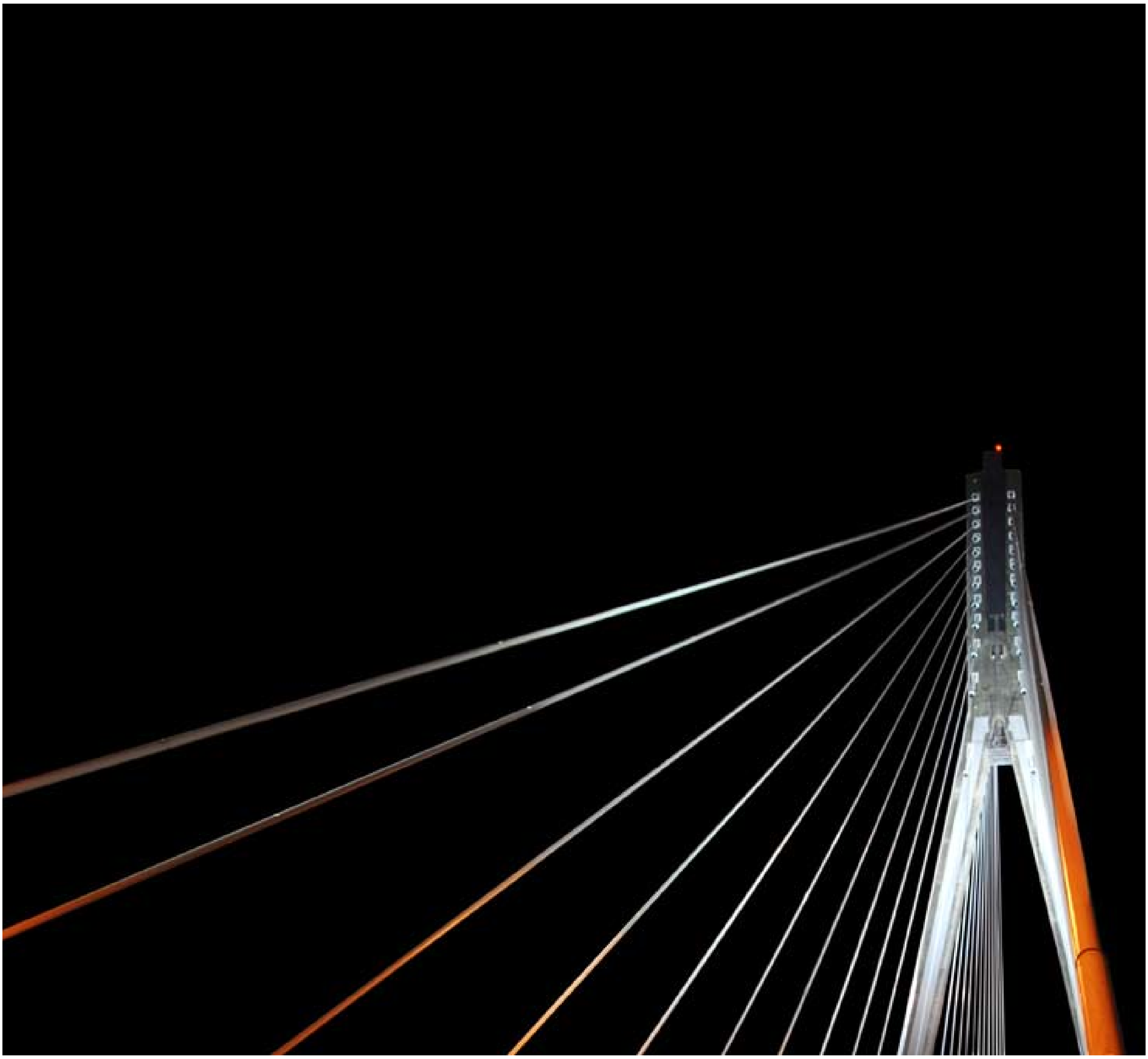
TP Group Annual Report 2008



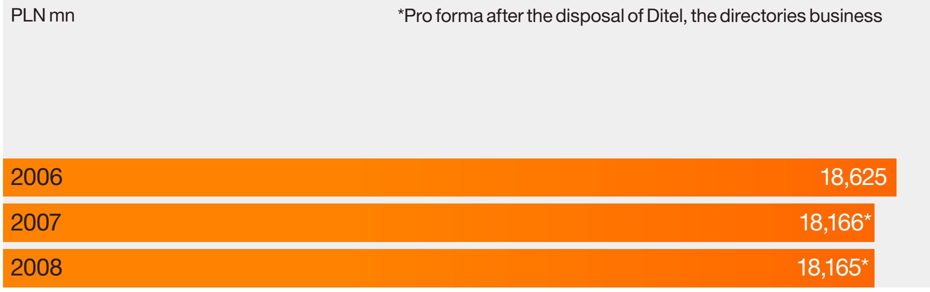
Contents

TP Group
Annual Report 2008

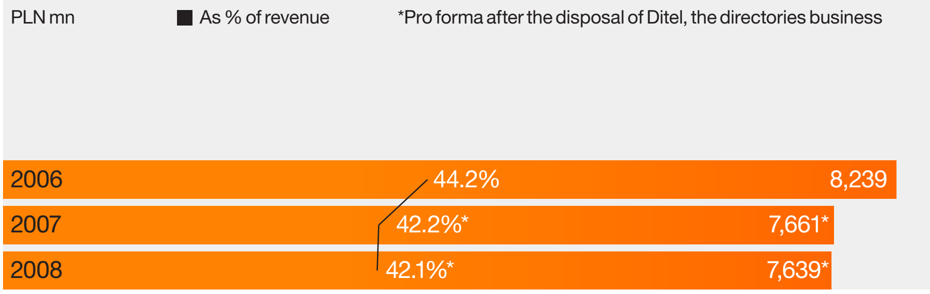
TP Group is Poland's leading telecommunications provider, with operations in fixed line voice, data and mobile networks. In 2008, we were the market leaders in terms of value share in all three segments, taking three quarters of the fixed voice market, half of broadband, and a third of mobile through the Orange brand. We achieved revenue of PLN 18.16 billion and a net income of PLN 2.19 billion.

TP Group financial and operational highlights 2008

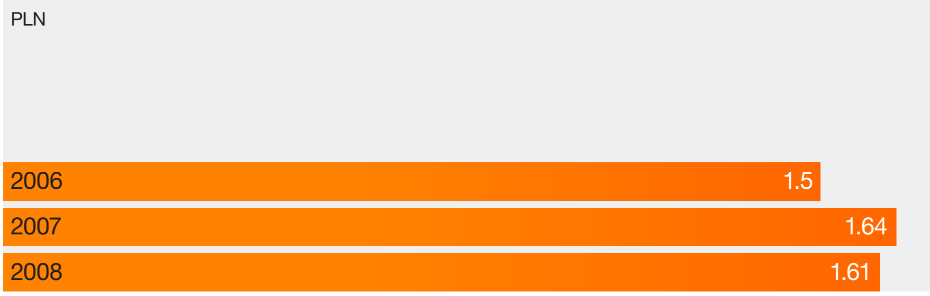
Revenue



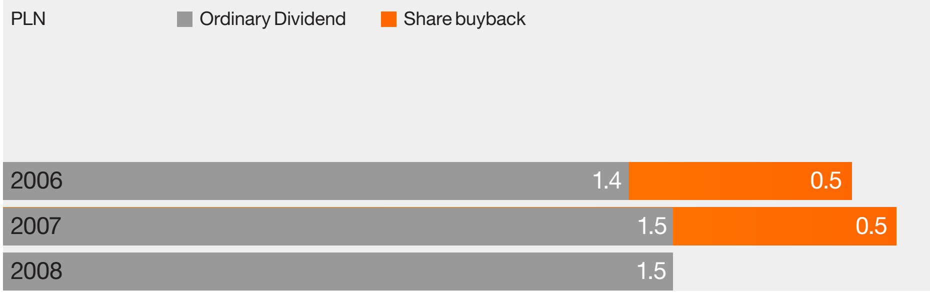
Gross Operating Margin



Earnings per share



Payout per share



President's letter to shareholders

"TP Group's performance in 2008 met all our stated objectives, despite the unforeseen impacts we experienced in the fourth quarter. Once again, we demonstrated our ability to remain competitive while adapting to sudden changes in the market environment."

Maciej Witucki
President of the Board and Chief Executive Officer

President's letter to shareholders

Dear Shareholders,
At the end of a year during which TP Group faced unprecedented challenges from market factors both local and global, I am pleased to be able to reassure you that the company stands strong. We delivered a sound set of results, in line with guidance. We appealed to both new and existing customers with attractive packages, at the right price, designed to meet their evolving needs at home, at work and on the move. And throughout the year we continued to focus on the strategic objectives we announced in mid 2007, while also taking prompt and prudent measures to adapt to rapid changes in the economic climate.

Operational highlights

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

In line with our strategic objectives, we continued to "Enhance Core" with initiatives such as simplifying mobile post-paid tariff structures, as well as pursuing cost optimisation projects including the sale of our directories business and the restructuring of our real estate portfolio. We also pursued our "Go For More" plans with new products and services, including the launch of our own TV sports channel under the Orange brand and TV over satellite with fixed broadband packages.

Overall TP customer satisfaction improved once again, up from 62% in 2007 to 67% in 2008, while customer loyalty increased to 62% in December from 58% a year earlier. Satisfaction ratings at Orange are also positive, giving us confidence that we will maintain our leadership position.

Group-wide revenue growth for the full year was flat, in line with the guidance we gave and a real improvement on the -2.1% revenue erosion we reported in 2007. We were able to level off our top line thanks to stable performance in the mobile segment, a rebound in broadband and substantially slower decline in fixed voice services.

Fixed line revenue decline was visibly lower, slowing to -3.2% compared to -8.0% the year before. In the fourth quarter, our fixed segment revenue erosion very nearly came to a halt, slowing to -0.3%. Revenue from fixed voice services fell by -10.6% (compared to -11.8% in 2007), but almost 40% of that fall was offset by continuing double-digit growth in fixed broadband. Our broadband revenue rose by 17.1% year-on-year, compared to just 6.9% in 2007.

In the mobile segment we achieved revenue growth of 7.1% for the full year, maintaining the level seen in 2007. This is a solid performance in the face of a slowly saturating market and intensifying competition from new entrants: we estimate that around 30% of the Polish mobile market's value growth in 2008 was snapped up by new players. TP also saw a marked slow-down in revenue growth in the second half of the year, which was partly due to the MTR reduction that took effect in May.

Delivering results in a challenging market climate

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

Firstly, the last quarter of 2008 was marked by a rapid depreciation of PLN against the Euro and the dollar – by 22% and 25% respectively. I am pleased to say we took immediate steps to mitigate the effect on commercial costs, where it is reflected mainly through handset purchase prices. By addressing the issue promptly, we made sure that this impact on GOM was to a large extent offset by cost optimisation in other areas of the business. However, the remaining impact of these foreign exchange fluctuations is visible in both GOM and net income, where the burden of revaluing our operating and financial liabilities denominated in foreign currencies lies.

In addition, we signed a new Social Agreement with the trade unions in November, which provides for 4,900 departures for 2009-2011. As a result, we have booked PLN 182 million of restructuring provision, with a visible impact on our net income.

Despite these setbacks, our stringent focus on cost control and optimisation helped us to keep profitability on target, with GOM at 42.1% against a guidance range of 42-44%. Let me underline that the negative impact of foreign exchange rates evolution in the fourth quarter translated directly into a 0.7 percentage point loss in the full year GOM rate.

President's letter to shareholders

Meanwhile, the Polish regulator began proceedings aimed at reaching a decision by the end of 2009 on the functional separation of TPSA. While this announcement has no immediate impact on our operations, the potential future implications for our business are clearly significant. Therefore, we have proposed to the regulator a set of actions under the title "equivalence of access," an alternative approach which in our opinion will provide the market with increased transparency of our wholesale operations while its implementation would be much faster and cheaper compared to functional separation as proposed by the regulator.

Looking forwards

Our 2008 investments were oriented to the future – they were mainly aimed at further development of the mobile business and building a strong base for broadband, content and TV services. TP Group is willing to continue our contribution to the growth of the telecoms market, but this can only be made with clear visibility on the reasonable return to be achieved from such investments.

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

The emphasis for 2009 will be firmly on the "Enhance Core" part of our strategy. Our key objectives in this area include:

- A further push on up-selling broadband and TV services to our fixed line subscriber base;
- Redoubling our emphasis on fundamentals in the mobile business, with a focus on creating value by stimulating the post-paid subscriber base;
- Continuing to maximise usage of TP Group services across the combined subscriber base by promoting fixed voice and broadband under the Orange brand; and
- Accelerating changes to our business model that enable opex optimisation projects, while still maintaining a robust financial structure.

The "Go For More" aspect of TP Group's strategy will demand a more conservative approach. In particular, we will evaluate any opportunities for external growth according to very strict criteria. However, we will continue to develop several business initiatives which are already underway, including our burgeoning TV business and innovative projects in the areas of e-health and financial services.

Finally, let me reiterate our commitment to the prudent financial principles that have served us well in the past year and will be even more of an asset in the difficult times ahead. Although many economic commentators regard the Polish market as the most resilient among its European neighbours, this is not a situation which we take for granted. We will continue to take a thorough and systematic approach to risk analysis and contingency planning, and the management team and I will update you regularly on our progress during the months to come.

Conclusion

TP Group's performance in 2008 met all our stated objectives, despite the unforeseen impacts we experienced in the fourth quarter. Once again, we demonstrated our ability to remain competitive while adapting to sudden changes in the market and the regulatory environment. These achievements are a tribute to the dedication and hard work of TP Group's staff, and I would like to take this opportunity to express my gratitude and appreciation to all of them.

As a company, we remain committed to the value leadership objectives that ultimately enable us to deliver stable financial results. Moving forward through 2009 we will continue to build on our existing strengths, and we will work tirelessly to sharpen the competitive advantages that will keep us ahead through challenging times to come.

Yours sincerely,

Maciej Witucki
President of the Board and Chief Executive Officer
31st March 2009

TP Group at a glance

Fixed revenue

PLN mn

10,494

Mobile revenue

PLN mn

8,635

TP Group is Poland's leading telecommunications provider. We have operations in fixed line voice, data and mobile networks. TP Group is 49.79% owned by France Telecom. In 2008 we achieved revenue of PLN 18.16 billion and a net income of PLN 2.19 billion.

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

Revenue

PLN mn

*Pro forma after the disposal of Ditel, the directories business

18,165mn
0.0%*

Broadband customers

mn

2.4mn
+13.5%

Mobile customers

mn

14.2mn

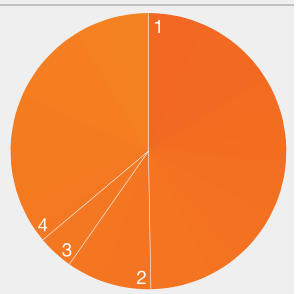
The ownership structure of the Company's share capital, based on the best information available to the Company as at 26th February 2009, i.e. the date of submission of the quarterly report for the fourth quarter of 2008.

TP Group share capital structure at the end of 2008

1	France Telecom	49.79%
2	Capital Research & Management Company [1]	10.11%
3	State Treasury [2]	4.15%
4	Other shareholders	35.95%

[1] Number of shares as at the date of notification by Capital Research and Management Company - 6 November 2008.

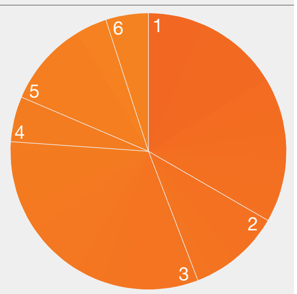
[2] Amounts presented are based on the number of shares registered by the State Treasury at the General Meeting of Shareholders of TP S.A. which was held on 16 January 2009.



TP Group revenue composition

2008

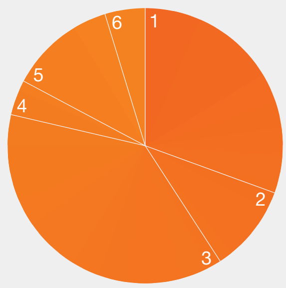
1	Mobile retail	33.6%
2	Mobile interconnect	10.6%
3	Fixed voice retail	32.0%
4	Fixed wholesale	5.3%
5	Data	13.6%
6	Sales of goods and others	4.9%



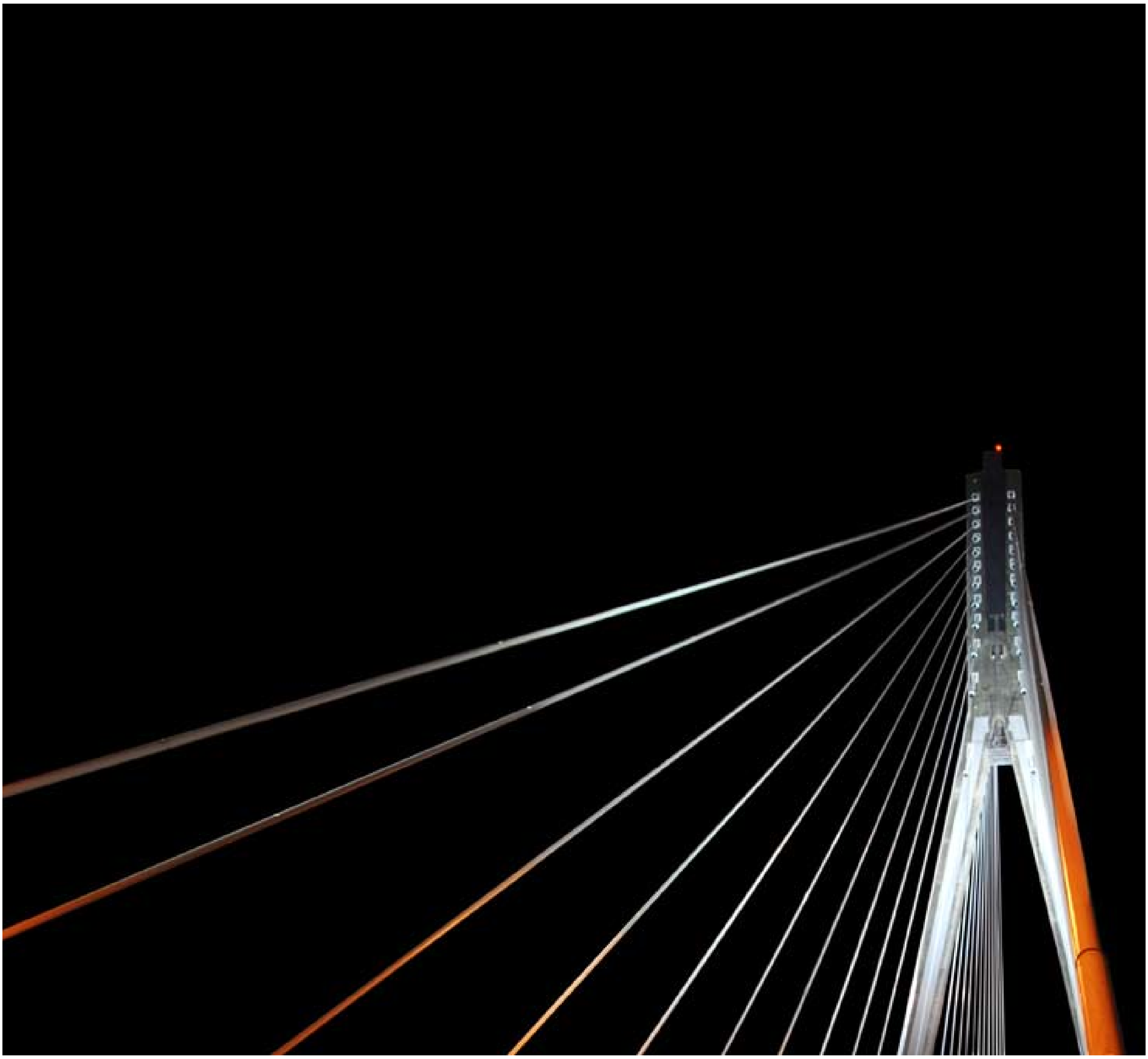
2007*

1	Mobile retail	30.8%
2	Mobile interconnect	10.3%
3	Fixed voice retail	37.6%
4	Fixed wholesale	4.3%
5	Data	12.4%
6	Sales of goods and others	4.6%

* Pro forma after the disposal of Ditel, the directories business



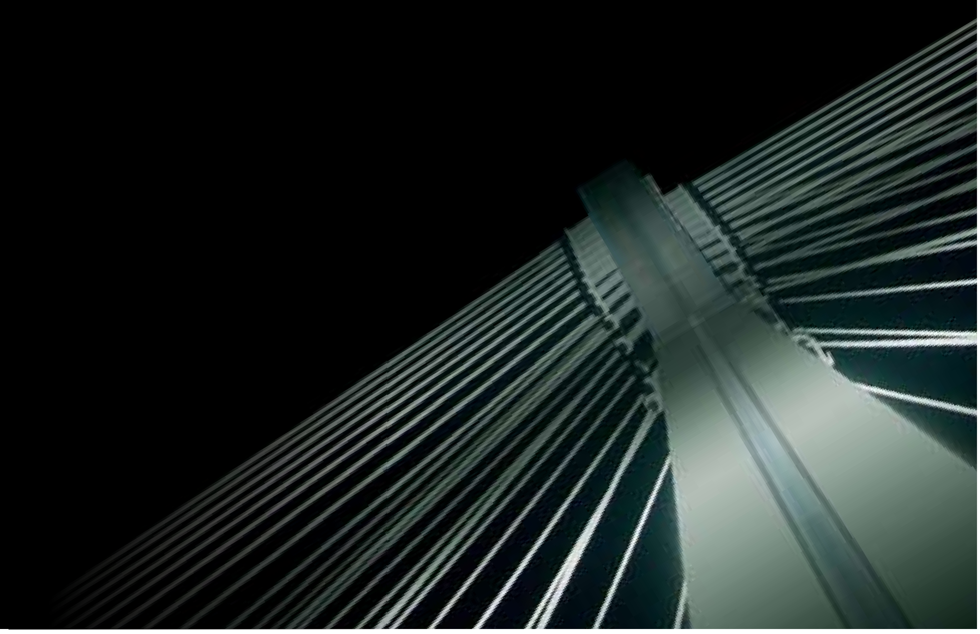
Our strategy



strength

In 2008 TP Group once again proved its resilience, maintaining a value leadership position in both fixed and mobile markets. TP and Orange are two of the most recognised brands in Poland. From these strong roots, we continue to grow and develop our offer to address our customers' changing needs at home, in the office and on the move, as well as adding new services such as digital TV.

The favourable response from our customers tells us that underlying demand for high quality, competitively priced telecom services in Poland is still robust, despite current economic uncertainties. Our valued brands and the biggest customer base in Poland keep TP Group in a position of strength.



focus

Throughout 2008, we worked to streamline our sales and administration operations, investing selectively in projects that promise future efficiencies. The implementation of a new integrated IT system and an online sales platform not only helps us to improve customer service but also makes it easier for us to manage future developments.

To achieve our goals in the current economic conditions, we need to stay focused. We are concentrating our efforts on becoming more competitive through internal cost control. And when we explore opportunities for external growth, our approach is now even more measured.

Our strategy

value

TP Group proved once again in 2008 that it has the right financial structure. In a difficult market, we maintained strong cash flow generation and stayed on track to meet the strategic objectives we outlined in mid-2007. We also completed a major refinancing and kept our favourable credit rating – achievements which underline our solid standing in the financial markets.

As the Company goes forward into 2009, we reaffirm our commitment to delivering value to all our stakeholders, treating customers and employees fairly and preserving profitability.

Introduction

We estimate that the Polish telecoms market grew by more than 5% in 2008. TP Group faced increased competition in every segment, as well as regulatory pressure on mobile termination rates and wholesale prices. Thanks to strong performances across the Group, TP met these challenges and retained its value leadership position in all key markets.

Market climate

We estimate that the Polish telecoms market grew by 5.5% in 2008. Broken down by segment, this represents a 10% rise in the value of the mobile market and a 1.5% fall in fixed line. As expected, growth slowed considerably in the second half of the year but the figures still represent a good recovery following just 1.4% growth in 2007, a year in which regulation significantly depressed the market.

The market continues to evolve: fixed-to-mobile substitution is a key ongoing trend, and this transformation is reflected in TP's business model. The fixed line penetration rate is falling slowly but consistently, from 77% of households at the end of 2007 to 74% a year later. Growth in the mobile subscriber base is slowing as the SIM card penetration level indicates gradual market saturation, exceeding 115% at the end of 2008.

Competitive environment

Competition in the fixed line segment has intensified with the development of convergent services from cable television and rival mobile network operators, as well as alternative operators on TP's network under the Wholesale Line Rental (WLR), BitStream Access (BSA) and Local Loop Unbundling (LLU) agreements. In the mobile segment, the entry to market of a fourth infrastructure operator and the first handful of MVNOs took an estimated 2.9 percentage points of volume market share from the three leading mobile operators.

Outlook for 2009

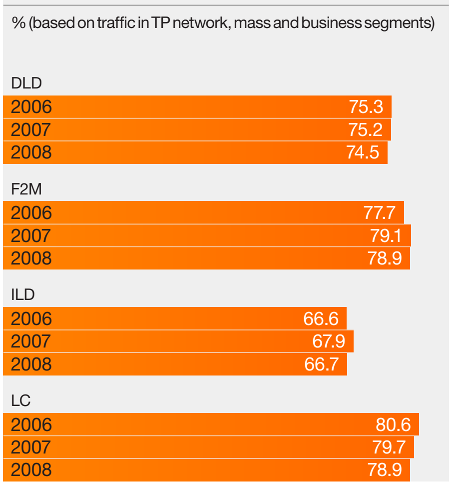
Although Poland's GDP growth is expected to slow down in 2009, the consensus is that the economy will prove more resilient than the rest of Europe. The Polish government has budgeted for GDP growth of 3.7% in 2009. The telecoms market is insulated to some extent from conditions in the wider market, in part because telecoms solutions can help businesses to optimise costs. In addition some adjacent markets – such as online advertising, pay TV, e-commerce and ICT – are expected to keep on growing, although at a slower pace.

Notwithstanding these factors, TP Group has made the conservative estimate of up to 1% GDP growth and no change to the value of the telecoms market in 2009, with continuing erosion of fixed line revenues largely offset by continued growth in broadband and slower growth in mobile. We do expect the foreign exchange market to stabilise at current levels, with Poland still on track to enter the Eurozone in the medium term.

Fixed line

TP Group
Annual Report 2008

Fixed line voice market share



TP Group's fixed line revenue for 2008 stood at PLN 10,494 million, down 3.2% compared to pro-forma 2007 results. This decline can be largely attributed to fixed-to-mobile substitution, the impact of regulations and ongoing market liberalisation. However, it does represent a slower deterioration than in 2007, when TP Group's fixed line revenue fell by 8.0%. Overall, Poland's fixed line market held up well in 2008, declining in value by just 1.5% compared to a fall of 6% the year before. This rebound is mainly a reflection on the punitive regulatory decisions that depressed the market in 2007.

Voice services

Competition in the fixed voice segment continued to intensify in 2008. Cable television operators extended their range of fixed line voice and Internet access services, while mobile operators launched new Home Zone offers and voice tariff reductions in an attempt to take market share from traditional fixed line. In addition, a growing number of lines on TP's own network are now operated by alternative operators under WLR agreements, and local loops can now be leased to competitors under the local loop unbundling scheme.

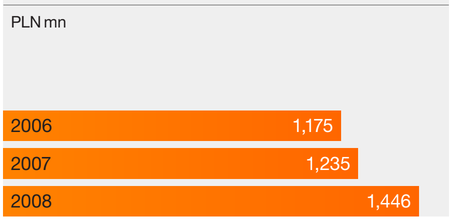
In this highly competitive environment, TP Group was able to slow down fixed voice revenue decline, which was -10.6% for the year, compared to -11.8% in 2007. ARPL stabilised across the market, and we successfully used the stimulus of new tariff plans to defend TP's traffic market share (down 0.8 percentage points).

Broadband services

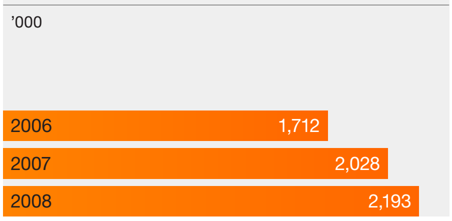
TP Group continued to pursue a strategy of offsetting lower revenues from fixed voice services with growth in broadband services. Around 40% of the decline in voice revenue was regained through double-digit growth in broadband Internet access revenue – up 17.1% to PLN 1,446 million.

2008 was a dynamic year for Poland's broadband market; price competition cooled off and the overall subscriber base grew by 13.4% year on year, while market value rose by 17.4% (compared to 5.7% in 2007 and 8.2% in 2006). TP Group maintained its value share of the broadband market at 50%, thanks in part to a successful customer retention campaign which bundles TV over satellite with our broadband and allows us to compete with cable TV operators on equal terms. At the same time, broadband ARPU for our retail segment increased by 7.3%, further vindication of a strategic approach that allows TP Group to compete on value rather than on price.

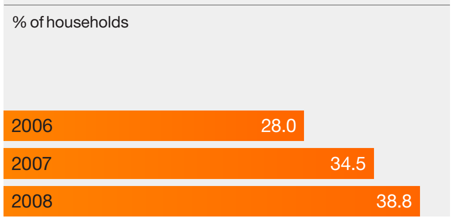
Broadband revenue



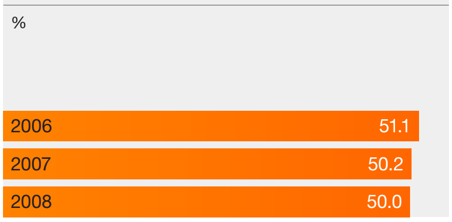
Broadband retail customers



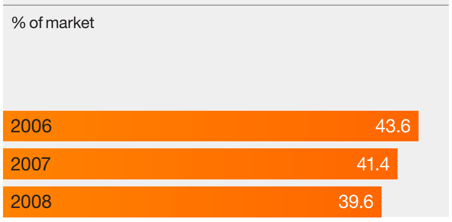
Broadband penetration



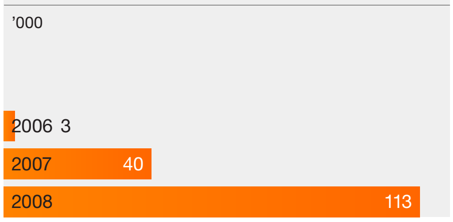
TP Group broadband value market share



TP Group broadband customers



TV customers



Mobile

Our mobile segment, PTK Centertel, maintained its leadership in 2008 despite intense competition and regulatory pressures, taking 33.3% market share by value for the full year. Revenue from the mobile segment continued to rise steadily, up 7.1% year-on-year to PLN 8,635 million. Growth slowed down in the second half of the year, dipping to 3.8% in the fourth quarter; this was partly due to conditions in the wider marketplace and partly to increasing market share gains by new competitors.

According to our estimates, Poland's market for mobile telephony services grew in value by around 10% in 2008, compared to 6.9% in 2007. At the same time, subscriber growth slowed as SIM card penetration topped 115%. New entrants to the market – in the form of a fourth infrastructure operator, P4, and a handful of new MVNOs – took market share at the expense of the three main operators. We estimate that these new players claimed around 30% of market growth in terms of value and nearly half the net increase in volume.

In this increasingly saturated and highly competitive market, TP Group achieved solid revenue growth through the evolution of our customer mix and by stimulating usage. Our focus on higher value post-paid customers resulted in a 4.3 percentage point increase to the post-paid share in our revenue mix, which stood at 43.5% at the year's end. What's more, we were able to grow the post-paid subscriber base while bringing subscriber acquisition costs down by 10% year-on-year to PLN 117.

The impact of May's 15% reduction to MTR saw wholesale revenue growth shrink to 3.2% for the full year, but this regulatory effect was fully offset by increased voice and data usage: retail revenue rose by 8.5% in the same period.

The depreciation of PLN against the Euro in the fourth quarter led to losses on the revaluation of our UMTS license liability, with a visible impact on profitability. Full year GOM rate fell by 1.6 percentage points to 37.6% of revenue. Otherwise, we are pleased with the evolution of our mobile segment's profitability, which reflects a year of sensible investment in business development, coupled with good control over non-revenue-driven costs.

Mobile revenue
PLN mn

2006	7,532
2007	8,064
2008	8,635

Mobile customers
mn

2006	12,521
2007	14,158
2008	14,182

Mobile revenue
% of market

2006	34.2
2007	34.3
2008	33.3

Mobile customers
% of market

2006	34.1
2007	34.1
2008	32.2

Average usage per user (AUPU)
Minutes

2006	95
2007	101
2008	112

Average revenue per user (ARPU)
PLN

2006	54.7
2007	49.3
2008	49.2

PTK subscribers
'000

	Pre-paid	Post-paid
2006	7,719	4,803
2007	8,603	5,556
2008	8,015	6,168

Mobile

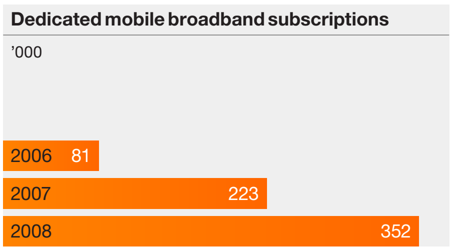
Mobile data services

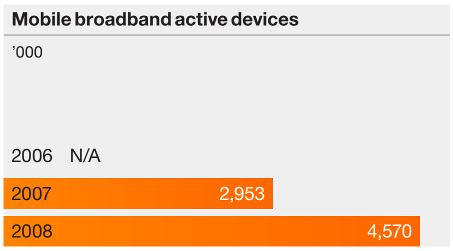
TP Group's mobile broadband Internet access customer base (EDGE and 3G enabled customers) reached 352,000 customers at the end of 2008, up from 223,000 a year earlier. We rapidly expanded our product portfolio to include new pieces of data equipment such as Express cards, WiFi wireless gateways and USB modems with an additional output for microSD cards. At present, we are the only operator in Poland to offer Dell laptops with a built-in 3G HSDPA 7.2 unit, bundled with a very attractive mobile Internet access offer.

