

# TP Group Annual Report 2009



---

## TP Group Annual Report 2009

### 01 Introduction

---

### 02 Group at a glance

---

### 04 Financial highlights

---

### 05 CEO's letter

---

### 08 Medium-term action plan

---

#### 10 Refocus on core business

---

#### 12 Re-engage with key markets

---

#### 14 Re-balance our operating model

---

### 16 Review of operations

---

#### 17 Market climate

---

#### 18 Regulatory environment

---

#### 19 Fixed segment

---

#### 20 Mobile segment

---

#### 21 Marketing

---

#### 21 Sales and Customer Care

---

#### 22 Networks and IT

---

#### 23 Human Resources

---

#### 24 CSR

---

### 25 Financial review

---

### 27 Corporate Governance

---

#### 27 CG framework

---

#### 36 Management Board

---

#### 38 Supervisory Board Assessment

---

### 43 Financial statements

---

#### 44 Consolidated income statement

---

#### 45 Consolidated balance sheet

---

#### 47 Consolidated statement of changes in equity

---

#### 48 Consolidated statement of cash flows

---

#### 50 Notes

---

#### 99 Independent Auditor's Opinion

---

TP Group is Poland's leading telecommunications provider, with operations in fixed line voice, data, TV and mobile networks. TP Group is 49.79% owned by France Telecom. In 2009, our market share by volume was 76% of fixed voice, 38% of broadband, and 31% of mobile through the Orange brand. We achieved revenue of PLN 16.56 billion and a net income of PLN 1.28 billion.

### Our vision

TP Group's goal is to attain a strong leadership position in all our core markets.

Our success will be founded on a broad portfolio of innovative products, a powerful, proactive sales force and outstanding customer care, supported by a robust infrastructure and highly motivated employees.

Co-ordinating our efforts around a lean, agile operating model will ensure that we deliver healthy and sustainable returns to our shareholders.

#### Broadband customers

mn

2.652mn  
+8.4%

2007	2.2
2008	2.4
2009	2.7

#### Revenue

PLN mn

16,560mn

2007	18,166
2008	18,164
2009	16,560

#### Mobile customers

mn

13.7mn

2007	14.2
2008	14.2
2009	13.7

#### TV customers

'000

2007	40
2008	113
2009	372

### TP Group revenue composition

2009

1 Mobile wholesale	8.6%
2 Mobile retail	34.8%
3 Fixed data	15.6%
4 Fixed wholesale	6.5%
5 Fixed voice retail	29.1%
6 Sales of goods and other	5.3%



2008

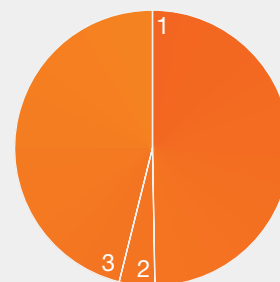
1 Mobile wholesale	10.6%
2 Mobile retail	33.6%
3 Fixed data	13.6%
4 Fixed wholesale	5.3%
5 Fixed voice retail	32.0%
6 Sales of goods and other	4.9%



### TP Group share capital structure 2009

At the end of 2009

1 France Telecom	49.79%
2 State Treasury <sup>1</sup>	4.15%
3 Other shareholders	46.06%



<sup>1</sup> 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 23 April 2009.

TP Group  
Annual Report 2009

### Revenue

PLN mn

\* Pro forma after the disposal of Ditel

2007	18,166*
2008	18,164*
2009	16,560

### EBITDA

PLN mn and % of revenue

2007	7,685 / 42.3%
2008	7,521 / 41.4%
2009	6,279 / 37.9%

### Net FCF

PLN mn and % of revenue

\* Pro forma after the disposal of Ditel

2007	3,216 / 17.7%*
2008	3,036 / 16.8%*
2009	3,233 / 19.5%

### Net Gearing after hedging ratio\*

%

\* net debt after hedging /  
(net debt after hedging + shareholders' equity)

2007	27
2008	24
2009	21

### Shareholder remuneration

PLN per share ■ Ordinary cash dividend ■ Share buy back

\* Subject to AGM approval

2007	1.5	0.5
2008	1.5	
2009	1.5*	

---

TP Group  
Annual Report 2009



“TP Group has implemented a robust cost optimisation program and aligned its capital expenses to lower demand. As a consequence, we have comfortably achieved our guidance.”

**Maciej Witucki**  
President of the Board and Chief Executive Officer

TP Group  
Annual Report 2009

2009 was a breakthrough year for us, as well as for the whole telecommunications sector in Poland. Despite a significant market slowdown, we have achieved our net free cash flow objective, implemented a robust cost optimisation program and signed a groundbreaking arrangement with the President of the Office of Electronic Communications, Poland's telecommunications regulator.

#### Performance highlights

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

TP Group has achieved a number of commercial successes in 2009. Despite the difficult operating conditions, we have been able to grow the number of Orange's post-paid customers by 7.4% year on year. We are also an undisputed market leader in the business clients segment. TP Group has continued to make progress on the broadband market, with 8.4% year on year growth of the total number of customers accompanied by growing ARPU. Our TV offer has been a particular success, with TP Group's TV subscriber base tripling in 2009 to reach 372,000.

In reaction to the unfavourable impact of the environment, TP Group has implemented a robust cost optimisation program and aligned its capital expenses to lower demand. As a consequence, we have comfortably achieved our guidance, by generating net free cash flow of over PLN 3.2 billion. We have decreased our net debt by over PLN 1 billion and we can be proud of the strength of our balance sheet, considered as one of the safest among European telecommunication operators. Thus we have again proved the resilience of our business model to adverse external changes. As a result, we are again able to offer attractive levels of shareholder remuneration.

#### Groundbreaking arrangement with the Regulator creates a more predictable future

In 2009, we signed a Memorandum of Understanding with the President of the Office of Electronic Communications. This is a groundbreaking arrangement, both for TP Group and for the Polish telecommunication market. For us, it creates a more predictable and investment-friendly regulatory environment. It also improves the perspective for infrastructure development on the Polish telecommunication market and stimulates fair competition. Based on this arrangement, we have launched a country-wide investment program in 1.2 million broadband access lines, including roughly 1 million lines with speed of at least 6Mbps. I am deeply convinced that this investment program will permanently change the Polish market and will allow TP Group to strengthen its leadership position on the broadband market in Poland.



---

TP Group  
Annual Report 2009

#### TP Group's medium term action plan

We have realised that further changes are necessary in order for TP Group to establish a commanding leadership position in its core markets. Therefore, alongside the 2009 results announcement, the Management Board launched a new medium term action plan, based on three pillars:

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

#### Conclusion

Operating in a difficult market and regulatory conditions, TP Group has once again demonstrated the agility of its business model, delivering on its Net Free Cash Flow guidance and achieving numerous commercial successes, whilst preparing for the future with the Arrangement with the Regulator and with our medium term action plan. I would like to use this opportunity to thank all my employees for their contribution towards our performance. It is thanks to all of you that we have been able to deliver on our 2009 promises and build the foundations for future growth. In these tough times we have to change and restructure. I am well aware of the personal costs that this might cause, but we have no choice but to move forward.

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

**Maciej Witucki**

President of the Board and CEO

TP Group  
Annual Report 2009

For TP Group, 2009 was another unpredictable and testing year in which the company faced change and challenge on all sides. We responded swiftly and decisively to these unfavourable circumstances, re-evaluating every aspect of our business and putting into action a new medium-term action plan to ensure TP Group is in the best position to benefit from the market rebound expected in late 2010 and 2011.

re-focus

on core business

re-engage

with markets

re-balance

operating model



Our plan has three main priorities: to re-focus on core business, to re-engage with key markets and to re-balance our operating model. We have already seen the first fruits of this organisational transformation in the fourth quarter of 2009.

#### Market context

The company faced pressure on four main fronts in 2009.

- **The Polish economy** slowed down against original government expectations of 3.7%, but still reached 1.7% GDP growth (compared to 4.9% in 2008) with unemployment approaching 11.5% by the year's end. As a result, we saw changes in customer behaviour: a more cautious approach to adopting new services and a great deal more price-sensitivity.
- **Foreign exchange rates** did not favour the Polish zloty, which weakened significantly against the Euro during 2009. This had a significant impact on our cost base and capex, primarily due to the increased cost of importing mobile handsets.
- **The competitive landscape** in which we operate continues to evolve as the industry moves into the next stage of its lifecycle. We faced new threats to all our major products from smaller competitors who can compete aggressively on price, as well as from operators taking advantage of the old regulatory environment.
- **Our relationship with the regulator** was perhaps the area that saw most drastic change. We began 2009 under the threat of enforced functional separation – an outcome which we felt would have been costly not just for TP but for the development of telecoms services in Poland. Intensive negotiations throughout the year culminated in a new arrangement in October, which imposes a number of new obligations, but most importantly allows us to plan our future with much greater certainty. We saw a clear improvement in the regulatory environment in the fourth quarter of 2009 as a result.

#### New medium-term action plan: re-focus, re-engage, re-balance

In 2009 it became apparent that the pace of change within the company has to accelerate to keep pace with rapid changes in the wider operating environment. The catalysts outlined above made it imperative for us to speed up the process of transformation at TP Group to keep up with the market and take full advantage of the assets we have built up over the last three years. Our new medium-term action plan is designed to establish a strong leadership position and secure a sustainable future for TP Group.

The first priority we have identified is to **re-focus** on our core business. The breakthrough that we achieved in our negotiations with the Regulator last year has given us a much more predictable environment for the next stage of our development. The planned infrastructure investment together with the new pricing models change the picture quite considerably, improving our competitive position particularly in the broadband market. While we will continue to be the company with the broadest offer in the Polish telecom arena, we see no need to reach outside our current scope in the medium term. We will concentrate on restoring TP Group to its natural leadership position in all our core markets.

Over the next three years, TP Group will pursue its leadership goals by concentrating on two major strategic aims. Firstly, we will **re-engage** with our key markets, building customer loyalty by offering the best-value customer proposition and reducing our time-to-market so that we can react more swiftly to developments. And secondly, we will **re-balance** our operating model, reducing total costs by decreasing non-commercial operating costs while spending more on attracting and retaining customers.

## Re-focus on core business



## Re-focus

---

TP Group  
Annual Report 2009

Facing unprecedented economic challenges in 2009, we recognised the need to get back to basics, plan carefully and set intelligent targets that will stretch and challenge us. At the same time, we have been able to put our relationship with the regulator on a completely new footing, restoring our ability to compete with new market entrants and giving us a stable environment to invest in our company's future. As the market recovers and begins to grow again, we will be ready to reap the benefits. Our vision for TP Group is to be a leader, not a follower: we are fully focused on securing the number one position in our core markets.

Under the terms of the groundbreaking new Memorandum of Understanding (MoU) between TP Group and the Polish Telecoms Regulator, UKE, which was concluded in October 2009, the risk of functional separation of TP Group has been minimised. This measure alone spares TP Group from a process which would have cost close to PLN 1 billion over a five year period, not to mention the effects on the company's ongoing performance. The MoU also grants TP important concessions on broadband pricing, with a 3 year rates freeze for LLU and WLR, and, more importantly, the implementation of a cost-based model for wholesale and a de-coupling of retail from wholesale prices.

