details), operating income was up PLN 161 million compared with 2007.

In order to mitigate the trend of decreasing revenues and profitability of the fixed line segment, the TP Group plans to continue 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 6.2 for details).

3.2 Market and Competition

In 2008, the fixed line penetration rate was consistently falling to reach 27.7% in December 2008 (compared to 28.6% at the end of 2007). With the development of convergent services, competition intensified in the fixed line telecommunications market in Poland in 2008, 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 launched further modifications of Home Zone offers and voice tariff reductions in an attempt to take market share away from fixed line voice. Number of WLR-based (wholesale line rental) lines increased and first LLU lines (local loop unbundling) lines appeared. The influence of regulatory measures was negatively impacting the top line as a result of the

reductions in interconnection rates, that is both mobile termination rates (which for TP Group result in 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 other fixed line local access operators. In addition, 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.

Currently, TP faces competition practically in each fixed line voice market segment.

However, erosion of traffic market share was contained in all sub-segments benefiting from TP Group's initiatives to stimulate traffic through new tariff plans.

Broadband Internet access market:

According to TP's internal estimates based on market research, the fixed broadband market expanded by 13.4% (in terms of total number of access lines) in 2008, which is a significant slowdown compared with the 23.9% growth in 2007.

The broadband market growth by value was approximately 17.4% in 2008 (year-on-year).

TP is still under the strongest competitive pressure from cable television (CATV) operators, whose aggregate market share was estimated at 25% by volume or 23.5% by value at the end of 2008.

Operators that provide services under BSA agreements attracted approximately 215,000 new customers in 2008, which translated into a 6.3% market share (by volume) at the end of 2008.

2008 saw further consolidation in the broadband market. A number of smaller local internet providers were acquired by large players, such as Netia and Multimedia Polska.

3.3 Fixed Line Voice Services

Fixed line voice services: revenues and key performance indicators

PLN million, unless indicated otherwise	for 12 months ended		
	December 31, 2008	December 31, 2007	Change
Revenues from fixed line services, incl.:	6,783	7,616	-10.9%
Subscription and traffic	5,775	6,772	-14.7%
Payphones revenues	41	59	-30.5%
I Interconnect	966	783	23.4%
Number of fixed lines, '000 (excl. WLR)	7,957	8,950	-11.1%

Retail fixed voice service revenues saw further erosion in 2008 as a result of continuous competitive pressure coming from WLR based operators and fixed-to-mobile substitution. These revenues decreased by PLN 997 million compared with 2007, i.e. -14.7% which constitutes accelerated decline compared to -12.7% a year ago. Retail revenues impact was partially compensated with higher wholesale revenues, incl. interconnect, which were up PLN 183 million (+23.4% year-on-year) driven mainly by sales of WLR and more active TP operations on international transit traffic market. TP 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 by 613,000 in 2008 which translates into a decline by 6.4% compared to 2007. This decline was driven by 993,000 drop in retail lines (-11.1% compared to 2007), partially offset by growth in wholesale lines (WLR and LLU) by 380,000 (+67.5%). Dynamics in change of retail lines number is slower than in 2007 when it reached -11.6%. There is no base for defining dynamics of wholesale lines in 2007 as sales of these services was launched early in that year.

TP is actively working towards further limiting erosion of its retail subscriber base by implementing new attractive tariff plans, value added services and intensified sales of fixed broadband Internet access. Also, stimulation of traffic by introduction of new tariff plans called "doMowy" resulted in limiting TP traffic market share erosion in all traffic types. According to the TP's estimates, it had the following market shares:

Fixed voice traffic and access market share at the end of 2008¹

	December 31, 2008	December 31, 2007	Change
Overall traffic ²	77.7%	78.5%	-0.8 pp.
Of which Domestic Long Distance calls	74.5%	75.2%	-0.7 pp.
Of which Fixed-to-Mobile calls	78.9%	79.1%	-0.2 pp.
Of which International calls	66.7%	67.9%	-1.2 pp.
Of which Local Calls	78.9%	79.7%	-0.8 pp.
Retail local access ³	75.3%	82.0%	-6.7 pp.
Total local access ⁴	84.2%	87.2%	-3.0 pp.

3.4 Fixed Line Data Services**Fixed line data services: revenues and key performance indicators**

PLN million, unless indicated otherwise	for 12 months ended		Change
	December 31, 2008	December 31, 2007	
Revenues from data services	2,479	2,255	9.9%
of which broadband internet services	1,446	1,235	17.1%
of which dial up internet services	29	63	-54.0%
of which data transmission	646	590	9.5%
of which leased lines	358	367	-2.5%
xDSL* lines, '000	2,095	2,018	3.8%
Broadband** lines, '000	2,445	2,154	13.5%

* Excluding wholesale (BSA) and LLU

** Including SDI, CDMA-based, wholesale (BSA) and LLU

During 2008, TP Group continued to pursue the strategy of compensating lower revenues from fixed voice services with growth in broadband Internet access services. As a result of technical problems with broadband provisioning system in the second and third quarters of 2008, number of xDSL accesses increased only by 3.8% compared with 2007. Despite that fact, broadband revenues increased by PLN 211 million (+17.1%) compared with 2007, driven by full impact of subscriber base connected at the end of 2007 on 2008 result as well as by increase in retail ARPU (+7.3%, from PLN 55 in 4Q 2007 to PLN 59 in 4Q 2008). Increasing penetration of broadband Internet access leads to further decline in dial-up Internet revenues which were down PLN 34 million (-54% year-on-year). This combined with almost 10% growth in data transmission revenues and slight decrease of leased line revenues resulted in data revenues increasing by PLN 224 million, i.e. 9.9% as compared to 2007.

During 2008, data services of fixed line segment accounted for 13.6% of total TP Group's revenues (as compared to 12.4% in 2007). TP expects to see further growth in data revenues and in its share of total TP Group's revenues.

Broadband access market – main indicators:

	2008	2007	2006
Market penetration rate in Poland – broadband lines (in total population)	14.5%	12.8%	10.3%
Total number of broadband lines in Poland	5 540	4 884	3 943
Market share of TP Group (TP + PTK Centertel)	39.6%	41.4%	43.4%

¹ Shares in TP's network traffic based on billing data² Traffic share at the end of December based on TP network (mass and business segments)³ Excluding customers using TP lines under Wholesale Line Rental and LLU agreements⁴ Including customers using TP lines under WLR and LLU agreements

3.4.1 Mass Market

In 2008, TP Group's fixed broadband customer base TP (*Neotrada* + *Orange Freedom*) expanded by 7.4% (with respect to the end of December 2007), a significant slowdown compared with the 17.5% growth in 2007. This was mainly caused by introduction of BSA with "retail minus" pricing structure and lack of substantial ARPU reductions similar to those seen in previous years.

As a result of marketing initiatives promoting first the 512 kbps option, then the 1024 kbps or higher options, the average access speed for broadband services used by TP subscribers tripled between 2006 and 2008; the share of the 1 Mbps option of the *Neotrada* service in new additions grew to approximately 70% in the fourth quarter of 2008. At the end of December 2008, the 512 kbps or higher options accounted for approximately 95% of the *Neotrada* customer base. As a result of a strong increase in competition from cable television operators and BSA service providers, TP's share in net additions dropped to 23% in 2008 (from 35% in 2007).

According to TP's estimates, in terms of total number of customers the mass market grew by 13.7% (compared to the end of 2007) to almost 5.1 million, taking the household penetration rate to 35.5% at the end of 2008, which is still a relatively low level compared to other countries. The 4 percentage points increase in penetration rate was also a slowdown compared with 2007.

Given that almost 100% of TP's fixed line subscribers are within xDSL coverage (as at the end of 2008), xDSL services have a solid growth potential.

Companies which signed BSA agreements attracted approximately 343,000 customers, which represents a 7% market share.

In this very competitive environment, TP remained the innovative leader, competing less on price and more on value by encouraging customers to use higher bandwidth options and by pushing bundle offers including Voice-over-IP and TV-over-DSL as well as triple play offers with premium TV content. In the autumn of 2008, the *Neotrada* plus TV package, offered in both xDSL and DTH (satellite digital TV) technologies, was added to the bundle offer portfolio. The new offer gained great popularity among customers. In addition, TP developed its own television channel Orange Sport. Satellite TV is sold together with *Neotrada* and in case of a two-year loyalty agreement the Basic TV Package is added free of charge.

Also bundle offer promotions, which offered licensed antivirus software in addition to the internet access service, were warmly welcomed by the market. The '*Neotrada tp: Security Included*' and '*Safe Neotrada tp*' promotions enabled TP to promote the Safe Media standard. Also the new '*Safe access tp*' and '*E-safety tp*' services reflect the same trend in offers.

As a result of TP's efforts to increase sales, which involved promotion of higher bandwidth options and sale of packages including TV services, broadband average revenue per user (ARPU) in the mass market increased by 4% in 2008.

In 2008, TP continued its strategy of balancing its acquisition and retention offers. The Company launched new retention processes and customer communication channels, intensifying contacts with customers whose broadband agreements were about to expire in order to encourage them to sign up to attractive promotional offers for agreement extension. As a result of these efforts, the retention rate reached approximately 70%, despite a strong increase in the activity of TP's competitors with their aggressively priced offers (e.g. internet access for one year free of charge).

The most interesting broadband offers available in 2008 included the aforementioned '*Safe Neotrada tp*' promotion, which was addressed to both new customers and those extending their loyalty agreements for the *Neotrada* service, and the '*Neotrada tp: Internet For Everyone*' promotion, which in addition to a security package offered a wireless Livebox modem included in the access fee.

Consequently, according to TP's estimates, the Group maintained its value market share at 50.2% despite strong competition following the BSA introduction.

3.4.2 Business Market

In 2008, TP further extended its data transmission service portfolio. The most important developments concerned TP's IP VPN service. New options of the service were introduced, including SHDSL access at up to 8 Mbps. The new '*IP VPN protected*' service increases the security of customer's remote locations. Customers can also use the new POS TV service, which enables remote display of multimedia materials on LCD TVs or monitors in a number of distributed locations all over the country. In addition, TP's IP

VPN users can subscribe to the IP PABX service, which enables IP-based voice transmission management.

4 MOBILE SEGMENT

4.1 Financial Performance

Mobile services segment: income statement

PLN million	for 12 months ended		
	December 31, 2008	December 31, 2007	Change
Revenues	8,635	8,064	7.1%
of which retail	6,332	5,834	8.5%
of which wholesale	2,303	2,231	3.2%
Gross Operating Margin (GOM)	3,245	3,155	2.9%
Margin, %	37.6%	39.1%	
Operating income	1,814	1,910	-5.0%
Margin, %	21.0%	23.7%	

Mobile revenues rose in 2008 at the same pace as in 2007 (+7.1%) and increased by PLN 571 million compared with 2007:

- Retail revenue was up 8.5% as a result of higher customer base in post-paid segment and higher usage, in both post-paid and pre-paid segments;
- Wholesale revenue was up only 3.2%, mainly as a result of the decision of UKE on the MTR reduction (please see section 11.1.7 for details).

In 2008, GOM was PLN 3.245 million, which is an increase of 2.9% or PLN 90 million (year-on-year). GOM as a percentage of revenues was 37.6% during the reported period, a decrease of 1.5 percentage points compared to 2007. The increase in GOM reflects the combination of revenue growth and contained costs:

- Labour, commercial, network and IT costs increased in total by only 0.8%.
- Despite MTR reduction higher traffic volume led to interconnect and roaming costs up PLN 278 million (i.e. +15.6%).
- Content services and other external purchases increased by PLN 71 million (i.e. +10.9%), mainly driven by development of content and consulting expenses related to new product implementation.
- Foreign exchange losses linked mainly to UMTS licence liability decreased GOM by additional PLN 78 million.

With depreciation and amortisation up PLN 186 million compared with 2007, operating income decreased by PLN 96 million (-5.0%). Operating margin was therefore 21.0%.

4.2 Market and Competition

There are first signs of saturation in Poland's mobile market. The rate of growth of active SIM cards has been falling. However, although considerable slow-down had been expected, the mobile market still saw relatively high growth and fierce competition in 2008. The number of mobile users increased by 6.1% (year-on-year) and reached 44 million at the end of 2008. As a result, the mobile penetration rate (among population) reached 115.4% (up from 108.9% at the end of 2007). Growth in SIM cards in 2008 was not as spectacular as in previous years owing to the operators' decision to eliminate inactive pre-paid cards from their customer base.

The three leading mobile operators have been losing their market shares to the fourth operator with its own infrastructure, P4, and virtual operators. In total, they lost a 2.9 percentage points of market share last year (a decrease from 97.8% to 94.9%). After mBank mobile and myAVON, further mobile virtual network operators (MVNOs) entered the market in 2008, among others Mobilking in February 2008 and Carrefour Mova and Snickers Mobile in April 2008. New infrastructure-based operators, CenterNet and Mobyland, who have their frequencies in the 1800 MHz band, have not started business activity yet.

- PTK Centertel's estimated market share by volume was 32.2% at the end of 2008 (down from 34.1% at the end of 2007);
- PTK Centertel's estimated market share by value was 33.3% in 2008 (compared to 34.3% in 2007); however, PTK Centertel remained the market leader by value.

In 2008, there were several significant transactions in the mobile operator market, among others:

- TDC completed the sale of its stake in Polkomtel to the other shareholders (Vodafone, KGHM, PKN Orlen, PSE and Węglokoks);
- Netia sold its stake in P4 to the other shareholders (Novator and Tollerton).

None of these transactions changed the market situation in terms of market shares or was felt by customers in any way.

In December 2008, the four main players, Polska Telefonia Cyfrowa, P4, Polkomtel S.A. and PTK Centertel, established a new company, Mobile TV, that will take part in the competition announced by UKE for a multiplex operator to provide wholesale access to DVB-H mobile television. It is the first joint venture of otherwise competing operators.

In addition to the announced entry of mobile operators into the mobile television market, 2008 saw their activity in the development of non-core business.

- PTK Centertel and Generali presented their offer of foreign travel insurance for Orange post-paid customers, while the launch of Virtual Reception Desk is an element of TP Group's strategy that aims at development and implementation of a number of e-health services for healthcare market players;
- Since July 2008, PTC Era has been offering fixed line services to both residential and business customers.

Non-core services account for a growing share in revenues of mobile operators. In view of their activity in new markets (e.g. PTC's fixed line offer or PTK Centertel's broadband service), it seems necessary to take a new look at the mobile market.

4.3 Mobile Voice Services

Mobile voice services sub-segment: key performance indicators

PLN million, unless indicated otherwise	for 12 months ended		
	December 31, 2008	December 31, 2007	Change
Total customers	14,182	14,158	0.2%
of which pre-paid	8,015	8,603	-6.8%
of which post-paid	6,168	5,556	11.0%
Net additions	24	1,637	-98.5%
of which pre-paid	-588	884	-166.5%
of which post-paid	612	753	-18.7%
Churn rate			
of which pre-paid	63.4 %	45.6%	
of which post-paid	11.4 %	11.8%	
SAC, PLN	117	130	-10.0%
Monthly blended ARPU, PLN	49	49	-

PTK Centertel's customer base was 14.2 million at the end of 2008 (up 0.2% year-on-year, that is below average market growth estimated at 6.1%). Lower subscriber base dynamics can be attributed to two factors:

- In 2008 pre-paid subscriber base was rationalized by termination of SIM cards which effective lifetime was extended in 2007 based on promotions for low usage customers.
- P4 (Play) and MVNOs, new aggressive market players, account for more than 53% of subscribers growth in the market.

Net additions amounted to 24,000: 588,000 decline in pre-paid base was more than compensated by 612,000 increase in post-paid customers, taking the share of post-paid customers in the customer structure to 43.5% at year-end 2008 (up from 39.2% a year ago).

PTK Centertel was able to grow its post-paid subscriber base while reducing acquisition costs. Blended unitary SAC (subscriber acquisition cost) was PLN 117 in 2008, down 10% compared with 2007.

Blended ARPU was at PLN 49.3 over 2008, maintaining the level in 2007. Flat ARPU was driven by 11% increase in AUPU (Average Usage Per User) which compensated a decrease in the average price per minute mainly as a result of the reduction of mobile termination rates in 2007 and 2008.

4.4 Mobile Data Services

In 2008, PTK Centertel introduced rapid data transmission technology, HSUPA 2.0 (High Speed Uplink Packet Access), on its network, which will enable its customers to transfer data at higher baud rate. HSPA (HSDPA 7.2 and HSUPA 2.0) is already available to Orange customers in the main cities. As of the end of December 2008, almost half of Poland's population was covered with UMTS/HSDPA.

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.

