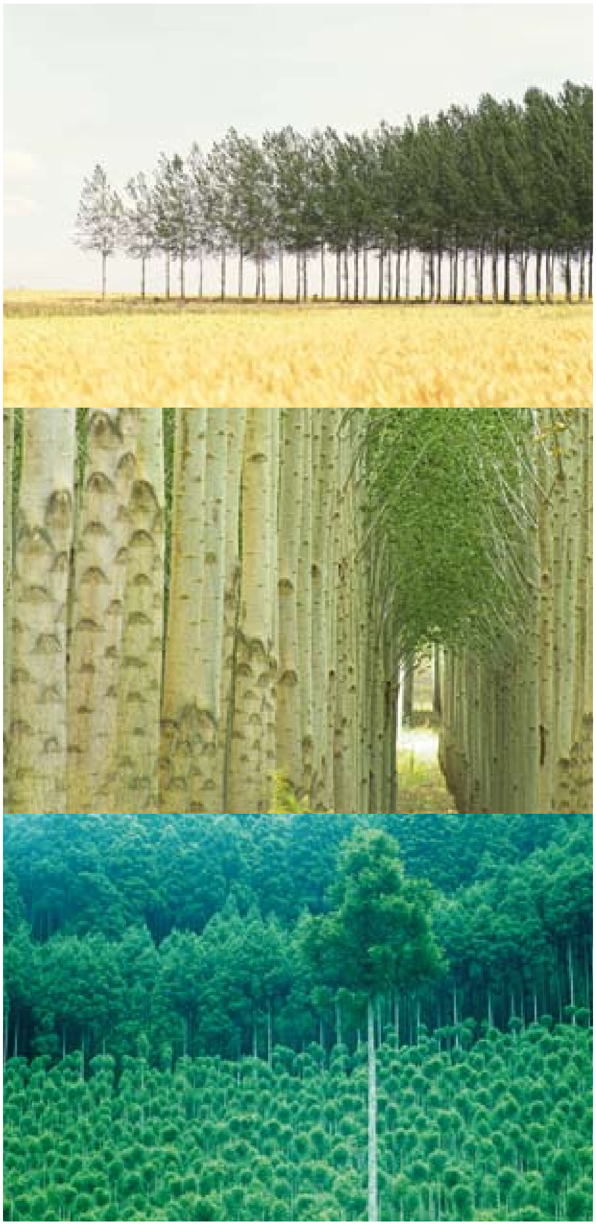
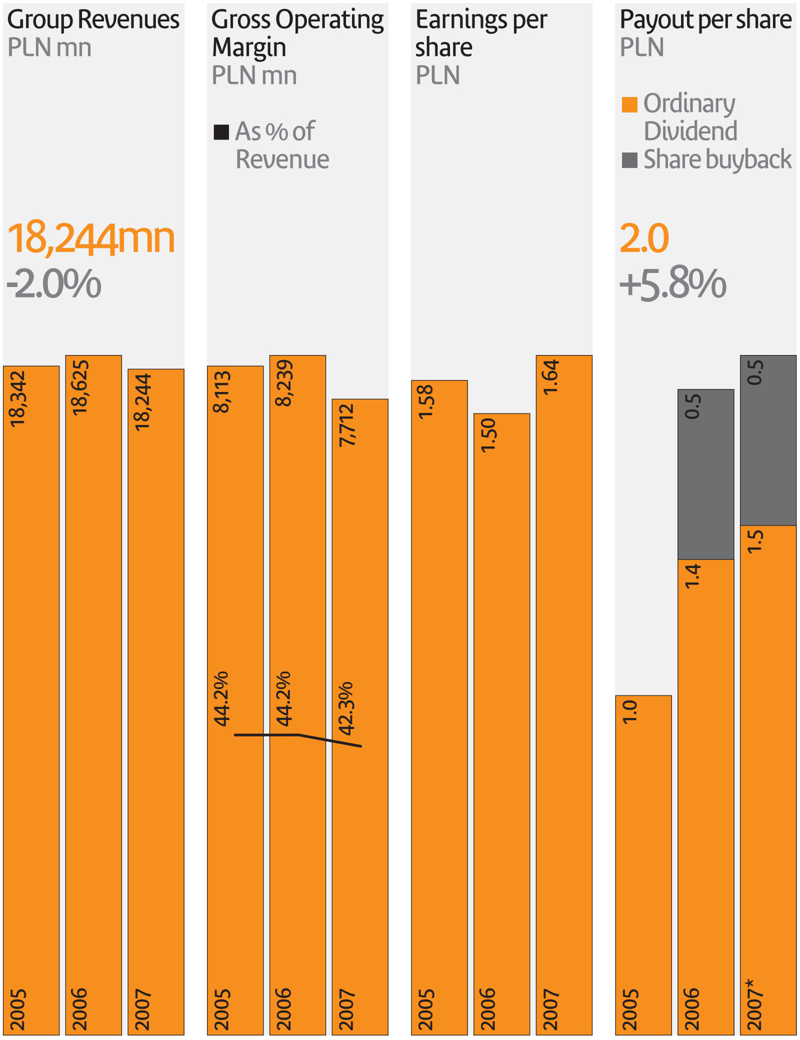
TP GROUP ANNUAL REPORT 2007



CONTENTS

TP Group's goal is to deliver outstanding customer satisfaction and attractive shareholder remuneration by being the first choice provider of telecommunication, media and entertainment services, through state-of-the art and cost-effective technologies.



*Subject to General Assembly's approval

"WE DEFENDED OUR MARKET LEADERSHIP POSITION IN ALL KEY SEGMENTS AND TP GROUP AS A WHOLE CONTINUED TO SHOW ITS RESILIENCE TO THE IMPACT OF REGULATORY DECISIONS, WITH REVENUE GROWTH OF 7.1% IN MOBILE AND 5.1% IN BROADBAND SUBSTANTIALLY MITIGATING THE DECLINE IN FIXED VOICE REVENUE."

MACIEJ WITUCKI
PRESIDENT OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Dear shareholders,
At the end of my first full year at TP Group, I am satisfied that we can look back on twelve months during which we laid down strong foundations for the future while still delivering short-term results. In the midst of a period of considerable transformation, our company continues to gain in agility, focus and responsiveness. 2007 asked TP Group some very tough questions – and we demonstrated that we had the answers, ending the year with revenue generation above guidance and profitability within the target range.

Operational highlights

In 2007, TP Group felt the impact of full market regulation for the first time. Market conditions were undeniably tough; the regulatory pressures we faced were compounded by a sharp slowdown in the value growth of the Polish telecoms market, and a challenging labour market in which we faced stiff competition to recruit the best people.

In this unpromising environment, the implementation of our strategic aims went ahead according to plan. By the end of the first half of the year, our programme of organisational improvements really began to bite, enabling us to deliver promised opex reductions and maintain sound profitability. We defended our market leadership position in all key segments and TP Group as a whole continued to show its resilience to the impact of regulatory decisions, with revenue growth of 7.1% in mobile and 5.1% in broadband substantially mitigating the 11.5% decline in fixed voice revenue.

In the fixed-line business, the regulatory reductions to Reference Interconnect Offer (RIO), retail fixed-to-mobile prices (related to decrease of mobile termination rates) and the obligation for TP to provide fixed voice and broadband wholesale services at a 'retail minus' pricing scheme resulting in price below cost had an inevitable pressure on our profitability profile. Despite these setbacks, we kept a grip on our leading market position, with share of traffic down by only 0.4 percentage points year on year. 2007 also saw a sharp slowdown in the Polish broadband market, which grew by only 5.7% by our estimates. However, thanks to a dynamic sales and marketing action plan, we ended the year with close to 2.2 million broadband customers, up almost 26% on a year earlier, while also holding our value market share steady in a highly competitive environment.

Our mobile business, PTK Centertel, continued to build on the success of the Orange brand in Poland, retaining the number one market position we won in late 2006. We showed that the Orange brand has the edge in an increasingly saturated market because we offer the right balance of innovation and customer service. October saw the successful launch of Orange Freedom – a broadband offer based on a bitstream access agreement with TP which won over 5,000 customers in the first two months.

In line with the cash distribution policy we set out in last year's annual report, I am pleased to confirm that the Management Board has recommended an ordinary dividend of PLN 1.5 per share with an additional exceptional cash distribution of PLN 700 million in the form of a share buy-back, bringing the total shareholders' remuneration for 2007 to PLN 2.01 per share.

Transforming our culture and our systems

In my letter to you last year, I promised that I would focus my energies on three key strategic initiatives in 2007: firstly, developing a more aggressive sales culture, underpinned by real improvements in customer satisfaction; secondly, the rationalisation and integration of corporate and support functions across the group; and thirdly, improvements to the flexibility of our employment base and ever more selective resource allocation. I want to take this opportunity to update you on our progress against all these objectives.

The promised transformation of our sales and customer service culture is well underway. We successfully integrated the distribution networks for TP and PTK Centertel, effectively bringing two sales forces into one. Fixed and mobile services are now promoted from common points of sale, and staff are being given cross-selling targets. We also began the process of integrating TP and PTK after-sales customer care, which will be completed in the next two years. Meanwhile, average customer satisfaction levels across all our call centres are up from 71 to 76% – concrete proof of the progress we made on this front in 2007.

We have strengthened our organisational processes by introducing new group-wide functions to oversee marketing and finance. These improvements have given us increased control over resource allocation and a faster time to market for new offers and products. Our Shared Services division has completed the integration of purchasing and supply chain management across the fixed and mobile businesses, with payroll integration scheduled for completion in 2008. We have successfully implemented new systems and processes with an advanced degree of automation.

On the cost side, we continued to work towards a more flexible employment base. We outsourced desktop management and call centre activities; overall, we comfortably achieved our planned net reduction of the workforce of 2.1 thousand while honouring the terms of the social agreement we signed with the unions in 2006.

Our 2007 investments reflected our orientation for the future – they were mainly aimed at further development of mobile business, building strong base for broadband services, and content. Last but not least, we have initiated our IT turnaround, starting from investing in our systems integration between fixed and mobile segments. On the other side of things – we have limited, and continue to do so, our investments in the fixed voice access part of the network. We are very cautious and focused there, taking into account the wholesale 'retail minus' pricing scheme's impact on future profitability of our investments. TP Group is willing to continue our contribution to the growth of telecoms market but this can only be made with clear visibility on the reasonable return to be achieved from such investments.

Looking forward

In an increasingly saturated market, customer retention is key. To improve our levels of customer loyalty in the years to come we need to deliver operational excellence, giving customers perceptible improvements in quality of service while keeping our costs firmly under control. On top of this, we must focus on leveraging cross- and up-selling opportunities across the whole Group portfolio as we integrate more services into the network. Our continued commitment to product innovation and quality of service will allow us to address the customer retention challenge by bringing a consistently high level of differentiation to the market.

In July of 2007 I laid out our new strategic focus for the next three years, summed up in the phrase 'Enhance core, go for more.' This means enhancing our core business while also looking for opportunities to develop in businesses where we would be able to deliver growth and profitability, leveraging mainly on adjacent sectors of economy.

Our 'Enhance core' remit encompasses strategic action plans for cross-selling, opex and capex optimisation and further work on our balance sheet, including an extensive real estate optimisation programme. We began work on a number of these plans in the fourth quarter of 2007, preparing the way for full launch in 2008. Chief among our new initiatives is a complete IT turnaround which will transform TP Group's IT systems, integrating them with our CRM systems and giving us a single billing platform and a single CRM system across the group. One of my first decisions when I joined TP was to make sure that IT was at the heart of our strategy. IT systems do not just support us in the after-sales process; they are also key to the implementation of new products. The new integrated IT platform will improve effectiveness and efficiency across all our business activities.

We also laid the groundwork for our 'Go for more' strategy. In the last months of 2007, we finalised two important deals. The first, an ambitious agreement with the three other major Polish mobile operators, will create a common technological platform for future services such as payment and digital television broadcasted to mobile handsets. The second is an exciting joint venture with Canal+ which will enable TP to provide own-brand nationwide satellite TV using Canal+ technical infrastructure. This will be then complemented with broadband and voice services via our new wireless solution. Meanwhile, we are continuing actively to seek investment opportunities in the ICT sector, where the right strategic acquisition would allow us to offer highly attractive end-to-end packages to our business customers. By pulling together network, telecoms, software and support in one integrated offer, we will guard against the risk of becoming a mere pipeline provider in this lucrative future market. I will update you on these and other initiatives through the course of 2008.

In closing, I would like to pay tribute to all the talented people whose energy, dedication and commitment have steered the Group through a year of change and challenge. As we drive the Group forward into its next stage of development, I am confident that we have the right technologies and the right people in place to achieve the operational excellence that is critical for TP Group's success.

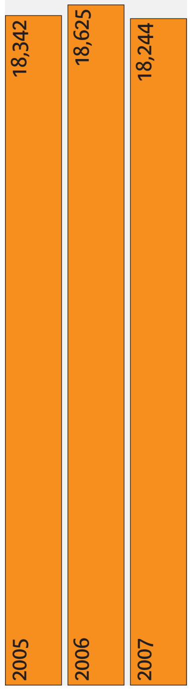
Yours sincerely,

Maciej Witucki
President of the Board and
Chief Executive Officer
31st March 2008

TP Group is Poland's leading telecommunications provider. We have operations in fixed-line voice, data and mobile networks. TP Group is currently 48.6% owned by France Telecom. In 2007 we achieved revenues of PLN 18.2bn and a net income of PLN 2.27bn.

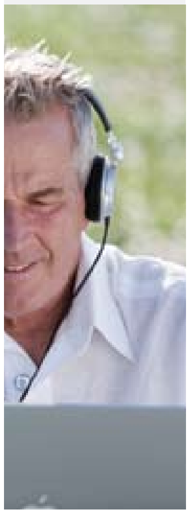
Group Revenues
PLN mn

18,244mn
-2.0%



Revenue
PLN mn

Fixed
10,914

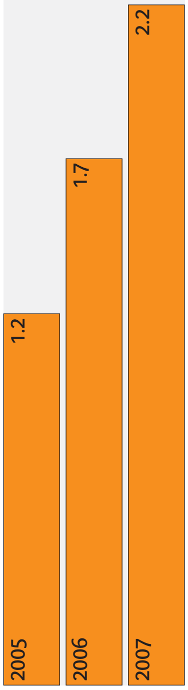


Revenue
PLN mn

Mobile
8,064

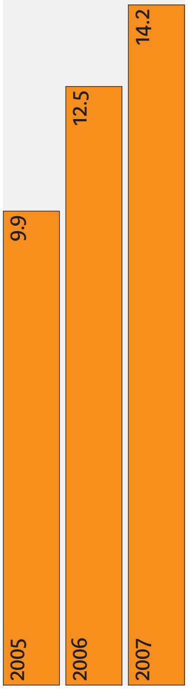
Broadband Customers

2.2mn
+25.8%



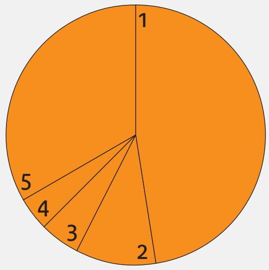
Mobile Customers

14.2mn
+13.1%



TP Group share capital structure at the end of 2007

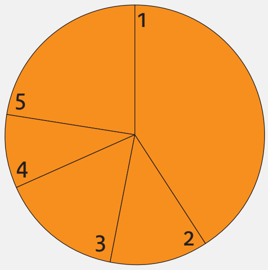
1	France Telecom	47.50%
2	Capital Research & Management Company	10.23%
3	GDR holders represented by Bank of New York	5.02%
4	State Treasury	3.96%
5	Other shareholders	33.29%



TP Group revenue composition

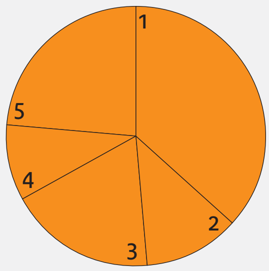
2007

1	Mobile	40.9%
2	Data	12.4%
3	Fixed-line traffic	15.1%
4	Interconnect & other	9.2%
5	Fixed-line Access fees	22.4%

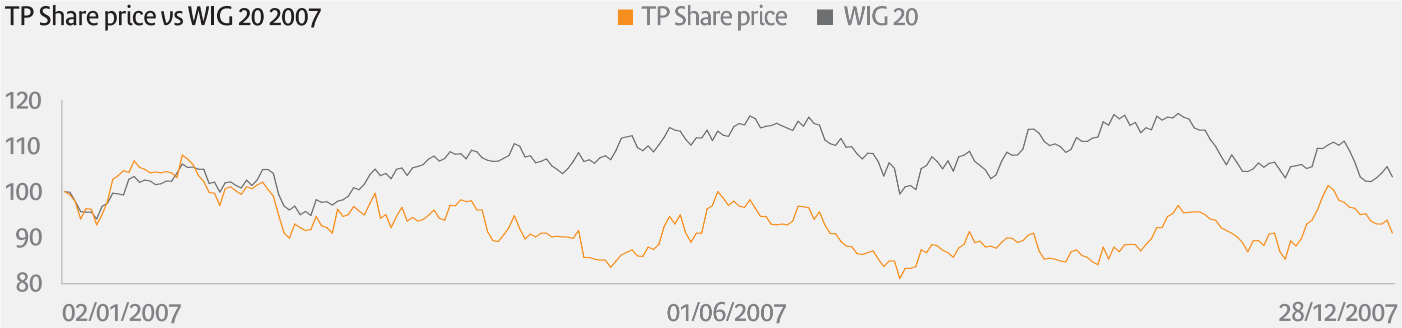


2006

1	Mobile	36.8%
2	Data	12.0%
3	Fixed-line traffic	18.4%
4	Interconnect & other	9.2%
5	Fixed-line Access fees	23.6%



TP Share price vs WIG 20 2007



RELIABILITY MEANS INVESTING IN SUSTAINABLE GROWTH

What does it take to make our stakeholders confident that they can rely on TP? We say it all comes down to sound investment for sustainable growth. That's why we've strengthened our organisational controls, and why we're constantly testing and reassessing our risk management processes: so that you can rely on us to invest TP's time and effort in projects which reward us with real, long-term growth.

In 2007, we initiated co-operation with ten out of the 16 Polish regions to potentially roll out Internet access to remote areas of the country over the next seven years under Public-Private Partnership scheme. Thanks to EU subsidies, total Internet coverage for Poland is now largely on its way – and it positions TP as the national Internet enabler. We're building the communications backbone that will support Poland's future social and economic success.

WE STAY ON TRACK BY BEING CUSTOMER-FOCUSED

In an increasingly saturated market, it's more important than ever for us to keep our customers at the heart of everything we do. We know that better customer service translates directly into improved customer loyalty: a win-win situation.

Being customer-focused also means listening to our customers and giving them services that fit their needs and their budgets. We know our mobile subscribers love their gadgets, therefore we address each of our clients' group with tailored offers allowing them to select the most suitable solution. And we stepped up our content aggregation strategy to make sure that TP is simply the richest content provider across every one of our platforms. Exciting new deals include the rights to provide Polish premier league football games within our TV offer and to make the entire Universal Music back catalogue available via mobile downloads.

INNOVATION HELPS US THRIVE IN A CLUTTERED MARKET

For TP, innovation means so much more than just having the latest technology. It's about finding new business solutions and building new partnerships. It's the ability to harness and market cutting-edge solutions in a user-friendly package that customers simply can't ignore. The market is hungry for novelty, but new ideas quickly fall out of favour if they aren't backed up with robust systems and good customer service.

We demonstrated our talent for successful innovation in 2007 by introducing our triple-play offer which has already enjoyed a successful 'soft launch' in major cities. In 2008 we'll continue to offer **livebox TP** across Poland: wireless Internet, low cost voice calls (VoIP) and IPTV through one handy modem.

The outlook to economic indicators for 2008 is positive. Poland's GDP is expected to grow by 5% to 6% in real terms, with inflation we believe to be contained around 3% and unemployment levels falling to between 8% and 9%. On this basis, TP Group expects the traditional telecoms market to develop at a relatively fast pace, with the value of the total market growing in the range of 2% to 4%.

Market climate

Despite continuing buoyant conditions in the Polish economy as a whole, Poland's telecoms market saw markedly slower growth in 2007. According to our estimates it grew by only 1.4% in value terms as compared to 5.2% in the previous year. This slowdown was primarily caused by a series of regulatory decisions on mobile termination rates (MTR), reference interconnect offer (RIO), bitstream access (BSA) and wholesale line rental (WLR), as discussed on page 23, that led to significant price pressure. However, we saw encouraging signs of recovery in the fourth quarter with 4.1% growth, as compared to the period a year earlier when the first and most stringent regulatory reductions to MTR and RIO were implemented.

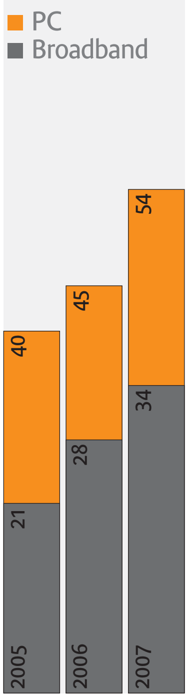
Looking ahead

The outlook to economic indicators for 2008 is positive. Poland's GDP is expected to grow by 5% to 6% in real terms, with inflation we believe to be contained around 3% and unemployment levels falling to between 8% and 9%. On this basis, TP Group expects the traditional telecoms market to develop at a relatively fast pace, with the value of the total market growing in the range of 2% to 4%. We anticipate three main drivers for this development:

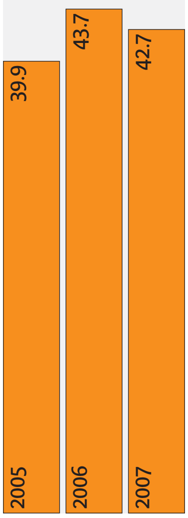
- Double-digit growth in the mobile retail market, with further potential for higher service penetration;
- Reasonable growth to be resumed in the broadband market after a slowdown in 2007, with volume growth comparable to 2007;
- A rebound in the wholesale market, despite the additional 15% MTR decrease scheduled for May 2008.

The fixed voice market will continue to decline, but at a slower pace. The total value of the Polish telecoms market as a percentage of GDP should remain above 3%, although it is gradually converging with Western European levels. Meanwhile, adjacent market segments, in particular ICT and Pay TV, are expected to post double-digit growth again in 2008.

PC and broadband penetration per household
%

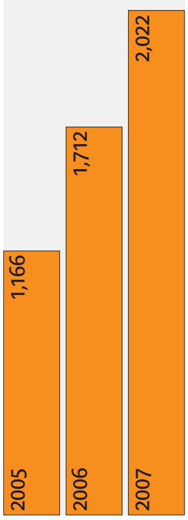


TP Group broadband market share
%

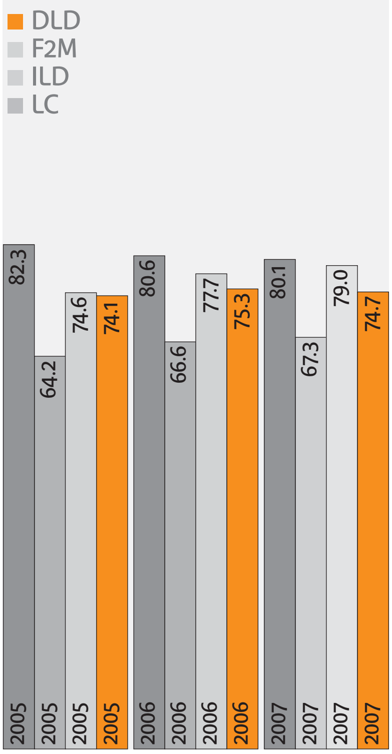


Broadband retail customers (ADSL + SDI)
'000

+310
+18.1%



Fixed-line voice market share
% (based on traffic in TP network, mass and business segments)



Fixed-line

TP Group's fixed-line revenues for 2007 stood at PLN 10,914 million, down 8.0% compared to 2006. This decline can largely be attributed to increasing fixed-to-mobile substitution and impact of lower mobile termination rates (MTR) on fixed-to-mobile retail prices, as well as the ongoing process of market liberalisation (discussed elsewhere in this report).

TP Group is working hard to mitigate the trend of decreasing revenues and profitability in the fixed-line segment. As well as continuing to streamline our cost base, we are focussing on increasing revenues from data services, mainly broadband and data transmission, and value-added services, such as VoIP, television and multimedia services.

Voice services

Competition intensified in the fixed-line telecommunications market in Poland in 2007, putting additional pressure on TP's fixed voice revenues. A number of new fixed virtual network operators (FVNO) emerged, running their business on the basis of WLR and BSA. Mobile operators launched further modifications of Home Zone offers and voice tariff reductions in an attempt to take market share away from fixed-line voice. Cable television operators focused on extending the range of fixed-line voice and Internet access services.

However, initiatives to stimulate traffic through new tariff plans enabled us to hold on to our traffic market share. According to the Group's estimates, TP's share of overall fixed voice traffic fell just 0.4 percentage points, to 78.6%. The year on year decrease in average revenue per line was contained at 5.1%.

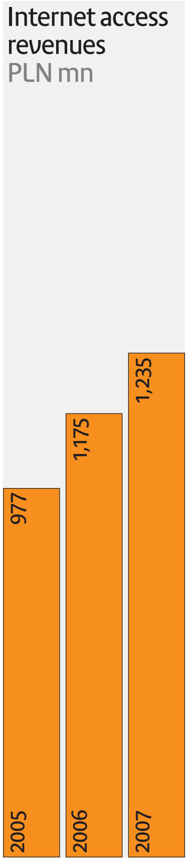
Data services

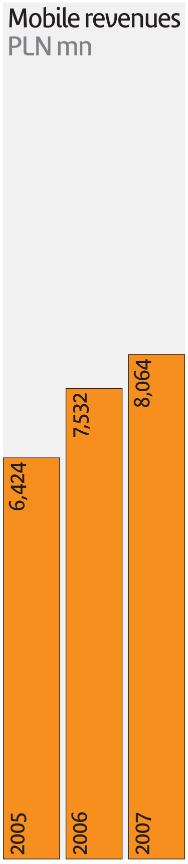
During 2007, revenues from data services increased by 1.3% year on year and accounted for 12.4% of total TP Group revenues (as compared to 12.0% in 2006). Going forward, the Group expects to see further growth in this segment, and in data services as a percentage of total revenues. Given that 98% of TP's fixed-line subscribers were within ADSL coverage by the end of the year, ADSL services clearly have solid growth potential and will further leverage our IP-VPN offers for business.