In return, TP has agreed to invest in 1.2 million broadband accesses over the next three years, including 1 million lines with speeds of 6Mbps or more. More than half of these will result from the modernisation and adaptation of existing lines, while 0.5 million will require new network infrastructure – but no new line will be built without demand. The management estimates total spending relating to this program should be roughly PLN 3 billion, spread over the next three years. This investment program, which will dramatically boost demand for broadband services in Poland, is already underway. Over the winter, we began to upgrade equipment and the network roll-out will begin in the spring.

---

TP Group  
Annual Report 2009

In order to meet the needs of the rapidly evolving market in which we operate, we are redoubling our efforts to connect with our customers. TP's goal is to offer the best value customer proposition: the latest products and services, tailored to customer needs, backed up by excellent customer service and distinguished by quality, reliability and simplicity. At the same time we are sharpening our competitive edge, taking the fight to our competitors with a more aggressive sales and marketing approach.

Re-engage  
with key  
markets



## Taking the lead in key markets

TP Group  
Annual Report 2009

### Fixed segment

In the fixed line segment, our priority is to fortify and defend our position, maximising retention initiatives and minimising revenue erosion. In order to achieve this goal, we will focus on building greater customer loyalty by offering attractive tariff plans and a best-in-class customer experience.

### Broadband & TV

The growth potential in the broadband market is considerable. Official estimates put personal computer penetration at 60% of Polish households, with broadband penetration lagging behind at just under 42%. With the major infrastructure investments mandated under our new arrangement with the regulator – which will result in over 1 million high-speed broadband access lines country-wide by 2012 – TP is well placed to capitalise on future growth.

In 2010 and beyond, we will compete aggressively to establish an undisputed leadership position on the Polish broadband market.

### Mobile segment

TP Group's goal is to regain a strong leadership position in mobile by the end of 2011. To this end, we will focus on increasing customer loyalty by strengthening the Orange brand and ensuring our portfolio of services offers best value and the most innovative solutions, particularly in the mobile data market.

### Marketing

Competition shows no sign of easing in the years to come, and TP Group must fight back. Increased commercial activity will result in increased commercial costs; however, we expect our commercial and marketing spend to remain flattish as we implement major efficiency savings. In particular, we will refine our customer segmentation approach, continuously review our handset policies and advertise selectively.

Areas singled out for particular focus in 2010 include the development of mobile multimedia offers that reflect growing trends in Internet usage – social networking, mobile TV and so on. Our TV offer remains an important anti-churn tool for the fixed line business, and we will develop triple-play offers for all our broadband customers, regardless of bandwidth or access technology. At the same time we will continue to develop attractive functionalities and content offers, including catch-up TV, PVR features and HD transmission.

### Sales & customer care

Going forwards, we will continue to seek efficiency savings, rationalising our underperforming points of sale and using the latest technologies to increase the share of self-service customer care and push initiatives such as e-billing. At the same time, we will implement a "Next Generation Customer Care" programme that will allow us to unlock new opportunities to up-sell and cross-sell retail services to our existing customer base, both through our call centres and through increasing use of online channels.

### Networks & IT

Over the next three years we will launch transformation projects in each of the main infrastructure areas which support our business objectives. These projects will focus on opex and capex optimisation, time-to-market improvements, and meeting scalability and quality challenges. Some of those transformation efforts are long-term undertakings and will continue well beyond 2011.

We will also implement technology changes that allow us to fulfill our regulatory obligations: enabling LLU, giving alternative operators equal access to information, and functionally separating the wholesale and retail IT environments. Meanwhile, we are developing an automated IT interface with our alternative operator customers, which will enable us to maintain our service level agreements efficiently and consistently.

---

TP Group  
Annual Report 2009

In 2009, we began a far-reaching transformation programme that will radically reshape our organisation. Going forward, TP Group will continue to be the biggest player in the market in terms of both scope and scale, but with the agility of a much smaller company: asset-light, fast-moving and adaptable. By optimising our non-commercial operating costs we can free up more resources to attract and retain customers.

## Re-balance our operating model





## Getting results

TP Group  
Annual Report 2009

Progress towards our 're-balance' objective is already well underway. Towards the end of 2009, we completed the first phase of a far-reaching transformation programme. In this initial stage, we concentrated on cost optimisation measures that would provide "quick wins" in opex reduction and stabilise cash flow. These measures include economising on office space and car fleet costs, restructuring of our mobile handset portfolio and accelerated headcount reduction.

This cost-cutting exercise also allowed us to test our longer-term transformation plans and set clear goals for the next three years. Going forward into 2010, we are now focused on long-term efficiency increases, changing the corporate mindset and shortening time-to-market as well as achieving further underlying cost savings.

In the third quarter of 2009 we restructured our senior management team to support our new strategic aims. We appointed a new Chief Marketing Officer, Vincent Lobry, with group-wide responsibility for marketing. Our new Chief Commercial Officer, Mariusz Gaca, now oversees all sales and customer care functions. Previously, responsibility for sales and marketing was split according to market segment, with Business to Business and Mass Market segments each maintaining a separate sales and marketing group.

The new organisational structure has simplified and streamlined the organisation, making TP Group more responsive to the needs of our customers. It allows for further integration within the group, both commercially and from the back-office perspective. Finally, it allows us to take a fully coordinated approach to the infrastructure investments which our new arrangement with the regulator will require.

### Looking ahead

Official estimates for the Polish economy in 2010 predict a very modest increase in GDP growth at 1.8%, with inflation at 1.5%. TP Group expects the decline in the value of the overall telecom market to continue throughout 2010, although at a slightly slower pace than in 2009. After 2010, we expect to see stabilisation of decline in the fixed line segment, and recovery in mobile with a return to growth in the medium term.

Positive developments in the regulatory environment in late 2009 will improve the future competitive landscape for TP Group. Crucially, we won the right to set wholesale prices on a "costs plus" model, which will level the playing field considerably. Although the whole market will feel further impact from MTR reductions in 2011, the current asymmetries in the mobile termination rates applied to TP versus other operators will gradually be normalised over the next five years.

Over the next two years, our commercial focus will be on **re-engaging** with the market in order to regain or maintain the number one position in value market share in all our core segments. In particular, we will reposition Orange in the mobile market to regain leadership in 2011. Although margins will come under pressure during this transitional period, we expect a rebound by 2012 as the market begins to grow again.

We have a strong product pipeline in place. New products and offers will be introduced according to a strategic timetable designed to maximise market share gains. We expect to see most growth in fixed broadband with TV, and mobile multimedia.

Within the organisation, the cost **re-balancing** programme will proceed at full speed as we generate further savings. We will continue to squeeze non-commercial costs through the optimisation of back-office and support functions: by simplifying and shortening business processes, we will reduce our IT, labour and other operational costs. A part of these savings will be redirected to support our marketing and sales efforts.

We are implementing Equivalence of Access on the wholesale side in order to fully benefit from our new understanding with the regulator. Meanwhile, our investment in the national broadband access network will take the market to a new level and stimulate demand for our services.

---

TP Group  
Annual Report 2009

Poland's overall economy slowed significantly in 2009, and the telecoms sector declined in value. Competition intensified, particularly in the mobile market, and this combined with regulatory price cuts to hit our top line. Nevertheless, we met our guidance, thanks to a strong focus on operational efficiency and a proactive commercial approach. And as 2009 drew to a close, we reached a breakthrough arrangement with the regulator that sets conditions for a more stable future.



## Market climate

TP Group  
Annual Report 2009

The Polish economy slowed significantly in 2009, with GDP growing just 1.7% (according to the Central Statistical Office). Inflation stood at 3.5% at the year's end, with unemployment slightly up at 11.49%. TP Group estimates that the Polish telecom market declined by 3.4%, compared to growth of 6.6% in 2008.

The mobile market in particular was subject to three major negative forces. First of all, drastic regulatory cuts to Mobile Termination Rates (MTR) in Q1 and Q3 (equivalent to 50% reduction for the full year) hit mobile operators' wholesale revenues hard. Secondly, the fourth mobile operator, PLAY, initiated a price war in the pre-paid segment in March 2009 that subsequently extended to the post-paid segment and affected all the other operators. And finally, the market entered a much slower phase of its growth cycle, with SIM card penetration nearing 118% by the year end. As a result of these impacts, the mobile market declined for the first time ever, with full year revenue erosion at -4.4%

The broadband market maintained its double-digit growth by value, although at a slower pace than in 2008. Overall, Internet access services, e-commerce and web advertising proved relatively resilient in 2009, as did home entertainment products such as pay TV.

### Competitive environment

In the increasingly crowded mobile marketplace, competition remains tough. New players competed aggressively on price in 2009, and this pressure may even increase in 2010 if more entrants decide to address the market.

One major concern for TP Group is the current asymmetry of MTRs, which creates additional room for manoeuvre for new entrants and could create further retail price pressure. However, the regulator has agreed that asymmetry will gradually decrease, with full parity achieved by 2014.

The broadband market came under increased competitive pressure in 2009 from cable TV operators, particularly in Poland's major urban areas. These operators won market share by pushing triple-play offers, lowering prices and providing higher bandwidths. This is an area where TP Group is fighting back with improved offers and higher visibility. Competition from wholesalers started to normalise as migration from BitStream Access (BSA) to Unbundled Local Loop (LLU) began.



## Regulatory environment

TP Group  
Annual Report 2009

### Memorandum of Understanding with UKE

On 22 October 2009, TP Group and the President of the Office of Electronic Communications (UKE) signed a Memorandum of Understanding (MoU) for the implementation of transparency and non-discrimination procedures in inter-operator relations.

Under the terms of the MoU, UKE undertakes to freeze wholesale rates till 2012 at the level defined in the current reference offers. The “retail minus” methodology for defining wholesale rates will be replaced with the “cost plus” model. Meanwhile, TP Group is to invest in 1.2 million broadband access lines in the same period. Instead of the physical separation TP Group will implement Equivalence of Access, including technical and organisational solutions to regulate access rights to information within the organisation (‘Chinese Walls’) and to secure non-discriminatory access to information for alternative operators.

The President of UKE is expected to abandon plans for the functional separation of TP Group, provided that the latter implements the agreed solutions. The MoU also provides for gradual withdrawal of legal cases and claims between TP Group, UKE and alternative operators, in line with the implementation of the agreement.

This new relationship with the Regulator has very positive implications for TP Group’s future business development. For a start, it avoids the lengthy and costly process of functional separation. Secondly, the new pricing methodology stabilises wholesale broadband prices, allowing TP Group to build a robust investment case for further development of broadband services. And by decoupling wholesale prices from retail prices, it gives us significantly greater flexibility to compete on the retail side.

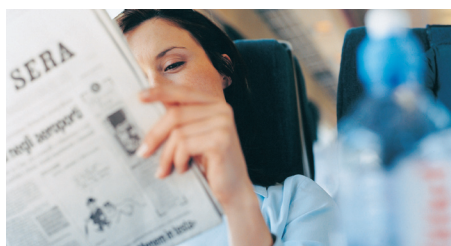
Under these new conditions, it is now appropriate for TP Group to invest in boosting the broadband market. Over the next three years we will invest in 1.2 million broadband accesses, including 0.5 million new lines and 0.7 million to be upgraded.

The creation of any new lines will be in response to demand for services. It is expected that approximately 1 million lines will have bandwidths of 6 Mbps or more, while the remainder will be at least 2Mbps. This infrastructure will be deployed not only in urban areas, where it will boost our ability to compete with cable TV operators, but also in small towns and across rural areas.