2008 saw also a rapid expansion of the product portfolio, as new pieces of data equipment were added to it. These included Express cards, WiFi wireless gateway and USB modems with an additional output for microSD cards (the latter are two-in-one units that combine modem and mass memory functionalities). PTK Centertel is the only operator in Poland to offer Dell laptops with a built-in 3G HSDPA 7.2 unit in addition to a very attractive mobile internet access offer.

The mobile Internet market growth in 2008 was also driven by sales of notebook computers, which were added to the product portfolios of all operators.

The mobile broadband internet access customer base (EDGE and 3G enabled customers) reached 352 thousand customers at year-end 2008 (up from 223 thousand at year-end 2007).

4.5 Other Developments in the Mobile Segment

4.5.1 Roaming

The number of roaming partners further increased in 2008. As of the end of December, Orange offered roaming services on 398 networks in 184 countries worldwide, including GPRS roaming on 193 networks in 78 countries and 3G roaming on 48 networks in 29 countries. Roaming revenues growth slowed down as a result of a roaming regulation introduced in June 2007 by the European Commission. The regulation capped wholesale and retail prices for calls within the EU and reduced roaming rates by almost 50%, which was not fully compensated by an increase in traffic.

4.5.2 Hosting

As at the end of 2008, PTK Centertel's infrastructure was used by four virtual operators:

- Avon Mobile Sp. z o.o., offering **myAvon** service (market entry in May 2007);
- Wirtualna Polska Sp. z o.o., offering **WPMobi** service (market entry in September 2007);
- MNI Telecom Sp. z o.o., managing the following brands:
 - **Simpfonia** (market entry in December 2007),
 - **EZO Mobile** (market entry in December 2007),
 - **Snickers mobile** (market entry in April 2008),
 - **TelePin** (market entry in June 2008),
 - **Crowley Tele Mobile** (market entry in September 2008);
- **Aster Sp. z o.o.**, offering mobile services under its own brand name (market entry in June 2008).

In addition, in August 2008, PTK Centertel signed an agreement for virtual mobile network operator services with CenterNet S.A.

4.5.3 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. This move is part of TP Group's cross-selling strategy aiming at increasing the average revenue per customer. The Orange BSA-based offer proved a great success with the take-up reaching 96 thousand subscribers at the end of 2008.

Towards the end of 2008, the Orange Freedom functionality was extended to include CDMA-based broadband internet access, which greatly expanded the potential customer base.

Ultimately, CDMA is to cover the majority of Poland's territory. By the end of 2008, the coverage has reached 50% of population. 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.

4.5.4 Fixed Line Services

Towards the end of 2008, PTK Centertel launched a fixed line service based on WLR access to TP's network. After Orange Freedom, this is another service aimed at increasing convergence within TP Group and generating additional revenues from existing and new customers. First, a new product dedicated to the business market was introduced: the Fixed Line Orange For Business offer, which covers five different tariff plans with pools that can be used for calls to fixed line networks or the Orange network.

5 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.

5.1 Regulatory Obligations

5.1.1 Telekomunikacja Polska as a Significant Market Power operator

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. 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 cost calculation 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. In 2008, there were no changes in TP's regulatory obligations in retail markets.

Pursuant to President of UKE's decisions, TP is also an SMP operator in relevant wholesale markets 8, 9, 11, 12 and 13. The resulting regulatory obligations 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.

In addition, the obligations imposed on TP include an obligation to calculate costs of service provision in the markets 8, 9, 11 and 12, as well as an obligation to calculate access charges on the basis of justified costs and an obligation of regulatory accounting in the markets 8, 9, 11, 12 and 13.

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 the President of UKE decided to change RIO, reference BSA offer and RUO. For detailed information about the new offers see section 11.1.

In the first half of 2008, the President of UKE notified to the European Commission draft decisions designating TP as an SMP operator in the market for transit services on a fixed public telephone network (market 10) and the leased lines market (terminating and trunk segments; markets 13 and 14). Out of these three decisions, the Commission accepted only one (for the market 13). On 5 August 2008, following public consultation, the President of UKE sent the draft to the President of the Office for Competition and Consumer Protection for an opinion. On 23 October 2008, the President of UKE issued a decision recognising lack of effective competition and designating TP as an SMP operator in the market 13. With respect to the other two markets (10 and 14), the European Commission raised serious doubts and UKE withdrew the draft decisions from the notification procedure.

For the market 10 (transit services on a fixed public telephone network), on 17 October 2008, the President of UKE decided to discontinue the proceedings to determine whether the domestic market for transit services on a fixed public telephone network was effectively competitive. The President of UKE did not identify any decisive circumstances that might indicate an individual or collective dominant position of the companies operating in that market.

On 14 November 2008, the President of UKE initiated consultations concerning the President of UKE's draft decision to remove the obligatory obligations imposed on TP and related to the provision of transit services on a fixed public telephone network.

For the market 14, on 8 December 2008, the President of UKE initiated consultations concerning another draft decision on designating TP as an SMP operator in the leased lines (trunk segments) market. The consultations ended on 5 January 2009.

5.1.2 Regulatory Obligations Irrespective of Significant Market Power

In 2008 the European Commission blocked another attempt of the President of UKE to impose on TP an obligation for free IP peering. On 2 January 2008 the Regulator submitted to the European Commission the second draft version of its IP peering decision. This presented the same market problems and proposed the same regulatory obligations for TP as the first draft that had been rejected by the European Commission in 2007. However, the conditions of obtaining free IP peering by Internet Service Providers were more beneficial to TP compared with the first version. During the consultation of this draft decision, TP presented its position to the European Commission, providing explanations and additional information.

On 4 February 2004, the European Commission presented its negative opinion on imposing on TP the obligations related to providing free IP peering. The Commission again pointed out to the Regulator that the regulatory measure proposed is not proportional to the situation. The Commission noted that the measures imposed on TP before (obligation for equal treatment) as well as a decision by the Polish antimonopoly authority on that issue should be sufficient for solving potential problems in the relevant market. Based on this opinion, the draft decision was given up.

5.1.3 Law on Combating Unfair Commercial Practices

The Law on combating unfair commercial practices of 23 August 2007 came into effect on 21 December 2007. This law is an implementation Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council ("Unfair Commercial Practices Directive") (EUOJ L 149 of 11 June 2005, p. 22).

It has simultaneously changed law on combating unfair competition and protection of competition and consumers by implementing a rule that an action legally defined as unfair competition or unfair commercial practice performed by an enterprise against significant group of consumers ("violation of consumers' common interest") is a basis for the President of UOKiK to state execution of anticompetitive practice violating consumers' common interest and, as a consequence, to claim among others a financial responsibility (a fine up to 10% of enterprise's revenues for a preceding year). As a result of changes in legal acts on consumer protection, each of enterprises that direct their offers to significant groups of consumers is exposed to responsibility for the same action (unconformity with legal

norm) based on few different laws: law on combating unfair commercial practices, law on combating unfair competition and law on competition and consumer protection. Potentially also based on sector law, e.g. telecommunications law.

TP already in 2007 was prepared to meet requirements of law on combating unfair commercial practices, e.g. by changing names of mass market tariff plans (elimination of word “free” from these names).

5.2 Development of Subsequent Infrastructure-based Operators in the Mobile Market

P4, which won the bidding procedure for free UMTS frequencies in May 2005, launched commercial services on 16 March 2007 under the PLAY brand. Due to a pending process of expanding the range of P4's own network, pursuant to an agreement concluded with Polkomtel on 8 June 2006, PLAY customers can use the Plus mobile network on the domestic roaming basis. The domestic roaming agreement, however, does not include 3G services. On 30 April 2008, the transaction of sale of a Netia's shares in P4 was concluded. The shares were purchased by the other shareholders, Novator and Tollerton, who now hold a 49.7% and 50.3% stake in P4 respectively.

In 2008, the PLAY network operator received additional capital from its shareholders (EUR 120 million) and a loan from China Development Bank (EUR 490 million) for infrastructure development and operating activities.

In July 2008, the PLAY network operator launched mobile internet access services via a 3G network at much lower prices than those offered by its rivals. The mobile internet market is one of the youngest and fastest-growing segments of the telecommunications services market. On 7 November 2008, P4 won the bidding procedure for two frequencies in the 900 MHz band. Ultimately, P4 decided to have one frequency allotted for the price of PLN 217 million. The frequency allotment is valid until the end of 2023. PLAY has to launch services using the frequencies allotted within 24 months from the allotment; reach the population coverage of 30% by the end of 2009, 55% by the end of 2010 and 80% by the end of 2012; and develop a wholesale offer of telecommunications services (based on the allotted frequencies). The new frequencies are a valuable asset for P4, because they not only provide less expensive means of increasing the range of its mobile network in less populated areas on the basis of the GSM technology, but also because of potential future use of these frequencies to the UMTS technology. PLAY's market share in Poland's mobile market was estimated at 4.6% (by volume) at the end of 2008.

The operators who in October 2007 won the bidding procedure for frequencies in the 1800 MHz band, CenterNet and Mobyland, have not launched commercial services yet. The deadline for both operators is the end of May 2009 (18 months from the frequency allotment).

5.3 Mobile Virtual Network Operators (MVNOs)

Virtual operators debuted in the Polish market in 2007, attracting over 50,000 customers and winning a market share of 0.1% by the end of 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.

Virtual operators represent various industries, including banking (mBank mobile), chemistry/cosmetics (myAvon), FMCG (Snickers Mobile), retail (Carrefour Mova) or the Internet (WP mobi). The biggest player is Mobilking (owned by a private equity fund) which started at the end of February 2008 and attracted over 150,000 customers.

Cyfrowy Polsat is also a virtual operator, but it operates as a Full MVNO (on PTC's network). The co-operation with Cyfrowy Polsat is carried out on the telecommunication access and network interconnect conditions set out in UKE's decision. This decision necessitates similar co-operation to that with mobile infrastructure network operators. On 17 June 2008, a gateway between Cyfrowy Polsat and PTK CenterTel's networks was commercially launched pursuant to the President of UKE's decision of 16 April 2008 on telecommunication access with respect to interconnection between Cyfrowy Polsat and PTK CenterTel's networks.

As at the end of 2008, the aggregate market share of virtual operators in Poland's mobile market was estimated at 0.5%.

5.4 New Brands in the Mobile Market

In addition to the market entries of the aforementioned MVNOs, in June 2008 the Plus network operator introduced a new brand called 36.6. It is a pre-paid offer targeted mainly at young people. An innovation in the Polish market is that one an account can be charged by listening to commercials.

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. In case of Plus, a change may result from further changes in Polkomtel's ownership structure, i.e. purchase of shares from the Polish shareholders by Vodafone.

5.5 Purchase of Tele2 by Netia

On 29 June 2008, Netia concluded an agreement for purchase of a 100% stake in Tele2 Polska. It was executed on 15 September 2008. The transaction amounted to PLN 106 million. As a result of the acquisition, Netia substantially strengthened its position in the retail fixed line market, especially in terms of WLR customers (i.e. lines operated under wholesale line rental from TP). At the end of September 2008, Netia's aggregate fixed line customer base exceeded 1 million (including 0.5 million of Tele2). However, only 391,000 out of the aforementioned one million subscribers are provided services via Netia's own lines. With Tele2, Netia acquired also a small number of additional broadband customers to whom services are provided under BSA agreement with TP. Also in case of internet access services, the operator's growth is fuelled mainly by a regulated wholesale service rather than investments in the development of its own network.

5.6 Infrastructure Development

In 2008, in order to meet the demand for broadband services, including retail services (*Neostrada tp* and *DSL tp* internet access) and wholesale offers (BSA and LLU), TP enhanced its data network infrastructure.

The IP VPN network was further expanded in terms of:

- backbone capacity (development of backbone lines of fourfold capacity);
- capacity of edge routers (enhancement which doubled their capacity);
- functionality (including a new gateway to the Orange Business Services (OBS) network).

In addition, new infrastructure for providing multimedia services, *Videostrada tp* and video-on-demand (VoD), was expanded. Efforts to increase the geographical coverage of these services were continued. New lines in the backbone and rim network were launched and new service routers for handling the increased traffic were added, which significantly increased the network capacity. In addition, the capacity of links to the global internet was increased.

In order to build a broader range of its multimedia services, TP launched a digital TV service based on a satellite technology (DTH). As a result, a new group of prospective customers was added to those that may use TV services based on IPTV technology (i.e. the population of Poland's main cities). Following the introduction of a satellite technology, the service is available to over 9 million households. The service price will be identical irrespective of the technology in which it is provided. The choice of technology (IPTV or DTH) in a particular location will depend on local technical conditions.

Also PTK Centertel carried out a number of investment projects. It not only expanded the reach of its UMTS services and increased the capacity of its GSM and UMTS networks, but also commenced investments in the CDMA network. A commercial CDMA service was launched in December 2008. Ultimately, CDMA is to cover the majority of Poland's territory. So far, the coverage has reached 50%. 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. TP Group is willing to continue its contribution to the growth of the telecoms market with further development and upgrade of its network with implementation of new technologies. Still, this can only be made with clear visibility on regulatory framework in this area as a reasonable return has to be achieved from such investments.

5.7 Claims, Disputes and Fines

For the detailed information about material disputes and proceedings against the TP Group companies as well as fines imposed thereon see Note 32 to the Consolidated Financial Statements enclosed, whereas for the changes in the related provisions see Note 28.

5.8 Inspection by the European Commission

In September 2008, the European Commission conducted an inspection at the premises of TP and PTK Centertel. The aim of the inspection was to gather evidence of a potential breach by TP of competition rules in the broadband market. At this stage of the proceedings, it is impossible to foresee the consequences of such an inquiry. The European Commission has no deadline to complete its antitrust investigation. The Company has challenged, before the First-Instance European Court, the European Commission's decision that had been the basis for the inspection.

Under European law, in the event of infringement of rules on competition, the Commission may impose a fine on an entity of up to 10% of its total turnover in the preceding business year, as well as a fine of up to 1% for providing incorrect or misleading information.

5.9 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 2008 TP had to carry out costing of services covered by the aforementioned markets for 2008 and 2009, and submit the results thereof to an independent auditor selected by UKE. In addition, TP had an obligation to prepare regulatory accounting statements for 2007. Moreover, due to UKE's failure to issue a decision recognising that the market for transit services (market 10) is competitive, and thus removing the obligatory obligations in this respect, under interim provisions of the Pharmaceutical Law of 16 July 2004 TP was obliged to carry out costing of call transit services for 2008 and submit the results thereof to an independent auditor selected by UKE.

In performance of its regulatory obligations, TP submitted a manual for drawing up regulatory statements for 2007 as well as descriptions of service costing for 2008 and 2009 for the President of UKE's approval. The President of UKE approved both TP's service costing descriptions and regulatory reporting manual. However, each of these decisions contained errors and inconsistencies. Owing to the fact that in TP's opinion these decisions needed changes or clarification, the Company applied to the President of UKE for the re-examination of the case. On 1 August 2008, the President of UKE, having examined the applications, issued new decisions that approved the service costing descriptions and manual and eliminated the majority of the inconsistencies.

Irrespective of the on-going process of approval of the costing descriptions and manual, TP declared its readiness to start a regulatory audit in consideration of the relevant statutory time limits. On 3 June 2008, the President of UKE appointed Ernst & Young Audit to carry out a regulatory audit at TP. The audit started on June 9 and ended on 19 August 2008. On 27 August 2008, the President of UKE was submitted the audited regulatory statements and costing results. The auditor's opinion on the audit of 2007 regulatory statements and costing results for 2008 and 2009 did not include any reservations.

In 2008, like in 2007, the President of UKE refused to accept TP's service cost calculation results and regulatory statements in spite of the positive outcome of the 2008 regulatory audit. TP is involved in legal procedures following an appeal against the President of UKE's refusal to apply rates for 2007, 2008 and 2009 based on TP's justified costs of service provision. These procedures are related to the complaints to the Regional Administrative Court against the President of UKE's decisions concerning TP's reference offers (RIO and BSA).

In addition to the proceedings before Polish courts, on 31 December 2007 TP filed a complaint with the European Commission based on the non-application of the 2007 cost audit results. The complaint is still pending the Commission's decision.

Moreover, on 3 December 2008, TP informed the European Commission about the President of UKE's failure to use the 2008 cost audit results in the reference offers accepted by UKE. Earlier in 2008, in its letters of 26 August and 24 October, TP informed the Commission about the President of UKE's actions aimed at rejecting the results of the 2008 cost audit.

As a result of rejection of cost-based rates, TP is unable to recover the costs of provision of wholesale services, therefore rendering underpriced services to other operators.

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 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.

