☐ - restated

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2013

(year)

(according to par. 82 s. 2 and par. 83 s. 3 of the Decree of Minister of Finance dated 19 February 2009 - Journal of Laws No. 33, item 259, with amendments)
for the issuers in sectors of production, construction, trade or services

for the **half-year** of **2013**, i.e. **from 1 January 2013 to 30 June 2013**

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

and condensed separate financial statements prepared under: **International Financial Reporting Standards**
in currency: **PLN**

date of issuance: **24 July 2013**

TELEKOMUNIKACJA POLSKA SA
(full name of issuer)

TPSA (abbreviated name of the issuer)

Telecommunication (tel) (classification according to WSE/ sector)

00-105 (post code)

Warsaw (location)

Twarda (street)

18 (number)

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Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Deloitte Audyt Sp. z o.o.)
(entity authorized to audit)

SELECTED FINANCIAL DATA	PLN '000 half-year 2013	PLN '000 half-year 2012	EUR '000 half-year 2013	EUR '000 half-year 2012
condensed consolidated financial statements data				
I. Revenue	6 570 000	7 187 000	1 559 089	1 701 226
II. Operating income	459 000	862 000	108 923	204 043
III. Profit before income tax	217 000	627 000	51 495	148 416
IV. Consolidated net income	157 000	497 000	37 257	117 644
V. Net income attributable to owners of TP S.A.	157 000	497 000	37 257	117 644
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.12	0.38	0.03	0.09
VII. Weighted average number of shars (in millions) (basic and diluted)	1 312	1 319	1 312	1 319
VIII. Total comprehensive income	159 000	508 000	37 731	120 248
IX. Total comprehensive income attributable to owners of TP S.A.	159 000	508 000	37 731	120 248
X. Net cash provided by/(used in) operating activities	1 498 000	(323 000)	355 482	(76 457)
XI. Net cash used in investing activities	(1 097 000)	(1 400 000)	(260 323)	(331 392)
XII. Net cash used in financing activities	(500 000)	(271 000)	(118 652)	(64 148)
XIII. Total net change in cash and cash equivalents	(98 000)	(1 988 000)	(23 256)	(470 577)
	balance as at 30/06/2013	**balance as at 31/12/2012**	**balance as at 30/06/2013**	**balance as at 31/12/2012**
XIV. Total current assets	2 147 000	2 210 000	495 935	540 580
XV. Total non-current assets	21 049 000	21 953 000	4 862 099	5 369 845
XVI. Total assets	23 196 000	24 163 000	5 358 034	5 910 425
XVII. Total current liabilities	7 926 000	6 502 000	1 830 823	1 590 431
XVIII. Total non-current liabilities	2 809 000	4 703 000	648 850	1 150 384
XIX. Total equity	12 461 000	12 958 000	2 878 361	3 169 610
XX. Equity attributable to owners of TP S.A.	12 459 000	12 956 000	2 877 899	3 169 121
XXI. Share capital	3 937 000	4 007 000	909 406	980 138
condensed separate financial statements data				
	half-year 2013	**half-year 2012**	**half-year 2013**	**half-year 2012**
I. Revenue	3 534 000	3 776 000	838 633	893 812
II. Operating income	104 000	177 000	24 680	41 897
III. Profit before income tax	901 000	1 499 000	213 811	354 826
IV. Net income	862 000	1 512 000	204 556	357 904
V. Earnings per share (in PLN/EUR) (basic and diluted)	0.66	1.15	0.16	0.27
VI. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 319	1 312	1 319
VII. Total comprehensive income	843 000	1 513 000	200 047	358 140
VIII. Net cash provided by/(used in) operating activities	1 724 000	(215 000)	409 112	(50 892)
IX. Net cash used in investing activities	(764 000)	(993 000)	(181 300)	(235 052)
X. Net cash used in financing activities	(995 000)	(744 000)	(236 118)	(176 111)
XI. Total net change in cash and cash equivalents	(35 000)	(1 956 000)	(8 306)	(463 002)
	balance as at 30/06/2013	**balance as at 31/12/2012**	**balance as at 30/06/2013**	**balance as at 31/12/2012**
XII. Total current assets	1 593 000	1 623 000	367 966	396 996
XIII. Total non-current assets	22 076 000	22 941 000	5 099 326	5 611 516
XIV. Total assets	23 669 000	24 564 000	5 467 292	6 008 512
XV. Total current liabilities	7 836 000	6 758 000	1 810 034	1 653 050
XVI. Total non-current liabilities	4 041 000	6 201 000	933 429	1 516 804
XVII. Total equity	11 792 000	11 605 000	2 723 829	2 838 658
XVIII. Share capital	3 937 000	4 007 000	909 406	980 138

AUDITOR'S REPORT
ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2013

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

We have reviewed the attached condensed interim consolidated financial statements of the Telekomunikacja Polska Group ('the Group') with Telekomunikacja Polska S.A. having its registered office in Warsaw, at 18 Twarda St, as the Parent company, including a consolidated statement of financial position prepared as of 30 June 2013, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the period from 1 January to 30 June 2013 and selected explanatory notes.

Compliance of these condensed interim consolidated financial statements with the requirements of IAS 34 "Interim Financial Reporting" as endorsed by the European Union ('IAS 34') and with other regulations in force is the responsibility of the Management Board and the members of Supervisory Board of the Parent company. Our responsibility is to review the financial statements.

Our review has been conducted in accordance with the auditing standards issued by the National Council of Statutory Auditors and International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". These Standards require us to plan and conduct the review in such a way as to obtain moderate assurance that the condensed interim consolidated financial statements are free from material misstatements.

Our review was conducted mainly based on an analysis of data included in the financial statements, the examination of consolidation documentation as well as information provided by the Management Board and the financial and accounting personnel of the Parent company as well as other selected subsidiaries of the Telekomunikacja Polska Group.

The scope and methodology of a review of financial statements are substantially different from an audit. Expressing an opinion on the correctness, fairness and clarity of the condensed interim consolidated financial statements is not the objective of a review; therefore, no such opinion is being issued.

Our review did not reveal the need to make material changes in the attached condensed interim consolidated financial statements to present truly and fairly in all material respects the financial position of the Group as at 30 June 2013 and the financial result for the six month period ended 30 June 2013 in accordance with IAS 34.

....
Krzysztof Sowada
Key certified auditor
conducting the review
No. 10944

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

....
Gavin Flook – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. - which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.)

Warsaw, 23 July 2013

The above auditor's report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Pursuant to Art. 90 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information to be disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state - Journal of Laws of 2009, no. 33, item 259, with amendments ("the Decree of the Minister of Finance of 19 February 2009"), the Management Board of Telekomunikacja Polska S.A. ("TP S.A.", "the Company") discloses the following information:

I. Shareholders entitled to exercise at least 5% of total voting rights at the General Meeting of TP S.A., either directly or through subsidiaries as at the date of publication of the interim report and changes in the ownership structure in the period since the submission of the previous quarterly report

The ownership structure of the Company's share capital, based on the information available to the Company as at 24 July 2013, i.e. the date of submission of the interim report for the 6 months ended 30 June 2013:

Shareholder	Number of shares held	Number of votes at the General Meeting of TP S.A.	Percentage of the total number of votes at the General Meeting of TP S.A.	Nominal value of shares held (in PLN)	Share in the capital
Orange S.A. (1)	664,999,999	664,999,999	50.67%	1,994,999,997	50.67%
Other shareholders	647,357,480	647,357,480	49.33%	1,942,072,440	49.33%
TOTAL	**1,312,357,479**	**1,312,357,479**	**100.00%**	**3,937,072,437**	**100.00%**

(1) France Telecom S.A. changed its name to Orange S.A. on 1 July 2013.

The ownership structure of the Company's share capital, based on the information available to the Company as at 23 April 2013, i.e. the date of submission of the quarterly report for the first quarter of 2013:

Shareholder	Number of shares held	Number of votes at the General Meeting of TP S.A.	Percentage of the total number of votes at the General Meeting of TP S.A.	Nominal value of shares held (in PLN)	Share in the capital
Orange S.A. (1)	664,999,999	664,999,999	49.79%	1,994,999,997	49.79%
Other shareholders	647,357,480	647,357,480	48.47%	1,942,072,440	48.47%
Telekomunikacja Polska S.A. (treasury shares) (2)	23,291,542	23,291,542	1.74%	69,874,626	1.74%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

(1) France Telecom S.A. changed its name to Orange S.A. on 1 July 2013.

(2) Voting rights attributable to treasury shares cannot be exercised at the General Meeting of TP S.A. On 11 April 2013, the General Meeting of TP S.A. adopted resolutions on the redemption of 23,291,542 treasury shares and on the corresponding reduction of the Company's share capital with the effective date of 18 June 2013 being the date of registration by the Registry Court.

II. Statement of changes in ownership of TP S.A.'s shares or rights to them (options) held by Members of the Management Board and the Supervisory Board of TP S.A., according to information obtained by TP S.A., in the period since the submission of the previous quarterly report

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

The number of bonds with a pre-emption right held by members of the Management Board of the Company at the dates of submission of the interim report for the 6 months ended 30 June 2013 and the quarterly report for the first quarter of 2013 is as follows:

	24 July 2013	23 April 2013
Maciej Witucki	305,557	305,557
Vincent Lobry	-	-
Piotr Muszyński	190,896	190,896
Jacques de Galzain	-	-
Jacek Kowalski	25,241	25,241

The members of the Supervisory Board of TP S.A. do not participate in the Company's incentive program and as at 24 July 2013 and 23 April 2013 held no bond with a pre-emption right.

Maciej Witucki, President of the Management Board of TP S.A., held 4,000 TP S.A. shares as at 24 July 2013 and 23 April 2013. There was no TP S.A. share held by other members of the Management Board or the Supervisory Board of TP S.A.

III. Information on guarantees or collaterals of loans or borrowings granted by the Company or its subsidiaries to other entities or their subsidiaries, where the total amount of guarantees or collaterals account for at least 10% of the Company's equity

In the 6 months ended 30 June 2013, the Company or its subsidiaries did not grant guarantee or collateral of loan or borrowing to any entity or its subsidiary of the total value representing the equivalent of at least 10% of TP S.A.'s shareholders equity.

IV. The Management Board's comment on previously published financial forecasts

The Group does not publish financial forecasts as defined by the Decree of the Minister of Finance of 19 February 2009.

V. Factors which, in the opinion of the Group, may affect its results over at least the next quarter

Factors that, in the Management Board's opinion, have influence on the Group's operations or may have such influence in the near future are presented in Section 4 of Management Board's Report on the Activity of Telekomunikacja Polska Group in the first half of 2013. Additionally, threats and risks that may impact the Group's operational and financial performance are reviewed in detail in the Chapter IV of the above mentioned Report.

VI. Foreign exchange rates

The statement of financial position data as at 30 June 2013 and 31 December 2012 presented in the table “Selected financial data” was translated into Euro at the average exchange rate of the National Bank of Poland (“NBP”) on the end of the reporting period. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the 6 months ended 30 June 2013 and 2012, was 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 6 month periods ended 30 June 2013 and 2012.

The exchange rates used in translation of statement of financial position, income statement, statement of comprehensive income and statement of cash flows data are presented below:

	30 June 2013	**31 December 2012**	**30 June 2012**
Statement of financial position	4.3292 PLN	4.0882 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.2140 PLN	Not applicable	4.2246

TELEKOMUNIKACJA POLSKA GROUP

CONDENSED IFRS INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2013

July 23, 2013

Contents

CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings per share)

	6 months ended 30 June 2013 (unaudited)	*6 months ended 30 June 2012 (see Note 2, unaudited)*
Revenue	**6,570**	**7,187**
External purchases	(3,245)	(3,561)
Labour expenses	(1,061)	(1,087)
Other operating expense	(402)	(338)
Other operating income	154	304
Gains on disposal of assets	21	20
Depreciation and amortisation	(1,574)	(1,653)
Impairment of non-current assets	(4)	(10)
Operating income	**459**	**862**
Interest income	7	17
Interest expense and other financial charges	(187)	(219)
Foreign exchange gains	2	14
Discounting expense	(64)	(47)
Finance costs, net	**(242)**	**(235)**
Income tax	(60)	(130)
Consolidated net income	**157**	**497**
Net income attributable to owners of TP S.A.	157	497
Net income attributable to non-controlling interests	-	-
Earnings per share (in PLN) (basic and diluted)	**0.12**	**0.38**
Weighted average number of shares (in millions) (basic and diluted)	1,312	1,319

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	6 months ended 30 June 2013 (unaudited)	*6 months ended 30 June 2012 (unaudited)*
Consolidated net income	**157**	**497**
Items that may be reclassified subsequently to profit or loss		
Gains on cash flow hedges	3	14
Income tax relating to items that may be reclassified	(1)	(3)
Other comprehensive income, net of tax	**2**	**11**
Total comprehensive income	**159**	**508**
Total comprehensive income attributable to owners of TP S.A.	159	508
Total comprehensive income attributable to non-controlling interests	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)

	At 30 June 2013 *(unaudited)*	***At 31 December 2012*** *(see Note 2, audited)*
ASSETS		
Goodwill	4,025	4,016
Other intangible assets	2,865	2,967
Property, plant and equipment	13,294	13,951
Derivatives	58	127
Other financial assets	14	14
Deferred tax assets	793	878
Total non-current assets	**21,049**	**21,953**
Inventories	218	194
Trade receivables	1,258	1,413
Derivatives	135	-
Other financial assets	15	17
Other assets	89	113
Prepaid expenses	124	67
Cash and cash equivalents	308	406
Total current assets	**2,147**	**2,210**
TOTAL ASSETS	**23,196**	**24,163**
EQUITY AND LIABILITIES		
Share capital	3,937	4,007
Share premium	832	832
Treasury shares	-	(400)
Other reserves	(35)	(37)
Translation adjustment	(5)	(5)
Retained earnings	7,730	8,559
Equity attributable to owners of TP S.A.	**12,459**	**12,956**
Non-controlling interests	2	2
Total equity	**12,461**	**12,958**
Loans from related party	1,207	-
Financial liabilities at amortised cost excluding trade payables	95	2,990
Derivatives	-	283
Trade payables	819	751
Employee benefits	384	375
Provisions	267	263
Other liabilities	15	15
Deferred income	22	26
Total non-current liabilities	**2,809**	**4,703**
Financial liabilities at amortised cost excluding trade payables	3,506	2,195
Derivatives	92	112
Trade payables	1,878	2,228
Employee benefits	243	213
Provisions	897	953
Income tax liabilities	47	123
Other liabilities (including dividend of PLN 656 million paid on 11 July 2013)	825	162
Deferred income	438	516
Total current liabilities	**7,926**	**6,502**
TOTAL EQUITY AND LIABILITIES	**23,196**	**24,163**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Treasury shares	Other reserves				Translation adjustment	Retained earnings	Equity attributable to owners of TP S.A.	Non-controlling interests	Total equity
				Hedging instruments	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments					
Balance at 1 January 2012 *(audited)*	**4,007**	**832**	**(200)**	**10**	**(77)**	**12**	**79**	**(5)**	**9,673**	**14,331**	**3**	**14,334**
Total comprehensive income for the 6 months ended 30 June 2012	-	-	-	14	-	(3)	-	-	497	508	-	508
Purchase of treasury shares	-	-	(200)	-	-	-	-	-	-	(200)	-	(200)
Dividends	-	-	-	-	-	-	-	-	(1,969)	(1,969)	(1)	(1,970)
Balance at 30 June 2012 *(unaudited)*	**4,007**	**832**	**(400)**	**24**	**(77)**	**9**	**79**	**(5)**	**8,201**	**12,670**	**2**	**12,672**
Balance at 1 January 2013 *(audited)*	**4,007**	**832**	**(400)**	**(15)**	**(127)**	**26**	**79**	**(5)**	**8,559**	**12,956**	**2**	**12,958**
Total comprehensive income for the 6 months ended 30 June 2013	-	-	-	3	-	(1)	-	-	157	159	-	159
Redemption of treasury shares	(70)	-	400	-	-	-	-	-	(330)	-	-	-
Dividends	-	-	-	-	-	-	-	-	(656)	(656)	-	(656)
Balance at 30 June 2013 (unaudited)	**3,937**	**832**	**-**	**(12)**	**(127)**	**25**	**79**	**(5)**	**7,730**	**12,459**	**2**	**12,461**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)

	6 months ended 30 June 2013 *(unaudited)*	***6 months ended 30 June 2012*** *(see Note 2, unaudited)*
OPERATING ACTIVITIES		
Consolidated net income	157	497
Adjustments to reconcile net income to cash from operating activities		
Depreciation and amortisation	1,574	1,653
Impairment of non-current assets	4	10
Gains on disposal of assets	(21)	(20)
Change in provisions	(76)	(2,249)
Income tax	60	130
Finance costs, net	242	235
Operational foreign exchange and derivatives (gains)/losses, net	2	(6)
Change in working capital (trade)		
(Increase)/decrease in inventories	(24)	6
Decrease in trade receivables	124	10
Decrease in trade payables	(82)	(248)
Change in working capital (non-trade)		
Increase in prepaid expenses and other receivables	(14)	(156)
Decrease in deferred income and other payables	(40)	(71)
Interest received	7	17
Interest and interest rate effect on derivatives paid, net	(340)	(316)
Exchange rate effect on derivatives, net	(20)	184
Income tax paid	(55)	1
Net cash provided by/(used in) operating activities	**1,498**	**(323)**
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(852)	(886)
Decrease in amounts due to fixed assets suppliers	(285)	(554)
Exchange rate effect on derivatives economically hedging capital expenditures, net	(4)	17
Proceeds from sale of property, plant and equipment and intangible assets	42	36
Decrease in receivables related to leased fixed assets	4	3
Proceeds from sale of subsidiaries, net of cash and transaction costs	-	3
Cash paid for investments in subsidiaries, net of cash acquired	(8)	-
Increase in loans and other financial assets	3	(1)
Exchange rate effect on other derivatives, net	3	(18)
Net cash used in investing activities	**(1,097)**	**(1,400)**
FINANCING ACTIVITIES		
Issuance of long-term debt	1,172	-
Repayment of long-term debt	(523)	(122)
Increase/(decrease) in short-term debt	(1,145)	56
Purchase of treasury shares	-	(200)
Exchange rate effect on hedging instruments, net	(4)	(4)
Dividend paid to non-controlling interests	-	(1)
Net cash used in financing activities	**(500)**	**(271)**
Net change in cash and cash equivalents	**(99)**	**(1,994)**
Effect of changes in exchange rates and other impacts on cash and cash equivalents	1	6
Cash and cash equivalents at the beginning of the period	406	2,871
Cash and cash equivalents at the end of the period	**308**	**883**

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 fixed-line telephony services (local, domestic and international calls), Integrated Services Digital Network ("ISDN"), fixed access to the Internet, TV and Voice over Internet Protocol ("VoIP"). Telekomunikacja Polska provides telecommunications services on the basis of entry number 1 in the register of telecommunications companies maintained by the President of Office of Electronic Communication ("UKE"). Through its subsidiary, Polska Telefonia Komórkowa-Centertel Sp. z o.o. ("PTK-Centertel"), the Group is one of Poland's major DCS 1800 and GSM 900 mobile telecommunications providers. PTK-Centertel also provides third generation UMTS services and services based on the CDMA technology. In addition, the Group provides leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, multimedia services and various Internet services.

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

Segment revenue and segment results

Until the end of 2012, the Group reported two operating segments: fixed line and mobile segment, which included entities offering predominantly telecom services based on fixed line technology and mobile technology, respectively. Increasing convergence of fixed and mobile offers, dependence of mobile network on fixed core network and a unified organisation has significantly changed the decision making process on resources allocation basing it on consolidated operating results. Convergence became the major focus of the Group as publically announced in the medium term action plan in February 2013 which included the planned formal merger of Telekomunikacja Polska S.A. (the main part of the fixed line segment before 2013) and Polska Telefonia Komórkowa-Centertel Sp. z o.o (the main part of the mobile segment before 2013). Therefore, starting from 2013, the Group reports a single reportable operating segment.

Segment performance is evaluated mainly based on consolidated revenue, consolidated EBITDA, consolidated net income, consolidated capital expenditures, consolidated organic cash flows, consolidated net financial debt / EBITDA ratio and consolidated net gearing ratio.

Basic financial data of the operating segment is presented below:

(in PLN millions)	***6 months ended 30 June 2013***	***6 months ended 30 June 2012***
Revenue	6,570	7,187
EBITDA [1]	2,037	2,525
Net income	157	497
Organic cash flows [2]	399	739 [3]
Capital expenditures	852	887
	At 30 June 2013	***At 31 December 2012***
Net gearing ratio [4]	26.0%	28.0%
Net financial debt / EBITDA [5] ratio	1.0	1.0

[1] Operating income before depreciation and amortisation expense and impairment of non-current assets.
[2] Net cash provided by operating activities decreased by payments to fixed assets suppliers (after net exchange rate effect on derivatives economically hedging capital expenditures) and increased by proceeds from sale of fixed assets.
[3] Excludes the effect of the settlement agreement with DPTG resulting in a payment of EUR 550 million (PLN 2,449 million).
[4] Net financial debt / (net financial debt + equity). Net financial debt corresponds to the total gross financial debt, after net derivative instruments classified at fair value through profit or loss, cash flow hedges and fair value hedges, less cash and cash equivalents, marketable securities and including the impact of the effective portion of cash flow hedges.
[5] Cumulative EBITDA for last four quarters.

2. Statement of compliance and basis for preparation

Basis for preparation

These unaudited Condensed Interim Consolidated Financial Statements of the Group (the “Interim Consolidated Financial Statements”) are prepared in accordance with International Accounting Standard (“IAS”) 34 - Interim Financial Reporting (“IAS 34”) and with all accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective as at the time of preparing the Interim Consolidated Financial Statements (see also Note 3).

These Interim Consolidated Financial Statements should be read in conjunction with the audited Telekomunikacja Polska Group IFRS Consolidated Financial Statements and the notes thereto (“IFRS Consolidated Financial Statements”) for the year ended 31 December 2012.

The Interim Consolidated Financial Statements include the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and selected explanatory notes.

Costs that arise unevenly during the year are anticipated or deferred in the interim financial statements only if it would also be appropriate to anticipate or defer such costs at the end of the year.

These Interim Consolidated Financial Statements are prepared in millions of Polish zloty (“PLN”) and were authorised for issuance by the Management Board on 23 July 2013.

Adoption of standards in 2013

The following standards endorsed by the European Union were adopted by the Group as at 1 January 2013:

- IFRS 10 “Consolidated Financial Statements”. This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014, with early application permitted;
- IFRS 11 “Joint Arrangements”. This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014, with early application permitted;
- IFRS 12 “Disclosure of Interests in Other Entities”. This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014, with early application permitted;
- IFRS 13 “Fair Value Measurement”. This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2013.

Except for IFRS 11, the adoption of the standards presented above did not result in any significant changes to the Group’s accounting policies and to the presentation of the financial statements.

Adoption of IFRS 11 resulted in a change in accounting treatment of the 50% interest in NetWorkS! Sp. z o.o. which previously was accounted for using the equity method in accordance with IAS 31 “Interests in Joint Ventures”. The joint arrangement which is structured through NetWorkS! Sp. z o.o. was classified as a joint operation under IFRS 11 and, in relation to its interest in NetWorkS! Sp. z o.o., the Group recognised its assets, liabilities, revenue and expenses, including its respective shares in the above – which insignificantly affected comparative amounts presented in these financial statements.

Standards and interpretations issued but not yet adopted

Management has not opted for early and full application of the following standard and interpretation (in the process of being endorsed by the European Union):

- IFRS 9 “Financial Instruments” applicable for financial years beginning on or after 1 January 2015. This standard has not been endorsed by the European Union;
- IFRIC 21 “Levies” applicable for financial years beginning on or after 1 January 2014. This interpretation has not been endorsed by the European Union.

Management is currently analysing the practical consequences of this new standard and interpretation and the effect of their application on the financial statements.

Cash generating units

Until the end of 2012, assets comprising the fixed network and the mobile network were treated as separate Cash Generating Units ("CGU"). The medium term action plan covering years 2013 – 2015 was announced on 12 February 2013 by the Management Board. According to this plan, assets of fixed and mobile networks are treated as one group of assets as they will generate largely dependent cash inflows. As a result, starting from 2013 the Group identifies two CGUs: telecom operator and internet portal (the same CGU as in 2012).