Internet services

During 2007, TP Group continued to pursue the strategy of offsetting lower revenues from fixed voice services with growth in data services. According to our own estimates, Poland's fixed broadband market grew in value by just 5.7% year-on-year in 2007. This significant slowdown (compared with the previous year's growth of 8.2%) was mainly caused by the implementation of a 'retail minus' pricing scheme for signed Bitstream Access (BSA) contracts, which drove prices down across the whole market. Therefore, even though the number of broadband lines increased by almost 26% year-on-year, reaching close to 2.2 million, of which 94% are retail lines, aggressive price competition kept the improvement in our revenues to just 5.1% year-on-year. Revenues growth was also impacted by a continuing decline in dial-up internet revenues resulting from migration of dial-up customers to broadband services.

In terms of total number of customers, the market grew by 20.6% to 4.7 million, taking the household penetration rate to 33.5% at the end of the year. This 5.5 percentage point increase in penetration rate also represents a slowdown compared with 2006; Poland still has a relatively low level of penetration compared to other European countries.





In this increasingly competitive environment, TP Group maintained a commanding position as market leader and innovator, competing less on price and more on value by encouraging customers to use higher bandwidth options and by pushing bundled offers, including the sale of Voice-over-IP and TV-over-DSL as well as triple play offers with premium TV content. TP Group facilitated this sales push by extending the coverage of its value-added broadband offers. The multipakiet tp triple-play service we launched in 2006, which includes digital TV, video-on-demand, Internet access and VOIP-based voice service, was rolled out to 42 cities by the end of 2007.

Other offers that stimulated customer acquisition included packaging an ADSL subscription with a laptop to be purchased by instalments and MS Office at an attractive discount; such initiatives helped TP Group successfully to defend its market share in subscriber additions.

Broadband average revenue per user (ARPU) was down 21.5% in 2007 compared with 2006. However, ARPU stabilised throughout the year thanks to the Group's action plan to increase the value sold to customers. Consequently, according to internal estimates, the Group almost maintained its value market share at 51.0% (51.3% in 2006) in a highly competitive environment in the first year of BSA implementation.

Data transmission services

In the data transmission segment TP Group offers IP-VPN services in co-operation with Orange Business Services (OBS), a division of France Telecom. The launch of IP-VPN was undertaken in conjunction with France Telecom in order to optimise costs and leverage France Telecom's experience. MPLS (MultiProtocol Label Switching) based IP-VPN is a fully managed, business class service designed to provide a flexible, reliable and cost-effective network infrastructure for transmitting voice, data and video.

Thanks to OBS's international experience, the Group's offer has quickly established itself as one of the most technologically advanced products in the Polish market. Several key business clients in the fast moving consumer goods, manufacturing, transport and other sectors have already signed up for the service.

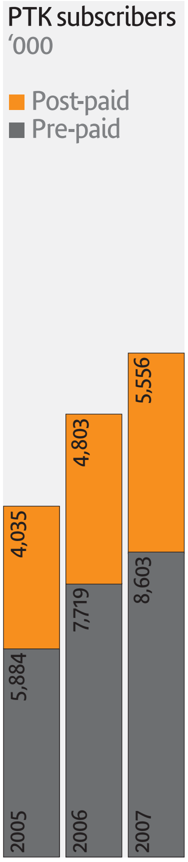
Mobile

Another year of very positive results in our mobile business saw full year revenues for 2007 rise to PLN 8,064 million – an increase of 7.1% on 2006 levels. Retail revenue rose by 12.4% as a result of higher customer base and higher usage, mainly in on-net traffic. Meanwhile, wholesale revenue fell by 5.9%, despite increased volume, as a result of the regulator's decision to reduce mobile termination rates.

We were also able to maintain the profitability of the segment. In 2007, GOM in the mobile business was PLN 3,155 million, an increase of 18.2% year on year. GOM as a % of revenues was 39.1%, an increase of 4 percentage points compared to 2006. We achieved this margin improvement despite an increase in commercial costs, particularly in the fourth quarter when we invested strongly to leverage increasing market demand. Altogether, our commercial costs increased by PLN 175 million in order to sustain growth in the customer base.

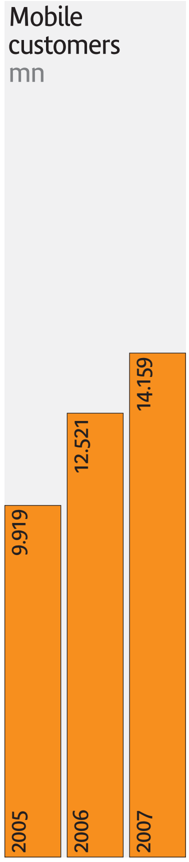
Despite predictions of a slowdown in 2007, the Polish mobile market continued to expand at a rapid pace. According to officially reported figures, the mobile market expanded in volume by 12.9% year-on-year and totalled 41.5 SIM cards at the end of 2007 with a penetration rate of 108.9%, up from 96.4% year before. 2007 also saw the entrance of a fourth mobile infrastructure operator and the commercial launch of the first three MVNO offers. In this intensely competitive environment, PTK Centertel, operating under the Orange brand, retained its leadership position, competing less on price and more on the transparency and simplicity of its tariff structures. PTK Centertel's estimated market share at the end of 2007 was stable at 34.1% in terms of total customer base, and down just 0.1 percentage points in terms of value, at 34.2%.

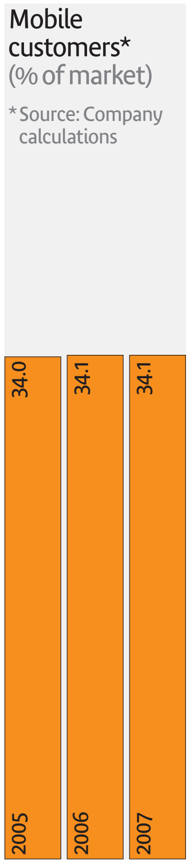
We also led the market in terms of innovation, continuing to upgrade our network to support the latest multimedia services. From 2 April 2007, our entire 3G network now runs the HSDPA standard, allowing a significant increase in data transmission rates – from 384 kbps on the original 3G network to the current level of up to 7.2 Mbps, with a potential future capacity of 14.4 Mbps. This enhanced service currently covers over 25% of the Polish population, reaching Orange customers in 23 major towns and cities. We also increased our offer in terms of roaming capabilities: at the end of 2007, Orange offered roaming services on 389 networks in 182 countries worldwide, including GPRS roaming on 184 networks in 76 countries and 3G roaming on 35 networks in 19 countries.



Mobile voice

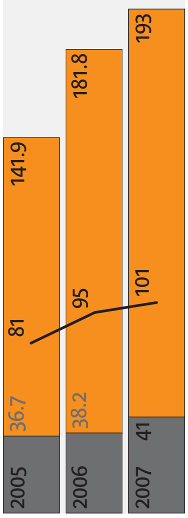
Stimulated by the introduction of innovative new offers in both pre- and post-paid, the number of Orange customers grew 13.1% year on year – slightly faster than the overall market – reaching 14.2 million at 31 December 2007. Of the 1.6 million net subscriber additions 46% were in the post-paid segment, taking our share of post-paid customers to 39% at the end of 2007, up from 38% a year earlier. What is more, PTK Centertel was able to grow its subscriber base while reducing acquisition costs. Blended unit SAC (subscriber acquisition cost) was PLN 130 in 2007, down 3.7% compared with 2006. Blended ARPU was down: it fell by 9.9% year on year to PLN 49 due to a decrease in the average price per minute mainly as a result of regulatory reductions to mobile termination rates in late 2006 and first half of 2007.





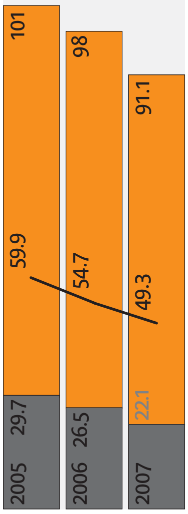
Average usage per user (AUPU)
Minutes

Pre-paid
Post-paid
Blended



Average revenue per user (ARPU)
PLN

Pre-paid
Post-paid
Blended



Mobile data

Our portfolio of data-based offers includes Business Everywhere and Internet for Business as well as the Orange Free service for residential customers.

Over the course of 2007, PTK Centertel doubled the data transmission rate for Orange customers in Poland's main urban areas by enhancing the HSDPA technology that we introduced in December 2006. We also began to introduce HSUPA, an even faster mobile data technology, which we have so far made available in Kraków, Katowice conurbation, Wrocław and Poznań.

The demand for mobile broadband internet access via EDGE and 3G reached 223,000 customers at the end of 2007, up from 81,000 a year earlier.

Mobile virtual network operators

As of the end of 2007, PTK Centertel's infrastructure hosted three virtual operators:

- Avon Mobile Sp z o.o.: myAvon service launched on 22 May 2007
- Wirtualna Polska Sp. z o.o.: WPMobi service launched on 29 August 2007
- MNI Telecom Sp z o.o.: Simpfonia and EZO mobile services launched on 19 December 2007

In addition, on 30 November 2007, PTK Centertel signed a MVNO service agreement with the public company Aster Sp. z o.o.

So far, MVNOs have captured an estimated 50 thousand customers – barely 0.1% of the market.

Integrated offers under the Orange brand

In late 2007, PTK Centertel began to offer Orange Freedom, fixed broadband services to Orange customers, having signed a Bitstream access service agreement with TP. This move is part of the Group cross-selling strategy aimed at increasing TP Group's average revenue per customer. The offer acquired over 5,000 subscribers over the last two months of the year.

Other integrated offer introduced by PTK Centertel in 2007 is Unifon – mobile voice services seamlessly switching between GSM when on the move and Wi-Fi access (based on fixed broadband service) when at home or within reach of Orange HotSpot, for cost efficiency of using Orange voice services.

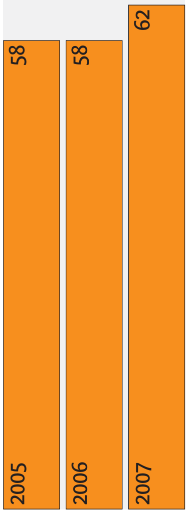
Sales & Service Poland

For our Sales and Service team, 2007 was a year of dynamic transformation. We continued with the implementation of a common sales and customer service network for the Group's fixed and mobile customers, consolidating the process that began in 2006. We completely integrated our distribution network and began to roll out a common and joint point-of-sale model. All staff are now given cross-selling targets that will encourage them to promote the full range of TP Group products.

On the customer service side, we introduced a whole new philosophy governing interactions between our staff and our customers, backed up with an array of operational improvements. For example, we adopted 'First Contact Resolution' as a key performance indicator for our Blue Line call centres. This is a measure of the number of customer enquiries that can be resolved in a single call, and it allows us to look at the efficiency of our customer care processes in a whole new way. In order to facilitate improvement, we have empowered our agents in terms of decisions they can make during a customer's contact. As a result, the average handling time actually fell by 10%, and customer satisfaction increased as callers realised they were dealing with a decision-maker who had time to listen.

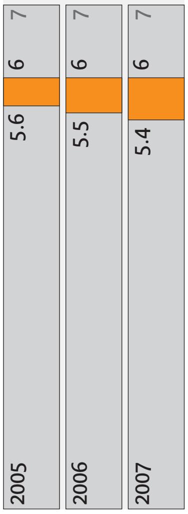
We also introduced an automated customer feedback survey to help us monitor the performance of call centre agents at the same time as gauging customer satisfaction. The overall Blue Line satisfaction level dipped from 71% in January to a low of 69% in April; but by the year's end we had improved this to 79%.

TP customer satisfaction
% of customers surveyed



Orange customer satisfaction
Average ranges across segments

1 = very unsatisfied
7 = very satisfied



We are now working on converging our call centre and CRM systems to allow us to fully integrate the TP and PTK customer care functions in the next two years. As our product offer widens to include more and more cross-selling of bundled products, so the complexity of the sales and service function grows. The new IT systems we are introducing in 2008 are an essential investment to ensure that we continue to build customer loyalty through satisfaction, by providing good after-sales support for our new offer range.

Networks & IT

Networks

Our main investments on the fixed-line side were aimed at enhancing the capacity of the network to handle data traffic. We implemented the necessary infrastructure for the continuing rollout of IPTV services, and upgraded the network to enable the growing demand for broadband services.

In the mobile segment we continued the UMTS rollout, reaching 25.5% coverage at the end of 2007, up from 16.9% a year earlier.

We also began to introduce Service Management Centres, which will allow us to focus on end-to-end quality of service and ensure that we manage the whole of our network operations to provide the best customer experience. So far we are using this system to manage a number of the new products we introduced in 2007, and we are continuing to roll it out across the whole Group product portfolio.

R&D

TP continues to establish its place as a leading research centre within the France Telecom Group, taking the lead on a number of new product development projects. 25% of the research and development work we did in 2007 was done for the benefit of the whole FT Group, with TP developing particular expertise in voice recognition technology and SIP platforms. We have also been very active in international working groups for telecom standards.

IT

We successfully executed a number of projects aimed at further integrating IT systems across the group. For example, we consolidated our data centres, benefiting not only from immediate cost savings but also ongoing operational efficiencies. We also followed up last year's portal integration project by merging the TP and PTK Centertel email systems.

Further efficiency gains were made as a result of the outsourcing agreement for desktop management services, which resulted in 150 TP employees moving to an external supplier, EDS.

In terms of Customer Relationship Management (CRM) we have taken major strides towards putting the customer rather than the product at the centre of our IT systems. In the first half of 2008 we will complete the necessary upgrades to the CRM system that will enable an integrated customer view.

Human Resources

2007 was a successful year from an HR point of view, in which we completely overhauled our remuneration policy, simplified management structure across the Group and met all our headcount targets.

We implemented a new remuneration policy and benefits package that is competitive in the Polish job market. In tandem, we rolled out a system of annual management appraisal and performance-related pay to all TP employees, and began to extend it to PTK Centertel staff as well. As a result, we now award salary increases in a more focused and selective way, closely related with contribution to the Group's achievements. For the top 350 managers, the new stock option scheme came into effect, as announced in last year's annual report.

As part of the programme to integrate TP and PTK Centertel at a functional level, we were able to simplify our management structure. We introduced a matrix reporting scheme which reduced the number of reporting layers by an average of one, and reduced management span by the same number. An extensive succession planning exercise has enabled us not only to put in place contingency plans in case of the sudden departure of key staff, but also to diagnose those parts of the organisation which need strengthening.

We outsourced from the Group the desktop management function (some 150 people), as well as a part of call centre activities (500 people). 2,350 people left the Group under our voluntary leaves plan, and overall the Group headcount was down to 31.3 thousand by the end of 2007. Going forward into 2008, we continue to address the daily challenge of aligning resources to the real needs of the Group as it responds and adapts to market pressures.

Corporate Social Responsibility

TP – Your World. Whole World

Our claim brings together, without any boundaries, all company's stakeholders: customers, local communities, employees, suppliers, investors, environment. We are committed to doing business in the spirit of social responsibility and to respecting all our stakeholders, because corporate responsibility remains at the core of our values. In 2005, TP became a Strategic Partner of the Responsible Business Forum, which is the national partner of CSR Europe, an organisation promoting the concept of responsible business in Europe. In addition, PTK Centertel became a Strategic Partner and ORE S.A. a Partner of the Responsible Business Forum. In February 2006, TP became officially the first and only Polish telecom company to participate in the UN Global Compact, the Secretary General's initiative for business, which promotes sustainable development and works to advance ten universal principles in the areas of human rights, labour, the environment and anti-corruption.

TP and national heritage

We know where we are going, we know where we come from; being a national operator TP cares that our heritage is present in people's lives as an important element of understanding our identity when opening our country to the world. We support actions which bring our culture and history within people's reach. Last year we co-produced 'Katyń', a film directed by Mr Andrzej Wajda, being an actual history lesson for current and future generations. The film was critically acclaimed, receiving international recognition from the Berlinale International Film Festival and being nominated for an 'Oscar' Academy Award in the category of best foreign language film. Also, beginning this year we have co-sponsored the purchase of correspondence from the Warsaw Uprising during World War II, an example of our efforts in building a free and independent society. The collection of letters, envelopes and stamps is now available for public viewing in the Warsaw Uprising Museum.

TP and Local Communities

TP is focused on co-operation with local communities and local authorities in order to popularise Internet-based technology and facilitate the process of information society building ('BB Partnership' programme). Apart from business co-operation, we are supporting local community development through dedicated social programmes. In January 2006, TP and PTK Centertel established the TP Group Foundation – an indication of our long-term commitment to social initiatives. As part of our nation-wide initiatives to develop an Internet society, TP Group creates Internet connection programmes in Polish schools. Established in 2004, 'Education with TP Internet' provides schools of all levels with discounted Internet access. A Very important part of the programme are training sessions, which increase the professional qualifications and skills of teachers. Programmes, which are conducted over the internet, are addressed to middle school teachers and cover such topics as: active learning methods, projects as a teaching method, using IT tools in modern education. The project additionally comprises teacher-training sessions that prepare them to use multimedia tools when working with students. The TP Group Foundation is also the major partner of a national campaign known as 'Dziecko w sieci' ('Child in the Web'). The programme is carried out in co-operation with the Ministry of Education. Over four million pupils at 13, 500 Polish schools currently use broadband Internet services thanks to this initiative; and Poland has been singled out by a European Commission report as one of only eight EU countries in which more than 80% of PCs at schools are connected to the Internet. Aggression and violence are serious problems in a majority of Polish schools that is why the campaign 'School without bullying' was initiated and has been conducted since spring 2006 by 16 regional dailies of two publishing groups – Media Regionalne and Polskapresse (the largest publishers of regional dailies in Poland) with TP.

TP has also established a national grants programme for local communities aiming to create an information society. Local Action Groups were awarded grants and 40% of the local districts in Poland are covered by the programme. The initiative is being carried out in co-operation with the United Nations Development Programme (UNDP) and is the largest such project in Europe. TP is always on the lookout for innovative ways to use the Internet. The Virtual Museum Programme, launched in 2006, is helping museums to create virtual exhibitions and enabling a virtual tour round the museums using modern telecommunications technologies, so that the museums' collections may be visited by anyone. The first institution whose collection will be available via Internet will be the Warsaw Uprising Museum. Another highlight among TP's social outreach initiatives is the 'Phone to Mum' project which gives hospitalised children access to telephones. So far, over 1,000 colourful, child-friendly, phones have been installed in almost every child's ward in Poland. Every month children are provided with 16,000 free phone cards. The idea behind 'Phone to Mum' has been extended to the 'Internet Smile' programme. TP also creates Internet mini-laboratories helping to continue children's education while in hospital.

In 2006 the TP Group Foundation started an innovative programme aimed at helping children with hearing loss entitled Sounds of Dreams, which is a unique project of its kind in Europe. It offers comprehensive multistage help to: a child, its parents and therapists. The aim of the programme is to provide a child with care immediately after confirming a hearing loss, in the early stage of its life.

Within the programme we lend hearing aids to children free of charge and provide them with systematic professional home hearing and speech therapy. The foundation also organises free two-week summer rehabilitation holidays for children and their parents as well as free training for therapists and carers, where we concentrate on the specialist skills necessary to work with young children.

TP and the natural environment

Conscious of the environment, TP aims at limiting its impact on the natural environment. As a consequence, in 1998 the Company implemented procedures and systems that help us to achieve our objectives. Environmental audits carried out by the Company in 2002 and 2003 have confirmed compliance with Polish laws and highlighted the Company's achievements in limiting its environmental impact. Environmental monitoring teams were established within the TP Group to control the Group's infrastructure and equipment, monitor emission levels and provide training in environmental protection. In addition, the teams monitor legislation and assure compliance with environmental regulations.

TP and consumer organisations

TP develops its external relations with consumer organisations by conducting an ongoing dialogue through meetings and workshops.

TP and suppliers

TP plays an active role in the FT Group supplier evaluation programme, QREDIC. The programme includes a supplier evaluation process, which monitors suppliers' activities with regard to business ethics and environmental protection. The process aims at better co-operation between FT Group companies, and usually results in an action plan to enhance such co-operation.

Code of Ethics

Please refer to the Corporate Governance Section on pages 29-31 for details.

TP and employees

Health and safety

TP has adopted the highest standards of health and safety. In addition to health and safety internal regulations, the Company has an ongoing health and safety training programme.

Equal opportunities

Our goal is for the TP Group to be a fair employer which does not discriminate on grounds of disability, nationality or gender. About 45% of all employees at TP are women, of whom 31% are in management positions.

Skills development

TP runs many training programmes which help our employees advance their careers, including:

Talent Review

The programme aims at comprehensive preparation of managers for the pursuit of the business objectives of the TP Group. The most talented employees identified in the programme will have the opportunity for further development, e.g. through financing of their MBA studies.

E-learning and Development Product Library (DPL)

Electronic training delivered directly to one's own workstation (PC) plays an increasingly important role in TP personnel education. The Development Product Library, integrated with the e-learning platform, offers an opportunity to develop and improve skills, as well as acquire additional knowledge.

Employee Retirement Plan

The TP Employee Retirement Plan (TP ERP) is an organised group retirement savings plan. It is part of the third pillar of the pay-as-you go retirement system and the employee premiums are paid by the employer. The employer's contribution depends on the basic salary. At the end of 2007, 20,772 people were covered by the plan and had their basic premiums paid into their accounts; an additional premium was declared by 2,719 participants in TP ERP. The value of the TP ERP account unit increased by 6.1% in 2007.

Central Welfare Fund

The purpose of the Fund is to provide assistance to TP employees and pensioners, and their families who may be facing difficulties as a result of an accident (e.g. fire, flood, serious illness). Additionally the TP Group Foundation maintains a special fund for employees who suffer from accident or illness. It is created from voluntary payments by TP's employees.

Regulatory environment

TP Group's business was the target for a series of tough regulatory decisions in 2007. Our position has not changed: we remain committed to an open Polish telecoms market and fair competition. We have co-operated with all those competitors who share our priorities for the market and recognise the value of continued investment in a strong telecoms infrastructure. TP Group will maintain this position in 2008, while continuing to appeal those regulatory decisions that are excessively punitive and inconsistent with the European regulatory framework.

Wholesale line rental and bitstream access

TP is currently appealing against ten UKE decisions imposing flat rate settlements and eleven decisions on wholesale line rental to other operators. We are appealing because the decisions are reached using a 'retail minus' model that fails to take into account the realities of the Polish market. For example, UKE set the wholesale line rental rate at TP retail price minus 46.99% – much lower than EU benchmarks and, more importantly, below TP's costs. In its judgment on the WLR question, the court of appeal upheld our complaint, stating that the model for setting WLR prices should take TP's costs into account. This sets an important precedent for future regulation. We therefore await a new ruling from the regulator on wholesale line rental.

We are challenging 2007 decisions on bitstream access pricing for similar reasons - UKE now requires prices to be set at a 'retail minus' of 51% across the board, whereas special promotional offers were previously subject to a rate of 41%. At the same time, the regulator ruled that TP should extend access to the DSLAM and IP levels, and provide bitstream access on WLR and non-active lines. Technical implementation is now underway, but an appeal on the pricing decision has been submitted.

Mobile termination rates and fixed-to-mobile pricing

A regulation came into force on 1 May that reduced mobile termination rates for all three Polish mobile operators to PLN 0.40 per minute. This price reduction is in line with developments in the European market in general and followed bilateral agreements between the regulator and all major market players. However, in July UKE issued a decision imposing maximum prices on fixed-to-mobile calls to all mobile network operators. TP is appealing this decision, both in Poland and at the EU level. Meanwhile, in November we introduced new, lower retail fixed-to-mobile tariffs.

Cost model

The ongoing dispute between TP Group and UKE over a mutually acceptable cost model failed to reach a resolution in 2007, despite the appointment of an independent auditor. The UKE-appointed auditor provided an unqualified opinion on TP's cost model, but UKE completely ignored it without any valid reason. We will continue by all available means to pursue this crucial matter of principle: we regard the establishment of an agreed cost model as central to the successful future regulation of the Polish telecoms market.

Network separation

In the second half of 2007 UKE announced its intention to split TP S.A. and that it would conduct market analysis aimed at arguments for such movement. The split is understood as separating network operations that would equally, on a wholesale basis, serve both TP S.A. retail business and alternative operators. Based on independent legal opinions, according to the Polish law there is currently no legal basis for implementation of functional separation. Such view is also shared by Polish Ministry of Infrastructure. At the moment the functional separation is also not included in the European Union regulatory framework. The European Commission agrees that functional separation shall be only considered after careful market analysis and only if the other remedies clearly failed to work and prospectively will fail to work in the future. Therefore functional separation should be only regarded as a last resort remedy. In TP Group's opinion, it could be applied in extreme market conditions which for sure is not the case currently in Poland.

The Polish market is very diversified as there are many alternative operators, not only those which provide services over the TP infrastructure but predominantly cable TV operators, mobile operators which together with TP Group contribute to growth of the market. It is still too early to evaluate the impact of remedies implemented by UKE in order to liberalise the market, but the growing number of BSA and WLR agreements proves that the cooperation between TP and alternative operators develops. Next step in this development comes with LLU which has just operationally started.

"OUR KEY PERFORMANCE INDICATORS – GROSS OPERATING MARGIN AND NET FREE CASH FLOW – REMAINED ROBUST IN 2007 ALLOWING THE MANAGEMENT BOARD TO RECOMMEND AN INCREASED DIVIDEND IN LINE WITH THE POLICY ESTABLISHED LAST YEAR."

BENOÎT MÉREL
CHIEF FINANCIAL OFFICER

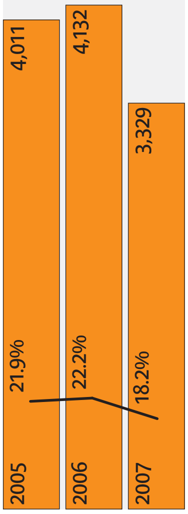
Overview

2007 was a year of discipline and persistence for TP Group. The company turned in a solid commercial performance, meeting our revenue guidance despite a sluggish market and a hostile regulatory environment. Full year revenues for the group were down by 2%; however, we saw encouraging signs of recovery in the fourth quarter, when revenues declined by only 0.8% compared to Q4 2006. We attribute this partial recovery to our improved customer segmentation, a push on new products including triple play and a greater focus on retention offers, as well as better than expected market development in the fourth quarter. As an indication of the size of the regulatory impact, our calculations suggest that without it, our revenues would show a positive trend.