TP Emitel

Under the regulatory accounting obligations imposed on TP Emitel by the President of UKE, in 2008 TP Emitel developed regulatory accounting statements for 2007 and submitted them to an independent audit. In performance of its regulatory obligations, TP Emitel submitted a manual for drawing up 2007 regulatory statements for approval by the President of UKE. On 28 April, the President of UKE approved TP Emitel's regulatory reporting manual. The audit at TP Emitel started in June, upon conclusion of an audit agreement between TP Emitel and Deloitte Audyt sp. z o.o. in conjunction with Deloitte Business Consulting S.A, and ended on 24 July, when the auditor formulated a positive opinion and submitted TP Emitel's regulatory statements to the President of UKE.

5.10 Functional Separation (UKE's Plans)

After the completion of public consultations on functional separation in Poland in 2007, the President of UKE continued its work on this issue.

In July 2008, upon a tender procedure the President of UKE selected an advisor to analyse the legitimacy of applying functional separation to TP. From amongst five candidates, a Consortium consisting of the Telecommunications Institute, Grynhoff, Woźny, Maliński law firm and KPMG was selected. As a result of the analysis, the Consortium failed to answer whether the imposing functional separation was a legitimate regulatory measure, considering the stage of development of the Polish telecommunications market. In its report, the Consortium repeatedly pointed out that the wholesale price structure imposed by UKE did not stimulate investments by alternative operators. The estimated costs of implementing the separation are comparable to the potential benefits to consumers. However, functional separation is aimed at improvement of the co-operation between TP and alternative operators, and does not address the retail price level. In addition, it was emphasised that the introduction of the separation would cause considerable problems in the telecommunications market due to the changes required in TP's organisational structure and business processes. As a result, the quality of wholesale services would decline (for two years), impacting mainly consumers. According to the Consortium's representatives, the legal basis for the separation in the Polish law is doubtful. In addition, until the national regulations and EU directives are amended, a separation decision requires the European Commission's approval.

According to the opinion published by the Ministry of Infrastructure, there is currently no legal basis in the Polish law for the implementation of functional separation by UKE. Based on international experience, functional separation could be imposed only upon an amendment to the local Telecommunication Law. On 25 November 2008, the Ministry of Infrastructure presented a draft amendment to the Telecommunication Law, which includes legal solutions that enable functional separation of a telecom operator having a significant market power in at least one relevant market related to telecommunications access.

Furthermore, functional separation is not currently included in the EU regulatory framework, which means that there is no legal basis to implement that remedy. On the other hand, 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. The President of UKE might decide to impose any extraordinary measures, such as functional separation, only upon approval by the European Commission. TP would have a right to appeal against such a potential decision.

The Consortium's report, published on 26 November 2008, does not analyse the market impact of the regulatory decisions already issued by the President of UKE or whether all available regulatory measures

have been used. It is simply based on a survey among alternative operators and their opinions which, as pointed out by the Consortium, require verification by UKE for their validity.

TP has initiated discussion with the President of UKE towards implementing solutions that would provide alternative operators with access to TP's infrastructure on equal terms with TP's retail organisation (Equal Access Program). In fact, the proposed action plan aims at solving similar issues to those addressed by the functional separation concept. Though the discussion is going on, the President of UKE has decided to continue with preparing the separation decision in parallel.

TP's proposal is based on three main foundations that would provide equal access. These are:

- Equal products provided to both external clients and internally at TP;
- Equal quality of services provided to both external clients and internally at TP;
- Equal access to commercial information provided to both external clients and internally at TP.

The Equal Access Program is expected to provide the following benefits to alternative operators and TP:

- Ensuring best efforts in eliminating any cases of non-price discrimination;
- Increasing transparency of commercial operations in the wholesale market;
- Improving the relationship and quality of co-operation.

These changes will be supported by publicly available Key Performance Indicators as well as implementation of a full set of controls with objective to monitor that operations are run in line with the commitments made. KPIs will be designed in such a manner as to allow change in perception of TP's actions as being abusive and to provide hard evidence in case of any disputes.

5.11 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, that 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. However, UKE's decision was based not on the merits but the alleged incompleteness of TP's documentation. Despite TP's numerous proposals that it would send all the data required and provide access to its software accounting systems, UKE did not request any information from TP. In its decisions (the initial one and the one issued following TP's application for the re-examination of the case) refusing to grant the compensation, UKE did not specify the missing documents required to examine the application, so TP had no chance to supplement the documentation. 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. The case is still pending.

On 27 June 2008, TP filed an application with UKE for compensation for 2007. The net costs were stated at PLN 219.19 million. The procedure related to the compensation for universal service costs in 2007 is pending.

The share of TP and PTK Centertel in the compensation for universal service costs, net amount applicable to TP Group is: PLN 70.2 million for period from 8 May to 31 December 2006 and PLN 115.6 million for year 2007.

5.12 Claim against Tele2

On 4 December 2008, TP filed a claim against Tele2 Polska Sp. z o.o. ("Tele2") for PLN 59 million. The claim relates period from 1 January 2007 to 31 March 2008. The amount of the claim corresponds to a difference between the WLR rate per line set by UKE's decision of 29 December 2006, which regulated the WLR service provision to Tele2, i.e. PLN 20.05, and the rate resulting from the cost audit, i.e. PLN 33.28. On 10 December 2007, the Antimonopoly Court reversed the aforementioned decision and on 3 June 2008 the Appellate Court stayed the enforceability thereof. As the said decision was immediately enforceable, TP was executing it from January 2007 to June 2008. The legal basis for the claim is the return of the amount of undue benefit under the baseless enrichment regulations.

6 OUTLOOK FOR THE DEVELOPMENT OF THE TP GROUP

6.1 Market Outlook

According to the Group's estimates, the telecommunications services market in Poland grew 5,5% by value in 2008 compared to the 1.4% growth in 2007. The main growth engines were the mobile and internet access segments. It is worth noting that the mobile market saw a solid growth despite another reduction in mobile termination rates (MTR), which was introduced in May 2008.

The Polish economy is likely to slow down in 2009:

- Expected GDP growth significantly lower than in 2008 (State Budget's assumptions at 3.7%);
- Inflation expected at approximately 3% (State Budget's assumptions at 2.9%);
- Unemployment rate rising to 10% (State Budget's assumptions at 8.5%).

Although the global financial crisis may have an impact on the Polish economy, its potential influence on the telecommunications market in Poland is not straightforward. On the one hand companies may reduce their capital expenditures, but on the other hand they will seek cost optimisation solutions, which may be provided by the telecommunications industry. It means the use of modern internet-based telecommunication services, such as tele- or videoconferences, as the alternative to more expensive meetings and business trips or other traditional forms of business activity. Nevertheless, customers will optimise their telecommunication expenses, which may intensify competition in the market and affect the TP Group's results. Therefore, the offer adjustment to customers' new needs will be the key factor in 2009.

On this basis, TP Group's expects the traditional telecommunications market to develop at a pace similar to that achieved in 2008. This will be driven mainly by continued high growth in the broadband market, while the mobile market growth is expected to slow down as a result of the market saturation (with the mobile penetration rate of 115.4% at the end of 2008) and further MTR reductions.

A further decline in value and in volume is anticipated in the fixed line voice sub-segment, mainly as a result of migration to mobile and, partially, VoIP technologies.

In addition, telecom operators have been increasingly penetrating adjacent markets in an attempt to diversify their businesses and come up with more attractive offers by adding products and services from adjacent business areas, such as IT or multimedia. Despite the economic crisis, further growth is expected in such adjacent markets, including on-line advertising, e-commerce, pay TV and Information Communication Technology (ICT).

6.2 TP Group's Strengths

TP Group intends to flexibly respond to changing expectations of its customers by offering a broader range of services to them. The Company will focus on these market segments which offer high growth potential and for which it has unique strengths.

In spite of a very challenging environment, increasingly strict and unstable regulatory requirements and growing competition, TP Group has demonstrated its ability to sustain market leadership in the fastest growing segments of the telecom market. It also remains the unquestioned leader in the fixed line segment.

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:

- Unique access to Polish households (with 8 million fixed and 14 million mobile customers, TP Group's client base is simply unmatched in the market).
- One of Poland's largest sales & distribution and customer service networks.
- Strong brand portfolio.
- Best developed telecommunication and IT infrastructure in Poland.
- Sound financial base for growth.

In addition, the Company can benefit from FT Group's experience. 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.

The year 2009 will be devoted to the further implementation of TP Group's medium term strategy announced in 2007. No major shifts in strategic priorities are planned, though some modifications will be made to adjust the strategy to the constantly changing environment. The main elements to be considered will be macroeconomic and regulatory issues.

6.3 TP Group's Medium Term Strategy

Poland's telecom sector has been under strong pressure over the last years. Due to growing competition and regulatory developments, falling prices have outpaced rising volumes. An additional challenge has been Poland's macroeconomic situation deteriorating in the wake of the global crisis. Therefore, TP Group intends to increase its presence in non-regulated business areas, maximising their share in its revenue structure, and minimise costs to enable rapid reaction to market developments, as well as aims at constant improvement in customer satisfaction.

Supported by its financial strength, TP can seize the opportunity to develop new innovative products with high returns on investment in non-regulated markets. In line with its medium term strategy announced in 2007, by 2010 TP Group plans to:

- derive over 50% of its revenue from non-regulated products and services;
- generate net free cash flow with 18-20% of revenue set as a goal.

In addition, TP Group will still focus on enhancing the core business, optimising unique assets such as unmatched customer base, investing in development and potentially acquiring cash generative businesses in Poland or neighbouring countries.

The implementation of the strategy announced in 2007 will be continued. In line with this strategy, enhancing the core will focus on four major streams of activities:

- **Cross-selling.** The aim is to leverage TP Group's sales and distribution network, increase penetration of multiplay bundled offers and leverage existing TP Group's customer databases. The number of triple play customers is targeted to double by 2010. TP will also consider partnerships to extend its non-core activities such as payment and financial services.
- **Operating expenses.** The goal is to achieve operational savings of 10% by 2010 compared to 2006 cost base. Major actions have been identified in commercial, technical and support functions. The Social Agreement, concluded at the end of 2006 and extended in 2008, is an important element in the overall optimisation of costs and alignment of the business organisation to its medium term strategic orientations.
- **Capital expenditure optimisation.** The program will continue to focus on allocating capital expenditure to revenue generating areas, while converging towards European telecom industry benchmarks expressed as a percentage of revenue.
- **Balance sheet optimisation.** TP Group intends to maintain its sound financial structure while ensuring a better return on the Group's asset portfolio.

The second major element of the TP strategy is creating new revenue streams within four major pillars: innovative products, Information Communication Technologies (ICT), media and entertainment, and "adjacent sectors" (business sectors with an interface to telecommunications). This strategy may be implemented through organic or external growth. The relevant decision criteria will include:

- Margin and FCF accretion;
- ROCE higher than TP Group's result as of 2006 which was 13.4%;
- Current high rating preserved;
- Regional focus: Poland or other Central and Eastern European countries.

As mentioned above, TP Group has been steadily implementing the strategy announced in 2007, increasing revenue from non-regulated products and services, both within its core business and by reaching to new areas in adjacent sectors.

PTK Centertel has launched a radio internet access service based on the CDMA technology. TP Group intends to spend approximately PLN 500 million on this project in 2008 and 2009. The investment is to pay off after 3–4 years. Ultimately, CDMA is to cover the majority of Poland's territory and its use will significantly increase the broadband internet availability in rural and poorly urbanised areas. It will radically contain the problem of digital exclusion, which is one of priorities of the TP Group as a socially responsible operator.

TP Group has been actively expanding its activity in the media and entertainment sector by developing its offer of digital television, which is now provided not only over IP but also via a satellite aerial (Direct to Home or DTH). Thanks to the satellite technology, TP may offer its multimedia services to a much broader group of customers, including those who are out of reach of the cable technology (xDSL). Moreover, a new TV sports channel, Orange Sport, has been added to the multimedia service portfolio. In 2009, TP intends to offer its video-on-demand service also to satellite TV subscribers, as currently it is available to IP TV users only.

TP Group has also entered the market for financial services. Since July 2008, PTK Centertel has been offering SMS-activated Generali's travel insurance to Orange customers. In mid-2009, TP Group intends to launch its credit card offer in co-operation with a bank chosen as its partner for financial services.

A new area of interest for the TP Group is e-health. In this sector, TP intends to develop an optical fibre infrastructure to enable hospitals to carry out telemedical services.

In terms of financial policy, owing to strict financial discipline TP Group has managed to have its rating upgraded to A3. In addition, the Company has continued the optimisation of its assets, effecting the sales of its office buildings at Twarda, Moniuszki and Obrzeźna Streets in Warsaw. The "TP Group campus" project is being actively negotiated with potential counterparties.

7 TP GROUP'S MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

7.1 Research and Development

Research that supports the development of TP Group TP's is performed by the Research and Development Centre (TP R&D). In line with its statutory tasks, it carries out tests on new equipment and systems to be incorporated into TP's network, investigations into existing equipment and systems, ergonomic testing of new services, network quality and other measurements, as well as development and advance work on new technologies and services (currently, a total of 98 projects).

TP R&D actively participates in the work of international standardisation organisations, ITU, ISO/IEC JTC1, CEN, CENELEC, Broadband Forum, TeleManagement Forum and Home Gateway Initiative. With more than twenty contributions in 2008, TP Group could influence the content of new telecommunication standards in such areas as people and environment protection against electromagnetic radiation, new generation networks (NGN), signalling protocols, etc. TP R&D has also actively participated in domestic standardisation activities. It organised 146 internal questionnaire surveys concerning draft Polish Standards in telecommunications and submitted 122 opinions thereon to the Polish Standardisation Committee.

Under the sixth edition of the European Union Framework Program (IST-6), TP R&D continued the SUPER (Semantics Utilised for Process management within and between Enterprises) project and completed the MUSE (Multi Service Access Everywhere) and SPICE (Service Platform for Innovative Communication Environment) projects. In addition, some new projects started under IST-7. These include: 4WARD (development of a post-IP-network, a successor to the Internet), NAPA (TV network development), TALOS (special project for EU border protection), ONELAB2 (follow-up of ONELAB, development of Grid technology). The financial settlements related to the completed projects were approved (certified) and TP R&D received EUR 250,000 reimbursement from EU.

In addition, TP R&D started research and development works on the future implementation of e-health services for the Polish healthcare sector. TP Group signed a memorandum of understanding with the University of Warsaw Interdisciplinary Centre for Modelling (ICM), Medical University of Warsaw and seven clinics for the development of a broadband network for such services.

In 2008, TP Group employees submitted 13 patent applications, out of which three were registered by the Patent Office.

TP R&D in conjunction with the Corporate Communication Branch organised the 7th 'Telecreator' contest (there were 338 entries) aimed at promoting innovative projects and ideas of TP Group's employees.

TP R&D in conjunction with the IT Development Branch and HR Competence and Development Management Branch implemented an upgraded version of the Innovatorium tool for topical innovation campaigns, chats and moderated discussions as well as automatic transfer of innovative ideas to the aTTM supporting system (the aTTM process involves the analysis of new ideas in terms of feasibility). The Innovatorium application is now available to employees of TP, PTK Centertel and Emitel.

TP R&D, supported by TP Group's PR function, actively promotes innovativeness across and outside the TP Group. In 2008, TP R&D in conjunction with B2C and FT implemented 20 prototype or commercial solutions (including 8 prototypes of e-health services) in the Innovation Gardens. It also organised almost 100 meetings that involved presentation of innovative solutions for TP Group's representatives and external clients, that is students, research communities, international organisations, school-age children and teenagers and the media. In addition, TP R&D actively participated in external events, supporting project education initiatives and promoting TP Group's innovations. These events included the Festival of Science (September 2008), Economic Forum in Krynica (September 2008) and *Neostrada* Road Show (October 2008). The Innovation Gardens were visited by 4,187 people in 2008.

Also in 2008, the New Spirit project was launched within TP R&D to develop its future strategy in view of TP and FT Group's needs. The project outcome included new priorities for TP R&D's activity and TP R&D's structure adjustment to the requirements of the new strategy.

7.2 R&D Cooperation with France Telecom

TP R&D is involved in the implementation of some projects for the FT Group. The priority projects include:

- Projects related to implementation of services based on application servers;
- VoIP project for the mass market and the business market;
- Intelligent Network development in terms of new services for the mass market;
- Projects related to home gateway based services;
- 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;
- Projects related to radio systems for fixed line networks (Point-to-Point and Point-to-Multipoint systems).

Revenue from sale of research and development services to FT exceeded EUR 8 million in 2008.

The key objective of TP R&D's strategy developed in 2008 is to almost double the production for FT by the end of 2010.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

8 CHANGES IN THE TP GROUP'S STRUCTURE IN 2008

8.1 Changes in the Corporate Structure

In 2008, the TP Group introduced changes in order to implement new organisation structures defined in 2007, which is aimed at strengthening and unifying management of the TP Group as an integrated operator.