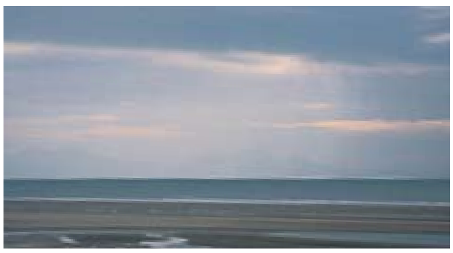
Integrated offers

In support of TP Group's cross-selling strategy aimed at increasing the average revenue per customer, we continued to leverage the strength of the Orange brand through bundled offers. The Orange Freedom offer which we launched at the end of 2007 (fixed broadband services for Orange customers under a BitStream Access service agreement with TP) was a strong performer in 2008, reaching 97,000 subscribers by the end of the year. In late 2008 we extended the Orange Freedom offer to include CDMA-based broadband internet access, which greatly expands the potential customer base.

Towards the end of 2008, we also introduced a fixed line service under the Orange brand, based on WLR access to TP's fixed network. Following on the success of Orange Freedom, this is another service aimed at increasing convergence within TP Group and generating additional revenues from existing and new customers. The first such offer was Fixed Line Orange For Business, with five different tariff plans.







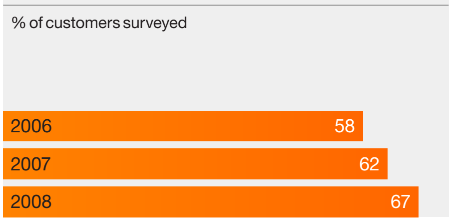
Sales & Service

TP's overall customer satisfaction index rose to 67% by the end of 2008, from a level of 62% a year earlier. This increase is gratifying, but we recognise that each incremental gain in customer satisfaction is just a little more difficult to achieve. In 2008 we launched the Next Generation Customer Care project, which is aimed at further optimisation and efficiency gains in this area of our business. At the same time, the project brings a new and sharper focus to our continuing efforts to enhance the customer experience.

Further integration of the sales force across TP Group was a major focus of attention in 2008. It is not simply a question of adding two sales forces together; in order to achieve our cross-selling objectives, we must ensure that we apply best practices from both the fixed and the mobile business.

Our online sales channel is still in its infancy, but we streamlined our systems in 2008 and put in place ambitious targets for share of sales and cost savings going forward.

TP Group customer satisfaction



Networks & IT

In 2008, we successfully negotiated new framework agreements with the partner companies that service TP's network, ensuring higher standards, more flexible management of resources, and a wider scope of services for the same price. We also launched a far-reaching access network analysis project, with the aim of gathering knowledge to help us improve responsiveness to customers' needs and shorten service delivery times.

On the IT front, we completed a complex consolidation project, bringing together all our key customer-related IT systems in a single, service-oriented architecture. The new system temporarily caused a set-back to broadband sales efficiency in its early stages, but it is now stabilised and the orders to installation conversion ratio is back to its normal level. With these early problems ironed out, we now benefit from a consolidated IT architecture that will allow us to introduce future developments much more efficiently and cost-effectively.

We continue to work towards improving the integration and efficiency of our IT operations through the IT Works project, which also covers IT vendor consolidation – a key cost optimisation initiative.

In 2008 our R&D teams have actively participated in the international and domestic standardisation activities. Among R&D projects, TP Group started research and development works on the future implementation of e-health services for the Polish healthcare sector. TP in conjunction with FT and B2C Division, implemented 20 prototype or commercial solutions in the Innovation Gardens. Revenue from sale of research and development services to FT exceeded €8 million in 2008. The key objective of TP's R&D strategy developed in 2008 is to almost double the production for FT by the end of 2010.

Human Resources

TP Group continues to honour its commitment to socially responsible employment practices, while also recognising the need to reduce its workforce. In 2008 we made further progress on the measures agreed with trade unions under the 2007-2009 Social Agreement, achieving 80% of departures covered by the three-year plan in just two years.

In November 2008 we negotiated a new Social Agreement to provide a framework for further labour efficiency improvements over the years 2009 to 2011. Our employment optimisation strategy continued to focus on the functional integration of the fixed and mobile businesses, with particular emphasis on support functions and on widening management spans.

Above and beyond these quantitative factors, TP Group is focused on properly managing competencies and remunerating employees. Salaries are benchmarked against market surveys, and increases are performance-related and linked to annual management appraisals. Talent management is key to our human resources approach: in addition to our graduate recruitment programme we have instigated the Talent Pool programme to identify, retain and fast-track promising individuals within the company. A comprehensive succession planning system for managerial roles is in place to insure business continuity.

In 2008, we launched the Future programme, designed to nurture a strong corporate culture and foster effective cooperation by uniting staff around a common vision and values. As part of this programme, we introduced a Group Leadership Model aimed at supporting managers as they translate TP Group's corporate values into our day-to-day operations.

Corporate Social Responsibility

TP Group is 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 Strategic Partner of Poland's Responsible Business Forum, which is the national partner of CSR Europe, an organisation promoting the concept of responsible business throughout Europe. We are also Strategic Partner of the Responsible Business League, an organisation promoting the concept of responsible business among Polish students.

In February 2006, TP became officially the first and so far the 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 local communities

Internet for everyone

TP Group cooperates with communities and local authorities in order to popularise Internet-based technology and facilitate the building of an information society through the "BB Partnership" programme. We also support local community development through dedicated social programmes. In December 2005, TP and PTK Centertel established the TP Group Foundation – an indication of our long-term commitment to social initiatives.

2008 saw the conclusion of TP Group's successful national grant programme for local communities, aiming to foster the development of an information society. Local Action Groups were awarded grants and 40% of the local districts in Poland were covered by the programme. The initiative was carried out in cooperation with the United Nations Development Programme (UNDP) and was the biggest of its kind in Europe.

TP is always on the lookout for innovative ways to use the Internet. The Virtual Museum Programme, launched in 2006, is intended to help museums to create virtual exhibitions using modern telecommunications technologies, so that the museums' collections may be visited online by anyone, free of charge. The first institution to make its collection available via the programme is the Warsaw Uprising Museum.

Corporate Social Responsibility

TP and education

As part of our nationwide 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. Over four million pupils at 14,000 Polish schools currently use broadband Internet services thanks to the programme. 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.

A key element of this programme is training, to increase teachers' professional qualification and skills. The online training sessions are addressed to middle school teachers and cover such topics as active learning methods and using IT and multimedia tools in modern education.

TP Group Foundation sponsors training in safer use of the Internet for teachers and pupils, and similar workshops are given by TP employees as part of our volunteering programme. The TP Group Foundation is also the major partner of a national campaign known as "Child in the Web" which, like "Education with TP Internet", is the result of a partnership with the Ministry of Education.

Aggression and violence have become a serious problem in some Polish schools. In response, TP Group started the "School Without Bullying" campaign, which has been running since spring 2006. The campaign is supported by 16 regional dailies of two publishing groups – Media Regionalne and Polskapresse (the largest publishers of regional dailies in Poland).

TP and families

TP Group's commitment to promoting safety in electronic media was greatly strengthened by a mass-media campaign "Safer Media" (www.bezpiecznemedia.tp.pl). The campaign is aimed at educating parents in safe use of the services offered by TP Group as well as offering ways to protect their children. The Parents' Guide is available free of charge at TP selling points as well as on the Internet.

Another highlight among TP's social outreach initiatives is the "Phone to Mum" project, which gives hospitalised children access to telephones. So far, 1067 colourful, child-friendly phones have been installed, in almost every children'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 which installs Internet mini-laboratories in hospitals to help children to continue their education. In 2008 TP Group volunteers also created the first "Fairy-tale place" in a children hospital – a special colourful stress-free environment where children can play, read books and listen to audiobooks of children's stories. This project will continue to be a part of TP Group's employee volunteering programme in the coming years.

In 2006 the TP Group Foundation started an innovative programme called "Sounds of Dreams" for the rehabilitation of young children with hearing impairments. The programme aims to provide children with care immediately after a diagnosis of hearing loss in the early stages of life, and to support their ongoing development. It offers comprehensive multi-level help for children, their parents and therapists. Hearing aids are lent free of charge and children are given systematic, professional hearing and speech therapy at home. TP Group Foundation also organises a two-week summer rehabilitation stay, free of charge, for children and their parents as well as free training for therapists and carers, where they can access the specialist knowledge they need to work with young children. This is the biggest non-governmental initiative in Poland for the care of newborns with hearing impairments, and the only programme of its kind in Europe.

Corporate Social Responsibility

TP and national heritage

We know where we are going, because we know where we come from – as Poland's national operator, TP Group believes that keeping our heritage alive and present in people's lives helps us to understand our identity while we open up to the multicultural world. We support initiatives that help to bring our culture and history within people's reach. In 2007, TP Group co-produced "Katyń", a film directed by Andrzej Wajda, which provides a vivid history lesson for current and future generations. The film was also a hit with international critics – well received at the Berlinale International Film Festival, it went on to be nominated for a 2008 "Oscar" Academy Award in the "best foreign language film" category.

At the beginning of 2008 we co-sponsored a purchase of correspondence from the Warsaw Uprising during World War II. The collection of letters, envelopes and stamps is now on public display in the Warsaw Uprising Museum. The museum's collection can also be seen online at www.1944.wp.pl, thanks to Wirtualna Polska (a member of TP Group) and the support of the TP Group Foundation. The foundation also supports some of the educational projects of the Museum of Polish Jews, which is now being developed in Warsaw.

TP and the natural environment

Since 1998, TP Group has continually reviewed and updated the procedures and systems that help us to limit our impact on the natural environment. Environmental audits carried out by the Company in 2002 and 2003 confirmed our compliance with Polish laws, highlighted the Company's achievements and helped us to set goals for the future. Environmental monitoring teams within TP Group are responsible for controlling the Group's infrastructure and equipment, monitoring emission levels and providing training in environmental protection. In addition, the teams monitor legislation and assure compliance with environmental regulations.

TP and consumer organisations

TP maintains an ongoing dialogue with consumer organisations through meetings and workshops. In addition, TP Group set up its first Clients Council in March 2008. This marks a real innovation in the way we conduct a dialogue with our clients, and demonstrates in a practical way TP Group's interest in our customers' opinions and expectations. The first Council Team consists of seventeen clients of TP and PTK Centertel, drawn from business, SOHO and individual clients who use our fixed line, mobile telephony and Internet services. TP and PTK Centertel are the first telecommunications operators in Poland to convene a Clients Council. We anticipate that this new way of relating to our customers will give TP Group new ideas for improving customer relations, as well as helping to develop our corporate culture.

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 cooperation among FT Group companies, and if necessary results in an action plan to enhance such co-operation.

Code of Ethics

Please refer to the Corporate Governance Section on page 31 for details.

Corporate Social Responsibility

TP and employees

Health and safety
TP adheres to 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. At the time of writing, about 44% of all employees at TP are women. 26% of management positions are occupied by women.

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 2008, 18,934 people were covered by the plan and had their basic premiums paid into their accounts; an additional premium was declared by 2,459. The value of the TP ERP account unit decreased by -13.5% in 2008 as a result of declines in global stock markets.

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, TP Group Foundation holds a special fund for employees who suffer from accident or illness. It is created from voluntary payments by TP's employees.

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

Yearly Employee's Appraisal System (SKOR)
This system allows employees to work with their Senior Manager to define a direction for the development of their professional careers. Among other things, it helps to identify the employee's training needs and whether he or she should be nominated for the Talent Review Programme. It also forms the basis for salary reviews.

Talent Review
This programme aims to develop the best managers to further TP Group's business objectives. The most talented employees identified in the programme are given further development opportunities, for example through the financing of their MBA studies.

E-learning and Development Product Library
Electronic training delivered directly to the desktop 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 and acquire additional knowledge.

Regulatory environment

TP Group remains committed to an open Polish telecommunications market and fair competition. We have cooperated with all those competitors who share our priorities for the market and recognise the value of continued investment in a sound telecoms infrastructure. At the same time, we are firm in our determination to appeal regulatory decisions that are excessively punitive or inconsistent with the European regulatory framework.

Below you will find a brief update on our ongoing negotiations with the Polish telecoms regulator, UKE.

Functional separation

On 26th November 2008 UKE published the final working party report regarding the functional separation of TP. The report's main conclusion is, broadly, that functional separation would be an effective regulatory tool to eliminate TP Group's anticompetitive attitude and it would limit TP Group's tendency to use legal loopholes. However, the report also acknowledges that functional separation would certainly not eliminate other identified barriers to market development. This report increased the risk of mandatory separation of TP and was negatively received by sector analysts and the financial markets.

On 27th November 2008, European Union telecommunication ministers agreed on rules governing functional separation conditions. National regulators will be allowed to impose functional separation between network and services activities on telecoms companies, as well as new provisions to discourage broadband providers from charging competitors high "risk sharing" prices for access to their networks.

The Ministry of Infrastructure has started consultation proceedings on amendments to the telecommunication law (draft dated 25th November 2008) in the matter of functional separation. Meanwhile, UKE is carrying out various analyses to show whether functional separation is needed in Poland.

In a TV interview, the president of UKE said that the working party claims that a mandatory separation is possible, however UKE doesn't have the legal tools to implement it and to influence the shape of the separated units. Moreover, the experts claim that implementation is risky, due to the fact that UKE has to convince European Commission that functional separation is necessary.

On 5th October 2008, TP presented to the president of UKE a comprehensive set of actions that the company wants to implement in order to ensure equivalence of access, services and provision of commercial information. These actions are intended to address UKE's doubts on non-price discrimination and to ensure equal treatment of alternative operators.

On 30th March 2009, TP submitted to UKE Equivalence of Access (EoA) proposal. The Equivalence of Access is based on three main pillars, which create a set of mutually strengthening means to ensure equivalence of access for the retail departments of TP and the Alternative Carriers. These are equivalence of products, equivalence of service quality and equivalence of information. We would like to emphasise that some of the actions presented in the EoA are already being implemented. These include: implementation of the system of reporting key performance indicators, introduction of the Rules of Conduct and monitoring the process of concluding commercial contracts with the Alternative Carriers.

Compared to the independent estimates on cost and timing for implementing functional separation, the equivalence of access proposal provides more than 50% savings in both budget and schedule while maintaining achievement of objectives set up by the regulator.

In 2009, we expect to hear the results of UKE's analysis of the wholesale markets. We also anticipate a decision from UKE as to whether the functional separation of TP Group is deemed necessary and whether it is anticipated this year.

Regulatory environment

Reference Interconnect Offer (RIO)

On 4th November 2008 the President of UKE issued a decision changing its earlier decision, dated 8th April 2008, that implemented a new Reference Offer for termination and origination and WLR services (RIO 2008). UKE did not change prices and didn't adopt the results of the audit in the offer framework, only the range and definitions of services. UKE rejected TP Group's cost rates on the grounds that alternative operators will not be able to create competitive retail offers.

TP Group lodged an appeal to the Administrative Court, pointing out that UKE should take into account the audited costs and arguing that the level of penalties for non-fulfilment of obligations was unjustified.

In the ongoing case between TP Group and Polkomtel, UKE and Polkomtel brought an appeal against the Antitrust Court sentence which had reversed UKE's original decision for Polkomtel (on origination and termination services). The Appeal Court postponed the trial due to a legal question which had been sent to the Supreme Court regarding UKE's internal control processes.

Mobile Termination Rates (MTR)

On 30th September 2008 UKE issued a decision that adjusted existing MTR as follows:

From 1st January 2009 to 30th June 2009 – PLN 0.2162
After 1st July 2009 – PLN 0.1677

This decision is, in fact, the second ruling on MTR and neglects the fact that UKE's first decision (26th April 2007) is still legally binding for PTK Centertel.

On 14th October 2008 PTK Centertel lodged an appeal to SOKIK (Competition Court) and a motion for review to UKE. On 5th December 2008 UKE sustained its decision of 30th September 2008. If this decision becomes legally binding for PTK Centertel, it will cause a decrease of revenues from MTR.

On 2nd October 2008 UKE published a statement on its website regarding the decrease in MTR and a proposal to introduce bill and keep solutions between Mobile Network Operators. If these UKE proposals come into force, there is a high probability that revenue from MTR will decrease. PTK Centertel presented its case in response.

On 6th October 2008 UKE sustained its decision of 28th July 2008 that ordered an end to existing infringements of article 36 (non-discrimination obligation), stated on the basis of existing difference between wholesale rates (MTR) and retail prices for on-net calls. This decision may oblige PTK Centertel to change existing retail offers (MTR cannot be changed because they are set by the regulator). On 5th November 2008 PTK Centertel lodged a complaint with the Administrative Court.

Other issues

Universal Service Obligation

The European Commission has a duty to review the scope of universal service every three years. On 28th September 2008 the European Commission adopted a communication on the second periodic review of the scope of universal service in electronic communications networks and services. The communication listed a number of questions to launch a broad public debate regarding e.g. broadband, mobile telephony and payphones. So far, the EC is proposing to leave the scope of universal service unchanged. As a result, mobile and broadband are still not included.

The Commission will issue a second communication in the second half of 2009, summarising the debate. It could follow this up in 2010 with concrete proposals, if they are needed, to update the Universal Service Directive.

Regulatory environment

BitStream Access

On 3rd November 2008 UKE issued a decision that changes TP Group's BSA Offer 2008. The main changes concern technical solutions. UKE did not change prices and didn't adopt the results of the audit in the offer framework.