Our key performance indicators – Gross Operating Margin (GOM) and net free cash flow – remained robust in 2007, vindicating our commercial strategy and ensuring that the Management Board can comfortably recommend a shareholder remuneration equivalent to PLN 2.01 per share, well in line with the policy we established last year.

FCF before financing and FCF margin*
PLN mn

* Cash flow from operating activities – purchase of tangible and intangible assets plus interest paid net



2007 performance by segment

The steady evolution of our revenue mix continued in 2007, with a decline in the contribution from fixed voice traffic largely mitigated by stable fixed-line subscriptions and gains in mobile retail and data (including broadband).

Fixed voice revenues, hit by regulatory rulings on MTR, RIO and WLR as well as ongoing fixed-to-mobile substitution, were down 11.5%, against an overall 10.4% decline in market value. However, we maintained a traffic market share close to 2006 levels thanks to the stimulating effect of our new tariff plans. We also limited the decline in average revenue per line to 5.1%, year on year.

The Polish broadband market grew more slowly in 2007, in both volume and value terms. Market value grew by only 5.7%, as compared to 8.2% in 2006; the regulator's decision on Bitstream Access (BSA) caused significant pricing pressure and our competitors launched very aggressive commercial campaigns without great success in terms of customer acquisition. All this commercial activity also failed to substantially increase the household penetration rate, which remained at the relatively low level of 33.5% at the year's end. This represents an increase of only 5.5 percentage points, compared with the previous year's 18 percentage point rise.

TP's broadband revenue rose by a relatively modest 5.1% in 2007 – a significant slowdown compared to 2006. But we observed some signs of recovery in the fourth quarter, with 7.1% year on year growth compared to 4.2% for the first three quarters. We were able to mitigate price pressure through the year by adding value to the customer offer: including VoIP, TV over DSL and bandwidth upgrades within our new bundled offers helped us to stabilise broadband ARPU. All in all, we managed to maintain approximately 51% of value market share in a highly competitive environment while also absorbing the impact of the first year of BSA implementation. Going forward, increasing penetration and stimulating demand will be critical growth drivers and we see these as our key challenges in the years to come.

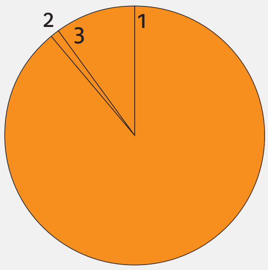
Market growth slowed down in the mobile sector too, with an increase in total value of 7.4% compared to 11.8% a year earlier. The factors that held the market back included: a 10% MTR decrease in May (following 22% decrease in October 2006); SIM card penetration now at 109%; the entrance of a fourth mobile operator in Q1 2007; and, to a lesser extent, the initial operations of the first three MVNOs. TP Group continued to combat this increased competition very efficiently, acquiring higher-value post-paid customers with a strong focus on value and launching effective offers aimed at retaining pre-paid customers or migrating them to post-paid offers. Orange successfully maintained its leadership position in this tough market, with 34% market share by value and volume.

Net subscriber additions in the mobile business amounted to 1.64 million, of which 46% are post-paid, taking the share of post-paid customers up one percentage point to 39% at the end of 2007. Despite MTR reductions, our average revenue per subscriber was down by only 10%, and full year revenue was up by 7.1%, driven both by a higher customer base and by higher usage, mainly in on-net traffic.

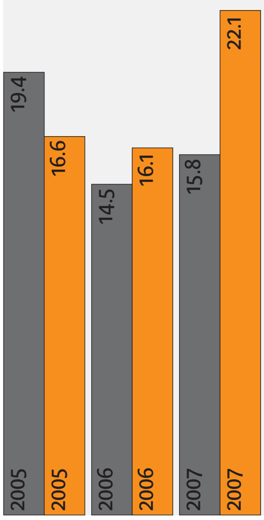
Gross debt structure after hedging*
%

1	PLN	89%
2	USD	1%
3	EUR	10%

*Includes cash denominated in foreign currencies, swap and forward transaction classified as trade, cash flow and fair value.



TP Group Capex to sales
%



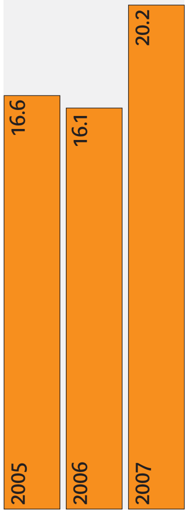
Profitability and cost control

TP Group managed to limit the impact of revenue erosion on its profitability, with Gross Operating Margin (GOM) as a percentage of revenue remaining stable and within guidance at 42.3%, just 1.9 percentage points lower than a year earlier despite an increase in provisions for claims and litigation, risks and other charges. The net amount of these provisions, which were mostly booked in the first half of 2007, totals PLN 262 million (compared to PLN 18 million in 2006). Excluding these provisions, our profitability actually remained stable at 43.7%, demonstrating our resilience in a severely deteriorating environment.

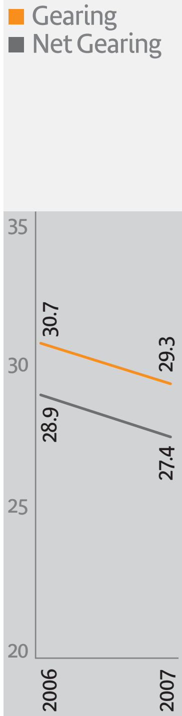
We applied high standards of commercial discipline across the business throughout 2007. As a result, the mobile segment delivered strong margin improvement. With operating expenses held at 2006 levels and a revenue increase of 7.1% we were able to drive the GOM rate up to 39.1%, from 35.4% a year earlier. In the fixed-line business, operating expenses showed a decline of 0.9%, thanks to our efforts in two main areas. Firstly, we successfully implemented a package of savings initiatives including the outsourcing of IT support staff, the centralisation of call centre activities and a significant reduction in property tax paid on cabling. Secondly, we were able to contain our labour costs: following a successful programme of 2,350 voluntary redundancies, 2007 reported labour costs were up by less than 2% and almost flat on comparable basis, despite Polish wage inflation reaching a high of 11%.

In the fourth quarter of 2007, a proportion of the money saved through these measures was redirected to commercial expenses in order to leverage strong demand in the mobile market and to give a big push to our triple play offers.

TP Group Capex to Sales
%



Gearing and net gearing ratios after hedge
%



This was in line with our strategy of investing selectively for future growth. As TP Group's profile moves more and more onto the mobile business, we must expect our cost base to evolve accordingly. Overall, the Group's commercial costs increased by 7.3% in 2007, reflecting the fact that the mobile business model is more demanding than fixed-line.

Investing in future growth

Our 2007 capital expenditures amounted to 20.2% of our revenues – a result slightly higher than originally planned. The increase came from an opportunity to accelerate investments in key areas of our future growth – mobile data, broadband, content and integration of systems following functional merge of fixed and mobile businesses. These investments allow us to enter into 2008 with even stronger position to use increased market momentum observed in the last months of 2007.

The composition of our investments reflects the fact that we are extremely conscious of the profitability our business needs to provide. We have put the money to work in the areas where non-regulated business can grow, where our internal processes can still be improved resulting in the long term cost efficiency. On the other hand we are selectively looking at the strongly regulated fixed voice business where current wholesale pricing schemes put a question mark on providing expected and fair returns. With our focus being now on the investments in alternative sources of growth – we continuously seek for the conditions of our regulated business to show rationale for further development.

Financial optimisation

The restructuring of our balance sheet continues to be a core strategic focus for TP Group. In 2007 our net finance costs decreased by PLN 281 million due to a PLN 1,647 million reduction in average net debt. At the year's end, our net gearing ratio was 26.6% and net debt stood at PLN 6,434 million after hedging, compared to PLN 7,164 million a year earlier.

In tandem, we are optimising our asset base to generate additional free cash flow. We are selling our directories business, Ditel, and continuously disposing of redundant real estate as part of a comprehensive programme to reduce non-core activities. Moreover, we have launched key Warsaw real estate projects with an objective to consolidate our people in a single cost effective location, in parallel offering current HQ downtown buildings for sale. We also posted a significant improvement in working capital management for 2007: the Days Sales Outstanding ratio fell to 35 days in December, down from 38.4 days a year earlier.

And finally, we successfully completed a PLN 700 million share buyback – equivalent to 2.23% of total TP shares – positively impacting the earnings per share.

Following our solid financial position with an improved capital structure and strong cash flow generation, on 20th February 2008 Moody's Investors Service have raised the Company's senior unsecured debt ratings to A3 from Baa1. At the same time Fitch Ratings maintained our rating at BBB+.

Cash flow

Net cash flow from operating activities before income tax amounted to PLN 7.5 billion, representing more than 41% of Group revenues and comparable with 2006 levels. Net free cash flow before tax – defined as net cash flow from operating activities before income tax minus capex and capex payables – was 1.6% higher than last year and represents almost 25% of revenues. An exceptional tax payment of PLN 380 million in the second quarter – deferred from 2006 – brought net free cash flow after tax down to PLN 3.3 billion or 18.2% of revenues. This achievement still represents a healthy net cash flow, within the target of between 18% and 20% that we set in our 2007-2010 strategic plan.

Proposed shareholder remuneration

We are pleased to reconfirm our cash distribution policy as set out in last year's annual report. The policy has three main objectives: firstly, to maintain the resource flexibility we need to sustain the profitable development of TP Group, both through organic growth and value-enhancing acquisitions; secondly, to maintain the financial discipline needed to support our debt rating at the safe level; and last but by no means least, to offer attractive returns to our shareholders.

Taking into account, as always, the uncertainty of the regulatory environment and the intensifying competition in TP Group's markets, the Management Board is recommending a shareholder remuneration for 2007 of PLN 2,753 million, equivalent to PLN 2.01 per share, which will consist of:

- an ordinary dividend of PLN 2,053 million or PLN 1.5 per share (new floor level increased by 7.1% compared to last year), payable in cash in the first half of 2008,
- a share buy-back of PLN 700 million.

Yours sincerely,

Benoît Mérel
Chief Financial Officer in 2007
29th February 2008

Maciej Witucki
President of the Board and
Chief Executive Officer

Maciej Witucki graduated from the Electrical Department of the Poznan Technical University in 1991. Between 1992 and 1997 he undertook post graduate research in industrial system management at Ecole Centrale, Paris. In September 1997 he began working for Cetelem Bank: first in France, where he took part in the development of the 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 President and CEO in March 2005. He joined TP Group as President of the Board and Chief Executive Officer on 6 November 2006.

Jacek Kałłaur
Board Member
(Human Resources)

A graduate of Warsaw University, Jacek Kałłaur worked for PHZ Polservice, spending several years in its Algerian office. Back in Poland, he joined Coopers & Lybrand Management Consultants. In 1993 he was appointed Board Member and HR Manager of Kraft Foods Polska. He joined TP Management Board in 2005.

Benoît Mérel*
Chief Financial Officer

Benoît Mérel is a graduate of the Institut Commercial Supérieur in Paris, a qualified Certified Public Accountant and has completed a Postgraduate study in Institut d'Etude Politiques de Paris. He started his career in 1988 in Audit which included a two year assignment in Hong Kong where he turned around the finance organisation of the Asia Pacific Agence France Press headquarters. He joined France Telecom Group in 1994, holding various positions in the International Network Division until 1999. In 2000 he took over the France Telecom position of Head of Group Controlling. In September 2004, he was nominated Acting CFO of Equant – world wide business communication leader and a member of FT Group (New York Stock Exchange and Euronext Paris listed company). In August 2005, Benoît Mérel joined TP Group initially as deputy CFO and TP Group Controller. Then, in April 2006, he was appointed to TP Management Board.

*Resigned in Q1 2008

Pierre Hamon*
Board Member (Strategy, Development
and Business Market)

Pierre Hamon graduated from the Nancy School of Mining Engineering, the French Petroleum Institute (Economy) and HEC/CPA (Executive MBA). He started his career as a project engineer with Somdiaa. He joined Chronar Corporation, USA in 1982, where he became Head of International Marketing. In 1987, he became the President and CEO of Chronar France. He joined France Telecom in 1990 as Director of the Eurodisney project and Regional Operations. From 1993 he held the post of Business Strategic Marketing Director in the France Telecom Corporate Office, and from 1997 to 2003 he was successively FT's Indirect Sales Director, and Director of Sales to Business Customers. From April 2003 to April 2004, Mr. Hamon was Director of International operations of France Telecom and a member of the TP Supervisory Board. He joined TP Management Board in May 2004.

*Resigned in Q1 2008

Iwona Kossmann*
Board Member (Mass Market)

A graduate of the Warsaw School of Economics; she also completed postgraduate management and marketing studies at Erasmus University, Rotterdam.

Her career began in 1992. Ms Kossmann specialised in marketing and management. She worked as a product manager in Unilever Poland for over two years. From 1995 to 2001 she held various managerial positions in German, Hungarian and Polish branches of Coty. In 2000-2001 she was the marketing director of Coty Poland. She has been working in the telecommunications industry for six years. In 2001, she was appointed the Marketing Director of PTK Centertel, the 'Idea' network operator. In March 2005 she became PTK Centertel's CCO and Board Member. She joned TP Management Board in March 2007.

*Resigned in Q1 2008

Corporate Governance Framework

The framework of TP Group's corporate governance is set by the provisions of Polish law, the Company's articles of association, and the regulations of the Warsaw Stock Exchange, as well as the London Stock Exchange (where the Company's GDRs are quoted and traded).

1 The role of shareholders

TP encourages shareholders to play an active role in the Company's corporate governance. Indeed, shareholder consent is required for key decisions, including: the review and approval of the financial statements and Management Board Report on Activities; the review and approval of the Management Board's recommendations on dividend payments; the review and approval of the Supervisory Board Assessment of the Group's situation ; the election of the members of the Supervisory Board (and, if necessary, their dismissal); amendments to the Company's Articles of Association; increase and reduction of the share capital; and the buy-back of shares. At the Company's General Meetings, each share in TP entitles its owner to one vote. Holders of the Company's GDRs are also encouraged to submit their voting instructions to the Company's Depository Bank. In addition to their participation in General Meetings, members of the Company's Management Board and senior executives engage in active dialogue with the Company's shareholders. To ensure that investors receive a balanced view of the Company's performance, Management Board members – led by the President of the Management Board and the Chief Financial Officer – also make regular presentations to institutional investors and representatives of the domestic and international financial community.

2 The Supervisory Board

As of 31 December 2007, the Supervisory Board comprises 13 members. Among them there are six independent members, namely Messrs. Prof. Andrzej K. Koźmiński, Timothy Boatman, Ronald Freeman, Prof. Jerzy Rajski, Dr. Wiesław Rozłucki and Dr. Mirosław Gronicki. The other members are: Olivier Barberot, Michel Monzani, Vivek Badrinath, Antonio Anguita, Jacques Champeaux, Stéphane Pallez and Georges Penalver. The term of office of each member of the Supervisory Board is three years, and their remuneration is determined by the General Meeting. The Supervisory Board meets at least once a quarter and is responsible for the appointment and remuneration of the members of the Management Board, the appointment of the Company's independent auditors, and the supervision of the Company's business. As part of this process, it examines the Company's strategic plan and annual budget and monitors the Company's operating and financial performance. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to TP Group's businesses. The work of the Supervisory Board is co-ordinated by the Board Chairman, with the assistance of the Board Secretary. The responsibilities and obligations of the Board, together with its rules of procedure, are defined in formal regulations of the Board. Although the Board performs its tasks collectively, it delegates some of the work. The persons and committees to whom these tasks are delegated are described in further paragraphs.

The Supervisory Board assessment of the Group's situation in 2007 appears on pages 33 and 35.

The Audit Committee

The Audit Committee is a Committee of the Supervisory Board and reviews reports from the Executive Managers of the Group and internal and external auditors.

The key functions of the Audit Committee include:

1 Monitoring of the work of the Company's external auditors and presentation of recommendations to the Supervisory Board with regard to selection and remuneration of the Company's auditors;
2 Discussion with the Company's auditors before the start of each annual audit, on the nature and scope of the audit and monitoring of the internal and external auditor's work;
3 Review of interim and annual financial statements of the Company (TP S.A's separate accounts as well as TP Group's consolidated accounts), focusing in particular on:

   a any changes to accounting standards, policies and practices;
   b major judgmental areas;
   c significant adjustments arising from the audit;
   d compliance with accounting regulations;

4 Discussion (with or without the presence of the Company's Management Board) with the external auditors on any problems or reservations resulting from the audit of financial statements;
5 Review of the external auditor's management letter, the independence and objectivity of their review and the response of the Management Board;
6 Review of the Group's system of internal control (including financial, operational, compliance, risk assessment and management controls) as formulated by the Management Board;
7 Review of contracts, transactions and arrangements between the Company and related parties;
8 Annual review of the internal audit programme, co-ordination between the internal and external auditors and adequacy of resources available to the internal auditors;
9 Analysis of reports of the Company's internal auditors and major findings of any other internal investigations and response of the Management Board to them, including review of freedom allowed to internal auditors;
10 Consideration of any other significant matters observed by the Committee or the Supervisory Board;
11 Information to the Supervisory Board about all important issues within its scope of activity.

The Audit Committee is chaired by Mr. Timothy Boatman, an independent member of the Supervisory Board. He has relevant and up to date financial experience.

The Audit Committee report appears on page 36 of this annual report.

The Remuneration Committee
The Remuneration Committee's task is to advise the Supervisory Board and Management Board on the general remuneration and nomination policy of TP Group.

The key functions of the Remuneration Committee include:

1 Determining the conditions of employment and remuneration of the Members of Management Board;
2 Considering proposals made by the CEO or the Supervisory Board concerning new appointments to the Management Board; taking part in the final stage of the interviewing process and making the appropriate recommendation to the Supervisory Board about the candidates;
3 Considering proposals made by the CEO or the Supervisory Board regarding dismissal or reports regarding resignations of any member(s) of the Management Board and making if necessary a relevant recommendation to the Supervisory Board;
4 Giving recommendations to the Supervisory Board regarding the amounts of bonuses for the members of the Management Board;
5 Providing an opinion on remuneration policy for most senior executives, and on the general policy for the wider TP Group: in both cases having regard to the relative positioning on the market of TP Group's terms of engagement and remuneration levels;
6 Producing a report for the Supervisory Board on the activity of the Committee and assessment of remuneration policy of TP Group.

The Committee is chaired by Mr. Ronald Freeman, an independent member of the Supervisory Board. The Committee report appears on page 37 of this annual report.

The Strategy Committee
The Strategy Committee's task is to advise the Supervisory Board and Management Board on the strategic plans.

The key functions of the Strategy Committee include:
1 Providing its opinion and recommendation to the Supervisory Board on the strategic plans set up by the Management Board and any further suggestions made by the Supervisory Board regarding such strategic plans and in particular on its main strategic options. The Strategy Committee may also provide recommendations to the Supervisory Board regarding Management's planning processes.
2 Consulting all strategic projects related to the development of TP Group, the monitoring of the evolution of industrial partnerships within TP Group and projects involving strategic agreements for TP Group. The Committee then reports and makes recommendations on each of these projects to the Supervisory Board.

In particular, the Committee is invited to consider projects such as:

– strategic agreements, alliances, and technological and industrial co-operation agreements, including aspects of the strategic partnership between France Telecom and TP Group;
– significant acquisitions and sales of assets.

The Committee is chaired by Mr. Olivier Barberot.

The Committee report appears on page 37 of this annual report.

3 The Management Board

The scope of the Board's remit includes the management of all aspects of the Company's affairs, with the exception of those matters which are stipulated by the Polish Commercial Code and the Company's Articles of Association as being within the competence of the General Meeting or the Supervisory Board. The responsibilities and obligations of the Board, together with its rules of procedure, are defined in formal regulations of the Board. The members of the Board share collective responsibility for managing the Company, but the work of the Board is co-ordinated by the President of the Board.

4 Internal control and risk management

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

The key elements of such system include the following procedures:

- An internal audit function, which reports directly to the Management Board. The internal audit programme is annually reviewed by the Audit Committee which also analyses the Group's Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit Department, Management Board decisions regarding the appointment and remuneration of the Head of the Internal Audit Department require, since 2005, an opinion of the Audit and Remuneration Committees.
- The Group conducts ongoing assessments of the quality of risk management and control. As part of this process, a Risk Map which identifies and classifies the Group's financial and non-financial risks is maintained. This Map was developed as a self-assessment exercise, but also includes findings from the risk assessment project carried out with the support of external experts.
- Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental and operational) effectively on an ongoing basis. It provides a framework for the Internal Audit Department's ongoing risk-controlling activities.

In 2007, Management again completed a comprehensive assessment of the Group's processes of internal control over financial reporting. Main deficiencies were identified and corrected or appropriate action points have been launched. As a result of the assessment, the Management concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at 31 December 2007. Continued efforts by Management in this regard are also needed in 2008.

Management has implemented procedures to ensure proper identification, review and approval of transactions with related parties. In 2007, such transactions were audited by Internal Audit and the results were submitted to the Management and also to the Audit Committee.

Disclosure

TP Group is diligent in its approach to reporting financial results and its ongoing communication with the Polish and international investment community, as well as fulfilling its disclosure obligations. The TP Group Disclosure Committee began its activities in February 2004. Its role is to oversee public disclosures made by TP Group, ensuring that they are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of the Group. In 2007 the Committee had four meetings to discuss the following:

- evaluation and approval of the statutory financial reports (quarterly, half-year, full year);
- evaluation and acceptance of quarterly investors' presentations.

In 2007 TP published 223 regulatory announcements (as well as quarterly, half-year statements of results and full year results) that were sent to the Warsaw and London Stock Exchanges. Moreover, in the field of Investor Relations activities, TP Group held around 100 meetings with investors and analysts.

Code of Ethics

A new TP Code of Ethics was implemented in 2006, together with appointment of the Ethics Committee and the network of local ethics co-ordinators. Key principles set out by the Code include:

- abiding by ethical principles in business activities;
- fair competition;
- employee care;
- high corporate governance and management standards;
- absolutely no tolerance for corruption;
- apolitical stance;
- environmental care.

An alert handling system related to ethics has been implemented by the Group. Further work is being conducted on the processes and policies for the prevention and reporting of potential or actual fraud, including a 'whistleblowers' charter'.

Composition

Supervisory Board composition as on January 1, 2007:

1 Andrzej K. Koźmiński - Chairman
2 Olivier Barberot - Deputy Chairman
3 Michel Monzani - Secretary
4 Vivek Badrinath - Member
5 Julien Billot - Member
6 Timothy Boatman - Member
7 Jacques Champeaux - Member
8 Tadeusz Han - Member
9 Stéphane Pallez - Member
10 Georges Penalver - Member
11 Jerzy Rajski - Member
12 Wiesław Rozłucki - Member
13 Andrew Seton - Member

In 2007, composition of the Supervisory Board changed as follows:

On 6 April 2007, Mr. Julien Billot resigned from his position on the Supervisory Board. On the same day, Mr. Antonio Anguita was appointed by the Extraordinary General Meeting as a Member of the Supervisory Board.

On 7 May 2007, Mr. Tadeusz Han resigned from his position on the Supervisory Board.

On 10 May 2007, the mandates of Messrs. Michel Monzani and Jacques Champeaux expired. On the same day, Messrs. Philippe Andres, Jacques Champeaux and Michel Monzani were appointed by the Annual General Meeting as Members of the Supervisory Board.

On 20 September 2007, Messrs. Philippe Andres and Andrew Seton resigned from theirs positions on the Supervisory Board. On the same day, Messrs. Ronald Freeman and Mirosław Gronicki were appointed by the Supervisory Board as Members of the Supervisory Board.

On 28 November 2007, the mandates of Messrs. Ronald Freeman and Mirosław Gronicki expired. On the same day, Messrs. Ronald Freeman and Mirosław Gronicki were appointed by the Extraordinary General Meeting as Members of the Supervisory Board.

Supervisory Board composition as on 31 December 2007:

1 Prof. Andrzej K. Koźmiński - Chairman
2 Olivier Barberot - Deputy Chairman
3 Michel Monzani - Secretary
4 Antonio Anguita - Board Member
5 Vivek Badrinath - Board Member
6 Timothy Boatman - Board Member
7 Jacques Champeaux - Board Member
8 Ronald Freeman - Board Member
9 Dr. Mirosław Gronicki - Board Member
10 Stéphane Pallez - Board Member
11 Georges Penalver - Board Member
12 Prof. Jerzy Rajski - Board Member
13 Dr. Wiesław Rozłucki - Board Member

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

Three permanent committees operate within the Supervisory Board composed, as at 31 December 2007, of:

Audit Committee: Timothy Boatman – Chairman, Ronald Freeman, Michel Monzani and Stéphane Pallez - members;

Remuneration Committee: Ronald Freeman - Chairman, Olivier Barberot, Jacques Champeaux and Wiesław Rozłucki - members;

Strategy Committee: Olivier Barberot - Chairman, Jacques Champeaux, Mirosław Gronicki, Michel Monzani and Jerzy Rajski - members.

Operation

The Supervisory Board, acting according to the provisions of the Commercial Companies Code and the Company's Articles of Association, exercised permanent supervision over the Company's operations in all fields of its activities.

The Supervisory Board fulfilled in 2007 duties resulting from the provisions of the Commercial Companies Code:

1 Evaluated the Management Board's report on TP S.A. operations and the financial statements for the financial year 2006 and the Management Board's recommendation for distribution of the Company's profit,
2 Evaluated the Management Board's report on TP S.A. Capital Group's operations and the consolidated financial statements for the financial year 2006,
3 Filed with the General Shareholders' Meeting reports presenting results of the above-mentioned evaluation.

The Supervisory Board also executed its rights and obligations arising from the Company's Articles of Association and Best Practices, of which the following should be mentioned:

1 Appointments of members of the Management Board,
2 Recommendations of motions addressed to the General Meeting, including motion for amendment of the Articles of Association,
3 Selection of an independent auditor to audit the Company's financial statements,
4 Preparing an opinion on TP S.A. and TP Group budget,
5 Supervision of the realisation of TP Group's operating and financial objectives,
6 Expressing an opinion on financial commitments exceeding the amount of 100 M €,
7 Assessment of TP Group situation.