8.1.1 Management Board

The number of the Management Board Members increased. The Management Board is now composed of six Members, who have been assigned the direct supervision over the following Company's matters:

- 1) President of the Management Board;
- 2) Management Board Members in charge of:
 - Finance (CFO);
 - Human Resources;
 - Mass Market;
 - Operations;
 - Corporate Strategy and Business Development.

8.1.2 Executive Committee

The TP Group Executive Committee, which was established to support the Management Board in the day-to-day operations, was expanded in 2008. The Committee is now composed of the President and Members of TP Management Board, President of PTK Centertel Management Board, President of Wirtualna Polska Management Board and senior managers from the business areas of:

- Business Market;
- Service Centre;
- Content Purchase and Production;
- Corporate Affairs.

The TP Group Internal Audit Department Director may take part in the Committee's activity as a non-permanent member.

8.1.3 Business Units

Several new business units were established within TP's organisation and the structure of others changed.

As of 31 December 2008, TP Group had the following business units:

- 1) 1 Office (TP Management Board Office);
- 2) 25 Departments reporting directly to the President of TP Management Board, TP Management Board Members, TP Group Executive Officer or TP Group Officers;
- 3) 27 Branches;
- 4) 5 TP Group Regions: North, South, East, West and Central.

8.1.4 TP's Subsidiaries

No material changes were introduced in the structures of TP's subsidiaries in 2008.

8.2 Changes in Policies and Procedures

8.2.1 Risk Management

Resolution 18/08 of TP Management Board dated 12 February 2008 introduced *TP Group Risk Management Policy* which effectively extends TP risk management procedures to the entire TP Group.

8.2.2 Incentive Schemes

Management By Objectives

Resolution 13/07 of TP Management Board dated 30 January 2007 modernised procedures for granting bonuses for achieving the objectives set within the Management By Objectives (MBO) system at TP. Bonuses to the employees covered by the MBO system are dependent on the achievement of the TP Group's Gross Operating Margin (GOM) and Organic Cash Flow.

8.3 Ownership Changes within the TP Group in 2008

8.3.1 Establishment of Limited Liability Company Mobile TV

On 10 December 2008, PTK Centertel, Polska Telefonia Cyfrowa, P4 and Polkomtel signed the Deed of Establishment of the limited liability company Mobile TV Sp. z o.o. ("Mobile TV"). Its objects will be to participate in a bid for DVB-H operator license and, if awarded, provide services enabling access to multimedia content (particularly audio and audiovisual) to those interested on the basis of DVB-H or potentially other technology. PTK Centertel joined Mobile TV, acquiring 30 shares of nominal value of PLN 500 each, that is a 25% stake in Mobile TV, which corresponds to 25% of the total voting power at the Shareholders' Meeting of the latter. PTK Centertel financed the acquisition from internal funds. The shares acquired by PTK Centertel are a long-term investment. The total price of the shares is PLN 15,000.00. The acquired shares are reported as long-term investments. The total purchase price thereof is PLN 15,000.00.

8.3.2 DITEL S.A.

On 23 January 2008, the District Court for Warsaw registered a decrease in the share capital of DITEL S.A. from PLN 60,500,000 to PLN 500,000, that is by PLN 60,000,000. The decrease was effected by the redemption of 6,000,000 B-series ordinary registered shares of nominal value of PLN 10 each or the aggregate nominal value of PLN 60,000,000. Upon TP's consent, the shares were redeemed without remuneration. Following the registration, DITEL S.A.'s share capital amounts to PLN 500,000 and is divided into 50,000 shares of nominal value of PLN 10 each.

On 20 June 2008, TP and TP Invest and a European Directories Group company concluded a binding share purchase agreement under which TP and TP Invest sold all the A-series registered ordinary shares of the nominal value of PLN 10 each in Warsaw-based DITEL S.A. The shares sold by TP and TP Invest constituted a 100% stake in DITEL S.A. and corresponded to 100% of the total voting power at the General Meeting of Shareholders of the latter. The total purchase price was EUR 19,308,372.71.

8.3.3 Equity Changes in Other Subsidiaries

On 31 January 2008, the District Court for Warsaw registered a decrease in the share capital of TP Internet sp. z o.o. ("TPI"), a subsidiary of TP from PLN 544,213,000 to PLN 13,438,000, that is by PLN 530,775,000. The decrease was effected by the redemption of 1,061,550 shares held by TP Invest sp. z o.o. ("TP Invest") of nominal value of PLN 500 each or the aggregate nominal value of PLN 530,775,000 to cover a balance sheet loss of PLN 530,775,000 incurred between 1999 and 2006. Following the registration, TPI's share capital amounts to PLN 13,438,000 and is divided into 26,876 shares of nominal value of PLN 500 each. TP holds a 0.04% stake in TPI, which corresponds to the same number of votes, while the other shareholder, i.e. TP Invest holds a 99.96% stake, which corresponds to 99.96% of the total voting power at the Shareholders Meeting of TPI.

On 31 January 2008, TP Invest purchased 60 shares in PPP-W Telefon 2000 sp. z o.o. from the minority shareholders. The shares purchased represented a 4.62% stake in PPP-W Telefon 2000 sp. z o.o. and corresponded to 4.62% of the total voting power. Following the purchase, TP Invest holds a 100% stake and the total voting power in PPP-W Telefon 2000 sp. z o.o.

On 8 February 2008, the District Court for Gdańsk registered an increase in the share capital of Wirtualna Polska S.A. ("WP"). The share capital of WP was increased from PLN 62,880,024 to PLN 67,980,024, i.e. by PLN 5,100,000, through the issue of 1,275,000 new shares of nominal value of PLN 4 each. All the new shares were taken up by the existing shareholder of WP, that is Virgo sp. z o.o., a subsidiary of TP, against a non-cash contribution in the form of due liability amounting to PLN 5,100,000. Following the registration, the share capital of WP amounts to PLN 67,980,024 and is divided into 16,995,006 shares of nominal value of PLN 4 each. Virgo sp. z o.o., a wholly owned subsidiary of TP, is the sole shareholder of WP and holds a 100% stake in WP, which corresponds to 100% of the total voting power at the Shareholders Meeting of the latter.

On 5 September 2008, the District Court for Warsaw registered an increase in the share capital of OPCO sp. z o.o. ("OPCO"). OPCO's share capital was increased from PLN 50,000 to PLN 10,000,000, that is by PLN 9,950,000. The increase was effected through the issue of 9,950 new shares of nominal value of PLN 1,000 each. All the new shares were taken up by TP. Following the registration, the share capital of OPCO totals PLN 10,000,000 and is divided into 10,000 shares of nominal value of PLN 1,000 each, corresponding to the same number of votes at the Shareholders Meeting of OPCO. TP holds a 100% stake in OPCO, which corresponds to 100% of the total voting power at the Shareholders Meeting of the latter.

On 3 November 2008, the District Court for Łódź registered an increase in the share capital of TP TELTECH sp. z o.o. ("TELTECH"). TELTECH's share capital was increased from PLN 185,050,000 to PLN 211,250,000, that is by PLN 26,200,000. The increase was effected through the issue of 52,400 new shares of nominal value of PLN 500 each. All the new shares were taken up by Warsaw-based Przedsiębiorstwo Produkcyjne Projektowo – Wdrozeniowe Telefon 2000 sp. z o.o. ("Telefon 2000"; TP Invest, a TP's subsidiary, holds a 100% stake in Telefon 2000) against a non-cash contribution in the form of Telefon 2000's enterprise. Following the registration, the share capital of TELTECH amounts to PLN 211,250,000 and is divided into 422,500 shares of nominal value of PLN 500 each, corresponding to the same number of votes at the Shareholders' Meeting of TELTECH. TP holds a 5.21% stake in TELTECH, which corresponds to 5.21% of the total voting power. The other shareholders in TELTECH are TP Invest, which holds an 82.39% stake and the corresponding number of votes, and Telefon 2000, which holds a 12.40% stake and the corresponding number of votes at the Shareholders' Meeting.

8.3.4 Liquidation of Sklep Wirtualnej Polski S.A.

On 4 January 2008, the District Court for Gdańsk decided to delete Gdańsk-based Sklep Wirtualnej Polski S.A. [Wirtualna Polska e-store], a wholly-owned subsidiary of Wirtualna Polska S.A., from the National Court Register (KRS).

8.4 Parent Company's Shareholders

As of 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 nominal value of PLN 3 each. During twelve months ended 31 December 2008, the Company purchased 33,124,220 own shares for the purpose of their redemption (see Note 30.3 to Consolidated Financial Statements) for the total amount of PLN 700 million.

The ownership structure of the share capital as registered on 31 December 2008 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
Capital Research and Management Company	10.11	405
State Treasury ⁽¹⁾	4.15	166
Other shareholders	35.95	1,441
Total	100.00	4,007
Treasury shares		99
Grand Total		4,106

⁽¹⁾ The figures presented are based on the number of shares registered by the State Treasury at the Extraordinary General Meeting of Shareholders of TP held on 16 January 2009.

⁽²⁾ The percentage of votes held by the shareholders at the General Meeting of Shareholders increased at 31 December 2008 as a result of the purchase by the Company of its own shares for the purpose of their redemption (see Note 30.3).

As of 31 December 2008, 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.

Apart from the above and the programme of buy-back of own shares for the purpose of their redemption, 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.

According to the Company's best knowledge, there are no securities the holders of which have any special rights of control over TP.

TP's Articles of Association do not include any restrictions concerning:

- the transfer of ownership of TP's securities; or
- the exercise of the voting rights given by TP's shares.

TP does not have any knowledge as to the potential existence of other agreements which could result in any restrictions in this respect.

TP did not issue any employee shares in 2008, but an Incentive Programme for the Key Managers was launched in 2007 (please see section 9.2.1 for further details).

9 TP GROUP'S STRUCTURE AS OF 31 DECEMBER 2008

9.1 Corporate Governance Bodies of the Parent Company

9.1.1 Management Board

The Management Board composition on 1 January 2008:

1. Maciej Witucki - President of the Board
2. Pierre Hamon - Board Member
3. Jacek Kałaur - Board Member
4. Iwona Kossmann - Board Member
5. Benoit Merel - Board Member

On 24 January 2008, Ms. Iwona Kossmann resigned.

On 29 February 2008, Messrs. Pierre Hamon and Benoit Merel resigned.

On 1 March 2008, Mr. Roland Dubois was appointed by the Supervisory Board as a Member of the Management Board.

On 24 April 2008, Mr. Richard Shearer was appointed by the Supervisory Board as a Member of the Management Board.

On 25 September 2008, Messrs. Piotr Muszyński and Ireneusz Piecuch were appointed by the Supervisory Board as Members of the Management Board.

The Management Board composition on 31 December 2008:

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
4. Richard Shearer - Board Member

In 2008, there were no changes in the principles of appointment or removal of managing persons, or in their powers, resulting from TP's Articles of Association, particularly the right to make decisions about the issuance or redemption of shares.

Pursuant to the Company's Articles of Association, the powers of the Supervisory Board include appointing, dismissing and suspending for important reasons any or all members of the Management Board. The Management Board consists of between 3 and 10 members, including the President. The actual number of members of the Management Board is determined by the Supervisory Board. The President and other members of the Management Board are appointed and removed by the Supervisory Board. The resolutions of the Supervisory Board regarding the appointment of the President or other members of the Management Board are taken by the simple majority of the votes cast. Members of the Management Board may be at any time removed or suspended for important reasons by the Supervisory Board before the expiry of their term of office.

According to TP Supervisory Board's by-laws, the responsibilities of the Supervisory Board include on-going supervision over all business areas of the Company's activity and representing the Company in any agreements or disputes between the Company and members of the Management Board.

Under article 8 of the Articles of Association, the Company's shares may be redeemed upon the shareholder's consent through the purchase thereof by the Company (voluntary redemption). Voluntary redemption of shares requires a resolution of the General Meeting of Shareholders, which in particular shall determine the remuneration for the redeemed shares or provide the reasons for redeeming shares without remuneration.

Under article 9 of the Articles of Association, the General Meeting of Shareholders may pass a resolution to increase the initial capital through the issue of new shares or an increase in the nominal value of shares. The initial capital may also be increased through a transfer from legal reserve capital or other reserve capital in the amount set out in the resolution of the General Meeting of Shareholders.

Under article 10 of the Articles of Association, the Company may issue convertible bonds.

Under article 13 of the Articles of Association, the powers of the General Meeting of Shareholders include amending the Articles of Association (including an increase or reduction in the initial capital) and issuing convertible or first option bonds.

Employment contracts of the Members of the Management Board of TP 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 differs and is from six up to eighteen monthly salaries.

The compensation for restraining from any activity competitive to that of TP for the period of twelve months after the termination of employment is up to from six monthly salaries, calculated as cash equivalent for unused holidays (this applies to the Management Board members who were in charge as of the date of the financial statements).

9.1.2 Supervisory Board

The Supervisory Board composition on 1 January 2008:

1. Prof. Andrzej K. Koźmiński - Chairman and Independent Board Member
2. Olivier Barberot - Deputy Chairman and Chairman of the Strategy Committee
3. Michel Monzani - Board 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 24 April 2008, the mandate of Mr. Timothy Boatman expired. On the same day, Mr. Timothy Boatman was appointed by the Annual General Meeting for another term.

On 25 September 2008, Mr. Michel Monzani resigned from his position on the Supervisory Board. On the same day, Mr. Olivier Faure was appointed by the Supervisory Board as a Member of the Supervisory Board.

The Supervisory Board composition on 31 December 2008:

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 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 Member of the Supervisory Board.

At present, TP has six independent members on the Supervisory Board, namely Messrs. Prof. Andrzej K. Koźmiński, Timothy Boatman, Ronald Freeman, Dr. Mirosław Gronicki, Prof. Jerzy Rajska, and Dr. Wiesław Rozłucki.

9.1.3 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.

In the course of the Company's incentive program, Members of the Management Board of the Company acquired TP registered A-series bonds with the pre-emption right attached to the Bonds to subscribe for the Company's shares with priority over the existing shareholders.

The number of bonds with the pre-emption right held by Members of the Management Board of the Company on 31 December 2008 was as follows:

Maciej Witucki	305,557
Jacek Kałaur	206,250
Roland Dubois	-
Richard Shearer	-
Piotr Muszyński	190,896
Ireneusz Piecuch	206,250

The members of the Supervisory Board of TP do not participate in the Company's incentive program and as of 31 December 2008 held no bonds with the pre-emption right.

For information on the remuneration (including profit sharing) paid or payable by the Company to the persons appointed to its management and supervisory bodies see Note 33.1. to the Consolidated Financial Statements enclosed.

9.1.4 Shareholders' Meeting

On 24 April 2008, the General Shareholders' Meeting of TP passed a resolution authorising the Company to buy back its own shares for the purpose of their redemption. On 15 July 2008, TP Management Board set the detailed terms of the programme on the buy back of the Company's own shares for the purpose of their redemption ("Program").

During the Program execution, that is between 4 August 2008 and 25 November 2008, the Company purchased the total of 33,124,220 own shares, which account for 2.42% of the Company's share capital.

The Program was carried out until the total amount of funds utilised for its execution achieved PLN 700 million.

In 2008, TP distributed PLN 2,053 million of dividend, including PLN 825 million in respect of 2007 profit and PLN 1.228 million of retained profits from previous years. The dividend of PLN 1.5 per share was approved by the General Shareholders' Meeting of TP on 24 April 2008 and was paid, net of withholding tax, on 11 June 2008.

On 16 January 2008, the General Shareholders' Meeting of TP passed a resolution on the redemption of 33,124,220 ordinary bearer shares of A-series and a resolution on the decrease of the Company's share capital (from PLN 4,106,319,723 to PLN 4,006,947,063) by way of amending the Articles of Association.

9.2 Employment in the TP Group

As of the 31 of December 2008, the TP Group employed 29,249 people (in full-time equivalents). Employment in the TP Group decreased by 6.7% in comparison with the level at the end of 2007.

Workforce was reduced mainly in TP (by 1,953 employees). In addition, the sale of DITEL (603 employees) contributed to the decrease. The reduction was partially offset by an increase in workforce mainly in PTK Centertel (by 132 employees), TP Internet (by 111 employees), Wirtualna Polska (by 60 employees) and TP Emitel (by 17 employees).

In 2008, TP continued its efforts aimed at workforce optimisation. The optimisation process was based mainly on the Social Agreement concluded in December 2006.

TP's workforce reduction is mainly a result of a voluntary departure programme carried out in 2008 pursuant to the 2007-2009 Social Agreement. During twelve months of 2008, severance pay was paid to

2,015 employees, including 1,972 leaving TP under the voluntary departure programme, and averaged PLN 50 thousand per employee.