3. Statement of accounting policies

Except of the changes described in Note 2 the accounting policies and methods of computation used in the preparation of the Interim Consolidated Financial Statements are consistent with those described in the audited IFRS Consolidated Financial Statements for the year ended 31 December 2012 (see Notes 2 and 31 to IFRS Consolidated Financial Statements for the year ended 31 December 2012).

4. Explanatory comments about the seasonality or cyclicality of interim Group operations

The Group's activities are not subject to any significant seasonality or cyclical trends of operations.

5. Changes in scope of consolidation

The list of entities included in the Interim Consolidated Financial Statements as at and for the 6 months ended 30 June 2013 is presented in the Note 1.2 to the IFRS Consolidated Financial Statements for the year ended 31 December 2012.

Additionally, on 15 March 2013, the Group purchased a 100% shareholding in Datacom System S.A. – a provider of integrated IT services. The purchase price amounted to PLN 13 million, of which PLN 11 million was paid and PLN 2 million will be paid after one year. As a result of the transaction the Group recognised goodwill in the amount of PLN 9 million, as well as PLN 1 million of the acquiree's non-current assets, PLN 6 million of the acquiree's current assets and PLN 3 million of the acquiree's current liabilities which represent carrying amounts of each of those classes determined immediately before the combination.

6. Items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence

Apart from the major litigation and claims described in Note 10, operational activities of the Group are subject to legal and administrative regulations and the Group is a party to a number of legal proceedings and commercial contracts related to its operational activities. As at 30 June 2013, the Management of the Group performed an assessment of risks of on-going and potential proceedings. As a result, 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 amount of a penalty or a claim, if any, is 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. As a rule, the provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management, such disclosure could prejudice the outcome of the pending cases.

The amount of cash flows from operating activities for the 6 months ended 30 June 2012 includes the effect of the settlement agreement with DPTG resulting in a payment of EUR 550 million (PLN 2,449 million).

7. Redemption of treasury shares

On 11 April 2013, the General Meeting of TP S.A. adopted resolutions on the redemption of 23,291,542 own shares acquired by the Company in 2012 and 2011 for a total consideration of PLN 400 million and on the reduction of the Company's share capital from PLN 4,007 million to PLN 3,937 million (registered by the Registry Court on 18 June 2013).

8. Changes in credit facilities

On 17 April 2013, TP S.A. and Atlas Services Belgium S.A., a subsidiary of Orange S.A. (previously France Telecom S.A.) concluded a Revolving Credit Facility Agreement for up to EUR 250 million (available in EUR and PLN) and a Credit Facility Agreement for up to EUR 400 million. The outstanding balance under the Credit Facility Agreement amounted to EUR 280 million (PLN 1,207 million) as at 30 June 2013, including accrued interest. The repayment date of both agreements is 31 March 2016.

TP S.A. concluded also an agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk related to the financing provided in EUR. The nominal amount of cross currency interest rate swaps outstanding under the agreement as at 30 June 2013 was EUR 280 million with fair value amounting to PLN 50 million.

As at 30 June 2013, the effective interest rate on the Credit Facility Agreement amounted to 1.54% in EUR (before swaps) and 3.86% in PLN (after swaps).

Additionally, TP S.A. concluded a Cash Management Treasury Agreement with Orange S.A. enabling the Group to deposit its cash surpluses with Orange S.A. and giving an access to back-up liquidity funding with headroom up to PLN 1.75 billion. TP S.A. started to deposit its cash surpluses with Orange S.A. in July 2013.

Financial terms of the above agreements are based on normal market terms.

On 8 May 2013, TP S.A. terminated a PLN 2 billion Revolving Credit Facility Agreement signed in 2010 with Bank Handlowy S.A. (syndicated) and repaid the outstanding balance (PLN 1,139 million as at 31 December 2012).

9. Dividends

On 11 April 2013, the General Meeting of TP S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from the 2012 profit. Total dividend, paid on 11 July 2013, amounted to PLN 656 million.

10. Changes in major litigation and claims, contingent liabilities and contingent assets since the end of the last annual reporting period

The information hereunder refers to the matters presented in Note 28.c-d to the IFRS Consolidated Financial Statements for the year ended 31 December 2012 or describes major matters that occurred after 31 December 2012.

a. Proceedings by UKE and UOKiK

Proceedings by UKE related to broadband access
With respect to the appeal proceedings concerning the annulled PLN 339 million fine, on 6 March 2013, the Supreme Court refused to examine the cassation appeal lodged by UKE. That decision ended the appeal procedure on the fine imposed by UKE on TP S.A. in 2007.
With respect to the appeal proceedings concerning the annulled PLN 100 million fine, on 2 July 2013, the Supreme Court refused to examine the cassation appeal lodged by UKE. That decision ended the appeal procedure on the fine imposed by UKE on TP S.A. in 2006.

Proceedings by UOKiK related to IP traffic
After subsequent stages of the appeal procedure, the Court of Appeal, on 9 April 2013, dismissed both appeals filed by UOKiK and TP S.A. against the verdict of SOKiK of 11 April 2011 reducing the fine imposed on the Company from PLN 75 million to PLN 38 million. The verdict of SOKiK lowering the fine is binding. TP S.A. paid the fine in May 2013 and lodged a cassation appeal to the Supreme Court against the decision of the Court of Appeal of 9 April 2013.

Proceedings by UOKiK related to retail prices of calls to Play
On 18 March 2013, UOKiK commenced competition proceedings against PTK-Centertel, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. claiming that they abused collective dominant position in the domestic retail market of mobile telephony. UOKiK alleges that the retail prices of calls made by individual users from the network of each of the three operators to the network of P4 sp. z o.o. (Play) were relatively higher than the prices for such calls to the networks of the three operators and determined without sufficient consideration of the differentiation of the asymmetric wholesale termination rates determined by UKE. In the view of UOKiK, the applied prices could result in restricting the development of competition on the retail domestic mobile telephony market.
PTK-Centertel is analysing the documents that UOKiK has included into the files of the competition proceedings to date.
In the opinion of the Management, PTK-Centertel has not performed activities that would restrict competition and, in the period covered by the proceedings, the level of the competition on the retail domestic mobile telephony market had been constantly increasing.

According to the Act on Competition and Consumer Protection, in case of non-compliance with its regulations, the President of the 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 also up to a maximum amount of 10% of an entity's prior year's revenue for a breach of the law.

b. Proceedings by the European Commission related to broadband access

The written stage of the appeal procedure before the General Court is ongoing. TP S.A. has not yet been notified on any scheduled hearing date.

The Management assesses the matters related to the European Commission decision on a regular basis taking into account their developments.

c. Proceedings by the tax authorities

The Fiscal Audit Office completed a control relating to TP S.A.'s year 2009 and, on 16 April 2013, issued a protocol. A protocol does not end the audit proceedings and does not decide on the obligations of the Company. The protocol raises certain questions as regards tax settlements made. The Company filed its objections to this on April 30, 2013. The Company believes that the issues raised by the Fiscal Audit Office as regards tax settlements are without merit. This opinion is supported by external tax advisors. Based on the Company's assessment the possibility of an ultimate outflow of resources is remote.

11. Related party transactions

As at 30 June 2013, Orange S.A. (previously France Telecom S.A.) owned 50.67% of shares of the Company and had the power to appoint the majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

The Group's income earned from the Orange Group (previously France Telecom Group) comprises mainly interconnect, research and development services, data transmission (and reimbursement of rebranding expenditures in 2012). The purchases from the Orange Group comprise mainly costs of interconnect and leased lines, network services, IT services, consulting services and brand fees.

Financial receivables, payables and financial costs concerning transactions with the Orange Group in 2013 relate to financing agreements (see Note 8).

(in PLN millions)	*6 months ended 30 June 2013*	*6 months ended 30 June 2012*
Sales of goods, services and other income from:	**102**	**221**
Orange S.A. (parent)	69	63
Orange Group (excluding parent)	33	158
Purchases of goods (including inventories, tangible and intangible assets) and services from:	**(173)**	**(160)**
Orange S.A. (parent)	(53)	(65)
Orange Group (excluding parent)	(120)	(95)
- including Orange Brand Services Limited (brand licence agreement)	*(85)*	*(57)*
Financial expense, net: [(1)]	**6**	**(1)**
Orange S.A. (parent)	50	(1)
Orange Group (excluding parent)	(44)	-
Dividend declared:	**332**	**997**
Orange S.A. (parent)	332	997

[(1)] Positive impact on net financial expense amounting to PLN 6 million results from financing agreements with the Orange Group (see Note 8). It consists of PLN (44) million of foreign exchange losses and interest expense (including amortised fees) on loans from Atlas Services Belgium S.A. and PLN 50 million of foreign exchange gains and interest income on cross currency interest rate swaps concluded with Orange S.A. to hedge exposure to foreign currency risk related to the abovementioned loans.

(in PLN millions)	*At 30 June 2013*	*At 31 December 2012*
Receivables from:	**76**	**82**
Orange S.A. (parent)	48	47
Orange Group (excluding parent)	28	35
Payables to:	**120**	**116**
Orange S.A. (parent)	51	49
Orange Group (excluding parent)	69	67
Financial receivables from:	**50**	**-**
Orange S.A. (parent)	50	-
Financial payables to:	**1,207**	**-**
Orange Group (excluding parent)	1,207	-
Dividend payable to:	**332**	**-**
Orange S.A. (parent)	332	-

Compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) paid in accordance with contractual commitments to TP S.A.'s Management Board and Supervisory Board members during the 6 months ended 30 June 2013 and 2012 amounted to PLN 5.5 million and PLN 6.2 million, including PLN 0.7 million and PLN 1.4 million accrued in previous periods, respectively. During the 6 months ended 30 June 2013 and 2012, the amount of accrued cost of compensation for the Company's Management Board amounted to PLN 1.7 million and PLN 1.7 million.

12. Subsequent events

On 9 July 2013, the Group concluded a share sale agreement with a private equity fund under which the 100% shareholding in Otwarty Rynek Elektroniczny S.A. will be disposed of for a total consideration amounting to PLN 16 million. The agreement is subject to a condition not within the Group's control.

On 10 July 2013, TP S.A. drew PLN 560 million of the Revolving Credit Facility Agreement concluded with Atlas Services Belgium S.A. (see Note 8).

AUDITOR’S REPORT
ON THE REVIEW OF THE CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2013

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

We have reviewed the attached condensed interim separate financial statements of Telekomunikacja Polska S.A. with its registered office in Warsaw at 18 Twarda St, (‘the Company’) including a statement of financial position prepared as of 30 June 2013, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the period from 1 January to 30 June 2013 and selected explanatory notes.

Compliance of these condensed interim financial statements with the requirements of IAS 34 “Interim Financial Reporting” as endorsed by the European Union (‘IAS 34’) and with other regulations in force is the responsibility of the Management Board and the members of Supervisory Board of the Company. Our responsibility is to review the financial statements.

Our review has been conducted in accordance with the auditing standards issued by the National Council of Statutory Auditors and International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. These Standards require us to plan and conduct the review in such a way as to obtain moderate assurance that the condensed interim separate financial statements are free from material misstatements.

Our review was conducted mainly based on an analysis of data included in the financial statements, review of accounting documentation as well as information provided by the Management Board and the financial and accounting personnel of the Company.

The scope and methodology of a review of financial statements are substantially different from an audit. Expressing an opinion on the correctness, fairness and clarity of condensed interim separate financial statements is not the objective of a review; therefore, no such opinion is being issued.

Our review did not reveal the need to make material changes in the attached condensed interim separate financial statements to present truly and fairly in all material respects the financial position of the Company as at 30 June 2013 and the financial result for the six month period ended 30 June 2013 in accordance with IAS 34.

....
Krzysztof Sowada
Key certified auditor
conducting the review
No. 10944

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

....
Gavin Flook – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. - which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.)

Warsaw, 23 July 2013

The above auditor's report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

TELEKOMUNIKACJA POLSKA S.A.

CONDENSED IFRS INTERIM SEPARATE FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2013

July 23, 2013

Contents

INCOME STATEMENT

(in PLN millions, except for earnings per share)

	6 months ended 30 June 2013 (unaudited)	*6 months ended 30 June 2012 (unaudited)*
Revenue	**3,534**	**3,776**
External purchases	(1,623)	(1,897)
Labour expenses	(710)	(724)
Other operating expense	(205)	(169)
Other operating income	204	312
Gains on disposal of assets	19	20
Depreciation and amortisation	(1,112)	(1,131)
Impairment of non-current assets	(3)	(10)
Operating income	**104**	**177**
Dividend income	953	1,590
Interest income	130	153
Interest expense and other financial charges	(331)	(393)
Foreign exchange gains/(losses)	64	(6)
Discounting expense	(19)	(22)
Finance income, net	**797**	**1,322**
Income tax	(39)	13
Net income	**862**	**1,512**
Earnings per share (in PLN) (basic and diluted)	**0.66**	**1.15**
Weighted average number of shares (in millions) (basic and diluted)	1,312	1,319

STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	6 months ended 30 June 2013 (unaudited)	*6 months ended 30 June 2012 (unaudited)*
Net income	**862**	**1,512**
Items that may be reclassified subsequently to profit or loss		
Gains/(losses) on cash flow hedges	(23)	1
Income tax relating to items that may be reclassified	4	-
Other comprehensive income/(loss), net of tax	**(19)**	**1**
Total comprehensive income	**843**	**1,513**

STATEMENT OF FINANCIAL POSITION

(in PLN millions)

	At 30 June 2013 *(unaudited)*	***At 31 December 2012*** *(audited)*
ASSETS		
Intangible assets	1,420	1,499
Property, plant and equipment	10,764	11,275
Investments in subsidiaries	7,209	7,196
Loans and receivables excluding trade receivables	2,317	2,501
Derivatives	58	127
Deferred tax assets	308	343
Total non-current assets	**22,076**	**22,941**
Inventories	47	55
Trade receivables	718	745
Loans and receivables excluding trade receivables	390	380
Derivatives	135	-
Other assets	64	207
Prepaid expenses	51	13
Cash and cash equivalents	188	223
Total current assets	**1,593**	**1,623**
TOTAL ASSETS	**23,669**	**24,564**
EQUITY AND LIABILITIES		
Share capital	3,937	4,007
Share premium	832	832
Treasury shares	-	(400)
Other reserves	(62)	(43)
Retained earnings	7,085	7,209
Total equity	**11,792**	**11,605**
Loans from related party	1,207	-
Financial liabilities at amortised cost excluding trade payables	2,333	5,418
Derivatives	-	283
Employee benefits	320	316
Provisions	136	143
Other liabilities	15	15
Deferred income	30	26
Total non-current liabilities	**4,041**	**6,201**
Financial liabilities at amortised cost excluding trade payables	4,785	3,951
Derivatives	92	112
Trade payables	1,086	1,388
Employee benefits	158	139
Provisions	804	890
Income tax liability	14	67
Other liabilities (including dividend of PLN 656 million paid on 11 July 2013)	829	119
Deferred income	68	92
Total current liabilities	**7,836**	**6,758**
TOTAL EQUITY AND LIABILITIES	**23,669**	**24,564**

STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Treasury shares	Other reserves				Retained earnings	Total
				Hedging instruments	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments		
Balance at 1 January 2012 *(audited)*	**4,007**	**832**	**(200)**	**11**	**(87)**	**14**	**68**	**7,994**	**12,639**
Total comprehensive income for the 6 months ended 30 June 2012	-	-	-	1	-	-	-	1,512	1,513
Purchase of treasury shares	-	-	(200)	-	-	-	-	-	(200)
Dividends	-	-	-	-	-	-	-	(1,969)	(1,969)
Balance at 30 June 2012 *(unaudited)*	**4,007**	**832**	**(400)**	**12**	**(87)**	**14**	**68**	**7,537**	**11,983**
Balance at 1 January 2013 *(audited)*	**4,007**	**832**	**(400)**	**(7)**	**(129)**	**25**	**68**	**7,209**	**11,605**
Total comprehensive income for the 6 months ended 30 June 2013	-	-	-	(23)	-	4	-	862	843
Redemption of treasury shares	(70)	-	400	-	-	-	-	(330)	-
Dividends	-	-	-	-	-	-	-	(656)	(656)
Balance at 30 June 2013 *(unaudited)*	**3,937**	**832**	**-**	**(30)**	**(129)**	**29**	**68**	**7,085**	**11,792**

STATEMENT OF CASH FLOWS

(in PLN millions)

	6 months ended 30 June 2013 (unaudited)	*6 months ended 30 June 2012 (unaudited)*
OPERATING ACTIVITIES		
Net income	862	1,512
Adjustments to reconcile net income to cash from operating activities		
Depreciation and amortisation	1,112	1,131
Impairment of non-current assets	3	10
Gains on disposal of assets	(19)	(20)
Change in provisions	(141)	(2,223)
Income tax	39	(13)
Finance income, net	(797)	(1,322)
Operational foreign exchange and derivatives (gains)/losses, net	4	(10)
Change in working capital (trade)		
(Increase)/decrease in inventories	8	(4)
Decrease in trade receivables	36	20
Decrease in trade payables	(82)	(279)
Change in working capital (non-trade)		
(Increase)/decrease in prepaid expenses and other receivables	75	(89)
Increase/(decrease) in deferred income and other payables	17	(21)
Dividends received	953	1,228
Interest received	8	16
Interest and interest rates effect on derivatives paid, net	(360)	(369)
Exchange rate effect on derivatives, net	(21)	184
Income tax received	27	34
Net cash provided by/(used in) operating activities	**1,724**	**(215)**
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(565)	(622)
Decrease in amounts due to fixed assets suppliers	(224)	(431)
Exchange rate effect on derivatives economically hedging capital expenditures, net	1	(1)
Proceeds from sale of property, plant and equipment and intangible assets	30	35
Decrease in receivables related to leased fixed assets	3	4
Proceeds from sale of subsidiaries	-	9
Cash paid for investments in subsidiaries	(11)	-
Increase in loans and other financial assets	7	(1)
Exchange rate effect on other derivatives, net	(5)	14
Net cash used in investing activities	**(764)**	**(993)**
FINANCING ACTIVITIES		
Issuance of long-term debt	1,172	-
Repayment of long-term debt	(526)	(131)
Decrease in short-term debt	(1,637)	(409)
Purchase of treasury shares	-	(200)
Exchange rate effect on hedging instruments, net	(4)	(4)
Net cash used in financing activities	**(995)**	**(744)**
Net change in cash and cash equivalents	**(35)**	**(1,952)**
Effect of changes in exchange rates and other impacts on cash and cash equivalents	-	(4)
Cash and cash equivalents at the beginning of the period	223	2,584
Cash and cash equivalents at the end of the period	**188**	**628**

1. Telekomunikacja Polska S.A.

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 Company is the principal supplier of telecommunications services in Poland. Telekomunikacja Polska provides fixed-line telephony services (local, domestic and international calls), Integrated Services Digital Network ("ISDN"), fixed access to the Internet, TV and Voice over Internet Protocol ("VoIP"). In addition, the Company provides leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, multimedia services and various Internet services. Telekomunikacja Polska provides telecommunications services on the basis of entry number 1 in the register of telecommunications companies maintained by the President of Office of Electronic Communication ("UKE").

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

2. Statement of compliance and basis for preparation

Basis for preparation

These unaudited Condensed Interim Separate Financial Statements (the "Interim Separate Financial Statements") are prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting ("IAS 34") and with all accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective as at the time of preparing the Interim Separate Financial Statements (see also Note 3).

These Interim Separate Financial Statements should be read in conjunction with the audited Telekomunikacja Polska S.A. IFRS Separate Financial Statements and the notes thereto ("IFRS Separate Financial Statements") for the year ended 31 December 2012.

The Interim Separate Financial Statements include the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and selected explanatory notes.

Costs that arise unevenly during the year are anticipated or deferred in the interim financial statements only if it would also be appropriate to anticipate or defer such costs at the end of the year.

These Interim Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 23 July 2013.

Adoption of standards in 2013

The following standards endorsed by the European Union were adopted by the Company as at 1 January 2013:

- IFRS 10 "Consolidated Financial Statements". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014, with early application permitted;
- IFRS 11 "Joint Arrangements". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014, with early application permitted;
- IFRS 12 "Disclosure of Interests in Other Entities". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014, with early application permitted;
- IFRS 13 "Fair Value Measurement". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2013.

Adoption of the standards presented above did not result in any significant changes to the Company's accounting policies and to the presentation of the financial statements.

Standards and interpretations issued but not yet adopted

Management has not opted for early and full application of the following standard and interpretation (in the process of being endorsed by the European Union):

- IFRS 9 “Financial Instruments” applicable for financial years beginning on or after 1 January 2015. This standard has not been endorsed by the European Union;
- IFRIC 21 “Levies” applicable for financial years beginning on or after 1 January 2014. This interpretation has not been endorsed by the European Union.

Management is currently analysing the practical consequences of this new standard and interpretation and the effect of their application on the financial statements.

3. Statement of accounting policies

The accounting policies and methods of computation used in the preparation of the Interim Separate Financial Statements are consistent with those described in the audited IFRS Separate Financial Statements for the year ended 31 December 2012 (see Notes 2 and 28 to IFRS Separate Financial Statements for the year ended 31 December 2012).

4. Explanatory comments about the seasonality or cyclicality of interim operations

The Company’s activities are not subject to any significant seasonality or cyclical trends of operations.

5. Acquisitions of investments in subsidiaries

The list of subsidiaries of the Company as at and for the 6 months ended 30 June 2013 is presented in the Note 16.1 to the IFRS Separate Financial Statements for the year ended 31 December 2012.

Additionally, on 15 March 2013, the Company purchased a 100% shareholding in Datacom System S.A. – a provider of integrated IT services. The purchase price amounted to PLN 13 million, of which PLN 11 million was paid and PLN 2 million will be paid after one year. On 2 April 2013 the shareholding in Datacom System S.A. was contributed in kind to Integrated Solutions Sp. z o.o., a fully owned subsidiary.

6. Items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence

Apart from the major litigation and claims described in Note 10, operational activities of the Company are subject to legal and administrative regulations and the Company is a party to a number of legal proceedings and commercial contracts related to its operational activities. As at 30 June 2013, the Management of the Company performed an assessment of risks of on-going and potential proceedings. As a result, the Company recognised provisions for known and quantifiable risks related to these proceedings, which represent the Company’s best estimate of the amounts which are more likely than not to be paid. The actual amount of a penalty or a claim, if any, is 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. As a rule, the provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management, such disclosure could prejudice the outcome of the pending cases.

The amount of cash flows from operating activities for the 6 months ended 30 June 2012 includes the effect of the settlement agreement with DPTG resulting in a payment of EUR 550 million (PLN 2,449 million).

7. Redemption of treasury shares and issuance of TP S.A. short term bonds

Redemption of treasury shares

On 11 April 2013, the General Meeting of TP S.A. adopted resolutions on the redemption of 23,291,542 own shares acquired by the Company in 2012 and 2011 for a total consideration of PLN 400 million and on the reduction of the Company's share capital from PLN 4,007 million to PLN 3,937 million (registered by the Registry Court on 18 June 2013).

Issuance of TP S.A. short term bonds under Bond Issuance Programme

In the 6 months ended 30 June 2013, TP S.A. issued and redeemed short-term bonds to its subsidiaries under the TP S.A. Bond Issuance Programme of 15 July 2002. The bonds are denominated in PLN and have been offered by private placement, exclusively within the territory of the Republic of Poland. The bonds have been issued as non-material unsecured bearer discount bonds (zero-coupon bonds). The bonds are redeemed at their par value. TP S.A. does not anticipate introducing the bonds into public trading.

In the 6 months ended 30 June 2013, the net cash flows on the bonds amounted to PLN (519) million. As a result of the issues and redemptions, the aggregate par value of the outstanding bonds issued under the programme amounted to PLN 902 million as at 30 June 2013.

8. Changes in credit facilities

On 17 April 2013, TP S.A. and Atlas Services Belgium S.A., a subsidiary of Orange S.A. (previously France Telecom S.A.) concluded a Revolving Credit Facility Agreement for up to EUR 250 million (available in EUR and PLN) and a Credit Facility Agreement for up to EUR 400 million. The outstanding balance under the Credit Facility Agreement amounted to EUR 280 million (PLN 1,207 million) as at 30 June 2013, including accrued interest. The repayment date of both agreements is 31 March 2016.

TP S.A. concluded also an agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk related to the financing provided in EUR. The nominal amount of cross currency interest rate swaps outstanding under the agreement as at 30 June 2013 was EUR 280 million with fair value amounting to PLN 50 million.