Throughout 2007 the Supervisory Board and its permanent committees focused on the following issues:

a Group's financial results and performance;
b Group's strategy in an increasingly competitive market;
c Group's position vis-a-vis the regulatory environment in Poland;
d Changes in the Management Board of the Company;
e Company's shareholders' remuneration;
f Share Buyback Programme;
g Group's approach to internal control, including risk management;
h Customer satisfaction;
i Group's Real Estate optimisation programme;
j Incentive Programme for TP Group Top Managers.

The Supervisory Board met seven times in 2007. The Board adopted 41 resolutions, of which eight in writing (by correspondence).

The Supervisory Board used in its operations the opinions of the Audit Committee, the Remuneration Committee and the Strategy Committee.

Reports of the Audit, Remuneration and Strategy committees on their activities in 2007 are attached as Attachments 1, 2 and 3 respectively.

The Supervisory Board formulated a number of recommendations, remarks and motions for the Management Board, referring to different aspects of the company's operations.

The Supervisory Board was abreast with examination of the execution of resolutions and recommendations, analysing information of the Management Board presented at subsequent meetings.

Evaluation of the work of the Supervisory Board

Having in mind the above operations, the Supervisory Board is of the opinion that in 2007, showing due diligence, it exercised the supervision over all areas of the activities of Telekomunikacja Polska. Involvement of each Supervisory Board's member in supervision over a number of significant projects carried out by the Company enabled early consideration of risk and recommendations being made to the Management Board.

This document is the Supervisory Board assessment of TP Group performance in 2007 in accordance with recommendation no. III.1.1 of the Code of Best Practices for WSE Listed Companies, introduced by the Warsaw Stock Exchange. The assessment is based on the 2007 Financial Results of the Group (the Company and its subsidiaries), as well as, on information obtained by the Supervisory Board during the conduct of its statutory tasks.

Throughout 2007, the Supervisory Board focused on the following issues:

– Group's 2007 financial results and performance compared to the budget;
– The budget for 2008;
– Review of the strategy assessment conducted by the Management of the Company;
– Group's position vis-a-vis the regulatory environment in Poland;
– Changes in the Company's Management Board;
– Company's shareholders remuneration;
– Assessment of internal control and risk management established by the Management;
– Incentive Programme for TP Group Top Managers.

The Supervisory Board, through the work of its committees and all its members (including six independent), was actively engaged in the process of evaluation of some of the most important initiatives, having in mind the interest of all the Group's shareholders. In addition, it maintained oversight of the Group's operational and financial goals through management reporting at its quarterly meetings and was able, through the Audit Committee, to review and challenge the control, risk management and budgeting function performed by the Management.

TP Group operational review

In 2007, the Group developed and launched a range of innovative and convergent products and services to contain churn in both fixed and mobile telephony. TP Group also significantly increased coverage for high speed mobile data transmission and also focused on the promotion of ADSL services, particularly encouraging customers to use higher speed options as a basis for further offers of content and multimedia services.

Furthermore, several major initiatives were proposed and/or implemented by management, in particular:

– Preparation and announcement of the 2007-2010 TP Group Strategic Direction;
– Acceleration of TP and PTK operational integration;
– Implementation of the Incentive Programme for TP Group Top Managers;
– Execution of the 2007 Share Buy-back Programme;
– Continuation of the Social Agreement implementation which determines principles in regards to the major employee-related issues;
– Initiation of the Warsaw real estate projects, including announcement of tender for providing cost efficient headquarter facility (TP Miasteczko) and successful disposal of certain real estate projects;
– Completion of negotiation and signature of the preliminary agreement to dispose of shares in Ditel, directory business.

Fixed-line

During 2007, TP continued to pursue the strategy of compensating lower revenue from fixed voice services with growth in Internet services. TP Management has implemented new customer loyalty voice tariffs plans which allow the Company to show good resilience in voice in terms of both its market share and average revenue per line. Despite the slower market growth in 2007 and price pressure caused by the implementation of Bitstream Access contracts, TP has successfully defended its market share in broadband subscriber additions, overall volume and value. Continued efforts by Management in this regard are needed in 2008.

Mobile

The Supervisory Board monitored the development of the Group's mobile business with keen interest especially in the light of negative trends in fixed-line revenues, and with an eye on likely future convergent trends. It notes with satisfaction that in an increasingly competitive market environment, PTK Centertel, operating under the Orange brand, remained the leading force for innovation in 2007, competing principally on the quality of its products and services and the transparency and simplicity of its tariff structures. Mobile segment completed a highly successful 2007. Orange consolidated its market leadership in both volume and value. Total number of customers added in 2007 exceeded the guidance given by the Management.

By continuing to operate at the forefront of new technology, Orange is able to provide its clients a wide range of the most up-to-date offers on the market, with particular focus on further development of mobile data transmission based on UMTS technology.

TP Group financial overview

Facing increasing competitive pressure and responding to targets approved by the Supervisory Board, the Group's key strategic goals in 2007 were:

- to optimise operating expenses through further rationalisation of TP Group's businesses;
- to improve efficiency of the investment processes so as to optimise capex investments and its prioritisation based on payback period and revenue generating capabilities;
- to promote growth areas (mobile, broadband, content);
- to introduce innovative and convergent services in mobile and fixed-line;
- to continue customer-centric operating principles;
- to continue to concentrate on improving the TP Group image with its customers;
- to ensure efficiency of IT as a key lever for business flexibility;
- to deliver a return to shareholders which is a reasonable reflection of the Group's financial position and market expectations;
- to promote predictable regulation according to the European Regulatory Framework and consistent with comparable benchmarks;
- to enhance internal control and risk management measures;
- to optimise the management structure and decision making processes by limiting reporting layers and management span;
- to optimise the real estate portfolio;
- to perform an in-depth strategic exercise to analyse further development of the Group;
- to review potential for internal / external growth within appropriate investment criteria.

In 2007, the Management met its guidance on number of mobile customers, revenue growth and gross operating margin ('GOM'). GOM rate stands at 42.3% of revenues despite the fact that the Group recorded in 2007 an additional PLN 244 million of provisions for claims and litigations, risks and other charges. Number of broadband customers increased by 25.8% and reached the level of 2.15 million which was slightly below the Management 2007 guidance of 2.2 million. Capital expenditure was at the level of 20.2% of revenue, above the initial objectives between 16% to 19%, as a result of acceleration of its investment programme in the fourth quarter ahead of 2008 original plans. Also, Net Free Cash Flow generation has been healthy, ending at over 3.3 billion PLN, or 18.2% of revenue. The key Management's commitments in regards to initiatives fuelling growth and maintaining cost control and rebalancing resources have been delivered, including accelerating broadband access penetration, accelerating number of mobile customers, introducing new convergent products and reallocating funds to growth area. Innovative products, services successfully launched and other investments made in 2007 will help to mitigate the erosion of future fixed voice revenues.

In 2007, the Management Board of the Company has followed the Supervisory Board recommendation and developed the details of the shareholder's remuneration which is based on the policy to offer TP shareholders an attractive remuneration which takes into account the following:

- the uncertainty of the regulatory environment;
- the intensification of competition in the Group's markets;
- the resource flexibility needed to sustain profitable growth in the form of capital expenditure as well as value-enhancing acquisitions;
- the financial discipline needed to support the current rating at BBB+/Baa1.

TP Management Board has proposed an ordinary dividend of PLN 2,053 payable in cash in the first half of 2008 and PLN 700 million share buy-back of the Company's own shares for the purpose of their redemption. That proposal obtained a positive opinion of the Supervisory Board on 27 March 2008 and is subject to approval by the General Assembly of TP shareholders.

Conclusions and 2008 recommendations

Despite increased competition across all segments as well as intensifying regulatory pressure, TP Group has delivered satisfactory results in 2007. The Supervisory Board believes TP's Management Board has made the appropriate efforts to attain the 2007 objectives. Moreover, the Group, with its integrated offers and investments made at the end of 2007, is in a strong position to continue creating and exploiting the new opportunities available on the Polish market. In the Supervisory Board's opinion, in 2008 the Group should focus its activities to achieve further steps in the implementation of the 2007-2010 TP Group Strategic directions, in particular:

– strengthen cross-selling of services to drive increase in ARPU and improve customer retention and customer satisfaction;
– further integrate fixed and mobile units and ensure efficiency from integrated business processes;
– optimise operating expenses through further rationalisation of the Group's operations and processes;
– further optimise Capex spending based on sound investment criteria in order to support the growth;
– achieve the target of generating Net Free Cash Flow between 18% and 20% of revenue;
– intensify the Group balance sheet optimisation to improve return on assets base, including optimisation of the real estate portfolio;
– continue IT systems transformation and integration with CRM systems to improve quality of service and shorten time to market for new products;
– improve and build the Group's position in adjacent sectors through disciplined M&A processes and appropriate investment criteria;
– deliver an attractive return to shareholders keeping in mind conditions set up in the shareholder remuneration policy;
– promote predictable regulations according to the European Regulatory Framework and consistent with comparable benchmarks;
– further enhance internal control and risk management measures.

Assessment of the Group's internal control and risk management

The Supervisory Board is responsible for reviewing the effectiveness of the Group's system of internal control and risk management established by the Management Board. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key elements of this system include the following procedures:

– An internal audit function, which reports directly to the Management Board. The internal audit programme is annually reviewed by the Audit Committee which also analyses the Group's Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit Department, Management Board decisions regarding the appointment and remuneration of the Head of the Internal Audit Department require, since 2005, an opinion of the Audit and Remuneration Committees.
– The Group conducts ongoing assessments of the quality of risk management and control. As part of this process, a Risk Map which identifies and classifies the Group's financial and non-financial risks is maintained. This Map was developed as a self-assessment exercise, but also includes findings from the risk assessment project carried out with the support of external experts.
– Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental and operational) effectively on an ongoing basis. It provides a framework for the Internal Audit Department's ongoing risk-controlling activities.

The Audit Committee has noted with satisfaction further development of the Group's Risk Map prepared by the Management in 2007. Management should pursue its efforts in order to fully incorporate the results of such analysis into day-to-day operations.

In 2007, the Group again completed a comprehensive assessment of its processes of internal control over financial reporting within the framework of Sarbanes-Oxley Programme of France Telecom Group. Main deficiencies both in design and in effectiveness of the internal control have been either identified and remediated or appropriate action points have been launched. As a result of the assessment, the Management concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at 31 December 2007. Continued efforts by Management in this regard are also needed in 2008.

The external auditors report to the Management Board and also to the Audit Committee on control deficiencies which they identified during their financial statements audit. Their recommendations are successively implemented.

REPORT OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD OF TELEKOMUNIKACJA POLSKA S.A. IN 2007

The Audit Committee was established by virtue of the Resolution of the TP Supervisory Board no. 324/V/2002 dated 14 June 2002 regarding the establishment of the Audit Committee as consultative body acting under the Supervisory Board.

The task of the Committee is to advise the Supervisory Board on the proper implementation of budget, financial reporting and internal control principles in the TP Group and to liaise with the auditors of TP Group.

Composition

In 2007, the Audit Committee was composed of the following persons:

Chairman:
Mr. Timothy Boatman ('Independent Director')

Members:
Mr. Andrew Seton ('Independent Director') – resigned on September 20 2007
Mr. Ronald Freeman ('Independent Director') – appointed on November 2 2007
Mr. Michel Monzani
Ms. Stéphane Pallez
The Secretary of the Committee was:
Mr. Herve Langer

Activity in 2007

The TP Group Audit Committee held 14 meetings in 2007, out of which nine were regular meetings and five dedicated ad-hoc meetings, and in particular performed the following:

- reviewed the Company's and Group's financial statements, notably the relevance and consistency of the accounting methods used by the Company and the TP Capital Group,
- reviewed the TP risk management system and, in particular, the way risks were assessed by the Management,
- reviewed the Group's 2008 budget and addressed recommendations on it to the Supervisory Board;
- reviewed reports from the Executive Managers of the Group, from the Head of Internal Audit and from the external Auditors. It kept under review the scope and the results of the audits, the cost-effectiveness, independence and objectivity of the auditors and reported its conclusions to the Supervisory Board;
- reviewed the Group's system of internal control and risk management as reported by the Management Board. The Audit Committee received reports from Management on action plans in response to comments on internal controls from the internal and external auditors.
- reviewed preparation and implementation of the Group's anti-fraud and whistle-blowing programmes;
- reviewed implementation of internal control systems within the framework of the Sarbanes-Oxley Programme led at France Telecom group level;
- reviewed the 2007 cash distribution policy proposed by the Management and addressed recommendations to the Supervisory Board on it.

In the year under review, the Audit Committee, especially its two independent members, reviewed and approved related party transactions and received reports on them from the Company's Internal Audit.

Timothy Boatman
Chairman of the Audit Committee
of the Supervisory Board
27th March 2008

REPORT OF THE REMUNERATION COMMITTEE OF THE SUPERVISORY BOARD OF TELEKOMUNIKACJA POLSKA S.A. ON ACTIVITIES IN 2007

The Remuneration Committee was established by virtue of the Resolution of the TP Supervisory Board no. 385/04 dated 16 June 2004 regarding TP S.A. Supervisory Board's Remuneration Committee establishment as consultative body acting under the Supervisory Board.

The task of the Committee is to advise the Supervisory Board and Management Board on general remuneration policy of TP Group and to make recommendations on appointments to the Management Board.

Composition:

In 2007, the Remuneration Committee was composed of the following persons:

Chairman:
Andrew Seton ('Independent Director') – resigned on September 20, 2007
Ronald Freeman ('Independent Director') – appointed on November 2, 2007

Members:
Olivier Barberot – appointed on March 1, 2007
Jacques Champeaux
Michel Monzani – resigned on March 1, 2007
Wiesław Rozłucki ('Independent Director') – appointed on March 1, 2007

Activity in 2007:

The Remuneration Committee held ten meetings in 2007 and in particular focused on the following issues:

a nomination of new members of the Management Board;
b the Management Board members MBO targets and performance;
c new standard of the Management Board terms of contract;
d Directors & Officers insurance policies;
e TP Stock Option Plan;
f France Telecom Profit Sharing Plan.

Ronald Freeman
Chairman of the Remuneration Committee of the Supervisory Board
27th March 2008

REPORT OF THE STRATEGY COMMITTEE OF THE SUPERVISORY BOARD OF TELEKOMUNIKACJA POLSKA S.A. ON ACTIVITIES IN 2007

The Strategy Committee was established by virtue of the Resolution of the TP Supervisory Board no. 417/05 dated 15 June 2005 regarding TP S.A. Supervisory Board's Strategy Committee establishment as consultative body acting under the Supervisory Board.

The task of the Committee is to advise the Supervisory Board and Management Board on the strategic plans for TP Group, in particular concerning strategic agreements and alliances, technical and industrial co-operation as well as significant acquisitions and sales of assets.

Composition:

In 2007, the Strategy Committee was composed of the following persons:

Chairman:
Olivier Barberot

Members:
Jacques Champeaux – appointed on December 13, 2007,
Mirosław Gronicki – appointed on November 2, 2007,
Michel Monzani and Jerzy Rajski

Activity in 2007:

The first half of year 2007 was a period of intensive work on the mid-term strategy for TP Group. The Committee was closely co-operating with the Management Board in the preparatory process: discussing the status and the progress of the preparation of TP Group 2007-2010 Strategy and providing expertise in the reviews of particular strategic initiatives and suggestions concerning areas requiring further analysis.

The Committee gathered four times in 2007, with a final meeting in July, being a two-day workshop aimed at a full review of TP Group strategy.

Olivier Barberot
Chairman of the Strategy Committee of the Supervisory Board
27th March 2008

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007

(Amounts in PLN millions, except for share data)	Note	12 months ended December 31, 2007	12 months ended December 31, 2006
Revenues	6	18,244	18,625
External purchases	7	(7,436)	(7,438)
Other operating income	7	315	293
Other operating expense	7	(1,012)	(889)
Labour expenses:			
– Wages and employee benefit expenses	7	(2,399)	(2,352)
– Employee profit–sharing	7	(24)	(24)
– Share-based payments	7, 27	(2)	–
Depreciation and amortisation	14, 15	(4,439)	(4,489)
Reversal of impairment / (impairment of non–current assets)	8	2	(80)
Gains (losses) on disposal of assets	9	34	6
Restructuring costs	10	(1)	(285)
Operating income		**3,282**	**3,367**
Interest income	11	39	46
Interest expense and other financial charges	11	(493)	(700)
Foreign exchange gains (losses)	11	63	(6)
Discounting expense	11	(61)	(73)
Finance costs, net		**(452)**	**(733)**
Income tax	12	(555)	(538)
Consolidated net income after tax		**2,275**	**2,096**
Minority interest		(2)	(2)
Net income attributable to equity holders of TP S.A.		**2,273**	**2,094**
Earnings per share (in PLN) (basic and diluted)	3.4	**1.64**	**1.50**
Weighted average number of shares (in millions)	3.4	1,387	1,400

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

(Amounts in PLN millions)	Note	At December 31, 2007	At December 31, 2006 (reclassified – see Note 3.4)
Assets			
Goodwill, net	13	3,994	3,994
Other intangible assets, net	14	3,097	3,286
Property, plant and equipment, net	15	21,120	21,686
Interests in associates		3	3
Assets available for sale	17	4	4
Loans and receivables	17	10	186
Financial assets at fair value through profit or loss	17	–	16
Other assets		2	5
Deferred tax assets	12	241	54
Total non-current assets		**28,471**	**29,234**
Inventories, net		316	196
Trade receivables, net	18	1,795	1,877
Other assets	18	263	104
Loans and receivables	17	282	18
Financial assets at fair value through profit or loss	17	35	4
Hedging derivatives	22	–	11
Tax assets		52	6
Prepaid expenses	18	77	58
Cash and cash equivalents	20	642	678
Total current assets		**3,462**	**2,952**
Assets held for sale	16	489	425
Total assets		**32,422**	**32,611**
Equity and liabilities			
Share capital	30	4,200	4,200
Share premium		832	832
Treasury shares	30	(700)	–
Other reserves	22, 27	(18)	(77)
Retained earnings		13,454	13,143
Translation adjustment		(8)	(8)
Equity attributable to equity holders of TP S.A.		**17,760**	**18,090**
Minority interest		13	13
Total equity		**17,773**	**18,103**
Financial liabilities at amortised cost	21	1,920	4,577
Financial liabilities at fair value through profit or loss	22	–	106
Hedging derivatives	22	171	1,121
Trade payables	29	705	762
Employee benefits	26	295	288
Provisions	28	178	271
Other liabilities	29	1	2
Deferred tax liabilities	12	2	8
Deferred income	29	71	79
Total non-current liabilities		**3,343**	**7,214**
Financial liabilities at amortised cost excluding trade payables	21	3,009	2,212
Loan from related party	21	1,003	–
Financial liabilities at fair value through profit or loss	22	65	19
Hedging derivatives	22	1,250	125
Provisions	28	1,177	890
Trade payables	29	3,760	2,683
Employee benefits	26	301	333
Other liabilities	29	180	228
Tax payable		13	358
Deferred income	29	514	446
Total current liabilities		**11,272**	**7,294**
Liabilities of assets held for sale	16	34	–
Total equity and liabilities		**32,422**	**32,611**

The notes to the consolidated financial statements are an integral part of this Consolidated Balance Sheet

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007

					Other reserves								
(Amounts in PLN millions)	Number of shares in issue (not in millions)	Share capital	Share premium	Treasury shares	Financial assets available for sale	Hedging instruments	Deferred taxes	Share based payments	Translation adjustments	Retained earnings	Total	Minority interest	Total equity
Balance at January 1, 2006	1 400 000 000	4,200	832	–	–	(113)	21	–	(8)	12,449	17,381	13	17,394
Gains on cash flow hedges taken to equity		–	–	–	–	18	–	–	–	–	18	–	18
Tax on items taken directly to equity		–	–	–	–	–	(3)	–	–	–	(3)	–	(3)
Total income and expense recognised in equity		–	–	–	–	18	(3)	–	–	–	15	–	15
Net income for the 12 months ended December 31, 2006		–	–	–	–	–	–	–	–	2,094	2,094	2	2,096
Total recognised income and expense for the period		–	–	–	–	18	(3)	–	–	2,094	2,109	2	2,111
Dividends		–	–	–	–	–	–	–	–	(1,400)	(1,400)	(2)	(1,402)
Balance at December 31, 2006	1 400 000 000	4,200	832	–	–	(95)	18	–	(8)	13,143	18,090	13	18,103
Balance at January 1, 2007	1 400 000 000	4,200	832	–	–	(95)	18	–	(8)	13,143	18,090	13	18,103
Gains on financial assets available for sale taken to equity		–	–	–	1	–	–	–	–	–	1	–	1
Gains on cash flow hedges taken to equity		–	–	–	–	70	–	–	–	–	70	–	70
Share-based payments		–	–	–	–	–	–	2	–	–	2	–	2
Tax on items taken directly to equity		–	–	–	–	–	(14)	–	–	–	(14)	–	(14)
Total income and expense recognised in equity		–	–	–	1	70	(14)	2	–	–	59	–	59
Net income for the 12 months ended December 31, 2007		–	–	–	–	–	–	–	–	2,273	2,273	2	2,275
Total recognised income and expense for the period		–	–	–	1	70	(14)	2	–	2,273	2,332	2	2,334
Purchase of treasury shares	(31 226 759)	–	–	(700)	–	–	–	–	–	–	(700)	–	(700)
Transaction cost of treasury shares purchase		–	–	–	–	–	–	–	–	(2)	(2)	–	(2)
Dividends		–	–	–	–	–	–	–	–	(1,960)	(1,960)	(2)	(1,962)
Balance at December 31, 2007	1 368 773 241	4,200	832	(700)	1	(25)	4	2	(8)	13,454	17,760	13	17,773

The notes to the consolidated financial statements are an integral part of this Consolidated Statement of Changes in Equity

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2007

(Amounts in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006 (reclassified – see Note 3.4)
Operating activities		
Net income attributable to equity holders of TP S.A.	2,273	2,094
Adjustments to reconcile net income to funds generated from operations		
Depreciation and amortisation	4,439	4,489
Gain on disposal assets	(34)	(6)
Impairment of non–current assets	(2)	80
Change in other provisions	(23)	67
Income tax	555	538
Interest income and expense	452	516
Minority interest	2	2
Foreign exchange (gains)/losses, net	(471)	(266)
Derivatives	587	626
Share–based payments	2	–
Change in working capital (trade)		
Decrease/(increase) in inventories (net)	(127)	47
Decrease/(increase) in trade accounts receivable	187	210
Increase/(decrease) in trade accounts payable	258	(211)
Change in working capital (non–trade)		
Decrease/(increase) in other receivables	(57)	(7)
Increase/(decrease) in accrued expenses, other payables and deferred income	39	(8)
Interest income received	39	46
Interest and interest rate effects on derivatives paid, net	(586)	(777)
Income tax paid	(1,206)	(215)
Net cash provided by operating activities	**6,327**	**7,225**
Investing activities		
Purchases of property, plant and equipment and intangible assets	(3,677)	(3,000)
Increase/(decrease) in amounts due to fixed asset suppliers	679	(93)
Proceeds from sale of property, plant and equipment and intangible assets	57	13
Purchase of PTK–Centertel shares (repayment of related party loan)	–	(1,000)
Proceeds from sale of other investment securities and businesses	–	1
Decrease/(increase) in marketable securities and other financial assets	7	–
Effect on derivatives accounted for as a trade, net	(110)	(182)
Decrease/(increase) in debt–linked deposits (cash collateral)	–	(4)
Other	(2)	(2)
Net cash used in investing activities	**(3,046)**	**(4,267)**
Financing activities		
Redemptions and repayment		
Redemption of bonds	(1,885)	(1,930)
Repayment of long-term debt	(255)	(318)
Increase/(decrease) in bank overdrafts and other short–term borrowings	1,800	–
Decrease/(increase) in debt-linked deposits (cash collateral)	(125)	(132)
Purchase of treasury shares and payment of related transaction cost	(702)	–
Dividends paid	(1,962)	(1,402)
Exchange rate effects on derivatives accounted for as a hedge, net	(192)	(102)
Net cash used in financing activities	**(3,321)**	**(3,884)**
Net change in cash and cash equivalents	(40)	(926)
Effect of changes in exchange rates on cash and cash equivalents	6	1
Cash and cash equivalents at the beginning of the period	678	1,603
Cash and cash equivalents at the end of the period	**644** (1)	**678**

(1) includes PLN 2 million of cash and cash equivalents classified as assets held for sale (see Note 16)

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

1. Corporate information

1.1. The Telekomunikacja Polska Group

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

The Group is the principal supplier of telecommunications services in Poland. Telekomunikacja Polska provides services, including fixed-line telecommunication services (local calls and long distance calls – domestic and international), Integrated Services Digital Network ('ISDN'), voice mail, dial-up and fixed access to the Internet and Voice over Internet Protocol ('VoIP'). Through its subsidiary, Polska Telefonia Komórkowa-Centertel Sp. z o.o. ('PTK-Centertel'), the Group is one of Poland's three DCS 1800 and GSM 900 mobile telecommunications providers. PTK-Centertel also provides third generation UMTS services. In addition, the Group provides leased lines, radio-communications and other telecommunications value added services, sells telecommunications equipment and provides data transmission, telephone directories, multimedia services and various Internet services.

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

The Group operations are subject to regulatory interventions of Office of Electronic Communication ('UKE'), a government telecommunications market regulator. Under the Telecommunication Act, UKE can impose certain obligations on telecommunications companies that have a significant market power.