The workforce restructuring provision after discount and utilisation was PLN 162 million at the end of December 2008 (this amount accounts for an additional provision created in connection with the 2009-2011 Social Agreement signed in November 2008).

In 2008, external recruitment in the TP Group amounted to 1,973 positions (excluding temporary replacement agreements), which is an 8.5% increase compared to external recruitment in 2007. External recruitment was mainly related to sale positions and customer service staff (mainly at TP, PTK Centertel, Emitel and Wirtualna Polska).

Costs of wages, social insurance contributions and other employee benefits in the TP Group amounted to PLN 2,359 million (down 2.7% compared with 2007). Before one-off actuarial adjustment related to the 2009-2011 Social Agreement signed in November 2008, total cost of wages, social insurance contributions and other benefits decreased by 1.6% compared with 2007 (the amount of adjustment was PLN 32 million).

9.2.1 Incentive Programs

TP Group Incentive Program

On 28 April 2006, the General Meeting of Shareholders 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.

Bonds with Pre-emptive Rights

The Program is carried out through issuing TP bonds with a pre-emptive right. 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 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.

Option Exercise Price

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 2008, a total of 1,286,382 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 established a free share, equity-settled, award plan ("NExT plan"). Under the plan 988,400 shares were offered to employees and executives of TP 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.
- beneficiaries must be contractually employed by the France Telecom Group at the end of the vesting period.

9.2.2 Social Agreement

In November 2008, the Social Agreement for the years 2009-2011 was negotiated and concluded with trade unions. The document determines the principles regulating the most important employee-related issues for the next three years, such as employment policy, including development opportunities in different workforce groups, regular pay rises based on transparent and competitive remuneration policy, the role of internal mobility, recruitment and outsourcing in the Company's employment policy, and allowing long seniority employees to leave TP with fair compensation. In 2009, the provisions of the new Social Agreement will replace the provisions of the previous agreement for the years 2007-2009.

CHAPTER IV
KEY THREATS AND RISK FACTORS

10 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, rather than eliminate, the risk of failure to achieve business objectives. It can only provide reasonable and not absolute assurance against material misstatement or loss.

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, assessment and analysis as well as implementation of risk mitigation measures. Proper risk reporting provides the Management Board with information about the key risk factors within the Group, so preventive actions may be taken. 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 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 the following year is developed on the basis of a list of priority risks selected in conjunction with TP Group Executive Officers.

10.1 Strategy 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. It is based on the integration of fixed-line and mobile services as well as development of new revenue sources, mainly in the media and content areas. There is no guarantee that this strategy and its implementation will be successful. There is a risk of delays in the strategy implementation due to both internal and external factors and lower than expected revenue streams from new services, which may negatively affect the Group's performance and financial standing.

10.2 Timely Implementation of Regulatory Requirements

If regulatory requirements are imposed, there may be a risk that TP Group may not meet them within the indicated time limit and, as a consequence, may be fined by the Regulator. Please see section 5.1 for further details.

According to the Telecommunications Law, the President of UKE may impose on a telecommunications operator a penalty of up to 3% of its prior year's revenues, if the operator does not fulfil certain requirements thereof.

According to the Law on competition and consumer protection of 16 February 2007, in case of 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 year's revenues or, for failing to provide the information requested or providing misleading information, a penalty of up to EUR 50 million.

10.3 Availability of Skilled Employees

TP Group is affected by a risk related to attracting or retaining skilled employees in all its business areas. It is a particularly important issue in customer service and sales, where personnel rotation is relatively high, and in the technology area, where high level of unique competencies is required. Understaffing of these functions may pose a threat to the quality of TP Group's core business processes and may negatively affect Group's performance.

10.4 Technical Infrastructure

The technical infrastructure operated by the TP Group to provide its 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 may translate into lower revenues from such products and services and a decrease in customer satisfaction. This risk is mitigated by the proper network design, preventive maintenance, business continuity plans and proper insurance.

While developing its technical infrastructure, TP is exposed to the risk of incorrect selection of access infrastructure technology, as a result of an unexpected shift towards other, previously underestimated technologies. The currently recommended network access technologies may turn out to be unfit/useless for the implementation of the products expected by customers, while the services provided on the basis of such technologies may differ from customer expectations resulting from the functionality of the equipment currently available in the market (e.g. mobile television services). Owing to the volume of investments, such a development may have a long-term negative impact on the Company's financial results and profitability.

10.5 IT Systems

As rapid implementation of IT systems has become a necessity to meet changing customer demands, 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.

10.6 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, 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.

10.7 Dependence on External Partners

TP Group has contracts with external partners for maintenance of its networks and for other services. Although adequate requirements are set out in the contracts, the Company may be subject to deficiencies from its partners, resulting in delays in maintenance work and decrease in quality of services provided by the Group. Similarly, the Group relies partially on external suppliers of computer hardware and software for operation and supervision of IT systems and processes. These are complex matters, which prevents any change of suppliers within a short time. Although it is TP Group's policy to diversify outsourcing, there is a risk that major deficiencies from any major suppliers may negatively affect Group's operational and financial performance.

11 TELECOMMUNICATIONS SECTOR RISKS

11.1 Regulatory Risks

Changes in the regulatory environment combined with increasing competition added to the pressure on the TP Group's top line in 2008.

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.

TP Group intends to be an active partner in the liberalisation of the telecom sector by leading and executing solutions and agreements with partners who intend to develop the sector by investing in telecom infrastructure.

11.1.1 WLR Service

In 2006, the President of UKE initiated the process of introducing the WLR service into the Polish market by issuing decisions amending the agreements on network interconnection upon individual requests submitted to UKE by telecommunication operators. By the end of 2008, the President of UKE had issued decisions for 17 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, Netia S.A. and MediaTel S.A. All these decisions are unfavourable, as they impose on TP an obligation to resell services below its costs. TP has appealed against all the decisions.

On 10 December 2007, the Antimonopoly Court reversed UKE's decision which regulated the WLR service provision for Tele2. The President of UKE, the Polish Chamber of Electronics and Telecommunications (KIGEiT) and Tele2 appealed against the ruling. In November 2008, under the self-control procedure, the Appellate Court sent a legal question to the Supreme Court regarding the reversal of UKE's decision, and adjourned the case indefinitely.

On 3 June 2008, the Warsaw Court of Appeal suspended the execution of UKE's decision upon TP's request; as a result, TP got the right to discontinue the WLR service provision to Tele2. Consequently, TP filed a claim against Tele2 for PLN 59 million on the grounds of return of baseless enrichment of Tele2 at the expense of TP (please see section 5.12 for detailed information about this claim). On 6 June 2008, the President of UKE issued *ex officio* a new temporary decision (valid for 6 months) regulating the WLR service provision to Tele2. The decision was immediately enforceable. TP appealed against this decision, then on 11 June 2008 applied for suspending the execution of UKE's decision, but its request was rejected on 10 July 2008. On 24 July 2008, UKE issued a decision in which it declared that the temporary decision of 6 June 2008 had expired; on the same day, it issued a new WLR decision for Tele2, this time for an unspecified period. TP has appealed against both the decisions.

On 25 February 2008, the Warsaw District Court reversed UKE's decision which regulated the WLR service provision for Premium Internet. In July 2008, TP applied to the Court of Appeal for suspending the execution of UKE's decision, but the Court of Appeal rejected TP's request on 24 July 2008. Premium Internet, KIGEiT and UKE appealed against the aforementioned ruling.

On 22 December 2008, a third WLR service decision of UKE, that had been issued for E-Telko Sp. z o.o., was reversed. In the Antimonopoly Court's opinion, the most important objection raised in the appeal and considered valid was that the WLR prices had been set using a different method than the cost calculation referred to in article 39 of the Pharmaceutical Law or a benchmark pricing method. The Court questioned President of UKE setting the WLR rates based on the "retail minus" scheme.

On 8 April 2008, the President of UKE issued a decision concerning TP's Reference Interconnect Offer for telecommunication access with respect to call origination, call termination and wholesale line rental ("RIO"). In particular, this decision extended the scope of the WLR service. Please see section 11.1.4 for detailed information about the new RIO.

Following completion in August 2008 of the cost audit of TP carried out by an auditor appointed by the President of UKE and an unqualified opinion issued by this auditor, TP asked the President of UKE to account for the audit results in the relevant decisions. The President of UKE still refuses to apply these results despite another positive opinion of the auditor and the fact that these results are binding upon the President of UKE.

11.1.2 Local Loop Unbundling

On 28 November 2008, upon completion of the procedure for the approval of the Reference Unbundling Offer (RUO), the President of UKE changed and approved draft 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) 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. This application is pending the President of UKE's decision.

The appeal procedure against the previous Reference Unbundling Offer, which was ultimately determined by the President of UKE's decision of 3 April 2007, is pending. On 4 May 2007, TP lodged a complaint with the Regional Administrative Court on the President of UKE's decision of 3 April 2007, which, following the examination of TP's appeal, changed the original RUO decision of 5 October 2006. On 4 April 2008, the Regional Administrative Court rejected TP's complaint. On 18 June 2008, TP lodged cessation complaint with the Supreme Administrative Court.

Local loop unbundling is effected pursuant to the President of UKE's decisions for particular operators or under commercial arrangements with TP. So far, 11 agreements with alternative operators have been signed by TP and 5 decisions have been issued by the President of UKE (against which TP has appealed). RUO requires considerable investments by TP, especially in the development of shared locations. Despite significant expenditures, alternative operators use the local subscriber loop access service to a very limited extent. By the end of December, only 1,652 of TP's lines had been unbundled. It means that TP's investments made to meet the regulatory obligations resulting from RUO do not assure a return, as they largely remain unused.

11.1.3 Bitstream Access

In May 2007, in performance of an obligation imposed by a decision designating TP as an SMP operator in the relevant market for broadband access, including BSA (market 12), the Company submitted a draft Reference Offer for approval by the President of UKE.

On 5 May 2008, the President of UKE issued a decision adjusting the telecommunication access fees charged by TP for broadband access, including BSA, by setting their upper limits. On 6 May 2008, the President of UKE issued a decision amending and approving TP's draft reference offer for broadband access, including BSA. The new Reference BSA Offer considerably extended the scope of services to be provided to other telecom operators. It should be emphasised that TP does not meet all the data transmission requirements set by the President of UKE in the BSA decision within its own network. Adaptation of TP's network to the new categories of data services (in addition to those currently applied by TP) and introduction of new levels of access to TP's network will involve significant investments by the Company. Considering the fact that the rates set in the President of UKE's decisions do not assure payback, there is a major risk that these expenditures will not be covered by future wholesale revenues. The President of UKE made the decision immediately enforceable.

TP appealed against both decisions by applying to the President of UKE for the re-examination of the case.

On 31 October 2008, the President of UKE decided that the decision of 5 May 2008 which adjusted the telecommunication access fees charged by TP for broadband access, including BSA, by setting their upper limits had expired and simultaneously decided to discontinue the proceedings initiated upon TP's application for the re-examination of the case being the subject of the decision of 5 May 2008. TP repeatedly presented its position that the decision of 5 May 2008 had expired on 27 August 2008, that is upon submission to the President of UKE of the cost calculation results for the broadband access service, including BSA, for 2008 and 2009, together with a positive opinion of an auditor.

On 4 November 2008, the President of UKE decided to partially amend the decision of 6 May 2008, which amended and 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 as well as the invalidity of the preceding decision of 6 May 2008.

11.1.4 Reference Interconnect Offer

On 3 September 2007, following the positive outcome of TP costs audit, the Company applied for amending the Reference Interconnect Offer (RIO) by introducing a price list that reflects the audited TP costs. On 10 January 2008, the President of UKE refused to amend RIO by introducing a price list reflecting the audited TP costs. TP appealed against this decision by applying to the President of UKE for the re-examination of the case. On 4 April 2008, the President of UKE upheld the decision of 10 January 2008, refusing to amend RIO. On 7 May 2008, TP lodged a complaint with the Regional Administrative Court on the President of UKE's decision refusing to introduce a price list reflecting the audited TP costs. The court procedure is pending.

On 7 April 2008, the President of UKE obliged TP to adjust its call origination, call termination and WLR rates, setting their ceilings.

On 8 April 2008, the President of UKE approved the Reference Interconnect Offer with respect to call origination, call termination and wholesale line rental by amending and implementing the draft RIO submitted by TP on 11 October 2006. The 2008 RIO determines the general terms of co-operation with other telecom operators with respect to network interconnection, wholesale access to TP's network (WLR service) as well as access to telecommunication infrastructure and systems required to provide access.

The new RIO extends the regulatory obligations imposed on TP, particularly in terms of wholesale access to its network:

- The catalogue of service components of TP's WLR service has been extended. Under the new RIO, WLR is to cover also ISDN BRA and ISDN PRA lines in addition to analog lines;
- As part of the WLR service, TP is now supposed to resell its services, including local and intrazone, DLD, ILD and F2M calls (this obligation was not included in the WLR decisions issued for individual operators). This solution provides also for offering the WLR service to telecom operators with no infrastructure of their own (i.e. service providers).

The new reference offer maintains the rates set in the WLR decisions for individual operators. The monthly WLR prices have been determined on the "retail minus" basis with a 46.99% discount on TP's retail prices.

In addition, the new RIO provides for a number of severe penalties that may be imposed on TP while TP is still supposed to offer flat rate settlements, that involve interconnect charges significantly below the outcome of TP's costing model, which has been positively verified by an independent auditor.

The President of UKE made the decision immediately enforceable. TP appealed against these decisions by applying to the President of UKE for the re-examination of the case.

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.

On 31 October 2008, the President of UKE, issued a decision that her previous decision obliging TP to adjust its call origination, call termination and WLR rates and setting their ceilings had expired on 27 August 2008. The issuance of the decision was related to the fact that upon submission to the President of UKE of the cost calculation results together with an auditor's opinion confirming the correctness thereof, the grounds for the decision of 27 August 2008 set out in article 40 of the Pharmaceutical Law were no longer valid.

On 31 October 2008, the President of UKE decided to discontinue the proceedings initiated upon TP's application for the re-examination of the case that ended with the aforementioned decision of 7 April 2008. On 3 December 2008, TP filed a complaint on the discontinuation decision with the Regional Administrative Court in Warsaw.

11.1.5 Leased Lines

On 17 July 2007, the President of UKE obligated TP to prepare an amendment to the Reference Leased Lines Offer (RLLO) of 10 May 2006 within 30 days, particularly to reduce the service rates and offer lines of 622 Mbps capacity. TP lodged a complaint on this decision with the Regional Administrative Court. The court procedure was suspended.

Irrespective of the decision of 17 July 2007, on 18 July 2007 the President of UKE, upon NASK's request, issued a decision obligating TP to amend RLLO by adding paths for development of digital channels into the offer. On 17 August, TP submitted amended RLLO to UKE. On 31 October 2007, the President of UKE unilaterally changed and implemented the offer submitted by TP. In November 2007, the Company applied to the President of UKE for the re-examination of the case. The application is pending the President of UKE's decision.

On 17 June 2008, the Regional Administrative Court reversed the President of UKE's decision of 10 May 2006 on the 2006 RLLO (i.e. the initial reference offer that TP was obligated to amend under the aforementioned two decisions). The Court resolved that the President of UKE had had no right to set prices for 155 Mbps lines in RLLO; in the Court's opinion, the President of UKE was not entitled to apply any regulatory measures to $n \times 64$ kbps lines for $n > 16$, because these were not addressed in the retail price list for TP's domestic leased lines service, while the President of UKE referred to this price list in her decision. As RLLO regulates the terms of leased lines agreements taken as a whole, it was not possible to reverse it only in part, so it was reversed in its entirety. A cessation complaint has been filed in this case.

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) and imposed the relevant regulatory obligations on TP.

In addition, proceedings for designating TP as an SMP operator in the trunk segment of the leased lines market (market 14) is pending. The European Commission has already twice raised serious doubts as to the President of UKE's draft decision designating TP as an SMP operator, that had been notified to it. As a consequence, the President of UKE withdrew the notified decision and started works on a new draft version. Unless the President of UKE convinces the Commission of the significant market power of TP, TP's regulatory obligations related to the market 14 will be removed.

11.1.6 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. After the receipt of the written justification of the judgement, the Company will file a complaint with the Supreme Administrative Court.

11.1.7 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 has 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 on 19 January 2009.

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.

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.

Over the recent months, the European Commission and the President of UKE have taken steps aimed at significant MTR reductions both in Poland and within the European Union. The expected reduction is to bring the rates on mobile networks to the level of those on fixed line networks. It might result in MTR reduction on mobile networks even by 70%. As the Polish Regulator's actions are based on the Commission's guidelines for MTR reduction, the President of UKE may be expected to take further steps in this area.