As at 30 June 2013, the effective interest rate on the Credit Facility Agreement amounted to 1.54% in EUR (before swaps) and 3.86% in PLN (after swaps).

Additionally, TP S.A. concluded a Cash Management Treasury Agreement with Orange S.A. enabling the Group to deposit its cash surpluses with Orange S.A. and giving an access to back-up liquidity funding with headroom up to PLN 1.75 billion. TP S.A. started to deposit its cash surpluses with Orange S.A. in July 2013.

Financial terms of the above agreements are based on normal market terms.

On 8 May 2013, TP S.A. terminated a PLN 2 billion Revolving Credit Facility Agreement signed in 2010 with Bank Handlowy S.A. (syndicated) and repaid the outstanding balance (PLN 1,139 million as at 31 December 2012).

9. Dividends

On 11 April 2013, the General Meeting of TP S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from the 2012 profit. Total dividend, paid on 11 July 2013, amounted to PLN 656 million.

10. Changes in major litigation and claims, contingent liabilities and contingent assets since the end of the last annual reporting period

The information hereunder refers to the matters presented in Note 25.c-d to the IFRS Separate Financial Statements for the year ended 31 December 2012 or describes major matters that occurred after 31 December 2012.

a. Proceedings by UKE and UOKiK

Proceedings by UKE related to broadband access
With respect to the appeal proceedings concerning the annulled PLN 339 million fine, on 6 March 2013, the Supreme Court refused to examine the cassation appeal lodged by UKE. That decision ended the appeal procedure on the fine imposed by UKE on TP S.A. in 2007.
With respect to the appeal proceedings concerning the annulled PLN 100 million fine, on 2 July 2013, the Supreme Court refused to examine the cassation appeal lodged by UKE. That decision ended the appeal procedure on the fine imposed by UKE on TP S.A. in 2006.

Proceedings by UOKiK related to IP traffic
After subsequent stages of the appeal procedure, the Court of Appeal, on 9 April 2013, dismissed both appeals filed by UOKiK and TP S.A. against the verdict of SOKiK of 11 April 2011 reducing the fine imposed on the Company from PLN 75 million to PLN 38 million. The verdict of SOKiK lowering the fine is binding. TP S.A. paid the fine in May 2013 and lodged a cassation appeal to the Supreme Court against the decision of the Court of Appeal of 9 April 2013.

b. Proceedings by the European Commission related to broadband access

The written stage of the appeal procedure before the General Court is ongoing. TP S.A. has not yet been notified on any scheduled hearing date.

The Management assesses the matters related to the European Commission decision on a regular basis taking into account their developments.

c. Proceedings by the tax authorities

The Fiscal Audit Office completed a control relating to TP S.A.'s year 2009 and, on 16 April 2013, issued a protocol. A protocol does not end the audit proceedings and does not decide on the obligations of the Company. The protocol raises certain questions as regards tax settlements made. The Company filed its objections to this on April 30, 2013. The Company believes that the issues raised by the Fiscal Audit Office as regards tax settlements are without merit. This opinion is supported by external tax advisors. Based on the Company's assessment the possibility of an ultimate outflow of resources is remote.

d. Guarantees

As at 30 June 2013 and 31 December 2012, total guarantees granted by Telekomunikacja Polska S.A. to purchasers of debt securities denominated in EUR and issued by a subsidiary amounted to PLN 3,050 million and PLN 2,967 million, respectively.

11. Related party transactions

As at 30 June 2013, Orange S.A. (previously France Telecom S.A.) owned 50.67% of shares of the Company and had 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.

TP S.A.'s income earned from its subsidiaries comprises mainly leased lines and interconnect, data transmission, property rental and related fees and fees for distribution of products through its own sales network. The purchases from the subsidiaries comprise mainly customer support and management services, selling fees, costs of interconnect, leased lines, network services, consulting services and property rental and related fees. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

Income earned from the Orange Group (previously France Telecom Group) comprises mainly research and development services, interconnect, data transmission (and reimbursement of rebranding expenditures in 2012). The purchases from the Orange Group comprise mainly costs of leased lines, interconnect, network services, IT services, consulting services and brand fees.

TP S.A.'s financial income earned from its subsidiaries comprises dividends, interest on bonds issued by subsidiaries and interest on loans granted to subsidiaries. Financial costs incurred by TP S.A. in transactions with related parties mainly comprise interest on bonds issued to the subsidiaries, interest on loans from the subsidiaries. The Company's financial receivables from its related parties mainly comprise bonds issued by subsidiaries and loans granted to the subsidiaries, together with accrued interests. Financial payables to related parties comprise bonds issued to the subsidiaries and loans from the subsidiaries, together with accrued interests.

Financial receivables, payables and financial costs concerning transactions with the Orange Group in 2013 relate to financing agreements (see Note 8).

(in PLN millions)	*6 months ended 30 June 2013*	*6 months ended 30 June 2012*
Sales of goods, services and other income from:	**729**	**740**
TP Group (subsidiaries)	634	528
Orange Group	95	212
- Orange S.A. (parent)	66	59
- Orange Group (excluding parent)	29	153
Purchases of goods (including inventories, tangible and intangible assets) and services from:	**(670)**	**(695)**
TP Group (subsidiaries)	(569)	(616)
Orange Group	(101)	(79)
- Orange S.A. (parent)	(41)	(51)
- Orange Group (excluding parent)	(60)	(28)
- including Orange Brand Services Limited (brand licence agreement)	*(32)*	-
Financial income:	**1,078**	**1,729**
TP Group (subsidiaries)	1,078	1,729
Financial expense, net:	**(223)**	**(263)**
TP Group (subsidiaries)	(229)	(262)
Orange Group [(1)]	6	(1)
- Orange S.A. (parent)	50	(1)
- Orange Group (excluding parent)	(44)	-
Dividend declared:	**332**	**997**
Orange S.A. (parent)	332	997

[(1)] Positive impact on net financial expense amounting to PLN 6 million results from financing agreements with the Orange Group (see Note 8). It consists of PLN (44) million of foreign exchange losses and interest expense (including amortised fees) on loans from Atlas Services Belgium S.A. and PLN 50 million of foreign exchange gains and interest income on cross currency interest rate swaps concluded with Orange S.A. to hedge exposure to foreign currency risk related to the abovementioned loans.

(in PLN millions)	*At 30 June 2013*	*At 31 December 2012*
Receivables from:	**292**	**298**
TP Group (subsidiaries)	240	241
Orange Group	52	57
- Orange S.A. (parent)	43	41
- Orange Group (excluding parent)	9	16
Payables to:	**313**	**335**
TP Group (subsidiaries)	243	268
Orange Group	70	67
- Orange S.A. (parent)	37	36
- Orange Group (excluding parent)	33	31
Financial receivables from:	**2,736**	**2,920**
TP Group (subsidiaries)	2,686	2,920
Orange S.A. (parent)	50	-
Financial payables to:	**7,786**	**7,169**
TP Group (subsidiaries)	6,579	7,169
Orange Group (excluding parent)	1,207	-
Dividend payable to:	**332**	**-**
Orange S.A. (parent)	332	-

Compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) paid in accordance with contractual commitments to TP S.A.'s Management Board and Supervisory Board members during the 6 months ended 30 June 2013 and 2012 amounted to PLN 5.5 million and PLN 6.2 million, including PLN 0.7 million and PLN 1.4 million accrued in previous periods, respectively. During the 6 months ended 30 June 2013 and 2012, the amount of accrued cost of compensation for the Company's Management Board amounted to PLN 1.7 million and PLN 1.7 million.

12. Subsequent events

On 9 July 2013, the Company concluded a share sale agreement with a private equity fund under which the 100% shareholding in Otwarty Rynek Elektroniczny S.A. will be disposed of for a total consideration amounting to PLN 16 million. The agreement is subject to a condition not within the Company's control.

On 10 July 2013, TP S.A. drew PLN 560 million of the Revolving Credit Facility Agreement concluded with Atlas Services Belgium S.A. (see Note 8).

TELEKOMUNIKACJA POLSKA GROUP

(ORANGE BRAND)

MANAGEMENT BOARD'S REPORT

FIRST SIX MONTHS
ENDED 30 JUNE 2013

23 July 2013

This report on the activity of the Telekomunikacja Polska Group ("the Group" or " Orange Polska") in the first half of 2013 has been drawn up in compliance with Article 90 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2009 No. 33, item 259, as amended). For additional information please refer to the full year 2012 report.

CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of June 30, 2013 and for the six-month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

	For 6 months ended				
	30 June 2013		30 June 2012		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue	6,570	1,559	7,187	1,701	-8.6%
EBITDA	2,037	483	2,525	598	-19.3%
EBITDA margin	*31.0%*		*35.1%*		*-4.1 pp*
Operating income	459	109	862	204	-46.8%
Operating margin	*7.0%*		*12.0%*		*-5.0 pp*
Consolidated net income	157	37	497	118	-68.4%
Net income attributable to owners of TP SA	*157*	*37*	*497*	*118*	-68.4%
*Weighted average number of shares (in millions)**	*1,312*		*1,319*		
Earnings per share (in PLN) (basic and diluted)	*0.12*	*0.03*	*0.38*	*0.09*	*-68.4%*
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	1,498	355	(323)	(76)	-
Net cash used in investing activities, including	(1,097)	(260)	(1,400)	(331)	-21.6%
Capital expenditures (on the accrual basis) financed with internal cash	(852)	(202)	(886)	(210)	-3.8%
Net cash used in financing activities	(500)	(119)	(271)	(64)	84.5%
Net change in cash and cash equivalents	(99)	(23)	(1,994)	(472)	-

	As of				
	30 June 2013		30 June 2012		Change
Consolidated Statement of Financial Position	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Cash and cash equivalents	308	71	406	99	-24.1%
Other intangible assets	2,865	662	2,967	726	-3.4%
Property, plant and equipment	13,294	3,071	13,951	3,413	-4.7%
Total assets	23,196	5,358	24,163	5,910	-4.0%
Financial liabilities at amortised costs, of which:	4,808	1,111	5,185	1,268	-7.3%
Current	3,506	810	2,195	537	59.7%
Non-current	1,302	301	2,990	731	-56.5%
Other liabilities, current and non-current	5,927	1,369	6,020	1,473	-1.5%
Total equity	12,461	2,878	12,958	3,170	-3.8%

Notes on data conversion:

1 – PLN/EUR fx rate of 4.2140 applied

2 – PLN/EUR fx rate of 4.2246 applied

3 – PLN/EUR fx rate of 4.3292 applied

4 – PLN/EUR fx rate of 4.0882 applied

** Weighted average number of shares in 6 months ended June 30, 2013 and June 30, 2012, respectively*

1.1 Comments to the Consolidated Income Statement Items

The Group's consolidated revenue amounted to PLN 6,570 million in the first half of 2013 and was lower by PLN 617 million compared to the first half of 2012.
Operating income before depreciation and amortisation expense and impairment of non-current assets (EBITDA) amounted to PLN 2,037 million in the first half of 2013 and was PLN 488 million lower than in the first half of 2012.
Operating income (EBIT) amounted to PLN 459 million in the first half of 2013 and was PLN 403 million lower than in the first half of 2012.

In particular, year-on-year, in the first half of 2013:

- Commercial expenses decreased by PLN 70 million;
- Network and IT costs decreased by PLN 26 million;

- Interconnect expenses decreased by PLN 245 million, mainly due to a decrease of the Mobile Termination Rate;
- Labour expenses decreased by PLN 26 million;
- Other operating expenses were higher by PLN 64 million;
- Other operating income decreased by PLN 150 million, mainly due to reimbursement of rebranding expenses in 2012;
- Depreciation and amortisation decreased by PLN 79 million.

Net finance charges were PLN 7 million higher than in the first half of 2012, which resulted mainly from a decrease in interest income of PLN 10 million, a decrease in net result on foreign exchange gains of PLN 12 million, an increase in discounting expense of PLN 17million which were partially offset by a decrease in interest expense of PLN 32 million.
Consolidated net income attributable to owners of Telekomunikacja Polska S.A. ("the Company", "the Parent Company", "TP S.A.") amounted to PLN 157 million in the reported period, which is a decrease of PLN 340 million compared to the first half of 2012.

1.2 Comments to the Consolidated Cash Flow Statement Items

Net cash from operating activities totalled PLN 1,498 million in the first half of 2013 and was higher by PLN 1,821 million year-on-year. The increase was mainly due to settlement agreement with DPTG that resulted in a payment of EUR 550 million (PLN 2,449 million) in the first half of 2012, which was partly offset by a PLN 340 million year-on-year decrease in consolidated net income.

Net cash used in investing activities amounted to PLN 1,097 million in the first half of 2013 and was lower by PLN 303 million compared to the first half of 2012, which was mainly due to PLN 269 million lower cash outflows to fixed asset suppliers (decrease of PLN 285 million in amounts due to fixed assets suppliers in the first half of 2013 versus a PLN 554 million decrease in the comparable period of 2012).

Net cash used in financing activities amounted to PLN 500 million in the first half of 2013 and was higher by PLN 229 million compared to the first half of 2012.
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1.2.1 Capital Expenditures (CAPEX)

Orange Polska's capital expenditures in the first half of 2013 amounted to PLN 852 million.

In the first six months of 2013, the Group invested mainly in the following areas:

- mobile access network consolidation jointly with T-Mobile, facilitating the management and expansion of Orange and T-Mobile networks infrastructure in order to expand the range and capacity of GSM/UMTS services, enhance their quality and adapt the mobile access network to the 4G technology requirements;
- further development of the mobile transport and core network in order to handle the growing volume of data transmission and ensure the service quality expected by customers;
- further development of the fibre-optic network and transmission equipment in order to launch new backbone and access lines as well as further development of the IP new generation network in order to enhance the quality and transfer rate of broadband services;
- development of the broadband access network, which also enables provision of television services, as well as related purchases of subscriber terminals;
- completing and strengthening of the mobile access network in the areas not covered by the mobile access network consolidation project (i.e. in strategic or under-invested regions);
- investment projects related to the portfolio development and sales and customer service processes as well as the modernisation and enhancement of the IT technical infrastructure;
- development of a sales portal for mobile services offered under a new brand, nju.mobile;
- implementation of investment projects related to the development of the Wirtualna Polska portal and on-line content;
- research and development.

1.3 Comments to the Consolidated Statement of Financial Position Items

As at June 30, 2013, total equity amounted to PLN 12,461 million and was lower by PLN 497 million than as at December 31, 2012. The change is attributable mainly to the declaration of dividend of PLN 656 million which was partially offset by consolidated net income (PLN 157 million) generated in the first half of 2013.

Property, plant, equipment and other intangible assets decreased by PLN 759 million compared to 2012 year-end, mainly as a result of amortisation and depreciation charge (PLN 1,574 million), which was only partially offset by capital expenditures, amounting to PLN 852 million.

Total assets decreased by PLN 967 million in the reported period. The change resulted mainly from the aforementioned decrease of PLN 759 million in property, plant, equipment and other intangible assets, a decrease of PLN 155 million in trade receivables and a decrease of PLN 98 million in cash and cash equivalents accompanied by an increase of PLN 66 million in derivatives.

Total non-current and current liabilities decreased by PLN 470 million to PLN 10,735 million as at 30 June 2013. The primary factors that contributed to the change included a decrease of PLN 377 million in financial liabilities at amortised cost excluding trade payables, a decrease of PLN 303 million in derivatives, a decrease of PLN 282 million in trade payables, a decrease of PLN 82 million in deferred income, a decrease of PLN 76 million in income tax liabilities, which were partially offset by an increase of PLN 663 million in other liabilities (mainly due to dividend liability of PLN 656 million that was paid on July 11, 2013).

1.4 Related Parties Transactions

Please see Note 11 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements about Group's transactions with related entities.

1.5 Description of Significant Agreements

For information on significant agreements concluded by the Group in the first half of 2013, please see section 1.9.2 below.

1.6 Subsequent Events

Please see Note 12 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for information on subsequent events.

1.7 Scope of Consolidation within the Group

Please see Note 1.2 to the IFRS Consolidated Financial Statements for information about the scope of consolidation within the Group.

Please see Note 5 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for information about change of the scope of consolidation within the Group.

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

Please see Section III of the Additional Information to the Consolidated Half-Year report PSr 2013 for the relevant information.

1.9 Management of Financial Resources and Liquidity of the Group

In the reported period, the Group financed its activities mostly by cash from operating activities, a revolving bank loan and, upon the repayment thereof, a revolving loan and a term loan provided by the Orange Group (previously France Telecom), as well as funds raised from bond issues in previous years.

In the first half of 2013, the Group repaid long-term bank loans totalling PLN 520 million and short-term bank loans totalling PLN 1,140 million.

The Group benefited from the loan provided under a syndicated revolving loan facility agreement and, after repayment it in total amount of PLN 1,140 million, the Group benefited from the long-term loan provided by the Orange SA (previously France Telecom SA) which was used in total amount of PLN 1,172 million.

As of June 30, 2013, Group's interest-bearing liabilities (before derivatives) totalled PLN 4,799 million, which is a decrease of PLN 372 million compared to December 31, 2012.

The value of liabilities under financial lease as of June 30, 2013 amounted to PLN 9 million and was 1 million lower compared to December 31, 2012.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 308 million at June 30, 2013, and available credit facilities totalling the equivalent of PLN 3,375 million (please see section 1.9.3 below for details).

1.9.1 Bonds

The Group did not issue or redeem any external long-term debt notes in the reported period.

1.9.2 Loan and Borrowings Agreements

In the first half of 2013, Group companies concluded the following main loan agreements:

- On April 17, 2013, the Parent Company concluded a term loan agreement with Atlas Services Belgium SA, a wholly-owned subsidiary of Orange SA (previously France Telecom), which provided the Group with long-term financing of up to EUR 400 million, with the maturity date of March 31, 2016;
- On April 17, 2013, the Parent Company concluded a revolving loan agreement with Atlas Services Belgium SA, which provided the Group with financing of up to EUR 250 million (available in EUR or PLN) for a period of three years, i.e. to March 31, 2016;
- On April 17, 2013, the Parent Company concluded a cash-pool agreement with Orange SA (previously France Telecom), which enabled the Group to invest surplus cash in Orange SA's (previously France Telecom) account and provided access to backup liquidity financing of up to PLN 1,750 million;
- On January 2, 2013, TP S.A. concluded a current account overdraft agreement with RBS Bank (Polska) S.A. for PLN 62 million, which provided an overdraft facility to secure the Parent Company's liquidity and current financing in a period from January 2, 2013 to June 28, 2013;

In the first half of 2013, the Parent Company repaid an outstanding debt of PLN 1.139 million (as of December 31, 2012) under a revolving loan agreement with an international syndicate of banks dated October 22, 2010, effecting early termination of the agreement. A part of the loan was repaid using funds received under a term loan agreement with Atlas Services Belgium SA. Loan repayments totalled PLN 1,660 million in the first half of 2013.

1.9.3 Unused Credit Facilities

As of June 30, 2013, the Group had outstanding general-purpose credit facilities amounting to an equivalent PLN 1,625 million, specifically (by Group companies):

- TP S.A.: EUR 120 million and EUR 250 million (revolving loan);
- PTK Centertel: PLN 20 million (current account overdraft);
- Ramsat: PLN 1.3 million (current account overdraft);
- ORE: PLN 0.7 million (current account overdraft); and
- OPCO: PLN 1 million (current account overdraft).

In addition, the Group had an unused limit of back-up liquidity financing of PLN 1,750 million, provided by Orange SA (previously France Telecom SA).

1.9.4 Loan Covenants

Guarantee agreements to which TP S.A. is a party impose an obligation to meet the ratio of net debt to EBITDA not higher than 3.5:1 (tested for the Group on a six months' basis). The value of the ratio on 30 June 2013 was met.

1.9.5 Ratings

The ratings at June 30, 2013 were as follows:

Moody's Investor Services	Baa1, negative outlook (in the first half of 2013, the agency downgraded the rating by one level from A3, the outlook remaining the same)

Standard and Poor’s Rating Services BBB+, negative outlook

1.9.6 Hedging Transactions

In the first half of 2013, the Group continued to minimise its exposure to foreign exchange volatility by concluding and maintaining cross currency swap, cross currency interest rate swap and non-deliverable forward contracts, which at June 30, 2013 covered:

- 99.8% of debt denominated in foreign currencies,
- 52.3% of UMTS licence payable; and
- 74.8% of European Commission proceedings provision.

As a result of hedging, Group’s effective currency exposure at June 30, 2013 was as follows:

- USD 3 million of debt;
- EUR 129 million of UMTS licence payable; and
- EUR 34 million of European Commission proceedings provision.

The Group has also hedged a portion of the exposure to foreign exchange risk generated by operating expenditures (e.g. handset purchases) and capital expenditures.

In addition, the Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As of June 30, 2013 the Group’s proportion between fixed/floating rate debt (after hedging) was 52/48% as compared to 47/53% on December 31, 2012.

1.9.7 Group’s Financial Liquidity and Net Financial Debt

At June 30, 2013, Group’s quick and current ratios decreased as compared to the end of 2012. Lower liquidity of the Group was driven by a decrease of PLN 63 million in current assets, including a decrease of PLN 98 million in cash, as well as an increase of PLN 1,558 million in current liabilities (less provisions and deferred income).

The liquidity ratios for the Group at June 30, 2013 and December 31, 2012, respectively, are presented in the table below.

	30 June 2013	31 December 2012
Current ratio Current assets / current liabilities*	0.33	0.44
Quick ratio Total current assets – inventories / current liabilities*	0.29	0.40
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.10	0.12

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

Group’s net financial debt (after valuation of derivatives) decreased to PLN 4,381 million at the end of June 2013 (from PLN 5,026 million at the end of December 2012).

2 STATEMENTS OF THE MANAGEMENT BOARD

2.1 Statement on Adopted Accounting Principles

TP Management Board, composed of:

1. Maciej Witucki - President of the Board
2. Vincent Lobry - Vice President of the Board in charge of Marketing and Strategy
3. Piotr Muszyński - Vice President of the Board in charge of Operations
4. Jacques de Galzain - Board Member in charge of Finance
5. Jacek Kowalski - Board Member in charge of Human Resources

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

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

2.2 Statement on Appointment of the Licensed Auditor of the Consolidated Financial Statements

TP S.A.'s Management Board hereby declares that the licensed auditor to review the condensed interim half-year consolidated financial statements has been appointed in compliance with the relevant regulations and that both the auditor and the chartered accountants carrying out the review meet the requirements to develop an impartial and independent report on the reviewed financial statements in compliance with the relevant regulations and professional standards.

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

TP S.A. did not publish any financial projections concerning results of the Group for 2013 pursuant to Article 5(1.25) of the Decree of the Minister of Finance of February 19, 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (JoL of 2009 No. 33, item 259, as amended).

CHAPTER II
MANAGEMENT BOARD’S REPORT ON OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

in the first half of 2013

3 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

Selected financial data (PLN million) IFRS	**30 June 2013**	**30 June 2012**	**Change**
Group's revenue	6,570	7,187	-8.6%
EBITDA	2,037	2,525	-19.3%
EBITDA (as % of revenue)	31.0%	35.1%	-4.1 pp
EBIT	459	862	-46.8%

Group's revenue totalled PLN 6,570 million in the first six months of 2013 and were down PLN 617 million (8.6%) year-on-year. This predominantly reflected the impact of regulatory decisions (mostly MTR cuts[1]), which decreased the Group's revenues by PLN 309 million, and loss of 427 thousand fixed voice subscribers since June 30, 2012. This was only partly offset by a 163 thousand year-on-year growth of the 3P customer base, supported by an increase in number of Orange Open customers - which helped 'broadband, TV and VoIP' revenues to an increase of PLN 62 million year-on-year.

The Group's EBITDA margin decreased by 4.1 percentage points year-on-year, while EBITDA was by PLN 488 lower compared than in the first half of 2012. This can be attributed mainly to the following factors:

- revenue decrease, as described above
- a PLN 245 million year-on-year decrease of interconnect costs, mainly as a result of lower MTR rate, which has offset the impact of higher volume of outgoing traffic generated by unlimited plan subscribers;
- PLN 54 million year-on-year increase in costs of ICT sales;
- other costs, which have increased by PLN 61 million year-on-year, including PLN 18 million due to a higher provision for employee severance pay, and a PLN 28 increase in brand fees, resulting from rebranding of the fixed products to the Orange brand.

Striving to reverse the negative trends, Orange Polska is focused on the development of bundled services, promotion of its flagship Orange Open offer as well as further optimisation of its cost base and improvement in the customer satisfaction from Orange services. These initiatives will be based on the assumptions for the new medium-term action plan for 2013–2015, which was adopted in February (see section 5.3 below).