Since the conclusion of the MoU, TP has been working closely with UKE to agree a schedule and begin implementing all the agreed solutions.

- We have gradually extended the wholesale portfolio and improved the quality of alternative operator service. In November 2009, in line with reference offers, three new services (i.e. WLR RIO, BSA IP access (managed) and BSA DSLAM access) were implemented and launched on a commercial basis.
- We have launched stage one of the broadband investment programme, focusing on access lines for fast Internet and TV services in new residential districts and across the existing infrastructure gaps.
- We have undertaken intensive work on the implementation of ‘margin squeeze’ and ‘price squeeze’ tests for broadband services.
- Aside from system changes, we have completed our preparations for the implementation of ‘Chinese Walls’. In addition to the technical and logistical changes that this demands within the organisation, we have put in place an intensive training and communication programme to promote the new organisational culture.

TP Group remains committed to the timely implementation of the MoU. A dedicated project structure has been set up to drive through the necessary changes and monitor progress. So far we are fully in line with the requirements, and feedback from the Regulator is positive; we fully intend to maintain this excellent progress.



## Fixed segment

TP Group  
Annual Report 2009

### Broadband revenue

PLN mn

2007	1,235
2008	1,446
2009	1,578

### Broadband retail customers

'000

2007	2,028
2008	2,193
2009	2,273

### TP Group broadband value market share

%

2007	50.2
2008	50.0
2009	48.9

### Broadband penetration

% of households

2007	34.4
2008	38.7
2009	41.5

### TV customers

'000

2007	40
2008	113
2009	372

TP Group's fixed line business remains under strong regulatory and competitive pressure. In order to mitigate the trend of decreasing revenues and profitability, TP Group continues to focus on streamlining its cost base at the same time as increasing its revenues from data services, mainly broadband and data transmission and the value added services they support including VoIP, television and multimedia.

#### Voice services

The retail fixed voice customer base declined by 11.1% and contributed to a 5.3% fall in revenues for the fixed segment. The following factors were material to this decline:

- Increased fixed-to-mobile substitution, exacerbated by a price war in pre-paid mobile
- Higher price-sensitivity among consumers in an economic slow-down, resulting in loss of customers to Wholesale Line Rental (WLR)-based offers from alternative operators
- Steep reductions to retail fixed-to-mobile prices following the regulatory MTR cuts in Q1 and Q3

TP concentrated on limiting the erosion of its retail subscriber base by pushing new tariff plans and value-added services, as well as lowering the barrier to entry for new customers with a promotional activation fee of just PLN 1. Understanding that customer loyalty is key to our future, we stepped up

our rewards for remaining with TP, with new 12 and 24 month loyalty contracts offering subscription discounts, new phone terminals and shopping vouchers.

#### Broadband and TV

According to TP Group estimates, Poland's fixed broadband market expanded by 9% in 2009 (in terms of access lines), which compares unfavourably to a 14% increase the year before. In value terms, the market grew by 11%. Against this backdrop, TP Group expanded its total number of broadband lines by 8.4%, and its retail broadband lines by 3.6%. Revenue from broadband Internet services rose by 9.1%.

TP Group won fewer fixed broadband mass market customers in 2009: the customer base expanded by just 2.1% compared to growth of 7.6% in 2008. Apart from fierce competition from cable TV operators, we also faced an unequal contest with offers based on BSA and LLU, due to the "retail minus" pricing structure imposed by the regulator on our wholesale offer.

The trend in the broadband market was towards higher access speeds at lower prices, and TP had a good response to new higher bandwidth offers. We also pushed our bundled offers, combining broadband with TV (through both IP and DTH technologies) and rich content. Our growing TV offer will be a crucial weapon in our fight to win customers from cable TV operators in major cities.



## Mobile segment

TP Group  
Annual Report 2009



The value of Poland's mobile market began to shrink in March 2009 for the first time ever, and the pace of decline intensified through the second half of the year. MTR reductions of 36% in March and a further 23% in July were major catalysts for this decline, with further pressure from the stagnant economy and price competition in the pre-paid segment. In the circumstances, TP Group mobile segment revenue fell by 10.2% year-on-year. The decline was driven by the MTR cut; revenue excluding regulatory effects was almost flat, showing roughly 1% decline.

Declining revenue from traditional mobile services was partially offset by an increase in the sale of fixed-line-based services under the Orange brand – mainly WLR and BSA-based broadband – where the customer base almost doubled to over 200,000 subscribers.

In line with TP Group's strategic focus on value, Orange continued to improve its customer mix. The post-paid subscriber base was up 7.4% year-on-year, while dedicated mobile broadband subscriptions rose by 10.2%. The pre-paid subscriber base fell by 11.5%, mainly as a result of the SIM card rationalisation process we completed in Q1.

### Mobile data services

Mobile data is a key competitive differentiator for Orange. In 2009, our customers in Poland benefited from big improvements in transfer speed for mobile data, thanks to our expanding range of rapid data transmission technology. We brought over 150 new UMTS stations on line nationwide, and rolled out HSUPA 2.0 and HSDPA 7.2 to give a top speed of 7.2Mbps in major cities. The combination of UMTS/HSDPA now covers over 55% of Poland's population.

In July, Orange introduced a new category of mobile Internet service combining GSM/3G and CDMA access. With separate offers aimed at individual and business users, Orange mobile Internet services now have the largest range in Poland. During H2 we also raised our data transfer limits to make them the most attractive in the market, and in Q4 we began bundling mobile Internet access with our fixed broadband services at very competitive subscription fees.

### Mobile revenue

PLN mn

2007	8,054
2008	8,620
2009	7,745

### Average revenue per user (ARPU)

PLN

2007	49.3
2008	49.2
2009	44.0

### Mobile customers

mn ■ Post-paid ■ Mobile customers

2007	5,556	14,158
2008	6,168	14,182
2009	6,624	13,714

### TP Group mobile value market share

% of market

2007	34.1
2008	32.2
2009	30.5

### Average usage per user (AUPU)

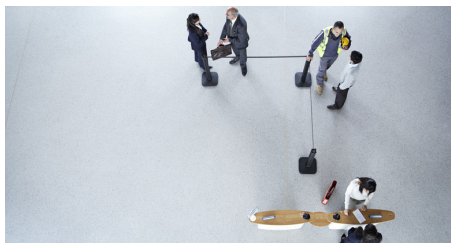
Minutes

2007	101
2008	112
2009	136

## Marketing

## Sales and Customer Care

TP Group  
Annual Report 2009



Our two brands continued to enjoy good recognition among Polish consumers in 2009. In terms of positioning, TP is seen as family-oriented, mainstream and reliable; Orange as more dynamic, creative and independent. In the medium term we intend to maintain both brands, but as our organisational transformation progresses we will move towards implementing a single brand.

Throughout 2009, we continued to leverage our key competitive advantages: the largest customer base on the Polish market; the broadest portfolio of products and services; and our access to France Telecom's global experience and purchasing power. We developed offers that make use of this scope and scale to appeal to more customers, including pay TV and video on demand over satellite (DTH) and increased mobile broadband coverage through a combination of UMTS and CDMA. We were also able to ride the trend in consumer demand for increased services at the same price, offering higher bandwidth options in fixed broadband and higher transfer limits in mobile broadband.

TP Group aims to win market leadership with the best value offer, and not with the lowest price. This means that providing a best-in-class customer experience is central to our commercial objectives. At the same time, we need to achieve greater cost efficiency right across the sales and customer care process.

Our main challenges in this area are, firstly, to manage churn and build loyalty in a highly competitive and maturing market; and secondly, to turn increasingly sophisticated technology into user-friendly, easily adopted services. We believe that process automation is key to success on both these fronts. Using tele-diagnostics and self-service, we are working to shorten our response and delivery times.

In 2009 we made substantial improvements in first contact resolution by shortening the repair and customer activation processes. We improved communication with our customers regarding the status of their orders, with a visible impact on customer satisfaction.

In H2 we began restructuring our operations to bring fixed and mobile sales and customer care operations under the same management reporting line. This new organisational structure has direct benefits for our customers, because it allows us to take end-to-end responsibility for their care, from first contact through the sales act to after-sales service. It also enables us to focus on the lifetime value of the customer, recognising the customer base as a key asset and seeking ways to unlock its full potential. We have implemented a highly segmented approach, targeting our customers with different value propositions and individualised offers.

### TP Group customer satisfaction

% of customer satisfaction

2007	62
2008	67
2009	71

## Networks and IT

TP Group  
Annual Report 2009

Notwithstanding the difficult market in 2009, TP Group identified two key growth areas: in the fixed line segment, broadband and TV; and in the mobile segment, data and multimedia. Expansion in these areas makes new demands on our infrastructure.

In 2009, we began work on implementing Very High Speed broadband technologies, primarily with a view to making effective use of our copper network. At present this means high-throughput xDSL options; we continue to evaluate Fibre To The Home (FTTH) solutions as a potential future enhancement if regulation and market demand support such a roll-out.

We also started work on implementing terabyte routers in the core network. This work lays the groundwork for an enhanced content delivery network that will decrease congestion in the transmission network.

In the **wireless access** space, we continued to leverage on the significant investments we have already made in 2G and 3G technologies. In 2G we increased capacity to ensure the quality of our GSM network, which we anticipate will be used well into the 2015-20 period. In 3G, we are preparing to implement a next generation technology (HSPA2+) that will allow us to more than double existing data throughputs and compete more effectively with competitor offers. In parallel, we are evolving our CDMA service, which gives us a unique competitive advantage by allowing us to supplement 3G network coverage and provide wireless broadband to almost the entire country.

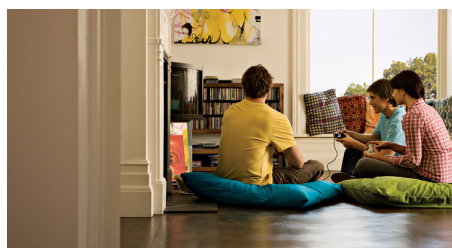
In the **fixed broadband** area, we began gearing up for the major investment project that will follow our new arrangement with the regulator. This will account for the most significant increase in network expenditure over the next two years. The project will encompass the build-out of around half a million new lines, including 150,000 in so-called "white zones" which currently have no broadband access, and the modernisation of around 700,000 existing lines, to provide a total of 1.2 million lines of which 1 million have capacity of at least 6Mbps.

In **Technical Customer Care** the improvement of network data quality in inventory systems and the effectiveness of network data maintenance procedures are crucial to the efficiency of installations and repair. In 2009 we launched Physical Data Quality and Logical Data Quality improvement projects, targeting an increase of physical data quality to at least 80% and logical data quality to 100% in 2011.

We also launched initiatives to optimise and automate processes in the **technical services** area. These initiatives will result in a decrease of headcount in field operations, elimination of manual process steps and availability of an on-line status report for each element of a process. This will result in significant operational costs savings for the technical customer care organisation.

In the **IT Applications** area we began the implementation of a comprehensive organisational and process transformation project that is improving delivery effectiveness, by helping us to balance demand and capacity more effectively. We are also driving the simplification of systems architecture using Service Oriented Architecture principles. This will result in systems that are highly configurable and enable fast track development and reduced time to market for new services.

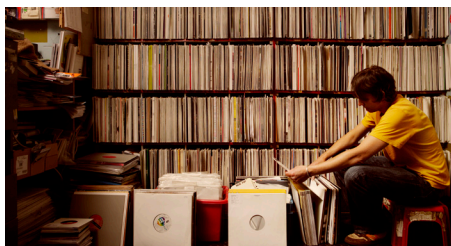
Finally, a major ongoing project in the IT area is Vendor Consolidation. Negotiations during 2009 resulted in a reduction in IT vendors from 50 down to seven, with the majority of new agreements due to be concluded in H1 2010. The main objectives of the consolidation process are to optimise costs, increase transparency through fair price calculation, to achieve shorter times-to-market and to improve quality by having a single vendor responsible for core delivery.





## Human Resources

TP Group  
Annual Report 2009



### Employment

At the end of 2009, TP Group employed 27,667 people (in full-time equivalents). This was 5.4% lower than a year earlier, following continued efforts to optimise the workforce. The reduction resulted mainly from voluntary departures under the provisions of the Social Agreement we signed in November 2008. 2,440 employees received severance pay under the voluntary redundancy programme. The workforce restructuring provision, after discount and utilisation, was PLN 126 million at the end of 2009.

External recruitment fell by 22% year-on-year, reaching 1,537 positions, mainly related to sales and customer service. The overall cost of wages, social security and other employee benefits was down 0.3% at PLN 2.35 billion

### Incentive programme

TP Group operates an employee stock option plan, designed to link the remuneration of key managers with their contribution to the company's development. As well as giving managers a more direct interest in boosting TP Group's profitability and value, the programme also helps the organisation to attract and retain the most valuable managers for the long term.

### Agreement with social partners

In December 2009, TP Group reached agreement with its social partners that the limit on employee departures for the year could be exceeded, because the number of applications for voluntary redundancy was higher than expected.

At the same time, a limit of 1,980 departures was set for 2010, which is within the aggregate limit specified in the Social Agreement for 2009-11. We also revised the compensation terms for voluntary departures in 2010, particularly for long-serving staff members.

The social agreement covers the whole of TP Group, giving us flexibility in terms of internal mobility between TP and PTK Centertel.

Regarding the most important employee-related issues, such as employment policy, remuneration policy and the role of internal mobility, recruitment and outsourcing, our policies remained unchanged.

### Other HR related initiatives

TP Group began the process of applying for European Community funding to finance training relating to the change programme.

After selling one of the TP Group companies dedicated to the medical sector (TP Med), we signed a contract with LUX MED to deliver medical services to all TP and PTK employees.

Telekomunikacja Polska was honoured with the title 'Leader of Human Resources Management 2009' at the 10th awards organised by the Institute of Labour and Social Relations in cooperation with the Ministry of Labour and Social Policy, for prominent achievements in all areas of human resources management. On the same occasion Telekomunikacja Polska was rewarded by the two main associations of private employers in Poland (Confederation of Polish Employers and Polish Confederation of Private Employers – Lewiatan) for 'achievements in building highest standards within HR management'

We also continued the Future Programme to support the building of a common corporate culture based on our corporate values.

We launched the next edition of the Talent Review programme and revised our succession plan for TP and PTK Centertel.

## CSR

TP Group  
Annual Report 2009

TP Group has a thriving programme of activities that support the company's commitment to Polish society and to the environment. The company also has a comprehensive code of corporate ethics, which guides our decision-making on a daily basis.

In 2009, TP Group was one of just 16 companies on the Warsaw Stock Exchange to be included in a new social responsibility index, WIG RESPECT. The index takes account of a wide range of corporate responsibility indicators, including environmental performance, stakeholder relations and corporate governance. 2000 volunteers among TP Group's employees already support the Orange Foundation and related CSR activities. TP Group has also launched a special programme for employees to coordinate these activities – Orange Community, which is part of the FT Group's international programme.

To find out more about TP Group's corporate responsibility commitments, please visit the "Society" section of our website at <http://www.tp-ir.pl>



TP Group  
Annual Report 2009

2009 was the first year for TP Group in which revenue from the mobile business failed to offset the decline in the fixed line segment. Regulatory price cuts, fierce price competition and ongoing fixed-to-mobile substitution combined to push TP Group's top line down by 8.8%. Nevertheless, the Group was able to meet its guidance for Net Free Cash Flow generation, which reached 19.5% of revenue – up from 16.8% a year ago.

TP Group maintained good liquidity, which was further secured by a €700 million bond issue under the EMTN programme. And we upheld our credit ratings at A3/BBB+ with 'stable' outlook.

Despite challenging trading conditions, TP Group has once again proved its ability to maintain a strong balance sheet and sound financing structure. As well as providing a flexible basis for the Group's future development, this allows us to offer attractive returns to our shareholders. For 2009, the Management Board has decided to recommend shareholder remuneration equivalent to PLN 1.50 per share.

#### 2009 performance by segment

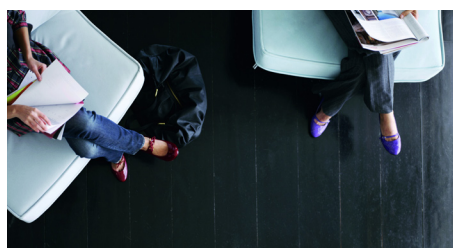
Fixed line segment revenue fell by -5.3%. Apart from the regulatory impact of MTR cuts (-3.1%), this decline was mainly attributable to fixed-to-mobile substitution and migration to our wholesale-based competitors (-6.4%). Although growth in data (+2.2%) and wholesale (+2%) offset around half of the segment's losses in 2009, the continuing erosion of fixed voice revenue is an area of concern. Customer loyalty will be key to defending our position in the legacy fixed voice market, and our medium term marketing strategy is focused around this objective.

TP Group broadband revenue rose by 9.1% thanks to steady growth in customer base and ARPU. Our volume market share in this sector fell slightly to 37.5% (compared to 39.4% a year earlier), as we experienced growing pressure from multi-play offers by cable TV operators. Again, our efforts in this area were focused on minimising churn, both by migrating customers to higher bandwidths and by matching our competitors' TV-plus-broadband offers. Roughly 16% of our retail broadband base now also subscribes to our TV offer. Both these strategies will be key to our fight-back in the increasingly competitive broadband arena.

In the mobile segment, MTR cuts were once again responsible for driving down revenue. Out of the 10.2% year-on-year decline, fully 9% – almost PLN 800 million – was attributable to the effect of regulatory decisions to reduce MTR by 50%. The resulting instability of retail prices undermined positive developments in other areas, including good growth of 7.4% in our post-paid customer base and increased take-up of fixed products under the Orange brand (such as BSA- and CDMA-based broadband). The pre-paid customer base declined by 11.5%, partly due to our rationalisation by almost 1 million SIM cards by the end of Q1 and partly as a result of ongoing price war in this segment. By the year's end, post-paid users accounted for 48.3% of the overall Orange customer mix, up from 43.5% at the end of 2008.

#### Profitability and cost control

Full year EBITDA stood at PLN 6.28 billion, compared to PLN 7.52 billion a year ago. Revenue erosion in the fixed voice segment had a major impact, driving EBITDA down by PLN 600 million. Regulatory impacts accounted for a further PLN 170 million reduction. Healthy volume growth in mobile and broadband put pressure on commercial costs and interconnect expenses. To add to all this, our cost base was inflated by the weakness of the Polish zloty. These factors are also reflected in the net income, which fell to PLN 1.28 billion or 7.7% of revenue (compared to 12% of revenue in 2008), despite a significant optimisation of financial costs (down by 30.5% year on year).

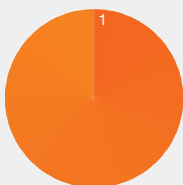


## TP Group Annual Report 2009

### Gross debt structure after hedging\*

%	
1 PLN	100%
2 EUR	0%
3 USD	0%

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



### Net FCF

PLN mn and % of revenue

\* Pro forma after the disposal of Ditel

2007	3,216 / 17.7%*
2008	3,036 / 16.8%*
2009	3,233 / 19.5%

However, in 2009 we took decisive measures to limit the fall of EBITDA in the form of a robust cost optimisation programme (PLN 380 mn savings in 2009) that contained the margin decline and will continue to deliver savings in 2010. Key achievements of the programme so far include:

- Offsetting roughly PLN 200 million forex impact on our commercial costs, by increasing SIM-only offers, advertising more selectively and reducing handset prices.
- Reducing office space, rationalising our car fleet by around 900 vehicles and other initiatives to optimise G&A.
- Limiting the rise of network and IT costs through vendor consolidation and re-negotiation of key supplier agreements.

Going forward, our new medium-term action plan sets out a comprehensive programme of initiatives to rebalance our cost base, optimising fixed costs in order to invest selectively in commercial costs that directly drive revenue.

### Capex

TP Group's capital expenditure for the full year was 14% lower than in 2008. This reflects our careful optimisation of investments in 2009. We carried out an in-depth analysis of spending that allowed us to react quickly to the fall in customer demand.

The main savings were made in the 2G network, in line with traffic stabilisation. We also slightly decreased our investments in core broadband and data infrastructure, although that area is still our top investment priority. And by re-negotiating with our vendors, we optimised costs in IT hardware and the core network. For broadband and TV customer premises' equipment – two areas with high revenue growth potential – capex increased slightly.

Overall, by concentrating on achieving our cash flow target and leveraging on our purchasing process, we achieved our objective of reducing capital expenditures without endangering future growth potential.

### Cash flow

TP Group maintained Net Free Cash Flow for the year at 19.5% of revenue, at the top end of the 18-20% range that we identified as a strategic objective in 2007. Preserving this key measure of our performance was quite an achievement, given the decrease in absolute value of EBITDA outlined above. There were three main factors at work here: firstly, the reduction in capital expenditure; secondly, a more favourable balance of capex payables than last year; and thirdly, lower income tax payments thanks to the favourable settlement of tax advances which we paid last year.

### Financing

At the end of 2009, we are pleased to report that our balance sheet has never been stronger. For the second consecutive year, we have been able to reduce our net debt by PLN 1 billion. Our net debt to EBITDA ratio is at a low level of 0.7, with net gearing after hedging at 21%.

The Euro bonds issue has improved the Group's debt structure and extended the average maturity. Our liquidity stands at a healthy PLN 8 billion and our strong credit rating is unchanged.

### Proposed shareholder remuneration

In considering the proposed level of shareholder remuneration for 2009, TP Group has followed its existing policy, taking the following parameters into account in order to offer its shareholders an attractive remuneration:

- 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 2009 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 around PLN 2 billion, equivalent to PLN 1.50 per share.

## CG framework

TP Group  
Annual Report 2009

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

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.





## CG framework

TP Group  
Annual Report 2009

**Report on the activity of the Supervisory Board of Telekomunikacja Polska S.A. and its committees in 2009**

**I. TP S.A. SUPERVISORY BOARD COMPOSITION**

Supervisory Board composition as on January 1, 2009:

1. Prof. Andrzej K. Koźmiński, Chairman and Independent Board Member
2. Olivier Barberot, Deputy Chairman and Chairman of the Strategy Committee
3. Olivier Faure, Board Member and Secretary
4. Antonio Anguita, Board Member
5. Vivek Badrinath, Board Member
6. Timothy Boatman, Independent Board Member and Chairman of the Audit Committee
7. Jacques Champeaux, Board Member
8. Ronald Freeman, Independent Board Member and Chairman of the Remuneration Committee
9. Dr. Mirosław Gronicki, Independent Board Member
10. Stéphane Pallez, Board Member
11. Georges Penalver, Board Member
12. Prof. Jerzy Rajski, Independent Board Member
13. Dr. Wiesław Rozłucki, Independent Board Member

In 2009, composition of the Supervisory Board changed as follows:

- on 16 January 2009, the mandate of Mr. Olivier Faure expired. On the same day, Mr. Olivier Faure was appointed by the Extraordinary General Meeting as a Member of the Supervisory Board.
- on 23 April 2009, the mandates of Messrs. Andrzej K. Koźmiński, Olivier Barberot, Vivek Badrinath, Stéphane Pallez, Georges Penalver, Jerzy Rajski and Wiesław Rozłucki expired. On the same day, Messrs. Vivek Badrinath, Olivier Barberot, Andrzej K. Koźmiński, Marie-Christine Lambert, Jerzy Rajski, Raoul Roverato and Wiesław Rozłucki were appointed by the Extraordinary General Meeting as Members of the Supervisory Board.

Supervisory Board composition as on 31 December 2009:

1. Prof. Andrzej K. Koźmiński, Chairman and Independent Board Member
2. Olivier Barberot, Deputy Chairman and Chairman of the Strategy Committee
3. Olivier Faure, Board Member and Secretary
4. Antonio Anguita, Board Member
5. Vivek Badrinath, Board Member
6. Timothy Boatman, Independent Board Member and Chairman of the Audit Committee
7. Jacques Champeaux, Board Member
8. Ronald Freeman, Independent Board Member and Chairman of the Remuneration Committee
9. Dr. Mirosław Gronicki, Independent Board Member
10. Marie-Christine Lambert, Board Member
12. Prof. Jerzy Rajski, Independent Board Member
11. Raoul Roverato, Board Member
13. Dr. Wiesław Rozłucki, Independent Board Member

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

Three permanent committees operate within the Supervisory Board composed, as at 31 December 2009, of:

- **Audit Committee:** Timothy Boatman – Chairman, Ronald Freeman, Olivier Faure and Marie-Christine Lambert – members;
- **Remuneration Committee:** Ronald Freeman – Chairman, Olivier Barberot, Jacques Champeaux and Wiesław Rożucki – members;
- **Strategy Committee** – Olivier Barberot – Chairman, Jacques Champeaux, Olivier Faure, Mirosław Gronicki and Jerzy Rajski – members.

## II. OPERATION

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

The Supervisory Board fulfilled in 2009 duties resulting from the provisions of the Commercial Companies Code:

1. Evaluated the Management Board's report on TP SA operations and the financial statements for the financial year 2008 and the Management Board's recommendation for distribution of the Company's profit,
2. Evaluated the Management Board's report on TP SA Capital Group's operations and the consolidated financial statements for the financial year 2008,
3. 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:

1. appointments of members of the Management Board,
2. recommendations of motions addressed to the General Meeting, including motion for amendment of the Articles of Association,
3. selection of an independent auditor to audit the Company's financial statements,
4. preparing an opinion on TP SA and TP Group budget,
5. supervision of the realisation of TP Group's operating and financial objectives,
6. expressing an opinion on financial commitments exceeding the amount of 100 M €,
7. concise assessment of TP Group situation.

## CG framework

TP Group  
Annual Report 2009

Throughout 2009 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 and the global crisis,
- c. Arrangement with the President of the UKE,
- d. changes in the Management Board of the Company,
- e. EMTN bonds issuance programme,
- f. cost optimisation programme,
- g. customer satisfaction,
- h. Group's Real Estate optimization program.

The Supervisory Board met 10 times in 2009. The Board adopted 38 resolutions, of which 1 in writing (by correspondence).

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

Reports of the Audit, Remuneration and Strategy committees on their activities in 2009 are presented on pages 30, 41 and 42 respectively.

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

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

### III. EVALUATION OF THE WORK OF THE SUPERVISORY BOARD

Having in mind the above operations, the Supervisory Board is of the opinion that in 2009, 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.

#### Audit Committee

The task of the Audit 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 liaise with the auditors of TP Group.

#### Report on Activities of TP Group Audit Committee in 2009

The Audit Committee was established by virtue of the Resolution of the TP Supervisory Board no. 324/V/2002 dated 14 June 2002 regarding the establishment of the Audit Committee as a consultative body acting under the Supervisory Board. The task of the Committee is to advise the Supervisory Board on the proper implementation of budgetary and financial reporting and internal control (including risk management) principles in the TP Group and to liaise with the auditors of TP Group.



**Composition**

In 2009, the Audit Committee was composed of the following persons:

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

Members: Ms. Stéphane Pallez – until  
23 April 2009 when her  
mandate expired  
Ms. Marie Christine Lambert  
– nominated on 23 April 2009  
Mr. Ronald Freeman  
("Independent Director")  
Mr. Olivier Faure – until  
16 January 2009 when his  
mandate expired and from  
26 March 2009 when  
nominated again.

The Secretary of the Committee was Jerzy Klonecki.

**Functions of the Committee**

The key functions of the Audit Committee include:

1. Monitoring the integrity of the financial information provided by the Company in particular by reviewing:
  - a. The relevance and consistency of the accounting methods used by the Company and the TP Capital Group, including the criteria for the consolidation of the financial results;
  - b. Any changes to accounting standards, policies and practices;
  - c. Major areas of financial reporting subject to judgment;
  - d. Significant adjustments arising from the audit;
  - e. Statements on going concern;
  - f. Compliance with the accounting regulations;
2. Review at least annually the Group's system of internal control and risk management systems with a view to ensuring that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed;
3. Annual review of the internal audit program, including the review of independence of the internal audit function, and coordination between the internal and external auditors;

4. Analysis of reports of the Company's internal audit department and major findings of any other internal investigations and responses of the Management Board to them;
5. Make recommendations in relation to the selection and remuneration of the Director of the Internal Audit department and on such department's budget;
6. Review and providing an opinion to the TP Management Board on transactions with related parties;
7. Monitoring the independence and objectivity of the Company's external auditors and presentation of recommendations to the Supervisory Board with regard to selection and remuneration of the Company's auditors, with particular attention being paid to remuneration for additional services;
8. Discussion with the Company's external auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
9. Review the issues giving rise to the resignation of the external auditor;
10. Discussion (in or without the presence of the Company Management Board) of any problems or reservations, resulting from the financial statements audit;
11. Review the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
12. Consideration of any other matter noted by the Audit Committee or the Supervisory Board;
13. Regularly informing the Supervisory Board about all important issues within the Committee scope of activity;
14. Providing the Supervisory Board with its annual report on the Audit Committee's activity and results.

## CG framework

TP Group  
Annual Report 2009

### Activity in 2009

The TP Group Audit Committee held 15 meetings in 2009, out of which 10 were regular meetings and 5 dedicated ad-hoc meetings, and in particular performed the following:

1. Reviewed the Company's and Group's published financial statements, notably the relevance and consistency of the accounting methods used by the Company and the TP Capital Group;
2. Reviewed the Group's system of internal control (including risk management) 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;
3. Reviewed the annual plan of the Internal Audit Department, its budget and progress reports, as well as monitored the responsiveness of management to internal audit findings and recommendations;
4. Made recommendation to the Supervisory Board on the external auditor, its remuneration and terms of engagement. In accordance with the Code of the Best Practices for companies listed on the Warsaw Stock Exchange, the Audit Committee recommended to the Supervisory Board the appointment of Deloitte Audit Sp. z o.o. to the audit of TP S.A. and Telekomunikacja Polska Group for the financial year 2009 and to review half-yearly financial statements for the period of six months ended June 30, 2009. TP S.A. had previously engaged Ernst & Young Audit Sp. z o.o. to perform audit services since 2002. The Audit Committee would like to express its gratitude to Ernst & Young Audit Sp. z o.o. for its professional support over this period of time.
5. 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 the Company's responsiveness to the recommendations from the external auditor made in its management letter;
6. Reviewed the development and operation of the Group's anti-fraud and whistle-blowing programs managed by the Management Board; monitored results of investigations initiated by whistle-blowing;
7. Reviewed the Group's 2010 budget and addressed recommendations on it to the Supervisory Board;
8. Reviewed the 2009 cash distribution policy proposed by the Management;
9. Issued opinions on other matters referred to the Committee by the Supervisory Board and/or the Management Board including a M&A transaction, the medium and long term financing of the Company and its subsidiaries and the financing proposals regarding the planned new head office of the Group.

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

### Timothy Boatman

Chairman of the Audit Committee of the Supervisory Board  
25 March 2010

TP Group  
Annual Report 2009

### The Remuneration Committee

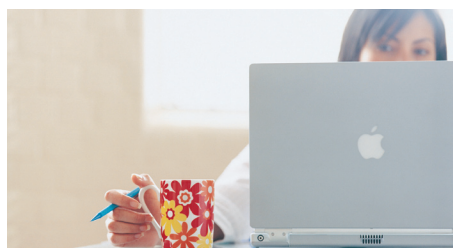
As of 31st December 2009, the members of the Committee were:

- Ronald Freeman – Chairman
- Olivier Barberot
- Jacques Champeaux
- Dr. Wiesław Rożucki

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 report of the Remuneration Committee can be found on page 41.



### The Strategy Committee

As of 31st December 2009, the members of the Committee were:

- Olivier Barberot – Chairman
- Jacques Champeaux
- Olivier Faure
- Dr. Mirosław Gronicki
- Prof. Jerzy Rajski

The Strategy Committee is chaired by Mr. Olivier Barberot.

The permanent guests at the committee meetings were Mr. Andrzej Koźmiński and Mr. Timothy Boatman.

The tasks of the Strategy Committee include:

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

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

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

The report of the Strategy Committee can be found on page 42.

## CG framework

TP Group  
Annual Report 2009

### 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 including risk management

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

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

The key elements of such system include the following procedures:

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

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

### 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 2009, 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 2009 TP published 165 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.

## Management Board

TP Group  
Annual Report 2009

**Maciej Witucki**  
President of the Board,  
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.

**Vincent Lobry**  
Vice President of the Board,  
Chief Marketing Officer

Vincent Lobry joined France Telecom in 1979 as a systems and network management engineer. After postings in Indonesia, the US, Spain and Italy, he moved into marketing, and was appointed B2C Marketing Director at FT France in 2006. He is a Knight of the Order of Merit and a graduate of École Polytechnique et École Nationale Supérieure des Télécommunication (Telecom ParisTech). Vincent Lobry joined TP Group's Management Board in September 2009.



TP Group  
Annual Report 2009

**Piotr Muszyński**  
Vice President of the Board,  
Chief Operating Officer

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 (EEL) 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 Group's Management Board in September 2008.



**Roland Dubois**  
Board Member,  
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 Group's Management Board in March 2008.





## Supervisory Board Assessment

TP Group  
Annual Report 2009

### Concise assessment of the Group's standing in 2009 prepared by TP S.A. Supervisory Board

This document is the Supervisory Board assessment of TP Group performance in 2009 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 2009 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 2009, the Supervisory Board 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 and the global crisis,
- c. Arrangement with the President of the UKE,
- d. Changes in the Management Board of the Company,
- e. EMTN bonds issuance programme,
- f. cost optimisation programme,
- g. Customer satisfaction,
- h. Group's Real Estate optimization program.

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 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 2009, 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. In particular, the TV offer has proved to be a success, with TP's TV customer base tripled to reach ~372k subscribers. At the end of 2009, over 16% of TP retail broadband subscribers have also taken up TP TV offer. 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. This contributed to growth of the Group total broadband customer base, which was up by 8.4% in comparison to 2008.

In October 2009, the Group has signed an Arrangement with the President of the Office of Electronic Communications. This is a groundbreaking arrangement, both for TP Group and for the Polish telecommunication market. It creates a more predictable and investment-supportive regulatory conditions for the Group. It also improves the perspectives for infrastructure development on the Polish telecommunication market and stimulates fair competition. Based on this arrangement, TP has launched a country-wide investment program up to 1.2 million broadband access lines, including roughly 1 million lines with speed of at least 6mbps. The Company estimates that the total capital expenditure of this investment program could amount to ~3 billion polish zloty.

### Fixed-line

TP Group's fixed business remained under strong regulatory and competitive pressure. TP Group continued to pursue the strategy of compensating lower revenue from fixed voice services with growth in Internet services. TP continued to promote new voice tariff plans, aimed at loyalising customers and optimising retention offers. The Company has also made significant improvements to its satellite TV offer, bringing its functionality on par with IPTV. TP has also made improvements to its broadband offering, with the launch of the 10mbps and 20mbps broadband options, matching the customer requirements and the offers of CATV competitors.



**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. Apart of the regulatory decisions, which have taken their toll on market development, the mobile market has been hit by aggressive price competition driven by the new entrant. However, the Supervisory Board notes with satisfaction that in an increasingly competitive market environment, PTK Centertel, operating under the Orange brand, remained the leading force for innovation in 2009, competing principally on the quality of its products and services and the transparency and simplicity of its tariff structures. Despite the aggressive price competition, the mobile business has been able to grow its post-paid customer base by 7.4%, reflecting the value approach of PTK Centertel.

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 unprecedented regulatory and competitive pressure, the Group's key strategic goals in 2009 were to:

- strengthen promotion of integrated services to increase ARPU and improve customer retention and customer satisfaction;
- further integrate fixed and mobile units and gain efficiency from integrated business processes;
- further rationalize Group's operations and processes in order to optimize operating expenses
- further optimize Capex spending based on sound investment criteria in without hampering the growth;
- generate Net Free Cash Flow of at least PLN 3billion
- intensify the Group's balance sheet optimization to improve return on assets base, including optimalization of the real estate portfolio;

- improve quality of service and shorten time to market for new products by continuing IT systems transformation and integration with CRM systems;
- 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 2009, despite a high decline of the market value, as well as the unexpected deterioration of the Polish Zloty, the Management met its guidance, set on Capex as percentage of revenue and Net Free Cash Flow. It was possible thanks to careful prioritisation of the Capex projects, aligning then with market demand, as well as thanks to sound effects of the 2009 Cost Optimisation Programme. Delivering on the Net Free Cash Flow of PLN 3.2billion in spite of the challenging market and macroeconomic conditions has yet again proved the resilience of TP Group business model to adverse external factors.

TP Group has followed on the Supervisory Board recommendations and continued its progress in terms of the financing activity. Throughout 2009, the Company has been able to reduce its net debt by roughly PLN 1billion, thus bringing its net gearing to ~21%. It has improved its gross debt structure by increasing the share of bonds to ~68%, thus also extending the average maturity to 3.3 years. Coupled with a strong liquidity position and an effective hedging policy, this has enabled TP to maintain its valuable credit rating of A3/BBB+ with a stable outlook, thus making its balance sheet one of the safest in the sector.

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 2010. That proposal obtained a positive opinion of the Supervisory Board and is subject to approval by the General Assembly of TP shareholders.

TP Group  
Annual Report 2009

### Conclusions and 2010 recommendations

Despite increased competition across all segments as well as intense regulatory pressure, TP Group has delivered satisfactory results in 2009. The Supervisory Board believes TP's Management Board has made the appropriate efforts to reach the 2009 objectives. Moreover, the Group, with its integrated offers and the new broadband investment program, is in a strong position to continue creating and exploiting the new opportunities on the Polish market.

The Supervisory Board's opinion, is that in 2010 the Group should focus its activities to implement the newly announced medium term action plan and also to:

- Monitor business performance closely so as to be able to react quickly to unfavorable trading conditions caused by the current worldwide economic difficulties;
- Strive for leadership in value on fixed voice, mobile and broadband markets;
- Increase customer satisfaction and loyalty;
- Monitor TP Group EBITDA margin, with particular reference to the mobile segment
- Monitor capital expenditure, with a specific focus on the spend and efficiency of the broadband investment program, which was launched in connection with the Arrangement with the Regulator
- Mitigate foreign exchange effect on commercial expenses, financial costs and capital expenditure;
- Further optimize operating cost base;
- Maintain financial stability;
- Generate Net Free Cash Flow of at least PLN 2billion;
- Successfully implement the Arrangement with the Regulator
- Deliver an attractive return to shareholders keeping in mind conditions set up in the shareholder remuneration policy;
- Further enhance internal control and risk management measures.

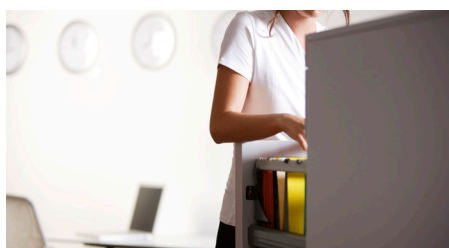
### Assessment of the Group's internal control including risk management

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, including risk management were presented in the Management Board's Report on the Activity of Telekomunikacja Polska Group for 2009, published on February 23rd 2010

In 2009, the Group again completed a comprehensive assessment of its processes of internal control over financial reporting within the framework of Sarbanes-Oxley Program of France Telecom Group. Main deficiencies both in design and in effectiveness of the internal control 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 31 December 2009. Continued efforts by Management in this regard are also needed in 2010.

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



TP Group  
Annual Report 2009

### Report on the activities of the Remuneration Committee of the Supervisory Board of Telekomunikacja Polska S.A. in 2009

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

#### Composition

In 2009, the Remuneration Committee was composed of the following persons:

Chairman: Ronald Freeman  
("Independent Director")

Members:  
Olivier Barberot  
Jacques Champeaux  
Wiesław Rozłucki ("Independent Director")

The Secretary of the Committee was Jacek Kałaur.

### Activities in 2009

The Remuneration Committee held 3 meetings in 2009 and in particular developed recommendations for Supervisory Board consideration focused on the following remuneration-related issues:

1. Changes in the composition of the Management Board (resignation of Ireneusz Piecuch, Richard Shearer, Grażyna Piotrowska-Oliwa, Jacek Kałaur), nomination of new Management Board Members (Vincent Lobry as Vice-President in charge of Marketing & Strategy) and PTK Centertel President (Mariusz Gaca); Piotr Muszyński has been nominated as Vice-President in charge of Operations.
2. 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.
3. Assessment of MBO-based bonuses for Management Board Members for H2 2008 and H1 2009.
4. Validation of MBO targets for Management Board Members for H2 2009.

### Ronald Freeman

Chairman of the Remuneration Committee  
of the Supervisory Board  
25 March 2010

TP Group  
Annual Report 2009

### Report on the activities of the Strategy Committee of the Supervisory Board of Telekomunikacja Polska S.A. in 2009

Major goals for the Strategy Committee is to give necessary support and advisory for the management board in the area of TP Group strategic plans and initiatives of the strategic importance.

#### Composition

Chairman: Olivier Barberot

#### Members:

Jacques Champeaux

Olivier Faure

Mirosław Gronicki

Jerzy Rajski

The secretary of the committee was  
Krzysztof Kaczmarczyk

#### Activities in 2009

In 2009 the activities of the Strategy Committee of TP Group Supervisory Board concentrated on the Action Plan of TP Group for 2010-11. The Committee started its work on the subject in 2Q 2009 and continued at every Committee meeting to the end of 2009. The discussions during Committee meetings concentrated around telecom sector evolution, competitive environment, regulatory regime and customer behaviour evolution in particular in the light of economic slowdown in 2009.

The Strategy Committee also widely discussed the Memorandum of understanding with UKE and its implications for TP Group.

In all these areas the members of TP Group management board actively participated.

There were four Strategy Committee meetings in 2009 during which other Supervisory Board Members also participated: Chairman of the Supervisory Board, Prof. Andrzej K. Koźmiński, Chairman of the Audit Committee, Timothy Boatman and Chairman of the Remuneration Committee, Ronald Freeman.

#### Olivier Barberot

Chairman of the Strategy Committee  
of the Supervisory Board  
28 January 2010

---

## Financial statements



## Consolidated income statement for the year ended 31 December 2009

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

## Consolidated statement of comprehensive income for the year ended 31 December 2009

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

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

Consolidated balance sheet  
for the year ended 31 December 2009

(Amounts in PLN millions)	Note	At 31 December 2009 (audited)	At 31 December 2008 (audited)
<b>Assets</b>			
Goodwill, net	14	4,016	3,994
Other intangible assets, net	15	2,767	2,914
Property, plant and equipment, net	16	17,743	19,589
Investments in associates		3	3
Financial assets available for sale	17	4	4
Loans and receivables excluding trade receivables	17	11	17
Financial assets at fair value through profit or loss	17	62	44
Hedging derivatives	22	55	12
Other assets		–	3
Deferred tax assets	12	506	400
<b>Total non-current assets</b>		<b>25,167</b>	<b>26,980</b>
Inventories, net		229	292
Trade receivables, net	18	1,475	1,814
Other assets	18	119	102
Loans and receivables excluding trade receivables	17	13	9
Financial assets at fair value through profit or loss	17	9	118
Hedging derivatives	22	2	–
Income tax assets		24	166
Prepaid expenses	18	100	113
Cash and cash equivalents	20	2,218	1,640
<b>Total current assets</b>		<b>4,189</b>	<b>4,254</b>
<b>Total assets</b>		<b>29,356</b>	<b>31,234</b>
<b>Equity and liabilities</b>			
Share capital	30	4,007	4,106
Share premium		832	832
Treasury shares	30	–	(704)
Other reserves	13, 27	91	8
Retained earnings		11,655	12,983
Translation adjustment		(6)	(8)
<b>Equity attributable to owners of TP S.A.</b>		<b>16,579</b>	<b>17,217</b>
Minority interest		14	13
<b>Total equity</b>		<b>16,593</b>	<b>17,230</b>



Consolidated balance sheet continued  
for the year ended 31 December 2009

(Amounts in PLN millions)	Note	At 31 December 2009 (audited)	At 31 December 2008 (audited)
Financial liabilities at amortised cost excluding trade payables	19, 21	6,033	5,075
Financial liabilities at fair value through profit or loss	22	61	–
Hedging derivatives	22	148	59
Trade payables	29	790	814
Employee benefits	26	234	282
Provisions	28	215	296
Deferred tax liabilities	12	7	4
Deferred income	29	53	59
<b>Total non-current liabilities</b>		<b>7,541</b>	<b>6,589</b>
Financial liabilities at amortised cost excluding trade payables	19, 21	375	2,100
Financial liabilities at fair value through profit or loss	22	89	14
Hedging derivatives	22	2	–
Provisions	28	1,208	1,220
Trade payables	29	2,477	3,059
Employee benefits	26	302	272
Other liabilities	29	184	211
Income tax payable		2	15
Deferred income	29	583	524
<b>Total current liabilities</b>		<b>5,222</b>	<b>7,415</b>
<b>Total equity and liabilities</b>		<b>29,356</b>	<b>31,234</b>

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

Consolidated statement of  
changes in equity  
for the year ended 31 December 2009

	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					
(Amounts in PLN millions)													
Balance at 1 January 2008 (audited)	1 368 773 241	4,200	832	(702)	1	(25)	4	2	(8)	13,456	17,760	13	17,773
Total comprehensive income for the 12 months ended 31 December 2008		–	–	–	(1)	(5)	2	–	–	2,188	2,184	2	2,186
Share-based payments		–	–	–	–	–	–	30	–	–	30	–	30
Purchase of treasury shares	(33 124 220)	–	–	(700)	–	–	–	–	–	–	(700)	–	(700)
Transaction cost of treasury shares purchase		–	–	(4)	–	–	–	–	–	–	(4)	–	(4)
Cancellation of treasury shares	–	(94)	–	702	–	–	–	–	–	(608)	–	–	–
Acquisition of minority interest		–	–	–	–	–	–	–	–	–	–	(1)	(1)
Dividends		–	–	–	–	–	–	–	–	(2,053)	(2,053)	(1)	(2,054)
<b>Balance at 31 December 2008 (audited)</b>	<b>1 335 649 021</b>	<b>4,106</b>	<b>832</b>	<b>(704)</b>	<b>–</b>	<b>(30)</b>	<b>6</b>	<b>32</b>	<b>(8)</b>	<b>12,983</b>	<b>17,217</b>	<b>13</b>	<b>17,230</b>
<b>Balance at 1 January 2009 (audited)</b>	<b>1 335 649 021</b>	<b>4,106</b>	<b>832</b>	<b>(704)</b>	<b>–</b>	<b>(30)</b>	<b>6</b>	<b>32</b>	<b>(8)</b>	<b>12,983</b>	<b>17,217</b>	<b>13</b>	<b>17,230</b>
Total comprehensive income for the 12 months ended 31 December 2009		–	–	–	–	50	(10)	–	2	1,280	1,322	2	1,324
Share-based payments		–	–	–	–	–	–	43	–	–	43	–	43
Cancellation of treasury shares	–	(99)	–	704	–	–	–	–	–	(605)	–	–	–
Dividends		–	–	–	–	–	–	–	–	(2,003)	(2,003)	(1)	(2,004)
<b>Balance at 31 December 2009 (audited)</b>	<b>1 335 649 021</b>	<b>4,007</b>	<b>832</b>	<b>–</b>	<b>–</b>	<b>20</b>	<b>(4)</b>	<b>75</b>	<b>(6)</b>	<b>11,655</b>	<b>16,579</b>	<b>14</b>	<b>16,593</b>

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 2009

(Amounts in PLN millions)	Note	12 months ended 31 December 2009 (audited)	31 December 2008 (audited)
<b>Operating activities</b>			
Consolidated net income		1,282	2,190
Adjustments to reconcile net income to funds generated from operations			
Depreciation and amortization	15, 16	4,150	4,317
Gains on disposal of assets	9	(35)	(110)
Impairment/(reversal of impairment) of non-current assets	10	33	(109)
Change in other provisions		(156)	(88)
Income tax	12	315	405
Interest income and expense		370	473
Foreign exchange (gains)/losses, net		(246)	956
Derivatives (gains)/losses, net		381	(558)
Share-based payments	7, 27	43	30
Change in working capital (trade)			
Decrease/(increase) in inventories, net		70	6
Decrease/(increase) in trade receivables		361	64
Increase/(decrease) in trade payables		(474)	175
Change in working capital (non-trade)			
Decrease/(increase) in prepaid expenses and other receivables		(8)	116
Increase/(decrease) in accrued expenses, other payables and deferred income		16	20
Interest received		37	58
Interest and interest rate effect on derivatives paid, net		(421)	(649)
Exchange rate effect on derivatives, net		125	(3)
Income tax paid		(302)	(667)
<b>Net cash provided by operating activities</b>		<b>5,541</b>	<b>6,626</b>
<b>Investing activities</b>			
Purchases/sales of property, plant and equipment and intangible assets			
Purchases of property, plant and equipment and intangible assets	15, 16	(2,185)	(2,579)
Increase/(decrease) in amounts due to fixed assets suppliers		(123)	(1,012)
Proceeds from sale of property, plant and equipment and intangible assets		33	591
Proceeds from sale of subsidiaries, net of cash	5	16	64
Cash paid for acquisition of subsidiaries, net of cash	5	(25)	–
Cash paid for acquisition of minority interest		–	(1)
Decrease/(increase) in marketable securities and other financial assets		10	(4)
Exchange rate effect on derivatives, net		(7)	(5)
<b>Net cash used in investing activities</b>		<b>(2,281)</b>	<b>(2,946)</b>

Consolidated statement of  
cash flows continued  
for the year ended 31 December 2009

(Amounts in PLN millions)	Note	12 months ended	
		31 December 2009 (audited)	31 December 2008 (audited)
<b>Financing activities</b>			
Issuance of bonds	19, 21	3,101	–
Redemption of bonds	19, 21	–	(2,368)
Issuance of long-term debt	19, 21	–	3,091
Repayment of long-term debt	19, 21	(1,936)	(228)
Increase/(decrease) in bank overdrafts and other short-term borrowings	19, 21	(1,800)	–
Decrease/(increase) in debt-linked deposits (cash collateral)		–	360
Purchase of treasury shares including transaction cost	30	(4)	(701)
Dividends paid	30	(2,004)	(2,054)
Exchange rate effect on derivatives, net		(37)	(787)
<b>Net cash used in financing activities</b>		<b>(2,680)</b>	<b>(2,687)</b>
Net change in cash and cash equivalents		580	993
Effect of changes in exchange rates on cash and cash equivalents		(2)	3
Cash and cash equivalents at the beginning of the period		1,640	644 <sup>(1)</sup>
<b>Cash and cash equivalents at the end of the period</b>		<b>2,218</b>	<b>1,640</b>

<sup>(1)</sup> 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 2009

---

### 1. Corporate information

#### 1.1. The Telekomunikacja Polska Group

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

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

<sup>(1)</sup> see Note 5.

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

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

<sup>(4)</sup> in December 2009 the entity merged with PayTel S.A.

<sup>(5)</sup> in January 2010 the entity merged with Ramsat S.A.

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

The Group owns shareholdings in the following associates:

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

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

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

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

## Notes to the consolidated financial statements continued for the year ended 31 December 2009

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

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

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

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

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

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

On 15 September 2009:

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

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

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

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

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

### 2. Statement of compliance and basis for preparation

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

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

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

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

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

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

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



Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 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 2009 may be subsequently changed. The main estimates made are described in the following notes:

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

### Use of judgements

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

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

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

## Notes to the consolidated financial statements continued

for the year ended 31 December 2009

### 3. Significant accounting policies

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

#### 3.1. Application of new standards, amendments and interpretations

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

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

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

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

##### Adoption of revised IAS 1 and IFRS 8

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

##### Adoption of revised IAS 23

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

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

IFRIC 18 “Transfers of Assets from Customers” has become effective and compulsory for any transfer of assets from customers received on or after 1 July 2009.

This interpretation has not been endorsed by the European Union. The adoption of this interpretation did not result in any significant changes to the Group accounting policies.

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

##### Standards and interpretations issued but not yet adopted

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 3. Significant accounting policies (continued)

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

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

##### Multiple-elements arrangements

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

#### 3.3. Options available under IFRSs and used by the Group

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

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

#### 3.4. Presentation of the financial statements

##### Presentation of the balance sheet

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

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

##### Presentation of the income statement

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

##### Earnings per share

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

#### Changes in presentation of the financial statements

##### Adoption of revised IAS 1

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

##### Adoption of IFRS 8

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 3. Significant accounting policies (continued)

#### 3.4. Presentation of the financial statements (continued)

##### Adoption of IFRS 8 (continued)

Segment performance measures are disclosed in Note 4.

##### Intra Group sale transactions

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

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

##### Changes in presentation of items of operating income

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

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

#### 3.5. Significant accounting policies

##### 3.5.1. Consolidation rules

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

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

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

Intercompany transactions and balances are eliminated on consolidation.

##### 3.5.2. Effect of changes in foreign exchange rates

##### Translation of financial statements of foreign subsidiaries

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

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

##### Transactions in foreign currencies

The principles covering the measurement and recognition of transactions in foreign currencies are set out in IAS 21 "The Effects of Changes in Foreign Exchange Rates".

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 3. Significant accounting policies (continued)

#### 3.5.3. Revenue

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

##### Separable components of packaged and bundled offers

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

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

##### Equipment sales

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

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

##### Equipment leases

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

##### Revenues from the sale or supply of content

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

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

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

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

##### Service revenue

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

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

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

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

##### Promotional offers

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

##### Loyalty programs

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 3. Significant accounting policies (continued)

#### 3.5.3. Revenue (continued)

##### Barter transactions

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

#### 3.5.4. Subscriber acquisition costs, advertising and related costs

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

#### 3.5.5. Borrowing costs

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

#### 3.5.6. Share issuance costs and treasury shares

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

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

Treasury shares are recognised using settlement date accounting.

#### 3.5.7. Goodwill

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

##### Impairment tests and Cash Generating Units

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

##### Recoverable amount

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

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

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

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

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

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

#### 3.5.8. Intangible assets (excluding goodwill)

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 3. Significant accounting policies (continued)

#### 3.5.8. Intangible assets (excluding goodwill) (continued)

##### Telecommunication licenses

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

##### Research and development costs

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

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

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

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

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

##### Software

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

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

#### 3.5.9. Property, plant and equipment

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

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

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

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

##### Government grants

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

##### Finance leases

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

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

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



Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 3. Significant accounting policies (continued)

#### 3.5.9. Property, plant and equipment (continued)

##### Derecognition

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

##### Depreciation

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

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

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

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

#### 3.5.10. Non-current assets held for sale

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

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

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

#### 3.5.11. Impairment of non-current assets other than goodwill

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

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

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

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

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

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

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

#### 3.5.12. Financial assets and liabilities

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 3. Significant accounting policies (continued)

#### 3.5.12. Financial assets and liabilities (continued)

##### Recognition and measurement of financial assets

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

##### Assets available-for-sale

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

When there is objective evidence that available-for-sale assets are impaired, the cumulative loss included in other comprehensive income is taken to the income statement.

A significant or prolonged decline in the fair value of equity instruments below costs is considered as an indicator that the securities are impaired. Impairment losses on equity instruments are not reversed through the income statement.

##### Loans and receivables

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

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

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

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

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

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

##### Assets at fair value through profit or loss

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

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

##### Cash and cash equivalents

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

##### Recognition and measurement of financial liabilities

##### Financial liabilities at amortised cost

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 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.

##### Recognition and measurement of derivative instruments

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

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

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

##### Hedging instruments

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

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

A hedging relationship qualifies for hedge accounting when:

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

The effects of applying hedge accounting are as follows:

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

##### Derecognition of financial assets and liabilities

###### Financial assets

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

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

###### Financial liabilities

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

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

##### Fair value measurements

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 3. Significant accounting policies (continued)

#### 3.5.13. Inventories

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

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

#### 3.5.14. Income tax

The tax expense comprises current and deferred tax.

##### Current tax

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

##### Deferred taxes

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

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

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

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

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

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

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

#### 3.5.15. Provisions

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

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

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

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

##### Restructuring

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

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

##### Provisions for dismantling and restoring sites

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 3. Significant accounting policies (continued)

#### 3.5.16. Pensions and other employee benefits

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

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

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

##### Termination benefits

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

##### Profit sharing plan

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

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

#### 3.5.17. Share-based payments

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

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

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

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

### 4. Segment information

The Group has two reportable operating segments:

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

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

Notes to the consolidated financial statements *continued*  
for the year ended 31 December 2009

**4. Segment information (continued)**

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

**5. Main acquisitions and divestitures of companies**

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

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

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

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



Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 6. Revenue

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

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

## 7. Operating income and expense

### 7.1. External purchases

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 7. Operating income and expense (continued)

### 7.2. Labour expenses

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

### 7.3. Other operating income and expense

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

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

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

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

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

### 7.4. Research and development

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

## 8. Restructuring costs

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

Movements in restructuring provisions are described in Note 28.

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 9. Gains on disposal of assets

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

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

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

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

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

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

## 10. Impairment

### 10.1. Information concerning the Cash Generating Units

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

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

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

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

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

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

### Sensitivity of recoverable amounts

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

- a 2.0 basis point increase in the pre-tax discount rate or
  - a 3.3 basis point decrease in the perpetual growth rate or
  - a 23% fall in cash flow after the fifth year
- would bring the value in use to the level of the book value.

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

- a 2.5 basis point increase in the pre-tax discount rate or
  - a 4.4 basis point decrease in the perpetual growth rate or
  - a 26% fall in cash flow after the fifth year
- would bring the value in use to the level of the book value.

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 10. Impairment (continued)

### 10.2. Goodwill

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

### 10.3. Other property, plant and equipment and intangible assets

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

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

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

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

### 10.4. Assets held for sale

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

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

## 11. Financial income and expense

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

Interest income includes mainly interest on cash and cash equivalents.

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 11. Financial income and expense (continued)

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

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

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

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

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

### 12. Income tax

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 12. Income tax (continued)

### Deferred income tax

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

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

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

## 13. Components of other comprehensive income

### 13.1. Financial assets available for sale

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

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

### 13.2. Cash flow hedges

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

#### 14. Goodwill

Goodwill arising from consolidated subsidiaries is as follows:

(in PLN millions)	At 31 December 2009			At 31 December 2008		
	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
Ramsat <sup>(1)</sup>	22	–	22	–	–	–
<b>Total goodwill</b>	<b>4,178</b>	<b>(162)</b>	<b>4,016</b>	<b>4,156</b>	<b>(162)</b>	<b>3,994</b>

<sup>(1)</sup> See Note 5.

#### 15. Other intangible assets

(in PLN millions)	At 31 December 2009				At 1 January 2008
	Cost	Accumulated amortization	Impairment	Net	
Telecommunications licenses	2,345	(921)	–	1,424	1,424
Software	4,186	(2,917)	–	1,269	1,269
Other intangibles	164	(78)	(12)	74	74
<b>Total</b>	<b>6,695</b>	<b>(3,916)</b>	<b>(12)</b>	<b>2,767</b>	<b>2,767</b>

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

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

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

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

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



Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 16. Property, plant and equipment

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

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

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

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

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

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

## 17. Financial assets

### 17.1. Assets available for sale

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

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

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.

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 17. Financial assets (continued)

### 17.2. Loans and receivables excluding trade receivables

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

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

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

### 17.3. Financial assets at fair value through profit or loss

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

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

<sup>(1)</sup>Included in net financial debt calculation (see Note 19).

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

### 17.4. Financial assets measured at fair value

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

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

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

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

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

<sup>(3)</sup> 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.

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

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

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

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

At 31 December 2009:

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

At 31 December 2008:

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 19. Net financial debt

### 19.1. Analysis of net financial debt by composition and maturity

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

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

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

At 31 December 2009:

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

<sup>(1)</sup> Includes both nominal and interest payments.

<sup>(2)</sup> Excluding trade payables and UMTS license payables.

<sup>(3)</sup> Both assets and liabilities are included.

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 19. Net financial debt (continued)

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

At 31 December 2008:

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

<sup>(1)</sup> Includes both nominal and interest payments.

<sup>(2)</sup> Excluding trade payables and UMTS license payables.

<sup>(3)</sup> Both assets and liabilities are included.

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

### 19.2. Analysis of net financial debt by currency

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

<sup>(1)</sup> Including market value of derivatives.

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

<sup>(1)</sup> Including market value of derivatives.

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 20. Cash and cash equivalents

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

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

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

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

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

## 21. Financial liabilities at amortised cost excluding trade payables

### 21.1. Bonds

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

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

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

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

### The European Medium Term Note issuance programme

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

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

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

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

Notes to the consolidated financial statements *continued*  
for the year ended 31 December 2009

**21. Financial liabilities at amortised cost excluding trade payables (continued)**

**21.2. Bank borrowings**

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

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

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

<sup>(1)</sup> Includes accrued interest and bank borrowings issue costs.

<sup>(2)</sup> Floating rate determined by the bank every three months.

<sup>(3)</sup> Floating rate determined by the bank individually for every drawing.

<sup>(4)</sup> Paid arrangement fees.

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 22. Derivatives

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

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

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

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

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

<sup>(4)</sup> 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 2009

## 22. Derivatives (continued)

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

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

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

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

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

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

At 31 December 2009:

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 22. Derivatives (continued)

At 31 December 2008:

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

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

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

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

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

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

## 23. Objectives and policies of financial risk management

### 23.1. Principles of financial risk management

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

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

### 23.2. Hedge accounting

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

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

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

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

### 23.3. Currency risk

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

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

### 23.3. Currency risk (continued)

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

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

### 23.4. Interest rate risk

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

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

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

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

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

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

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

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

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

### 23.5. Liquidity risk

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

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

#### 23.5. Liquidity risk (continued)

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

<sup>(1)</sup> Undiscounted principal payments on debt.

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

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

#### 23.6. Credit risk

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

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

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

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

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

#### 23.7. Price risk

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

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

#### 23.8. Management of covenants

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

#### 24. Management of capital

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 25. Fair value of financial instruments

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

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

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

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

<sup>(1)</sup> Carrying amount includes accrued interest.

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

## 26. Employee benefits

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

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

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

<sup>(1)</sup> Recognised under labour expense

<sup>(2)</sup> Recognised under discounting expense

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 26. Employee benefits (continued)

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

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

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

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

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				
31 December 2009	151	103	73	327
31 December 2008	152	87	94	333
31 December 2007	167	91	78	336
31 December 2006	177	85	80	342
31 December 2005	208	98	86	392

## 27. Share-based payments

### 27.1. Group incentive programme

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

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

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



Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 27. Share-based payments (continued)

### 27.1. Group incentive programme (continued)

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

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

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

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

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

### 27.2. France Telecom free share award plan

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

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

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

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

Key assumptions	France Telecom free share plan
Price of the underlying at the grant date	PLN 76.15 <sup>(1)</sup>
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% <sup>(2)</sup>
Vesting period	2 years
Model used	binomial

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 28. Provisions

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

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

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

(in PLN millions)	At 1 January 2009	Increases	Reversals (utilizations)	Reversals (releases)	Discounting effect	At 31 December 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
<b>Total provisions for risks and charges</b>	<b>1,355</b>	<b>408</b>	<b>(239)</b>	<b>(21)</b>	<b>13</b>	<b>1,516</b>
Current	1,177					1,220
Non-current	178					296

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

### Restructuring provisions

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

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

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

### Dismantling provision

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

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

## 29. Trade payables, other liabilities and deferred income

### 29.1. Trade payables

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

<sup>(1)</sup> Classified as financial liabilities measured at amortised cost under IAS 39

<sup>(2)</sup> It includes only UMTS licence liability

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

**29. Trade payables, other liabilities and deferred income (continued)**

**29.2. Other liabilities**

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

**29.3. Deferred income**

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

**30. Equity**

**30.1. Share capital**

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

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

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

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

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

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

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

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

**30.2. Dividends**

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 31. Contractual obligations and off balance sheet commitments

#### 31.1. Off-balance sheet contractual obligations and other commitments

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

##### a) Commitments related to operating leases

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

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

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

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

##### b) Investment commitments

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

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

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

##### c) Memorandum of Understanding with UKE

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

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

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

#### 31.2. Assets covered by commitments

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

### 32. Litigation and claims

#### Contingencies

##### a. Issues related to the incorporation of Telekomunikacja Polska

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

## 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 as well as other waste.

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

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

#### c. Tax contingent liability

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

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

#### d. Proceedings by UKE, UOKiK and the European Commission

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

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

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 32. Litigation and claims (continued)

#### Contingencies (continued)

##### e. Dispute with DPTG

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

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

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

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

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

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

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

##### f. Other contingent liabilities

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

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

### 33. Related party transactions

#### 33.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 33. Related party transactions (continued)

#### 33.1. Management Board and Supervisory Board compensation (continued)

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

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

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

<sup>(1)</sup> From the date of appointment

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

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

<sup>(1)</sup> From the date of appointment

<sup>(2)</sup> Until the termination date

<sup>(3)</sup> For the period of appointment

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

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

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

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

Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 33. Related party transactions (continued)

#### 33.1. Management Board and Supervisory Board compensation (continued)

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

##### Supervisory Board

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

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

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

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

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

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

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

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

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



Notes to the consolidated financial statements continued  
for the year ended 31 December 2009

### 33. Related party transactions (continued)

#### 33.2. Related party transactions

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

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

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

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

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

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

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

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

### 34. Subsequent events

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

Auditor's Opinion<sup>1</sup>**To the Shareholders and Supervisory Board of Telekomunikacja Polska S.A.**

We have audited the attached Consolidated Financial Statements<sup>2</sup> of the Telekomunikacja Polska Group ("the Group"), for which Telekomunikacja Polska S.A. ("TP S.A. / the Company") with the registered office in Warsaw, Twarda 18 St. is holding company, including:

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

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

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

Our audit of the Consolidated Financial Statements was planned and performed in accordance with:

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

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

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

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

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

The Management Board's Report<sup>3</sup> on the Activity of the Group in the 2009 financial year is complete in the meaning of Article 49 clause 2 of the Accounting Act and Decree of the Minister of Finance of 19 February 2009 on current and periodic information to be disclosed by issuers of securities (Journal of Laws of 2009, no. 33, item 259), derived directly from the audited Consolidated Financial Statements and reconciles with these financial statements.

Krzysztof Sowada  
Lead Certified Auditor  
No. 10944

Represented by

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

Warsaw, 22 February 2010

<sup>1</sup> Translation of auditors' report originally issued in Polish. The Polish original should be referred to in matters of interpretation.

<sup>2</sup> as presented on pages 40-94.

<sup>3</sup> as included in the filed financial statements for Warsaw Stock Exchange.