The President of UKE carried out public consultation and formulated her position on the asymmetry of MTR rates in settlements between SMP operators (PTK Centertel, PTC ERA and Polkomtel) and new operators entering the market. In line with the position announced on 16 December 2008, the President of UKE intends to maintain the maximum level of MTR asymmetry, namely:

- The spread between the existent new operators and the incumbent operators (PTK Centertel, PTC and Polkomtel) should be 141% from 1 July 2009. In subsequent years, the asymmetry index should be gradually reduced, so that MTRs in settlements with the now new operators become symmetric on 1 January 2014;
- The asymmetry of MTRs in settlements with operators who will enter the market is to be 141% until the third year of their operation; the symmetry is to be achieved after 7.5 years.

This policy is inconsistent with the 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.

11.1.8 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 December 2007, TP filed a complaint with the European Commission on the President of UKE's actions related to the introduction of highly asymmetric FTRs in settlements between TP and alternative operators. In 2008, the European Commission was informed about further actions of the President of UKE with respect to the FTR asymmetry.

11.1.9 Regulatory Issues: Telecommunication Law Amendments

Review of the legislation process which may affect TP's operations:

1. Telecommunication Law amendment of 11 January 2008, providing for:
 - Development of a positioning and information platform with a central database;
 - Premium Rate services;
 - Increased liability of service providers for non-provision of services;
 - Dispute settlement outside courts;
 - Spam prevention;
 - Reduced financial liability of customers;
 - Enhanced rights of the President of UKE;
 - Additional regulatory obligations that could be imposed.
2. Draft law of 20 December 2007 ('community draft') regarding:
 - Data retention,
 - Enhanced rights of UKE (in terms of market analysis);

- Term of office and restrictions on dismissal of the President of UKE;
 - Obligation to pay a fine immediately.
3. Draft law of 25 November 2008 (the follow-up of the 'non-community draft'), in which functional separation regulations were added and the subject of regulation in terms of frequency allotment and frequency fees was extended.

TP, acting as a member of some employers associations (PKPP Lewiatan, KPP) and professional organisations (Polish Chamber of Information Technology and Telecommunications), presented its position in the course of the community consultation carried out by the Ministry of Infrastructure.

11.2 Competitive Risks

11.2.1 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 2008. The access substitution intensified particularly heavily and remained the main reason for a drop in fixed access lines in Poland. According to the Telecommunication Market In Poland Q4 2008 poll conducted in October and November 2008, 42.6% of households in Poland⁵ owned both mobile and fixed line phones, 14.6% used only 'traditional' telephony, while as much as 39.2% decided to use only a mobile phone. According to a Eurobarometer research (*E-Communications Household Survey*), published by European Commission in June 2008, new member countries have significantly higher share of mobile only users with Czech Republic being a leader with 64% of such .

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
- 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, there has been a new market trend of offering fixed line services as part of a mobile operator's offer. 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.

⁵ According to economic definition of household – data based on 2008 Research on Polish Population Economic Activity.

11.2.2 WLR, BSA and LLU Wholesale Markets

In 2006 a possibility to access TP's network based on wholesale line rental (WLR) was introduced. By the end of 2008, 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 and Netia.

Also in 2006, an option of wholesale access to TP's broadband services which involves access to local subscriber loop through access to network nodes (bitstream access – BSA) was introduced. The first operator to launch such a service on a commercial basis was GTS Energis, soon followed by Netia and Tele2.

By the end of 2008, TP had signed BSA agreements with 21 companies: ATM, Długie Rozmowy, ESPOL, E-Telko, eTOP, Exatel, GTS Energis, Intertel Mediatel 4B (formerly eTel), MNI, Netia, Petrotel, Polkomtel, PTC, PTK, Sferia, Supermedia, Tele2, Telefonía Dialog, Telekomunikacja Kolejowa, Telekomunikacja Novum and VECTRA. In addition, an individual decision was issued by UKE in one case (Supermedia).

As at the end of 2008, TP had 348,000 active BSA lines. The biggest BSA players include:

- Netia: 194,000 lines;
- PTK Centertel: 96,000 lines; and
- Tele2 (Netia Group): 34,000 lines.

In October 2008, TP submitted the Reference Bitstream Access Offer to UKE. The offer included a cost-based price list, but it was not accounted for by UKE. In a decision issued in November 2008, the President of UKE upheld the BSA prices based on the retail minus scheme.

The WLR and BSA rates for wholesale access to TP's network, set by UKE's arbitrary decision on the lowest level in Europe, enable alternative operators to generate potential profits without incurring direct costs of infrastructure investments. As a result, capital investments in the telecommunication infrastructure development have been significantly reduced and the so called local loop unbundling (LLU) will only concern the locations which in the alternative operators' opinion secure the highest profits or constitute the basis of services that may be migrated to LLU (e.g. WLR and BSA). LUPRO, WDM Computers and Netia were the first operators to offer LLU-based services. By the end of 2008, 1,634 TP's lines had been unbundled on the basis of the Reference Unbundling Offer (RUO).

The RIO 2008 and UKE's decisions issued for individual operators after 8 April 2008 have increased the scope of the WLR service, imposing an obligation to provide it also on ISDN PRA lines and inactive lines. Another risk factor is the potential introduction of the WLR service for telecom operators with no infrastructure of their own, i.e. service providers. These changes may lower voice market entry barriers. Furthermore, the wholesale fees charged for access or other components of the WLR service are significantly below TP's costs.

On 4 November 2008, the President of UKE amended RIO, including the terms of WLR access to TP's network. The rates set by the decision of 8 April 2008 were upheld, which imposed an obligation on TP to apply rates which did not account for TP cost calculation results for 2008 and 2009. The aforementioned decision has not introduced any major changes to the previous RIO, apart from specifying that building a subscriber connection is a responsibility of the alternative operator.

In 2008, on average, TP handled 43,000 WLR orders of alternative operators per month. The average monthly net increase in executed WLR orders was 31,000.

11.2.3 Mobile Internet Access

In the context of global development of mobile services and the Internet as an independent area of communications, 2008 saw rapid growth of Poland's mobile Internet, which is the fastest growing segment of telecommunications.

A substantial increase in the customer base of the incumbent mobile operators, PTC (Blue Connect service), Polkomtel (iPlus) and PTK Centertel (Orange Free), was accompanied by the introduction of internet solutions by the new mobile operator Play (Play Online), which were launched in mid-2008.

Popularisation of the HSDPA 7.2 Mbps in combination with HSUPA 1.9 Mbps technology has enabled considerable improvements in the quality and speed of data transmission on the mobile standard. As a result of the development of the HSDPA 7.2 Mbps infrastructure by the leading operators, the mobile

Internet with high quality transmission is now available to 50% of Poland's population (and the coverage is growing).

Steadily falling prices of terminals have eliminated the entry barrier, which until recently was the modem price. Currently, a terminal for PLN 1 (upon meeting certain conditions) is an element of the offers of all mobile operators in Poland. In addition, upon the market introduction of GSM routers, the mobile internet access may be considered as a solution for a broader group of users.

The introduction of fixed internet solutions by PTK Centertel (Orange Freedom) and PTC (Era Fixed Internet) has brought a new quality in the internet access. Owing to potential bundling with mobile services, it is now possible to offer a comprehensive internet solution that meets all the customer needs.

The introduction by PTK Centertel of package offers combining mobile internet services and notebooks with built-in modems, available under 0% instalment plans, during the year as well as the introduction of packages with cheap netbooks by PTC (Blue-Connect + HP) and Polkomtel (Plus + Samsung) in a subsidy model (down to the price level of PLN 1) towards the end of 2008 had a major impact on the popularisation of mobile internet solutions and contributed to a gradual elimination of territorial gaps in the internet access in Poland.

In view of the mobile internet market development hitherto and the mobile operators' announcements on the introduction of the HSDPA 14.4 Mbps and HSUPA 5.6 Mbps technologies as well as the mobile CDMA technology (PTK Centertel), sustained rapid growth in this telecommunications segment may be anticipated. It will contribute to a rapid increase in the mobile internet customer base, thus enabling the development of the information society in Poland.

11.2.4 MVNO Hosting

A risk factor for PTK Centertel in the MVNO hosting market is the growing activity of its rivals (PTC, Polkomtel). 2008 proved that mass distribution by MVNOs (e.g. Mobilking on PTC's network), supported by television advertising, could have a negative impact on the volume of sales by the biggest operators (a drop by several per cent in mass distribution channels in favour of Mobilking).

PTK Centertel's competitors have intensified their activity with respect to MVNO offers. PTC has won over some partners of large potential, namely:

- Mobilking (market introduction in February 2008; take-up of approximately 150,000 customers so far);
- Polsat Cyfrowy (market introduction on 30 June 2008).

Also Polkomtel has become a very active player in the MVNO market, carrying out active sales at aggressive hosting rates. Carrefour Mova (large customer base fluctuation; currently approximately 30,000 active customers, but considerable growth potential) has launched its services on Polkomtel's network.

11.2.5 Leased Lines Market

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. It is worth noting that the current RLLO provides attractive price conditions for a broad number of customers. The companies that have used the retail leased lines services may now use, upon registration in the register of telecom operators, the preferential wholesale price list. The existing regulations, especially in terms of pricing, contribute to the market erosion by value. At the same time, the market for sophisticated data transmission services on managed networks is growing rapidly. In Poland, like in other European countries, customers migrate 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.

11.2.6 Interconnect Market

In 2008, the President of UKE issued a further ten individual decisions amending the agreements on TP's network interconnection with other operators that introduced the possibility to settle inter-operator services according to flat interconnect rates based on RIO provisions. Currently, 22 operators pay for

interconnect services on a flat rate basis under UKE's decisions and a further two under the relevant agreements.

In addition, the President of UKE issued some decisions increasing the rates on networks of alternative operators on an individual basis.

TP appealed against all these decisions to the Antimonopoly Court.

Furthermore, the President of UKE issued an individual decision introducing settlements based on a third party billing service. This decision amended the interconnect agreement with Telekomunikacja Kolejowa Sp. z o.o. and introduced provisions enabling the provision of call origination service on TP's network to AUS TK numbers.

11.2.7 ILD (International Long Distance) Inbound and Gateway Markets

Competition in the ILD inbound and gateway markets has reached high intensity. It results from the fact that both mobile operators and the most active fixed line operators establish direct interconnections with incumbent operators or international operators that focus on voice traffic wholesale.

Therefore, it is important to find new partners for co-operation in traffic exchange in both domestic and international market. This will bring new opportunities to come up with offers that will be competitive in terms of both price and quality. The operators active in the international wholesale market are now seeking solutions for the target segments in which high quality of calls is required regardless of costs as well as those oriented mainly on price.

Another noticeable trend in the market for voice services, including ILD calls, is a rapid increase in VoIP (Voice-over-IP) household penetration rate across Europe (especially Western Europe), which in turn leads to growing number of calls carried out in this technology. Therefore, a number of operators is migrating or intends to migrate from the existing TDM technology to the IP technology both within their own networks and in traffic to and from other operators (including foreign-based). TP's strategic plans also provide for the launch of the first gateways based on the IP technology. However, migration towards the IP technology is a multistage process, which involves considerable investments in new infrastructure. Therefore, the migration process should be initiated only in response to actual market demand and taking into account the operator's internal potential.

11.2.8 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 region, as well as international operators active in Poland.

11.2.9 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 two of its services: *telefonia internetowa tp* and *neofon tp*.

TP anticipates that growth of broadband Internet access services based on bitstream access will stimulate increased use of the VoIP technology.

12 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

12.1 Macroeconomic Factors

12.1.1 Economic Growth

The year 2008 saw the continuation of the stable growth of the Polish economy observed over the last few years. According to initial estimates, GDP growth exceeded 5% in 2008. However, stable economic situation started to change towards the end of 2008 in the wake of economic slow-down in the US and Western Europe. At the moment it seems impossible to clearly assess Poland's economic outlook, as it largely depends on the condition of other European economies. Currently, the Polish government is of opinion that the economic situation is stable, whereas the assessment of the extent of the coming economic slow-down is subject to high uncertainty.

In view of the economic slow-down in other European countries, stable domestic demand should be a growth engine in Poland. However, prolonged slow-down in Europe may also affect the condition of the Polish economy. Currently, the Management Board assumes in TP Group budget plans that GDP growth will be positive in 2009, though it will not reach the level achieved in 2008. This scenario seems feasible, considering the state budget assumptions adopted by the Parliament in January 2009, according to which GDP growth in real terms will be 3.7%. Two decisions of the Monetary Policy Council to reduce the reference interest rate by 75 basis points to 4.25%, that were made in December 2008 and January 2009, seem to indicate that the Central Bank will be actively involved in stimulating Poland's economy.

12.1.2 Inflation

The inflation rate, estimated at 3.3% for the end of 2008, does not seem to be a major risk factor in 2009. The Monetary Policy Council's decisions on interest rate reductions may indicate that the Central Bank does not expect a significant inflationary pressure in 2009. However, stimulating the Polish economy by interest rate cuts brings a risk that the inflation rate may decrease from over 3% at the end of 2008 down below the level assumed by the Government (the budget bill passed by the Parliament assumes that the inflation rate will fall to 2.9% in 2009). The Management Board has assumed in its 2009 forecasts that the year-average inflation rate will remain below 3%.

12.1.3 Unemployment and Labour Costs

Over the last few years Poland has seen rapid growth in wages accompanied by a decrease in the unemployment rate. 2008 was no exception: the wage growth was almost 10% and the unemployment rate reached a many-year low (i.e. 8.8% at the end of October 2008). However, the two last months of 2008 saw a worsening situation in the labour market and an unemployment rate increase to 9.5% (as at the end of December 2008). Although favourable macroeconomic conditions are still anticipated, the situation from the last several years is unlikely to repeat. The Management Board expects that in 2009 the labour market will see trends that have not been observed for the last few years.

The further decrease in the unemployment rate assumed by the Polish Government in the 2009 State Budget seems unrealistic. The Management Board expects growth of unemployment and a substantial decrease in wage growth. In 2009, the year-average wage growth in Poland should not exceed 5–6%, whereas the unemployment rate may increase by 1–2 percentage points to 9–10% at year-end.

12.2 Factors Related to Financial Markets

12.2.1 Interest Rates

The CPI increase encouraged the Monetary Policy Council to raise the base interest rates in Poland four times in the first half of 2008, each time by 25 basis points. In the second half of 2008, a deteriorating economic climate worldwide, including a threat of recession at Poland's main trade partners, and 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 basic interest rates by 25 basis points in November and by further 75 basis points in December 2008. The reference interest rate was 5% at year-end. Then, another cut of 75 basis points was effected in January 2009, so the reference interest rate is currently at 4.25%. In the next months the Monetary Policy Council is expected to carry out an expansive monetary policy, which will be reflected in further interest rate cuts.

The interest rate level has a direct impact on TP Group's debt service costs. The expected interest rate reduction will have a positive impact on the Group's financial results.

12.2.2 Banking Sector Liquidity

Upon the sudden intensification of the global financial crisis in the second half of 2008, the capital markets liquidity was visibly upset. TP Group fulfilled its need for external financing in the first half of 2008. As a consequence, the subsequent low liquidity of the banking sector has not restricted TP's operating activities. In view of low debt repayments in 2009, TP Group will not be forced to issue any new debt.

12.2.3 Foreign Exchange Rates

Foreign exchange rate fluctuations affect TP's obligations denominated in foreign currencies and settlements with foreign operators.

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 Euro-denominated benchmarks.

In the first half of 2008, the Polish Zloty (PLN) gained almost 12.4% against the US dollar and 6.3% against the Euro. The average exchange rates of PLN against the US dollar and the Euro in the first half of 2008 were 2.29 and 3.49 respectively.

Starting from mid-July 2008, the EUR/USD rate fell from 1.5950 to 1.2500 (or by 21.6%). It was accompanied by an increase in the PLN/EUR rate from 3.2026 at the end of July 2008 to 4.1724 or by 30.3% till the end of December 2008 and the PLN/USD rate from 2.0509 at the end of July 2008 to 2.9618 or by 44.4% till the end of December 2008.

12.2.4 Situation on Stock Exchanges

In 2008, the indexes on the Warsaw Stock Exchange (WSE) saw the biggest annual drops in the WSE's history. The prime index, WIG, fell 51% between 31 December 2007 and 31 December 2008 (compared to a 10% rise a year earlier). TP shares lost approximately 15% in 2008, whereas the large-cap index, WIG20, lost 48%. According to market analysts, TP shares may be considered defensive, that is shares the price of which is subject to limited fluctuations at times of financial crisis.

12.2.5 Other Factors That May Influence the Price of TP Shares

Other factors than already mentioned earlier in this document, 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.