1.2. Entities of the Group

The Group comprises Telekomunikacja Polska and the following subsidiaries:

Entity	Location	Scope of activities	Share capital owned by the Group 31 December 2007	Share capital owned by the Group 31 December 2006
PTK-Centertel Sp. z o.o.	Warsaw, Poland	Construction and operation of mobile telecommunications networks and services.	100.00%	100.00%
TP EmiTel Sp. z o.o.	Kraków, Poland	Radio-diffusion, radio-communication, data transmission, teleinformatics and lease of technical infrastructure.	100.00%	100.00%
– Paytel Sp. z o.o.	Warsaw, Poland	E-commerce and electronic services, including GSM prepaid services, bill charging and processing of electronic financial transactions.	100.00%	100.00%
DITEL S.A. (1)	Warsaw, Poland	Maintenance of subscribers' database, production and distribution of telephone directories.	100.00%	100.00%
OPCO Sp. z o.o. (previously OTO Lublin Sp. z o.o.) (2)	Lublin, Poland	Customer care services.	100.00%	100.00%
Otwarty Rynek Elektroniczny S.A.	Warsaw, Poland	Data transmission, operation of e-commerce platform, teleinformatics, data processing.	100.00%	100.00%
TP Edukacja i Wypoczynek Sp. z o.o.	Warsaw, Poland	Hotel services, training facilities.	100.00%	100.00%
TP Invest Sp. z o.o.	Warsaw, Poland	Advisory and consulting services provided to the Group entities and owner's supervision of investment portfolio.	100.00%	100.00%
– Telefon 2000 Sp. z o.o.	Warsaw, Poland	Design and development of telecommunications systems.	95.38%	95.38%
– Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local fixed-line telecommunications operator.	55.11%	55.11%
– TP TelTech Sp. z o.o.	Łódź, Poland	Monitoring of alarm signals, servicing local networks.	100.00%	100.00%
– TP Internet Sp. z o.o. ('TP Internet')	Warsaw, Poland	Call-centre services.	100.00%	100.00%
TP MED Sp. z o.o.	Warsaw, Poland	Medical and health care services.	100.00%	100.00%
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	Warsaw, Poland	Development and management of employee pension fund.	100.00%	100.00%
Fundacja Grupy TP	Warsaw, Poland	Charity foundation.	100.00%	100.00%
Virgo Sp. z o.o.	Warsaw, Poland	Advisory services, financial operations and property investments management.	100.00%	100.00%
– Wirtualna Polska S.A. ('WP')	Gdańsk, Poland	Internet portal and database services, software and advertising services.	100.00%	100.00%
– Sklep Wirtualnej Polski S.A. in liquidation	Gdańsk, Poland	No operational activities.	100.00%	100.00%
TPSA Finance B.V.	Amsterdam, The Netherlands	Financial and investment operations.	100.00%	100.00%
TPSA Eurofinance B.V.	Amsterdam, The Netherlands	Financial and investment operations.	100.00%	100.00%
– TPSA Eurofinance France S.A.	Paris, France	Financial and investment operations.	99.96%	99.96%

(1) included in assets held for sale (see Note 16)

(2) the change of the company's name was registered on 16 February 2007

In the 12 months ended 31 December 2007 and 2006, the voting power held by the Group was equal to the Group's interest in the share capital of all of its subsidiaries. There were no significant acquisitions or divestitures in the 12 months ended 31 December 2007 and 2006.

As at 31 December 2007 and 31 December 2006 TP S.A. held 25% interest in Telefony Opalenickie S.A., a local fixed-line telecommunications operator and the voting power held by TP S.A. was equal to the interest in the share capital of this associate. The investment in this associate is accounted for under the equity method.

1. Corporate information (continued)

1.3. The Management Board of the Company

The Management Board of the Company at the date of the preparation of these consolidated financial statements was as follows:

Maciej Witucki – President & CEO,
Benoît Mérel – Board Member (CFO),
Pierre Hamon – Board Member (Strategy, Development and Business Segment),
Jacek Kałłaur – Board Member (Human Resources).

The Supervisory Board of the Company at the date of the preparation of these consolidated financial statements was as follows:

Prof. Andrzej K. Koźmiński – Chairman of the Supervisory Board
Olivier Barberot – Deputy Chairman of the Supervisory Board
Michel Monzani – Secretary of the Supervisory Board
Antonio Anguita – Member of the Supervisory Board
Vivek Badrinath – Member of the Supervisory Board
Timothy Boatman – Independent member of the Supervisory Board
Jacques Champeaux – Member of the Supervisory Board
Stephane Pallez – Member of the Supervisory Board
Georges Penalver – Member of the Supervisory Board
Prof. Jerzy Rajski – Independent member of the Supervisory Board
Dr. Wiesław Rozłucki – Independent member of the Supervisory Board
Ronald Freeman – Independent member of the Supervisory Board
Dr. Mirosław Gronicki – Independent member of the Supervisory Board

Changes in the Management Board and in the Supervisory Board of the Company in the year ended 31 December 2007:

– on 29 March 2007, Ms. Iwona Kossmann was appointed as Member of the Management Board of TP S.A. On the same day, Mr. Jean-Marc Vignolles and Mr. Konrad Kobylecki resigned from the Management Board of TP S.A.;
– on 6 April 2007, Mr. Julien Billot resigned from the Supervisory Board of TP S.A. On the same day, the Extraordinary General Meeting appointed Mr. Antonio Anguita to the Supervisory Board of TP S.A.;
– on 7 May 2007, Mr. Tadeusz Han resigned from the Supervisory Board of TP S.A.;
– on 10 May 2007, the Extraordinary General Meeting appointed Mr. Phillipe Andres to the Supervisory Board of TP S.A.;
– on 20 September 2007, Mr. Philippe Andres and Mr. Andrew Seton resigned from the Supervisory Board of TP S.A.;
– on 28 November 2007, the Extraordinary General Meeting appointed Mr. Ronald Freeman and Mr. Mirosław Gronicki to the Supervisory Board of TP S.A.

On 24 January 2008, Ms. Iwona Kossmann, Mr. Pierre Hamon and Mr. Benoît Mérel resigned from the Management Board of TP S.A. The resignations become effective on: 24 January 2008 for Ms. Iwona Kossman, 29 February 2008 for Mr. Pierre Hamon and Mr. Benoît Mérel. On the same day, the Supervisory Board of TP S.A. appointed Mr. Roland Dubois as a Member of the Management Board of TP S.A., effective 1 March 2008.

2. Statement of compliance and basis for preparation

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

Comparative amounts for the year ended 31 December 2006 have been compiled using the same basis of preparation.

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

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

2. Statement of compliance and basis for preparation (continued)

These Consolidated Financial Statements are prepared in millions of Polish zloty ('PLN') and were authorised for issuance by the Management Board on 5 February 2008.

The principles applied to prepare financial data relating to the year ended 31 December 2007 are described in Note 3 and are based on:
– all standards and interpretations endorsed by the European Union and applicable with effect from 1 January 2007;
– IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory after 1 January 2007 but for which the Group has opted for earlier application;
– accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of IAS 8.

Use of estimates

In preparing the Group's accounts, the Company's management is required to make estimates, insofar as many elements included in the financial statements cannot be measured with precision. Management reviews these estimates if the circumstances on which they were based evolve, or in the light of new information or experience. Consequently, estimates made as at 31 December 2007 may be subsequently changed. The main estimates made are described in the following notes:

	Note	Type of information disclosed
8	Impairment of cash generating units and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
3.5.12	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
3.5.14, 12	Income tax	Assumptions used for recognition of deferred tax assets.
26	Employee benefits	Discount rates, inflation, salary increases, expected average remaining working lives.
3.5.12, 25	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
28, 32	Provisions	Provisions for termination benefits and restructurings: discount rates and other assumptions. The assumptions underlying the measurement of provisions for claims and litigation are disclosed in Note 32.
3.5.8, 3.5.9	Useful lives of tangible and intangible assets	The useful lives and the amortisation method.
3.5.17, 27	Share-based payments	Model and key assumptions used to determine fair value of equity instruments granted: exercise price, historical volatility, risk-free interest rate, expected dividend yield, etc.
28	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.

Use of judgements

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

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

The main judgements made as at 31 December 2007 relate to provisions for litigations and claims, and contingent liabilities. Details are described in Note 32.

3. Significant accounting policies

This note describes the accounting principles applied to prepare the consolidated financial statements for the year ended 31 December 2007.

3.1. Application of new standards, amendments and interpretations

Adoption of standards, amendments to standards and interpretations which are compulsory as at January 1, 2007.

The following standards or amendments to standards and interpretations (already endorsed or in the process of being endorsed by the European Union) have become effective and are compulsory as at January 1, 2007:

– IFRIC 8 'Scope of IFRS 2 Share-based Payment',
– IFRIC 9 'Reassessment of Embedded Derivatives',
– IFRS 7 'Financial Instruments: Disclosures',
– Amendments to IAS 1 'Presentation of Financial Statements – Capital Disclosures',
– IFRIC 10 'Interim Financial Reporting and Impairment'.

The adoption of these amendments to the accounting standards, new standards and interpretations did not result in any significant changes to the Group accounting policies. The application of IFRS 7 and Amendment to IAS 1 impacts only the format and extent of disclosures presented in the consolidated financial statements.

As a part of an incentive programme ('Programme') for the key managers and executives of Telekomunikacja Polska and its selected subsidiaries, TP S.A. issued registered A-series bonds ('the Bonds') with a pre-emption right attached to the Bonds to subscribe for the Company's shares with priority over the existing shareholders. As a result of Programme implementation, the Group decided to adopt early in 2007 IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' (see Note 3.5.17).

The following standards, amendments and interpretations are compulsory as at January 1, 2007 but are not relevant to the Group's operations:
– IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies'. As of the balance sheet date, no company included in the Group's scope of consolidation used the currency of a hyperinflationary economy as its functional currency.

Standards and interpretations issued but not yet adopted.

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

– IFRIC 12 'Service Concession Arrangements' applicable for financial years beginning after 1 January 2008. This interpretation has not been endorsed by the European Union,
– IFRS 8 'Operating Segments' applicable for financial years beginning after 1 January 2009,
– Revised IAS 23 'Borrowing costs' applicable for financial years beginning after 1 January 2009. This standard has not been endorsed by the European Union,
– IFRIC 13 'Customer Loyalty Programmes' applicable for financial years beginning after 1 July 2008. This interpretation has not been endorsed by the European Union,
– IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' applicable for financial years beginning after 1 January 2008. This interpretation has not been endorsed by the European Union,
– Revised IAS 1 'Presentation of Financial Statements' applicable for financial years beginning after 1 January 2009. This standard has not been endorsed by the European Union,
– Revised IFRS 3 'Business Combinations' applicable for financial years beginning after 1 July 2009. This standard has not been endorsed by the European Union,
– Revised IAS 27 'Consolidated and Separate Financial Statements' applicable for financial years beginning after 1 July 2009. This standard has not been endorsed by the European Union.

The Group is currently analysing the practical consequences of these new standards and interpretations and the impact of their application on its financial statements.

3. Significant accounting policies (continued)

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

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

Acquisitions of minority interests in a subsidiary already controlled by the Group
These transactions are not addressed in IFRSs. Therefore goodwill is recognised as the difference between the cost of acquisition of minority interests and minority interests in the book value of the underlying net assets, without making any fair value adjustments to the assets and liabilities acquired.

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

3.3. Options available under IFRSs and used by the Group

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

	Standards and amendments	Option used
IAS 2	Inventories	Recognition of inventories at their original cost determined by the weighted average unit cost method.
IAS 16	Property, plant and equipment	Property, plant and equipment are measured at amortised historical cost less any accumulated impairment loss.
IAS 19	Employee benefits	Recognition of actuarial gains and losses on pensions and other post employment benefit obligations according to the corridor method. This method consists of recognising a specified portion of the net cumulative actuarial gains and losses that exceed 10% of the greater of (i) the present value of the defined benefit obligation; and (ii) the fair value of plan assets, over the average expected remaining working lives of the employees participating in the plan.
IAS 23	Borrowing costs	Borrowing costs incurred during the construction and acquisition period of property, plant and equipment and intangible assets are not capitalised.
IAS 38	Intangible assets	Intangible assets are measured at amortised historical cost less any accumulated impairment loss.

3.4. Presentation of the financial statements

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

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

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

3. Significant accounting policies (continued)

3.4. Presentation of the financial statements (continued)

Earnings per share

The net income per share for each period is calculated by dividing the net income for the period attributable to the equity holders of the Company by the weighted average number of shares outstanding during that period. The weighted average number of shares outstanding is after taking account of ordinary shares purchased by the Company in 2007 and held as treasury shares (see Note 30) and the dilutive effect of the pre-emption rights attached to the bonds issued under TP S.A. incentive programme (see Note 27).

	12 months ended	
	December 31, 2007	December 31, 2006
Net income attributable to the equity holders of the Company (in PLN millions)	2,273	2,094
Weighted average number of shares outstanding (in millions) – basic and basic including dilutive effect	1,387	1,400
Earnings per share – basic and diluted (in PLN)	1.64	1.50

Changes in presentation of the financial statements

As a result of the application of IFRS 7 the Group decided to change the presentation of the financial assets and financial liabilities in the consolidated balance sheet and to provide classification as defined in IAS 39. In addition, the Group reclassified cash collateral and derivatives held for trading in order to better reflect the nature and maturity of those financial instruments.

Major changes in the comparative amounts for the year ended December 31, 2006 are described below:

Cash collateral

The Group reclassified cash deposits paid to banks as a collateral for derivatives and cash deposits paid in connection with the construction of certain tangible assets from cash and cash equivalents to current and non-current loans and receivables, in the amounts of PLN 16 million and PLN 185 million, respectively. The Group believes that the current presentation better reflects the nature and maturity of cash collateral paid.

The changes in the presentation of cash collateral affected consolidated cash flow statement are as follows:

Consolidated statement of cash flows (in PLN millions)	Data previously reported	Reclassification of cash collateral	Data reclassified
Net cash used in investing activities			
– for the 12 months ended 31 December 2006	(4,261)	(6)	(4,267)
Net cash used in financing activities			
– for the 12 months ended 31 December 2006	(3,752)	(132)	(3,884)
Net change in cash and cash equivalents			
– for the 12 months ended 31 December 2006	(788)	(138)	(926)
Effect on changes in exchange rates on cash and cash equivalents			
– for the 12 months ended 31 December 2006	(9)	10	1
Cash and cash equivalents at the beginning of the period			
– 12 months ended 31 December 2006	1,676	(73)	1,603
Cash and cash equivalents at the end of the period			
– 12 months ended 31 December 2006	879	(201)	678

Derivatives held for trading

Under IAS 39 derivatives that do not qualify for hedge accounting are classified as held for trading. IAS 1 requires an item to be classified as current if it is held primarily for the purpose of being traded. Provisions of IAS 39 and IAS 1 may imply that a derivative classified as held for trading must be a current asset or liability, even if it is held to hedge a long term position.

3.4. Presentation of the financial statements (continued)

Derivatives held for trading (continued)
As at 31 December 2006 the Group presented derivatives that do not qualify for hedge accounting as set out in IAS 39 but can be determined as economical hedge either as current assets or current liabilities. In 2007 the Group decided to reclassify in the balance sheet certain derivatives held for trading to reflect their long-term nature.

Following this change in presentation, the Group treats the whole derivative (both derivatives held for trading and hedging derivatives) as its unit of account and presents derivatives either as current or non-current based on the date of last cash flows either within or beyond 12 months from the balance sheet date.

The Group reclassified:
– assets of derivatives held for trading from other current financial assets and derivatives to non-current financial assets at fair value through profit or loss, in the amount of PLN 16 million,
– liabilities of derivatives held for trading from current derivatives to current and non-current financial liabilities at fair value through profit or loss, in the amount of PLN 19 million and PLN 106 million, respectively.

Hedging instruments
The Group reclassified:
– assets of hedging derivatives from other current financial assets and derivatives to current hedging derivatives assets, in the amount of PLN 11 million,
– liabilities of hedging derivatives from current and non-current derivatives, in the amount of PLN 261 million and PLN 985 million, respectively, to current and non-current hedging derivatives liabilities, in the amount of PLN 125 million and PLN 1,121 million, respectively.

Bonds and bank borrowings liability
The Group reclassified current and non-current bonds, bank borrowings, loans and other financial debt, including accrued interest payable to current and non-current financial liabilities at amortised cost, in the amounts of PLN 2,212 million and PLN 4,577 million, respectively.

UMTS license liability
The Group reclassified non-current payables relating to UMTS licenses from other non-current liabilities to non-current trade payables, in the amount of PLN 762 million.

3.5. Significant accounting policies

3.5.1. Consolidation rules

Subsidiaries that are controlled exclusively by Telekomunikacja Polska, directly or indirectly, are fully consolidated. Control is deemed to exist when the Group owns more than 50% of the voting rights of an entity, unless it can be clearly demonstrated that such ownership does not constitute control, or when one of the following four criteria is met:
– power over more than one half of the voting rights of the other entity by virtue of an agreement,
– power to govern the financial and operating policies of the other entity under a statute or agreement,
– power to appoint or remove the majority of the members of the management board or equivalent governing body of the other entity,
– power to cast the majority of votes at meetings of the management board or equivalent governing body of the other entity.

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

Intercompany transactions and balances are eliminated on consolidation.

3.5.2. Effect of changes in foreign exchange rates

Translation of financial statements of foreign subsidiaries
The financial statements of foreign subsidiaries whose functional currency is not the Polish zloty are translated into the Group presentation currency as follows:
– assets and liabilities are translated at the National Bank of Poland ('NBP') period-end exchange rate,
– items in the statement of income are translated at the NBP average rate for the reporting period,
– the translation adjustment resulting from the use of these different rates is included as a separate component of shareholders' equity.

3. Significant accounting policies (continued)

3.5.2. Effect of changes in foreign exchange rates (continued)

Transactions in foreign currencies

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

– in other operating income and expense for commercial transactions;

– in financial income or finance costs for financial transactions.

Derivative instruments are measured and recognised in accordance with the general principles described in Note 3.5.12. Currency derivatives are recognised in the balance sheet at fair value at each period-end. Gains and losses arising from remeasurement to fair value are recognised:

– in other operating income and expense for fair value hedges of commercial transactions;

– in financial income or finance costs for hedges of financial assets and liabilities and derivative instruments that do not qualify for hedge accounting;

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

3.5.3. Revenue

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

Separable components of packaged and bundled offers

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

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

Equipment sales

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

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

Equipment rentals

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

Content sales and revenue-sharing arrangements

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

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

3.5.3. Revenue (continued)

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

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

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

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

Promotional offers
For certain commercial offers where customers are offered a free service over a certain period in exchange for signing up for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the fixed, non-cancellable period.

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

Points awarded to customers are treated as a separable component to be delivered out of the transaction that triggered the acquisition of the points. Part of the invoiced revenue is allocated to these points based on their fair value taking account of an estimated utilisation rate, and deferred until the date on which the points are definitively converted into benefits.

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

Penalties
The Group's commercial contracts may contain service level commitments (delivery time, service reinstatement time). If the Group fails to comply with these commitments, it pays compensation to the end-customer, usually in the form of a price reduction which is deducted from revenues.

3.5.4. Subscriber acquisition costs, advertising and related costs

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

3.5.5. Borrowing costs

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

3.5.6. Share issuance costs and treasury shares

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

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

Treasury shares are recognised using settlement date accounting.

3.5.7. Goodwill

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

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates and is tested for impairment as a part of the overall balance of investment in the associate.

3. Significant accounting policies (continued)

3.5.7. Goodwill (continued)

Impairment tests and Cash Generating Units

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

Recoverable amount

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

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

Value in use is the present value of the future cash flows expected to be derived from the CGU or group of CGUs, including goodwill. Cash flow projections are based on economic assumptions, license renewal assumptions and forecast trading conditions drawn up by the Group management, as follows:
- cash flow projections are based on the five-year business plan,
- cash flow projections beyond the five-year timeframe are extrapolated by applying a declining or flat growth rate over the next two years, followed by a growth rate to perpetuity reflecting the expected long-term growth in the market,
- the cash flows obtained are discounted using appropriate rates for the type of business concerned.

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

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

3.5.8. Intangible assets (excluding goodwill)

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

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

Internally developed trademarks and subscriber bases are not recognised in intangible assets.

Licenses

Licenses to operate mobile telephone networks are amortised on a straight-line basis over the license period from the date when the network is technically ready and the service can be marketed. For the details of concessions values see Note 14.

Research and development costs

Under IAS 38 'Intangible Assets', development costs are recognised as an intangible asset if and only if the following can be demonstrated:
- the technical feasibility of completing the intangible asset so that it will be available for use,
- the intention to complete the intangible asset and use or sell it and the availability of adequate technical, financial and other resources for this purpose,
- the ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits for the Group,
- the Group's ability to measure reliably the expenditure attributable to the intangible asset during its development.

3.5.8. Intangible assets (excluding goodwill) (continued)

Research and development costs (continued)
Research costs, and development costs not fulfilling the above criteria, are expensed as incurred. The Group's research and development projects mainly concern:
– upgrading the network architecture or functionality;
– developing service platforms aimed at offering new services to the Group's customers.

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

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

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

3.5.9. Property, plant and equipment

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

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

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

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

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

Finance leases
Assets acquired under leases that transfer substantially all risks and rewards of ownership to the Group are recorded as assets and an obligation in the same amount is recorded in liabilities. The risks and rewards of ownership are considered as having been transferred to the Group when:
– the lease transfers ownership of the asset to the lessee by the end of the lease term,
– the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
– the lease term is for the major part of the estimated economic life of the leased asset,
– at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,
– the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

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

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

3. Significant accounting policies (continued)

3.5.9. Property, plant and equipment (continued)

Depreciation

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

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

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

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

3.5.10. Non-current assets held for sale

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

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

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

3.5.11. Impairment of non-current assets other than goodwill

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

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

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

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

Impairment tests are carried out on individual assets, except where they do not generate independent cash flows. The recoverable amount is then determined at the level of the cash-generating unit (CGU) to which the asset belongs, except where:
– the fair value less costs to sell of the individual asset is higher than its book value; or
– the value in use of the asset can be estimated as being close to its fair value less costs to sell, where fair value can be reliably determined.

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

3.5.12. Financial assets and liabilities

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

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

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

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

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

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

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

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

Loans and receivables are carried in the balance sheet under 'Loans and receivables', 'Trade receivables' and current 'Other assets'.

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

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

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

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

Assets at fair value through profit or loss
Upon initial recognition the Group did not designate financial assets as financial assets at fair value through profit or loss other than assets held for trading (a) that the Group acquired principally for the purpose of selling them in the near term in order to realise a profit, that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; (b) derivatives that do not qualify for hedge accounting as set out in IAS 39.

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

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

3. Significant accounting policies (continued)

3.5.12. Financial assets and liabilities (continued)

Measurement and recognition of financial liabilities

Financial liabilities at amortised cost
Borrowings and other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost by the effective interest method. Financial liabilities measured at amortised cost are carried in the balance sheet under 'Financial liabilities at amortised cost' and 'Trade payables'.

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

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

Certain borrowings are designated as being hedged by fair value hedges. A fair value hedge is a hedge of the exposure to changes in fair value of a recognised liability or an identified portion of the liability, that is attributable to a particular risk and could affect profit or loss. Gain or loss on hedged borrowing attributable to a hedged risk adjusts the carrying amount of a borrowing and is recognised in the income statement.

Certain borrowings are designated as being hedged by cash flow hedges. A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised liability or a highly probable forecast transaction (such as a purchase or sale) and could affect profit or loss.

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

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

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

Except for gains and losses on hedging instruments (as explained below), gains and losses arising from changes in fair value of derivatives classified as the financial assets and liabilities at fair value through profit or loss are systematically recognised in the income statement and presented within 'Finance cost'. Interest rate component and foreign exchange component of derivatives held for trading are presented under interest expense and foreign exchange gains or losses, respectively, within finance cost.

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

Hedging instruments
Derivative instruments may be designated as fair value hedges or cash flow hedges:
– a fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an identified portion of the asset or liability, that is attributable to a particular risk – notably interest rate and currency risks – and could affect profit or loss,
– a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (such as a future purchase or sale) and could affect profit or loss.
A hedging relationship qualifies for hedge accounting when:
– at the inception of the hedge, there is formal designation and documentation of the hedging relationship,
– at the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving the offset of changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (i.e. the actual results of the hedge are within a range of 80-125 per cent).

3.5.12. Financial assets and liabilities (continued)

Hedging instruments (continued)

The effects of applying hedge accounting are as follows:

– for fair value hedges of existing assets and liabilities, the change in fair value of the hedged portion of the asset or liability attributable to the hedged risk adjusts the carrying amount of the asset or liability in the balance sheet. The gain or loss from the changes in fair value of the hedged item is recognised in profit or loss and is offset by the effective portion of the loss or gain from remeasuring the hedging instrument at fair value. The adjustment to the hedged item is amortised starting from the earliest possible date, and not at the date when a hedged item ceases to be adjusted by a change in the fair value of the hedged portion of liability attributable to the risk hedged;

– for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity – because the change in the fair value of the hedged portion of the underlying item is not recognised in the balance sheet – and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. Amounts recognised directly in equity are subsequently recognised in profit or loss in the same period or periods during which the hedged item affects profit or loss.

Derecognition of financial assets and liabilities

Financial assets

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

– the rights to receive cash flows from the asset have expired,

– the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or

– the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

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

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

3.5.13. Inventories

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

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

3.5.14. Deferred taxes

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

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

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

– the temporary difference will reverse in the foreseeable future; and

– taxable profit will be available against which the temporary difference can be utilised.

3. Significant accounting policies (continued)

3.5.14. Deferred taxes (continued)

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries and associates except to the extent that both of the following conditions are satisfied:
– the Group is able to control the timing of the reversal of the temporary difference (e.g. the payment of dividends); and
– it is probable that the temporary difference will not reverse in the foreseeable future.

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

3.5.15. Provisions

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

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

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

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

Restructuring
A provision for restructuring costs is recognised only when the general recognition criteria for provisions are met and when the Group:
– has a detailed formal plan for the restructuring, and
– has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

3.5.16. Pensions and similar benefits

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

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

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

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

3.5.16. Pensions and similar benefits (continued)

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

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

3.5.17. Share-based payments

The Group operates an equity-settled, share-based compensation plan under which employees render services to the Company and its subsidiaries as consideration for equity instruments of TP S.A.

The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense, with a corresponding increase in equity, over the period in which the service conditions are fulfilled (vesting period). The fair value of the employee services received is measured by reference to the fair value of the equity instruments at the grant date.

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

TP S.A.'s subsidiaries measure the service received from its employees in accordance with the requirements of equity settled transactions, with a corresponding increase recognised in equity as a contribution from the parent.

4. Segment information

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

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

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

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

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

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

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

GOM corresponds to operating income before:
– employee profit-sharing,
– share-based payments,
– depreciation and amortisation expense,
– impairment of goodwill and other non-current assets,
– gains and losses on disposal of assets,
– restructuring costs.

4. Segment information (continued)

Basic financial data on the business segments is presented below:

(in PLN millions)	Fixed line telecommunications	Mobile telecommunications	Eliminations and unallocated items	Consolidated
12 months ended December 31, 2007				
Revenue	10,914	8,064	(734)	18,244
External	10,620	7,624	–	18,244
Inter-segment	294	440	(734)	–
Gross operating margin	4,557	3,155	–	7,712
Employee profit-sharing	(24)	–	–	(24)
Share-based compensation	(2)	–	–	(2)
Depreciation and amortisation	(3,200)	(1,239)	–	(4,439)
Impairment of goodwill	–	–	–	–
Impairment of non-current assets	2	–	–	2
Gains (losses) on disposal of assets	40	(6)	–	34
Restructuring costs	(1)	–	–	(1)
Share of profits (losses) of associates	–	–	–	–
Operating income	1,372	1,910	–	3,282
Interest income	90	35	(86)	39
Interest expense and other financial charges	–	–	(493)	(493)
Foreign exchange gains (losses)	–	–	63	63
Discounting	(28)	(33)	–	(61)
Income tax	–	–	(555)	(555)
Net income before minority interests	–	–	2,275	2,275
Significant non-cash items included in operating income – other than those mentioned above	(320)	(105)	–	(425)
Capital expenditures	2,412	1,276	(11)	3,677
At December 31, 2007				
Segment assets	19,442	11,886	(175)	31,153
Investment in associates	3	–	–	3
Unallocated assets	–	–	1,266	1,266
Total assets	–	–	–	32,422
Segment liabilities	4,585	2,806	(175)	7,216
Unallocated liabilities	–	–	7,433	7,433
Total liabilities	–	–	–	14,649
Equity	–	–	17,773	17,773
Total equity and liabilities	–	–	–	32,422

(in PLN millions)	Fixed line telecommunications	Mobile telecommunications	Eliminations and unallocated items	Consolidated
12 months ended December 31, 2006				
Revenue	11,869	7,532	(776)	18,625
External	11,636	6,989	–	18,625
Inter-segment	233	543	(776)	–
Gross operating margin	5,570	2,669	–	8,239
Employee profit-sharing	(24)	–	–	(24)
Share-based compensation	–	–	–	–
Depreciation and amortisation	(3,427)	(1,062)	–	(4,489)
Impairment of goodwill	–	–	–	–
Impairment of non-current assets	(80)	–	–	(80)
Gains (losses) on disposal of assets	14	(8)	–	6
Restructuring costs	(285)	–	–	(285)
Share of profits (losses) of associates	–	–	–	–
Operating income	1,767	1,600	–	3,367
Interest income	166	29	(149)	46
Interest expense and other financial charges	–	–	(700)	(700)
Foreign exchange gains (losses)	–	–	(6)	(6)
Discounting	(22)	(51)	–	(73)
Income tax	–	–	(538)	(538)
Net income before minority interests	–	–	2,096	2,096
Significant non-cash items included in operating income – other than those mentioned above	(74)	(106)	–	(180)
Capital expenditures	1,906	1,094	–	3,000
At December 31, 2006				
Segment assets	20,278	11,432	(79)	31,631
Investment in associates	3	–	–	3
Unallocated assets	–	–	977	977
Total assets	–	–	–	32,611
Segment liabilities	3,786	2,275	(79)	5,982
Unallocated liabilities	–	–	8,526	8,526
Total liabilities	–	–	–	14,508
Equity	–	–	18,103	18,103
Total equity and liabilities	–	–	–	32,611

5. Main acquisitions and divestitures of companies

There were no significant acquisitions and divestitures in the 12 months ended 31 December 2007 and 2006.

6. Revenue

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Fixed line telephony services	**7,616**	**8,716**
Subscriptions	4,083	4,390
Voice traffic revenues	2,689	3,364
Interconnect revenues	783	885
Payphone revenues	59	72
Other	2	5
Mobile telephony services	**7,462**	**6,848**
Voice traffic revenues	4,289	3,780
Interconnect revenues	1,863	1,902
Messaging services	1,277	1,163
Other	33	3
Data Services	**2,255**	**2,227**
Leased lines	367	380
Data transmission	590	540
Dial – up	63	132
Broadband revenues	1,235	1,175
Radio communications	**207**	**244**
Sales of goods and other	**704**	**590**
Total revenue	**18,244**	**18,625**

Revenues are generated mainly in the territory of Poland. Approximately 2.0% and 2.5% of the total revenues for the 12 months ended 31 December 2007 and 2006, respectively, were received from entities which are not domiciled in Poland, mostly from interconnect services.

7. Operating income and expense

7.1 External purchases

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Commercial expenses [(1)]	(2,450)	(2,284)
Purchases and payments to other operators	(2,518)	(2,835)
Costs relating to network and IT expenses	(950)	(835)
Other external purchases [(2)]	(1,518)	(1,484)
Total external purchases	**(7,436)**	**(7,438)**

[(1)] In the 12 months ended 31 December 2007 and 2006, it includes cost of handsets and other equipment sold in the amount of PLN 1,317 million and PLN 1,285 million, respectively. It also includes commissions, advertising and sponsoring.

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

In the 12 months ended 31 December 2007 and 2006 research and development costs expensed in the income statement amounted to PLN 60 million and PLN 53 million, respectively.

7. Operating income and expense (continued)

7.2 Other operating income and expense

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Late payment interest on trade receivables	29	39
Recoveries on customer bad debts written-off	71	79
Charges on termination of post-paid contracts (mobile), net	46	41
Changes in inventories of work in progress	59	63
Other income [(1)]	110	71
Total other operating income	**315**	**293**
Impairment losses on trade receivables, net	(74)	(132)
Taxes other than income taxes [(2)]	(467)	(519)
Operating foreign exchange gains / (losses), net [(3)]	23	(20)
Other expense and changes in provisions, net [(4)]	(494)	(218)
Total other operating expense	**(1,012)**	**(889)**

(1) Includes other individually immaterial items.

(2) In the 12 months ended 31 December 2007 and 2006, it includes property tax in the amount of PLN 329 million and PLN 387 million, respectively, and frequency fee in the amount of PLN 71 million and PLN 70 million, respectively.

(3) Includes foreign exchange gains / (losses) on trade receivables and trade payables.

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

During the period ended 31 December 2007 and 31 December 2006 foreign exchange gains/(losses) on cash flow hedges that were transferred from equity and adjusted exchange differences on hedged UMTS liability amounted to PLN (14) million and PLN (10) million, respectively (see Note 22).

7.3 Labour expenses

(in PLN millions, except number of employees)	12 months ended December 31, 2007	12 months ended December 31, 2006
Average number of employees (full time equivalent)	31,789	32,909
Wages and salaries	(1,950)	(1,938)
Social security charges	(430)	(423)
Capitalised personnel costs	91	67
Other [(1)]	(110)	(58)
Wages and employee benefit expenses	**(2,399)**	**(2,352)**
Employee profit sharing	**(24)**	**(24)**
Share-based payments	**(2)**	–
Total labour expenses	**(2,425)**	**(2,376)**

(1) Includes payroll taxes (obligatory charges for National Fund for Rehabilitation of Disabled Persons – PFRON) for the 12 months ended 31 December 2007 and 2006 amounting to PLN 22 million and PLN 20 million, respectively, and other employee benefits (including change in provisions) for the 12 months ended 31 December 2007 and 2006 amounting to PLN 88 million and PLN 39 million, respectively.

8. Impairment

8.1 Information concerning the definition of Cash Generating Units

The entire fixed network, the entire radio diffusion network, the entire mobile network and internet portal are treated as separate cash generating units.

The Group considers certain indicators, including market liberalisation and other regulatory and economic changes in the Polish telecommunications market, in assessing whether there is any indication that an asset may be impaired. As a consequence:

- as at 31 December 2007 and 2006 the Group performed impairment tests of the fixed network. No impairment loss was recognised in 2007 and 2006 as a result of these tests;
- as at 31 December 2007 the Group performed impairment test of the radio diffusion network. No impairment loss was recognised as a result of this test. Due to lack of indicators no impairment tests of the radio diffusion network were performed as at 31 December 2006.

8. Impairment (continued)

8.1 Information concerning the definition of Cash Generating Units (continued)

As at 31 December 2007 and 2006 goodwill with the net book value of PLN 3,909 million and PLN 85 million was allocated to mobile network and internet portal, respectively. Consequently, at the end of 2007 and 2006 the Group performed annual impairment tests of the mobile network and internet portal. No impairment losses were recognised as a result of these tests.

The following key assumptions were used to determine the value in use of the principal groups of CGUs:
– market level, penetration rate and market share; decisions of regulators in terms of the pricing, accessibility of services; the level of commercial expenses required to replace products and keep up with existing competitors or new market entrants; the impact on costs of changes in net revenues; and
– the level of investment spending, which may be affected by the roll-out of necessary new technologies.

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

Main CGUs	Fixed network	Mobile network	Radio diffusion network
At December 31, 2007			
Basis of recoverable amount	Value in use	Value in use	Value in use
Source used	Budget and business plan	Budget and business plan	Budget and business plan
	5 years cash flow projections	5 years cash flow projections	5 years cash flow projections
Growth rate to perpetuity	0%	3%	0%
Discount rate applied (1)	12.3%	13.1%	12.5%

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

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

The fair value less cost to sell the internet portal was derived by applying enterprise value multiples to comparable companies in similar lines of business that are publicly traded.

8.2 Goodwill

In the years ended 31 December 2007 and 2006, there was no goodwill written off. Details regarding impairment tests of goodwill are presented in Note 8.1.

8.3 Other property, plant and equipment and intangible assets

In the year ended 31 December 2007, the impairment loss on property, plant and equipment reversed in the income statement amounted to PLN 2 million. In the year ended 31 December 2006, the impairment loss on property, plant and equipment charged to the income statement amounted to PLN 77 million. The impairment primarily included an impairment loss reversal or charge as a result of an annual review of the Group's properties, as well as impairment loss charge on liquidated network assets and constructions in progress.

There was no impairment loss on intangible assets charged to the income statement during the year ended 31 December 2007. In the year ended 31 December 2006, the impairment loss on intangible assets charged to the income statement amounted to PLN 3 million.

9. Gains and losses on disposal of assets

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Disposals of property, plant and equipment and intangible assets	34	6
Total gains and losses on disposal of assets	**34**	**6**

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

10. Restructuring costs

Restructuring costs, net of restructuring provision reversals, consist of the following:

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Employee termination costs	(6)	(266)
Other	5	(19)
Total restructuring costs	**(1)**	**(285)**

Movements in restructuring provisions are described in Note 28.

11. Financial income and expense

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Interest income	**39**	**46**
Interest expense	(603)	(744)
– of which derivatives held for trading	(53)	(78)
Changes in fair value of derivatives held for trading	83	54
Changes in fair value of assets held for trading	9	–
Ineffectiveness on cash flow hedges	–	(1)
Ineffectiveness on fair value hedges	18	(9)
– of which change in fair value of hedged debt	(44)	3
– of which change in fair value of fair value hedges	62	(12)
Interest expense and other financial charges	**(493)**	**(700)**
Foreign exchange gains / (losses) (1)	**63**	**(6)**
– of which derivatives held for trading	(66)	(45)
Discounting expense	**(61)**	**(73)**
Finance costs, net	**(452)**	**(733)**

(1) Including currency derivatives.

Interest income includes mainly interest on cash and cash equivalents.

Interest expense was calculated using the effective interest method. It includes mainly interest on bonds, bank borrowings, loans and other financial debt carried at amortised cost as well as interest on derivatives that are used to hedge, under hedge accounting as set out in IAS 39, the Group's debt against exposure to changes in fair value or cash flows attributable to interest rate risk.

During the period ended 31 December 2007 and 31 December 2006 interest income/(expense) on fair value hedges that adjusted interest expense on hedged debt amounted to PLN (101) and PLN (101) millions, respectively.

During the period ended 31 December 2007 and 31 December 2006 interest income/(expense) on cash flow hedges that were removed from equity and adjusted interest expense on hedged debt amounted to PLN (4) and PLN (6) millions, respectively (see Note 22).

During the period ended 31 December 2007 and 31 December 2006 net gain/(loss) on trading derivatives amounted to PLN (36) millions and (69) millions, respectively and consisted of interest expense, changes in fair value in response mainly to changes in the interest rates and foreign exchange gain and loss.

Foreign exchange gains/(losses) include mainly foreign exchange differences on bonds, bank borrowings, loans and other financial debt carried at amortised cost as well as foreign exchange component of change in fair value of derivatives that are used to hedge, under hedge accounting as set out in IAS 39, the Group's debt against exposure to changes in fair value or cash flows attributable to foreign exchange risk.

During the period ended 31 December 2007 and 31 December 2006 foreign exchange gains/(losses) on fair value hedged debt amounted to PLN 386 and PLN 325 millions, respectively. During the period ended 31 December 2007 and 31 December 2006 foreign exchange losses on fair value hedges that adjusted exchange differences on hedged debt amounted to PLN (386) and PLN (323) millions, respectively.

During the period ended 31 December 2007 and 31 December 2006 foreign exchange gains/(losses) on cash flow hedges that were transferred from equity and adjusted exchange differences on hedged debt amounted to PLN (34) and PLN 16 millions, respectively (see Note 22).

For the period ended 31 December 2007 and 31 December 2006 discounting expense includes unwinding of discount on UMTS liability in the amount of PLN (33) and (48) millions, respectively, and post employment benefits in the amount of PLN (16) and PLN (18) millions, respectively.

12. Income tax

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Current income tax	765	500
Deferred tax change	(196)	41
Less: Deferred tax charged to equity	14	3
	555	**538**

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

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Consolidated net income before tax	2,830	2,634
Statutory tax rate	19%	19%
Theoretical tax	538	500
Change in valuation allowance and other	(24)	(22)
Income and expense not subject/deductible for tax purposes, net	41	60
Effective tax	**555**	**538**

Expenses not deductible for tax purposes consist of certain cost items, which, under Polish tax law, are specifically determined as non-deductible. Unrecognised deferred tax asset relates mainly to those tax losses, which are expected to expire rather than being realised, and temporary differences which, based on the Group's management assessment could not be utilised for tax purposes.

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

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

year of expiration:	(in PLN millions)
2007	17
2008	70
2009	58
2010	19
2011	145
2012	6
Total	**315**

During the year ended 31 December 2007 and 2006 the Group entities utilised PLN 49 million and PLN 273 million, respectively, of its tax losses previously incurred.

12. Income tax (continued)

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

	Consolidated balance sheet		Consolidated income statement	
12 months ended				
(in PLN millions)	At December 31, 2007	At December 31, 2006	December 31, 2007	December 31, 2006
Property, plant and equipment and intangible assets	348	426	78	28
Impairment of financial assets	(41)	(162)	(121)	(3)
Finance costs, net	20	9	3	(276)
Accrued income/expense	(370)	(112)	258	221
Employee benefit plans	(47)	(47)	–	(16)
Deferred revenue	(111)	(97)	14	4
Other differences	(41)	(63)	(22)	4
Net deferred tax (assets) / liability (1)	**(242)**	**(46)**	**–**	**–**
Deferred tax income / (expense)	**–**	**–**	**210**	**(38)**

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

Deferred tax change in the 12 months ended 31 December 2006 includes PLN 77 million, related to timing difference between the preparation of the IFRS consolidated financial statements and the filing of Corporate Income Tax declaration for 2005.

As at 31 December 2007 and 2006, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 453 million and PLN 832 million, of which PLN 300 million and PLN 600 million, respectively related to tax losses the realisation of which was not probable and PLN 153 million and PLN 232 million, respectively related to other temporary differences which, based on the Group's management assessment would not be utilised for tax purposes.

13. Goodwill

Goodwill arising from consolidated subsidiaries are as follows:

	At December 31, 2007			At December 31, 2006		
(in PLN millions)	Cost	Accumulated impairment	Net	Cost	Accumulated impairment	Net
Wirtualna Polska	247	(162)	85	247	(162)	85
PTK Centertel	3,909	–	3,909	3,909	–	3,909
Total goodwill	**4,156**	**(162)**	**3,994**	**4,156**	**(162)**	**3,994**

There were no movements in the net book value of goodwill in the 12 months ended 31 December 2007 and 2006.

14. Other intangible assets

	At December 31, 2007			
(in PLN millions) Net	Cost	Accumulated amortisation		Impairment
Telecommunications licenses	2,345	(630)	–	1,715
Software	3,530	(2,247)	(7)	1,276
Other intangibles	149	(42)	(1)	106
Total	**6,024**	**(2,919)**	**(8)**	**3,097**

	At December 31, 2006				At December 31, 2005
(in PLN millions)	Cost	Accumulated amortisation	Impairment	Net	Net
Telecommunications licenses	2,345	(484)	–	1,861	2,006
Software	3,856	(2,473)	(10)	1,373	1,095
Other intangibles	87	(35)	–	52	365
Total	**6,288**	**(2,992)**	**(10)**	**3,286**	**3,466**

14. Other intangible assets (continued)

Movements in the net book values were as follows:

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Opening balance net of accumulated amortisation and impairment	**3,286**	**3,466**
Acquisitions of intangible assets	693	452
Amortisation	(688)	(698)
Impairment	–	(3)
Reclassifications and other	(194)	69
Closing balance	**3,097**	**3,286**

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

				Net book value	
(in PLN millions)	Acquisition date	Concession term	Acquisition value	At December 31, 2007	At December 31, 2006
DCS 1800 Concession	1997	2012	318	115	139
GSM 900 Concession	1999	2014	402	167	193
UMTS Concession	2000	2023	2,495	1,433	1,529
Total telecommunications licenses			**3,215**	**1,715**	**1,861**

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

15. Property, plant and equipment

	At December 31, 2007			
(in PLN millions)	Cost	Accumulated depreciation	Impairment	Net
Land and buildings	3,383	(788)	(118)	2,477
Networks and terminals	36,164	(18,136)	(26)	18,002
IT equipment	2,110	(1,335)	(1)	774
Investment grants	(179)	–	–	(179)
Other	924	(855)	(23)	46
Total	**42,402**	**(21,114)**	**(168)**	**21,120**

	At December 31, 2006				At December 31, 2005
(in PLN millions)	Cost	Accumulated depreciation	Impairment	Net	Net
Land and buildings	3,472	(641)	(124)	2,707	3,078
Networks and terminals	33,442	(14,894)	(30)	18,518	20,039
IT equipment	1,661	(1,080)	–	581	509
Investment grants	(196)	–	–	(196)	(216)
Other	942	(848)	(18)	76	102
Total	**39,321**	**(17,463)**	**(172)**	**21,686**	**23,512**

Investment grants relate to certain property, plant and equipment received by Telekomunikacja Polska from Public Telephone Committees (Społeczne Komitety Telefonizacji).

15. Property, plant and equipment (continued)

Changes in the net book value of property, plant and equipment are as follows:

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Opening balance net of accumulated depreciation and impairment	**21,686**	**23,512**
Acquisitions of property, plant and equipment	2,984	2,548
Disposals and retirements	(16)	(9)
Depreciation	(3,751)	(3,791)
Impairment	2	(77)
Reclassifications and other (1)	215	(497)
Closing balance	**21,120**	**21,686**

(1) As a result of the Real Estate Optimisation Programme, the Group classified certain properties with a value amounting to PLN 425 million as assets held for sale as at 31 December 2006.

The carrying value of plant and equipment held under finance leases as at 31 December 2007 was less that PLN 1 million. As at 31 December 2006 the carrying value of plant and equipment held under finance leases amounted to PLN 1 million. There were no additions during the 12 months ended 31 December 2007 and 2006 of plant and equipment held under finance leases. Leased assets are pledged as security for the related finance lease and hire purchase liabilities.

16. Assets held for sale

The Group has implemented a Real Estate Optimisation Programme, under which an ongoing project is in place with an objective to dispose of certain properties on the market. As a result of this programme, the Group identified properties with a value amounting to PLN 444 million and PLN 425 million as at 31 December 2007 and 2006, respectively and classified them as assets held for sale. These properties belong to the fixed-line telecommunications reporting segment.

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

(in PLN millions)	12 months ended December 31, 2007
Opening balance	**425**
Additions	37
Disposals	(18)
Closing balance	**444**

In 2007 circumstances arose that were previously considered unlikely and, as a result, certain properties classified as held for sale as at 31 December 2006 were not sold in 2007. The properties are now being actively marketed.

On 13 December 2007 TP S.A. signed a preliminary share purchase agreement for the sale of 100% Ditel S.A. shares. Value of the potential transaction is EUR 20 million. Execution of this agreement is subject to consent from the Polish Office of Competition and Consumer Protection. As at 31 December 2007 Ditel S.A.'s assets and all directly attributable liabilities are classified as held for sale. The main aggregates of Ditel's assets and liabilities are as follows:

(in PLN millions)	At December 31, 2007
Property, plant and equipment and other intangible assets, net	2
Deferred tax assets	3
Inventories, net	7
Trade receivables, net	30
Other assets	1
Cash and cash equivalents	2
Assets classified as held for sale	**45**
Provisions	2
Trade payables	19
Employee benefits	5
Other liabilities	5
Deferred income	3
Liabilities of assets held for sale	**34**

17. Financial assets

17.1 Assets available for sale

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

	At December 31, 2007			At December 31, 2006		
(in PLN millions)	Cost/Fair value	Impairment	Net	Cost/Fair value	Impairment	Net
Main unlisted companies						
Exatel	14	(11)	3	14	(11)	3
Other	4	(3)	1	5	(4)	1
Total assets available for sale [(1)]	18	(14)	4	19	(15)	4

[(1)] Financial assets available for sale are measured at historical cost less impairment and mainly comprise shares for which there is no active market and fair value cannot be reliably measured except for the shares in ICO Global Communications (Holdings) Limited which are traded on NASDAQ and were revalued from PLN 0 million (31 December 2006) to PLN 1 million (31 December 2007).

17.2 Loans and receivables

The Group's loans and receivables are presented below:

	At December 31, 2007			At December 31, 2006		
(in PLN millions)	Cost	Impairment	Net	Cost	Impairment	Net
Cash collateral [(1)]	281	–	281	192	–	192
Other	11	–	11	12	–	12
Total loans and receivables	**292**	**–**	**292**	**204**	**–**	**204**
Current	282	–	282	18	–	18
Non-current	10	–	10	186	–	186

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

17.3 Financial assets at fair value through profit or loss

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

	Fair value at	
(in PLN millions)	At December 31, 2007	At December 31, 2006
Derivative – held for trading [(1)]	30	17
Marketable securities – held for trading [(1)]	5	3
Total assets at fair value through profit or loss	**35**	**20**
Current	35	4
Non-current	–	16

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

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

(in PLN millions)	At December 31, 2007	At December 31, 2006
Trade receivables (net of impairment) [(1), (3)]	**1,795**	**1,877**
VAT receivable	71	14
Other taxes receivables	4	1
Employee-related receivables [(3)]	7	3
Other [(2)]	181	86
Other assets [(1)]	**263**	**104**
Inactivated mobile phones and terminals maintained in the external dealership network	60	40
Other prepaid expenses	17	18
Prepaid expenses	**77**	**58**

[(1)] Additions to impairment of trade and other receivables (net of reversals) are presented in Note 7.2.
[(2)] Includes receivables from debt collectors and penalties from suppliers.
[(3)] Classified as loans and receivables under IAS 39.

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

The Group's maximum exposure to credit risk at the reporting date is best represented by the carrying amounts of those instruments recognised in the balance sheet. The Group holds bills of exchange as a collateral which are considered upon review of related impairment of trade accounts receivable.

Movement in the impairment of trade, employee-related and other receivables in the 12 months ended 31 December 2007 and 2006 is presented below:

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Beginning of period	**527**	**686**
Net change in impairment	(152)	(159)
End of period	**375**	**527**

For the period of 12 months ended 31 December 2007 and 31 December 2006 receivables written off amounted to PLN 277 million and PLN 323 million, respectively.

As at 31 December 2007 and 31 December 2006 the analysis of trade receivables that are past due but not impaired is as follows:

At December 31, 2007:

			Past due in the following periods		
(in PLN millions)	Carrying amount	Neither impaired nor past due	Less than 180 days	Between 180 and 360 days	More than 360 days
Trade receivables – collectively analysed for impairment	1,756	1,153	571	9	23
Trade receivables – individually analysed for impairment	39				
Total trade receivables, net	**1,795**				

At December 31, 2006:

			Past due in the following periods		
(in PLN millions)	Carrying amount	Neither impaired nor past due	Less than 180 days	Between 180 and 360 days	More than 360 days
Trade receivables – collectively analysed for impairment	1,804	1,161	583	39	21
Trade receivables – individually analysed for impairment	73				
Total trade receivables, net	**1,877**				

19. Net debt

19.1 Analysis of net debt by composition and maturity

Net debt corresponds to the total gross debt (converted at the period-end exchange rate), less derivative instruments carried in assets and liabilities at fair value through profit or loss (derivatives held for trading), cash flow hedges and fair value hedges, less cash and cash equivalents, cash collateral paid related to derivatives, and marketable securities and including the impact of the effective portion of cash flow hedges.

The analysis of maturity of the Group's financial liabilities is based on contractual undiscounted payments. As at 31 December 2007 and 31 December 2006 amounts in foreign currency were translated at the NBP period-end exchange rates. The variable interest payments arising from the financial instruments were calculated using the latest interest rates fixed before 31 December 2007 and 31 December 2006, respectively. Financial liabilities that can be repaid at any time at the Group discretion are always assigned to the earliest possible time period.

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

At December 31, 2007:

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

[1] Includes both nominal and interest payments.
[2] Excluding trade payables and UMTS license payables.
[3] Both assets and liabilities are included due to changes in fair values.

19. Net debt (continued)

19.1 Analysis of net debt by composition and maturity (continued)

At December 31, 2006:

(in PLN millions)	Note	Carrying amount	Undiscounted contractual cash flows (1) Within 1 year	Non-current 1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total non-current	Total
Trade payables (excl. UMTS) (A)	**29**	**2,626**	**2,622**	**4**	**–**	**–**	**–**	**–**	**4**	**2,626**
UMTS license payables (B)	**29**	**819**	**57**	**57**	**57**	**57**	**57**	**1,092**	**1,320**	**1,377**
Bonds	21	5,380	2,172	2,562	53	53	1,203	–	3,871	6,043
Bank borrowings	21	1,409	311	278	247	239	231	274	1,269	1,580
Financial liabilities at amortised cost (2)		**6,789**	**2,483**	**2,840**	**300**	**292**	**1,434**	**274**	**5,140**	**7,623**
Derivatives - net (3)	22	1,343	340	983	34	31	80	7	1,135	1,475
Gross financial debt after derivatives (C)		**8,132**	**2,823**	**3,823**	**334**	**323**	**1,514**	**281**	**6,275**	**9,098**
Total financial liabilities (A) + (B) + (C)		**11,577**	**5,502**	**3,884**	**391**	**380**	**1,571**	**1,373**	**7,599**	**13,101**
Marketable securities	17	3								
Cash collateral paid	17	192								
Cash and cash equivalents	20	678								
Sub-total (D)		**873**								
Effective portion of cash flow hedges (E)		(95)								
Net financial debt (C)-(D)+(E)		**7,164**								

(1) Includes both nominal and interest payments.
(2) Excluding trade payables and UMTS license payables.
(3) Both assets and liabilities are included due to changes in fair values.

Most of the Group's trade payables mature within 3 months.

19.2 Analysis of net debt by currency

(equivalent value in PLN millions at the period-end exchange rate)	PLN	EUR	USD	At December 31, 2007 Total
Net debt by currency (1)	2,866	1,806	1,762	6,434
Impact of derivatives notional amount	3,506	(1,816)	(1,690)	–
Net debt by currency after impact of derivatives notional amount	**6,372**	**(10)**	**72**	**6,434**

(1) Including market value of derivatives in local currency

(equivalent value in PLN millions at the period-end exchange rate)	PLN	EUR	USD	At December 31, 2006 Total
Net debt by currency (1)	881	4,027	2,256	7,164
Impact of derivatives notional amount	5,743	(3,524)	(2,219)	–
Net debt by currency after impact of derivatives notional amount	**6,624**	**503**	**37**	**7,164**

(1) Including market value of derivatives in local currency

20. Cash and cash equivalents

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

(in PLN millions)	At December 31, 2007	At December 31, 2006
Cash in hand	2	1
Current bank accounts and overnight deposits	607	571
Deposits up to 3 months	29	102
Other	4	4
Total cash and cash equivalents	**642**	**678**

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

As at 31 December 2007 and 31 December 2006, cash and cash equivalents include an equivalent of PLN 40 million and PLN 25 million, respectively denominated in foreign currencies.

Restricted cash as at 31 December 2007 and 31 December 2006 amounted to PLN 6 million and PLN 2 million, respectively and related mainly to the work performance guarantees.

The Group's maximum exposure to credit risk at the reporting date is best represented by carrying amounts of cash and cash equivalents. The Group deposits its cash and cash equivalents with leading financial institutions with investment grade and assess the risk of these counterparties defaulting as being low.

21. Financial liabilities at amortised cost

21.1 Bonds

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

						Amount outstanding at [1]	
(in PLN millions) Issuer	Series	Nominal value (in millions of currency)	Nominal interest rate	Issue date	Redemption date	December 31, 2007	December 31, 2006
TPSA Finance B.V.	A	800 USD	7.750%	10 December 1998	10 December 2008	1,955	2,299
TPSA Eurofinance B.V.	D	475 EUR	6.500%	13 March 2000	13 March 2007	–	1,912
TPSA Eurofinance France S.A.	T	300 EUR	4.625%	5 July 2004	5 July 2011	1,094	1,169
Total bonds issued by the Group						**3,049**	**5,380**
Current						1,980	1,948
Non-current						1,069	3,432

[1] Includes accrued interest and the fair value adjustment to the bonds hedged by fair value hedge

The effective interest rate on the Group's bonds, before swaps, amounted to 6.74% as at 31 December 2007 and 6.75% as at 31 December 2006.

21. Financial liabilities at amortised cost (continued)

21.2 Bank borrowings

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

			Amount outstanding at [1]			
			December 31, 2007		December 31, 2006	
Creditor	Interest rate as at 31 December 2007	Repayment date	Currency (millions)	PLN (millions)	Currency (millions)	PLN (millions)
Floating rate						
International Bank for Reconstruction and Development	6.77% [2]	15 March 2008	4 USD	10	12 USD	34
European Investment Bank	4.93% [3]	15 December 2015	67 EUR	239	75 EUR	288
European Investment Bank	4.93% [3]	15 June 2012	150 EUR	539	184 EUR	704
European Investment Bank	5.59% [3]	15 June 2012	234 PLN	234	286 PLN	286
Bayern LandesBank (syndicated)	5.74% [4]	7 January 2008 / 20 February 2011 [5]	801 PLN	801	– PLN	–
Bank Handlowy (syndicated)	–	18 April 2010	(3) PLN	(3)	– PLN	–
Fixed rate						
European Investment Bank	6.454%	10 June 2008	1 USD	2	3 USD	8
European Investment Bank	7.112%	10 June 2008	2 EUR	8	7 EUR	25
Instituto de Credito Oficial	**1.25%**	**2 January 2021**	**20 USD**	**50**	**22 USD**	**64**
Total bank borrowings borrowed by the Group				**1,880**		**1,409**
Current				1,029		264
Non-current				851		1,145

[1] Includes accrued interest and bank borrowings issue costs
[2] Floating rate determined by the bank every half year
[3] Floating rate determined by the bank every three months
[4] Floating rate determined by the bank individually for every drawing
[5] Amounts drawn should be repaid or rolled over by 7 January 2008. Final repayment date for this revolving credit facility is 20 February 2011

The effective interest rate on the Group's bank borrowings, before swaps, amounted to 5.45% as at 31 December 2007 and 3.76% as at 31 December 2006.

21.3 Loan from related party

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

As at 31 December 2007 the Group's loan liability to the related party amounted to PLN 1,003. There was no amount outstanding under this loan at 31 December 2006 (see Note 33.2).

22. Derivatives

As at 31 December 2007 and 31 December 2006 the majority of the Group's derivatives portfolio constitutes financial instruments for which there is no active market (over-the-counter derivatives) i.e. the interest rate and currency swaps. To price these instruments the Group applies standard valuation techniques, where the prevailing market zero-coupon curves constitute the base for calculation of discounting factors. A fair value of swap transaction represents a discounted future cash flow converted into PLN at the period-end exchange rate. The derivative financial instruments used by the Group are presented below:

22. Derivatives (continued)

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

[1] CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, FWD – currency forward, NDF – non-deliverable forward,
[2] Interest is calculated on notional amounts of EUR 75 million and PLN 354 million, which are subject to adjustment in accordance with repayment schedule,
[3] Including EUR 14 million which constitutes hedging of only coupon payments on bond series T,
[4] Interest is calculated on notional amounts of EUR 44 million and PLN 192 million, which are subject to adjustment in accordance with repayment schedule,
[5] Interest is calculated on notional amounts of EUR 192 million and PLN 786 million, which are subject to adjustment in accordance with repayment schedule,
[6] Interest is calculated on notional amounts of USD 20 million and PLN 75 million, which are subject to adjustment in accordance with repayment schedule,
[7] Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

22. Derivatives (continued)

Type of instrument [1]	Hedged Item	Principal (millions) Receive	Principal (millions) Pay	Interest Receive	Interest Pay	Maturity	Fair value [7] (in PLN millions) Financial Asset	Fair value [7] (in PLN millions) Financial Liability
At December 31, 2006								
Derivative instruments – fair value hedge								
CCIRS	Bonds	775 USD	3,051 PLN	7.75% to 7.86%	6M WIBOR + 1.75% to 6M WIBOR + 5.60%	2008	–	(896)
CCIRS	Bonds	440 EUR	1,847 PLN	6.50% to 6.56%	6M WIBOR + 1.59% to 6M WIBOR + 4.08%	2007	–	(116)
CCS	Bonds	10 EUR	42 PLN	–	6M WIBOR - 3.92%	2011	–	(3)
Total of fair value hedges							–	(1,015)
Derivative instruments – cash flow hedge								
CCIRS [2]	Bank borrowings	33 EUR	157 PLN	3M EURIBOR	4.52% to 5.30%	2008	–	(38)
CCIRS [3]	Bonds	63 EUR	255 PLN	4.63% to 6.56%	5.03% to 14.27%	2007 - 2008	11	(36)
CCS [4]	Bank borrowings	44 EUR	192 PLN	–	2.91% to 3.09%	2012	–	(37)
CCS	Bonds	130 EUR	549 PLN	–	1.57% to 2.95%	2011	–	(87)
IRS	Bank borrowings	285 PLN	285 PLN	3M WIBOR - 0.17%	6.89% to 6.99%	2012	–	(18)
CCS	UMTS	72 EUR	286 PLN	–	1.23% to 1.41%	2014	–	(15)
Total of cash flow hedges							11	(231)
Derivative instruments – held for trading								
CCIRS	–	25 USD	75 PLN	7.75%	6M WIBOR + 2.98%	2008	–	(7)
CCIRS [5]	–	114 EUR	445 PLN	3M EURIBOR	3M WIBOR -1.02% to 3M WIBOR + 1.56%	2008 - 2012	15	(28)
CCIRS [6]	–	3 USD	11 PLN	1.25%	6M WIBOR - 3.11%	2008	–	(3)
CCS	–	1 EUR	5 PLN	0.80%	PLN 1 mln quarterly	2008	–	(3)
IRS	–	4,678 PLN	4,678 PLN	3M WIBOR	5.24% to 6.95%	2007 - 2008	–	(73)
NDF	–	108 EUR	424 PLN	–	–	2007	0	(10)
FX swap	–	–	–	–	–	2007	–	(0)
Embedded	–	–	–	–	–	–	2	(1)
Total of derivatives held for trading							17	(125)
Total of derivative instruments							**28**	**(1,371)**
Current							12	(144)
Non-current							16	(1,227)

[1] CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, FWD – currency forward, NDF – non-deliverable forward,
[2] Interest is calculated on notional amounts of EUR 92 million and PLN 433 million, which are subject to adjustment in accordance with repayment schedule,
[3] Including EUR 28 million which constitutes hedging of only coupon payments on bond series T,
[4] Interest is calculated on notional amounts of EUR 44 million and PLN 192 million, which are subject to adjustment in accordance with repayment schedule,
[5] Interest is calculated on notional amounts of EUR 229 million and PLN 938 million, which are subject to adjustment in accordance with repayment schedule,
[6] Interest is calculated on notional amounts of USD 22 million and PLN 81 million, which are subject to adjustment in accordance with repayment schedule,
[7] Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

22. Derivatives (continued)

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

At December 31, 2007:

		Principal			Interest			
Type of instrument	Hedged item	From	To	Receive and Pay	From	To	Receive	Pay
CCIRS	Bank borrowings	Jun 2004	Dec 2008	Semi-annually	Mar 2004	Dec 2008	Quarterly	Quarterly
CCIRS	Bonds	–	Jul 2011	Maturity	Jan 2005	Jul 2011	Annually	Semi-annually
CCS	Bank borrowings	Jun 2009	Jun 2012	Semi-annually	Sep 2004	Jun 2012	–	Quarterly
CCS	Bonds	–	Jul 2011	Maturity	Jan 2005	Jul 2011	–	Semi-annually
IRS	Bank borrowings	–	–	–	Jun 2004	Jun 2012	Quarterly	Quarterly
CCS	UMTS	Sep 2007	Sep 2014	Annually	Dec 2006	Sep 2014	–	Quarterly

At December 31, 2006:

		Principal			Interest			
Type of instrument	Hedged item	From	To	Receive and Pay	From	To	Receive	Pay
CCIRS	Bank borrowings	Jun 2004	Dec 2008	Semi-annually	Mar 2004	Dec 2008	Quarterly	Quarterly
CCIRS	Bonds	Jul 2005	Jul 2008	Annually	Jan 2005	Jul 2008	Annually	Semi-annually
CCIRS	Bonds	–	Mar 2007	Maturity	Sep 2001	Mar 2007	Annually	Semi-annually
CCS	Bank borrowings	Jun 2009	Jun 2012	Semi-annually	Sep 2004	Jun 2012	–	Quarterly
CCS	Bonds	–	Jul 2011	Maturity	Jan 2005	Jul 2011	–	Semi-annually
IRS	Bank borrowings	–	–	–	Jun 2004	Jun 2012	Quarterly	Quarterly
CCS	UMTS	Sep 2007	Sep 2014	Annually	Dec 2006	Sep 2014	–	Quarterly

The Group's maximum exposure to credit risk is represented by the carrying amounts of derivatives. The Group enters into derivatives contracts with leading financial institutions. The Group monitors their credit ratings and therefore considers the risk of these counterparties defaulting as low. Financial exposure to any one financial institution is limited.

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

(in PLN millions)	December 31, 2007	12 months ended December 31, 2006
Beginning of period	**(77)**	**(92)**
The effective part of the gain/loss on hedging instrument	18	18
The amounts transferred to the profit and loss account	52	–
Deferred tax effect	(14)	(3)
End of period	**(21)**	**(77)**

During the period ended 31 December 2007 and 31 December 2006 interest income/(expense) on cash flow hedges that were removed from equity and adjusted interest expense on hedged debt amounted to PLN (4) and PLN (6) millions respectively (see Note 11).

During the period ended 31 December 2007 and 31 December 2006 foreign exchange gains/(losses) on cash flow hedges that were removed from equity and adjusted foreign exchange differences on hedged debt amounted to PLN (34) and 16 millions respectively (see Note 11).

During the period ended 31 December 2007 and 31 December 2006 foreign exchange gains/(losses) on cash flow hedges that were removed from equity and adjusted foreign exchange differences on hedged payables relating to UMTS licences presented under other operating expense, amounted to PLN (14) and (10) million respectively (see Note 7.2).

23 Objectives and policies of financial risk management

23.1. Principles of financial risk management

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

The principles of the Group financial risk management policy are developed by the Corporate Finance Committee and are subsequently approved by the Chief Financial Officer. As a part of the risk management process, written policies and guidelines for overall financial risk management were defined with respect to:
– risk measures used to identify and evaluate the exposure to financial risks,
– selection of appropriate instruments to hedge against identified risks,
– valuation methodology used to determine the fair value of derivatives,
– methods for testing hedging effectiveness for accounting purposes,
– transaction limits and credit ratings of the leading financial institutions with which the Group concludes hedging transactions.

The responsibility for implementation of the financial policies regarding the Group financial risks lies with the TP Group Corporate Finance Branch, which identifies, measures, manages and monitors those risks on an ongoing basis. The Chief Financial Officer is regularly informed on the nature and extent of the current risk exposure.

23.2. Hedge accounting

The Group has entered into numerous derivative transactions to hedge exposure against currency risk and interest rate risk. The derivatives used by the Group include: cross currency interest rate swaps, cross currency swaps, interest rate swaps, currency forwards and non-deliverable forwards. The Group does not use non-derivative instruments to hedge against financial risks.

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

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

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

23.3. Currency risk

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

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

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

As at 31 December 2007, 79.8% (as at 31 December 2006, 84.5%) of the outstanding balance of bonds and bank borrowings denominated in foreign currencies were hedged against currency risk by use of derivative instruments. As at 31 December 2007, 18% (as at 31 December 2006, 20.1%) of the outstanding nominal amount of the UMTS license payable was hedged against currency risk.

23 Objectives and policies of financial risk management (continued)

23.3. Currency risk (continued)

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

(in millions of currency)	Effective exposure after hedging				Sensitivity to a change of the PLN against other currencies			
Financial instrument	December 31, 2007 +10%		December 31, 2006 -10%		December 31, 2007 +10%		December 31, 2006 -10%	
	Currency	PLN	Currency	PLN		PLN		PLN
Bonds and bank borrowings (EUR)	202	724	234	897	72	(72)	90	(90)
Bonds and bank borrowings (USD)	24	58	33	96	6	(6)	10	(10)
UMTS license payable (EUR)	283	1,014	288	1,103	101	(101)	110	(110)
Total		1,796		2,096	179	(179)	210	(210)

The sensitivity analysis presented above is based on the following principles:
- unhedged portion of the notional amount of both financial liabilities and the UMTS license is exposed to foreign exchange risk (effective exposure),
- derivatives satisfying hedge accounting requirements and those classified as economical hedges are treated as risk-mitigation transactions,
- cash and cash equivalents are excluded from the analysis,
- net exposure of trade receivables and trade payables denominated in foreign currencies, except for the UMTS license payable, is insignificant and as such excluded from the analysis.

23.4. Interest rate risk

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

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

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

As at 31 December 2007 and 2006, the Group's proportion between fixed/floating rate debt (including hedging activities) were 74/26% and 84/16%, respectively.

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

(in PLN millions)	Potential increase /(decrease) in value resulting from 1% change of interest rates			
	December 31, 2007		December 31, 2006	
	+1%	-1%	+1%	-1%
Financial expense	38	(37)	7	(5)
Equity	9	(9)	15	(16)
Fair value of net financial debt	(76)	79	(136)	141

The sensitivity analysis presented above is based on the following principles:
- financial expense includes the following items exposed to interest rate risk: a) interest cost on financial debt based on floating rate, after derivatives classified as hedges for accounting purpose and b) the change in the fair value of derivatives that do not qualify for hedge accounting,
- the effective portion of the change in the fair value of derivatives classified as cash flow hedges is recognised directly in equity,
- fair value of net financial debt corresponds to the total market value of gross financial debt after derivatives (see Note 19.1); as at 31 December 2007, the fair value of net financial debt was PLN 7,420 millions (as at 31 December 2006, PLN 8,290 millions).

23.5. Liquidity risk

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

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

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. As at 31 December 2007, the Group had the following unused credit facilities amounting to PLN 5,151 millions (as at 31 December 2006, PLN 5,656 million including an unused credit facility of PLN 1,000 millions granted by France Telecom):
– EUR 950 millions and PLN 1,700 millions available to TP S.A.
– EUR 5 millions and PLN 30 millions available to PTK Centertel.

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

	Liquidity ratios	
(in PLN millions)	December 31, 2007	December 31, 2006
Liquidity ratio - next 12 months (%)	183%	305%
Unused credit facilities	5,151	5,656
Cash and cash equivalents	642	678
Debt repayments (1)	3,172	2,080
Liquidity ratio (incl. cash collaterals and derivatives) - next 12 months (%)	132%	270%
Derivatives (2)	1,432	340
Cash collateral paid	281	192
Liquidity ratio - next 18 months (%)	177%	287%
Unused credit facilities	5,151	5,656
Cash and cash equivalents	642	678
Debt repayments (1)	3,275	2,210
Liquidity ratio (incl. cash collaterals and derivatives) - next 18 months (%)	128%	244%
Derivatives (2)	1,460	466
Cash collateral paid	281	192

(1) Undiscounted principal payments on debt excluding syndicated revolving credit facility
(2) Undiscounted net cash flows on derivatives

The maturity analysis for the remaining contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2007 and 31 December 2006 is presented in Note 19.1. The average duration for the existing debt portfolio as at 31 December 2007 is 1.5 years (as at 31 December 2006, 2.2 years).

23.6 Credit risk

There is no significant concentration of credit risk within the Group. Credit risk is discussed in detail in Notes 18, 20 and 22.

23.7 Price risk

Pursuant to the Polish telecommunication law, prices for telecommunication services should be based on transparent and objective criteria. Detailed conditions are set for all significant types of services. Consequently, specific requirements relating to regulatory accounting and cost calculations are defined for SMP operators. Certain charges have to be approved by UKE before they are applicable and price increases have to be announced at a minimum, one settlement period in advance. In addition, cost calculations of an SMP operator are subject to UKE audit and approval. If prices of certain services are assessed to be inconsistent with the law, UKE may adjust charges, taking into account their level on similar markets ('benchmarks').

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

23.8 Management of covenants

As at 31 December 2007 and 31 December 2006 the Group did not have any credit facilities or borrowings subject to specific covenants with regard to financial ratios.

24. Management of capital

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

The Group's capital management policy takes into consideration three key elements:
– business performance together with applicable investments and development plans.
– cash distribution policy and debt repayment schedule.
– the Group's rating and financial market environment.

In order to combine these factors the Group periodically establishes a framework for the financial structure to be respected. The current Group's objectives in that area are the following:
– Net Gearing ratio – maximum at the range of 35% - 40%
– Net Debt to GOM ratio – remaining below 1.5

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

(in PLN millions)	December 31, 2007	December 31, 2006
Interest bearing loans and borrowings	5,932	6,789
Cash and cash equivalents	642	678
Net Debt	5,290	6,111
Equity	17,773	18,103
Equity and Net Debt	23,063	24,214
GOM	7,712	8,239
Net Gearing ratio (1)	22.9%	25.2%
Net Debt / GOM ratio	0.7	0.7

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

The above scheme imposes maintenance of financial discipline, providing the certain flexibility needed to sustain profitable development, while at the same time meeting the requirements of the applied TP S.A. rating.

There are no external imposed capital requirements on the Group and its capital is shaped by the output of business performance together with the result of the cash distribution policy. The Group's cash distribution policy is set on an annual basis with a focus on delivering an attractive remuneration to Group's shareholders.

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

25. Fair value of financial instruments

As at 31 December 2007 and 31 December 2006, the carrying amount of cash and cash equivalents, cash deposits paid to bank as collateral for derivatives (classified as loans and receivables), current trade receivables and trade payables, current loans and receivables and current financial liabilities at amortised costs approximates their fair value due to relatively short term maturity of those instruments or cash nature (cash collateral paid).

As at 31 December 2007 and 31 December 2006, the carrying amount of financial liabilities at amortised costs which bear variable interest rates approximates their fair value.

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

(in PLN millions)		At December 31, 2007		At December 31, 2006
	Carrying amount [1]	Estimated fair value	Carrying amount [1]	Estimated fair value
Bonds with fixed interest rate	3,049	3,090	5,380	5,553
Bank borrowings with fixed interest rate	60	49	97	84
Payables related to UMTS licenses	758	751	819	854
Total	**3,867**	**3,890**	**6,296**	**6,491**

[1] Carrying amount includes accrued interest.

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

26. Employee benefits

(in PLN millions)	At December 31, 2007	At December 31, 2006
Jubilees	167	177
Retirement bonuses and other post-employment benefits	153	147
Salaries, other employee-related payables and payroll taxes due	276	297
Total carrying value of employee benefit obligations	**596**	**621**
Current	301	333
Non-current	295	288

Certain employees and retirees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 3.5.16). These benefits are not funded. The changes in the present value of liabilities related to employee benefits for the 12 months ended 31 December 2007 and 2006 are detailed in the table below:

(in PLN millions)				12 months ended December 31, 2007				12 months ended December 31, 2006
	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Present value of obligation at beginning of period	**177**	**85**	**80**	**342**	**208**	**98**	**86**	**392**
Current service cost [1]	11	7	1	19	12	7	1	20
Interest cost [2]	8	4	4	16	9	3	3	15
Benefits paid	(34)	(4)	(5)	(43)	(27)	(2)	(5)	(34)
Recognised actuarial (gains)/losses for the period [1][3]	6	–	–	6	–	–	–	–
Unrecognised actuarial (gains)/losses for the period	–	–	(2)	(2)	–	(5)	–	(5)
Plan amendments [1]	–	–	–	–	–	–	–	–
Curtailment [1]	–	–	–	–	(25)	(16)	(5)	(46)
Reclassifications [4]	(1)	(1)	–	(2)	–	–	–	–
Present value of obligation at end of period	**167**	**91**	**78**	**336**	**177**	**85**	**80**	**342**

[1] Recognised as labour expense
[2] Recognised as discounting expense
[3] If any
[4] Reclassification of employee benefits of Ditel S.A. to assets held for sale (see Note 16)

26. Employee benefits (continued)

A valuation of obligations as at 31 December 2007 and 31 December 2006 was performed using the following assumptions:

	At December 31, 2007	At December 31, 2006
Discount rate	5.50%	5.25 %
Wage increase rate	3%	3%
Inflation rate	2%	2%
Pension indexing	up to 2%	up to 2%
Expected average remaining working lives (in years)	12.6 – 22.1	13.6 – 24.0

The reconciliation of recognised and unrecognised actuarial gains and losses for the 12 months ended 31 December 2007 and 2006 is presented below:

	12 months ended December 31, 2007				12 months ended December 31, 2006			
(in PLN millions)	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Unrecognised actuarial gains/(losses) at beginning of period	– [1]	(11)	(7)	(18)	– [1]	(16)	(7)	(23)
Actuarial gains/(losses) for the period	(6)	–	2	(4)	–	5	–	5
Subtotal	**(6)**	**(11)**	**(5)**	**(22)**	**–**	**(11)**	**(7)**	**(18)**
Actuarial (gains)/losses recognised	6	–	–	6	–	–	–	–
Unrecognised actuarial gains/(losses) at end of period	**– [1]**	**(11)**	**(5)**	**(16)**	**– [1]**	**(11)**	**(7)**	**(18)**

[1] recognised as income or expense when occur (see Note 3.5.16)

The reconciliation between present value and carrying value of defined benefit obligation as at 31 December 2007 and 31 December 2006 is as follows:

	At 31 December 2007				At 31 December 2006			
(in PLN millions)	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Present value of DBO	167	91	78	336	177	85	80	342
Net cumulative unrecognised actuarial losses at the end of period	– [1]	(11)	(5)	(16)	– [1]	(11)	(7)	(18)
Carrying value of DBO	**167**	**80**	**73**	**320**	**177**	**74**	**73**	**324**

[1] recognised as income or expense when occur (see Note 3.5.16)

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

(in PLN millions)	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
As at				
December 31, 2007	167	91	78	336
December 31, 2006	177	85	80	342
December 31, 2005	208	98	86	392
December 31, 2004	318	84	76	478
December 31, 2003	320	68	73	461

27. Share-based payments

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

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

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

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

	2007[1] number	weighted average exercised price (PLN)
Outstanding at the beginning of the period	–	–
Granted during the year	6,047,710	21.57
Forfeited during the year	(14,686)	–
Exercised during the year	–	–
Expired during the year	–	–
Outstanding at the end of the year [2]	**6,033,024**	**21.57**
- of which exercisable	–	–

[1] Comparative data for 2006 are not presented as the Programme was implemented in 2007.
[2] The weighted average remaining contractual life for the equity instruments outstanding as at 31 December 2007 is 7 years.

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

Key assumptions	**TP S.A. plan**
Dividend yield	6%
Expected volatility	30%
Risk-free interest rate	5.59%
Exercised price	21.57
Vesting period	3 years
Model used	binominal

During the period ended 31 December 2007 the fair value of services received recognised in labour expenses and equity amounted to PLN 2 million.