3.1 Mobile Services

Revenue			
PLN million	For 6 months ended		
	30 June 2013	30 June 2012	Change
Mobile revenue	3,123	3,481	-10.3%
of which voice traffic revenue	1,804	2,007	-10.1%
of which data, messaging, content and M2M	876	828	5.8%
of which wholesale	443	646	-31.4%
Mobile equipment sales	73	70	4.3%

Key performance indicators			
PLN '000, unless indicated otherwise	For 6 months ended		
	30 June 2013	30 June 2012	Change
Orange Open customers*			
Total customers	14,947	14,757	1.3%
of which pre-paid	7,977	7,820	2.0%
of which post-paid	6,970	6,937	0.5%
SRC (post-paid), PLN	415.6	432.7	-4.0%
SAC (post-paid), PLN	529.1	537.7	-1.6%
Monthly blended ARPU, PLN	35.5	40.0	-11.3%
pre-paid	14.4	17.1	-15.8%
post-paid	61.6	66.7	-7.6%

* Orange Open is a bundle of fixed-line and mobile services

[1] Voice mobile termination rate (MTR) was cut from PLN 0.1223 / minute to PLN 0.0826 / minute on January 1, 2013. In 1H 2012 MTR amounted to PLN 0.1520 / minute. SMS MTR was decreased from PLN 0.06 to PLN 0.05 on July 1, 2012.

As at the end of June 2013, PTK Centertel had 14.9 million customers, which is an increase of 1.3% year-on-year. The customer base growth of 190 thousand year-on-year or by 52 thousand compared to the end of 2012 should be viewed as positive, especially in the context of very aggressive competition; e.g. P4 (the Play network operator) has changed its offer three times over the last six months. Orange's progress in the mobile market was helped by the initial success of its new mobile brand, nju.mobile. The take-up of the new offer exceed 80 thousand within two months after its launch.

Blended ARPU amounted to PLN 35.5 in the first half of 2013 and was 11.3% lower than in the first half of 2012. The decline can be attributed mainly to regulatory voice and SMS MTR cuts as well as market price pressure, fuelled by aggressive offers of competitors.

3.1.1 Market and Competition

The mobile voice market is in the saturation phase in terms of the number of users. The number of mobile users increased by 2% since December 31, 2012 and the mobile penetration rate (among population) reached 144% at the end of June.

The three leading operators continued to lose their market share to P4. Between June 30, 2012 and June 30, 2013, their total market share decreased from 84% to 81%.

PTK Centertel's estimated market share was 27% by volume at the end of June 2013 and 28% by value in the first half of 2013.

Due to growing differences in methodology, such as different definitions of an active prepaid SIM card or different rules of recognising revenue and costs for instalment sales of terminals, positioning of the data sets presented by various operators against one another is becoming increasingly difficult.

3.1.2 Mobile Voice Services

The most important initiatives in the first half of 2013 included:

Development of the *Orange Open* convergent offer, combining mobile and fixed line products and addressing the need to use a number of different communication services, such as mobile and fixed line telephony, mobile and fixed broadband access and TV. The offer has been expanded to enable bundling of fixed and mobile voice services in order to promote sales of Orange Open to customers who do not have fixed broadband in their households. In addition, the *Orange Open Family* offer has been introduced; it provides discounts on purchases of subsequent mobile voice or broadband products by the same household.

Introduction of a new brand, *Nju.mobile*

The nju.mobile portfolio consists of a single post-paid tariff without subsidised handsets and with an innovative charging mechanism, as well as of a single pre-paid tariff based on a simple price list. Its key differentiators include low prices, no limits for calls and SMSs as well as cost control, transparency and simplicity of the offer ('no catch'), as well as an option to discontinue the service quickly (even in post-paid). The *nju.mobile* sales are carried out via the Internet only.

- In the post-paid offer, there is no subscription fee or services embedded in the subscription. The services are charged according to the price list (PLN 0.19 per minute, PLN 0.09 per SMS, PLN 0.19 per MMS and PLN 0.19 per Mb of data transfer) until the maximum amounts are reached. Hence, nju.mobile post-paid users know that the bill will never exceed the set maximum amount: PLN 29 (incl. VAT) for domestic calls, PLN 9 (incl. VAT) for SMSs/MMSs and PLN 19 (incl. VAT) for mobile Internet access. Another innovative solution is that a nju.mobile agreement is valid for 30 days only, and then automatically renewed. Thus, it can be terminated at any time, effective at the end of the current settlement period, without any penalty fees.
- To pre-paid customers, nju.mobile offers the same prices of calls and SMSs to all networks and of the Internet access as in the post-paid offer. All that is needed to start is to purchase a starter set for PLN 5 or PLN 20, or transfer a number to nju.mobile. Nju.mobile users can choose from among eight recharge amounts, which they can make by using scratch cards or Orange electronic charging. Depending on the recharge amount, the validity of the account may be extended even for over 12 months. For heavy users, nju.mobile pre-paid offers 'To Everyone' service. If activated for PLN 2, it offers unlimited calls and SMSs to all networks as well as mobile Internet access (up to 100 MB at full transfer rate) for subsequent seven days at a price of PLN 2 per day. This service can be activated repeatedly, without limitations.

Introduction of a new tariff plan in the pre-paid segment, *Smart*: It is a product dedicated to smartphone users, which combines free data packages, which are granted after a recharge of the account, with an option to purchase cost-effective pools of minutes and SMSs. Thus, it responds to the needs of customers who can take advantage of the possibilities offered by smartphones and thus generate high volume of traffic.

Introduction of an innovative solution, *Super Signal*: In this service, customers lease a small cellular transmitter (femtocell), which is connected to a modem/router with a fixed broadband connection, which guarantees an adequate 3G coverage indoors. This solution provides for good coverage in buildings where 3G coverage would otherwise be inadequate.

Introduction of a new service, *Tracker*, using the LBS (Location Base Service) technology. The service offers automatic tracking of a SIM card, even in areas where GPS is unavailable, such as tunnels, underground garages or shopping centres. As a result, positioning and tracking of business mobile phones is even more simple. Orange Tracker is a perfect solution for companies that manage a fleet of vehicles and people, e.g. transport, courier or freight companies. The service is offered in three options, depending on the size of a company: Micro / Medium / Macro Orange Tracker.

Introduction of a new solution, *Internet Extra in More for Less in Proposal for Business*: It is a business product based on K150, K450 and K900 'Beneficial' tariff plans, which provides new terminal offers, using the following solutions:

- Endless Fixed service for PLN 0;
- Data packets in voice offers;
- Elimination of on net/off net asymmetry in rates.

This all aims at making the use of Internet via a mobile terminal even more easy. To accompany the offer, Orange introduced new, more attractive price lists of terminals and customers are offered discounts on their monthly fees.

Equal rates to all mobile operators have been introduced in the 'Optimum' tariff plans, thus eliminating asymmetry in rates for calls to Play, Centernet and Mobyland.

3.1.3 Mobile Data Services

The first six months of 2013 saw a high share of Orange Free Set (subsidised tablets, netbooks or notebooks) in the sales structure; it accounted for approximately 50% of the total sales of mobile broadband services.

In addition, the *Orange Free without Terminal: Twice as Much Benefits for the Customer* offer has been launched in two options:

- Two-fold higher pool of GB in case of 12-month or 16-month loyalty agreement; or
- Two-fold lower monthly fee in case of 24-month loyalty agreement.

After the introduction of the new post-paid and 'mix' portfolio in 2012, the Smart Plan Multi (formerly *Panthera*) became particularly popular, generating growth in both new additions and retention. The Smart Plan Multi offers a large package of data transmission, in addition to minutes and SMSs, included in the subscription fee. The customers of the Smart Plan Hello and Smart Plan Mix offers are protected against unexpectedly high charges for Internet access via smartphones, as the data transfer is charged at PLN 3 for up to 1 MB, PLN 10 for up to 300 MB and PLN 20 for up to 1 GB, while data transmission above 1GB is not additionally charged for., though the speed is significantly reduced – to 16 kb/s.

In February 2013, the portfolio of 'Business Everywhere with a computer' has been enlarged to include two new packages: Orange Basic Navigation and TV Package. Thanks to this, users of tablets can quickly determine a route and reach the desired destination, as well as watch their favourite TV programmes in a convenient format. Notably, both services are free of charge for the high-end New BE Standard plan subscribers.

Major changes were introduced in H1 in the *Mobile Office Network* and *Virtual Local Network* services. New monthly fees for APN access (for a single number) were introduced and the activation and subscription fees were considerably reduced.

The usage of Internet via handsets has been stimulated by the aforementioned *Internet Extra in More for Less in Proposal for Business* offer.

3.2 Fixed Line Services

Revenue			
	For 6 months ended		
PLN million	30 June 2013	30 June 2012	Change
Fixed line revenue	3,069	3,388	-9.4%
of which narrowband	1,196	1,440	-16.9%
of which broadband, TV and VoIP	842	780	7.9%
of which enterprise solutions and networks	501	583	-14.1%
of which wholesale	530	585	-9.4%
Other revenue	305	248	23.0%

Key performance indicators			
PLN '000, unless indicated otherwise	For 6 months ended		
	30 June 2013	30 June 2012	Change
Fixed voice lines (retail)	4,902	5,326	-8.0%
Orange Open customers*	125	2	63x
3P customers (broadband, TV & VoIP)	314	151	107.9%
Fixed broadband accesses (retail)	2,317	2,344	-1.2%
TV customers	699	677	3.2%
Retail fixed voice ARPU, PLN	44.7	46.3	-3.5%
Broadband, TV and VoIP ARPU, PLN	59.9	55.2	8.5%

* Orange Open is a bundle of fixed-line and mobile services

3.2.1 Market and Competition

Fixed Line Voice Market

The fixed line penetration rate reached 23.4% of Poland's population at the end of June 2013, as compared to 24.2% at the end of June 2012. The decline is mainly attributable to growing popularity of mobile technologies, which leads to migration of fixed customers and traffic to mobile networks. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a substitute to fixed line telephony.

The aforementioned downward trend is also affecting fixed lines regulated wholesale products (Wholesale Line Rental and Local Loop Unbundling). In fact, growth is only visible in the number of VoIP lines (offered by fixed operators and CATV networks) and in the number of home zone dedicated wireless services (offered mainly by mobile operators).

Broadband Internet Access Market

According to Group's estimates, the total number of fixed broadband access lines at the end of June 2013 was up by 2.7% year-on-year. Consequently, this shows that the market grew at a slower pace than a year before (+4.7% year-on-year). The slowdown was mainly caused by the popularisation of mobile broadband access, which owing to low price seems to be a substitute of fixed broadband access. The penetration of fixed broadband services in Poland's population reached 18.6% by the end of June 2013, compared to 18.2% the year before.

According to Group's estimates, the value of the fixed broadband market in the first six months of 2013 grew by 6.2% year-on-year, versus a 5.9% increase the year before. The higher growth rate of market value, despite lower growth in volume, resulted mainly from an increase in ARPU, which was boosted by a growing popularity of higher broadband speed options.

Competitive pressure from cable television (CATV) operators has remained strong and their total market share has been steadily growing. It is estimated at 32% by volume or 30% by value (in Q2 2013), as compared to 30% by volume and 28.7% by value a year ago. The increase in CATV market share results from popularity of bundled offers, which may be effectively sold by CATV operators due to their strong position on the television market. Another important factor is growth of the broadband speeds offered by CATV operators, without raising prices, which contributes to an increase in average line speeds and raises customers' expectations in this respect.

Alternative operators, primarily Netia, still use the wholesale BSA and LLU based services. The total volume of BSA-based lines at the end of June 2013 declined by 29 thousand year-on-year, while the total of

LLU-based lines at the end of June 2013 amounted to 178 thousand as compared to 184 thousand the year before.

3.2.2 Fixed Line Voice Services

In the first six months of 2013, TP S.A. continued efforts to contain the erosion of its fixed-line subscriber base. It attempted to further increase the loyalty of its fixed voice customers, mainly through sales of *Customised Home Plans* with loyalty agreements (offer launched in Q3 2012).

On March 1, 2013, when the *No Limit Plan* was added to the portfolio, TP S.A. became the first fixed operator in the Polish market to offer a plan with unlimited F2M calls.

Currently, the fixed line voice portfolio is based on three unlimited tariff plans (enabling unlimited calls for no additional cost either 24 hours/day or in the evening/weekend option) for calls to both domestic and international fixed networks and, in the high-end plan, also domestic mobile networks.

The fixed voice service was added to the Orange Open convergent offer, which is a very significant development for the fixed voice offer. As a result, fixed line subscribers are offered a discount on monthly fees if they use TP S.A. services while simultaneously using a mobile phone or mobile broadband provided by PTK Centertel.

On May 1, 2013, TP S.A. reduced prices of Fixed-to-Mobile calls. In *Customised Plans*, the price is now at PLN 0.20 (incl. VAT) per minute, as compared to PLN 0.30 (incl. VAT) before the change. In addition, the difference in prices depending on to which mobile networks was terminating the traffic was also eliminated.

TP S.A. has continued with initiatives to loyalise customers using more than a fixed voice service. These include FunPack HD (bundle including broadband, TV and voice), offering unlimited calls to fixed line terminals in Poland, EU countries, US and Canada, as well as *Neostrada* offer with unlimited domestic fixed line calls . Since May 2013, bundled offer subscribers can purchase a pool of 3,000 minutes for F2M calls at an attractive price.

According to TP S.A.'s estimates, the Group had the following market shares:

Fixed voice market share in June 2013

	2Q 2013 (estimated)	2Q 2012	Change
Retail local access[2]	54.5%	57.5%	-3.0pp
Value market share	61.6%	64.0%	-2.4pp

In January, Orange Polska launched another unlimited offer for business customers. The *No Limit Plan* with a 24-month loyalty agreement offers unlimited local, DLD, F2M and international calls to fixed and mobile networks in zone 1 countries, for a monthly fee of PLN 79 (net of VAT).

In May, the prices of calls to all mobile networks were unified. The change, which had been agreed upon with UKE and UOKiK, was introduced as soon as possible for technical reasons. Simultaneously, in the Orange portfolio, prices for M2M calls were reduced to PLN 0.16 (net of VAT) per minute.

A new tariff plan, *No Limit*, was added to the popular Orange Open for Business offer. Customers who sign up for the *No Limit* / *No Limit to Fixed Plans*, *Business Plan for POTS* or *Business Plans for ISDN* are offered a discount of up to PLN 36 (net of VAT) per month if they simultaneously use mobile services from the *Open for Business* portfolio.

3.2.3 Fixed Line Data Services

Fixed broadband market – key performance indicators:

	30 June 2013	30 June 2012
Market penetration rate in Poland – broadband lines (in total population)	18.6%	18.2%
Total number of broadband lines in Poland ('000)	7,183	6,996
Market share of Orange Polska	32.3%	33.5%

[2] Without Wholesale Line Rental but with Orange WLR and VoIP services, which are the equivalent of subscriber lines

The first six months of 2013 saw continuation of efforts aimed at increasing the broadband speeds. The introduction of new options that are based on the VDSL technology (up to 40Mb/s and up to 80 Mb/s) was accompanied by a simultaneous decrease in prices of VDSL services.

TP S.A. continued to promote bundled offers of fixed broadband and digital TV, offered in both IPTV and DTH (satellite digital TV) technologies. In addition, the Orange Open convergent offer was expanded. It offers a monthly discount of PLN 15 in case of subscribing to fixed services of TP S.A. plus one mobile service of PTK Centertel or PLN 30 in case of subscribing to the fixed line component plus two Orange mobile services.

The sales of the bundled offer were significantly boosted by an offer that enables customers to buy a tablet for PLN 1 when signing up for *Neostrada* or FunPack HD (originally launched in 2012). This offer was improved in the first half 2013, by replacing a 7-inch tablet with a 10-inch model.

The Group continued to develop its television service portfolio, particularly in cooperation with the *n* platform (rebranded to *nc+* after the merger of ‘n’ with Canal+ Cyfrowy), which remains the key area of co-operation with the TVN Group.

The *nc+* television portfolio, which is distributed also in bundles with fixed broadband services, fully reflects the TV packages of the *nc+* platform, including channels offered under the Canal+ brand.

Orange Polska customers who use FunPack or *Neostrada* can now buy Canal+ Platinum, which is the high-end package of 128 channels provided by the *nc+* platform. Thus, they have access to full portfolio of five different packages.

Orange Polska offers a broad service portfolio for small to medium companies as well as sophisticated solutions for large corporations. The Business Package service, which has been most popular among small to medium enterprises, received a new formula on May 1, 2013. It is based on the ADSL technology, offering broadband access with download speed of up to 10 Mb/s. In addition, Orange Polska launched two attractive promotions for this service, *Small Office* and *Company Office*.

In April 2013, the latest broadband service for business, *Neostrada Business*, was added to the Orange Open for Business offer. Customers who subscribe to this service as well as to mobile services included in the Orange Open for Business portfolio are offered an attractive discount according to the convergent offer formula.

4 MATERIAL EVENTS THAT HAD OR MAY HAVE INFLUENCE ON ORANGE POLSKA'S OPERATIONS

Presented below are the key events that, in Management's opinion, have influence on Orange Polska'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.

4.1 Regulatory Obligations

Pursuant to President of UKE's decisions issued in 2007, TP S.A. was designated as an operator having significant market power ("an SMP operator") in the relevant retail markets 3 to 7 (according to the European Commission's recommendation of 2003), namely:

- market for provision of national telephone services on a fixed public telephone network to consumers (market 3/2003);
- market for provision of international telephone services on a fixed public telephone network to consumers (market 4/2003);
- market for provision of national telephone services on a fixed public telephone network to end users, except consumers (market 5/2003);
- market for provision of international telephone services on a fixed public telephone network to end users, except consumers (market 6/2003); and
- market for provision of services of part or whole of the minimum set of leased lines with capacity of up to and including 2 Mb/s (market 7/2003).

With respect to the markets 3/2003 to 6/2003, TP S.A. has an obligation to submit costing results and regulatory accounting statements to an independent audit. TP S.A. is also 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 3/2003 to 6/2003. There is ban on both underpricing (to restrain competition) and overpricing.

In August 2012, the President of UKE issued new decisions for the markets 1/2003 (retail market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to consumers) and 2/2003 (retail market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to business customers). Compared to the previous decisions, the President of UKE lifted a ban on underpricing (with respect to access services) and overpricing. In addition, TP S.A. does not have to carry out costing and regulatory accounting for these markets any more. However, an obligation to have price lists and service rules approved remains in force.

Pursuant to President of UKE's decisions, TP S.A. is currently an operator having a significant market power (SMP) in a number of the relevant wholesale markets according to the European Commission's recommendation of 2003. Consequently, it has the following regulatory obligations:

- In the domestic market for leased line terminating segment services (market 13/2003): obligation to provide other operators with telecommunications access to TP S.A.'s network, including the use of network elements and associated facilities, in order to provide leased line terminating segment services; and
- In the domestic market for leased line trunk segment services, excluding connections between 145 locations (market 14/2003): obligation to provide other operators with telecommunications access to TP S.A.'s network, including the use of network elements and associated facilities, in order to provide leased line trunk segment services.

In addition, the President of UKE has issued the following decisions designating TP S.A. as an SMP operator in the relevant wholesale markets according to the Commission's recommendation of 2007:

- In the domestic market for call origination on a fixed public telephone network (market 2/2007): obligation to enable end-user service management, offer wholesale services for the purposes of resale (WLR), provide telecommunications infrastructure and enable colocation and other forms of facility sharing;
- In the domestic market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (market 4/2007): The scope of the market was extended to include not only copper but also fibre optic loops and subloops. With respect to fibre optic loops, UKE has imposed on TP S.A. an obligation to provide conditional

access. As a consequence of the decision, on April 29, 2011 the President of UKE declared that the previous SMP decision for TP S.A. with respect to the market 11/2003 had expired;

- In the domestic market for wholesale broadband access services, excluding some local administrative units (market 5/2007). TP S.A. has been designated as an SMP operator for the whole territory of Poland except for 11 local municipalities, including the City of Warsaw. Other areas, which have been subjected to regulation, have been differentiated in terms of regulatory obligations. TP S.A. has the obligation to provide access within all areas, but in 10 rural municipalities it has no costing or equal treatment obligations. Furthermore, in 230 municipalities (less dominated by TP S.A.), the Company does not have an obligation to apply a reference offer; however, it has the obligation of equal treatment: on the same terms and conditions as in the areas where the reference offer is required. Fibre optic technology has been included into the product range of the market.

The SMP decision for the market 12/2003 is still in force and applies to 11 geographical areas (administrative units) which are not regulated pursuant to the decision for the market 5/2007. The decision will remain in force until the regulatory obligations are cancelled by a separate decision of the President of UKE. In November 2012, the President of UKE notified a draft decision recognising effective competition in the aforementioned 11 geographical areas to the European Commission. The Commission has expressed serious doubts about the draft decision, pointing to out-dated market assessment by the regulator and lack of sufficient evidence to support exclusion of these areas into a separate relevant market. On July 10, 2013 the President of UKE discontinued the proceeding on cancelling obligations in 11 geographical areas.

Pursuant to SMP decisions for the markets 2/2007, 3/2007, 4/2007 and 5/2007 as well as 13/2003 and 14/2003, TP S.A. has an obligation to charge cost-based telecommunication access fees and an obligation to carry out regulatory accounting in accordance with a manual approved by the President of UKE. The relevant regulatory statements for these markets have to be submitted to an independent audit.

Pursuant to the SMP decision for the market 12/2003 (with respect to 11 geographical areas which are not regulated pursuant to the decision for the market 5/2007), TP S.A. has an obligation to calculate costs of services and charge access fees based on the operator’s justified costs. The service costing results for these markets are subject to an independent audit.

Regulatory Obligations Related to PTK Centertel’s Market Position

On December 14, 2012, the President of UKE designated PTK Centertel as an SMP operator in the market for call termination on PTK Centertel’s mobile network and imposed the related regulatory obligations on the latter. The most important of these are the non-discrimination obligation, the transparency obligation to disclose and publish information on matters related to providing access, the obligation to provide telecommunication access and the obligation to charge rates for call termination on PTK Centertel’s network according to the time schedule set in the SMP decision (i.e. PLN 0.0826 / minute in the first half of 2013 and PLN 0.0429 / minute from July 1, 2013). Moreover, as a result of SMP decisions issued for other mobile operators, the asymmetry of mobile termination rates has been abolished and MTR rates to be charged by different operators from January 2013 have been made symmetrical.

On December 31, 2012, PTK Centertel appealed from the UKE’s decision. However, owing to the immediate enforceability of the decision, PTK Centertel has performed the obligations imposed thereon.

On December 14, 2010, the President of UKE designated PTK Centertel as an SMP operator in the market for SMS termination on PTK Centertel’s mobile network. The most important regulatory obligation is to provide SMS termination services based on costs. PTK Centertel has appealed from the decision. In its ruling of December 3, 2012, the Antimonopoly Court rejected PTK Centertel’s appeal. On December 27, 2012, PTK Centertel appealed against the ruling.

4.2 Merger of TP S.A. and PTK Centertel

On February 11, 2013, the Management Board of TP S.A. decided to merge TP S.A. with its subsidiary, Polska Telefonia Komórkowa - Centertel Sp. z o.o. (“PTK Centertel”), in which TP S.A. holds a 100% stake in the share capital and 100% of the total voting power. The merger will be effected pursuant to Article 492(1.1) of the Commercial Companies Code by transferring all assets of PTK Centertel to TP SA (merger by acquisition). The merger aims at integrating the main strengths of Orange Polska within a single entity. In particular, the merger of the two companies will contribute to:

- Strengthening the leadership position in core markets by leveraging on convergence;
- Development of the infrastructure required to offer convergent technical solutions to customers and support the expected considerable growth of data traffic;

- Further unification of customer care in coherence with the convergent service portfolio;
- Cost savings, through increase of operational efficiency, simplification and integration of processes of the merged entity.

TP S.A. and PTK Centertel are the leading suppliers of telecommunications services in Poland. In particular, TP S.A. provides fixed voice, fixed broadband, TV and VoIP services, whereas PTK Centertel provides mobile services, including third generation UMTS services and CDMA-based services. The operations of both companies are subject to regulatory controls by the Office of Electronic Communication. Both TP S.A. and PTK-Centertel are considered to have significant market power in certain markets.