TP Group lodged an appeal to the Administrative Court. The Company pointed out that UKE should take into account the audited costs and also argued that the level of penalties for non-fulfilment of obligations was unjustified.

Reference Unbundling Offer (RUO)

On 1st December 2008 the President of UKE issued a decision changing RUO. The main changes were as follows:

- Full LLU monthly fee set below cost at PLN 22;
- Monthly fees for shared LLU (PLN 5.81) and access to sub loop (for full access PLN 16.77 and shared PLN 5.81) are decreased to the level of TP Group's costs;
- Fees for collocation service decreased (below TP Group cost);
- FITLs (Fiber in the Loop) are included in scope of loops which are available for unbundling;
- Operators are allowed to use equipment for non regulated services in collocation.

The decision also contains many other conditions which will generate costs or difficulties for TP Group in realising the RUO offer, and other conditions increase risk related to contractual penalties. The new offer creates an incentive for alternative operators to invest in line unbundling. TP Group will appeal against UKE's decision on RUO to the court.

Orange Freedom case

European Commission BSA inspection: At the end of December 2008 the EC requested very precise information from TP Group relating to the process for provisioning alternative operators' orders for wholesale broadband access, which the Company had to provide in weekly sequence (from 2006 to 2008). A response was requested by 16th January 2009 but TP Group applied to extend this term, because of the complexity of the information demanded.

A special team is dedicated to supervising the preparation and explanation of the data. TP Group contests before the Court of First Instance the fact that the scope of the inspection is very broad and doesn't identify the infringements under investigation by the European Commission.

On 11th December 2008, UOKiK also requested very precise data concerning the cost elements of Orange Freedom and neostrada tp and asked PTK about source of subsidies if any. Both PTK Centertel and TP Group asked UOKIK for more time to prepare this information.

Chief Financial Officer's review

Overview

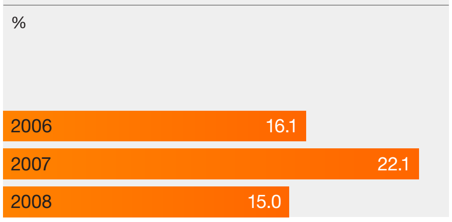
Throughout 2008, TP Group maintained a steady focus on delivering value to all our stakeholders. It was a year full of unexpected challenges, in which our continuing ability to adapt to changes in the market was reflected in a solid set of results. TP Group's healthy revenue and profitability performance attests to the success of our efforts to manage the competitive and regulatory environment, and the company is well positioned to ride out continuing adverse conditions in the financial markets in 2009 and beyond.

Dear Shareholders,

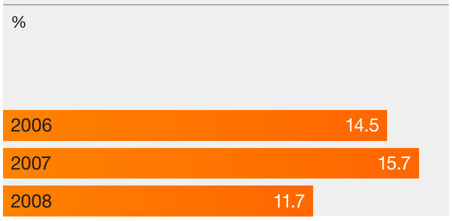
Revenue for the full year was unchanged compared to pro-forma 2007 revenue, at PLN 18,165 million. Our key performance indicators – Gross Operating Margin and net free cash flow – held up well. We proved our ability to maintain strong cash flow generation, providing a basis for both further business development and attractive returns for our investors.

TP Group maintained good liquidity, and successfully completed a substantial refinancing towards the end of the year despite turmoil in the wider financial markets. This success is surely a vindication of our careful financial management policies, which are further reflected in the Group's credit ratings of A3/BBB+.

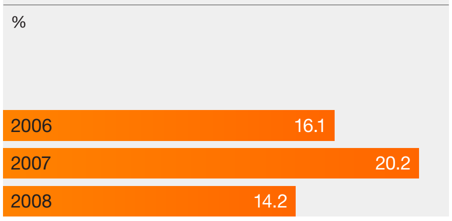
Fixed Capex to sales ratio



Mobile Capex to sales ratio



TP Group Capex to sales ratio



2008 performance by segment

TP Group’s revenue mix continues to evolve, reflecting the strong ongoing trend for fixed to mobile substitution. In terms of revenue, fixed line lost PLN 342 million in 2008, compared to almost PLN 1 billion the year before. Meanwhile, our mobile segment added PLN 571 million, a level comparable with the 2007 increase. After consolidation, the strong performance in mobile almost fully offset the decline in fixed line revenue.

Within the fixed line segment, revenue from voice services continued to decline, albeit a little more slowly: it fell 10.6% compared to 11.8% the year before. This erosion reflected not only the market trend but also the impact of increased competition and regulatory price capping. We did see some indications that the uptake of WLR, and therefore the erosion of retail sales, may be slowing, although it is too early to say whether this constitutes a trend.

Broadband services put in a strong performance, with revenue growing by 17.1% - a big jump on the 5.1% improvement we reported a year ago. Market penetration is gradually improving, and TP Group is managing to maintain its share in that growth. We held on to a 50% share of the overall Polish broadband market by value, while TP Group’s volume share of the retail market stood at 39.6% at the end of 2008, slightly down from 41.1% a year earlier. We encountered problems in our provisioning system after we migrated it to an integrated IT environment, which set us back until the system was stabilised. However, our increasing share of both gross and net additions since the end of the second quarter shows that we have made good progress on these technical issues.

In the mobile segment, we faced a more competitive environment than ever, with a fourth infrastructure operator and several new MVNOs to contend with, as well as a 15% regulatory reduction to mobile termination rates towards the end of the first half. By focusing on value before volume, we improved our customer mix, increasing the share of post-paid subscribers, and grew our retail revenue by 8.5%. Wholesale revenue was hit harder by the effects of price erosion, and grew by a more modest 3.2%. Altogether, mobile segment revenue for the full year was up 7.1% compared to 2007, although in the fourth quarter growth slowed considerably to 3.8%, reflecting the general slow-down in consumer spending.

Profitability and cost control

TP Group’s key profitability measure – Gross Operating Margin (GOM) as a percentage of revenue – was held at 42.1%, within our guidance range of 42-44% and almost unchanged from its 2007 level. We were able to defend our profitability despite the significant erosion of the Polish Zloty’s exchange rate in the fourth quarter, when it lost 22% against the Euro and 25% against the US dollar. We managed to mitigate the impact of these losses thanks to stringent cost control and opex optimisation measures.

In the fixed line business, we kept labour costs under control as a result of successful implementation of the Social Agreement. We also optimised and streamlined our network and IT maintenance. Taken together, our cost-saving initiatives helped considerably to mitigate the erosion of top line as well as the unforeseen foreign exchange losses.

On the mobile side, GOM increased by PLN 90 million as we contained growth in commercial expenses below the rate of revenue growth. The GOM rate for our mobile business declined by 1.6 percentage points to 37.6% of revenue; excluding the impact of foreign exchange fluctuations it would have reached 38.5%, compared to 39.1% a year earlier.

In the fourth quarter, we booked PLN 182 million of restructuring costs to cover the new Social Agreement for the 2009-2011 period. Taken together with the effects of the PLN exchange rate deterioration, we recorded more than PLN 500 million negative impacts in the fourth quarter. In short, our solid operating performance was not enough to compensate for the deterioration of the financial environment towards the end of 2008.

Nonetheless, we were able to limit the consequences to TP Group’s net income, which was down by 3.1% year-on-year, while net margin fell to 12.1% from 12.5% in 2007. In addition, the share buybacks of the last two years brought the weighted average number of shares down by 1.9% in 2008, with the combined effect that EPS was down by only 1.8%, to PLN 1.61 per share.

Capex and cash flow

During the first quarter of 2008, TP Group's cash flow generation was severely affected by one-off capex and payables following increased investment activity at the end of 2007. We significantly improved this picture through the rest of the year, with net free cash flow hitting 28.8% of revenues in the last quarter. For the full year, we achieved net free cash flow of PLN 3 billion, or 16.7% of revenue, while maintaining operating cash flow generation above 40% of revenue.

In 2008, PTK Centertel's mobile segment capital expenditure of PLN 1.008 billion was PLN 268 million lower than in 2007. A commercial CDMA service was launched in December 2008. Ultimately, the aim is to have CDMA coverage in the majority of Poland's territory. So far, the coverage has reached 50 per cent.

In 2008, capital expenditure amounted to 14.2% of revenue and was at the low end of 2008 guidance. Despite the decrease in investments, which is driven by a strategic objective for capex to gradually converge with European benchmarks, TP maintained its key development and revenue generation projects including 3G, HSPA, CDMA, broadband and TV.

As our business continues to generate healthy operating cash flow, we remain committed to our strategic objective of generating net free cash flow at 18-20% of revenue in the medium term.

Financial optimisation

In the light of such strong cash flow generation, we were able to reduce TP Group's net debt by PLN 1 billion in 2008. Net debt after hedging stood at PLN 5.4 billion at the year's end, which represents a net gearing ratio of 24%, and a net debt to GOM ratio of 0.7. A year earlier, net debt of PLN 6.4 billion after hedging equated to a net gearing ratio of 27%. Return on Capital Employed, another key measure of our financial efficiency, was stable at 13.9%, compared to 13.4% for 2007.

We successfully completed two key asset disposal projects in 2008, namely the disposal of our directories business, Ditel, and the sale of our Warsaw real estate as part of a comprehensive restructuring of the Group's real estate portfolio. The Company has effected the sales of its office buildings on Twarda, Moniuszki and Obrzeźna Streets in Warsaw. The "TP Group Campus" project is being actively negotiated with potential counterparties.

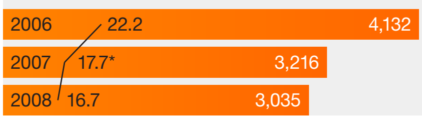
To a large extent, we have been able to contain the negative impacts of a deteriorating commercial environment thanks to our concerted efforts to maintain a healthy balance sheet, optimise our asset base and boost our financial efficiency.

In order to further strengthen our sound financial position the European Middle Term Notes (EMTN) programme is just about to be finalised. The programme, which will allow us to raise as much as €1.5 billion over the next few years, is aimed at restructuring TP Group's debt in the short term as well as providing a medium term financing facility.

Net FCF

PLN mn and % of revenue

* Pro forma after the disposal of Ditel, the directories business



Net Gearing after hedging ratio

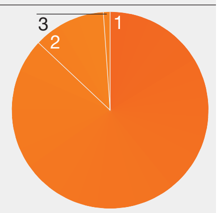
%

Gross debt structure after hedging*

%

1 PLN 87%
2 EUR 12%
3 USD 1%

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



Proposed shareholder remuneration

In considering the proposed level of shareholder remuneration for 2008, TP Group has followed its existing policy, taking the following parameters into account in order to offer its shareholders an attractive remuneration:

- the uncertainty of the regulatory environment;
- the intensification of competition in TP 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 at least the current rating at A3 / BBB+

Based on the 2008 results and taking into account the level of uncertainties surrounding further development of the economy, the Management Board will submit to shareholders' approval a shareholder remuneration of PLN 2,003 million, equivalent to PLN 1.50 per share, to be distributed in the form of an ordinary dividend.

The Management Board is also contemplating an exceptional cash distribution which could bring total shareholder remuneration per share up to the level paid in 2008. An appropriate proposal would be made at the latest with the publication of the 2009 first half results. The decision is subject to market development and the Group's business performance by the time the announcement is made.

Yours sincerely,

Roland Dubois
Board Member and
Chief Financial Officer
31st March 2009

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).

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.

The Supervisory Board

As of 26th March 2009, the Supervisory Board comprises thirteen members. Members of the Supervisory Board are: Andrzej K. Koźmiński as the Chairman, Olivier Barberot as the Deputy Chairman, Olivier Faure as the Secretary and Antonio Anguita, Vivek Badrinath, Timothy Boatman, Jacques Champeaux, Ronald Freeman, Mirosław Gronicki, Stéphane Pallez, Georges Penalver, Jerzy Rajski, Wiesław Rozłucki.

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

The term of office of each member of the Supervisory Board is three years, and their remuneration is determined by the General Meeting of Shareholders. The Supervisory Board meets at least once a quarter and among others 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 coordinated by the Board Chairman, with the assistance of the Board Secretary; and the responsibilities and obligations of the Board, together with its rules of procedure, are defined in a formal statement of the Board's role. Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in further paragraphs.

The Supervisory Board assessment of the Group's situation in 2008 appears on page 35.

Corporate Governance Framework

The Audit Committee

As of 26th March 2009, the members of the Committee are: Timothy Boatman, Ronald Freeman, Olivier Faure and Stéphane Pallez. 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 and has qualifications in accounting and finance.

The task of the Committee is to advise the Supervisory Board on proper implementation of financial reporting, budgetary and internal control, including risk management, principles in TP Group and to co-operate with the auditors of TP S.A.

The key functions of the Audit Committee include:

- Monitoring the independence and objectivity of the Company's external auditors and presentation of recommendations to the Supervisory Board with regard to selection and remuneration for the Company's auditors, particular attention is paid to remuneration for additional services;
- Discussion with the Company's auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
- Review the issues giving rise to the resignation of the external auditor;
- Monitor the integrity of the financial information provided by the Company in particular by reviewing:

a The relevance and consistency of the accounting methods used by the Company and the TP Capital Group, including the criteria for the consolidation of the financial results;
b Any changes to accounting standards, policies and practices;
c Major areas of financial reporting subject to judgment;
d Significant adjustments arising from the audit;
e Statements on going concern;
f Compliance with the binding accounting regulations;

- Review and providing opinion to the TP Management Board on transactions with related parties;
- Discussion (in or without the presence of the Company Management Board) of any problems or reservations, resulting from financial statements audit;
- Review the effectiveness of the external audit process, and the responsiveness of the Management Board to the recommendation made by the external auditor;
- Review at least annually the Group's system of internal control and risk management systems with a view to ensuring that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed;
- Analysis of reports of the Company's internal audit and major findings of any other internal investigations and response to the Management Board to them, including review of freedom allowed to internal auditors;
- Annual review of the internal audit programme, coordination between the internal and external auditors;
- Make recommendation in relation to the selection of the Director of the Internal Audit and on such department's budget;
- Consideration of any other matter noticed by the Audit Committee or the Supervisory Board;
- Regularly informing the Supervisory Board about all important issues within its scope of activity;
- Providing the Supervisory Board with its annual reports on the Audit Committee's activity and results.

The Audit Committee report appears on page 38.

Corporate Governance Framework

The Remuneration Committee

As of 26th March 2009, the members of the Committee are: Ronald Freeman, Olivier Barberot, Jacques Champeaux and Wiesław Rozłucki. The Remuneration Committee is chaired by Mr. Ronald Freeman, an independent member of the Supervisory Board.

The Remuneration Committee's task is to advise the Supervisory Board and Management Board on the general remuneration and nomination policy of TP Group, determining the conditions of employment and remuneration (including the setting of objectives) of the Members of Management Board and giving recommendations to the Supervisory Board regarding salaries and the amounts of bonuses for the members of the Management Board.

The Committee report appears on page 39.

The Strategy Committee

As of 26th March 2009, the members of the Committee are: Olivier Barberot, Jacques Champeaux, Mirosław Gronicki, Olivier Faure and Jerzy Rajski. The Strategy Committee is chaired by Mr. Olivier Barberot.

The tasks of the Committee include:

– giving its opinion and recommendation to the Supervisory Board on the strategic plans put forward by the Management Board and any further suggestions made by the Supervisory Board regarding such strategic plan(s), and in particular on the main strategic options involved;
– consulting on all strategic projects related to the development of TP Group, the monitoring of the evolution of industrial partnerships within TP Group and projects involving strategic agreements for TP Group. It then reports and makes recommendations on each of these projects to the Supervisory Board.

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

– 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 report appears on page 39.

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 of Shareholders or the Supervisory Board. The responsibilities and obligations of the Board, together with its rules of procedure, are defined in a formal statement of the Board's role. Particular members of the Management Board manage the areas of the Company's operations dedicated to each of them.

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 Chief Executive Officer. 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.

Corporate Governance Framework

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

In 2008, Management again completed a comprehensive assessment of the Group's 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 31st December 2008.

Management has enhanced procedures to ensure proper identification, review and approval of transactions with related parties. In 2008, such transactions continued to be 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 is chaired by the Chief Financial Officer. Its role is to oversee public disclosures made by TP Group, ensuring that they are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of the Group. In 2008, the Committee had four meetings to discuss the following:

- Evaluation of the statutory financial reports (quarterly, half-year, full year);
- Evaluation of quarterly investors' presentations.

In 2008 TP published 191 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 Group Code of Ethics was implemented in 2008 which encompasses our relationship with TP customers, shareholders, employees, suppliers, competition and also with respect to the environment where we operate.

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 and reporting of potential and actual fraud has been enhanced by the Group which is coordinated by the TP Group Ethics Committee. Training on ethics is provided to employees which is confirmed by a personal certification. Formal channels for whistle blowing have been established, including reporting to the Chairman of the TP Audit Committee of the Supervisory Board, the Chairman of the TP Group Ethics Committee and the Director of Internal Audit.

Management Board

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 6th November 2006.

Jacek Kałłaur
Board Member in charge
of 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.

Roland Dubois
Board Member and Chief Financial Officer

Roland Dubois graduated from Ecole Supérieure de Commerce Le Havre and acquired his executive MBA from HEC (CPA) in Paris. He began his professional career in 1975, and in 1987 joined France Telecom Group where he held various positions. In 2006 he was appointed Vice President Financial Controlling of AMEA, an entity responsible for FT Group companies in the countries of Asia, Middle East and Africa. Roland Dubois joined TP Management Board in March 2008.

Management Board

Richard Shearer
Board Member in charge of Mass Market

Richard Shearer has a BA (Hons) degree from the faculty of Accounting and Business Finance at Liverpool Polytechnic (now John Moores University) and is a member of the Chartered Institute of Management Accountants. Involved in the international telecommunication sector for over 20 years, he has worked for a number of fixed and mobile operators, a consulting services company and a mobile data infrastructure provider. In 2005 Richard Shearer was appointed Chief Executive Officer at BTC Mobile EOOD, a GSM/3G operator in the Bulgarian mobile market. In 2006 he became a board member of BTC AD, a national fixed line operator and the parent company of BTC Mobile. Richard Shearer joined TP Management Board in April 2008.

Ireneusz Piecuch
Board Member in charge of Corporate Strategy and Business Development

A graduate of the Faculty of Law and Administration at the University of Warsaw, Ireneusz Piecuch gained further legal training as a judge and legal adviser in Warsaw. From 1995 to 2006 he worked for IBM corporation where he held several different positions, both in Poland and abroad, including Member of the Management Board – Operating Director of IBM Poland (2002-2004). In 2006 Ireneusz Piecuch joined TP S.A. as a Director of Legal Branch – General Counsel of TP Group, while from May 2007 he held position of Secretary General. He joined TP Management Board in September 2008.

Piotr Muszyński
Board Member in charge of Operations

Piotr Muszyński graduated from the Faculty of Law and Administration at the University of Wrocław, completed Postgraduate Study in Management at the Polish International Business School and the Advanced Management Programme organised by IESE Business School, University of Navarra. He started his career in 1990 in Eastern Europe Investment Ltd (EEI) as a Partner and Project Manager. From 1993 he was employed in REMA 1000 Poland Ltd as Managing Director and Member of the Management Board and from 1999 as President of the Management Board. In parallel in 1996-1998 he was a Member of the Management Board of Intersport Poland. He joined TP S.A. in 2001 as the Director of Customer Care Branch, then served as the Director of Sales and Services Division from 2005 onwards. Piotr Muszyński joined TP Management Board in September 2008.

Supervisory Board

Activities of the Supervisory Board

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 2008 duties resulting from the provisions of the Commercial Companies Code:

– Evaluated the Management Board's report on TP S.A. operations and the financial statements for the financial year 2007 and the Management Board's recommendation for distribution of the Company's profit;
– Evaluated the Management Board's report on TP S.A. Capital Group's operations and the consolidated financial statements for the financial year 2007;
– Filed with the General Shareholders' Meeting reports presenting results of the above-mentioned evaluation.

The Supervisory Board took due care in order to assure that the Management Board's reports and the financial statements were in compliance with the law.

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:

– Appointments of members of the Management Board;
– Recommendations of motions addressed to the General Meeting;
– Selection of an independent auditor to audit the Company's financial statements;
– Preparing an opinion on TP S.A. and TP Group budget;
– Supervision of the realisation of TP Group's operating and financial objectives;
– Expressing an opinion on financial commitments exceeding the amount of €100 million;
– Concise assessment of TP Group situation;
– Appointment of member of the Supervisory Board

Throughout 2008 the Supervisory Board and its permanent committees focused on the following issues:

a Group's financial results and performance compared to the budget;
b Group's strategy in an increasingly competitive market;
c Group's M&A projects;
d Group's position vis-a-vis the regulatory environment in Poland;
e Changes in the Management Board of the Company;
f Company's shareholders' remuneration;
g Share Buyback Programme;
h Group's approach to internal control, including risk management;
i Customer satisfaction;
j BLA agreement with Orange Brand Services Limited;
k Group's Real Estate optimisation program.

The Supervisory Board met seven times in 2008. The Board adopted 42 resolutions, of which three in writing (by correspondence). The Supervisory Board used in its operations the opinions of the Audit Committee, the Remuneration Committee and the Strategy Committee. 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 2008, 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.

Supervisory Board

Assessment of the group's situation in 2008 prepared by TP S.A. Supervisory Board

This document is the Supervisory Board assessment of TP Group performance in 2008 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 2008 Financial Results of the Group (the Company and its subsidiaries), as well as on information obtained by the Supervisory Board during conducting of its statutory tasks.

Throughout 2008, the Supervisory Board focused on the following issues:

- Group's 2008 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 towards 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 2008, the Group continued to develop and launch a range of innovative and convergent products and services to maintain its market position and contain churn in both fixed and mobile telephony. TP Group launched Orange Sport TV channel which broadcast the Polish Premier Soccer League games and made the first step towards providing the financial services by providing travel insurance available by SMS. TP Group continued to make investments in developing the CDMA network to enable to broadband transmission in the areas where it is otherwise difficult and in expansion of the UMTS/HSPA network to provide customers with the highest service quality.

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

- Further integration of TP and PTK operational processes;
- Signature of the disposal and lease back agreements regarding selected Warsaw office buildings and continuation of the project to provide cost efficient headquarter facility (TP Miasteczko) and also successful disposal of certain other properties;
- Execution of the 2008 Share Buy-back Programme;
- Continuation of the Social Agreement implementation which determines principles in regards to the major employee-related issues and conclusion of the new Social Agreement in December 2008 for years 2009-2011 with all trade unions;
- Signature of the agreement to dispose shares in Ditel, directory business.

Fixed line

During 2008, 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 and launched wireless broadband and TV over satellite products bundled with the broadband services which allow the Company to show higher revenue in broadband services by 17% in comparison with 2007 as a result of higher customer base, higher average revenue per user and maintain above 50% share in broadband market value.

Supervisory Board

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 2008, competing principally on the quality of its products and services and the transparency and simplicity of its tariff structures. Mobile segment completed a successful 2008 and Orange maintained its market value leadership.

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 2008 were:

- 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 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.

In 2008, the Management met its guidance on revenue growth, gross operating margin rate ("GOM") and Capex as % of revenue. GOM rate stands at 42.1% of revenues despite the impact of the depreciation of PLN versus EURO in the fourth quarter of 2008. Also, Net Free Cash Flow generation has been healthy, ending at over PLN 3.0 billion, or 16.7% of revenue. The key Management's commitments in regards to initiatives fuelling growth and maintaining cost control and rebalancing resources have been delivered. Innovative products and services successfully launched as well as other investments made in 2008 will help to mitigate the erosion of future fixed voice revenues.

In 2008, the Management Board of the Company has followed the Supervisory Boards recommendation and developed the details of the shareholders' 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 A3/BBB+

TP Management Board has proposed an ordinary dividend of PLN 2,003 million, an equivalent of PLN 1.5 per share, payable in cash in the first half of 2009. That proposal obtained a positive opinion of the Supervisory Board on 26th March 2009 and is subject to approval by the General Assembly of TP shareholders.

Supervisory Board

Conclusions and 2009 recommendations

Despite increased competition across all segments as well as intensifying regulatory pressure, TP Group has delivered satisfactory results in 2008. The Supervisory Board believes TP's Management Board has made the appropriate efforts to attain the 2008 objectives. Moreover, the Group, with its integrated offers and investments made at the end of 2008, 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 2009 the Group should focus its activities to achieve further steps in implementation of the 2007-2010 TP Group Strategic directions, continue its efforts to further implement strategic goals as set for 2008 and also:

- Monitor business performance closely so as to be able to react quickly to unfavourable trading conditions caused by the current Worldwide economic difficulties; in particular to adapt Capex spending as considered appropriate;
- Maintain leadership in value on fixed voice, mobile and broadband markets;
- Increase customer satisfaction and loyalty by leveraging on TV offer;
- Mitigate foreign exchange impact on commercial expenses, financial costs and capital expenditure;
- Further optimise operating cost base;
- Secure mid and long-term financing with EMTN programme;
- Maintain financial stability;
- Preserve cash flow generation.

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 of internal control were presented by the TP Management in the report on compliance with the corporate governance best practices as required by the Warsaw Stock Exchange by-laws and was disclosed on 26th February 2009.

In 2008, 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 processes have been either 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 31st December 2008. Continued efforts by Management in this regard are also needed in 2009. The external auditors report to the Management Board and also to the Audit Committee on any control deficiencies which they identified during their financial statements audit. Their recommendations are successively implemented.

Supervisory Board

Report of the Audit Committee of the Supervisory Board of Telekomunikacja Polska S.A. on activities in 2008

The Audit Committee was established by virtue of the Resolution of the TP Supervisory Board no. 324/V/2002 dated 14th 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 budgetary, financial reporting and internal control principles in the TP Group and to liaise with the auditors of TP Group.

Activity in 2008

The TP Group Audit Committee held 13 meetings in 2008, out of which 10 were regular meetings and three 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 Group's system of internal control and risk management system as reported by the Management Board and, in particular, the way risks were identified, managed and disclosed by the Management. The Audit Committee received reports from Management on action plans in response to comments on internal controls from the internal and external auditors;
- Reviewed annual plan of Internal Audit Department, its budget and progress reports, as well as monitored the responsiveness of management to internal audit findings and recommendations;
- Made recommendation to the Supervisory Board on external auditor, its remuneration and terms of engagement;
- Kept under review the scope and the results of the external audit, independence and objectivity of the auditors and reported its conclusions to the Supervisory Board; monitored Company's responsiveness to the recommendations from external auditor made in its management letter;
- Reviewed development and operations of the Group's anti-fraud and whistle-blowing programmes managed by the Management Board; monitored results of investigations initiated by whistle-blowing;
- Reviewed the Group's 2009 budget and addressed recommendations on it to the Supervisory Board;
- Reviewed the 2008 cash distribution policy proposed by the Management.

In the year under review, the Audit Committee, especially its two independent members, reviewed and gave opinions to the Management Board of TP on transactions with related parties and received reports on them from the Company's Internal Audit.

Timothy Boatman
Chairman of the Audit Committee
of the Supervisory Board
26th March 2009

Supervisory Board

Report of the Remuneration Committee of the Supervisory Board of Telekomunikacja Polska S.A. on activities In 2008

The Remuneration Committee was established by virtue of the Resolution of the TP Supervisory Board no. 385/04 dated 16th 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 appointment and remuneration procedures and amounts to the Management Board.

Activity in 2008

The Remuneration Committee held five meetings in 2008 and in particular developed recommendations for Supervisory Board consideration focused on the following remuneration-related issues:

a Changes in the composition of the Management Board (resignation of Iwona Kossmann, Pierrick Hamon, Benoit Merel; nomination of Richard Shearer, Piotr Muszyński, Ireneusz Piecuch; reappointment of Jacek Kałłaur);
b Remuneration of Management Board Members, including consideration of remuneration benchmarks from third party sources, tax and forex effects on remuneration when required by remuneration contracts and adjusting remuneration criteria and amounts to reflect changes in the professional responsibilities of management board members;
c Assessment of MBO-based bonuses for Management Board Members for H2 2007 and H1 2008;
d Validation of MBO targets for Management Board Members in 2008;
e Opinion on remuneration of TPG Director of internal audit department.

Ronald Freeman
Chairman of the Remuneration Committee of the Supervisory Board
26th March 2009

Report of the Strategy Committee of the Supervisory Board of Telekomunikacja Polska S.A. on activities In 2008

The Strategy Committee was established by virtue of the Resolution of the TP Supervisory Board no. 417/05 dated 15th 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.

Activity in 2008

There was a very broad range of activities of the Strategy Committee in 2008 and a lot of various subjects have been discussed during the Strategy Committee meetings. The discussions of the Strategy Committee members concentrated, among others, over the following subjects: IT Strategy, Digital Video Broadcasting – Terrestrial, Insurance Services Strategy in TPG, Access Strategy, Next Strategic Financial Plan, Branding Architecture Strategy, Financial services, "Orange Plus" TV Project (Canal+/TP partnership). Finally, over the past 12 months, the Strategy Committee closely cooperated with the Management Board discussing long term strategy objectives of TP Group.

The Committee gathered five times in 2008. The Committee meetings were also attended by Andrzej K. Koźmiński, Chairman of the Supervisory Board, Timothy Boatman, Chairman of the Audit Committee and Ronald Freeman, Chairman of the Remuneration Committee.

Olivier Barberot
Chairman of the Strategy Committee of the Supervisory Board
26th March 2008

Consolidated income statement
for the year ended 31 December 2008

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

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

Consolidated balance sheet
for the year ended 31 December 2008

(Amounts in PLN millions)	Note	At December 31, 2008 (audited)	At December 31, 2007 (reclassified - see Note 3.4, audited)
Assets			
Goodwill, net	13	3,994	3,994
Other intangible assets, net	14	2,914	3,097
Property, plant and equipment, net	15	19,589	21,120
Interests in associates		3	3
Financial assets available for sale	17	4	4
Loans and receivables	17	17	10
Financial assets at fair value through profit or loss	17	44	–
Hedging derivatives	22	12	–
Other assets		3	2
Deferred tax assets	12	400	241
Total non-current assets		**26,980**	**28,471**
Inventories, net		292	316
Trade receivables, net	18	1,814	1,795
Other assets	18	102	263
Loans and receivables	17	9	282
Financial assets at fair value through profit or loss	17	118	35
Income tax assets		166	52
Prepaid expenses	18	113	77
Cash and cash equivalents	20	1,640	642
Total current assets		**4,254**	**3,462**
Assets held for sale	16	–	489
Total assets		**31,234**	**32,422**
Equity and liabilities			
Share capital	30	4,106	4,200
Share premium		832	832
Treasury shares	30	(704)	(702)
Other reserves	22, 27	8	(18)
Retained earnings		12,983	13,456
Translation adjustment		(8)	(8)
Equity attributable to equity holders of TP SA		**17,217**	**17,760**
Minority interest		13	13
Total equity		**17,230**	**17,773**

Consolidated balance sheet continued
for the year ended 31 December 2008

(Amounts in PLN millions)	Note	At December 31, 2008 (audited)	At December 31, 2007 (reclassified - see Note 3.4, audited)
Financial liabilities at amortised cost excluding trade payables	21	5,075	1,920
Hedging derivatives	22	59	171
Trade payables	29	814	705
Employee benefits	26	282	295
Provisions	28	296	178
Other liabilities	29	–	1
Deferred tax liabilities	12	4	2
Deferred income	29	59	71
Total non-current liabilities		**6,589**	**3,343**
Financial liabilities at amortised cost excluding trade payables	21	2,100	3,009
Loan from related party	21	–	1,003
Financial liabilities at fair value through profit or loss	22	14	65
Hedging derivatives	22	–	1,250
Provisions	28	1,220	1,177
Trade payables	29	3,059	3,760
Employee benefits	26	272	301
Other liabilities	29	211	180
Income tax payable		15	13
Deferred income	29	524	514
Total current liabilities		**7,415**	**11,272**
Liabilities of assets held for sale	16	–	34
Total equity and liabilities		**31,234**	**32,422**

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

Consolidated statement of changes in equity
for the year ended 31 December 2008

(Amounts in PLN millions)	Number of shares in issue (not in millions)	Share capital	Share premium	Treasury shares	Other reserves				Translation adjustments	Retained earnings	Total	Minority interest	Total equity
					Financial assets available for sale	Hedging instruments	Deferred taxes	Share based payments					
Balance at January 1, 2007 (audited)	1 400 000 000	4,200	832	–	–	(95)	18	–	(8)	13,143	18,090	13	18,103
Gains on financial assets available for sale taken to equity		–	–	–	1	–	–	–	–	–	1	–	1
Gains on cash flow hedges taken to equity		–	–	–	–	70	–	–	–	–	70	–	70
Tax on items taken directly to equity		–	–	–	–	–	(14)	–	–	–	(14)	–	(14)
Total income and expense recognised in equity		–	–	–	1	70	(14)	–	–	–	57	–	57
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)	–	–	2,273	2,330	2	2,332
Share-based payments		–	–	–	–	–	–	2	–	–	2	–	2
Purchase of treasury shares	(31 226 759)	–	–	(700)	–	–	–	–	–	–	(700)	–	(700)
Transaction cost of treasury shares' purchase		–	–	(2)	–	–	–	–	–	–	(2)	–	(2)
Dividends		–	–	–	–	–	–	–	–	(1,960)	(1,960)	(2)	(1,962)
Balance at December 31, 2007 (reclassified – see Note 3.4, audited)	1 368 773 241	4,200	832	(702)	1	(25)	4	2	(8)	13,456	17,760	13	17,773
Balance at January 1, 2008 (reclassified – see Note 3.4, audited)	1 368 773 241	4,200	832	(702)	1	(25)	4	2	(8)	13,456	17,760	13	17,773
Losses on financial assets available for sale taken to equity		–	–	–	(1)	–	–	–	–	–	(1)	–	(1)
Losses on cash flow hedges taken to equity		–	–	–	–	(5)	–	–	–	–	(5)	–	(5)
Tax on items taken directly to equity		–	–	–	–	–	2	–	–	–	2	–	2
Total income and expense recognised in equity		–	–	–	(1)	(5)	2	–	–	–	(4)	–	(4)
Net income for the 12 months ended December 31, 2008		–	–	–	–	–	–	–	–	2,188	2,188	2	2,190
Total recognised income and expense for the period		–	–	–	(1)	(5)	2	–	–	2,188	2,184	2	2,186
Share-based payments		–	–	–	–	–	–	30	–	–	30	–	30
Purchase of treasury shares	(33 124 220)	–	–	(700)	–	–	–	–	–	–	(700)	–	(700)
Transaction cost of treasury shares' purchase		–	–	(4)	–	–	–	–	–	–	(4)	–	(4)
Cancellation of treasury shares		(94)	–	702	–	–	–	–	–	(608)	–	–	–
Acquisition of minority interest		–	–	–	–	–	–	–	–	–	–	(1)	(1)
Dividends		–	–	–	–	–	–	–	–	(2,053)	(2,053)	(1)	(2,054)
Balance at December 31, 2008 (audited)	1 335 649 021	4,106	832	(704)	–	(30)	6	32	(8)	12,983	17,217	13	17,230

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

Consolidated statement of cash flows

for the year ended 31 December 2008

(Amounts in PLN millions)	Note	12 months ended December 31, 2008 (audited)	December 31, 2007 (reclassified - see Note 3.4, audited)
Operating activities			
Consolidated net income		2,190	2,275
Adjustments to reconcile net income to funds generated from operations			
Depreciation and amortisation	14, 15	4,317	4,439
Gains on disposal of assets	9	(110)	(34)
Reversal of impairment of non-current assets	8	(109)	(2)
Change in other provisions		(88)	26
Income tax	12	405	555
Interest income and expense		473	452
Foreign exchange (gains)/losses, net		956	(520)
Derivatives		(558)	587
Share-based payments	7, 27	30	2
Change in working capital (trade)			
Decrease/(increase) in inventories (net)		6	(127)
Decrease/(increase) in trade receivables		64	187
Increase/(decrease) in trade payables		175	258
Change in working capital (non-trade)			
Decrease/(increase) in prepaid expenses and other receivables		116	(57)
Increase/(decrease) in accrued expenses, other payables and deferred income		20	39
Interest received		58	39
Interest and interest rate effects on derivatives paid, net		(649)	(668)
Exchange rate effect on derivatives, net		(3)	(31)
Income tax paid		(667)	(1,206)
Net cash provided by operating activities		**6,626**	**6,214**
Investing activities			
Purchases/sales of property, plant and equipment and intangible assets			
Purchases of property, plant and equipment and intangible assets	14, 15	(2,579)	(3,677)
Increase/(decrease) in amounts due to fixed asset suppliers		(1,012)	679
Proceeds from sale of property, plant and equipment and intangible assets		591	57
Proceeds from sale of subsidiaries, net of cash	5	64	–
Cash paid for acquisition of minority interest	5	(1)	–
Decrease/(increase) in marketable securities and other financial assets		(4)	7
Exchange rate effect on derivatives, net		(5)	(11)
Net cash used in investing activities		**(2,946)**	**(2,945)**

Consolidated statement of cash flows continued
for the year ended 31 December 2008

(Amounts in PLN millions)	Note	12 months ended December 31, 2008 (audited)	December 31, 2007 (reclassified - see Note 3.4, audited)
Financing activities			
Redemption of bonds	19, 21	(2,368)	(1,864)
Issuance of long-term debt	19, 21	3,091	–
Repayment of long-term debt	19, 21	(228)	(255)
Increase/(decrease) in bank overdrafts and other short-term borrowings	19, 21	–	1,800
Decrease/(increase) in debt-linked deposits (cash collateral)	17, 19	360	(125)
Purchase of treasury shares including transaction cost	30	(701)	(702)
Dividends paid	30	(2,054)	(1,962)
Exchange rate effect on derivatives, net		(787)	(201)
Net cash used in financing activities		**(2,687)**	**(3,309)**
Net change in cash and cash equivalents		993	(40)
Effect of changes in exchange rates on cash and cash equivalents		3	6
Cash and cash equivalents at the beginning of the period		644 [1]	678
Cash and cash equivalents at the end of the period		**1,640**	**644 [1]**

[1] includes PLN 2 million of cash and cash equivalents classified as assets held for sale.

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Corporate information

1.1. The Telekomunikacja Polska Group

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

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

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

1. Corporate information (continued)

1.2. Entities of the Group

The Group comprises Telekomunikacja Polska and the following subsidiaries:

Entity	Location	Scope of activities	Share capital owned by the Group 31 December 2008	Share capital owned by the Group 31 December 2007
PTK-Centertel Sp. z o.o.	Warsaw, Poland	Mobile telephony services, construction and operation of mobile telecommunications networks.	100.00%	100.00%
TP EmiTel Sp. z o.o.	Kraków, Poland	TV and radio signals broadcasting, lease and maintenance of technical infrastructure.	100.00%	100.00%
– Paytel Sp. z o.o.	Warsaw, Poland	E-commerce and electronic services, including GSM prepaid services, bill charging and processing of electronic financial transactions.	100.00%	100.00%
DITEL S.A. (1)	Warsaw, Poland	Maintenance of subscribers' database, production and distribution of telephone directories.	–	100.00%
OPCO Sp. z o.o.	Warsaw, Poland	Customer care services.	100.00%	100.00%
Otwarty Rynek Elektroniczny S.A.	Warsaw, Poland	Provision of complex procurement solutions, including advisory, implementation and operation of e-commerce platform and IT systems, hosting.	100.00%	100.00%
TP Edukacja i Wypoczynek Sp. z o.o.	Warsaw, Poland	Hotel services, training and conference facilities.	100.00%	100.00%
TP Invest Sp. z o.o. ("TP Invest")	Warsaw, Poland	Advisory and consulting services provided to the Group entities, holding management.	100.00%	100.00%
– Telefon 2000 Sp. z o.o. (2)	Warsaw, Poland	Design and development of telecommunications systems. (4)	100.00%	95.38%
– Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	55.11%	55.11%
– TP TelTech Sp. z o.o.	Łódź, Poland	Monitoring of alarm signals, servicing telecommunications networks, design and development of telecommunications systems. (4)	100.00%	100.00%
– TP Internet Sp. z o.o. ("TP Internet")	Warsaw, Poland	Call-center services and telemarketing.	100.00%	100.00%
TP MED Sp. z o.o.	Warsaw, Poland	Medical and health care services.	100.00%	100.00%
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	Warsaw, Poland	Management of employee pension fund.	100.00%	100.00%
Fundacja Grupy TP	Warsaw, Poland	Charity foundation.	100.00%	100.00%
Virgo Sp. z o.o.	Warsaw, Poland	Advisory services, financial operations.	100.00%	100.00%
– Wirtualna Polska S.A. ("WP")	Gdańsk, Poland	Internet portal and related services including internet advertising; mobile virtual network operator.	100.00%	100.00%
– Sklep Wirtualnej Polski S.A. in liquidation (3)	Gdańsk, Poland	No operational activities.	–	100.00%
TPSA Finance B.V.	Amsterdam, The Netherlands	Financial and investment operations.	100.00%	100.00%
– TPSA Eurofinance B.V.	Amsterdam, The Netherlands	Financial and investment operations.	100.00%	100.00%
– TPSA Eurofinance France S.A.	Paris, France	Financial and investment operations.	99.96%	99.96%

(1) the company was disposed of in 2008 (see Note 5). As at 31 December 2007, the company's assets and liabilities were presented as assets held for sale and liabilities of assets held for sale, respectively (see Note 16).
(2) in 2008 the Group purchased additional shareholdings in the company (see Note 5).
(3) the company was liquidated in 2008.
(4) in November 2008, operational activities of Telefon 2000 Sp. z o.o. were transferred to TP TelTech Sp. z o.o.

In the 12 months ended 31 December 2008 and 2007, the voting power held by the Group was equal to the Group's interest in the share capital of all of its subsidiaries. Significant acquisitions or divestitures are described in Note 5.

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

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

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

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;
Roland Dubois – Board Member (CFO);
Richard Shearer – Board Member (Mass Market);
Jacek Kałłaur – Board Member (Human Resources);
Piotr Muszyński – Board Member (Operations); and
Ireneusz Piecuch – Board Member (Corporate Strategy and Business Development).

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

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

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

On 24 January 2008, Ms Iwona Kossmann, Mr Pierre Hamon and Mr Benoît Mérel resigned from the Management Board of TP S.A. The resignations became effective on: 24 January 2008 for Ms Iwona Kossmann, 29 February 2008 for Mr Pierre Hamon and Mr 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.
On 24 April 2008, the Supervisory Board of TP S.A. appointed Mr Richard Shearer as a Member of the Management Board of TP S.A.
On 25 September 2008, the Supervisory Board of TP S.A. appointed Mr Ireneusz Piecuch and Mr Piotr Muszyński as Members of the Management Board of TP S.A.
On 25 September 2008, Mr Michel Monzani resigned from the Supervisory Board of TP S.A.
On the same day, the Supervisory Board of TP S.A. co-opted Mr Olivier Faure as a Member of the Supervisory Board of TP S.A.
On 16 January 2009, the Extraordinary General Meeting appointed Mr Olivier Faure to the Supervisory Board of TP S.A.

2. Statement of compliance and basis for preparation

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

Comparative amounts for the year ended 31 December 2007 have been compiled using the same basis of preparation.

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

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

These Consolidated Financial Statements are prepared in millions of Polish zloty (“PLN”) and were authorised for issuance by the Management Board on 25 February 2009.

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

- all standards and interpretations endorsed by the European Union and applicable with effect from 1 January 2008;
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2008 but for which the Group has opted for earlier application; and
- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of IAS 8.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

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

Use of estimates

In preparing the Group's accounts, the Company's management is required to make estimates, insofar as many elements included in the financial statements cannot be measured with precision. Management reviews these estimates if the circumstances on which they were based evolve, or in the light of new information or experience. Consequently, estimates made as at 31 December 2008 may be subsequently changed. The main estimates made are described in the following notes:

	Note	Type of information disclosed
8	Impairment of cash generating units and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
3.5.12	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
3.5.14, 12	Income tax	Assumptions used for recognition of deferred tax assets.
26	Employee benefits	Discount rates, inflation, salary increases, expected average remaining working lives.
3.5.12, 25	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
28, 32	Provisions	Provisions for termination benefits and restructurings: discount rates and other assumptions. The assumptions underlying the measurement of provisions for claims and litigation are disclosed in Note 32.
3.5.8, 3.5.9	Useful lives of tangible and intangible assets	The useful lives and the 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 2008 relate to provisions for litigation and claims, and contingent liabilities. Details are described in Note 32.

3. Significant accounting policies

This note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2008.

3.1. Application of new standards, amendments and interpretations

Adoption of standards, amendments to standards and interpretations which are compulsory as at 1 January 2008
The following standards or amendments to standards and interpretations (already endorsed or in the process of being endorsed by the European Union) have become effective and are compulsory as at 1 January 2008:

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

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

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

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

3. Significant accounting policies (continued)

3.1. Application of new standards, amendments and interpretations (continued)

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

On 15 October 2008, the European Union endorsed amendments to IAS 39 "Financial instruments: recognition and measurement" and IFRS 7 "Financial instruments: disclosures" with regard to reclassification of financial assets. These amendments shall be applied on or after 1 July 2008. The amendments have not resulted in any reclassification of Group's financial assets.

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

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

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

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

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

Acquisitions of minority interests in a subsidiary already controlled by the Group
These transactions have not been addressed in IFRSs until revised IAS 27 "Consolidated and Separate Financial Statements" has been issued. The revised IAS 27 is applied prospectively to business combinations occurring in the first accounting period beginning on or after 1 July 2009. At present goodwill is recognised as the difference between the cost of acquisition of minority interests and the book value of the acquired share in underlying net assets, without making any fair value adjustments to the assets and liabilities acquired.

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

3. Significant accounting policies (continued)

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.

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

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

Changes in presentation of the financial statements

Changes in presentation of derivatives and related securing deposits
Management reclassified:

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

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

3. Significant accounting policies (continued)

3.4. Presentation of the financial statements (continued)

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

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

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

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

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

3.5. Significant accounting policies

3.5.1. Consolidation rules

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

– power over more than one half of the voting rights of the other entity by virtue of an agreement;
– power to govern the financial and operating policies of the other entity under a statute or agreement;
– power to appoint or remove the majority of the members of the management board or equivalent governing body of the other entity; and
– 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; and
– the translation adjustment resulting from the use of these different rates is included as a separate component of shareholders' equity.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

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 their functional currency at the spot exchange rate prevailing as at the transaction date. Monetary assets and liabilities which are denominated in foreign currencies are remeasured at each balance sheet date at the period-end exchange rate quoted by NBP and the resulting translation differences are recorded in the income statement:

– in other operating income and expense for commercial transactions; and
– 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 hedges that qualify for hedge accounting 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
– in equity for the effective portion of the net gain or loss on the cash flow hedging instruments.

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

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-à-vis the end-customer, i.e. when the Group has credit risk, when the customer has no specific recourse against the content provider, when the Group has reasonable latitude in the selection of content providers, and in setting prices charged to the end-customer. These revenues are 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.

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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

3. Significant accounting policies (continued)

3.5.3. Revenue (continued)

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 programmes
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 into account an estimated utilisation rate, and deferred. Revenue allocated to the points is recognised in the income statement when points are redeemed and the Group fulfils its obligations to supply awards. The amount of revenue recognised is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

There is a loyalty 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. Such penalties are recorded when it becomes probable that they will be due based on the non-achievement of contractual terms.

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

3.5.4. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs, other than loyalty programme 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.

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 and its extrapolation to perpetuity by applying a declining or flat growth rate reflecting the expected long-term trend in the market; and
- 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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

3. Significant accounting policies (continued)

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; and
– the Group's ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

Development costs 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; and
– 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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

3. Significant accounting policies (continued)

3.5.12. Financial assets and liabilities (continued)

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 (i) 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; (ii) derivatives that do not qualify for hedge accounting as set out in IAS 39.

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

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

Measurement and recognition of financial liabilities
Financial liabilities at amortised cost
Borrowings and other financial liabilities are initially 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 excluding trade payables" and "Trade payables".

Transaction costs that are directly attributable to the acquisition or issue of the financial liability are deducted from the liability's carrying value. This is because financial liabilities are initially 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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

3. Significant accounting policies (continued)

3.5.12. Financial assets and liabilities (continued)

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

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

Measurement and recognition of derivative instruments
Derivative instruments are 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 standard valuation techniques. Fair value is calculated using the net present value of future cash flows related to these contracts, quoted market forward interest rates, quoted market forward foreign exchange rates or, if quoted forward foreign exchange rates are not available, forward rates calculated based on spot foreign exchange rates using the interest rate parity method.

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

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

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

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

The effects of applying hedge accounting are as follows:

- for fair value hedges of existing assets and liabilities, the change in fair value of the hedged portion of the asset or liability attributable to the hedged risk adjusts the carrying amount of the asset or liability in the balance sheet. The gain or loss from the changes in fair value of the hedged item is 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; and
- 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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

3. Significant accounting policies (continued)

3.5.14. Tax expense

The tax expense comprises current and deferred tax.

Current tax

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

Deferred taxes

In accordance with IAS 12 "Income Taxes", deferred taxes are 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.

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 (i) 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 (ii) 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 other employee benefits

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

3. Significant accounting policies (continued)

3.5.16. Pensions and other employee benefits (continued)

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.

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

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

3.5.17. Share-based payments

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

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

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

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

4. Segment information

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

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

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

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

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

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

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

GOM corresponds to operating income before:

- employee profit-sharing;
- share-based payments;
- depreciation and amortisation expense;
- reversal of impairment/impairment of goodwill and other non-current assets;
- gains/losses on disposal of assets; and
- restructuring costs/reversal of restructuring provision.

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

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, 2008			
Revenue	10,494	8,635	(964)	18,165
External	9,959	8,206	–	18,165
Inter-segment	535	429	(964)	–
Gross operating margin	4,394	3,245	–	7,639
Employee profit-sharing	(24)	–	–	(24)
Share-based payments	(27)	(3)	–	(30)
Depreciation and amortisation	(2,892)	(1,425)	–	(4,317)
Impairment of goodwill	–	–	–	–
Reversal of impairment of non-current assets	109	–	–	109
Gains (losses) on disposal of assets	113	(3)	–	110
Restructuring costs	(174)	–	–	(174)
Operating income	1,499	1,814	–	3,313
Interest income	65	85	(92)	58
Interest expense and other financial charges			(562)	(562)
Foreign exchange losses			(94)	(94)
Discounting	(27)	(93)	–	(120)
Income tax			(405)	(405)
Consolidated net income				2,190
Significant non-cash items included in operating income – other than those mentioned above	(98)	(164)	–	(262)
Capital expenditures	1,571	1,008	–	2,579
	At December 31, 2008			
Segment assets	17,614	11,376	(169)	28,821
Investment in associates	3	–	–	3
Unallocated assets	–	–	2,410	2,410
Total assets				31,234
Segment liabilities	3,995	2,908	(166)	6,737
Unallocated liabilities	–	–	7,267	7,267
Total liabilities				14,004
Equity	–	–	17,230	17,230
Total equity and liabilities				31,234

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

4. Segment information (continued)

(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	4,523	3,155	–	7,678
Employee profit-sharing	(24)	–	–	(24)
Share-based payments	(2)	–	–	(2)
Depreciation and amortisation	(3,200)	(1,239)	–	(4,439)
Impairment of goodwill	–	–	–	–
Reversal of impairment of non-current assets	2	–	–	2
Gains (losses) on disposal of assets	40	(6)	–	34
Restructuring costs	(1)	–	–	(1)
Operating income	1,338	1,910	–	3,248
Interest income	90	35	(86)	39
Interest expense and other financial charges	–	–	(493)	(493)
Foreign exchange gains	–	–	97	97
Discounting	(28)	(33)	–	(61)
Income tax	–	–	(555)	(555)
Consolidated net income				2,275
Significant non-cash items included in operating income – other than those mentioned above	(320)	(105)	–	(425)
Capital expenditures	2,412	1,276	(11)	3,677
		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

5. Main acquisitions and divestitures of companies

There were no significant acquisitions and divestitures in the 12 months ended 31 December 2008 and 2007 except for transactions described below.

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

On 20 June 2008, the Group and a subsidiary of European Directories Group concluded a share sale agreement under which the Group disposed of its 100% shareholding in Ditel S.A., for a sales price totalling PLN 65 million. The gain on the disposal, before tax, amounted to PLN 56 million. The assets and liabilities of Ditel S.A. were classified in the Consolidated Financial Statements as assets held for sale and liabilities of assets held for sale as at 31 December 2007 (see Note 16).

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

6. Revenue

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

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

7. Operating income and expense

7.1. External purchases

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

(1) In the 12 months ended 31 December 2008 and 2007, it includes cost of handsets and other equipment sold in the amount of PLN 1,229 million and PLN 1,317 million, respectively. It also includes commissions, advertising and sponsoring costs.
(2) Includes retail fees and overheads, real estate costs, subcontracting fees, rentals and purchases of equipment.

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

7. Operating income and expense (continued)

7.2. Other operating income and expense

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

[1] Includes other individually immaterial items.
[2] In the 12 months ended 31 December 2008 and 2007, it includes property tax in the amount of PLN 268 million and PLN 329 million, respectively, fees for subscriber's numbers and telecommunications permits in the amount of PLN 25 million and PLN 27 million, respectively, and frequency fee in the amount of PLN 67 million and PLN 71 million, respectively.
[3] Includes brand fees, donations, changes in provisions for claims and litigation, risks and other charges (see Note 28).

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

During the 12 months ended 31 December 2008 and 2007, foreign exchange gains/(losses) on derivatives classified as held for trading under IAS 39 and economically hedging commercial transactions presented in other operating income/expense amounted to PLN 137 million and PLN (34) million, respectively.

7.3. Labour expenses

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

8. Impairment

8.1. Information concerning the Cash Generating Units

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

The Group considers certain indicators, including market 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 consequenceas at 31 December 2008 and 2007 the Group performed impairment tests of the fixed network and radio diffusion network. No impairment loss was recognised in 2008 and 2007 as a result of these tests.

As at 31 December 2008 and 2007 goodwill with the net book value of PLN 3,909 million and PLN 85 million was allocated to mobile network and internet portal, respectively. Consequently, at the end of 2008 and 2007 the Group performed annual impairment tests of the mobile network and internet portal. No impairment losses were 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	Internet portal
	At December 31, 2008			
Basis of recoverable amount	Value in use	Value in use	Value in use	Value in use
Source used	Budget and business plan	Budget and business plan	Budget and business plan	Budget and business plan
	5 years cash flow projections	5 years cash flow projections	5 years cash flow projections	5 years cash flow projections
Growth rate to perpetuity	0%	1%	0%	1%
Discount rate applied (1)	13.0	12.4	12.7	16.1

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

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

8.2. Goodwill

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

8.3. Other property, plant and equipment and intangible assets

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

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

8.4. Assets held for sale

In the 12 months ended 31 December 2008, the Group reversed the impairment loss in the amount of PLN 90 million as a result of the revaluation of certain properties classified as assets held for sale. In the 12 months ended 31 December 2007, there were no changes in impairment loss on assets held for sale (see Note 16).

9. Gains on disposal of assets

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

10. Restructuring costs

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

Movements in restructuring provisions are described in Note 28.

11. Financial income and expense

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

(1) Including currency derivatives.

Interest income includes mainly interest on cash and cash equivalents.

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

During the 12 months ended 31 December 2008 and 2007, interest income/(expense) on fair value hedges that adjusted interest expense on hedged debt amounted to PLN (141) million and PLN (101) million, respectively.

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

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

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

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

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

12. Income tax

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

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

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

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

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 to be 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)
2009	26
2010	16
2011	121
2012	7
2013	7
Total	**177**

During the 12 months ended 31 December 2008 and 2007, the Group entities utilised PLN 77 million and PLN 49 million, respectively, of their tax losses previously incurred.

Deferred income tax

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

(in PLN millions)	Consolidated balance sheet		Consolidated income statement	
	At December 31, 2008	At December 31, 2007	12 months ended December 31, 2008	12 months ended December 31, 2007
Property, plant and equipment and intangible assets	232	348	116	78
Impairment of financial assets	(58)	(41)	18	(121)
Finance costs, net	13	20	5	3
Accrued income/expense	(366)	(370)	(3)	258
Employee benefit plans	(43)	(47)	(4)	–
Deferred revenue	(112)	(111)	1	14
Tax losses and other differences	(62)	(41)	22	(22)
Net deferred tax (assets) / liability [(1)]	**(396)**	**(242)**	**–**	**–**
Deferred tax income / (expense)	**–**	**–**	**155**	**210**

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

12. Income tax (continued)

Deferred income tax (continued)

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

13. Goodwill

Goodwill arising from consolidated subsidiaries is as follows:

	At December 31, 2008			At December 31, 2007		
(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 2008 and 2007.

14. Other intangible assets

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

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

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

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

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

(in PLN millions)				Net book value	
	Acquisition date	Concession term	Acquisition value	At December 31, 2008	At December 31, 2007
DCS 1800 Concession	1997	2012	318	90	115
GSM 900 Concession	1999	2014	402	142	167
UMTS Concession	2000	2023	2,495	1,338	1,433
Total telecommunications licenses			**3,215**	**1,570**	**1,715**

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

15. Property, plant and equipment

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

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

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

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

(in PLN millions)	12 months ended December 31, 2008	12 months ended December 31, 2007
Opening balance net of accumulated depreciation and impairment	**21,120**	**21,686**
Acquisitions of property, plant and equipment	2,118	2,984
Disposals and retirements, net	(19)	(16)
Depreciation	(3,700)	(3,751)
Reversal of impairment	19	2
Reclassifications and other, net	51	215
Closing balance	**19,589**	**21,120**

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

16. Assets held for sale

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

16. Assets held for sale (continued)

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

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

Additionally, as at 31 December 2007 the assets and liabilities of Ditel S.A. were classified as assets held for sale and liabilities of assets held for sale and amounted to PLN 45 million and PLN 34 million, respectively. On 20 June 2008, the Group signed a share sale agreement under which the Group disposed of its 100% shareholding in Ditel S.A., for a sales price totalling PLN 65 million. The gain on the disposal, before tax, amounted to PLN 56 million (see Note 5).

17. Financial assets

17.1. Assets available for sale

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

(in PLN millions)	At December 31, 2008			At December 31, 2007		
	Cost/Fair value	Impairment	Net	Cost/Fair value	Impairment	Net
Main unlisted companies						
Exatel	14	(11)	3	14	(11)	3
Other	2	(1)	1	4	(3)	1
Total assets available for sale [1]	**16**	**(12)**	**4**	**18**	**(14)**	**4**

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

17.2. Loans and receivables

The Group's loans and receivables are presented below:

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

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

17.3. Financial assets at fair value through profit or loss

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

	Fair value	
(in PLN millions)	At December 31, 2008	At December 31, 2007
Derivatives – held for trading [1]	155	30
Marketable securities – held for trading [1]	7	5
Total assets at fair value through profit or loss	**162**	**35**
Current	118	35
Non-current	44	–

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

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

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

(1) Additions to impairment of trade and other receivables (net of reversals) are presented in Note 7.2.
(2) Mainly includes receivables related to: advances and prepayments to suppliers, sales of fixed assets, rental of equipment and usable areas, reinvoicing cost of advertising and promotion, penalties.
(3) Classified as loans and receivables under IAS 39.

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

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

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

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

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

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

At December 31, 2008:

			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	1,733	1,045	649	16	23
Trade receivables – individually analysed for impairment	81				
Total trade receivables, net	**1,814**				

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**				

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

19. Net debt

19.1. Analysis of net debt by composition and maturity

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

The analysis of maturity of the Group's financial liabilities is based on contractual undiscounted payments. As at 31 December 2008 and 2007 amounts in foreign currency were translated at the NBP period-end exchange rates. The variable interest payments arising from the financial instruments were calculated using the latest interest rates fixed before 31 December 2008 and 2007, respectively. Financial liabilities that can be repaid at any time at the Group's discretion are classified as current or non-current, depending on the expected repayment date; non-current balance is assigned to the period of the final contractual maturity date. Previously, such liabilities were assigned to the earliest possible time period.

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

At December 31, 2008:

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

19. Net debt (continued)

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

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.

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

19.2. Analysis of net debt by currency

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

[1] Including market value of derivatives in local currency.

(equivalent value in PLN millions at the period-end exchange rate)	PLN	At December 31, 2008 EUR	USD	Total
Net debt by currency [1]	2,866	1,806	1,762	6,434
Impact of derivatives notional amount	3,506	(1,816)	(1,690)	–
Net debt by currency after impact of derivatives notional amount	**6,372**	**(10)**	**72**	**6,434**

[1] Including market value of derivatives in local currency.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

20. Cash and cash equivalents

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

(in PLN millions)	At December 31, 2008	At December 31, 2007
Cash on hand	1	2
Current bank accounts and overnight deposits	981	607
Deposits up to 3 months	107	29
Securities with a maturity up to 3 months	551	–
Other	–	4
Total cash and cash equivalents	**1,640**	**642**

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

As at 31 December 2008 and 2007, cash and cash equivalents include an equivalent of PLN 142 million and PLN 40 million, respectively denominated in foreign currencies.

The Group's maximum exposure to credit risk at the reporting date is best represented by carrying amounts of cash and cash equivalents. The Group deposits its cash and cash equivalents with leading financial institutions with investment grade. The Group constantly monitors market indicators describing the financial standing of the counterparties. In case of deteriorating the financial soundness of the counterparty, the Group applies the appropriate measures/limits mitigating the default risk.

21. Financial liabilities at amortised cost

21.1. Bonds

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

(in PLN millions)						Amount outstanding at [1]	
Issuer	Series	Nominal value (in millions of currency)	Nominal interest rate	Issue date	Redemption date	December 31, 2008	December 31, 2007
TPSA Finance B.V.	A	800 USD	7.750%	10 December 1998	10 December 2008	–	1,955
TPSA Eurofinance France S.A.	T	300 EUR	4.625%	5 July 2004	5 July 2011	1,276	1,094
Total bonds issued by the Group						**1,276**	**3,049**
Current						28	1,980
Non-current						1,248	1,069

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

The weighted average effective interest rate on the Group's bonds, before swaps, amounted to 4.72% as at 31 December 2008 and 6.74% as at 31 December 2007.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

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

[1] Includes accrued interest and bank borrowings issue costs.
[2] Floating rate determined by the bank every three months.
[3] Floating rate determined by the bank individually for every drawing.
[4] Amounts drawn should be repaid or rolled over by 15 January 2009 – 30 June 2009. Final repayment date for this revolving credit facility is 20 February 2011.
[5] Amounts drawn should be repaid or rolled over by 8 January 2009 – 30 June 2009. Final repayment date for this revolving credit facility is 30 June 2010.

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

21.3. Loan from related party

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

22. Derivatives

As at 31 December 2008 and 2007, the majority of the Group's derivatives portfolio constitutes financial instruments for which there is no active market (over-the-counter derivatives) i.e. the interest rate and currency swaps. To price these instruments the Group applies standard valuation techniques, where the prevailing market zero-coupon curves constitute the base for calculation of discounting factors. A fair value of swap transaction represents a discounted future cash flows converted into PLN at the period-end exchange rate. The derivative financial instruments used by the Group are presented below:

		Principal (millions)		Interest			Fair value[4] (in PLN millions)	
Type of instrument[1]	Hedged Item	Receive	Pay	Receive	Pay	Maturity	Financial Asset	Financial Liability
		At December 31, 2008						
Derivative instruments – fair value hedge								
CCS	Bonds	10 EUR	42 PLN	–	6M WIBOR - 3.92%	2011	1	–
Total of fair value hedges							1	–
Derivative instruments – cash flow hedge								
CCS[2]	Bank borrowings	44 EUR	192 PLN	–	2.91% to 3.09%	2012	–	(15)
CCS	Bonds	130 EUR	549 PLN	–	1.57% to 2.95%	2011	4	(34)
IRS	Bank borrowings	182 PLN	182 PLN	3M WIBOR - 0.17%	6.89% to 6.99%	2012	–	(10)
CCS	UMTS	53 EUR	208 PLN	–	1.23% to 1.41%	2014	7	–
Total of cash flow hedges							11	(59)
Derivative instruments – held for trading								
CCIRS	–	40 EUR	145 PLN	4.63%	5.99% to 6.17%	2011	21	–
CCIRS[3]	–	39 EUR	140 PLN	3M EURIBOR	3M WIBOR	2012	22	–
IRS	–	50 PLN	50 PLN	3M WIBOR	3M WIBOR + 0.05%	2011	0	–
NDF, FWD	–	132 EUR	496 PLN	–	–	2009	71	(14)
Structured FX options	–	90 EUR	338 PLN	–	–	2009	41	–
		232 PLN	68 EUR					
Total of derivatives held for trading							155	(14)
Total of derivative instruments							**167**	**(73)**
Current							111	(14)
Non–current							56	(59)

[1] CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, NDF – non-deliverable forward, FWD - forward.
[2] Interest is calculated on notional amounts of EUR 44 million and PLN 192 million, which are subject to adjustment in accordance with repayment schedule.
[3] Interest is calculated on notional amounts of EUR 39 million and PLN 140 million, which are subject to adjustment in accordance with repayment schedule.
[4] Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

22. Derivatives (continued)

Type of instrument[1]	Hedged Item	Principal (millions) Receive	Pay	Interest Receive	Pay	Maturity	Fair value[4] (in PLN millions) Financial Asset	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 derivatives	–	–	–	–	–	–	0	–
Total of derivatives held for trading							31	(65)
Total of derivative instruments							**31**	**(1,486)**
Current Non–current							31 –	(1,315) (171)

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

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

At December 31, 2008:

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

22. Derivatives (continued)

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

The Group's maximum exposure to credit risk is represented by the carrying amounts of derivatives. The Group enters into derivatives contracts with leading financial institutions. The Group constantly monitors market indicators describing the financial standing of the counterparties. In case of deteriorating the financial soundness of the counterparty, the Group applies the appropriate measures/limits mitigating the default risk.

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

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

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

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

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

23. Objectives and policies of financial risk management

23.1. Principles of financial risk management

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

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

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

23. Objectives and policies of financial risk management (continued)

23.2. Hedge accounting

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

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

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

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

23.3. Currency risk

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

The Group's foreign exchange hedging policy, 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 2008, 45.6% (as at 31 December 2007, 79.8%) of the outstanding balance of bonds and bank borrowings denominated in foreign currencies were hedged against currency risk by use of derivative instruments. As at 31 December 2008, 15.9% (as at 31 December 2007, 18%) of the outstanding nominal amount of the UMTS license payable was hedged against currency risk.

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

(in millions of currency)	Effective exposure after hedging				Sensitivity to a change of the PLN against other currencies			
Financial instrument	December 31, 2008		December 31, 2007		December 31, 2008		December 31, 2007	
					+10%	-10%	+10%	-10%
	Currency	PLN	Currency	PLN	PLN		PLN	
Bonds and bank borrowings (EUR)	252	1,051	202	724	105	(105)	72	(72)
Bonds and bank borrowings (USD)	19	56	24	58	6	(6)	6	(6)
UMTS license payable (EUR)	277	1,156	283	1,014	116	(116)	101	(101)
Total		2,263		1,796	227	(227)	179	(179)

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

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

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

23. Objectives and policies of financial risk management (continued)

23.4. Interest rate risk

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

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

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

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

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

(in PLN millions)	Potential increase /(decrease) in value resulting from 1% change of interest rates			
	December 31, 2008		December 31, 2007	
	+1%	-1%	+1%	-1%
Financial expense	58	(58)	38	(37)
Equity	3	(3)	9	(9)
Fair value of gross financial debt after derivatives	(41)	41	(76)	79

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

– financial expense includes the following items exposed to interest rate risk: a) interest cost on financial debt based on floating rate, after derivatives classified as hedges for accounting purpose and b) the change in the fair value of derivatives that do not qualify for hedge accounting;
– the effective portion of the change in the fair value of derivatives classified as cash flow hedges is recognised directly in equity; and
– as at 31 December 2008, the fair value of gross financial debt after derivatives was PLN 7,059 million (as at 31 December 2007, PLN 7,420 million).

23.5. Liquidity risk

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

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

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility.
As at 31 December 2008, the Group had the following unused credit facilities amounting to PLN 2,336 million (as at 31 December 2007, PLN 5,151 million):

– EUR 550 million available to TP S.A.; and
– EUR 5 million and PLN 20 million 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.

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

[1] Undiscounted principal payments on debt.
[2] Undiscounted net cash flows on derivatives; negative / positive amount represents positive / negative net result on cash flows.

The maturity analysis for the remaining contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2008 and 31 December 2007 is presented in Note 19.1. The average duration for the existing debt portfolio as at 31 December 2008 is 2.2 year (as at 31 December 2007, 1.5 year).

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

23. Objectives and policies of financial risk management (continued)

23.6. Credit risk

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

23.7. Price risk

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

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

23.8. Management of covenants

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

24. Management of capital

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

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

– business performance together with applicable investments and development plans;
– cash distribution policy and debt repayment schedule; and
– 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%; and
– 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, 2008	December 31, 2007
Interest bearing bonds and bank borrowings	7,175	5,932
Cash and cash equivalents	1,640	642
Cash collateral paid	–	281
Marketable securities	7	5
Net Debt	5,528	5,004
Derivatives (1)	(124)	1,430
Net Debt after hedging	5,404	6,434
Equity	17,230	17,773
Equity and Net Debt	22,758	22,777
Equity and Net Debt after hedging	22,634	24,207
GOM	7,639	7,678
Net Gearing ratio (2)	24.3%	22.0%
Net Gearing after hedging ratio (3)	23.9%	26.6%
Net Debt / GOM ratio	0.7	0.7
Net Debt after hedging / GOM ratio	0.7	0.8

(1) Marked-To-Market valuation of derivative portfolio (excluding effective portion of cash flow hedges).
(2) Net Gearing = Net Debt / (Net Debt + Equity).
(3) Net Gearing after hedging = Net Debt after hedging / (Net Debt after hedging + Equity).

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

25. Fair value of financial instruments

As at 31 December 2008 and 2007, the carrying amount of cash and cash equivalents, cash deposits paid to bank as collateral for derivatives (classified as loans and receivables), current trade receivables and trade payables, current loans and receivables and current financial liabilities at amortised cost approximates their fair value due to relatively short term maturity of those instruments or cash nature (cash collateral paid).

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

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

(in PLN millions)		December 31, 2008		December 31, 2007
	Carrying amount [1]	Estimated fair value	Carrying amount [1]	Estimated fair value
Bonds with fixed interest rate	1,276	1,269	3,049	3,090
Bank borrowings with fixed interest rate	56	47	60	49
Payables related to UMTS licenses	873	823	758	751
Total	**2,205**	**2,139**	**3,867**	**3,890**

[1] Carrying amount includes accrued interest.

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

26. Employee benefits

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

Certain employees and retirees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 3.5.16). These benefits are not funded. The changes in the present value of liabilities related to employee benefits for the 12 months ended 31 December 2008 and 2007 are detailed in the table below:

	12 months ended December 31, 2008				12 months ended December 31, 2007			
(in PLN millions)	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Present value of obligation at the beginning of the period	**167**	**91**	**78**	**336**	**177**	**85**	**80**	**342**
Current service cost [1]	11	9	2	22	11	7	1	19
Interest cost [2]	8	5	4	17	8	4	4	16
Benefits paid	(35)	(4)	(7)	(46)	(34)	(4)	(5)	(43)
Recognised actuarial (gains)/losses for the period [1]	16	–	–	16	6	–	–	6
Unrecognised actuarial (gains)/losses for the period	–	–	20	20	–	–	(2)	(2)
Plan amendments [1]	–	–	–	–	–	–	–	–
Curtailment [1]	(15)	(14)	(3)	(32)	–	–	–	–
Reclassifications [4]	–	–	–	–	(1)	(1)	–	(2)
Present value of obligation at the end of the period	**152**	**87**	**94**	**333**	**167**	**91**	**78**	**336**

[1] Recognised under labour expense.
[2] Recognised under discounting expense.
[3] If any.
[4] In 2007 reclassification of employee benefits of Ditel S.A. to assets held for sale (see Note 16).

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

26. Employee benefits (continued)

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

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

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

(in PLN millions)	12 months ended December 31, 2008				12 months ended December 31, 2007			
	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Unrecognised actuarial gains/(losses) at the beginning of the period	–[(1)]	(11)	(5)	(16)	–[(1)]	(11)	(7)	(18)
Actuarial gains/(losses) for the period	(16)	–	(20)	(36)	(6)	–	2	(4)
Subtotal	**(16)**	**(11)**	**(25)**	**(52)**	**(6)**	**(11)**	**(5)**	**(22)**
Actuarial (gains)/losses recognised	16	–	–	16	6	–	–	6
Unrecognised actuarial gains/(losses) at the end of the period	**–[(1)]**	**(11)**	**(25)**	**(36)**	**–[(1)]**	**(11)**	**(5)**	**(16)**

[(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 2008 and 2007 and is as follows:

(in PLN millions)	At December 31, 2008				At December 31, 2007			
	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Present value of DBO	152	87	94	333	167	91	78	336
Net cumulative unrecognised actuarial losses at the end of the period	–[(1)]	(11)	(25)	(36)	–[(1)]	(11)	(5)	(16)
Carrying value of DBO	**152**	**76**	**69**	**297**	**167**	**80**	**73**	**320**

[(1)] 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, 2008	152	87	94	333
December 31, 2007	167	91	78	336
December 31, 2006	177	85	80	342
December 31, 2005	208	98	86	392
December 31, 2004	318	84	76	478

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

27. Share-based payments

27.1. TP Group incentive programme

On 28 April 2006, the General Meeting of Shareholders of TP S.A. approved an incentive programme (“the 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 right 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.

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

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

	12 months ended December 31, 2008		12 months ended December 31, 2007	
	number	weighted average exercised price (PLN)	number	weighted average exercised price (PLN)
Outstanding at the beginning of the period	**6,033,024**	**21.57**	**–**	**–**
Granted during the year	–	–	6,047,710	21.57
Forfeited during the year	(1,286,922)	–	(14,686)	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at the end of the year	**4,746,102**	**21.57**	**6,033,024**	**21.57**
– of which exercisable	55,072	–	–	–

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

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

During the 12 months period ended 31 December 2008 and 31 December 2007 the fair value of services received recognised in labour expenses and equity amounted to PLN 8 million and PLN 2 million, respectively.

27.2. France Telecom free share award plan

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

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

27. Share-based payments (continued)

27.2. France Telecom free share award plan (continued)

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

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

[1] An equivalent of EUR 21.50 translated at NBP period-end exchange rate at 18 March, 2008.
[2] Corresponds to the lending-borrowing rate on France Telecom shares used to calculate the non-transferability costs.

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

28. Provisions

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

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

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

(in PLN millions)	At January 1, 2007	Increases	Reversals (utilisations)	Reversals (releases)	Discounting effect	Reclassifications [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).

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

28. Provisions (continued)

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

Restructuring provision
The restructuring provision consists of the estimated amount of termination benefits for employees scheduled to terminate employment in the Group under the 2009–2011 Social Agreement and of the costs related to the operational restructuring of satellite capacity rental activities of the Group.

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

As at 31 December 2008, 4,365 persons took advantage of the departure package under the 2007-2009 Social Agreement.

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

Dismantling provision
The dismantling provision relates to dismantling or removal of items of property, plant and equipment. Based on environmental regulations in Poland items of property, plant and equipment which may contain hazardous materials should be dismantled and 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 (8-28 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, 2008	At December 31, 2007
Trade payables	2,097	1,802
Fixed assets payables	903	1,905
UMTS licence payables	873	758
Total trade payables [1]	**3,873**	**4,465**
Current	3,059	3,760
Non-current [2]	814	705

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

29.2. Other liabilities

(in PLN millions)	At December 31, 2008	At December 31, 2007
VAT payable	168	129
Other taxes payables	27	37
Other	16	15
Total other liabilities	**211**	**181**
Current	211	180
Non-current	–	1

29.3. Deferred income

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

30. Equity

30.1. Share capital

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

As at 31 December 2008, the share capital of the Company amounted to PLN 4,106 million and was divided into 1,369 million fully paid ordinary bearer shares of PLN 3 each.

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

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

[1] Data as of last notification submitted to the Company by Capital Research and Management Company on 6 November 2008.
[2] Presented data is according to the number of shares registered by the State Treasury during the General Meeting of Shareholders of TP S.A. on 16 January 2009.
[3] As a result of purchase of the Company's own shares for the purpose of their redemption (see Note 30.3) the percentage of votes held by the Shareholders at the General Meeting of Shareholders has increased as at 31 December 2008.

As at 31 December 2008, France Telecom owned 48.58% of shares of the Company. France Telecom has the power to appoint the majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

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

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

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

30.2. Dividends

On 24 April 2008, the General Shareholders' Meeting of TP S.A. adopted a resolution regarding payment of an ordinary dividend of PLN 2,053 million, i.e. PLN 1.50 per share. On 11 June 2008, TP S.A. distributed PLN 2,053 million of dividends, including PLN 825 million in respect of 2007 profit and PLN 1,228 million of undistributed profits from previous years.

30.3. Redemption of own shares

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

On 24 April 2008, the General Shareholders' Meeting of TP S.A. adopted a resolution 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 15 July 2008 TP S.A. Management Board determined detailed terms of the Programme.

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

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

On 16 January 2009, an Extraordinary General Meeting adopted resolutions on redemption of the ordinary A-series bearer shares acquired by the Company in 2008 and a reduction of the Company's share capital from PLN 4,106 million to PLN 4,007 million, i.e. by PLN 99 million.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

31. Contractual obligations and off balance sheet commitments

31.1. Off-balance sheet contractual obligations and other commitments

At 31 December 2008, Management considers that, to the best of its knowledge, there are no existing off-balance sheet commitments, other than those described below, likely to have a material impact on the current or future financial position of the Group.

31.1.1. Investment, purchase and commitments

a) Commitments related to operating leases – the Group as lessee
Operating lease commitments mainly relate to the lease of buildings, land, computer equipment and vehicles. Lease costs recognised in the consolidated income statement for the years ended 31 December 2008 and 2007 amounted to PLN 322 million and PLN 293 million, respectively. Approximately half of the agreements is denominated in foreign currencies. Some of the above agreements are indexed with price indices applicable for a given currency.

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

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

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2008 and 2007 amounted to PLN 40 million and PLN 1 million, respectively.

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

(in PLN millions)	At December 31, 2008	At December 31, 2007
Property, plant and equipment	676	695
Intangibles	78	59
Total	**754**	**754**
Amounts contracted to be payable within 12 months from the balance sheet date	699	716

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

31.1.2. Other off-balance sheet commitments

31.1.2.1. Guarantees

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

31.2. Assets covered by commitments

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

32. Litigation and claims

Contingencies

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

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

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

32. Litigation and claims (continued)

Contingencies (continued)

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

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

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

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

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

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

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

On 25 September 2006, UKE imposed a fine of PLN 100 million on TP S.A. for not implementing the offer to sell Neostrada (Internet services) separately from the fixed line subscription. TP S.A. appealed to the Court of Competition and Consumer Protection ("SOKiK"). On 22 May 2007, the Court invalidated the fine on procedural grounds. On 28 June 2007, UKE appealed this verdict. On 10 April 2008, the Appeal Court revoked the judgment of SOKiK and the case will be reconsidered by SOKiK.

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

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

Moreover, there is a number of other proceedings against the Group initiated by UKE and UOKiK. As at 31 December 2008 the Group recognised provisions for known and quantifiable risks related to these proceedings, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed, as in the opinion of the Company's Management such disclosure could prejudice the outcome of the pending cases.

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

In 1999, the parties came into disagreement regarding the calculation of this revenue. In 2001, DPTG initiated ad hoc arbitration proceedings before the Arbitration Tribunal (under UNCITRAL rules) sitting in Vienna. DPTG's claims, calculated up to January, 2006, amounted to 670 million euros excluding interest. On 10 October 2008 DPTG extended its complaint for the period up to the end of 2007 and calculated the claimed amount at, in total, EUR 840 million, excluding interest. The Company disputes both the basis of the claim and the amounts claimed by DPTG.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

32. Litigation and claims (continued)

Contingencies (continued)

e) Dispute with DPTG (continued)
In 2004, the Arbitration Tribunal appointed an expert to evaluate the revenue "from the NSL" to be used as a basis for calculating the share attributable to DPTG until June 2004. Between November 2005 and December 2007, this expert has delivered three reports proposing widely differing estimates. In October 2007, the Arbitration Tribunal named a second expert to assess the appropriateness and the consistency of the first expert's models. In January 2008, the second expert concurred, in all material respects, with the conclusions of the latest report of the first expert.

On 8 February 2008, the President of the Austrian Federal Economic Chamber sustained the challenge filed by TP S.A. against the chairman of the Arbitration Tribunal for lack of impartiality and a new chairman was named as a result of that decision. On 12 June 2008 the Arbitration Tribunal scheduled procedural dates until April 2009. On 15 and 16 January 2009, the Arbitration Tribunal held a hearing. The next hearing is scheduled on 20-24 April 2009. The Company anticipates some significant developments in 2009.

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

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

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

33. Related party transactions

33.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

(in PLN thousands)	12 months ended December 31, 2008	12 months ended December 31, 2007
Short-term benefits excluding employer social security payments [(1)]	9,905	10,488
Post-employment and other benefits	1,756	3,438
Termination costs	1,470	4,591
Total	**13,131**	**18,517**

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

Remuneration and bonuses, compensation and termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) paid by Telekomunikacja Polska S.A. to TP S.A.'s Management Board and Supervisory Board members in the 12 months ended 31 December 2008 and 2007 are presented below.

Management Board

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

[(1)] Persons that were not members of the Management Board of the Company as at 31 December 2008 but were members of the Management Board of the Company in previous periods.
[(2)] The amount paid in the 12 months ended 31 December 2007 includes PLN 5,340 thousand and PLN 879 thousand accrued in 2006 for Mr. Marek Józefiak and Mr. Alain Carlotti, respectively.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

33. Related party transactions (continued)

33.1. Management Board and Supervisory Board compensation (continued)

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

Supervisory Board

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

(1) Persons that were not members of the Supervisory Board of the Company as at 31 December 2008 but were members of the Supervisory Board of TP S.A. in previous periods.
(2) Persons appointed to the Supervisory Board of the Company employed by France Telecom do not receive remuneration for the function performed.
(3) Following retirement from France Telecom, in the fourth quarter of 2008 Mr. Jacques Champeaux started to receive remuneration for the function performed.

Remuneration and bonuses (cash, benefits in kind or any other benefits) paid or payable by TP S.A.'s subsidiaries and associates to TP S.A.'s Management Board members during the 12 months ended 31 December 2008 were as follows: Maciej Witucki PLN 2 thousand, Pierre Hamon PLN 17 thousand, Jean-Marc Vignolles PLN 203 thousand, Alain Carlotti PLN 16 thousand.

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

In the years ended 31 December 2008 and 2007, the members of TP S.A.'s Management Board did not receive any compensation or termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) from TP S.A.'s subsidiaries and associates.

In the years ended 31 December 2008 and 2007, the members of TP S.A.'s Supervisory Board did not receive any remuneration, bonuses, compensation or termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) from TP S.A.'s subsidiaries and associates.

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

As at 31 December 2008 and 2007, members of the Management Board and the Supervisory Board had no liabilities arising from loans granted by the Company.

In the years ended 31 December 2008 and 2007, TP S.A. did not enter into any transactions with companies in which the members of its authorities had significant shareholdings.

In the years ended 31 December 2008 and 2007, the Company did not enter into any significant transactions with members of the Management Board and the Supervisory Board and their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections or with the entities in which these persons are members of the Management or Supervisory Board, and did not grant them any loans, advances, guarantees or other agreements resulting in significant benefits for TP S.A, its subsidiaries and associates.

Notes to the consolidated financial statements continued
for the year ended 31 December 2008

33. Related party transactions (continued)

33.2. Related party transactions

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

Related party transactions were made on normal commercial terms.

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

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

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

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

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

In relation to the above mentioned transactions, purchases of goods and services from France Telecom Group include brand fees of PLN 134 million for the 12 months ended 31 December 2008 (PLN 131 million for the 12 months ended 31 December 2007).

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

34. Subsequent events

There were no significant events after the balance sheet date.

Independent Auditors' Opinion [1]

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 2008 containing:

– the consolidated balance sheet as at 31 December 2008 with total assets amounting to 31 234 million zlotys;
– the consolidated income statement for the period from 1 January 2008 to 31 December 2008 with a net profit amounting to 2 190 million zlotys;
– the consolidated statement of changes in equity for the period from 1 January 2008 to 31 December 2008 with a net decrease in equity amounting to 543 million zlotys;
– the consolidated cash flow statement for the period from 1 January 2008 to 31 December 2008 with a net cash inflow amounting to 993 million zlotys; and
– the summary of significant accounting policies and other explanatory notes ('the attached Consolidated Financial Statements').

2. The Company's management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union as well as for the proper maintenance of consolidation documentation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and 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'); and
– 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 2008 to 31 December 2008, as well as its financial position as at 31 December 2008;
– have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU; and
– are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

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

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

6. We have read the Directors' Report [3] for the period from 1 January 2008 to 31 December 2008 and the rules of preparation of annual financial statements ('the Directors' Report') and concluded that the information derived from the attached Consolidated Financial Statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).

on behalf of

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

Maciej Konopko Certified Auditor No. 11316/8113	Witold Czyż Member of Management Board Certified Auditor No. 90094/7969

Warsaw, 25 February 2009

[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 40 - 92.
[3] as included in the filed financial statements for Warsaw Stock Exchange.