28. Provisions

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

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

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

For the 12 months ended 31 December 2006 the movements within particular classes of provisions were as follows:

(in PLN millions)	At January 1, 2006	Increases	Reversals (utilisations)	Reversals (releases)	Discounting effect	At December 31, 2006
Restructuring provisions	24	314	(17)	(29)	–	292
Provisions for claims and litigation (see Note 32), risks and other charges	711	65	(16)	(33)	–	727
Provisions for dismantling	135	7	(3)	(8)	7	138
Provision for potential tax risks	4	4	(3)	(1)	–	4
Total provisions for risks and charges	**874**	**390**	**(39)**	**(71)**	**7**	**1,161**
Current	747					890
Non-current	127					271

The discount rate used to calculate the present value of restructuring and dismantling provisions amounted to 5.25% to 5.50% as at 31 December 2007 and as at 31 December 2006.

Restructuring provision

The restructuring provision consists of the estimated amount of termination benefits for employees scheduled to terminate employment in the Group under the 2007-2009 Social Agreement and of the costs related to the operational restructuring of satellite capacity rental activities of the Group.

Between 2007 and 2009 up to a maximum of 5,700 people may take advantage of the voluntary departure package introduced under the Social Agreement. The amount of termination benefit varies dependent on individual salary, employment duration and year of resignation. The basis for calculation of the employment restructuring provision is the estimated number, remuneration and service period of employees who will accept the voluntary termination till the end of 2009. As at 31 December 2007, 2,350 persons took advantage of the departure package.

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

Dismantling provision

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

The amount of dismantling provision is based on the estimated number of items that should be utilised, period of utilisation (8-26 years), current utilisation cost (obtained through a tender process conducted on normal commercial terms) and inflation.

29. Trade payables, other liabilities and deferred income

29.1 Trade payables

(in PLN millions)	At December 31, 2007	At December 31, 2006
Trade payables	1,802	1,567
Other fixed assets payables	1,905	1,059
UMTS license payables	758	819
Total trade payables [(1)]	**4,465**	**3,445**
Current	3,760	2,683
Non-current [(2)]	705	762

[(1)] Classified as financial liabilities measured at amortised cost under IAS 39
[(2)] It includes only UMTS license liability

29.2 Other liabilities

(in PLN millions)	At December 31, 2007	At December 31, 2006
VAT payable	129	182
Other taxes payables	37	29
Other	15	19
Total other liabilities	**181**	**230**
Current	180	228
Non-current	1	2

29.3 Deferred income

(in PLN millions)	At December 31, 2007	At December 31, 2006
Sales of products and services billed in advance, including telephone subscriptions, phone cards, unused minutes and minutes deferred under loyalty programmes	536	494
Revenue from inactivated mobile phones and terminals in the external dealership network	29	6
Other	20	25
Total deferred income	**585**	**525**
Current	514	446
Non-current	71	79

30. Equity

30.1 Share capital

As at 31 December 2006, the share capital of the Company amounted to PLN 4,200 million and was divided into 1,400 million fully paid ordinary bearer shares of PLN 3 each. During the year ended 31 December 2007, the Company acquired 31,226,759 of its own shares for the total consideration of PLN 700 million (see Note 30.3).

The ownership structure of the share capital as at 31 December 2007 was as follows:

(in PLN millions)	% of votes [3]	Nominal value
France Telecom S.A.	48.58	1,995
GDR holders represented by the Bank of New York [1]	5.13	211
State Treasury [2]	4.05	166
Other shareholders	42.24	1,734
Total	**100.00**	**4,106**
Treasury shares		94
Total		**4,200**

(1) Data as of last notification submitted to the Company on 25 September 2006.

(2) Presented data is according to the number of shares registered by the State Treasury during the Annual General Meeting on 10 May 2007.

(3) As a result of purchase of the Company's own shares for the purpose of their redemption (see Note 30.3) the percentage of votes held by the Shareholders at the General Meeting of Shareholders has increased as at 31 December 2007.

As at 31 December 2007, France Telecom owned 47.5% of shares of the Company. France Telecom has the power to appoint the majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

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

On 26 October 2007 the Company received notification from the Capital Research and Management Company ('CRMC') informing that it holds 143,154,542 of TP S.A. shares, corresponding to 10.46% (after taking into accounts redemption of own shares – see Note 30.3) votes at the Annual General Meeting of Shareholders. At the same time, CRMC informed that the shares are owned by accounts of individual funds under the discretionary investment management of CRMC, none of which owns shares in excess of 5% in the Company's shares.

Apart from the above and the programme on the buy back of own shares for the purpose of their redemption (see Note 30.3), the Company has no information regarding other valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

30.2 Dividends

The dividend of PLN 1.40 per share was approved by the General Shareholders' Meeting of TP S.A. on 10 May 2007. In the year ended 31 December 2007 TP S.A. distributed PLN 1,960 million of dividend, including PLN 1,012 million in respect of 2006 profit and PLN 948 million of undistributed profits from previous years.

The Management Board of TP S.A. will submit to shareholders approval: a) an ordinary dividend of PLN 2,053 million payable in cash in the first half of 2008, and b) a buy-back of TP S.A. own shares in 2008 for the purpose of their redemption for PLN 700 million.

30.3 Redemption of own shares

On 10 May 2007, the General Shareholders' Meeting of TP S.A. passed a resolution authorising the Company to buy back its own shares for the purpose of their redemption ('the Programme'). The amount of funds allocated to the Programme was PLN 700 million. On 12 June 2007 TP S.A. Management Board determined the detailed terms of the Programme.

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

30.3 Redemption of own shares (continued)

During the Programme execution, that is between 14 June 2007 and 26 September 2007, the Company purchased a total of 31,226,759 own shares, which account for 2.23% of the Company's share capital, for a total consideration of PLN 700 million. Transaction cost of share purchase recognised in equity amounted to PLN 2 million.

On 28 November 2007, an Extraordinary General Meeting adopted resolutions on redemption of the ordinary A-series bearer shares acquired by the Company and reduction of the Company's share capital from PLN 4,200 million to PLN 4,106 million i.e. by PLN 94 million.

On 4 February 2008 the Company was informed about registration on 22 January 2008 of the share capital reduction by the registry court.

31. Contractual obligations and off-balance sheet commitments

31.1 Off-balance sheet contractual obligations and other commitments

At 31 December 2007, Management considers that, to the best of its knowledge, there are no existing off-balance sheet commitments, other than those described below, likely to have a material impact on the current or future financial position of the Group.

31.1.1 Investment, purchase and leasing commitments

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

Operating lease commitments mainly relate to the lease of buildings, land, computer equipment and vehicles. Lease costs recognised in the consolidated income statement for the years ended 31 December 2007 and 2006 amounted to PLN 293 million and PLN 281 million, respectively. The majority of the above mentioned agreements is denominated in foreign currencies; some of the above agreements are indexed with price indices applicable for a given currency.

Future minimum lease payments under non-cancellable operating leases, as at 31 December 2007 and 2006, were as follows:

(in PLN millions)	At December 31, 2007	At December 31, 2006
within one year	219	231
after one year but not more than five years	428	415
more than five years	181	195
Total minimum future lease payments	**828**	**841**

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2007 amounted to PLN 1 millon. As at 31 December 2006 there were no future minimum lease payments under non-cancellable operating leases.

b) Investment commitments

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

(in PLN millions)	At December 31, 2007	At December 31, 2006
Property, plant and equipment	695	458
Intangibles	59	11
Total	**754**	**469**
Amounts contracted to be payable within 12 months from the balance sheet date	716	469

Capital commitments represent mainly purchases of telecommunications network equipment, billing and customer relationship management systems and other software.

31.1.2 Other off-balance sheet commitments

31.1.2.1 Guarantees

Bank guarantees as at 31 December 2007 and 2006 amounted to PLN 7 million and PLN 7 million, respectively, and related mainly to leasing transactions.

31.2 Assets covered by commitments

The gross book value of the assets held under finance leases amounted to PLN 2 million and PLN 2 million as at 31 December 2007 and 2006, respectively.

32. Litigation and claims

Contingencies

a. Issues related to the incorporation of Telekomunikacja Polska

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

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

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

b. Environmental risk

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

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

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

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

c. Tax contingent liability

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

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

d. Investigations by UKE and UOKiK

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

On 25 September 2006, UKE imposed a fine of PLN 100 million on TP S.A. for not implementing the offer to sell Neostrada (Internet services) separately from the fixed line subscription. TP S.A. appealed to the Court of Competition and Consumer Protection ('SOKiK'). On 22 May 2007, the Court invalidated the fine on procedural grounds. On 28 June 2007, UKE appealed this verdict. The Court of Appeal postponed a hearing scheduled for 18 December 2007 without naming a new date.

32. Litigation and claims (continued)

Contingencies (continued)

d. Investigations by UKE and UOKiK (continued)

On 22 February 2007, UKE imposed a fine of PLN 339 million on TP S.A. for non-performance of the regulatory obligation to submit its Neostrada price list for UKE's approval, and for failing to meet the requirements of the Polish telecommunication law that prices of services be based on the cost of their provision. TP S.A. maintains that UKE has no right to challenge the Neostrada price since it is not defined as a regulated service. On 7 March 2007, TP S.A. appealed this decision. A decision from SOKiK is awaited to set hearing dates of both proceedings.

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

Moreover, there is a number of other proceedings against the Group initiated by UKE and UOKiK. As at 31 December 2007 the Group recognised provisions for known and quantifiable risks related to these proceedings, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed, as in the opinion of the Company's Management such disclosure could prejudice the outcome of the pending cases.

e. Dispute with DPTG

In 2001, a dispute arose over the interpretation of a contract for the sale and installation by the Danish company DPTG of a fibre optical transmission system (known as 'North-South Link', or 'NSL') for the State-owned Polish Post, Telegraph and Telephone, the predecessor of TP SA. The contract, signed in 1991 and for which work was completed in 1994, provided for payment of part of the contract price by allocating to DPTG 14.8% of certain profit from the NSL for fifteen years from the system's installation, that is, from February 1994 to January 2009.

In 1999, the parties came into disagreement regarding the calculation of this revenue. In 2001, DPTG initiated ad hoc arbitration proceedings before the Arbitral Tribunal (under UNCITRAL rules) sitting in Vienna. DPTG's claims, calculated up to January, 2006, amount to 670 million euros excluding interest, with regard to services initially valued at less than 20 million euros. The Company disputes both the basis of the claim and the amounts claimed by DPTG.

In 2004, the Arbitral Tribunal appointed an expert to evaluate the revenue 'from the NSL' to be used as a basis for calculating the share attributable to DPTG. Between November 2005 and December 2007, this expert has delivered three reports proposing widely differing estimates. In October 2007, the Arbitral Tribunal named a second expert to assess the appropriateness and the consistency of the first expert's models.

In January 2008 the second expert concurred, in all material respects, with the conclusions of the latest report of the first expert.

The latest timetable issued by the tribunal anticipates a final hearing on 27-30 May 2008 and 2-6 June 2008.

Taking into account recent developments, the Group conducted a reassessment of its risk analysis in this litigation and revised as at 31 December 2007, the amount of the provision it had previously determined. Information regarding the amount of the provision has not been separately disclosed, as in the opinion of the Company's Management such disclosure could prejudice the outcome of the pending case.

f. Other contingent liabilities

Apart from the above mentioned, the Group is a party to a number of legal proceedings and commercial contracts related to its operational activities. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this respect.

33. Related party transactions

33.1 Management Board and Supervisory Board compensation

Management Board compensation was as follows:

(in PLN thousands)	12 months ended December 31, 2007	12 months ended December 31, 2006
Short-term benefits excluding employer social security payments [1]	10,488	16,588
Post-employment benefits [2]	3,438	676
Termination benefits	4,591	540
Total	**18,517**	**17,804**

[1] Gross salaries, compensation, bonuses and non-monetary benefits, profit-sharing, incentive bonuses

[2] Service cost

Remuneration and bonuses, compensation and termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) paid by Telekomunikacja Polska S.A. to TP S.A.'s Management Board and Supervisory Board members in the 12 months ended 31 December 2007 and 2006 are presented below:

Management Board

(in PLN thousands)	12 months ended December 31, 2007	12 months ended December 31, 2006
Maciej Witucki	2,148	440
Benoît Mérel	1,915	1,252
Pierre Hamon	2,339	2,433
Iwona Kossmann	726	n/a
Jacek Kałłaur	1,754	1,587
Konrad Kobylecki [1]	1,275	1,703
Jean-Marc Vignolles [1]	–	–
Marek Józefiak [1,2]	6,444	4,431
Alain Carlotti [1,2]	1,916	3,265
Bruno Duthoit [1]	n/a	1,770
Roger de Bazelaire [1]	n/a	923
Total	**18,517**	**17,804**

[1] Persons that were not members of the Management Board of the Company as at 31 December 2007 but were members of the Management Board of the Company in previous periods.

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

During the 12 months ended 31 December 2007, the estimated cost of TP S.A.'s incentive programme (see Note 27) allocated to the Company's Management Board amounted to PLN 0.3 million. No cost was recognised in this respect in 2006 as the incentive program was implemented in 2007.

33.1 Management Board and Supervisory Board compensation (continued)

As at 31 December 2007 and 2006, the amount of accrued costs for bonuses for the Company's Management Board amounted to PLN 0.9 million and PLN 1.1 million, respectively.

Supervisory Board

(in PLN thousands)	12 months ended December 31, 2007	12 months ended December 31, 2006
Prof. Andrzej Koźmiński	276	92
Andrew Seton (1)	167	171
Timothy Boatman	207	165
Prof. Jerzy Rajski	138	24
Dr. Wiesław Rozłucki	125	5
Olivier Barberot (2)	–	–
Michel Monzani (2)	–	–
Jacques Champeaux (2)	–	–
Georges Penalver (2)	–	–
Vivek Badrinath (2)	–	–
Stephane Pallez (2)	–	–
Antonio Anguita (2)	–	n/a
Phillipe Andres (2)	n/a	n/a
Ronald Freeman	26	n/a
Dr. Mirosław Gronicki	21	n/a
Tadeusz Han (1)	61	127
Jerzy Drozd (1)	n/a	68
Dr. Jan Kulczyk (1)	n/a	47
Krzysztof Ners (1)	n/a	85
Julien Billot (1)/(2)	n/a	–
Claude Benmussa (1)/(2)	n/a	–
Yves Le Moüel (1)/(2)	n/a	–
Jean-Paul Cottet (1)/(2)	n/a	–
André Cathelineau (1)/(2)	n/a	–
Jean-Pierre Temime (1)/(2)	n/a	–
Total	**1,021**	**784**

(1) Persons that were not members of the Supervisory Board of the Company as at 31 December 2007 but were members of the Supervisory Board of TP S.A. in previous periods.

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

Remuneration and bonuses (cash, benefits in kind or any other benefits) paid or payable by TP S.A.'s subsidiaries and associates to TP S.A.'s Management Board members in the period of 12 months ended 31 December 2007 were as follows: Maciej Witucki PLN 2 thousand, Pierre Hamon PLN 17 thousand, Iwona Kossmann PLN 355 thousand, Jacek Kałłaur PLN 38 thousand, Konrad Kobylecki PLN 9 thousand, Jean-Marc Vignolles PLN 1,304 thousand, Alain Carlotti PLN 12 thousand.

Remuneration and bonuses (cash, benefits in kind or any other benefits) paid or payable by TP S.A.'s subsidiaries and associates to TP S.A.'s Management Board members in the period of 12 months ended 31 December 2006 were as follows: Maciej Witucki PLN 2 thousand, Pierre Hamon PLN 17 thousand, Konrad Kobylecki PLN 41 thousand, Jean-Marc Vignolles PLN 1,929 thousand, Alain Carlotti PLN 39 thousand, Marek Józefiak PLN 78 thousand.

In the period of 12 months ended 31 December 2007 and 2006, the members of TP S.A.'s Management Board did not receive any compensation or termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) from TP S.A.'s subsidiaries and associates.

In the period of 12 months ended 31 December 2007 and 2006, the members of TP S.A.'s Supervisory Board did not receive any remuneration, bonuses, compensation or termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) from TP S.A.'s subsidiaries and associates.

In the periods of 12 months ended 31 December 2007 and 2006, TP S.A. did not grant any loans to members of the Supervisory Board.

As at 31 December 2007 and 31 December 2006, members of the Supervisory Board had no liabilities arising from loans granted by the Company.

In the period of 12 months ended 31 December 2007 and 2006 TP S.A. did not enter into any transactions with companies in which the members of its authorities had significant shareholdings.

33. Related party transactions (continued)

33.1 Management Board and Supervisory Board compensation (continued)

In the periods of 12 months ended 31 December 2007 and 2006 the Company did not enter into any significant transactions with members of the Management Board and Supervisory Board and their spouses, relatives up to second degree individuals who are guardians or wards of the above persons or other persons with whom they have personal connections or with the entities in which these persons are members of the Management or Supervisory Board, and did not grant them any loans, advances, guarantees or other agreements resulting in significant benefits for TP S.A, its subsidiaries and associates.

33.2 Related party transactions

As at 31 December 2006, France Telecom owned 47.5% of shares of the Company and held 47.5% of votes at the General Shareholders' Meeting. As a result of the purchase of the Company's own shares for the purpose of their redemption (see also Note 30.3), the percentage of votes held has increased to 48.58% as at 31 December 2007. France Telecom has the power to appoint a majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

Related party transactions were made on normal commercial terms.

The Group's revenues earned from related parties mainly comprise interconnect and leased lines as well as research and development services. The purchases from the FT Group mainly comprise acquisition of intangible assets (mainly licenses) as well as costs of interconnect and leased lines, IT services, consulting services and brand fees.

The Group's financial costs in transactions with related parties comprise interest on a loan received by TP S.A. from France Telecom. The Group's financial payables to related parties comprise the above mentioned loan together with interest.

(in PLN millions)	12 months ended December 31, 2007	12 months ended December 31, 2006
Sales of goods and services to:	**153**	**120**
– France Telecom (parent)	78	59
– France Telecom (group)	75	61
Purchases of goods (including intangible assets) and services from:	**493**	**332**
– France Telecom (parent)	256	135
– France Telecom (group)	237	197
Financial expense	**39**	**42**
– France Telecom (parent)	39	42
– France Telecom (group)	–	–

(in PLN millions)	At December 31, 2007	At December 31, 2006
Receivables from:	**42**	**37**
– France Telecom (parent)	36	28
– France Telecom (group)	6	9
Payables to:	**270**	**134**
– France Telecom (parent)	187	87
– France Telecom (group)	83	47
Financial payables to:	**1,003**	**–**
– France Telecom (parent)	1,003	–
– France Telecom (group)	–	–

On 8 March 2007, TP S.A. drew down a loan facility amounting to PLN 1,000 million from France Telecom (see Note 21.3).

34. Subsequent events

There were no significant events after the balance sheet date.

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

1 We have audited the attached consolidated financial statements[2] of Telekomunikacja Polska Capital Group ('the Group'), for which the holding company is Telekomunikacja Polska S.A. ('the Company') located in Warsaw at 18 Twarda St, prepared for the year ended 31 December 2007 containing:
– the consolidated balance sheet as at 31 December 2007 with total assets amounting to 32,422 million zlotys,
– the consolidated income statement for the period from 1 January 2007 to 31 December 2007 with a net profit amounting to 2,275 million zlotys,
– the consolidated statement of changes in equity for the period from 1 January 2007 to 31 December 2007 with a net decrease in equity amounting to 330 million zlotys,
– the consolidated cash flow statement for the period from 1 January 2007 to 31 December 2007 with a net cash outflow amounting to 40 million zlotys and
– the additional notes and explanations
('the attached consolidated financial statements').

2 The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union as well as for the proper maintenance of consolidation documentation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

3 We conducted our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:
– chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
– the auditing standards issued by the National Chamber of Auditors, and International Standards on Auditing
in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4 In our opinion, the attached consolidated financial statements, in all material respects:
– present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2007 to 31 December 2007, as well as its financial position as at 31 December 2007;
– have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
– are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5 Without qualifying our opinion, we draw attention to the following issue:
As more fully explained in notes 32 (d) and 32 (e) to the attached consolidated financial statements the Company is a party to a number of legal and administrative proceedings. To the extent the obligations in respect of these proceedings could be reliably measured the Company has made provisions in this respect, which represent the Company's best estimate of the amounts that according to the Company's Management Board are more likely than not to be paid. The amount of the liabilities depends on a number of future events, the outcome of which is uncertain and as a consequence the amount of the provisions may change at a future date.

6 We have read the Directors' Report[3] for the period from 1 January 2007 to 31 December 2007 and the rules of preparation of annual financial statements ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).

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

Wojciech Pułkownik Certified Auditor No. 10477/7677	Witold Czyż Member of Management Board Certified Auditor No. 90094/7969

Warsaw, 5 February 2008

[1] Translation of auditors' report originally issued in Polish. The Polish original should be referred to in matters of interpretation.
[2] as presented on pages 38 - 94
[3] as included in the filed financial statements for Warsaw Stock Exchange

Access Fee
revenues from monthly fee from New Tariff Plans (incl. Free minutes).

ADSL
see xDSL.

ARPL
Average Revenue per Line.

Audiotex
A voice processing application allowing callers to select from a menu of options using the telephone keypad (e.g. automated ticket booking services).

AUPU
Average Usage per User.

Broadband
High-speed voice, data and video networked services that are digital,interactive and packet-based.

Capex
Book value of capital expenditures.

CRM
Customer Relationship Management. A central database system or set of systems enabling a company to manage, analyse and utilise customer data.

DCS
Digital Cellular System. A global system for mobile communications – it is used in Europe and Asia-Pacific.

DLD
Domestic Long Distance.

DSLAM
Digital Subscriber Line Access Multiplexer.

EBITDA
Operating profit plus amortisation and depreciation.

EDGE
Enhanced Data-rates for Global Evolution. A system for increasing data transmission rates within existing GSM bandwidth. EDGE is part of the evolution towards UMTS; an advance on '2.5G' GPRS, it is sometimes referred to as '2.75G'.

F2M
Fixed to Mobile.

GOM
Gross Operating Margin.

GPRS
General Packet Radio System. System to improve the efficiency of current mobile networks by transmitting data in 'packets' of bytes which are then reassembled at the user's end. GPRS enables 'always on' connections which effectively allow the mobile terminal to become part of the Internet.

GSM
Global System for Mobile Communication. The most widely-used set of mobile telecom standards in Europe. Falls into the category of 'second generation' mobile services.

ILD
International Long Distance.

IP TV
TV over Internet Protocol.

IP-VPN
Internet Protocol Virtual Private Network. IP represents the network layer underlying all Internet communication. Network operators offer VPNs as a means of enabling customers to interconnect sites and users in a virtual network without needing to invest in direct physical links between sites or having to build a network of their own.

ISDN
Integrated Services Digital Network. An international communications standard which enables voice, video and data transfer at rates of 64Kb per second over normal or digital telephone lines.

KPI
Key Performance Indicator.

LLU
Local Loop Unbundling.

MTR
Mobile Termination Rates.

MVNO
Mobile Virtual Network Operator.

Net FCF
Net Free Cash Flow = Net Cash provided by Operating Activities – (CAPEX + CAPEX payables).

NTP
New Tariff Plans.

Opex
Operating Expenditure (Total operating costs).

PLN
Polish złoty.

POTS/PSTN line
Plain Old Telephone Service. Standard analogue telephone service using copper wires.

RIO
Reference Interconnection Offer.

SAC
Subscriber Aquisition Costs.

SDI
A system which allows 'always on' internet access via standard telephone lines.

SMP
Significant Market Power.

SMS
Short Messaging Service. Allows users to send short text messages to other mobile phones.

UKE
Office of Electronic Communications (formerly URTiP-Polish Telecommunications & Post Regulator).

UMTS
Universal Mobile Telecommunications **System** – GSM-based 3G (Third Generation) technology.

USO
Universal Service Offer.

VoIP
Voice over Internet Protocol.

VPN
Virtual Private Network.
A private network of computers or mobile phones – usually in a business or other large organisation – which is at least partially connected by public telephone lines.

Wi-Fi
Short for 'wireless fidelity' used for certain types of local area network.

WLAN
Wireless Local Area Network. A wireless LAN is one in which a mobile user can connect to a local area network through a wireless (radio) connection.

WLR
Wholesale Line Rental.

xDSL
Collective description for a range of Digital Subscriber Line technologies. These systems use modulation schemes to pack data onto existing copper telephone lines (POTS). This speeds up data transfer between a telephone switching station and a home or office.

INVESTOR RELATIONS

Enlarged consolidated quarterly reports for:
- the 1st quarter 2008 – May 9, 2008
- the 2nd quarter 2008 – August 12, 2008
- the 3rd quarter 2008 – November 14, 2008
- the 4th quarter 2008 – February 27, 2009

Consolidated enlarged half year report for:
- the 1st half year 2008 – August 29, 2008

Full year results for 2008
March 31, 2009

Consolidated full year results for 2008
March 31, 2009

Tomasz Poźniak
Investor Relations Director
T +48 22 527 2323
F +48 22 527 2341
E investor.relations@
telekomunikacja.pl

The TP Management Board is committed to creating and sustaining a meaningful dialogue with the investment community. TP has therefore undertaken to offer its shareholders the following services:
– access to company management at regular investor roadshows;
– a timely flow of news and information through our website and via email alerts;
– the opportunity to give feedback through regular third-party perception audits;
– convenient access to the IR team in Warsaw via phone and email.

Your comments and suggestions help us to improve the communication process, so don't hesitate to get in touch. Also please refer to our www.tp-ir.pl website for disclosure documents, in particular:
– financial statements
– management discussion and analysis
– presentation to analysts
– earnings press releases.

PROFESSIONAL SERVICES FIRMS

Auditors
Ernst & Young Audit
Sp. z o.o.
Rondo ONZ 1,
00-124 Warszawa
T +48 22 557 7000
F +48 22 557 7001

Depositary Bank
The Bank of New York Mellon
One Canada Square
London
E14 5AL

101 Barclay Street
New York
NY10286

Slawomir Soltowski
T +1 212 815 3503
F +1 212 571 3050
E slawek.soltowski@bnymellon.com

Investors who wish to learn more about depositary receipts can visit The Bank of New York's website at www.adrbny.com

Investor Relations
Imagination
Global Investor Communications Ltd
25 Store Street
South Crescent
London
WC1E 7BL

Matt Hardwick
T +44 20 7462 4380
E tpsa@imagination.com
www.imagination.com

The pulp used in the production of this paper is from sustainable and certified sources. Designed and produced by Imagination.

TELEKOMUNIKACJA POLSKA S.A.
UL. TWARDA 18
00-105 WARSZAWA
POLAND
T +48 22 527 2323
www.tp-ir.pl