4.3 Agreement on reciprocal use of Network Infrastructure and Radio Frequencies

Orange Polska (through PTK Centertel) has continued on its technical co-operation with T-Mobile Polska ("T-Mobile" – previously "PTC") based on:

- agreement on reciprocal use of radio access networks ("RAN Agreement") signed in July 2011; and
- joint venture NetWorkS! sp. z o.o. ("NetWorkS!") – in which PTK Centertel and T-Mobile hold a 50% stake each and which conducts management, planning, operations, development and maintenance of their access networks.

The works concerning base stations on co-used networks planned for the first half of 2013 were completed on schedule. Currently, over 4,500 sites transmit the signal of both operators. As a result, Orange customers in the areas where the project has been completed may now use a network which has 60% more sites than before the project. This has been reflected in a significant increase in service coverage, particularly the availability of modern mobile data transmission services based on the HSPA+DC technology, which enables data transmission at up to 42 Mb/s.

By mid-2014, the full implementation of the agreement between PTK Centertel and T-Mobile will result in a total of ca. 10,000 base stations transmitting the signal for both operators.

Upon implementation, this co-operation is expected to allow the Group to:

- Create best in class mobile networks in Poland and offer enhanced quality of service within the network footprint to improve customers' mobile experience;
- Widen its coverage area, thus supporting the delivery of new services, including mobile broadband, to a greater number of customers;
- Reduce demand for capital expenditure through maximising network efficiency and joint planning of selected new investments and network upgrades;
- Secure network quality of service through service level agreements and control over the new entity;
- Reduce network operating costs, particularly through lower total number of sites in operation; and
- Reduce the environmental impact.

PTK Centertel's co-operation with T-Mobile is limited to technical aspects and, in particular, both operators continue to compete on wholesale and retail telecommunication markets.

4.4 Co-operation between the Group and TVN

In the first six months of 2013, the Group continued to distribute its basic TV offering enhanced with content provided by TVN as well as pay-TV packages corresponding to the *n platform* offer (the distribution was originally started in 2011). In addition to distribution the 'nc+ packages' together with the *Neostrada* + TV offer, the companies (Orange Polska and TVN) have added Orange Free mobile broadband access and 'Smart Plan Multi' tariff plan to the service portfolio that is bundled with the 'n platform' offer. These are further steps in a process of implementation of the long-term framework co-operation agreement signed by the Group and TVN in October 2010.

Owing to the co-operation, both companies intend to benefit from enhanced attractiveness of the multi-play offering and up-selling potential as well as cost synergies.

4.5 Group's Activity in the area of ICT Services

Information and communication technology (ICT) is one of the key areas of development for the Group. The Group delivers ICT products and services through its own traditional sales channels and through Integrated Solutions, a wholly-owned subsidiary of the Group established in June 2011.

The first six months of 2013 saw a further development of the ICT service portfolio. New options were added to the IT for Business service, i.e. bundled offer of software, hardware and IT support (or support only). Sales of the Ultrabook Package with a professional notebook dedicated to mobile corporate users were launched in January (the package was added to the portfolio late in 2012). In April, the offer was expanded to include additional options: Tablet Package (offering a tablet with pre-installed software), and Printer Package (offering a printer with IT support) and TV Package). Since May 2013, in addition to the standard IT for Business portfolio, Orange Polska has been offering the Tablet Package with the Android system.

Orange Polska continued to offer and develop dedicated ICT solutions as well as platforms for providing ‘as a service’ products to large enterprises. The BaaS (Backup as a Service) and IaaS (Infrastructure as a Service) platforms as well as a security platform for protection against DoS / DDoS attacks were launched in the first half of 2013. Other technological domains of the solutions offered included LAN networks, IT security, corporate voice communication, unified communication and IT.

There was particular focus on solutions hosted and maintained in the Orange datacenter, starting with Unified Communication as a Service (UCaaS), whose sales were launched in 2012. Integrated Solutions, an Orange Polska Group company, is used as a sales channel for these solutions. In order to additionally strengthen its competence in the IT integration area, Orange Polska acquired a software company, Datacom System, on March 15, 2013 and commenced its integration with Integrated Solutions.

Orange Polska expects further development of commercial managed solutions in the IT infrastructure, as well as solutions which increase the ICT security of its customers.

4.6 Machine to Machine (M2M)

According to the results of the market research conducted by TNS upon Orange Polska’s request, Orange Polska achieved the leadership position in the M2M market, both by volume and by value in the first quarter of 2013. This is the effect of a consistent growth of Orange Polska’s M2M base over the recent years and the basis for optimistic outlook in this dynamically growing market.

In the first half of 2013, Orange Polska developed co-operation within the Global M2M Association (GMA). As a result it is able to provide quality services in the area covering 95% of the EU’s population and, owing to roaming agreements with other operators, worldwide.

4.7 Development of Infrastructure-based Operators in the Mobile Market

The mobile operator P4 continued rapid growth of its customer base and market position in the first six months of 2013. In an increasingly saturated mobile market, P4’s main objective has been to win customers from other operators. As a result of aggressive marketing and pricing policy, P4 has become the leader in the mobile number portability market.

4.8 Development of the 4G Technology and PTK Centertel’s Participation in a Bidding Procedure for Frequencies

Since 2011, commercial 4G services based on 1800 MHz frequencies have been provided by Cyfrowy Polsat and Polkomtel, which are both controlled by Zygmunt Solorz-Żak.

Apart from improving the operator’s image, the implementation of 4G services does not seem to be a breakthrough in the development of the broadband market, owing to its limited geographical coverage and low penetration of terminals able to benefit from 4G.
The spectrum that will enable operators to provide 4G services has been released. In February 2013, UKE completed a bidding procedure, assigning five segments in the 1800 MHz band for a period of 15 years. The frequencies are intended for urban areas. Bids had been submitted by six companies: P4, Polkomtel, PTK Centertel, Polska Telefonia Cyfrowa, Sferia and EmiTel. The bids submitted by P4 Sp. z o.o. (for 3 segments) and Polska Telefonia Cyfrowa S.A. (for 2 segments) scored highest.

In June 2013, the President of UKE issued the relevant decisions assigning frequencies from the 1729.9–1754.9 MHz and 1824.9–1849.9 MHz range to P4 and T-Mobile. Each allotment is for a 5 MHz segment to be used for provision of telecommunication services nationwide, as part of mobile or fixed radio communications, in a period ending on December 31, 2027.

P4 and T-Mobile shall start using the frequencies within 12 months after the receipt of the allotment decisions and payment of the fees declared in the bidding procedure (P4 – PLN 498 million; T-Mobile – PLN 453.5 million) to the State Treasury within 14 days after the delivery of the allotment decisions.

UKE’s plans to carry out the bidding procedure for frequencies from the 800 MHz and 2600 MHz bands in 2013–2014. These frequencies are predestined for the development of LTE coverage in sub-urban and rural areas.

4.9 Mobile Virtual Network Operators (MVNOs)

First mobile virtual network operators debuted in Poland in 2007 and their main competitive advantage has been low price of services. However, it is expected that MVNOs will modify their business strategy and focus not on price but on added value resulting from linking the mobile service with their core business, especially that the introduction of unlimited offers in the pre-paid segment by infrastructure-based operators has hindered the competitiveness of virtual operators.

According to Orange Polska's estimates, a dozen or so virtual operators operated in the market as at the end of June 2013 and their aggregate market share in Poland's mobile market was approximately 2%. Pre-paid services under the Dialog brand were discontinued as from April 30, 2013 (though post-paid services are still offered).

4.10 Nju.mobile

Nju.mobile is a new tool in the implementation of the 2013–2015 strategy, which aims to adapt Orange's marketing activity to the current market environment and maintain its leadership position. Nju.mobile is offered separately from the Orange brand. It is an price attractive alternative to all leading brands.

The main goal for the introduction of the new brand and its offer, was to attract a new group of customers, who are not interested in the current services offered by Orange. The target group for nju.mobile consists of customers, who are predominantly attracted by low prices and lack of obligations (e.g. long-term agreement or spending commitment). These are predominantly customers with low brand attachment or even clients seeking for new brands rather considering services offered by the leading mobile providers. The nju.mobile brand, with independent communication based on innovative and very simple concepts can reach these price sensitive customers (for offer characteristics please see section 3.1.2 above).

Nju.mobile can also contribute to cost optimisation. The nju.mobile post-paid offer is available exclusively on-line and is sold in the SIM-only option (i.e. without subsidised handsets). Hence, it does not involve a large portion of the traditional subscriber acquisition/retention costs, - handset subsidy cost and sales commission. Moreover, nju.mobile encourages customers to use on-line customer service and account management options (self care); customer care is not provided in Orange shops and the customer service help line is a paid service.

4.11 New Brands in the Mobile Market

Two new virtual operators launched their services in May 2013:

- Telestrada launched the White Mobile offer of mobile services. It operates as an MVNO using Polkomtel's infrastructure. The accounts can be charged using Plus network scratch cards;
- Klucz Telekom is an MVNO hosted on Polkomtel's network; its target group is immigrant communities as well as frequently travelling businessmen, students and tourists from Ukraine, Belarus, Russia and other CIS countries.

Vectone Mobile is another international virtual operator. Vectone Mobile will operate on T-Mobile's network in the Full MVNO model. The offer presented by the operator is focused on cheap domestic and international calls. Currently, Vectone Mobile operates in Austria, Denmark, Finland, the Netherlands, Portugal, Sweden and the UK, with France and Belgium to follow soon.

4.12 CATV Operators

Despite the growing market saturation and the launch of terrestrial digital TV, CATV operators, who hold an total share of approximately 40% in the pay TV market and control one third of the broadband market, attempt to strengthen their market position as providers of not only TV, broadband and voice services, but also entertainment. This leads to the growing customisation of content and the development of services on demand, such as IPTV, HD channel portfolio, music and video-on-demand. Since usage of such services can contribute to the growing demand for higher broadband capacities, CATV operators continuously modernise and expand their networks and, more and more frequently, they also lease third party's fibre-optic lines.

The CATV operators, which operate in Poland's biggest cities and make use of the technological potential of their infrastructure, often offer higher broadband speeds or increased scope of services within a package without increasing the service price.

Further consolidation of Poland's fragmented cable TV market is expected in 2013. UPC, Multimedia Polska, Vectra and Inea have all announced their acquisition potential.

4.13 Infrastructure Development

By the end of June 2013, TP S.A. introduced services based on the VDSL technology in almost 3,000 sites, which provide services to over 56% of *Neostrada* and DSL Internet Access services.

At the same time, migration of the aggregation network from ATM to the IP standard was continued. As a result, by the end of June 2013 approximately 64% of *Neostrada* customers were handled using access nodes connected via the IP aggregation network.

In a pilot implementation of FTTx technology, TP S.A. developed a network reaching 143,000 residential and business premises. By the end of June, TP S.A. had offered the cutting-edge services based on fully fiber-optic access to residents of 9,567 apartments in 92 buildings.

As the pool of IPv4 addresses had been exhausted, a new architecture of the *Neostrada* service, handling IPv6 addressing, was developed in the first half of 2013. The new architecture enables Orange customers to use both protocols, IPv4 and IPv6.

At the same time, a new generation gateway for the xDSL/FTTH technology, LiveBox 3.0, has been introduced. It implements broadband, VoIP, TV and VoD services.

As part of the development of the transport infrastructure, the capacity of the IP backbone network was increased in the first half of 2013, reaching the transfer rate of over 450 Gb/s with protection mechanisms. In consideration of the growing traffic, the transmission equipment has been prepared to set up connections at 100 Gb/s on the backbone network.

A new platform, DDoS Protection, has been added to the IP/MPLS network. It provides a DDoS protection service for Orange Polska customers on a commercial basis.

PTK Centertel has also expanded the coverage of its UMTS/HSPA services. As a result of efforts to maintain the stability of its CDMA network, as of the end of June 2013 PTK Centertel continued to provide this service with the maximum capacity of the Evdo Rev. B Phase I standard network, while offering Orange customers the maximum speed of 9.3 Mb/s from each of 802 CDMA sites (2,379 sectors).

In the ongoing process of consolidation of the mobile network, developed jointly with T-Mobile, a total of 151 out of 362 clusters, covering 57% of Poland's territory, were consolidated by the end of June 2013. As a result, the UMTS/HSPA co-used networks covered approximately 73,7% of Poland's population as of the end of June 2013. (see also section 4.3)

Moreover, in the first six months of 2013, TP S.A. provided further 1,111 fiber-optic leased lines for PTK Centertel and 90 lines for T-Mobile - for connecting co-used networks of the consolidated mobile access networks. In order to do so, the Company commissioned 36 new nodes of its multi-service aggregation network, enhanced 107 existing nodes and constructed 176 new nodes of its teletransmission network. PTK Centertel completed, the migration of almost 19 million subscribers to the new ngHLR (New Generation Home Location Register) platform, as well as the migration of FIX and MVNE subscribers in the Prepaid Swap project.

4.14 Claims and Disputes, Fines and Proceedings

Please see Note 10 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for detailed information about material proceedings and claims against Group companies as well as fines imposed thereon, particularly an appellate procedure against a fine imposed by the European Commission.

4.15 Cost Calculation Results

Under the regulatory obligations resulting from having significant market power in the relevant markets for bitstream access (market 12/2003) and retail services (markets 3/2003 to 6/2003), in 2013 TP S.A. has an obligation to carry out costing of services covered by the aforementioned markets for 2014, and submit the results thereof to an independent auditor selected by UKE. In addition, TP S.A. has an obligation to prepare regulatory accounting statements for 2012 and submit them to an independent audit.

In performance of its regulatory obligations, TP S.A. submitted a manual for drawing up regulatory statements for 2012 as well as descriptions of service costing for 2014, including changes proposed by TP S.A., for the President of UKE's approval. The President of UKE accepted these changes and on May 31, 2013 issued a decision approving TP S.A.'s service costing description and regulatory reporting manual.

On May 31, 2013, the President of UKE called upon Ernst&Young Audit sp. z o.o. to audit TP S.A.'s service costing for 2014 and regulatory accounting statements for 2012. The audit will end on August 6, 2013 with the submission of the audit report together with the auditor's opinion to the President of UKE and TP S.A.

Court proceedings regarding costing descriptions and regulatory reporting manuals are pending.

On January 28, 2010, the President of UKE issued a decision on TP S.A.'s service costing descriptions for 2011 and regulatory reporting manual for 2009. This decision imposed on TP S.A. an obligation to carry out wholesale service costing on the avoided-cost basis. In TP S.A.'s opinion, the wholesale service costing methodology imposed by UKE is inconsistent with both EU and Polish regulations. On February 11, 2010, TP S.A. applied for the re-examination of the case by the President of UKE, but on May 4, 2010 the President of UKE issued a decision upholding the previously defined costing methodology. On June 2, 2010, TP S.A. filed a complaint against the aforementioned decision of the President of UKE with the Regional Administrative Court. The Court did not share TP S.A.'s point of view and rejected its complaint on December 1, 2010. On March 10, 2011, TP S.A. filed a cassation appeal against the Regional Administrative Court's ruling with the Supreme Administrative Court. The latter dismissed the appeal in its ruling of September 25, 2012.

Similar court proceedings were initiated in 2009 with respect to costing descriptions for 2010 and the regulatory reporting manual for 2008. On March 30, 2010, the Regional Administrative Court rejected TP S.A.'s complaint against the President of UKE's decision approving service costing descriptions for 2010 and the regulatory reporting manual for 2008. Consequently, on December 14, 2010, TP S.A. filed a cassation appeal against the Regional Administrative Court's ruling with the Supreme Administrative Court. On April 5, 2012, the Supreme Administrative Court cancelled the Regional Administrative Court's ruling and transferred the case back for re-examination. On March 19, 2013, the Regional Administrative Court cancelled the President of UKE's decision being the subject of appeal and the preceding decision, and declared that they were not to be implemented. By the date of this report, the Regional Administrative Court had not presented the grounds for its ruling in writing.

4.16 Functional Separation

On October 22, 2009, TP S.A. and the President of UKE signed a Memorandum of Understanding, under which the President of UKE decided to suspend works on the functional separation of TP S.A.

In 2009, functional separation was included into the EU regulatory framework. However, it is a non-standard obligation and its imposition requires a prior acceptance procedure. Member states should have implemented the package within eighteen months. The European Commission holds that implementation of functional separation and its imposition on an SMP operator shall be considered only after careful market analysis, provided that other remedies have clearly failed to establish effective competition and prospectively will fail to do it in the future. Therefore functional separation shall be only regarded as a last resort remedy. A decision by the President of UKE on imposing extraordinary measures, such as functional separation, can be made only based on agreement from the European Commission. TP S.A. would have a right to appeal from such a potential decision.

On November 16, 2012, the Polish Parliament passed an amendment to the Telecommunication Law, implementing to the Polish law a new package of directives (revised in 2009), which regulates a procedure for the imposition of the functional separation obligation.

On November 13, 2012, the President of UKE decided to discontinue two sets of proceedings initiated on January 6, 2009, which UKE viewed as potentially leading to a functional separation of TP S.A., namely proceedings to designate TP S.A. as an SMP operator in the market for unbundled access to the local loop (equivalent of the market 11 of the European Commission's recommendation on the relevant markets of 2003) and impose the relevant regulatory obligations as well as proceedings to designate TP S.A. as an SMP operator in the bitstream access market (equivalent of the market 12 of the Commission's recommendation of 2003) and impose the relevant regulatory obligations. According to the reasons specified in the decisions, both sets of proceedings were discontinued as pointless in the wake of decisions issued for the market 4 and market 5.

4.17 Memorandum of Understanding with UKE

On October 22, 2009, the Presidents of TP S.A. and the Office of Electronic Communications ("UKE") signed a memorandum of understanding ("MoU") for the implementation of transparency and non-discrimination procedures in inter-operator relations. Pursuant to MoU, TP S.A. was to implement a number of technical, organisational and process solutions ("Chinese Walls") to assure non-discrimination with respect to regulated services, that is equal treatment of alternative operators vs. TP S.A.'s retail arm and Group companies. In addition, TP S.A. was to invest in adding or upgrading 1.2 million broadband access lines in both urban and rural areas. The President of UKE declared freezing wholesale rates at the level resulting from the then effective reference offers till the end of 2012.

In the first half of 2013, TP S.A. completed all its investment commitments declared in MoU as modified by the Steering Committee on January 30, 2012. It has built a total of 1,290,289 broadband lines (against the target of 1.2 million), including 239,655 lines of capacity of 30 Mb/s or higher (against the target of 220,000). The new lines of capacity of 30 Mb/s or higher include 143,174 FTTx fiber-optic lines.

On May 15, 2013, an audit of the fulfilment of TP S.A.'s investment declaration was completed. In the auditor's opinion, TP S.A. has fulfilled almost all conditions. Among the three scopes: rural areas, the small to medium town segment and big cities it has failed to meet the MoU conditions only with respect to investment targets in the small to medium town segment. At the same time, the auditor has stated that the shortage of investments in small to medium towns (49.3 thousand lines) has been offset by investment surplus in rural areas (34 thousand lines) and significant investment surplus in big cities (106 thousand lines), higher than planned number of FTTx lines as well as that fact that the overall investment target of 1.2 million lines has been exceeded by 8%.

During execution of MoU, its implementation was verified by an external auditor on a quarterly basis. In addition, TP S.A. delivered monthly reports to the President of UKE, describing progress in the implementation of MoU. These reports were published by UKE on its website. In the first half of 2013, two last reports on the implementation of MoU by TP S.A. were delivered to the President of UKE (on January 15, 2013 and May 15, 2013, respectively).

In addition, TP S.A. requested an independent auditor to verify (in line with expectations and in agreement with the UKE) the performance of its obligations specified in MoU. The final report on the MoU implementation was completed on June 27, 2013. The report summarised the overall implementation (over 3 years) of individual commitments throughout the term of the MoU. In the auditor's opinion, TP S.A. has fulfilled its commitments, implementing an efficient environment for business relations with alternative operators and implementing investment declaration. The auditor reported only remarks regarding the implementation of the investments in broadband lines in small to medium towns. However, the targets for big cities and rural areas have been greatly exceeded and the overall target (1.2 million lines) has been achieved. The report was submitted to UKE on July 1, 2013.

4.18 Compensation for Universal Service Costs

In 2012, the Regional Administrative Court rejected TP S.A.'s complaints against the President of UKE's decision of 6 September 2011 regarding compensation of the net cost deficit for the years 2006, 2007, 2008 and 2009. TP S.A. has filed cassation appeals with the Supreme Administrative Court with respect to the aforementioned rulings of the Regional Administrative Court.

On June 30, 2011, TP S.A. filed an application with UKE for compensation of PLN 269 million for 2010. On January 10, 2012, the President of UKE issued a decision on the net cost deficit for 2010, granting TP S.A. compensation of PLN 55,1 million. Then, on April 11, 2012, having reviewed TP S.A.'s request for the re-examination of the case, the President of UKE upheld his decision. On May 15, 2012, TP S.A. filed complaints with the Regional Administrative Court against the President of UKE's decisions of April 11, 2012 and January 10, 2012. The Court has not decided the case yet.

On June 29, 2012, TP S.A. filed an application with UKE for compensation of the net cost deficit for the period from January 1, 2011 to May 8, 2011 in the amount of PLN 33,8 million. In the course of administrative proceedings, the Net Cost Components were audited by an independent auditor, who submitted his opinion (without reservations) together with the audit report to the President of UKE. On April 5, 2013, the President of UKE refused to grant compensation of the net cost deficit for the January 1, 2011 to May 8, 2011 period. TP S.A. has requested the re-examination of the case and the relevant proceedings are pending.

The compensation is paid pro rata by all the operators (including TP S.A. and PTK Centertel) with revenues of more than PLN 4 million in the year for which the compensation is due. The President of UKE will determine by way of individual decisions the share of particular operators in the compensation to be paid to the Company.

With regards to some operators, TP S.A. has reached an agreement regulating the issue of mutual settlements on the account of the universal service obligation.

In the second half of 2011, the President of UKE initiated four sets of proceedings to determine the share of particular operators in the compensation for the years 2006, 2007, 2008 and 2009. On May 10, 2012, the President of UKE initiated similar proceedings concerning compensation for 2010. All these proceedings are pending.

5 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

5.1 Market Outlook

According to Group's estimates, the value of Poland's telecommunication market decreased by 3.9% in the first six months of 2013 as compared with previous year. The main factors contributing to the decline were an MTR reduction and a decrease in roaming fees. The market was also negatively affected by the launch of offers with unlimited SMSs/MMSs and calls to all networks in Q2 2012. There is still a downward trend in the fixed-line voice market.

Growing popularity and availability of smartphones as well as tablets and other units that use mobile Internet access is a new, visible trend in the mobile segment. Customers are offered higher speeds and data transfer volumes for a lower price, which positively affects the segment growth. No offers with unlimited data transfer have been launched by mobile operators so far.

Expected market trends include further bundling of telecommunication services with television and entertainment as well as growing importance of services based on the 4G technology. Major developments in the business market will include combining telecom offers with ICT offers as well as growth in the machine-to-machine (M2M) segment. The negative effect of MTR reductions is expected to intensify in the second half of 2013, as a result of the MTR reduction to PLN 0.04 / minute as from 1 July 2013.

The process of consolidation of the industry is expected to continue in 2013. Both Deutsche Telekom and Netia are carrying out due diligence audits of GTS Central Europe. Meanwhile, the sale of TK Telekom was suspended for six months in order to adjust the company's structure to the investors' expectations.

5.2 Orange Polska's Strengths

Orange Polska operates in an increasingly challenging market. Due to fierce competition and the market structure, actions taken by the Group need to be determined and consistent. The ability to adapt to the existing conditions and respond to new market trends results from a number of Orange Polska's strengths, the most important of which are as follows:

- Market's broadest portfolio of mobile and fixed line services;
- Cost-effective bundles of telecommunication services;
- Market's broadest bundle of services within a single offer (Orange Open);
- Unique portfolio, which includes services from outside the core telecommunication sector (multimedia, e-health, e-insurance, smart home and dedicated applications);
- recognised brand in telecommunications services market;
- Innovative b-brand mobile offer (under the nju.mobile brand);
- Largest coverage of telecommunication network in Poland;
- The ability to build and develop strategic alliances (e.g. with T-Mobile and nc+);
- Poland's largest sales network, enabling professional customer service during and after sales; simultaneously, modern distribution channels, particularly on-line, are being developed;
- High recognition of CSR activities, including projects carried out by the Orange Polska Foundation;
- Active participation in building the information society through various initiatives, including development of the telecommunication infrastructure in the areas at risk of digital exclusion;
- Broad international co-operation and access to know-how of TP S.A.'s partners from the Orange Group (previously France Telecom), including use of the Buy-In company (a joint venture of France Telecom and Deutsche Telecom) as well as close co-operation and R&D experience sharing within the Orange Labs network;
- One of Poland's top ten employers in 2013 (according to the CRF Institute);
- Experienced workforce and well-developed work assessment and competence development system.