13 APPENDICES

Appendix 1: Secondary Legislation

The following secondary legislation, which is important for TP Group companies, had been issued by the end of 2008:

- Decree of the Minister of Infrastructure of 21 July 2008 on the scope of the telecommunications access reference offer (Journal of Laws No. 138, item 866);
- Decree of the Minister of Infrastructure of 21 July 2008 on detailed requirements for providing telecommunications access (JoL No. 145, item 919);
- Decree of the Minister of Infrastructure of 11 December 2008 amending the decree on the amount, manner of determination and terms of payment of annual telecommunication fee (JoL No. 228, item 1512);
- Decree of the Minister of Internal Affairs and Administration of 15 July 2008 on the type of expenses related directly to the provision of the network connection service in order to enable the use of the broadband internet access service by the authorised entities (JoL No. 130, item 830);
- Decree of the Minister of Infrastructure of 28 February 2008 on the national numbering plan for public telephone networks (JoL No. 52, item 307);
- Decree of the Minister of Infrastructure of 15 February 2008 on the bidding procedure and contest for frequency or frequency resource allotment (JoL No. 30, item 179);
- Decree of the Minister of Infrastructure of 9 January 2008 on detailed addressing requirements for proper call directing (JoL No. 14, item 84);
- Decree of the Minister of Infrastructure of 4 November 2008 on radio equipment operator's certificates (JoL No. 206, item 1290);
- Decree of the Minister of Internal Affairs and Administration of 29 October 2008 on the financial assistance of the Implementing Authority for European Programmes for the provision of the broadband internet access service in the Innovative Economy Operational Programme 2007-2013 (JoL No. 204, item 1280);
- Decree of the Minister of Infrastructure of 5 December 2008 on permits for the amateur radio communication service (JoL of 18 December 2008, No. 223, item 1472);
- Decree of the Council of Ministers of 12 November 2008 amending the decree on annual fees for the right to use frequencies (JoL of 4 December 2008, No. 215, item 1356);
- Decree of the Minister of Infrastructure of 29 February 2008 amending the decree on radio transmitting and transmitting-receiving devices that can be used without a radio licence (JoL of 19 March 2008, No. 47, item 277).

Appendix 2. Analysis of Relevant Markets

Decisions issued in 2008:

- Market 10 (call transit): pursuant to the decision of 17 October 2008, the market was recognised as effectively competitive. UKE assumed that a separate decision was required to remove regulatory obligations. The public consultation of that decision ended on 14 December 2008. Both draft decisions were notified to the European Commission.
- Market 13 (terminating segment of leased lines): pursuant to the decision of 23 October 2008, TP was designated as an operator having significant market power. The regulatory obligations imposed on TP concern infrastructure access, non-discrimination, development of a reference offer (and, until it is published, publication of information required to conclude an agreement), accounting separation and cost-based pricing. The decision is immediately enforceable. The decision has been notified to the European Commission.
- Market 15 (access and call origination on mobile networks): pursuant to the decision of 6 August 2008, the market was recognised as effectively competitive with no need for regulation.

In 2008, UKE notified to the European Commission the following draft decisions:

- Market 14 (trunk segment of leased lines): UKE proposed to designate TP as an SMP operator in this market and impose regulatory obligations concerning access, non-discrimination, development of a reference offer (and, until it is published, publication of information required to conclude an agreement), accounting separation, FL-LRIC costing and cost-based pricing. The European Commission voiced serious doubts about the draft decision. UKE withdrawn its draft decision and commenced new analyses. As a result of the new analyses, UKE presented a new draft, reducing the scope of regulation and excluding the connections between 145 cities from regulatory obligations.
- Market 16 (call termination on mobile networks): UKE proposed to designate Cyfrowy Polsat as an SMP operator in this market and impose regulatory obligations concerning access, non-discrimination, publication of access conditions and ban on overpricing.

Appendix 3. Products and Services

Fixed Line Voice

Business Customers

In 2008, in order to meet customer expectations and to improve its competitive position, TP introduced a range of new and enhanced services in the business segment. The most important of them are presented below.

Corporate Solutions

- Tariff Solutions

In March 2008, new reduced prices of FTM calls were introduced in tariff plans for business customers.

In June 2008, another modification of prices of FTM calls in the standard tariff plan was introduced. The rates were reduced by 13% and made equal irrespective of the time of the day. At the same time, TP introduced a retention offer of new tariff plans addressed to the customers at the greatest risk of leaving. The new plans were initially offered in a pilot project, and then a commercial offer was launched in December.

According to the adopted segmentation strategy, a new offer dedicated to the SOHO segment was introduced in December. It comprises six new tariff plans with pools of minutes (100 to 750) for local or DLD calls.

While not necessarily an important revenues contributor, advanced Value Added Services based on IN are very important for many business customers' operations, while also improving overall customer satisfaction in the business segment. VAS services portfolio includes infolines and teleconferences. In 2008, a new offer of local infolines 8044 (Corporate Hotline) dedicated to SOHO and SME segments was introduced.

Content Services

In 2008, the most important changes related to the Premium Rate services included:

- Introduction of a pilot offer for TSPs (Technical Service Providers);
- Introduction of a new VCC functionality (EZO TV) on the TELSIN audiotex platform;
- Opening of traffic to audiotex numbers from the ORANGE network;
- Introduction of additional functionalities in the ORANGE pre-paid account recharging system (0-300 900 900 service);
- Introduction of an offer and launch of a pre-paid account recharging service on the MNI network;
- Introduction of new 0-703 / 0-704 numbering, which replaced 0-300 / 0-400;
- Introduction of the pilot offer 'Audiotex for SME' for connecting SME customers to the audiotex platform (the follow-up is recommended).

Access Solutions / Connection Offers

In 2008, TP continued its promotional campaigns for access distribution in business segments. The principal components were the group access sale (essentially ISDN), as well as the offer for additional services (DSL access, for instance). The main benefit for customers in each of these bundles is a lower monthly fee. These bundle offers are also used as a tool to strengthen customer loyalty (24-month agreements).

- 'Package for New Companies': offer dedicated to start-up companies;
- 'TP Telephone Line for PLN 10': connection offer for an analog line in the customer's primary location.

Residential Customers

Promotional Offers and Initiatives

- Nationwide campaign to promote the TP 250 tariff plan;
- Nationwide campaign to promote new value-added services (TP My Hour, Chosen Numbers, Discounted Calls, Pool of Mobile Minutes), which started in June 2008;
- Nationwide promotional campaign to inform customers about the reduction and unification of F2M rates, which started in June 2008;
- Nationwide campaign to promote new Home tariff plans, which started in September 2008.

New Services and Tariff Plans

In order to meet customer expectations and to improve its competitive position, TP introduced a range of new and enhanced services in 2008:

- In June 2008, TP launched new value-added services (VAS):
 - 'TP My Hour': unlimited calls at the chosen time every day;
 - 'TP 30 Pool of Mobile Minutes': a pool of 30 minutes for F2M calls per month;
 - 'Chosen Numbers': 100% discount on calls to one to five numbers on any fixed line network for a fixed monthly fee;
 - 'TP Discounted Calls': 50% discount for local, DLD and F2M calls for a fixed monthly fee.
- In June 2008, the F2M rates were reduced and unified for all tariff plans;
- Also in June 2008, due to legal requirements a new tariff plan, TP Friendly, was introduced. It is addressed to low-income customers. The subscription fee is PLN 18.30 per month and includes a pool of 30 minutes for local and DLD calls;
- In September 2008, a new tariff plan, TP Home, was introduced onto the market. It is a modern tariff plan, which is adjusted to different needs of residential customers. By choosing from among the available plan options customers can decide whether to use their pool of free minutes embedded in the subscription on a 24H/7D basis or off peak hours;

Tariff Plan	Home 60		Home 300		Home 1200	
	24H/7D.	Weekends & Evenings	24H/7D.	Weekends & Evenings	24H/7D.	Weekends & Evenings
Subscription fee (PLN)	50	50	70	70	90	90
Pool of minutes for local and DLD calls	60	120	300	600	1200	Unlimited

- The 'tp mix' service was extended into further tariff plans;
- Due to legal requirements, the sale of the social tariff plan was discontinued in December 2008;
- In 2008, customers offered a telephone set for purchasing or changing a tariff plan, provided that they signed a 12-month or 24-month loyalty agreement.

Connection Offers

In 2008, TP offered the following network connection promotions for its customers:

- The 'PSTN access for PLN 10' price promotion was continued. It offered a reduction in the fee for the first analog line from PLN 156.00 net (or PLN 180.32 incl. VAT) to PLN 8.20 net (or PLN 10 incl. VAT), provided that a 12-month loyalty agreement was signed;
- The 'New Telephone with a Plan' promotion was carried out between 1 February and 30 April 2008. It offered one of two models of fixed line terminals, depending on the chosen tariff plan, to customers who signed a 12-month loyalty agreement.

Payphones

In 2008, TP continued the process of adjusting the number and density of payphones to UKE's new payphone regulations: The total number of payphones decreased to 44,946 (as at 31 December 2008).

The installation of new telephone boxes started in 2008. 44 modern Dragon Rouge booths and 1,081 Economy semi-booths were installed (out of 50 and 1,860 to be installed respectively).

The additional units promotion was carried once again in 2008. 1,000,000 promotional '30+10 units free' and '60+20 units free' cards were sold.

TP Voice Mail

A new functionality, automatic call back option, was added to the voice mail service.

Other Promotions and Services

- In September 2008, the 'CLIP for 3 Months' promotion was introduced. 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;
- In September 2008, the "TP Home SMS for New Subscribers" offer was launched. It enabled the customers who had just signed an agreement for a new line to send cheaper SMSs for one month;
- 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 Services

Business Customers

IP VPN tp

TP's portfolio of data transmission products was further expanded in 2008. The most significant enhancement considered the IP VPN tp service. To attract customers, TP introduced new options for IP VPN tp, including SHDSL access up to 8 Mbps. The key element for business customers is the service security, so a new service, IP VPN protected tp, was introduced in 2008. The service increases the security of customer's remote locations. Customers can also use the new POS TV service, based on Cisco's DMS system, which enables remote display of multimedia materials on LCD TVs or monitors in a number of distributed locations all over the country. In addition, IP VPN tp users can subscribe to the IP PABX service, which enables IP-based voice transmission management. Since April 2008, this service is also available to the users of other data transmission services provided by TP.

DSL tp Internet Access

The solid growth of the customer base of the DSL tp Internet Access service was maintained in 2008. The customer base increased by almost 17% year-on-year.

The DSL tp Internet Access promotions introduced in 2008 included:

- 'Spring Promotion (extension)' and 'Sunny Promotion': promotions targeted at acquiring new customers;
- 'Professional promotion (extension)' and 'Internet For Business': promotions offering migration to DSL tp Internet Access service to subscribers of *Neostrada tp* or SDI tp (reduced installation and monthly fees);
- 'Quick Upload for PLN 1': a promotion encouraging customers to subscribe to higher upload transmission options (a retention tool for customers who need high-end transmission rate options).

In 2008, a new DSL tp Internet Access option which offers increased upload transmission rate was introduced. Owing to a new technological solution (Annex M based on xDSL technology), it is now possible to achieve data upload speeds of up to 1.5 Mbps. TP was the first company in Poland to introduce this higher upload solution on the operator level, which added to the competitive edge.

Internet For Business (Orange Brand)

In 2008, a new functionality, change of the access rate during the loyalty period, was added to the Internet For Business service. The Internet For Business service was launched by the TP Group in October 2007 on the basis of the BSA scheme.

VoIP Solutions

TP Business IP Package

In 2008, TP offered a bundle of internet access service, voice service based on VoIP technology and, optionally, VPN data transmission service. The key benefits for a customer are as follows:

- High quality internet access based on SDSL technology (symmetric lines);
- Free voice calls to numbers on TP's network;
- Attractive rates for F2M and ILD calls.

In addition, customers can still use their existing telephone infrastructure (analog terminals and PABXs).

The TP Business IP Package was launched in April 2007 in order to secure revenues and win-back and delay the erosion of fixed line revenues. In January 2009, the TP Group will introduce a new option addressed to SME customers employing up to 20 people, that will include a small IP PBX exchange. An advantage for SME customers is the fact that they can easily control all telephone services (such as conference calls, call transfer and call forwarding) and carry out service and users management via a user-friendly www interface. The aforementioned option will also enable customer's employees to use IP phones, thus extending the range of telephone functions available to them.

Metro Ethernet tp

In July 2008, TP's Metro Ethernet service availability was expanded to include further conurbations. In addition, a functionality of connecting autonomous Metropolitan Area Networks (MANs) was added. Currently the Metro Ethernet tp service offers data transmission rates of 1 Mbps to 1 Gbps.

Leased Lines

TP's leased lines sales in 2008 were supported by the 'Cheaper 2Mbps LL' promotion, which offered a 30% or 60% discount on installation and subscription fees for customers leasing at least two domestic lines of capacity of 2 Mbps. The promotion lasted to the end of July 2008.

DSL tp Data Transmission

In order to make its business offer (to small to medium enterprises) more attractive, TP introduced some temporary offers for the users of the DSL tp data transmission service:

- 'LINK 24 AGAIN' temporary offer;
- 'DSL tp Data Transmission – More Internet' temporary offer;
- 'Business LINK 24';
- 'Business LINK 36'.

Since October 2008, the service subscribers can use a new alternative CPE unit: Huawei AR 1833 / AR 2809 router for the CENTER link. The DSL tp Data Transmission service enables customers to effectively connect their various locations into a corporate intranet and use a number of convenient functionalities embedded in the offer.

TP 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. In January 2008, TP introduced a new service package, TP SLA, which enables customers to implement advanced enterprise-wide quality management policy. In August 2008, yet another TP SLA quality certificate service, SLA for Ethernet VPN tp, was introduced. 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 tp Business Solutions

In 2008, there was a positive trend in sales of the DIATONIS tp exchange, which indicates a good reception of the offer and high service quality. In addition, TP enhanced its IP PABX service based on Cisco's Call Manager solution (perceived by the market as an innovative and future-proof telecommunications technology). TP's IP PABX service has a large potential among companies whose philosophy is to develop telecommunications systems that enable purchases of different solutions (e.g. IP VPN, VoIP) from telecom operators.

Residential Customers

Broadband Internet Access

The most interesting offers for broadband Internet access in 2008 were:

- “neotrada tp – small price” promotion;
- “neotrada tp billed per hour” offer;

as well as package promotions combining Internet access with antivirus software licences, such as:

- „neotrada tp – security priced in” and
- „Secure neotrada tp”,

which allowed TP to promote safe media standards. “Secure tp access” and “e-security tp” offers were following this trend.

In October 2008 TP launched another package promotion:

- „neotrada tp - Internet for everyone”,

which, included wireless Livebox modem in addition to the security package.

The above listed package promotions created significant demand on the market.

As a result of matching prices in 12 and 24 month contracts, and in order to stimulate sales of longer contracts, additional value was provided for the latter. 24 month contracts were supported by attractive gadget (printer, digital camera) which allowed to maintain more than 70% share of these contracts in retention and more than 50% in new acquisitions.

It is also worth mentioning numerous promotions which offered attractively priced gadgets when purchasing “neotrada tp” offer, e.g. “Play with neotrada” equipped with Xbox 360 gaming console, “neotrada tp with Dell laptop” or “MS Office 2007 for 1 PLN with neotrada tp”.

VoIP Telephony

In 2008 TP continued development of VoIP services offered under names of: “tp internet telephony” and “neofon tp”. First one allows to use VoIP service similarly to regular fixed phone. In order to use VoIP a customer of “tp internet telephony” connects standard analogue telephone to a Livebox broadband modem. On the other hand, “neofon tp” allows to make VoIP connections anywhere in the world, with any type of internet connection using a computer with VoIP application installed. TP customer receives a free non-localized telephone number in a 399 xxx xxx format. Practically this means that “neofon tp” customer abroad can make a call to Polish fixed networks at the price of a Polish local call.

On 1 August 2008 three value added services were provided for “tp internet telephony”: international traffic package, mobile traffic package and “without borders” service. International packages are directed at customers making frequent calls to Germany, UK, Ireland, Canada and USA, comprising either 120 or 240 minutes priced even as low as PLN 0.07 per minute. Mobile packages comprise either 50 or 100 minutes priced at PLN 0.40 and PLN 0.38, respectively. Service “without borders” allows to make calls to EU countries, Canada, USA and Australia priced from PLN 0.05 per minute.

On 1 September 2008 quota packages were introduced, valued at PLN 5, 20 and 40. These allow “neofon tp” and “tp internet telephony” customers to make domestic calls with discount ranging from 17% to 50%, compared to “VoIP cheap calls” tariff plan. Entire subscription is used for calls at discounted prices. Furthermore, for each year of using the service customer receives additional discount for calls.

Also in September 2008 Siemens IP C470 telephone was introduced to TP offer. This equipment complements “neofon tp” service – it does not require connection to Livebox modem, any modem connected to any broadband Internet connection works with it. On 8 October this telephone has been put on promotion: a customer signing 24 month contract for “neofon tp” was offered the phone at PLN 1 (compared with regular price of PLN 349).

TP continuously improves price attractiveness and quality of VoIP offers by implementing new tariff plans and innovative functionalities. In 2008 customers of “neofon tp” were offered free of charge video connections within TP network and voice mail served by TP VoIP computer application – communicator “SPIK”.

Unification of VoIP services within TP Group and increasing minutes of use and ARPU are among key objectives for 2009.

Multimedia services

In the first half of 2008 TP was focused on further development and sales of triple-play offer comprising following digital services: TV with Video-on-Demand, broadband Internet access and VoIP-based telephony. Addition of premium TV channel packages (“Medium”, “Large” and HBO) and extension of VoD movies library were key developments of triple-play offer. As a result, overall number of available TV channels increased to more than 80 while movies library was extended to more than 1,500 titles including TV shows, foreign language courses etc.

Third quarter saw a launch of first TV channel produced by TP - *Orange sport* which covers Polish premier soccer league games (more than 20 hours of live transmission per week), basketball games of NBA, Swedish speedway league and transmission from ATP tennis tournament. It also provides number of sport information services. Selected shows can be also watched in Internet and on Orange mobile phones while any sports game presented by Orange sport channel is available through VoD service.

Initially, payment for VoD services was made in a pre-paid model – through purchase of scratch cards. In 2008 these can be also charged against an invoice for triple-play service.

The launch of TV over satellite was the most important development of the fourth quarter 2008. New attractively priced offer was placed on the market: “neotrada with TV”. 24 month contracts for “neotrada tp” with bandwidths of 512 kbps, 1 and 2 Mbps were supplied with additional option of 30 Polish and foreign TV channels available via satellite and possibility to buy Orange sport channel on top of that. Thanks to this development digital TV offered by TP is covering 100% of population. In addition, customers of TV over satellite have access to more than 200 un-coded TV channels available from Hot Bird satellite.

Mobile Services

Currently, the nation-wide Orange network provides pre-paid offers: Orange PoP, Orange Go, Orange Music and Orange Free, as well as post-paid offers: Orange Postpaid, Orange MIX and Orange Free. There is also the Zetafon offer (pre-paid with loyalty agreement).

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 the pre-paid segment, PTK Centertel has continued its market segmentation strategy with two leading offers: POP and Go. The former, which refers to the ten-year record of the POP brand in the Polish mobile market, focuses on the needs of young people. Their communication requirements are determined by the contact speed and intensity. These are met by bundle services that enable the optimisation of the cost of calls and easy management of the customer's telecom budget. The Go offer has been designed for older customers, who are less interested in promotional solutions, but expect attractive rates available in the clear, intuitive and easy way. An answer to the needs of customers of such a profile is a unique Orange Go decreasing-rate tariff, in which rates decrease as the recharge value increases. Not imitated by the rivals, it is a strong differentiator of Orange in the mobile market. Both offers are praised by users.

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 (i.e. rates for calls, account recharging methods, etc.). This proposal has been gaining popularity among both pre-paid customers migrating to the Zetafon offer and new additions.

Orange has also Orange For Business offer dedicated to meet the needs of business customers. The offer is supported by attractive bundles and low rates for calls within special corporate zones or B2B calls, as well as special dedicated services. Key objective is to adjust the business offer to the needs of specific business segments.

PTK Centertel's portfolio includes several dozen cutting-edge mobile services. These include: video calls on the 3G network, interactive Orange Voice Mail, voice and SMS packages, data and fax transmission, internet access (Orange World, MultiBox, HotSpots, W-LAN), GPRS/EDGE/UMTS rapid data transmission (Business Everywhere/Orange Free with several options of the data transfer limit), MMS multimedia services, SMS Premium Rate services, mobile banking services, news and local information services, SMS text messages, MMS services, Intelligent Network (IN) services, positioning services (What/Where/Which Way, Orange Navigator, Where Are You, Where Are They), loyalty programs (Profit, ProPosal) and roaming services with 398 operators in 184 countries and dependencies worldwide, including GPRS roaming services, that enable access to data transmission abroad, with 193 operators in 78 countries and 3G roaming on 48 networks in 29 countries. The Orange offer is available in several thousand retail outlets all over Poland. Business customers are offered a number of additional services, such as BlackBerry (mobile access to the corporate e-mail) and Fleet Manager (corporate cellular phone management).

Other elements of the Orange offer common for all segments:

- 'New Roaming Offer': ensuring transparency and attractive pricing, supported by promotions and attractive bundles that reduce roaming costs;
- 'Orange Menu Mobiles': offer of handsets with easy access to the most popular services (Orange Menu), diversified to meet the needs of different segments;
- 'Orange On-line': Orange portal functionality enabling management of one's offer (service activating and deactivating, account balance checking, tariff plan changing) through the Internet;
- 'E-store': on-line sales and full offer management for all products from the Orange portfolio. It was the first one in the Polish market to offer tariff plans designed specifically for Internet users. Orange Postpaid, Orange MIX and Orange Free available at the e-store offer more attractive prices and bigger pools than those in the standard offer, as well as lower prices of handsets and modems;
- 'Videostreaming on Orange': new video services (live TV channels and new items in topical video services), available to all Orange customers. It is the largest selection of TV programs for a mobile phone in Poland;
- 'Try And Choose': a trial offer for a bundle of services (SMS package, MMS package, package of handset products (wallpapers, ring tones and songs) and television package);

- Navifon: the first GPS autonavigation service in the Polish market, which accounts for the current traffic situation and indicates the optimum route to avoid traffic jams.

Business Customers

The main offers were New Orange For Business (addressed mainly to SOHO customers), which was replaced by Offer For Business in November, and New Package For Business (addressed to higher customer segments). These offers involve attractive pools (that can be used also in the subsequent month) and low rates for calls within special corporate zones and B2B calls, as well as special dedicated services. The key priority remains to adjust the business offer to the needs of different segments of this market.

In the first half of 2008, the marketing initiatives related to mobile voice services focused on the enhancement of the existing tariff portfolio based on the tariff plans launched in the first half of 2007 and addressed to post-paid business customers:

- **New Orange For Business:** 5 tariff plans, namely:
 - Orange For Business 40;
 - Orange For Business 80;
 - Orange For Business 160;
 - Orange For Business 320; and
 - Orange For Business 600.

Each plan is available even for one activation. The new plans offer the same flat rate for calls on and off net. The prices of calls on the Orange network or fixed networks may be reduced by signing to the 'Cheap Calls' service.

In November 2008, new tariff plans with pools of minutes embedded in the subscription were introduced. The new offer is addressed mainly to SOHO customers.

- **Offer For Business:** 5 tariff plans, namely:
 - Offer For Business 60;
 - Offer For Business 125;
 - Offer For Business 250;
 - Offer For Business 500; and
 - Offer For Business 1000.

The new offer features: lower mean rates per minute for calls to all networks; a monthly fee that can be used for voice calls, Video Calls, SMSs and/or MMSs; an option to sign to the Business Group service that offers a rate of PLN 0.10 (net of VAT) per minute for a monthly fee of PLN 1 (net of VAT); reduced activation fee of PLN 1 (net of VAT) in all promotional offers; Cash Pool (unused amount of the subscription fee is transferred for six consecutive months and used first).

On the basis of the aforementioned tariff plans, a number of promotional campaigns were launched in 2008. These included:

- **Cheap Calls For Business:** The promotion offers a handset for an attractive price, provided that a loyalty agreement is signed for 24 or 30 months. If the customer signs to the 'Cheap Calls For Business' service right from the start, the low rate of PLN 0.10 + VAT per minute is charged for calls on the Orange or fixed networks. Furthermore, owing to an extra pool of minutes, the number of free minutes for calls on the Orange or fixed networks may be as high as 3,000 (in the top-end tariff plan).
- **Double Benefits For Business:** A promotional offer based on Orange For Business and New Mix For Business tariff plans. Upon signing a loyalty agreement with Orange For Business 80 to 600 plan for 24 or 30 months, the customer may purchase an additional activation with the New Mix For Business 10 plan plus a handset for PLN 1, subject to a loyalty agreement for 12 months. The promotion offers another handset for PLN 1 and an extra pool of minutes on-net for 24 months.
- **50% More in the Offer For Business:** A promotional offer based on Offer For Business tariff plans, in which the customer receives an additional cash pool equal to 50% of the subscription fee throughout the term of the promotion agreement. The extra pool may be used exclusively for on-net voice calls.

- **More Minutes For Business:** On 2 September, new promotions were launched. They offer an additional pool of minutes plus the Cheap Calls promotional service. Depending on their needs, customers can use an extra pool of minutes for calls to all networks or an extra pool of minutes for on-net calls only.
- **Unlimited Calls:** This promotional offer based on Offer For Business tariff plans was launched in November. The service enables free and unlimited on-net voice calls and is activated free of charge for the first three months.

Roaming Services

- **Business Roaming Zone:** A service in which a group of countries with individually defined roaming rates may be chosen (launched in April 2008).
- **Chosen Country:** This service reduces the roaming costs by defining individual rates for incoming and outgoing voice calls and SMSs to PTK Centertel's all roaming partners in the country or countries chosen by the customer (up to 10 countries may be chosen for less expensive roaming). The offer is addressed to higher-end segments of the market.
- **Euro 2008 Package:** Cheaper roaming during the European Football Championship (lower roaming rates for customers visiting Austria or Switzerland between 1 and 30 June 2008).

A new service in the Orange portfolio is **Fixed Orange For Business** (a fixed line offer).

It is the first voice service provided by Orange on TP's lines. The offer is based on the WLR scheme (wholesale line rental by TP to another operator): TP wholesales access to its network, while PTK Centertel resells the retail service to individual subscribers. **Fixed Orange For Business** comprises 5 tariff plans with cash pools that can be used for calls to fixed networks and the Orange network. The offer is addressed mainly to small to medium enterprises that seek cost optimisation.

Residential Customers

The following solutions were introduced in 2008 in the post-paid mass-market segment:

- New Orange Postpaid and Orange MIX tariff plans: six subscription options from PLN 25 to PLN 200. The subscription fee may be used for any telecommunications services. The new offer involves gifts 'for ever' (e.g. monthly pool of minutes / SMSs or subscription fee reduction), which are chosen by the customer. In addition, customers whose agreements are about to expire are offered better conditions (lower basic rate and one gift more) than new customers;
- iPhone3G on Orange with dedicated tariff plans 150 or 250: the bundle comprised an Orange voice tariff plan subscription + Orange Free Standard service + Hot Spot service;
- Change of Orange Free tariff plans: monthly transfer limits have increased from 0.5 to 1 GB in Orange Free Standard and from 4 to 6 GB in Orange Free Premium; a new option, Orange Free Platinum (12 GB), has been introduced;
- 'Cash Pool' in Orange Free: a pool of PLN 30 for on-net calls;
- Orange Free with laptop: new terms of loyalty agreements, namely 12 months or 24 months.

Promotional Offers

- 'Orange Free Promotion 4×90': customers paid 10% of the subscription fee for the Premium or Platinum option for the first four months of the agreement;
- 'Orange Free with Laptop Promotion 4×1': customers paid a subscription fee of PLN 1 for the first four months;
- 'Orange Free with Laptop Promotion 4×50': customers paid 10% of the subscription fee for the first four months;
- Several editions of the 'Recommended by the Chief' promotion (in the first half of 2008, i.e. before the launch of new tariff plans): ready-made sets of services plus a specific handset (Samsung F300, Samsung J700, LG Chocolate, LG Sine) for a reduced price plus a discount for the selected service.

The purpose of these new offers was to clarify Orange post-paid portfolio, increase the offer attractiveness, strengthen the retention offer (to build the image that "the existing customers always receive more at Orange") and improve the customer mix in order to increase ARPU.

The following services and promotions were introduced in 2008 in the pre-paid segment:

Orange POP: uniform rate for calls to all networks (excluding Play) and uniform rate for SMSs and MMSs. Available also with Zetafon (upon conclusion of a loyalty agreement).

Cost saving promotions in Orange POP:

- '600 SMSs for PLN 6': 1 SMS in this package costs PLN 0.01;
- 'POPGadane' [POPTalk]: an extra pool of 30 minutes for PLN 6 (PLN 0.20 per minute);
- 'Three Times Three': a customer can choose three persons for whom reduced rates apply (PLN 0.10 per minute and PLN 0.03 per SMS);
- '200% More': Christmas promotion that offered a bonus that could be spent on the Orange network or fixed networks (provided that the account was recharged twice within 7 days or another starter was purchased);
- 'Starter 50% extra': a starter of the nominal value of PLN 20 plus a 50% bonus for the first three recharging operations (provided that the recharging amount is PLN 25 or more);
- 'Starter 13 for 5': for a starter worth PLN 5, the customer can spend PLN 3 plus PLN 10 extra on all networks.

Orange Go: decreasing-rate tariff plan (the higher value of recharge the lower price for calls, SMSs and MMSs). The applicable rate is determined by the last recharge. The minimum recharge is PLN 5. Available also with Zetafon (upon conclusion of a loyalty agreement).

Cost saving promotions in Orange Go:

- '200% More': Christmas promotion that offered a bonus that could be spent on the Orange network or fixed networks (provided that the account was recharged twice within 7 days or another starter was purchased);
- 'Non-Stop Minutes': an extra pool of minutes (30 to 240 depending on the recharge) for calls on the Orange network or on fixed networks upon regular recharging (i.e. not less than every 31 days);
- 'Chat For Free': free calls to a chosen number within 14 to 60 days (depending on the recharge);
- 'Starter 10': for a starter worth PLN 10 the customer can spend PLN 10 on any services on any networks and the account is recharged PLN 10 each month for the first 12 months (the total of PLN 120), provided that the account remains active;
- 'New Orange Go Starter for PLN 20': out of PLN 20 the customer receives PLN 20 that can be spent on any services on any networks plus PLN 25 extra;
- 'New Orange Go Starter for PLN 5': the least expensive access to the unique decreasing-rate tariff.

Orange Free Prepaid: Mobile internet access for customers who infrequently use the Internet. Baudrate of up to 7.1 Mbps and low prices for data transfer via WAP and the Internet. Voice and SMS/MMS connections are also possible.

Prepaid services available in all prepaid offers:

- Call at the receiver's expense;
- 'For Your Seniority': a 10% to 30% recharging bonus, provided that the recharging interval is less than 25 days;
- 'Chosen Country': calls to one from the list of 14 European countries at PLN 1 per minute for a monthly fee of PLN 5;
- '20% more': a pre-paid account is credited 20% more if it is recharged by a post-paid customer;
- Orange Email Package: 5 MB transfer for PLN 5 (valid for 30 days); the optimum solution for checking one's email;
- Orange Free Package: 20 MB transfer for PLN 10 (valid for 30 days); a solution for using the Internet;

- 'SMS Transfer'. an option of recharging one pre-paid terminal from another;
- 'Mobile TV and Video': an attractive rate per minute (PLN 0.60) for access to the most popular TV channels;
- 'Video-calls': the same rate as for ordinary calls;
- 'SOS SMS': a chance to contact three persons if the account has been zeroed;
- 'Credit': the customer can borrow PLN 1 from Orange and return it at the recharge;
- 'Someone Has Called': if the customer is unavailable, the information that someone has called is sent;
- 'TV package': unlimited access to films and video materials for PLN 19.

A major event in 2008 was the market introduction of the 'For Your Seniority' offer, which is available to all pre-paid customers of Orange. This is the first, and so far the only, scheme in the pre-paid segment aimed at increasing customer loyalty in the long run. By offering a recharging bonus that depends on the customer's 'seniority' and increases from 10% to 30% (for customers with the longest record), PTK Centertel can effectively achieve the ambitious objectives set with respect to loyalty, which is undoubtedly most difficult to build in the pre-paid segment.

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

GOM – Gross Operating Margin

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

Signatures of all Members of the Management Board of Telekomunikacja Polska				Signature of the person responsible for keeping accounting records
25 February 2009	Maciej Witucki	President	Signature	
Date	Full name	Position	Signature	
25 February 2009	Roland Dubois	Board Member	Signature	
Date	Full name	Position	Signature	
25 February 2009	Richard Shearer	Board Member	Signature	
Date	Full name	Position	Signature	
25 February 2009	Jacek Kałaur	Board Member	Signature	
Date	Full name	Position	Signature	
25 February 2009	Ireneusz Piecuch	Board Member	Signature	
Date	Full name	Position	Signature	
25 February 2009	Piotr Muszyński	Board Member	Signature	
Date	Full name	Position	Signature	
				25 February 2009
				Date
				Stanley Urban
				Full name
				Deputy
				CFO
				Position