Owing to these strengths, Orange Polska is the sole provider of an integrated offer and value-added services for telecommunication products nationwide. The Group is able to provide its customers with offers which match their needs, while effectively responding to actions of its rivals.

5.3 Orange Polska's Medium Term Action Plan

The Group's action plan aims at strengthening its leadership in core market segments and developing new markets and value-added services, while preserving Orange Polska's financial standing and revenues. The Group will flexibly respond to changing customer needs, offering an attractive range of services and solutions to accompany customers in their everyday life. It means the following efforts:

- To reinforce a leadership position in Group's core markets, by leveraging on the convergence concept in order to maximise the potential of its existing and future customer bases, by providing its customers with convergent products and services, including both fixed and mobile components, offered at attractive prices and delivered via a convergent sales and distribution network;
- To systematically develop convergent infrastructure required to offer cutting-edge technological solutions to customers;
- To provide for rapid growth of value-added services (multimedia, cloud, smart home, etc.), which contribute to an increase in data transmission volume and revenue;
- To adjust its solutions and services to customer needs in order to become the telecommunication (fixed and mobile) service provider of choice;
- To continue to develop a new portfolio for business customers in the Information and Communication Technology (ICT) market, particularly through the dedicated company, Integrated Solutions;
- To improve and unify its customer care, in coherence with the convergent service portfolio;
- To develop an even stronger sales network by leveraging on convergent customer databases and also by developing remote sales channels which increase the offer availability;
- To continue the cost savings and transformation programme, aimed at reducing the cost base and increasing operating efficiency;
- To adjust its recurring capital expenditure to the challenging environment, optimising the allocation of capital expenses while acquiring the spectrum needed for the future growth.

Strategic vision for 2013–2015:

customer customer-oriented, total telecom solutions	**our commitments** – sign up half of our contract customers to convergent products, like Orange Open – compete with solutions that offer better services and better value to customer (e.g. Orange Open Family, 100 ways to save with Orange) – single, convergent sales network – seamless "Orange Care" customer service operation
convergence anytime, anywhere services, convenient and technology-transparent	**our commitments** – full legal merger of fixed and mobile businesses – coherent service for >20 million customers – maximise sales of product bundles and convergent solutions
connectivity seamless connectivity experience on a convergent network with wide coverage	**our commitments** – extend very high broadband (VHBB) network to 4 million homes – extend 4G coverage to over 90% and 3G coverage to 80% of population – ensure seamless switching between networks – improved customer experience
capital selective investments and a sound balance sheet	**our commitments** – long-term capex target 12-13% of sales (excl. spectrum) – 2013 capex below PLN 2 billion (excl. spectrum) – selective network investments to enable revenue-generating data traffic, including spectrum to launch 4G services – in the long term, net gearing maintained below 40% and net debt to EBITDA at maximum 1.5x
cost efficiency flexible cost base and an effective business model	**our commitments** – social plan to reduce headcount by 1700 in 2013 and reduction in the number of managerial positions – reduction in the number of low performing shops and growth in share of online sales – network sharing to decrease our yearly operating cost base , coupled with significant capex avoidance – reduction of G&A costs made possible by the merger of TPSA with PTK Centertel – study of options, including partial outsourcing, for the fixed network and IT activities – sale of non-core subsidiaries including Wirtualna Polska

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

6 CHANGES IN THE GROUP'S STRUCTURE IN THE FIRST HALF OF 2013

6.1 Changes in the Corporate Structure of TP S.A.

A new position of Executive Officer in charge of Development, reporting directly to the President of TP S.A.'s Management Board, was established in June 2013. The business units operating within the Development function will be determined in the third quarter of 2013.

In February 2013, the Management Board of TP S.A. adopted a resolution on the implementation of a compliance programme and appointment of the Orange Polska Chief Compliance Officer. Pursuant to the resolution, the Orange Polska Chief Compliance Officer and the Orange Polska Compliance Officer were appointed. The latter manages the Compliance Management Office, a new business unit responsible for compliance management at Orange Polska.

The tasks of the new business unit include assurance of an effective non-compliance risk management system, risk identification, incident monitoring and implementation of corrective actions. Compliance management focuses on non-compliance risks that may in particular affect the following areas: ethics, anti-corruption, security, anti-fraud, adherence to the laws and regulations.

6.1.1 TP S.A. Management Board

As of June 30, 2013, the Management Board is composed of five Members, who have been assigned the direct supervision over the following Company's matters:

- President of the Management Board;
- Vice President of the Management Board in charge of Marketing and Strategy;
- Vice President of the Management Board in charge of Operations;
- Management Board Member in charge of Finance, and
- Management Board Member in charge of Human Resources.

- Mr. Maciej Witucki (born 1967) graduated from the Electrical Department of the Poznań Technical University in 1991. Between 1992 and 1997 he completed post-graduate studies in industrial system management at Ecole Centrale, Paris (France). He started his professional career at Ecole Centrale, Paris, where he specialised in operations research and decision support. In September 1997 he began working for Cetelem Bank: first in France, where he took part in the development of a business plan for Cetelem's Polish subsidiary; then in Poland, as a Member of the Management Board of Cetelem Polska Expansion S.A. In October 2001 he joined the Credit Agricole Group and in 2002 he became a Member of the Management Board of Polish retail bank LUKAS S.A., rising to the position of the Vice President responsible for consumer loans division, and then the President and CEO of LUKAS Bank S.A. in March 2005. In November 2006, Mr. Maciej Witucki joined TP S.A. as President of the Board and Chief Executive Officer. He has also been the President of the French Chamber of Commerce and Industry in Poland since 2010.
- Mr. Vincent Lobry (born 1955) joined France Telecom in 1979 as a systems and network management engineer. He worked for FT in Indonesia, then in the US (until 1994) and Spain and Italy (until 2003). Mr. Lobry managed Business Teams in the B2C/B2B Marketing Divisions to January 2006, when he was appointed B2C Marketing Director at FT France. From September 2007 he served as B2C (Home and Mobile) Marketing Director at FT France. He is a Knight of the Order of Merit and a graduate of École Polytechnique and École Nationale Supérieure des Télécommunication (Telecom ParisTech). He joined TP S.A. Management Board in September 2009.
- Mr. Piotr Muszyński (born 1963) graduated from the Faculty of Law and Administration at the University of Wrocław, completed Postgraduate Study in Management at the Polish International Business School and the Advanced Management Program organised by IESE Business School, University of Navarra. He started his career in 1990 in Eastern Europe Investment Ltd (EEI) as a Partner and Project Manager responsible for strategy, marketing and business development. From 1993 he was employed in REMA 1000 Poland Ltd. as Managing Director and Member of the Management Board and from 1999 to 2001 as President of the Management Board. In parallel, in 1996-1998 he was a Member of the Management Board of Intersport Poland, taking part in the incorporation and launch of the company. He joined TP S.A. in 2001, holding the position of Director of Customer Care Branch. In 2005 he was assigned to the position of Director of Sales and

Services Division. He has been a Member of the Management Board since 2008 and a Vice-President since 2009.

- Mr. Jacques de Galzain (born 1958) graduated from Bordeaux University in 1981 and qualified as a Certified Accountant in 1989. After 9 years spent in audit firms, from 1991 to 2000 he worked for USINOR, where he held several accounting positions. In 2000-2001 he worked for ALSTOM as Deputy Chief Accounting Officer. From the end of 2001 until 2005 he was Vice President Finance of "High Voltage Products" business in ALSTOM T&D, sold to AREVA Group early 2005. He was then appointed Vice President Finance of the "FCI Automotive division" subsidiary of AREVA. In both cases he was a member of the Management Committee. He joined France Telecom – Orange in March 2006 as Group Chief Accounting Officer, head of the financial information system. In December 2009 he joined Orange Polska as Group Director in charge of Accounting and PTK Centertel Management Board Member in charge of Finance, and he was appointed Chief Financial Officer in January 2011.
- Mr. Jacek Kowalski was born in 1964. Since January 2011, he has been the Management Board Member in charge of Human Resources. Mr Kowalski has worked for the Group for over 10 years. From November 2009 he served as the TP Executive Director in charge of human resources. Mr Kowalski joined the Group in 2001 as Human Resources Manager for sales and marketing in PTK Centertel. From 2005 he was the Director of Employee Competence and Development Management Branch. In 1989 he graduated from the History Faculty of the Warsaw University before moving on to postgraduate studies in local government and non-governmental organisation management also at the Warsaw University, which he completed in 1996. Before joining the Group, he was the Director of the Entrepreneurship and Human Resources School in Infor Training (Infor Media Group) and served as Director of the National In-Service Teacher Training Center, responsible for the implementation of training programmes supporting the development of education in Poland. Jacek Kowalski is a member of the Programme Board of the Polish Human Resources Management Association.

6.1.2 TP S.A.'s Business Units

The total number of business units within TP S.A.'s organisation changed slightly.

As of June 30, 2013, TP had 59 business units, reporting directly to:

1) President of TP Management Board: 1 business unit;

2) Vice President of the Management Board in charge of Marketing and Strategy: 8 business units;

3) Vice President of the Management Board in charge of Operations: 10 business units;

4) Management Board Member in charge of Finance: 8 business units;

5) Management Board Member in charge of Human Resources: 9 business units;

6) Executive Officer in charge of Sales and Customer Service: 6 business units;

7) Executive Officer in charge of Corporate Matters: 8 business units;

8) Executive Officer in charge of Service Centre: 6 business units; and

9) Executive Officer in charge of Customer Relations Strategy: 3 business units.

6.1.3 Group's New Premises

On December 22, 2009, TP signed an agreement with Bouygues Immobilier Polska for the development and lease of new premises. The new location, a low rise and energy efficient complex of buildings in proximity of the city centre, will be able to host approximately 3,300 employees. A procedure for the technical acceptance of the Orange Campus is going on and should be completed within the contractual deadline in July 2013. According to the schedule, tenants are to move to the Orange Campus facilities in September and October 2013. The lease period will be ten years, with extension options secured.

The Orange Campus, developed as a lease project, was initially owned by the French developer Bouygues Immobilier (BI). Orange Polska, which has hired the developer to erect the complex and signed an agreement for the lease thereof, has decided not to exercise its right of first purchase. The whole project has been purchased by Qatar Holding LCC, a subsidiary of Qatar Investment Authority. For the Group, the existing mutual obligations agreed upon with the developer remain binding.

6.1.4 Changes in the Structure of TP S.A.'s Subsidiaries

There were no major organisational changes in TP S.A.'s subsidiaries in the first half of 2013.

6.2 Ownership Changes within the Group in the First Half of 2013

6.2.1 Acquisition of Datacom System S.A. by TP S.A.

On March 15, 2013, TP S.A. purchased all shares of Datacom System S.A.

6.2.2 Changes of Equity in Group Companies

Integrated Solutions sp. z o.o.

On April 2, 2013, the Extraordinary General Assembly increased the share capital of Integrated Solutions sp. z o.o. from PLN 7,500,000 to PLN 20,473,000, i.e. by PLN 12,973,000, through issuance of 25,946 shares of the nominal value of PLN 500 each. All the new shares have been acquired by TP S.A. against a contribution in kind of 500,000 shares of Datacom System S.A., totalling PLN 12,973,000.

6.3 Parent Company's Shareholders

As of June 30, 2013, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital based on information available on June 30, 2013 was as follows:

Shareholder	Number of shares held	Number of votes at the General Assembly of TP S.A.	Percentage of the total voting power at the General Assembly of TP S.A.	Nominal value of shares held (in PLN)	Interest in the Share Capital
Orange SA (previously France Telecom SA)	664,999,999	664,999,999	50.67%	1,994,999,997	50.67%
Other shareholders	647,357,480	647,357,480	49.33%	1,942,072,440	49.33%
TOTAL	1,312,357,479	1,312,357,479	100.00%	3,937,072,437	100.00%

As of June 30, 2013, Orange (previously France Telecom SA) held a 50.67% stake in the Company. Orange has the power to appoint the majority of TP S.A. Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

As of June 30, 2013, the Company has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

On October 27, 2011, the Company began the execution of a programme of the buy back of the Company's own shares for the purpose of their redemption. In line with the authorisation granted by the Extraordinary General Meeting held on October 13, 2011, the programme was to be carried out until the total amount of funds utilised for its execution reached PLN 800,000,000, but not later than December 31, 2012. TP S.A. Management Board was informed by France Telecom S.A. (now Orange S.A.), the reference shareholder of the Company, that France Telecom did not intend to participate in the programme. On November 27, 2012, in line with the authorisation granted in clause 1.7.a of the Resolution no. 3 of the Extraordinary General Assembly of Telekomunikacja Polska S.A. dated October 13, 2011 on authorisation for the Management Board to buy back the Company's own shares for the purpose of their redemption, the Management Board of TP S.A. passed a resolution, after receiving a positive opinion of the Supervisory Board, concerning the Program termination at PLN 400 million. On June 18, 2013, the Court redeemed 23,291,542 treasury shares pursuant to the General Assembly's resolution no. 30 dated April 11, 2013.

TP S.A. did not issue any employee shares in 2013, but an Incentive Programme for the Key Managers was launched in 2007 (for more information please see section 7.2.2).

7 GROUP'S STRUCTURE AS OF 30 JUNE 2013

Please see Note 1.2 to the IFRS Consolidated Financial Statements for the description of the Group's organisation.

7.1 Corporate Governance Bodies of the Parent Company

I. The composition of the Management Board did not change in the first half of 2013

Composition on January 1, 2013 and June 30, 2013:

1. Maciej Witucki - President of the Board
2. Vincent Lobry - Vice President of the Board
3. Piotr Muszyński - Vice President of the Board
4. Jacques de Galzain - Board Member
5. Jacek Kowalski - Board Member

On April 12, 2012, Mr. Vincent Lobry was appointed by the Supervisory Board as Vice President of the Management Board for Marketing for another term of office.

II. Composition of the Supervisory Board and its Committees and changes thereof in the first half of 2013

Composition on January 1, 2013:

1. Prof. Andrzej K. Koźmiński - Chairman and Independent Board Member
2. Benoit Scheen - Deputy Chairman and Chairman of the Strategy Committee
3. Marc Ricau - Board Member and Secretary
4. Timothy Boatman - Independent Board Member and Chairman of the Audit Committee
5. Dr. Henryka Bochniarz - Independent Board Member
6. Thierry Bonhomme - Board Member
7. Jacques Champeaux - Board Member
8. Dr. Mirosław Gronicki - Independent Board Member
9. Sławomir Lachowski - Independent Board Member
10. Marie-Christine Lambert - Board Member
11. Pierre Louette - Board Member
12. Gérard Ries - Board Member
13. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee

On April 11, 2013, the mandates of Messrs. Thierry Bonhomme, Jacques Champeaux, Mirosław Gronicki and Marc Ricau expired.

On the same day, Messrs. Eric Debroeck, Mirosław Gronicki, Gervais Pellissier and Marc Ricau were appointed by the Annual General Assembly as Members of the Supervisory Board.

Composition on June 30, 2013:

1. Prof. Andrzej K. Koźmiński - Chairman and Independent Board Member
2. Benoit Scheen - Deputy Chairman and Chairman of the Strategy Committee
3. Marc Ricau - Board Member and Secretary
4. Timothy Boatman - Independent Board Member and Chairman of the Audit Committee
5. Dr. Henryka Bochniarz - Independent Board Member
6. Eric Debroeck - Board Member
7. Dr. Mirosław Gronicki - Independent Board Member
8. Sławomir Lachowski - Independent Board Member
9. Marie-Christine Lambert - Board Member
10. Pierre Louette - Board Member
11. Gervais Pellissier - Board Member
12. Gérard Ries - Board Member
13. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee

At present, TP S.A. has six independent members on the Supervisory Board, namely: Prof. Andrzej K. Koźmiński, Timothy Boatman, Dr. Henryka Bochniarz, Dr. Mirosław Gronicki, Sławomir Lachowski and Dr. Wiesław Rozłucki.

Composition of the Committees of the Supervisory Board on June 30, 2013:

The Audit Committee

1. Timothy Boatman – Chairman
2. Marc Ricau
3. Sławomir Lachowski
4. Marie-Christine Lambert

The Audit Committee is chaired by Mr. Timothy Boatman, an independent Member of the Supervisory Board. He has relevant experience and qualifications in finance, accounting and audit.

The Remuneration Committee

1. Dr. Wiesław Rozłucki – Chairman
2. Benoit Scheen
3. Marc Ricau
4. Sławomir Lachowski

The Strategy Committee

1. Benoit Scheen – Chairman
2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Dr. Mirosław Gronicki
5. Gérard Ries

Prof. Andrzej K. Koźmiński, Chairman and Independent Board Member, and Mr. Timothy Boatman, Independent Board Member and Chairman of the Audit Committee, participate in the meetings of the Strategy Committee on a permanent basis.

7.1.1 TP Shares Held by Persons Who Manage or Supervise TP S.A.

As of June 30, 2013, Maciej Witucki, President of the Management Board, held 4,000 shares in the Company.

Other members of the Management Board or Supervisory Board did not hold TP S.A. or related entities' shares as of June 30, 2013.

As part of the Company's incentive program, members of the Management Board of the Company acquired TP S.A. registered A-series first option bonds, giving the right to subscribe for the Company's shares with priority over existing shareholders.

The number of first option bonds held by members of the Management Board of the Company on June 30, 2013 was as follows:

Maciej Witucki	305,557
Piotr Muszyński	190,896
Jacek Kowalski	25,241

The members of the Supervisory Board of TP S.A. do not participate in the Company's incentive program and as at June 30, 2013 held no first option bonds.

7.1.2 General Assembly

On April 11, 2013, the Annual General Assembly of TP approved a dividend of PLN 656 million (i.e. PLN 0.5 per share). A total of 1,312,357,479 shares were eligible for dividend, while 23,291,542 shares were not subject to dividend payment, as these were treasury shares bought back for the purpose of redemption (see section 6.3 above). The dividend, net of withholding tax, was paid on July 11, 2013.

7.2 Workforce

As of June 30, 2013, Orange Polska employed 21,577 people (in full-time equivalents), which is a decrease of 7.8% compared to the end of June 2012.

The workforce reduction (year-on-year) resulted from a decrease in TP S.A. (by 787 employees), OCS (143 employees), Ramsat (123 employees), PTK Centertel (67 employees), Exploris (51 employees) and Contact Center (267 employees).

TP S.A.'s workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2012-2013. Pursuant to the Social Agreement, in the first six months of 2013, a total of 739 employees left TP S.A., 96% of which under the voluntary departure programme. Severance pay was paid to 455 departing employees and averaged PLN 66.4 thousand per employee in the first half of 2013.

The voluntary departure programme was also effected in Orange Customer Service (OCS). In line with agreements reached in 2013 between the Management Board of OCS and trade unions, a total of 360 people left the company in the first six months of 2013, out of which 90% on a voluntary departure basis. Severance pay was paid to 68 departing employees and averaged PLN 32.3 thousand in the first half of 2013. Voluntary departures at OCS were effected on the same terms as at TP S.A.

An agreement between the Management Board and trade unions was also reached in 2013 at PTK Centertel. A total of 37 employees left PTK Centertel in the first six months of 2013. Severance pay averaged PLN 32.6 thousand. Voluntary departures at PTK Centertel were effected on the same terms as at TP S.A.

The provision for employment termination expenses at TP S.A. after discount and utilisation was PLN 49.1 million as of the end of June 2013 and accounted for the continuation of the voluntary departure programme at TP S.A. in 2013. As of the end of June 2013, the provision for employment termination expenses at OCS and PTK Centertel was PLN 22.8 million and 1.3 million, respectively, and accounted for the continuation of the voluntary departure programme in 2013.

In the first half of 2013, external recruitment in Orange Polska totalled 464 positions. External recruitment was mainly related to sale positions and customer service staff.

7.2.1 Social Agreement

A new Social Agreement for the years 2012–2013 concluded by the Management Board of TP S.A. with trade unions has been effective since January 1, 2012. The Social Agreement regulates issues related to employment policy, including the role of internal mobility, recruitment and outsourcing, pay rises (not less than 4.5% in 2012) and enabling employees who cannot adapt their professional profile to the changing market needs to leave TP with compensation.

In the years 2012–2013, up to 2,300 employees with seniority of over 6 years will be able to make use of the voluntary departure package, including up to 1,150 employees in 2012. The voluntary departure offer is addressed to TP S.A.'s employees who are covered by the Intragroup Collective Labour Agreement

In 2013, under the 2012–2013 Social Agreement, the Management Board of TP S.A. has been implementing an agreement signed with trade unions for 2013, which specifies that up to 1,150 employees are able to make use of the voluntary departure package (in 2013 up to 1,700 employees across the Group will be included in voluntary leaves and other forms of employment optimisation). The package offered to departing employees in 2013 depends on their seniority in the Group and ranges between 4 and 15 average basic monthly salaries of the employee from the last three months of employment, but not higher than the average basic monthly salary of employees covered by the Intragroup Collective Labour Agreement as of December 31, 2012. This is increased by additional compensation of PLN 6,000 in 2013. Employees with seniority of 20 years are eligible for extra compensation of up to PLN 20,000 per employee.

7.2.2 Stock option plan

On April 28, 2006, the General Assembly of TP S.A. approved an Incentive Program based on a "Stock Option Plan". On December 12, 2006, the Management Board of TP S.A. adopted the resolution No. 149/0/06 on adopting the Incentive Program Rules for the Members of the Management Board of TP S.A. and the Incentive Program Rules for the Key Managers of the Group.

The main purpose of the Program is to link the remuneration of key managers with their contribution into 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 Group in order to increase its profitability.

First Option Bonds

The Program is carried out through issuing TP S.A. first option bonds. The issued bonds are registered bonds giving the right to subscribe, before the existing shareholders, for B-series shares issued by TP S.A.

Pursuant to the resolution on the issue of bonds proposed by the Management Board the bonds have the nominal value of PLN 0.01 per piece and are to be issued at the issue price equal to the nominal value. Owing to the purpose of the Program, the bonds will not bear coupons. One bond will enable the subscription for one B-series share.

B-series shares carry the right to the dividend on the terms described in the information memorandum.

The issue of new B-series shares has an impact on reducing the percentage share of the existing shareholders in the share capital of TP S.A. 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

Initially in total, 7,113,000 of bonds enabling the subscription for 7,113,000 B series shares were planned 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 Group covered by the Program. As a general rule, if the Beneficiary stops being the employee or the member of TP S.A. governing bodies or those companies before the subscription date of B-series shares, all their bonds will be redeemed by way of payment of the nominal value of these bonds.

Issue Price of Shares

The issue price of B-series shares taken up by the bondholders was set by the Management Board of TP S.A. on the bonds issue day and was equal to the average market price of TP S.A. shares from 20 sessions on the Warsaw Stock Exchange immediately preceding the bonds issue day.

In September 2007, TP S.A. Management Board implemented the Program and the information memorandum was sent to potential Beneficiaries. Subscription letters were sent to 356 employees, out of which 339 managers subscribed for options (96% of potential Beneficiaries). The grant date was set up on October 9, 2007 and the option exercise price at PLN 21.57 (average TP S.A. close price of 20 sessions on Warsaw Stock Exchange proceeding 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. Cost of the Program of PLN 25 million has been booked over the vesting period.

By the end of June 2013, a total of 2,784,424 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 Group. The Program is subject to a special procedure consistent with the reporting standards that is implemented across Orange Group (previously France Telecom). The controls will include the verification of the number of Program beneficiaries, Program revaluation and settlements with the employees leaving the Company.

CHAPTER IV
KEY RISK FACTORS

8 RISK FACTORS AFFECTING THE ACTIVITIES OF ORANGE POLSKA

The risks mentioned in this report are not intended to constitute an exhaustive list of all possible risks and uncertainties, which could adversely impact the Group's activities, its results, liquidity or capital resources. The system of internal control and risk management in the Group is designed and implemented by the Management. This approach allows to manage the risk of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures as needed) – (please see Note 28 to the IFRS Annual Financial Statements for additional information about major outstanding claims and litigations). Our processes are designed to give reasonable, but cannot give absolute assurance that the risks significant to the Group are identified and addressed. There may be risks which are unknown or which are presently judged not to be significant but later prove to be significant. We have included comments on mitigations that are applied to help us manage the risks; however, it is possible that not all of these mitigations will be successful.

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The Group has developed a risk management process which encompasses risk identification, analysis and assessment, implementation of risk mitigation measures and verification of action results. This provides the Management Board with information about the key risks within the Group, so preventive actions may be additionally supported. The Risk Management team provides structure, facilitates communication and reviews external risks reported within the industry. The review and assessment of the identified risks, the identification of the main causes and the implementation of action plans involve the participation of Group's top management. The major risks are subject to monitoring. For such risks, preventive measures aimed at reducing their vulnerability and limiting their potential impact on the Group's operations are implemented. The top risks are updated and submitted by the Management Board to the Supervisory Board on an annual basis. The internal audit plan for each year is developed also taking account of a list of the major risks identified.

8.1 Implementation of the Group's Medium Term Action Plan

The medium-term plan focuses on stabilising the Group's leadership in Poland's telecommunication market, rebalancing the organisation in order to achieve greater efficiency and ensure meeting the expectations of external and internal customers to the greatest possible extent. Due to fierce competition and volatile regulatory environment, the Group's ability to achieve business objectives is under strong pressure, so TP carries out dedicated actions aimed at reducing the competitive pressure on its performance by constantly modernising its offers in the fixed-line and mobile segments and enhancing customer service. The Group ability to protect its margins will also depend on the transformation of its cost structure.

8.2 Regulatory decisions and changes in the regulatory environment could adversely impact the Group

The Group must comply with various regulatory obligations governing the provision of its services and products, also relating to obtaining and renewing licenses. The regulatory obligations result from significant market power of Telekomunikacja Polska and PTK Centertel on the relevant markets. If Group companies are unable to satisfy the imposed regulatory requirements or fail to meet imposed requirements, there is a risk of administrative fines. As provided in the Telecommunications Law, the President of UKE may impose a penalty of up to 3% of its prior calendar year's revenues on a telecommunications operator, if the operator does not fulfil certain requirements thereof.

As provided in the Law of February 16, 2007 on competition and consumer protection, in case of confirmed monopolistic practices or abuse of the collective interest of customers, the President of the Office of Competition and Consumer Protection (UOKiK) may impose a penalty of up to 10% of its prior financial year's revenues on a company, for failing to provide the information requested or a penalty of up to EUR 50 million for providing misleading information.

Further information on the regulatory risks is set out in Section 9.

8.3 The extent of competition and the resulting pressure on services and prices

Fierce competition in the market and technological developments of new services result in strong pressure on price reductions in the mobile segment and also in the fixed segment. There is a risk that the effect of price reductions will not be offset by increased volume of traffic on the network. Competition could lead to a reduction in the rate at which the Group adds new customers, a decrease in the size of the Group market share and a decline in ARPU. The Group faces competition from not only telecom companies but also players from outside the industry, such as television or providers of special services (VoIP). Despite its efforts, the Group is still at risk of erosion of its revenues and market shares.

In response to this competition, the Group strives to better answer customer needs in terms of the quality and simplicity of services. The Group is developing an organization, procedures and systems aimed at offering the latest technological developments and improved products and services to its customers. The Group continues to introduce further convergent offers like Orange Open which combines multi contract packages of fixed/mobile voice and data services, internet and television. The Group has introduced new internet brand on Polish telecom market: nju.mobile. It was created mainly for customers looking for smarter and cheaper solutions, in prepaid and postpaid segment. The Group continues to offer IT and telecommunication system integration services and provides solutions for business clients' needs. The uncertainty remains with regard to not being able to successfully monetize new services offered to customers and profit from the significant investment made.

In addition, new products and services require an adjustment of network and IT systems. This is a complex and time-consuming process, which poses a potential risk of delays in the market launch of products and services. The requirement to provide an equivalent offer to alternative operators and carry out consultations with UKE, which are often prolonged, poses an additional risk to timely implementation thereof. Delays in the launch of new products and services may result in lower than planned take-up, posing a risk of non-achievement of the Group's budgeted financial results.

8.4 Potential Saturation of Networks

The current expansion in broadband usages, such as TV (as part of triple-play) or Internet, fixed-line and mobile, has already on occasion resulted in the saturation of existing collection and transfer networks. As a result of growing use of sophisticated equipment (smartphones, tablets) and development of services which require high capacity, the Group faces a challenge of undertaking significant capital expenditure programs.

8.5 New Investments in network infrastructure

The Group has been constantly making new investments in order to provide modern services to customers and meet the requirements resulting from MoU with UKE. This contributes to Poland's perception among foreign investors as an attractive place for new investments and, owing to improvements in the telecommunication infrastructure, encourages Poles to undertake new activities using new types of services, such as e-business.

The Group expects to invest substantial amounts over the next years in acquiring new licences or renewing the existing frequency licences. There is a risk concerning the costs of acquiring frequencies resources and the availability of future spectrum.

Due to new services, growing customer needs and competitive pressure, the Group undertakes costly investments in the network infrastructure. To achieve synergies and assure more efficient use of the network infrastructure, Polska Telefonia Komórkowa Centertel Sp. z. o.o. has established a joint venture Networks! with Polska Telefonia Cyfrowa Sp. z o.o. with the objective to build the best-in-class mobile network development by 2014.

The Group continues the development of HSPA+ DC and deployment of fixed and radio IP backhaul to handle increasing traffic. The deployment process of the VDSL technology is in progress.

Should the Group not manage to control the complexities of networks, technologies and processes necessary to meet the expectations of its customers with regards to quality and easy-of-use, it might lose or not gain market share or to be required to cut margins in its core market and its financial position and results could be adversely affected.

8.6 Non-availability or Failure of Technical Infrastructure

The technical infrastructure required to offer the Group's products and services is exposed to a risk of failure and interruption resulting from natural disasters or intentional human actions. Interruptions in technical infrastructure operations have a direct impact on provision of services and supply of products by the Group, which in turn translates into lower revenues from such products and services and a decline in customer satisfaction and the deterioration of the Group's image. This risk is mitigated by the proper network development planning, preventive maintenance, implementation of business continuity plans and insurance schemes. The Group is generally covered by an insurance policy which protects it against loss of assets and profit if the Group's telecom infrastructure has been damaged. Aerial lines and submarine cables are excluded from the insurance policy and damage to these assets, and resulting losses, will be borne by the Group.

8.7 System security and data protection

Any material failure in maintaining the security of technical infrastructure systems may significantly damage our reputation and may lead to disruptions in business processes, resulting in revenue losses. Therefore the Group implements measures, as far as it is practicable, to protect the technical infrastructure from cyber-attacks and to detect the disclosure of sensitive data to unauthorised parties and to promptly react to security incidents.

8.8 Non-availability or Failure of IT Systems

As rapid implementation or modification of IT systems has become a necessity to meet customer demand for attractive offers, there may be a risk of malfunctions resulting from insufficient testing of new services or lack of data integrity within connected systems. Potential failures and reduced availability of critical systems, resulting from frequent changes in the applications used, can lead to decreased quality of services and delayed response to changing customer needs.

8.9 Dependence on External Partners

The Group concludes contracts with external partners, particularly for development and maintenance of its networks and telecommunication and IT infrastructure. Although adequate safety clauses are included in the contracts, there is still a risk of non-performance by the Group's suppliers, resulting in delays and a decrease in quality of services provided by the Group. At the same time, the Group has partially outsourced operation and supervision of IT and networks systems and processes to external suppliers. This process has been monitored on a current basis in order to assure its optimum operation and taking effective corrective actions, if required.

8.10 Risk Related to Trade Agreements and Strategic Alliances

In order to attain its business objectives and to mitigate the risk in question, the Group attempts to extend its portfolio through trade agreements and strategic alliances that enable it to use products and services of external partners. It is assumed that such bilateral agreements will bring added value to both the Group and its customers. However, there is a risk that the benefits resulting from them will fall short of the anticipated and planned levels. At the same time, the Group is at risk of losing a portion of its revenues due to migration of some of the existing customers who may sign beneficial trade agreements or arrangements with other telecom service providers which are competitive to TP. In response, TP has undertaken a number of initiatives to reduce the exposure. In particular, a co-operation agreement with NC+ is continued: both companies have joined forces to satisfy growing demands of customers and provide them with as complete an offer as possible.

8.11 Availability of Skilled Employees

The Group operates in a market which is affected by a constant risk related to attracting and retaining skilled employees in all business areas. This risk is particularly noticeable in customer service and sales, where personnel turnover is relatively high, and in the technology area, where highly qualified employees need to be attracted. It may pose a threat to the timely performance and quality of the Group's core business processes and may hinder the achievement of the Group's business objectives.

8.12 Human Resources Risks and alignment of organization structure

The Group, its managers, continues transforming its internal culture in order to motivate the employees and drive the performance culture and also streamlining the organization and infrastructure in order to confront the competition and to take account of new technologies, new and more efficient business models through the transformation program. If the Group does not complete these transformations successfully, its operating margins, financial position and results could be adversely impacted.

The Group has continued a voluntary departure programme and a workforce optimisation process based on a competence assessment system. Furthermore, TP S.A. Management Board is negotiating with trade unions on a number of issues, such as working conditions, work organisation, professional development opportunities, mobility, wage level and potential further optimisation in the future. Although the Management Board believes that the on-going professional activity plans have been generating the expected benefits, in view of dynamically changing conditions in the Group's business environment, some differences in opinion may appear between the Management Board and trade union representatives regarding the assessment of such factors, which may result in social tension that could slow down the optimisation process. TP S.A.'s management constantly consults with trade unions on such matters and in case of reorganisations takes action to clarify the goals and expectations. Regular staff satisfaction surveys are conducted by an outside consultant.

8.13 Issues Related to the Incorporation of TP S.A.

TP S.A. was established as a result of the transformation of the former state-owned organisation PPTiT into two entities – Poczta Polska and TP S.A. During the transformation process and transfer of ownership rights to the new entities, certain items of property and other assets that are currently under the Company's control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that TP's rights to certain properties may be questioned. A process of dissolution of co-ownership and regulation of limited rights in property (e.g. entering them in land and mortgage registers) is going on and will be continued for a few more years.

In addition, as the regulations concerning the transformation of PPTiT are unclear, the division of certain liabilities of PPTiT may be ineffective, which may result in joint liability in respect of TP's predecessor's obligations existing at the date of transformation.

8.14 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 fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes causing considerable volatility of the tax system. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts.

Tax authorities may examine accounting records up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. TP S.A. 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.

8.15 Compliance with Personal Data Protection Regulations and Breach of Licence Agreements or Infringement of Copyrights

The Group possesses a vast customer base and constantly undertakes activities designed to prevent leakage of its customers' data. In that respect, the Group complies with the relevant regulations, implements adequate policies, adheres to rules and guidelines, and conducts any relevant training. However, it is not possible to fully exclude the risk of an unintended leak of data.

There are further risks which arise from the Group's operations as a broadcaster of Orange Sport television channels. The risks include that of infringing copyrights, neighbouring rights or defaming persons or entities. In addition, the broadcasts are subject to regulations regarding the editor's responsibility for content of programmes comprising the service as well as a number of regulatory obligations imposed by the Polish Broadcasting Act. TP S.A. uses its best efforts to properly perform its obligations under Polish copyright law, press law, intellectual property law, Broadcasting Act and Act on Suppression of Unfair Competition. It applies to all content used in all media, including the internet.

Some element of risk derives from a lack of effective control over broadcast content, in particular during broadcasting of live programmes. However, it should be noted that the Group exercises due diligence in preparing programmes to avoid any unlawful materials from being broadcast.

8.16 Environmental Risks

The Group believes that its activities do not pose a serious threat to the environment. The Group's activities generate waste for which recycling is closely controlled, such as electronic equipment waste, electronics at end-of-life, batteries and storage cells, cables and treated poles as well as other waste.

The Group has implemented procedures for monitoring and reporting environmental impact. These procedures are aimed at limiting the impact of the Group's activities on the environment and at maintaining compliance with Polish regulations on environment protection. The Group has been subject to environmental audits which have confirmed its compliance with Polish regulations and highlighted achievements in the field of limiting the impact on the environment. In addition, a dedicated team has been established to carry out on going supervision regarding regulatory compliance, emission levels, as well as to meet other legal requirements in the area of environmental protection.

8.17 Risk of Impairment in value of assets

Recoverable amounts of the businesses which support the book value of non-current assets, including recorded goodwill, are sensitive to the valuation method and to the assumptions used in the model. They are also sensitive to any change in the business environment that is different to assumptions used. For further information on the impairment of goodwill and the recoverable amounts see the notes in the annual consolidated financial statements of the Group.

8.18 Sovereign debt and banking crisis in euro zone

The risk of economic slow-down in Europe as a result of sovereign debt and banking crisis in certain Euro countries may have a negative impact on the companies' spending and increased fiscal pressure on households also in Poland.

8.19 Worsening macro indicators in Poland

The macro-economic outlook for Poland will remain to be marked by low growth. Weaker macro economic conditions in 2013 vs. 2012 (lower GDP, higher rate of unemployment and consumer confidence) will translate into lower budget receipts and possibly into problems with financing of budget deficit. There is the risk of 2013 budget revision.

9 TELECOMMUNICATIONS SECTOR RISKS

This section describes potential risks in the telecommunications sector that may affect the Group's operations except for the developments described in the section 4 above.

9.1 Regulatory Risks

Changes in the regulatory environment combined with increasing competition caused pressure on the Group's top line in the first half of 2013.

TP S.A. continuously makes efforts in order to meet its regulatory obligations in the optimum way, including issues as Wholesale Line Rental (WLR), Bitstream Access (BSA) or Local Loop Unbundling (LLU).

The Group has explored all possible legal means to protect its interest. TP S.A. intends to turn to relevant EU institutions whenever it believes that European law is being breached.

9.1.1 Regulatory Changes in the BSA Market

On March 26, 2012, UKE notified its new draft decision for the market 5/2007 (Bitstream) to the European Commission. According to the draft decision, TP S.A. would be subject to regulation throughout Poland with no geographical segmentation. In four geographical areas (municipalities), namely Warsaw, Lublin, Wrocław and Toruń, regulatory obligations would be limited to access and non-discrimination. BSA in the FTTH technology would be subject to access and non-discrimination obligations.

On April 26,2012, the European Commission communicated its serious doubts about the draft decision, and then, on August 28, 2012, sent recommendations for a change thereof. The Commission questioned lack of obligations of cost-orientation, KPI publication and regulatory accounting as well as non-publication of the terms of FTTH access. The Commission did not object lack of geographical segmentation. Due to the Commission's objections, the President of UKE withdrew the draft decision from notification. A new analysis of the market 5 to be completed in 2013 has been announced.

On November 9, 2012, UKE notified a draft decision recognising the effective competition in 11 geographical areas (*gminas*) excluded from the market 5 to the European Commission. The decision was the first stage of the proceedings to fully deregulate these areas, that is lift obligations related to the xDSL technology. On December 10, 2012, the Commission expressed serious doubts about the draft decision, mainly due to out-dated market data. On February 8, 2013, the Commission vetoed the draft decision. The regulatory status of these 11 areas will be determined in a new process of assessment of the market 5.

9.1.2 Single Reference Offer

On September 29, 2010, the President of UKE decided to approve the single reference offer ("SRO") for RIO, WLR, BSA and LLU services. The decision was made immediately enforceable. The approved offer differs from the draft submitted by TP S.A. for approval, as it covers the IP DSLAM-based access to BSA services and fails to provide a time schedule for the implementation of the new functionalities, a fee of PLN 1.95 for interconnect settlements, changes in the Interconnection Co-operation Model or changes in the WLR price list.

Upon the re-examination of the decision, on May 5, 2011, TP S.A. filed a complaint with the Regional Administrative Court against the decision of April 5, 2011, petitioning for cancellation of the decision in part, particularly with respect to the provisions which have a negative financial effect on TP S.A. The Regional Administrative Court rejected the complaint, ruling that the issue of reference offer approval should be rather examined by the Antimonopoly Court. TP S.A. has filed a cassation appeal against the ruling as well as an appeal to the Antimonopoly Court. The Supreme Administrative Court cancelled the Regional Administrative Court's ruling. However, having re-examined the case on December 1, 2012, the Regional Administrative Court rejected TP S.A.'s complaint. The Antimonopoly Court proceedings are pending.

On October 4, 2011, the President of UKE amended SRO with respect to the VDSL service. The procedure had been opened upon TP S.A.'s request following the TTM procedure. The key change in SRO is the introduction of new speed options of 40 Mb/s and 80 Mb/s for the managed IP level of service.

In particular, pending proceedings at UKE initiated upon TP S.A.'s requests for SRO changes concern the following:

- LLU service – change resulting from an obligation imposed on TP S.A. in the market 4/2007 (new public consultation was launched on December 11, 2012);

- BSA service – change resulting from an obligation imposed on TP S.A. in the market 5/2007 (new public consultation was launched on December 11, 2012);
- call initiation service in performance of an obligation imposed in the market 2/2007;
- reflecting regulated retail services in wholesale services and, consequently, TTM process;
- provision of increased-charge services as a result of amendment to the Telecommunication Law in this respect;
- changes in penalty fee provisions.

In addition, on January 31, 2012, the President of UKE obligated TP S.A. to change SRO with respect to call termination service, particularly by eliminating division into tariff periods. In performance of its obligations resulting from the decision, on March 1, 2012 TP S.A. submitted draft changes for approval. The procedure, which has been combined with a procedure concerning the call initiation service, is pending.

9.1.3 Leased Lines (RLLO)

On April 22, 2013, TP S.A. submitted an application for approval of an amendment to RLLO, which in particular provides for a reduction in prices for selected capacities as well as introduction of price flexibility for lines that require investments (in cases when 24-month subscription revenue is not sufficient to ensure the return of capital expenditure). The relevant procedure before the President of UKE is pending.

The President of UKE is carrying out proceedings, initiated upon NASK's request of 6 February 2013, to obligate TP S.A. to prepare an amendment to RLLO with respect to digital and analogue line parameters.

9.1.4 Cable Ducts (ROI)

On July 13, 2011 TP S.A. applied to President of UKE for approval of a modified version of ROI, particularly with respect to fees for using an IT system interface (ISI). On October 7, 2011, TP S.A. submitted draft ROI to the President of UKE.

After completion of three rounds of consultations (November 2011, January and May 2012), on November 23, 2012, the President of UKE introduced the new ROI. The offer provides for access to cable ducts in the Indefeasible Right of Use (IRU) scheme in the Lease for the Implementation of Community Projects (DRPU) model. The DRPU model is the IRU scheme restricted to projects which are wholly or partially financed from public funds in EU Operational Programmes or other similar programmes.

IRU is a model of providing access to infrastructure which is similar to leasing. It involves transfer of telecommunication infrastructure to another entity to use and derive benefits for a period close to the expected economic life of that infrastructure against remuneration close to its market value. Infrastructure is provided for use for a long period (up to 25 years), which me be further extended. In addition, the IRU grantor has an obligation to maintain the infrastructure in proper condition (this includes repairs) at its own expense during the term of IRU. The DRPU model involves single payment of aggregate fees for the whole expected term of use of cables, less 6% discount. Under the reference offer, the DRPU user may provide the infrastructure obtained in this scheme to third parties without obtaining TP S.A.'s consent.

On December 7, 2012, TP S.A. filed a request for the re-examination of a decision which implemented ROI, questioning the IRU-DRPU scheme and technical solutions which weaken TP S.A.'s control of its assets.

9.1.5 Mobile Termination Rates (MTR)

On May 11, 2011, the President of UKE issued a decision for PTK Centertel setting MTRs on PTK Centertel's network at PLN 0.1520 / minute in the July 1, 2011 to June 30, 2012 period and at PLN 0.1223 / minute from July 1, 2012.

In return for slowing down of the MTR reduction process, the President of UKE has obligated PTK Centertel (as well as T-Mobile, Polkomtel and P4) to carry out specific investments in the areas of 2G/3G coverage gaps. The decision does not specify the amount to be invested, but determines a mechanism for calculating benefits and the resulting capital investment levels. Pursuant to the decision, PTK Centertel should regularly report on completed investments. The investments resulting from the decision has been carried out in line with the terms of the decision and a time schedule specified therein.

On December 14, 2012, the President of UKE issued an SMP decision for PTK Centertel setting MTRs at PLN 0.0826 / minute (determined on the basis of the current mean rate and a rate resulting from the pure LRIC model) in the first half or 2013 and at PLN 0.0429 / minute (determined on the basis of the pure LRIC model) from July 1, 2013. In addition, the decision provided for MTR symmetry from January 1, 2013; MTRs charged by all operators have been symmetrical since January 1, 2013.

On December 31, 2012, PTK Centertel appealed against UKE's decision.

PTK Centertel has commenced negotiations with other operators in order to implement the rates set by UKE into the relevant interconnect agreements, which resulted in signing annexes introducing rate of PLN 0.0826 / minute, in force since 1 January 2013. Negotiations on the implementation of PLN 0.0429 / minute rate, in force since 1 July 2013, resulted in the signing of annexes to the agreements with most of the mobile and fixed operators. The negotiations did not end only with Cyfrowy Polsat (CP).
In June 2013 UKE started control of the implementation of SMP decisions of December 2012 by all operators. The proceedings are in progress.

TP S.A. has signed annexes to interconnect agreements with MNOs (T-Mobile, PTK, Polkomtel, Mobyland and P4), implementing the rate of PLN 0.0826 / minute from January 1, 2013. Negotiations on the introduction of the rate of PLN 0.0429 / minute, in force since July 1, 2013, between TP SA and MNOs were concluded (excluding P4, with which a single annex for both rates, PLN 0.0826 and PLN 0.0429, has been signed). So far, an annex with Mobyland was signed, the other annexes, negotiated with the operators, are in the process of signing.

9.1.6 PTK Centertel's Frequencies

On July 31, 2012, the President of UKE issued a decision renewing allocation of the 1800 MHz frequency to PTK Centertel for a period of 15 years, i.e. to August 2027.

Pursuant to the President of UKE's decision of August 14, 2012, PTK Centertel obtained the approval of technology and service neutrality for the 450 MHz frequency (the frequency allocation is valid until December 2016).

Allocation of the 900 MHz frequency to PTK Centertel will expire in July 2014. According to the Telecommunication Law amended on November 16, 2012, the allocation for another period will involve a fee. The fee will be determined by the President of UKE on the basis of an amount obtained in the previous auction for the same band.

New frequencies, enabling the provision of 4G services, will be made available soon (see section 4.8).

9.1.7 Roaming Rate Reduction

In May 2012, the European Parliament and the Council adopted a new EU roaming regulation ("the Roaming III Regulation"), which came into force on July 1, 2012.

According to the regulation, the caps for roaming service rates are as follows (in Euro, net of VAT):

Maximum retail rates, Eurotariffs, in euro cents ("c"):

- From July 1, 2012: data transfer (per MB) – 70c; outgoing calls – 29c; incoming calls – 8c; SMS – 9c
- From July 1, 2013: data transfer (per MB) – 45c; outgoing calls – 24c; incoming calls – 7c; SMS – 8c
- From July 1, 2014: data transfer (per MB) – 20c; outgoing calls – 19c; incoming calls – 5c; SMS – 6c. These tariffs will remain valid until June 30, 2017.

Maximum wholesale rates:

- From July 1, 2012: data transfer (per MB) – 25c; calls – 14c; SMS – 3c
- From July 1, 2013: data transfer (per MB) – 15c; calls – 10c; SMS – 2c
- From July 1, 2014: data transfer (per MB) – 5c; calls – 5c; SMS – 2c . These tariffs will remain valid until June 30, 2022.

On July 1, 2013, PTK Centertel reduced the wholesale rates and retail prices for its roaming services in conformity with the caps specified in the regulation (retail prices in PLN, including VAT: outgoing calls – PLN 1.22 / minute; incoming calls – PLN 0.36 / minute; SMS – PLN 0.41; MMS – PLN 2.30; data transfer – PLN 2.30 per MB).

In line with the Regulation, on January 1, 2013, PTK Centertel published a reference offer for wholesale roaming access, involving either direct wholesale access or wholesale roaming resale.

In addition, the Roaming III Regulation provides for separating roaming from other services to enable separate sales (i.e. customers will not have to buy roaming services exclusively from their operator, but will be able to buy them from any provider). This option may be exercised from July 1, 2014. PTK Centertel has commenced organisational and technical efforts to implement this obligation within the deadline set by the Regulation.

9.1.8 Telecommunication Law Amendment

On December 21, 2012, the Act of November 16, 2012 on amending the Telecommunication Law and some other acts was promulgated in the Journal of Law. It came into force on January 21, 2013. The purpose of the bill is to implement a new package of telecommunication directives: Directive 2009/140/EC of the European Parliament and of the Council of November 25, 2009, Directive 2009/136/EC of the European Parliament and of the Council of November 25, 2009 and Regulation (EC) 1211/2009 of the European Parliament and of the Council of November 25, 2009 establishing the Body of European Regulators for Electronic Communications (BEREC).

The bill introduces a new regulatory tool of functional separation; grants the President of UKE a power to determine the terms of providing infrastructure (particularly network connections and in-building facilities) to other operators irrespective of the company's market position; introduces a new procedure for approval of regulatory means; extends subscriber's rights with respect to telecommunication agreements; introduces changes in the frequency area; implements a number of new regulations related to personal data protection; reduces the data retention period from 24 to 12 months; and introduces a new body of European regulators (BEREC).

The Council of Ministers or the minister competent for communications will need to issue a dozen or so secondary regulations to the bill, which according to the relevant delegation shall replace the existing secondary regulations within 24 months after coming into force of the amendment to the Telecommunication Law.

Only the Decree of the Minister of Administration and Digitalisation of March 19, 2013 on a form for reporting violation of security or integrity of telecommunication networks or services, having a major effect on the functioning thereof (Journal of Law of 2013, item 386) was promulgated in the first half of 2013.

Currently, the Government is working on further secondary regulations to the Telecommunication Law, including:

1) draft decree of the Minister of Administration and Digitalisation on an application form for an entry or amendment to the register of telecommunication operators and an application form for an entry or amendment to the register of local government units carrying out telecommunication activity (pursuant to Article 13 of the Telecommunication Law);
2) draft decree of the Minister of Administration and Digitalisation on a form for data access reporting by a telecommunication operator to the President of the Office of Electronic Communications (pursuant to Article 180g(3) of the Telecommunication Law);
3) draft decree of the Minister of Administration and Digitalisation amending the Decree on the complaint-handling procedure and the requirements for telecommunication service complaints (pursuant to Article 106(4) of the Telecommunication Law);
4) draft decree of the Minister of Administration and Digitalisation on tender procedures, auctions and competitions for allotment of frequencies or orbit resources (pursuant to Article 120 of the Telecommunication Law);
5) draft decree of the Minister of Administration and Digitalisation on the amount and the terms and manner of payment of fees for the use of numbering resources (pursuant to Article 184(4) of the Telecommunication Law);
6) draft decree of the Council of Ministers on the requirements and procedures for providing access to and recording telecommunication messages and data as well as the types of telecommunication activity and types of telecommunication operators excluded from this obligation (pursuant to Article 179(12) of the Telecommunication Law);
7) draft decree of the Council of Ministers on the National Frequency Allocation Table (pursuant to Article 111(3) of the Telecommunication Law); and
8) draft decree of the Council of Ministers on annual fees for the right to use frequencies (pursuant to Article 185(11) of the Telecommunication Law).

9.2 Competitive Risks

9.2.1 CATV Operators

CATV operators are one of the major risks to Orange Polska on the broadband market.

Holding an aggregate share of approximately 40% in the pay TV market and controlling one third of the broadband market, these operators have attempt to further strengthen their market position as providers of not only TV, broadband and voice services, but also entertainment. This leads to promotions and up-selling of IPTV, HD and premium channels, music and video-on-demand, as well as a multiroom option. As usage of such services generates demand for higher throughput, CATV operators strive modernise their own networks and, more and more frequently, lease third party's fibre-optic lines.

A common practice of CATV operators, which operate in Poland's biggest cities and make use of the technological potential of their infrastructure, is to offer higher speeds or increase the scope of services within a package without increasing the service price.

2013 is expected to see further consolidation of the Polish cable TV market with UPC, Multimedia Polska, Vectra and, locally, Inea being positioned as potential market consolidators.

9.2.2 Fixed/Mobile Substitution

Fixed/mobile substitution is one of the major challenges for telecom operators. The process of F2M substitution has been particularly intensive in Central and Eastern Europe, where the fixed line penetration at the time of popularisation of mobile telephony was significantly lower than in West European countries.

The fixed/mobile substitution in Poland, like in other CEE countries, has a greater scale than in the majority of West European countries and the ratio of 'only-mobile' users is generally higher.

F2M substitution depends mainly on two factors:

- ratio of fixed line to mobile penetration; and
- the relation between mobile and fixed line prices.

A major factor is habits of customers, who prefer to use fixed line phones to call fixed line numbers and mobile phones to call mobile numbers, which owing to high mobile penetration stimulates the process. Consequently, a great number of customers prefers to purchase a bundle of mobile/broadband/convergent services rather than use fixed line services alone.

Another factor contributing to the fixed/mobile substitution is growing popularity of bundled offers which combine the functionality and price terms of both mobile and fixed services, which are provided by mobile operators via their mobile networks.

The offers in which fixed line voice services are an added value to broadband or mobile services and are provided in the VoIP technology as the equivalent of 'traditional' fixed lines have been clearly gaining popularity.

9.2.3 WLR, BSA and LLU Wholesale Markets

In September 2010, the President of UKE approved a single reference offer ("SRO 1"), which in particular introduced the functionalities set forth in MoU. On April 5, 2011, the President of UKE issued another decision ("SRO 2"), partly amending the Single Reference Offer of 2010 (particularly with respect to operator relations and process handling). SRO was updated once again by the President of UKE on October 5, 2011. The last amendment resulted from the fact that on June 1, 2011 TP S.A. launched the BSA service based on the VDSL technology using IP DSLAM equipment.

WLR Service

The access to TP S.A.'s network based on wholesale line rental (WLR) has been provided since 2006. By mid-2013, TP S.A. had provided WLR services to 23 operators. The SRO agreements with respect to WLR have been signed by DID, EasyCall, TIWS (Telefonica), Novum, GTS Poland, Netia and Dialog. As at the end of June 2013, TP S.A. handled about 1.45 million WLR lines.

BSA Service

The broadband access to a local subscriber loop (bitstream access – BSA) has been provided by TP S.A. since 2006. By the end of June 2013, the agreements for TP S.A.'s BSA service had been signed by 23 operators. The SRO agreements with respect to BSA have been signed by TIWS (Telefonica), GTS Poland, Netia, Dialog and G1. As at 30 June 2013, TP S.A. handled approximately 444,000 BSA lines.

On February 1, 2012, the President of UKE released a draft SMP decision regulating the relevant market 5 (broadband access) for consultation. The draft decision restores regulation for 11 previously deregulated local administrative units (gminas), while reducing regulatory regulations for 4 gminas, and reduces regulatory obligations for fibre-optic lines.

Also on February 1, 2012, the President of UKE commenced consultation of a draft decision approving changes in SRO for the markets 4 and 5, resulting from the SMP decisions for the markets 4 and 5 dated December 30, 2010 and April 28, 2011, respectively.

On December 11, 2012, the President of UKE commenced another round of consultation of a draft decision approving changes in SRO for the market 5, resulting from the SMP decision for the market 5 dated April 28, 2011.

So far, the consultations have not led to UKE's decision to approve the new offer.

LLU Service

The access to TP S.A.'s local subscriber loop (LLU service) has been provided since 2005. By mid-2013, 8 operators had made active use of the LLU offer (while 25 operators had signed the relevant agreements), and TP S.A. handled over 178,000 LLU lines.

On January 31, 2012, the President of UKE released a draft decision on fees in the market 4 for consultation.

On February 1, 2012, the President of UKE commenced consultation of a draft decision approving changes in SRO for the market 4, resulting from the SMP decision for the market 4 dated December 30, 2010.

On December 11, 2012, the President of UKE commenced another round of consultation of a draft decision approving changes in SRO for the market 4, resulting from the SMP decision for the market 4 dated December 30, 2010.

So far, the consultations have not led to UKE's decision to approve the new offer.

9.2.4 Mobile Broadband Access

In the first six months of 2013, Poland's mobile broadband segment continued to grow. Orange Polska estimates that the mobile broadband penetration of Poland's population exceeded 12% at June 30, 2013. In Poland, mobile broadband access seems to be a substitute to fixed broadband access, and it has slowed down growth of the latter for the last two years.

Mobile broadband service providers have aimed at enhancing the coverage and technological capacity of their networks in order to offer higher data transmission rates. Commercial services based on the 4G technology are provided by Cyfrowy Polsat and Polkomtel.

A bidding procedure announced by UKE for five segments from the 1800 MHz band was completed in February and the allocation decision was announced in June 2013. The bids submitted by P4 Sp. z o.o. and Polska Telefonia Cyfrowa S.A. scored highest. Now, the winners have 12 months to start using the frequencies.

A bidding procedure for frequencies from the 800 MHz and 2600 MHz bands, which are predestined for the development of LTE coverage in sub-urban and rural areas, is scheduled to be carried out in 2013–2014.

9.2.5 Leased Lines Market

TP S.A.'s main competitors in the wholesale leased lines market are Exatel, TK Telecom, GTS Poland and Netia. These companies have network resources that enable them to compete with TP S.A.'s offer in terms of 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 S.A. or other large players.

The current reference offer (RLLO) provides access to this service for a broad group of customers. The companies that have used the retail leased lines services so far, may, upon registration in the register of telecom operators, use the preferential wholesale price list. The existing regulations, especially in terms of pricing, contribute to the market erosion by value.

There has been increasingly noticeable churn towards sophisticated data transmission services on managed networks as well as convergent services which combine traditional leased line services with packet network services. For this reason, in Poland, like in other European countries, customers have been migrating from traditional data transmission services to managed solutions. Both TP S.A. and its rival companies have been expanding their service portfolio in this direction.

9.2.6 Interconnect Market

Mobile Termination Rates (MTR)

Based on the decisions for MNOs, the mobile termination rate of PLN 0.0826 / minute was implemented in the existing agreements as from January 1, 2013; from July 1, 2013, this rate is to be reduced to PLN 0.0429 / minute.

By June 30, 2013, TP S.A. had agreed upon introduction of the new rate (PLN 0.0429 / minute) from July 1, 2013 with only two alternative mobile operators (P4 and Cyfrowy Polsat). The detailed provisions are still being negotiated with other alternative mobile operators. TP S.A. introduced the new rate in relations with alternative operators in the domestic and international market as from July 1, 2013. The MTR reduction will decrease TP S.A.'s transit revenue in the domestic market.

Fixed Termination Rates (FTR)

In 2012, TP S.A., performing its obligation to prepare changes in the reference offer, submitted a draft reference offer to UKE, introducing the relevant changes with respect to the call initiation and termination market. The decision with the new obligations has not been issued yet. This change in SRO will eliminate asymmetry resulting from a schedule for reaching symmetry of rates on alternative operators' networks which does not account for a division into three tariff periods. Some regulatory actions have been taken in order to accelerate UKE's work.

The President of UKE has not approved the changes in TP S.A.'s reference offer yet.

In two cases, courts in final and binding rulings have shared TP S.A.'s position in asymmetry-related litigation:

- UKE's decisions introducing asymmetry (schedule of reaching symmetry and single tariff period) in settlements between TP S.A. and PTK Centertel and between TP S.A. and GRS have been cancelled. The parties have returned to settlements based on rates from before UKE's decision.

The aforementioned rulings have contributed to eliminating asymmetry and reducing TP S.A.'s costs.

9.2.7 International Long Distance Inbound and Gateway Markets

The ILD inbound and gateway markets are highly competitive and the activity of operators in this market segment reflects the need to search for additional sources of revenue. As a result, operators establish more and more direct interconnections with global international operators. At the same time, operators try to attract traffic to their own networks and win transit traffic to other domestic networks. The struggle is most dynamic in the market for mobile calls, which relatively generate the highest revenues.

TP S.A. has been an active player in the international inbound and gateway markets, which is particularly reflected in the following actions:

- expanding its foreign interconnect base;
- maintaining its share in Poland's inbound market;
- attracting new gateway traffic volumes by winning subsequent operators for its ILD service;
- conclusion of short-term bilateral agreements with operators, which assure stable traffic volumes, stable revenues and costs, the optimum network usage and business predictability; and
- co-operation with 42 domestic operators, providing services of call termination on foreign operators' networks via its own network, as well as similar co-operation model in business relations with 83 foreign operators.

These efforts increase TP S.A.'s bargaining power in its relations with foreign partners.

Another major trend in the ILD market is growing use of the IP technology. A number of operators is migrating or planning to migrate from the TDM technology to the IP technology both within their own networks and in the interconnect traffic.

In 2011, TP S.A. launched its first IP-based interconnect gateways. Such interconnections with a total of 13 foreign operators have been launched so far. In addition, TP S.A. has been working on attracting further international operators to co-operate with TP S.A. on the IP interconnect basis.

As shown by the experience of foreign operators (e.g. Belgacom or KPN), the migration of complete service portfolio is a difficult and prolonged process. Therefore, operators are still using mixed technology and have not entirely given up TDM. TP S.A. has also adopted a similar model: it introduces a growing number of IP-based services into its portfolio, while not giving up the TDM technology.

Another MTR reduction scheduled in the domestic market in July 2013 will also affect revenues in the international segment. Thus, it poses a risk of a decrease in transit revenues in voice traffic terminated on Polish GSM networks.

9.2.8 International IP Transit Market

TP S.A.'s principal competitors in this market are domestic operators which develop or lease international lines to the main traffic exchange points. The presence of international operators in Poland further intensifies competition for access to the worldwide Internet resources. The activity of domestic operators and the growing volume of IP traffic handled by international players (of Tier-1) have been gradually reducing TP S.A.’s position in this market.

9.2.9 VoIP services

Constant growth in voice-over-Internet Protocol (VoIP) services 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 application, are fully free of charge. This largely contributes to the popularity of this channel of communications, as reflected in the number of communicator users.

For many years the VoIP technology has been widely used in Poland for providing fixed voice services in the form of fully functional equivalents of traditional fixed lines.

Orange Polska has also been active in the market for VoIP services, steadily enhancing and adapting its VoIP portfolio to changing needs of customers. VoIP is a major component of multi-play offers, such as FunPack, which combine broadband, TV and VoIP services.

The VoIP technology has been gaining popularity also among mobile users in Poland, on one hand contributing to increased data transfer and on the other cannibalising both traditional voice services and SMS services.

10 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

10.1 Macroeconomic Factors and Factors Related to Poland

10.1.1 Economic Growth

The Polish economy experienced a slowdown in the first half of 2013. The economic growth fell to 0.5% in the first quarter of the year. The decrease in the GDP growth rate resulted mainly from falling consumption (since last year) and slower growth in investments.

Poland's budget for 2013 is based on 2.2% GDP growth assumption. However, according to both the current estimates of the Ministry of Finance and the market consensus, the growth rate will not exceed 1.5%. Poland's economic outlook largely depends on the condition of other European economies and the economic climate in global markets. Owing to strong ties between the Polish economy and economies of other European countries, the current crisis in the Eurozone and a drop in confidence due to perturbations in some of its countries will affect further economic growth in Poland. The pace of solving Eurozone problems and the effectiveness of the solutions applied will determine the economic outlook of the European Union, and, consequently, Poland.

An external factor affecting the economic growth rate in Poland will be the outcome of the structural reforms which the government wants to implement. The public finance consolidation is going to result in a decrease in direct contribution of public expenditure into growth of domestic demand and a further reduction in the volume of public investments. The latter may be mitigated by the Polish Investments project.

10.1.2 Inflation

CPI fell to the record low of 0.5% in May 2013. The decrease in inflation rate observed from the second quarter of 2012 was a result of lower consumer demand, slower growth in food and energy prices and appreciation in the value of the zloty.

The interest rate cuts effected by the Monetary Policy Council in the first half of the year imply that the Central Bank does not expect significant inflationary pressure in the coming months and that inflation does not pose a threat to the Polish economy in the nearest future. Inflation will be further contained by economic slowdown and lower household consumption, as well as the expected reduction in energy prices.

Potential demand shocks in the global market for raw materials remain a risk factor. In addition, a higher than expected inflation rate may also result from potential depreciation of the Polish zloty in case of a significant increase in risk aversion in global financial markets.

10.1.3 Unemployment and Labour Costs

The labour market has been negatively affected by a breakdown in the construction sector and a slump in the manufacturing sector. Unemployment rate reached 13.2% at the end of June 2013 (up 0.9 pp. year-on-year). Deteriorating situation in the labour market was reflected in a major decline in the wage growth rate, which was gradually decreasing throughout the year. In May, wages in the enterprise sector were up 2.3% in nominal terms or 1.8% in real terms (y-o-y).

A slight improvement in the labour market maybe expected in the second half of 2013, mainly as a result of employment stimulation programmes implemented by the Ministry of Labour, improving macroeconomic conditions and growing investments. However, owing to economic slowdown, relatively high unemployment rate and falling inflation, the pressure on wages should remain low.

10.1.4 Political and Economic Factors

Poland is a country which has been doing relatively well in the midst of the global economic crisis raging since 2008 and the related political and economic tension within the European Union. In this stable political and economic environment, the position and performance of Orange Polska have been affected mainly by the activity of the telecommunications market regulator, though the economic slowdown, reflected in the growing fatigue of the society has been a contributing factor as well, as the resulting stronger public rhetoric may have a negative impact on the attitude of foreign capital and investors. Raised sensitivity to personal data protection and the privacy of telecommunication service users in in Poland and across the European Union might lead to regulatory decisions with negative economic effects for operators. Another major factor is an on-going discussion about Poland's position in the European Union and the target date for entering the Euro zone as well as potential solutions for the EU economic recovery, particularly a debate on the establishment of the unified telecommunications market within the EU by 2015.

10.1.5 Changes in Regulations

The following bills which may affect the Company's operations are currently at various stages of the legislation process:

1) draft bill amending the act on competition and consumer protection;
2) draft bill amending the act on provision of electronic services;
3) draft assumptions for the act on consumer rights and amendment to the Civil Code and other acts;
4) draft act on transmission corridors.

Furthermore, regulations resulting from the EU law, particularly personal data protection regulation, may also be a significant factor.

10.1.6 Polish Tax System

Polish tax laws and regulations, in particular regarding value added tax and income tax, are complex and subject to frequent changes and contradictory interpretations by tax authorities. Changes in regulations, leading to lack of stability of the tax system, may adversely affect the legal, business and financial situation of the Group. The growing public debt and budget deficit influenced the decision to raise VAT by 1pp, to 23% and 8%, as from January 1, 2011. The return to the initial rates of 22% and 7% is not intended in the near future. Furthermore, there has been a clear tendency of the Ministry of Finance to tighten up the tax system by eliminating solutions which used to enable lawful tax optimisation.

10.2 Factors Related to Financial Markets

10.2.1 General Risks Related to the Polish Market

Poland is still considered a less stable market, which is exposed to higher fluctuations in case of negative developments in global markets. Therefore, investors should exercise caution while assessing the risk of purchase of financial assets of Polish companies. In consideration of the above, investment decisions should be made by experienced investors who are able to fully assess all risks involved in such investments.

10.2.2 Interest Rates

In the first half of 2013, the Monetary Policy Council gradually reduced interest rates, continuing the process which started in 2012. Overall, the reference interest rate fell by 1.50% to 2.75% at the end of June 2013. The Monetary Policy Council's decisions were influenced by continued deflationary pressure and clear economic slowdown. Despite the central bank's statements that the cycle of interest rate cuts has ended, financial markets expect further relaxation of the monetary policy in the second half of 2013 and a reduction in the reference interest rate by a further 0.25% to 0.50%.

A potential increase in interest rates should not have any major influence on the Group's debt service costs, owing to high hedging ratio.

10.2.3 Foreign Exchange Rates

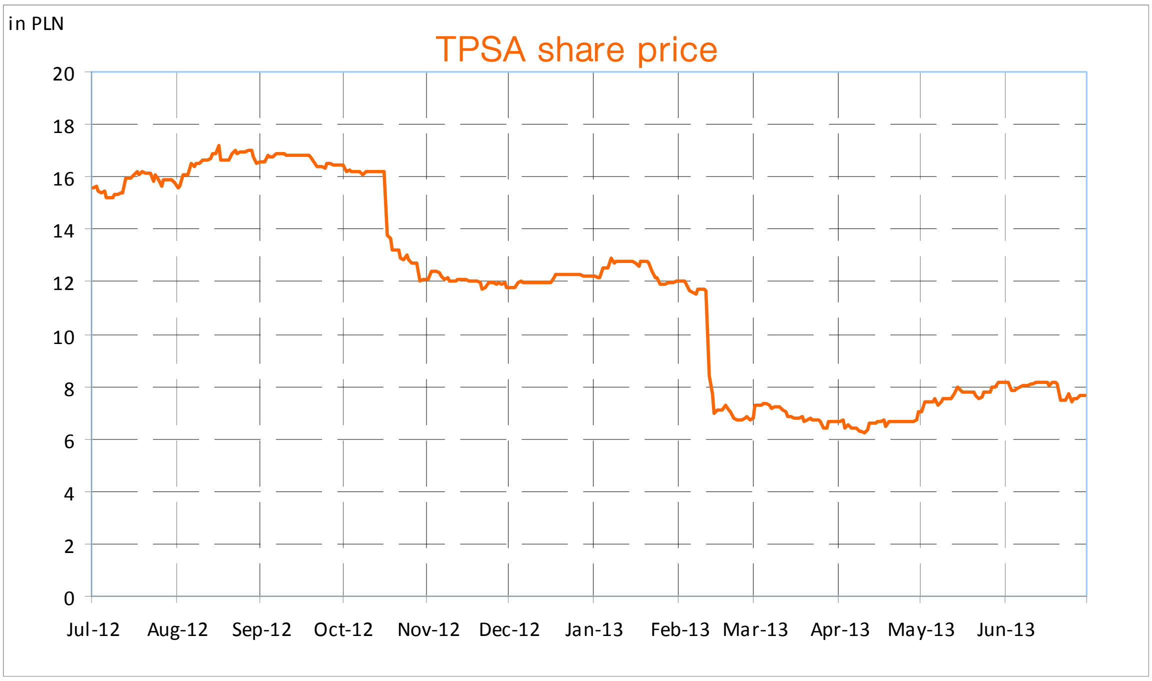
Foreign exchange rate fluctuations affect TP S.A.'s obligations denominated in foreign currencies and settlements with foreign operators. However, this influence is greatly contained by a portfolio of hedging instruments held by TP S.A.

Polish zloty, like other currencies from the emerging market currency basket, has gradually weakened in the wake of speculations that the end of quantitative easing in the US is ahead. This has resulted mainly from the outflow of portfolio investments from the market for Polish treasury bonds. In the reported period, the exchange rate of zloty against euro was in the 4.0671 – 4.3432 bracket, while its exchange rate against the US dollar oscillated between 3.0563 and 3.3241. NBP's mean exchange rates of PLN against the US dollar and euro were 3.1803 and 4.1766, respectively, in 2013.

10.2.4 Situation at the Warsaw Stock Exchange

The first half of 2013 saw a slump in indices on the Warsaw Stock Exchange (WSE). The value of TP S.A. shares was down 34.8% since the beginning of the year (after the dividend-related reference price change), while the large-cap index, WIG20, lost 13.1%.

The changes in the pension system intended by the Government may reduce the stream of cash directed by Open Pension Funds onto the Warsaw Stock Exchange. This may result in a change in the investors' attitude towards the shares listed in the WSE's blue-chip index WIG20, including TPSA shares.



10.2.5 Other Factors That May Influence the Price of TP S.A. Shares

Other than major factors already mentioned earlier in this document, the following may also result in TP S.A. share price fluctuations:

- Change in the dividend per share;
- Change in the Group's ratings;
- Change in the Group's debt;
- Sale or purchase of assets by the Group;
- Significant changes in the shareholder structure; and
- Changes in the capital market analysts' forecasts and recommendations concerning the Group, its competitors and partners, or business sectors in which the Group operates.

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

DLD – Domestic Long Distance Calls

DSLAM – Digital Subscriber Line Access Multiplexer

F2M – Fixed to Mobile Calls

FVNO – Fixed Virtual Network Operator

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

LC – Local Calls

LLU – Local Loop Unbundling

LTE – Long Term Evolution, standard of data transmission on mobile networks

MAN – Metropolitan Area Network

MPLS – MultiProtocol Label Switching

M2M – Machine to Machine, telemetry

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

UKE – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

UOKiK – Urząd Ochrony Konkurencji i Konsumentów (Office for Competition and Consumer Protection)

USO – Universal Service Obligation

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental