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## Orange Polska's\* goal is to achieve a strong leadership position in all our core markets.

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

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\*Telekomunikacja Polska Group hereinafter referred as 'Orange Polska', 'the Group'.

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# welcome

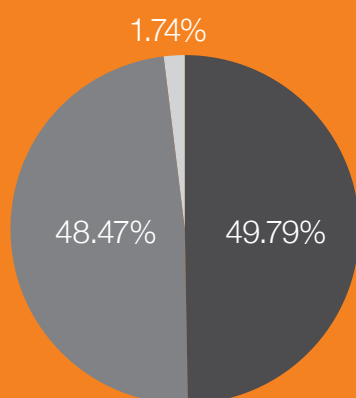
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During a year of radical change in the Polish telecom market, Orange Polska had to adapt to the triple threat of weak macroeconomic indicators, price wars in the mobile market, and further MTR cuts. We worked hard to end the year with growing customer numbers in both mobile and broadband, while also putting in place a robust medium-term action plan to address the new market realities and ensure a sustainable future for our company.

# our financial and operational highlights

In 2012, our share of the Polish telecoms market (by value) was 63.6% of fixed voice, 39.8% of fixed broadband, and 29.6% of mobile. Orange Polska is 49.79% owned by France Telecom.

## ownership structure



■ France Telecom S.A.  
■ Other shareholders  
■ TP S.A. (treasury shares)<sup>1</sup>

<sup>1</sup> Voting rights vested in treasury shares cannot be exercised at the General Assembly of TP S.A.

## 2012 financial highlights

- Group revenue PLN 14.1 billion
- restated EBITDA PLN 4.8 billion, 34.2% of revenue<sup>1</sup>
- net free cash flow<sup>2</sup> PLN 1.5 billion
- dividend yield of 6-7%<sup>3</sup>
- PLN 101 million cost savings in 2012 helped to bring the cost base down by 8.4% or PLN 0.9 billion since 2009
- sound financial structure, with net gearing at 28% and net debt to EBITDA at 1x

## 2012 operational highlights

- 237,000 mobile net adds
- value market share in mobile at 29% (in 4Q 2012)
- smartphone usage up 55% y-o-y to 3.3 million
- mobile broadband subscriptions up 33% y-o-y to 985,000
- 248,000 “triple play” clients
- 4Q Broadband ARPU growing by +5.1% year-on-year
- TV customer base up 11% y-o-y at over 700,000

<sup>1</sup> pro-forma adjusted for the deconsolidation of Emitel and Paytel, excluding gain on Emitel disposal (PLN +1,183mn), provision for EC fine (PLN -458mn), restructuring costs (PLN -172mn) and increase in DPTG provision (PLN -35mn)

<sup>2</sup> excluding €550 mn payment to DPTG

<sup>3</sup> based on share price range for mid Feb - March 2013

# PLN 0.5

dividend per share\*

\*subject to AGM approval

# 6-7%

dividend yield\*

\* based on share price range for mid Feb - March 2013

### total revenue (PLN mn)

2011	14,756
<b>2012</b>	<b>14,147</b>

change: -4.1%

### revenue composition (PLN mn)

#### fixed line telephony

2011*	4,569
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<b>2012</b>	<b>4,032</b>
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#### mobile telephony

2011*	7,010
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<b>2012</b>	<b>6,806</b>
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#### data services

2011*	2,418
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<b>2012</b>	<b>2,424</b>
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#### sale of goods and other services

'11*	759
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<b>'12</b>	<b>885</b>
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\*Pro-forma. Excluding Emitel

# 34.2%

EBITDA margin  
in 2012

# 101mn

cost savings (PLN)  
in 2012

<sup>1</sup> pro-forma adjusted for the deconsolidation of Emitel and Paytel, excluding gain on Emitel disposal (PLN +1,183mn), provision for EC fine (PLN -458mn), restructuring costs (PLN -172mn) and increase in DPTG provision (PLN -35mn)

<sup>2</sup> excluding €550 mn payment to DPTG

<sup>3</sup> adjusted for deconsolidation of Emitel and Paytel

### net free cash flow reported (PLN mn)

2011	pro-forma <sup>3</sup>	2,403
------	------------------------	-------

<b>2012</b>	<b>1,582<sup>2</sup></b>
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change: -35.8%

### net income (PLN mn)

2011	pro-forma <sup>3</sup>	1,918
------	------------------------	-------

<b>2012</b>	<b>855</b>
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change: -55.4%

### restated EBITDA<sup>1</sup> (PLN mn)

2011	pro-forma <sup>3</sup>	5,318
------	------------------------	-------

<b>2012</b>	<b>4,845</b>
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change: -8.9%

### restated EBITDA<sup>1</sup> (PLN mn as % of revenue)

2011	pro-forma <sup>3</sup>	36.0%
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<b>2012</b>	<b>34.2%</b>
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change: -1.8pp

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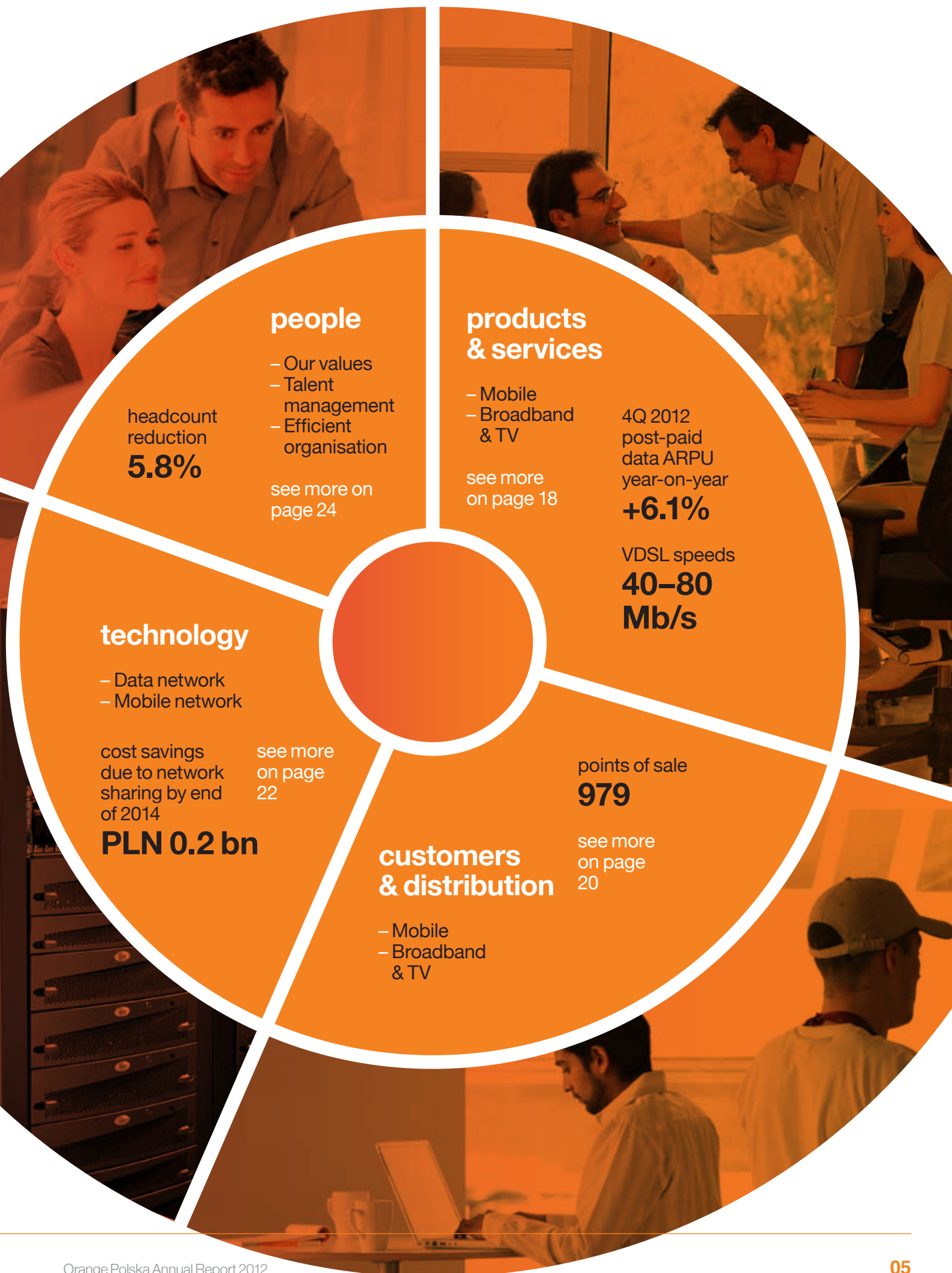
# Orange Polska at a glance

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**22,413**  
number of employees  
at year end

over  
**20mn**  
customers

Orange Polska is the largest telecommunications group in Poland, operating in all segments of the Polish telephony and communications industry. The Group owns the largest technical infrastructure in Poland, with operations in fixed-line voice, data and mobile networks.





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# CEO's letter



“In 2012 Orange Polska continued to deliver despite challenging operating conditions, making progress both from a commercial standpoint and in the area of cost optimisation.”

Dear Shareholders,

## **2012: A year of non-stop challenge – and some progress**

Please find enclosed the Group's results for 2012. It was a challenging year for us, as well as for the entire telecommunications industry. The Polish telecommunications market has started to undergo its most radical transformation ever, driven by deteriorating macroeconomic outlook, subsequent cuts of the mobile termination rate and fierce price competition, especially in the mobile segment of the market. The accumulation of these adverse factors exerted pressure on our 2012 performance, and in consequence we had to revise our full-year objectives in October 2012.

Despite the challenging operating conditions, Orange Polska continued to deliver progress in 2012, both from a commercial standpoint, as well as in the area of cost optimisation. We have grown the number of our mobile clients by 1.6% since 2011, in spite of the fierce competition. Simultaneously, we have reversed the commercial trends in broadband; by the fourth quarter of 2012 our broadband average revenue per user posted a 5% annual growth, while the customer base likewise returned to growth. These positive developments were achieved on the back of our strategy to bundle various products together, in order to provide our customers with a more complete solution.

## **Refreshed by rebranding**

I believe that our rebranding activities were a real success and we will benefit from this much needed change for many years. Not only did the change of the brand for fixed line services enable us to refresh our image, but also facilitated the launch of Orange Open, which is the first convergent offer on the Polish market, comprising of both fixed and mobile products. Its sales have been encouraging in 2012 and we will continue to promote it as a flagship convergent solution of the Group for private customers.

In parallel to rebranding our fixed activities into Orange, we contributed towards the success of the EURO 2012 Championship, which was co-hosted by Poland, by providing UEFA with good telecommunication infrastructure and services throughout the event. EURO 2012 was a great success, both for Poland and for our Group, as we gained both a more positive public image and experience vital to our ICT activity. I believe that this experience will strongly benefit us in the future.

## **Tight control on costs**

Throughout the year, we remained fully committed to optimising our cost base. We have pursued cost saving measures launched in prior years, such as the voluntary departures programme and the sharing of our radio access network, and launched new initiatives. We have again been able to optimise our cost base, reducing it by 1.4% since 2011. In effect, our cost optimisation actions throughout the medium term action plan have allowed us to reduce our headcount by over 5,000 and our cost base by almost PLN 0.9 billion since 2009. Simultaneously, we have begun to optimise our capital expenditures, as they were reduced by over 9% since 2011.





One brand for fixed and mobile



Unified retail presence

### 2013-15: A new approach to new market realities

We have reacted to the sudden and unpredictable deterioration of our operating environment. We realise the need for further change in order to adapt the Group to the new market conditions, where growth is no longer a given. Together with the 2012 results, the Management has launched a new medium term action plan, designed to protect the interests of the Group and all its stakeholders, including shareholders.

- The Group will serve its clients with a whole range of customer-oriented convergent solutions, addressing their total telecom needs. The Group plans to provide convergent solutions to roughly 50% of its post-paid customers, as compared to roughly 1% today. These services will be delivered to the customer through a modern sales and distribution network that will serve the customer seamlessly through all contact channels. Orange will provide these solutions through a widely available unified telecommunication network, which will give the customer a good connectivity experience. By doing this, the Group plans to secure its leadership position on all core markets and become the telecom operator that is most frequently recommended by clients in Poland.

- The Group will review resource allocation and transform into a leaner and flexible business, one that is even better adjusted to the challenging environment. It will accelerate the on-going cost optimisation programme and increase productivity. At the same time, it will review outsourcing options for various activities and dispose of non-core assets, striving to improve its efficiency. The Group will allocate significantly less resource to standard capital expenditures, preserving the funds for the 4G spectrum investment opportunity, while maintaining the sound financial structure of its balance sheet.

I would like to take this opportunity and thank all employees of Orange Polska, for their efforts and commitment, as it's thanks to them that we have been able to execute our plans and we can face the challenges of the future. Simultaneously, I am deeply convinced that this new medium term action plan will be a success, and that these measures are the ones we need to take to ensure the Group's long-term viability. They also represent an opportunity for us to emerge even stronger, once the environment improves, a few years down the road.

**Maciej Witucki**

President of the Board and CEO  
Telekomunikacja Polska

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# our medium term action plan 2013 - 2015

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As 2012 came to an end, Orange Polska reached the end of one chapter and the beginning of another.

resource  
generation

## convergence

convenient,  
technology  
transparent services  
available anytime  
& at any place

## customer

customer orientated  
solutions instead of  
products and  
technologies

## connectivity

good connectivity  
experience thanks  
to widely available  
convergent network

## medium term action plan at a glance

## capital

selective  
investments,  
keeping sound  
balance sheets

## cost efficiency

effective business  
model, with a more  
flexible cost base

resource  
allocation

Our 2010-2012 medium-term action plan was designed to address a particular set of challenges: to re-focus on our core business following groundbreaking new agreements with the Regulator; to re-engage with our key markets and improve our commercial position; and to re-balance our operating model to bring our cost base down and maintain profitability.

All of these initiatives have borne fruit. Today, our relationship with the Regulator is constructive. We have regained market leadership by value in mobile, and come back into competition in broadband. We have launched joint projects like network sharing with T-Mobile and television with TVN that are key to our future. Since 2009, we have brought our yearly cost base down by PLN 900 million. And between 2010 and 2012, we generated PLN 6.4 billion in free cash flow and returned PLN 6.4 billion to shareholders through dividends and a share buy-back.

But the next chapter has already begun: in 2013 we face unprecedented levels of competition in a saturated telecom market, against the backdrop of a stagnant Polish economy. In the years 2013-2015, Orange Polska must become more integrated, more robust and more agile than ever before. Our new medium-term action plan is the right approach to steer Orange Polska safely through the new challenges ahead.

<b>customer</b>	<b>our vision</b>  customer-oriented, total telecom solutions	<b>our commitments</b>  – sign up ½ of our contract customers to convergent products, like Orange Open – compete with solutions that offer better services and better value to customer (e.g. Orange Open Family, 100 ways to save with Orange) – single, convergent sales network – seamless “Orange Care” customer service operation
<b>convergence</b>	<b>our vision</b>  anytime, anywhere services convenient and technology-transparent	<b>our commitments</b>  – full legal merger of fixed and mobile businesses – coherent service for >20 million customers – maximise sales of product bundles and convergent solutions
<b>connectivity</b>	<b>our vision</b>  seamless connectivity experience convergent network with wide coverage	<b>our commitments</b>  – extend very high broadband (VHBB) network to 4 million homes – extend 4G coverage to over 90% and 3G coverage to 80% of population – ensure seamless switching between networks – improved customer experience
<b>capital</b>	<b>our vision</b>  selective investments and a sound balance sheet	<b>our commitments</b>  – long-term capex target 12-13% of sales (excl. spectrum) – 2013 capex below PLN 2 billion (excl. spectrum) – focused network investments to enable revenue-generating data traffic, including spectrum to launch 4G services – in the long term, net gearing maintained below 40% and net debt to EBITDA at maximum 1.5x
<b>cost efficiency</b>	<b>our vision</b>  flexible cost base and an effective business model	<b>our commitments</b>  – social plan to reduce headcount by 1700 in 2013 alone followed by a reduction in the number of managerial positions – reduce the number of low performing shops and grow proportion of online sales – network sharing to decrease our yearly operating cost base by PLN 100 million by 2015, coupled with significant capex avoidance – reduction of G&A costs made possible by the merger of TPSA with PTK Centertel – study of options, including partial outsourcing, for the fixed network and IT activities – sale of non-core subsidiaries including Wirtualna Polska

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# more integrated

one company,  
one customer base

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Over the last few years we have been integrating our fixed and mobile operations more and more closely, finding efficiencies by pooling sales, customer care and network resources. In 2013 the process will culminate in a formal legal merger of Telekomunikacja Polska (fixed line) and PTK Centertel (mobile). A more integrated organisation will allow us to make the most of our ability to market convergent solutions, delivered through the best sales network in Poland. In mid 2013 most of our Warsaw-based employees, regardless if they work at TP S.A. or PTK Centertel, will move to Orange Polska's new headquarters, called 'Miasteczko Orange'.

**20mn**  
customers





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# more convergent

## total telecom solutions

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# 3.2mn

smartphones  
at year end

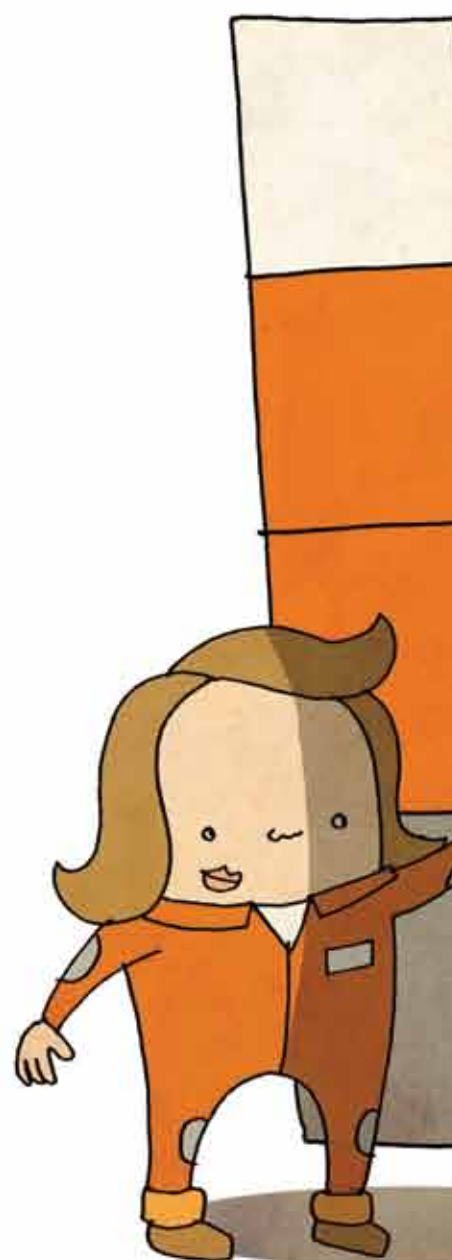
At the centre of our strategy is a vision: to provide the customer with total telecom solutions. Our Orange Open offer is the lynchpin of this approach, offering our customers convergent telecom services anytime, anywhere, with good connectivity. Alongside better products, we will employ smarter marketing techniques, developing and leveraging business intelligence to maximise sales opportunities within our existing and potential customer base.

# 99.8%

2G network coverage  
(% of population at year end)

# 69%

3G network coverage  
(% of population at year end)





# 248k

“triple play”  
(BB, TV, VoIP) subscribers  
at year end





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# more agile

## flexible cost base, gains in productivity

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With a proven ability to cut costs and find efficiency savings, Orange Polska's management team is well qualified to continue the process of optimising the company to adapt to a more saturated telecom market. The full integration of our sales and customer care operations will make a contribution to increased productivity. Further cost-optimisation measures are already underway, including a negotiated redundancy programme, a reduction in management posts, and a review of our property and asset portfolios.

our ambition

# 50%

of total post-paid in  
convergent solutions

# 1,392

y-o-y headcount reduction  
in 2012 to be followed by  
1700 departures in 2013





**0.9bn**

cost base down (PLN)  
since 2009

**101mn**

cost savings (PLN)  
in 2012

# 2012 operating review

## market climate

# 140.8%

SIM card penetration in Poland  
at the end of Q4'2012  
according to the Central Statistical Office

### number of smartphones ('000)

4Q2011	2,103
4Q2012	3,262
increase: 55%	

Poland's economy continued to grow in 2012, but at a slower rate – European Commission forecasts put GDP growth at 2.0% for the full year, compared to 4.3% in 2011. According to the Central Statistical Office of Poland, as at the end of 2012 unemployment remained relatively high at around 13.4%.

The Polish telecoms market did not fare so well in 2012: according to our estimates its value fell 0.6%. The main factors behind this decline include falling prices as a result of a price war in mobile, ongoing fixed-to-mobile substitution and the impact of Mobile Termination Rate (MTR) cuts. Both these trends are set to continue in 2013, causing further contraction of overall telecom market value.

#### Damaging competitive environment in mobile

Poland has one of the most competitive telecom markets in Europe, and we have been watching prices in the mobile pre-paid market fall since 2009. In Q2 of 2012, a new price war began in the post-paid market, when new entrant P4 introduced aggressively low-priced "unlimited" offers targeted at business customers. These offers were matched by the bigger competitors, leading to significant repricing in the enterprise market. This trend was continued in January 2013 with the launch by P4 of new, aggressively priced offers for individual customers, which included abundant packages of minutes and SMS.

#### Growth prospects in broadband

Poland's B2C broadband penetration rate rose by almost one percentage point in 2012, reaching 46.1% at the end of the year. It is still lagging behind penetration rates in Western EU countries, presenting a clear opportunity for future growth. Competition from cable TV operators is the main challenge to Orange Polska in major cities, but we are successfully challenging them with our bundled broadband, TV and VoIP packages and offers with higher data speeds achieved with VDSL (fibre to the curb).

#### Data and smartphones shape the future

Smartphones made up an increasingly large proportion of post-paid mobile sales in 2012. Over 20% of Orange Polska's mobile subscribers are now smartphone users, a rise of 55% compared to a year earlier and a promising sign that higher-value data services will drive growth in 2013 and beyond. Simultaneously we have observed high growth rates in the number of dedicated mobile broadband devices, which rose by 33% since 2011, reaching 985,000.

#### Broadband access market – key indicators:

	31 Dec 2012	31 Dec 2011
Market penetration rate in Poland – broadband lines (in total population)	17.9%	18.6%
Total number of broadband lines in Poland (thousands)	6,879	7,127
Volume market share of Orange Polska (TP + PTK Centertel)	34.1%	32.9%

# 2012 operating review

## regulatory update

### broadband customer base (000)

Triple play*	2011	55
	2012	248
VDSL	2011	6
	2012	26
TV	2011	636
	2012	706
*TV+BB+VoIP		

Orange Polska's relationship with UKE (the Polish telecom Regulator) continued along largely constructive lines throughout 2012.



Smartphones: a rapidly growing market

# +1,026,000

broadband lines brought into service since the signing of the MoU

### MoU investment programme nearing completion

At the start of 2012, we negotiated changes to the terms of 2009's Memorandum of Understanding with the Regulator. As a result, we agreed that 220,000 of the lines that remained to be built would have a capacity of 30 Mb/s or more, and that the total requirement of 1.2 million new or upgraded broadband lines will be completed by 31 March 2013 (weather conditions permitting). The changes allow Orange Polska to invest in attractive high-speed options and technologies including VDSL. From the commencement of the MoU implementation to 31 December 2012, Orange Polska brought into service a total of over 1,026,000 broadband lines.

We also fully complied with our other obligations under the MoU, including: the application of a non-discriminatory approach to inter-operator relations; the introduction of a new KPI system to monitor our wholesale and retail services; and amendments to our IT systems to make the source of wholesale orders anonymous.

### Final stage of MTR reductions

The President of UKE set MTR levels at PLN 0.0826 / minute in the first half of 2013 and PLN 0.0429 / minute from 1 July 2013. There is some positive news, in that MTRs for different operators will finally be standardised from January 2013, eliminating the asymmetries that have favoured other mobile operators in recent years. However, we estimate that these further falls in MTR, coupled with a resulting fixed-to-mobile rate cut in a similar range, will affect the value of the Polish telecom market by as much as PLN 2.7 billion in 2013 and PLN 0.8 billion in 2014. Consequently, these cuts will create additional pressure on our revenue throughout the next two years.

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# 2012 operating review

## products and services

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2012 was a landmark year for Orange Polska: we took a leap forward by drawing all our products and services under the same brand for the first time. Concentrating all our efforts around one strong brand will allow us to develop the sort of total telecom solutions that our customers are coming to demand.

**Vincent Lobry**

Vice President of the Board  
and Chief Marketing Officer

We launched Orange Open, our first truly convergent offer on the Polish market, to a very positive reception from customers. In a competitive market that continues to offer major challenges, Orange Open shows us a clear path forward.

### **Mobile**

#### **Increasing competitive pressure**

A saturated mobile market was the setting for fierce competition in Poland in 2012. The new market entrant P4 introduced an aggressively priced “unlimited” tariff in the post-paid segment in Q2, sparking a price war that squeezed ARPU, particularly in the business segment.

Although the disparate metrics presented by different operators make it increasingly difficult to determine market share, we know that all three large operators lost ground to the new entrant in 2012. According to our estimates, Orange Polska held on to its number one position in value terms, with 29.8% of the market.

#### **The rise of mobile data**

Data continued to be a bigger and bigger story in mobile. Attractive offers – especially those including subsidised tablets, notebooks and netbooks – stimulated demand for mobile broadband services. In addition, smartphone usage grew by 55% among Orange customers and now accounts for 20% of our post-paid clients.

### **Fixed line**

Poland's market for fixed voice services has been declining since the introduction of mobile, and fixed-to-VoIP substitution has more recently joined fixed-to-mobile substitution as a driver of further decline. 2012 revenue from fixed line operations fell 3.2% year-on-year (adjusted for deconsolidation of Emitel and Paytel), but at a slower rate than the previous period (6.6% decline in 2011).

Our fixed broadband business was disappointing in the first half of the year, reflecting a generally stagnant market as well as loss of customers to high-speed bundled offers from cable TV operators. Fixed broadband penetration in Poland went up by less than 1 percentage point. For the first time, we saw fixed broadband losing ground to mobile broadband, which Polish consumers still generally use in the home as a direct substitute. Strong sales and marketing efforts in H2 helped to turn the trend around, and we were back to growth in Q4.



Our main defence against competitors in fixed line is to increase loyalty by offering attractive bundled services. In 2012 we saw strong growth in take-up of our triple-play offer FunPack HD, adding almost 200,000 customers during the year. An early beneficiary of our cooperation agreement with TVN, this package includes TV with premium content, high-speed broadband and fixed voice service through VoIP.

#### Orange Open

The introduction of a fully convergent offer, Orange Open, was a landmark development for Orange Polska's broadband portfolio. Coinciding with the rebrand of all our fixed line services from TP to Orange, it offers progressively discounted fees if a customer uses our fixed broadband service (which can include fixed voice through VoIP) plus mobile voice and mobile broadband. In early 2013 we launched Orange Open Family, offering additional discounts for SIM cards for family members.

#### mobile market share in value (%)

2011	30.8
<b>2012</b>	<b>29.8</b>

#### broadband market share in value (%)

2011	41.1
<b>2012</b>	<b>32.9</b>



Customers benefit from fully convergent offers

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# 2012 operating review

## customers and distribution

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Throughout 2012, we continued to refine and integrate our sales, distribution and customer care operations to support greater convergence between fixed and mobile. Our goal is to back up the seamless connectivity that customers experience on our network with a seamless experience in customer care.



**Mariusz Gaca**

Chief Commercial Officer,  
Chief Executive Officer of  
PTK Centertel

### **Orange Care**

In 2012 the trend towards handling a greater proportion of customer care interactions online continued. We provided a choice of new customer service channels such as video call, the self-care application 'My Orange', Online Advisor or via our Facebook page. The care and energy we put into our web presence was recognised by the wider online community: the Orange Polska Facebook customer care site was ranked number 5 in the world by international social media analysts Socialbakers.

We provided and maintained a number of ICT services throughout UEFA EURO 2012™. The technical solutions we developed were designed to have a life beyond the tournament, with a legacy of improved services for Orange customers.

### **Sales and service**

Having successfully completed the rebranding of TP shops, we ended 2012 with 979 Orange points of sale, giving us an unrivalled distribution network across Poland.

### **Looking ahead**

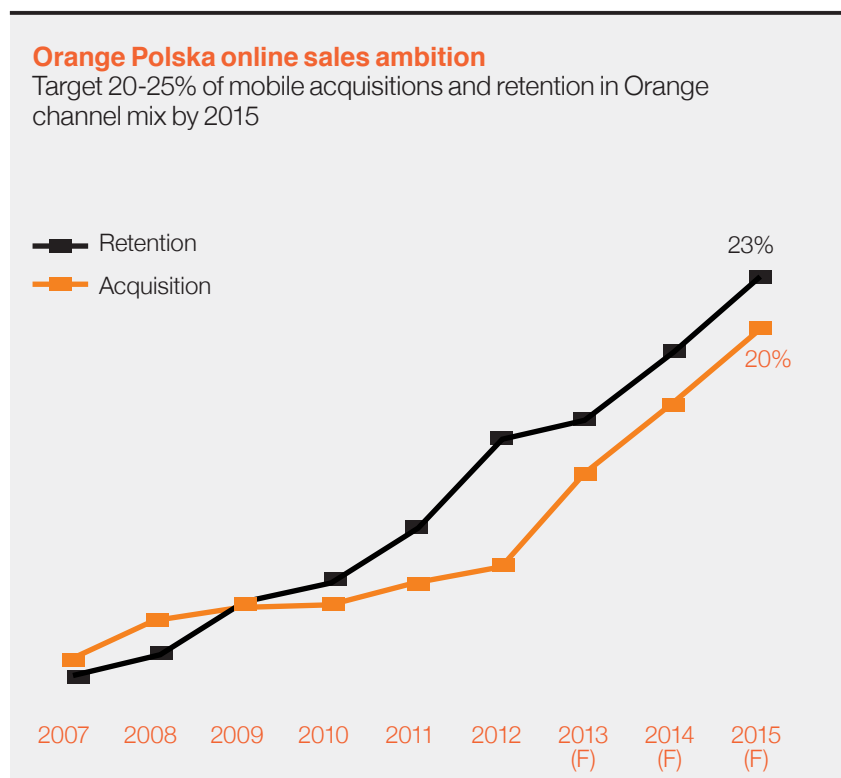
Our medium-term action plan includes a comprehensive programme of actions aimed not just at increasing customer satisfaction and loyalty, but also increasing the efficiency of our sales and customer care operations. Using the convergent databases will facilitate a new CRM approach, with a holistic view of the customer that supports the marketing of Orange Open and other convergent solutions in future.

Our distribution network will change too, with an optimised physical point-of-sale network and a growth in web-based transactions to 20-25% of total sales. In future, all Orange Polska customers will have a single point of contact with the company, through Orange Care, which he or she can access through a choice of physical or virtual channels and experience the same standard of service.





Orange Care: a single point of contact for our customers



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# 2012 operating review technology

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# 2,600

base stations in common networks 2012  
by end 2014-10,000



2012 saw the continuation of major investments in our broadband network under the terms of the 2009 Memorandum of Understanding with the Regulator.

**Piotr Muszyński**

Vice President of the Board  
and Chief Operating Officer

We kept the project on schedule, and also increased the percentage of new lines at higher capacity, supporting the data transfer speeds (over 30 Mb/s) that will support our commercial objectives going forward.

#### **Network modernisation and network sharing update**

Our network sharing project with T-Mobile progressed smoothly and according to plan. At the end of 2012, 2,600 shared base stations were already in operation and ready for future easier implementation of LTE. By the end of 2014, we plan to have 10,000 such base stations, giving us almost 60% more locations with Orange signal, extending 3G coverage to 80% of the country and paving the way for 4G coverage for over 90% of the population. Simultaneously, the network sharing concept allows us to reduce the number of base stations that we own, from over 6,200 to 5,000 (1/2 of all stations in the co-used access network). The resulting efficiency savings will reduce our yearly operating costs by roughly PLN 0.2bn by 2014, and we will avoid massive capital outlay on 4G-ready infrastructure roll-out.

#### **Cloud computing and security services**

Throughout 2012 we developed our cloud-based ICT services for the business market, including Infrastructure as a Service and Backup as a Service. We will continue to invest in cloud computing in the coming years. In addition we are developing security services both for the France Telecom – Orange Group and for commercial customers. These solutions include SOC (Security Operation Center), Protection against DoS, DDoS (Distributed Denial of Service), and anti-phishing measures.

# 69%

Group 3G coverage  
(% of population) in 2012

# +2.5mn

VHBB service coverage  
(no. of households)

### **Underpinning our future plans**

We are moving towards a world where our customer connects to our network via smartphone, tablet or TV, via WiFi at home and mobile anywhere else. Data traffic is growing exponentially in volume, and cloud storage is becoming increasingly crucial. In this new reality, our challenge is to ensure seamless connectivity: one Orange Polska network, regardless of access technology. To support our future plans for the company, we must continue to invest in high-speed networks (VHBB and 4G) and ensure that our core network is adequately integrated with the cloud. As part of this, we plan to acquire 4G spectrum that is planned to be sold by the government in 2013 or 2014. We will also radically transform our service platforms, as well as, simplifying and standardising the IT systems in order to better support convergent products and online customer self-service.



We continue to invest in high-speed networks

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# 2012 operating review people

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In 2012, we continued to implement the highest customer care standards within the company. We have decided that this area of our activity is a key potential source of competitive advantage.

**Jacek Kowalski**  
Board Member in charge  
of Human Resources

We have invested in the development of managers by establishing, together with our partners from the France Telecom Group, the Orange Campus, an innovative management training programme.

A new Social Agreement for the years 2012–2013 negotiated with our social partners has been in force since the beginning of 2012. The Social Agreement regulates issues related to employment policy. In particular, it provides for a voluntary departure programme enabling employees who cannot adapt their professional profile to the changing market needs to leave the company. The programme is designed for the company's employees in areas where workforce optimisation is necessary to increase efficiency and will generate considerable savings, particularly in labour costs.

#### **Employer of choice**

We have worked to build up the image of Orange Polska as one of the best employers on the market. A broad employment offer comprising almost 300 professions; professional development opportunities; innovativeness; stable remuneration; and a friendly working environment: these are the key elements that contribute to our positive image as an employer, both inside and outside the organisation. We have received several prestigious awards, including the HR Top Quality Certificate and the Top Employers Polska Certificate. In our own 'Your Perspective' programme, we actively promote Orange Polska at the key universities in Poland. This attracts a growing number of students to train within the company, which is an element of our long-term employer branding strategy with respect to this target group.

We also reach top specialists by undertaking several hundred recruitment drives each year. In addition, the company focuses on talent development and invests in the development of individuals with the highest potential. Over 40 people from our talent pool have been promoted to managerial positions.

#### **Development and Evaluation (D&E)**

Towards the end of 2012, we completed the stage one of our new Development and Evaluation (D&E) process, which involved all employees of Orange Polska. D&E provided an opportunity for annual manager/employee meetings to evaluate the latter's performance, this time leaving aside hard data. The conversations focused primarily on acting in line with the values and priorities set for managers and employees. The main purpose of the new appraisal process was to create a development plan for the following year.





232 managers attended training sessions as part of Orange Campus



All employees receive training and development opportunities through individual plans

Managers and employees could choose from a catalogue of dedicated development offers, particularly a number of different tasks and training courses. The next step in D&E will be the execution of individual plans. In 2013, we will work on translating the time and effort spent on D&E meetings into effective development, which over time will be reflected in improved business performance and the Orange management style.

#### **Orange Campus**

In June 2011, we launched the Orange Campus programme. It is a development centre for managers from the entire France Telecom-Orange Group. Training sessions are held in Serock (Poland), Paris and Madrid. They involve sharing experience and ideas for the accomplishment of business goals as well as the style in which we achieve them. A total of 23 international sessions were held in Serock in 2012 and 232 of our managers attended training in the three programme centres.

#### **Efficiency gains**

The increasing demands of the highly competitive market, automation of processes and changing competence needs have forced us to further optimise our workforce. Headcount decreased by 5.8% year-on-year and labour costs were trimmed by 1.8% (excluding one-off transactions in 2011 and 2012, related mainly to the revision of actuarial provisions). Under the Social Agreement, up to 2,300 employees will be able to make use of the voluntary departure programme in the years 2012–2013, including up to 1,150 employees who were eligible for the voluntary departure package in 2012. In early 2013 we have agreed with our social partners that up to 1700 employees may leave the Group this year.

#### **Performance Management**

We implemented Performance Management with respect to our managers in July 2012. It is an effective tool for determining, monitoring and assessing the achievement of objectives. It has enabled us to enhance the contribution of various functions within the organisation to the pursuit of the company's strategic objectives.

We have enhanced the existing management by objectives (MBO) system by setting KPIs which are closely linked to the company's financial performance.

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# financial performance

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The Group's revenue continued to trend downwards in 2012, driven primarily by price pressure in the mobile market, as well as regulatory decisions on MTR cuts.

Jacques de Galzain  
Chief Finance Officer

# 2.2bn

Total Shareholder  
remuneration (PLN)

# 2.3bn

Capex (PLN)

## OPEX up to EBITDA in PLN bn

2009	10,280
2010*	9,943
2011**	9,512
2012	9,302

\* excluding the impact of provision for DPTG (PLN -1,061 mn).

\*\* excluding the impact of gain on disposal of Emitel (PLN +1,183 mn), increase in provision for European Commission fine (PLN -458 mn), provision for DPTG in Q4 2011 (PLN -35 mn), and restructuring costs in Q4 2011 (PLN -172 mn).

As a result our EBITDA decreased, ending the year at 34.2% of sales. On the positive side, our cost optimisation programme delivered over PLN 100 million in 2012. We reduced the Group's workforce by almost 6%, with the cooperation of the unions. And we cut capex by 9% to PLN 2.3 billion, optimising capex to sales ratio to 16.5%. Given that we expect revenue and cash generation to come under even more pressure in 2013, we will accelerate cost optimisation, striving to transform Orange Polska into a leaner and more agile organisation. Simultaneously, adapting to the challenging environment requires a very disciplined stance towards capital allocation. We will strive to bring capital expenses down to 12-13% of revenue in the future. We plan to allocate significant capital to acquire spectrum, which is vital to our future, while preserving the strength of our financial structure by keeping net debt below 1.5x EBITDA and net gearing below 40%. In this context, we decided to take a more cautious position towards shareholder remuneration. We do believe that this responsible decision is to the long-term benefit of the Company and all its stakeholders, including shareholders.

### Revenue trends: unprecedented pressure

Orange Polska's top-line fell by 4.1% in 2012, declining at the same pace as in 2011. The first half of the year gave little warning of what was to come, with a decline of just over 2% in the semester. However, the price war in mobile post-paid accelerated during the second half of the year. The rate of revenue decline grew correspondingly steeper, to 5.5% in Q3 and 6.4% in Q4.

<sup>1</sup> Unless stated otherwise, all 2011 figures are pro forma - adjusted for deconsolidation of Emitel and Paytel

### Profitability reflects the impact of an increasingly challenging market environment

EBITDA decreased in 2012, mainly on the back of lower turnover in the mobile segment. In addition to the price war and MTR cuts, our interconnect costs were under pressure once "unlimited" plans began to stimulate higher traffic. Although PLN 101 million in savings from our cost optimisation programme gave EBITDA a boost, the full year figure stood at PLN 4.8 billion, a margin of 34.2% compared to 36.6% in 2011.

Orange Polska's net income for 2012 stood at PLN 855 million compared to PLN 1.9 billion reported in 2011 (a figure that included the gain on disposal of Emitel as well as significant changes to provisions). As a result, EPS fell from PLN 1.44 in 2011 to PLN 0.65 in 2012. EBITDA apart, evolution of net income was driven by three other factors: a PLN 440 million fall in depreciation year-on-year, a PLN 125 million rise in net finance costs. Additionally, income tax amounted to PLN - 161 million for 2012 versus a positive charge of PLN 133 mln in 2011 thanks to deferred tax asset recognition.

### Capex objectives achieved

Total capital expenditure for the year was just over PLN 2.3 billion. This is 9% lower than the previous year, reflecting the fact that our broadband investment programme is nearing completion. There has been a marked reduction in capex to sales ratio, from 17.5% in 2011 to 16.5% in 2012. This trend is set to continue as we move towards a less capex-intensive business model.

This year, we invested 36% of capex in broadband, compared to 48% in the previous period. Other key investment areas include improvements to the IT systems that will support our push on convergent telecom solutions; and upgrades to our networks to keep pace with demand for higher speeds and greater volumes of data.



## financial performance

*continued*

### Cash generation in line with revised guidance, hampered by operating environment

Orange Polska's operating environment put significant pressure on cash flow in 2012, driving it down to PLN 1.5 billion (excluding the settlement with DPTG), roughly PLN 860 million below 2011 levels. Cash from operating activities (before working capital and tax paid) was down by over PLN 500 million year-on-year due to lower EBITDA, while our working capital requirement grew by PLN 100 million. These effects were partly mitigated by lower tax paid. Deferred tax assets that we created at the end of 2011 allowed us to reduce our payments from almost PLN 190 million in 2011 to PLN 46 million in 2012.

### Net debt rises but no threat to sound balance sheet

2012 saw a PLN 3.3 billion increase in net debt, taking the total level at year end to just over PLN 5 billion. The increase is down to a PLN 2.4 billion settlement paid to DPTG, and to the PLN 2.2 billion in shareholder remuneration that we paid in 2012 – a combination of cash dividend and a share buy back - a figure that exceeded our cash generation by PLN 580 million. Consequently, net gearing is up from 11% at the end of 2011 to 28% at the end of 2012 and our net debt to EBITDA has reached 1x. Nonetheless, the structure of our balance sheet is sound and gives us confidence that we can adequately fund our future business needs. We have already launched additional initiatives to obtain flexible financing at a competitive cost from our reference shareholder – France Telecom S.A.

### Proposed shareholder remuneration to be paid in 2013

Facing significant and growing market volatility, as well as uncertain significant cash outflows (including 4G spectrum investment opportunities) while striving to preserve the sound balance sheet of the Group:

- We have decided to commit to a shareholder remuneration floor of PLN 0.5 per share, to be paid in July 2013, in form of an ordinary cash dividend
- Please note that the articles of association of TPSA allow for an interim shareholder remuneration

We believe that this decision is in the best long-term interests of the Company and all its stakeholders, including shareholders. We are absolutely determined to preserve the sound financial structure of our balance sheet, safeguarding the future flexibility of our business.

#### CAPEX in PLN bn

2010	2,716
2011	2,606
2012	2,335

# 1.5bn

net free cash flow (PLN)

# 855mn

net income (PLN)

# 28%

net gearing

# 1.0x

net gearing to EBITDA

## Looking ahead

We have decided to modify the way we provide a financial outlook, focusing on the performance drivers that are within our control and on a time period for which we have visibility.

Based on the information currently available, we anticipate a steep decline of our revenue in 2013, driven down by the MTR cuts, as well as by the impacts stemming from the ongoing price war in the mobile market.

In response to these pressures, we will accelerate the process of transformation at Orange Polska in 2013, continuing our cost optimisation drive with a major headcount reduction programme that will reduce the number of management posts. We will rationalise both our office space and our sales network. We will conduct projects that move us towards a more flexible cost structure, including considering partial outsourcing of fixed network and IT services. A deep review of our asset portfolio has led us to put Wirtualna Polska up for sale, and other small subsidiaries may follow.

In years to come, we will be able to significantly reduce capex. It will come down to below PLN 2 billion in 2013 and we are striving for a less capital-intensive business in the long term with a capex to sales ratio target of 12-13%. An important exclusion will be the acquisition costs of the 4G spectrum, which we estimate may cost between PLN 1 and 2 billion. We anticipate that the business will generate organic cash flow above PLN 800 million in 2013<sup>1</sup>. We reiterate that the maximum debt metrics with which we feel comfortable are as follows: net gearing at a maximum range of 35-40% and net debt to EBITDA at a maximum of 1.5x. In such volatile markets we may need to exceed these levels for short time periods, but we will maintain this ceiling in the long term.

<sup>1</sup> excluding spectrum acquisition, change in consolidation scope and impact of risk and litigation

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# corporate social responsibility

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For Orange Polska, corporate social responsibility is a way of doing business: it is both a long-term management strategy and a way of improving our competitive advantage on the market.

Since 2006, we have been a partner of the Responsible Business Forum and have committed ourselves to principles of the UN Global Compact – the first Polish telecom company to be numbered among its signatories. The Global Compact is the world's largest initiative for corporate responsibility and sustainable development. Signatory companies pledge to align their operations with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption.

We want social responsibility to become part of our everyday business practice and our plans for the future. Therefore, we have developed a CSR strategy to address the social challenges faced by our company and our entire industry.

Our CSR strategic goals are as follows:

- to be an active player in building the information society
- to provide safe products, services and technologies
- to be an innovator providing tools to build the "low carbon society"
- to be a reliable partner in an ethical supply chain
- to provide high quality services and customer service standards
- to be a good employer
- to maintain high awareness of the company's social initiatives and voluntary work programmes
- to reduce the company's negative impact on the natural environment (other than climate)

In order to achieve these goals, we strive to:

- strengthen the formal mechanism of dialogue with our stakeholders
- support the management mechanisms that build Orange Polska's position as a CSR leader

Responsibility for the development and implementation of Orange Polska's CSR strategy lies with the CSR Steering Committee, which is made up of managers from different areas within the organisation. As well as managing and coordinating the CSR strategy, the Committee has the task of aligning it with the company's business goals and monitoring the implementation of CSR initiatives and projects. On a daily basis CSR activities are handled by the Corporate Analysis and CSR Division, which is part of the Management Board Office. The team also collaborates with CSR specialists from France Telecom Orange Group.

A full account of Orange Polska's CSR performance in 2012, including our performance against key environmental, social and ethical performance indicators, will be available in our 2012 CSR report, to be published mid-2013. Reports for previous years can be found here. <http://www.orange-ir.pl/csr>



27,000 hours worked by volunteers for local communities

In 2012, as in all previous editions, Telekomunikacja Polska (Orange Polska) was included in the RESPECT Index, a prestigious group of companies which follow the highest corporate social responsibility standards.

# 50

Orange Labs for small local communities

# 3,500

libraries turned into modern educational centres

Currently, the index comprises 20 companies which implement corporate social responsibility (CSR) principles in all areas of operation. They are characterised by comprehensive CSR management and diligent responses to the needs and expectations of the environment in which they operate.

The RESPECT Index project was launched in November 2009. It is the first index of socially responsible companies in Central and Eastern Europe. The project is carried out by the Warsaw Stock Exchange in conjunction with external partners.

### Building the Information society

The telecommunications industry is of key importance not only for the development of the information society but also of civic society. Combating digital exclusion means mainly eliminating social barriers that restrict access to knowledge, culture and education through modern forms of communications. Those at high risk of digital exclusion include low-income, disabled, elderly or less educated people as well as people living in rural areas.

In Orange, we aim to deal in a comprehensive manner with the issue of the adaptation of our services, customer care and communication to the needs of this group of customers. We also undertake educational initiatives.

In our portfolio we have identified those services and benefits which may be most useful for elderly or disabled people, and we offer dedicated terminals, applications and equipment, as well as educational programmes addressed to these groups of customers.

The blind may receive bills in Braille, while those with impaired sight are offered enlarged invoices by post or email.

Furthermore, we have been working on new applications for people with disabilities. The b-Link application, which makes it possible for the fully disabled to use computers by eye blink, has been available for several years. Over 16,000 people have downloaded it from Orange's website. Last year, we introduced free applications for mobile phones, Colorcall and Melovibe, which are designed for people with no or impaired hearing.

## 2012 CSR highlights

70,000 children attended 400 "Net pets on holiday" educational picnics

135,000 interventions via the [www.helpline.org.pl](http://www.helpline.org.pl) website

Over 200,000 primary and secondary school students used e-learning courses on how to use the Internet safely

224,000 registered users of the [Sieciaki.pl](http://Sieciaki.pl) portal

Over 1,200 initiatives submitted as part of the Safe Internet Day celebration

12,000 children attended lessons conducted by more than 100 Orange volunteers all over Poland

The education of elderly people remains one of our priorities. Together with libraries all over Poland we carry out a programme of free training for senior citizens in how to use computers and the Internet. We also recruit volunteers to deliver training. So far, 123 training sessions in 66 locations have been attended by a total of 1,016 senior citizens. We are also active in the Coalition for Digital Inclusion of the 50+ Generation, "Maturity in the Web", which unites companies, NGOs, state agencies and institutions in their efforts against the technological exclusion of elderly people.

We want to demonstrate the potential role of the Internet in rural communities, particularly in building a sense of community, disseminating knowledge or promoting the regional culture.

Over 3,500 public libraries in Poland have enjoyed free access to the Internet since 2009 as a result of an agreement between Orange Polska, the Ministry of Culture and National Heritage, the Ministry of Administration and Digitalisation and the Information Society Development Foundation. In 2012, the agreement was renewed for a further three years. Also the Orange Foundation has been supporting libraries in popularising the Internet as a modern educational tool by providing grants and materials about safety on the net.

In 2012, in 50 small towns we developed multimedia Orange Labs to serve as information and cultural centres as well as a meeting-place for local communities. Each lab's purpose was determined by the community itself. In addition, we have launched an on-line platform to enable the labs to share information and experience, launch projects together and develop digital competence. The lab leaders co-operate with local organisations, local authorities, schools, libraries, parishes, etc., to ensure that the lab's activities fully meet the needs of local communities.

### Safety of children and youth on the Internet

One of our CSR aims is to ensure the safety of children and youth on the Internet and prepare young people to use new media responsibly.

We join social campaigns which build awareness of hazards related to using the Internet: we are the main partner of the "Child on the Net" programme carried out by the Nobody's Children Foundation. Together with the Foundation we have developed the [www.sieciaki.pl](http://www.sieciaki.pl) ('net pets') service, where children can find plenty of useful information about safe and effective ways of using the Internet. As part of our efforts for the security of kids on the Internet, each summer holiday season we run the "Net pets on holiday" project, organising educational picnics for children in tourist resorts in conjunction with local governments and community centres.

For a few years now, in conjunction with the Nobody's Children Foundation, we have been operating a free telephone line, 800 100 100, and a website, [www.helpline.org.pl](http://www.helpline.org.pl), where children and their guardians can get help and advice if faced with hazards on the net.

### Responsibility in the workplace

The key to a company's success is its employees. Orange Polska employs over 23,000 people throughout Poland. For us, social responsibility begins in the company and is based on relations with our employees.

The development of a culture of respect for diversity within the company is a key priority for us. Therefore we disseminate information about it among our employees, and diversity issues are addressed in our Code of Ethics. Orange Polska has signed and supports the Diversity Charter in Poland. The content of the Polish Charter was developed by working groups composed of representatives of three sectors: business, administration and NGOs. A major element of the process involved consultations with organisations representing various social groups, including the disabled, elderly people, parents or sexual and religious minorities.



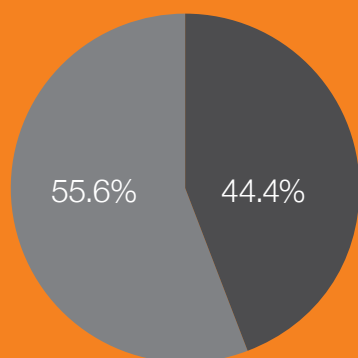
## Employee training

	2011	2012
Employees trained (in '000)	22.9	21.35
Hours of training (in '000)	637.1	606.79
Average number of training hours per employee per year	27.6	28.42



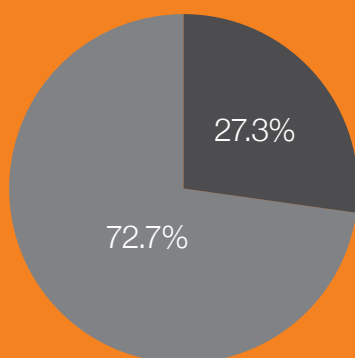
Recycling unwanted handsets

## Diversity at Orange Polska



■ Female employees  
■ Male employees

## Diversity: Women in managerial positions



■ Women  
■ Men

In order to promote equal access of women to managerial positions in Poland, our company has initiated the EPWN (European Professional Women's Network) Warsaw project. Its main purpose is to support the equality of women and men and promote equality of opportunity through all career stages.

Ensuring transparent and competitive rules for evaluating and rewarding employees as well as implementing equal treatment principles are among the basic conditions to be met by any socially responsible company. For several years we have been following an annual evaluation process. In 2012, the process followed a new formula and involved 20,230 employees of Orange Polska (almost 99%). The evaluation process provides an opportunity for annual manager/employee meetings to evaluate the latter's performance and create an individual development plan for the following year.

In Orange we believe that strengthening what is the best in people is a guarantee of their professional and personal success. We offer numerous opportunities for development and education. Our employees can use the Development Products Library, a comprehensive tool for knowledge management within the company. The library gathers information on development products, including e-learning courses.

We are looking for people with outstanding managerial potential, achievements within their business areas and the necessary abilities and skills, also in an international context. We have developed the Talent Review programme and the succession programme for them. We have launched an international development programme, Orange Campus, to promote uniform management standards across the France Telecom – Orange Group. It is offered to all managers in the Group. Orange Campus has three international training centres in Poland, France and Spain.

We encourage people to be creative and look for interesting solutions to streamline the company's activities. For ten years, we have been running the Telecreator contest, which seeks practical ideas from Orange Polska's employees and our partners with the aim to promote innovation and creativity.

The Orange Passion programme enables employees to share their passions and interests, while the Orange Community programme supports the community involvement of Orange Polska's employees. Our corporate volunteering programme has been in place for nine years and a total of over 8,000 of our employees have been involved as volunteers in various projects for local communities.

#### Natural environment

We are increasingly focused on minimising our environmental impact by reducing energy consumption, introducing waste segregation and encouraging more efficient paper management. We want Orange Polska to be a company which promotes eco-friendly attitudes and has its employees involved in initiatives aimed at reducing the negative impact on the environment.

We work continually to reduce our impact on the natural environment. As part of our environmental policy we monitor our operations for compliance with laws and other regulations, control the negative impact of our processes on the environment and take initiatives aimed at reducing it. We reduce the consumption of energy and resources, especially water and paper, as well as carbon dioxide emission related to our business activity.

We also encourage our customers to return old mobile phones. The Orange Recycling programme aims to promote recycling of unwanted handsets among customers (of other companies as well) and our employees. We operate the [www.orangerecycling.pl](http://www.orangerecycling.pl) portal, which enables customers to resell their old and unwanted handsets. A new feature is that customers can sell or freely recycle not only handsets in good working order but also damaged ones. Proceeds from the sale can be used for customer's own profit or donated to charity. Owing to the fact that it is an in-house process, we can better control its quality and provide for its expansion, while increasing our savings and enhancing eco-efficiency.

For several years, we have been implementing the Green IT project, which is aimed at increasing efficiency of our IT function, while reducing pollution and consumption of natural resources.

The Green IT project is a good example of combining economic and environmental goals. For the company it means lower electricity or water bills. In the Data Centre alone, Green IT savings have totalled PLN 7 million (over PLN 2 million in 2012) as a result of a decrease in electricity consumption by almost 16 million kWh (5 million kWh in 2012).

For the environment, the project means less CO<sub>2</sub> released and less water and paper consumed. As a result of the Green IT project, CO<sub>2</sub> emissions fell by 15,700 tonnes in the years 2009–2012 (4,900 tonnes in 2012).

#### Investing in society

We believe that the conscious and creative use of modern technologies and the Internet positively affects social development. This is why for many years, through our Orange Foundation, we have been implementing our own programmes or supporting the activities of other organisations in the area of strengthening the digital competence of our society. We want people to discover the world and develop by using new media in education, culture and community initiatives.

The Orange Foundation was established in 2005 to carry out CSR initiatives. Its mission is to disseminate knowledge and build digital skills in order to make new technologies an ally to development and to make young people discover the world, learn, get involved in community life and create culture based on the conscious and creative use of these technologies.

#### Total CO<sub>2</sub> emission

		2011	2012
CO <sub>2</sub> emissions excluding transport	'000 tonnes	365	413
Total CO <sub>2</sub> emissions during transport	'000 tonnes	18.1	17.1
Total CO <sub>2</sub> emissions	'000 tonnes	383	430

27,000

hours worked by volunteers for local communities

# 14,500

schools in the Education with the Internet programme



Encouraging responsible Internet use

## Orange Foundation programmes

**Orange Academy** – A grant programme for non-governmental organisations and cultural and educational institutions which carry out modern cultural education initiatives for children and youth. We support and inspire these organisations in using innovative educational tools and methods to discover, together with young people, new ways of modern cultural education.

**Education with the Internet** – In this programme we educate conscious media users and stimulate the use of modern technologies in school projects.

**Orange for Libraries** – We support libraries in their role of modern, multi-function centres, carrying out educational initiatives and enhancing the digital competence of users.

**Sounds of Dreams** – We provide early hearing and speech therapy for deaf children to enable them to function more effectively in the world of sounds and have equal access to modern education, culture and science.

**Phone to Mum** – We enable children in hospitals to call their families free of charge and to get involved in creative educational activities using multimedia stations.



Participating in our communities

## Our successes in 2012

- Orange Polska was granted a Certificate of meeting the OECD Guidelines for Multinational Enterprises.
- The 2011 Corporate Social Responsibility Report of Orange Polska was awarded in the Social Reports competition. The jury recognised the links between the CSR strategy and the business strategy of the company. Our CSR Reports are prepared according to international GRI standards and audited.
- In the sixth ranking list of socially responsible companies developed by Gazeta Prawna and the Responsible Business Forum, we were ranked first within the industry and fourth overall.
- Orange Polska was recognised as one of the Leaders of Philanthropy for the sixth time. Our company was ranked third in terms of funds spent on social initiatives last year and first in the 'Telecommunications, services, trade and entertainment' category.
- Telekomunikacja Polska had the highest score among 32 organisations awarded the Top Employers Polska 2012 certificate, which is granted for outstanding achievements in HR management. The nationwide survey was conducted by CRF Institute, one of leading institutions in international research on HR policy and working conditions.
- Orange Polska was awarded the 'Benefactor of the Year' title. The award was granted for the effective execution of the company's corporate volunteering programme, 'Caring for Others' as well as the involvement of employees at all levels and the company's broad support for their community activities. The Orange Foundation received a special award, 'New CSR Trends', at the Benefactor of the Year jubilee gala.

To learn more please see the Orange Polska Corporate Social Responsibility Report at <http://www.orange-ir.pl/csr/reporting-progress>

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# management team

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**Maciej Witucki**  
President of the Management Board,  
Chief Executive Officer



**Jacques de Galzain**  
Board Member,  
Chief Financial Officer



**Vincent Lobry**  
Vice President in charge of Marketing  
and Strategy



**Jacek Kowalski**  
Board Member in charge  
of Human Resources



**Piotr Muszyński**  
Vice President in charge of Operations



**Mariusz Gaca**  
Chief Commercial Officer,  
Chief Executive office of PTK Centertel



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# management board

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The composition of the Management Board did not change in 2012.

The responsibilities and obligations of the Management Board are detailed in the Management Board by-laws, available at <http://www.orange-ir.pl/corporate-governance>

## **Maciej Witucki**

### **President of the Management 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 the Group as President of the Board and Chief Executive Officer on 6th November 2006.

## **Vincent Lobry**

### **Vice President in charge of Marketing and Strategy**

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 the Group's Management Board in September 2009.

## **Piotr Muszyński**

### **Vice President in charge of Operations**

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

## **Jacques de Galzain**

### **Chief Financial Officer**

Jacques de Galzain graduated from Bordeaux University in 1981 and qualified as a Certified Accountant in 1989. After 9 years spent in audit firms, from 1991 to 2000 he worked for USINOR, where he held several accounting positions. In 2000 he moved to ALSTOM, initially as Deputy Chief Accounting Officer. Between 2001 and 2006 he undertook board-level financial roles at ALSTOM and AREVA. He joined France Telecom – Orange in March 2006 as Group Chief Accounting Officer, head of the financial information system. In December 2009 he joined the Group as Group Director in charge of Accounting and PTK Centertel Management Board Member in charge of Finance, and he was appointed Chief Financial Officer in January 2011.

## **Jacek Kowalski**

### **Board Member in charge of Human Resources**

Mr Kowalski graduated from the history faculty of Warsaw University before moving on to postgraduate studies in local government and non-governmental organizations management, which he completed in 1996. He worked for Infor Training and served as Director of the National In-Service Teacher Training Centre before joining the Group in 2001, as Human Resources Manager for sales and marketing in PTK Centertel. From 2005 he was the Director of Employee Competence and Management Development for the Group, and he joined the Management Board as member in charge of Human Resources in January 2011. Jacek Kowalski is a member of the Programme Board of the Polish Human Resources Management Association.



As a company listed on both the Warsaw and London Stock Exchanges, we are committed to maintaining standards of corporate governance which are in accordance with international best practice. We are sensitive to the expectations of the international investment community and our domestic investor base in Poland.

Both the supervisory and management boards of Orange Polska see governance as a continuing set of processes linked to our annual business cycle. We are committed to transparency in our corporate governance.

The following information is also available on our website at <http://www.orange-ir.pl/corporate-governance>

- Ownership structure
- Articles of Association
- Operating rules for the Management Board and Supervisory Board
- Regulations for the Annual Shareholders Meeting
- Corporate Governance disclosures to the Warsaw Stock Exchange

### Role of shareholders

Orange Polska 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 Orange Polska 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.

### Supervisory Board

The term of office for 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 its supervisory responsibilities, it examines the Group's strategic plan and annual budget, monitors the Group's operating and financial performance, formulates opinions on incurring liabilities that exceed the equivalent of €100,000,000, formulates opinions on disposal of the Group's assets that exceed the equivalent of €100,000,000, evaluates the Management Board's report on the Company's activities and the Management Board's proposals regarding distribution of profits or covering losses. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to Orange Polska's businesses.

Since 2009, an amendment to the Polish Accounting Act (of September 29, 1994) has assigned to members of the Supervisory Board greater responsibility in regards to the reliability and fair presentation of the Company's financial reporting.

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 subsequent paragraphs.

The Supervisory Board regulations are available at <http://www.orange-ir.pl/corporate-governance>

### Ownership structure of TP S.A. share capital (as of 31 December 2012)

France Telecom S.A.	49.79%
Other shareholders	48.47%
TP S.A. (treasury shares)*	1.74%
<b>TOTAL</b>	<b>100.00%</b>

\*Voting rights vested in treasury shares cannot be exercised at the General Assembly of TP S.A.

### Composition on 31 December 2012:

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

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

All changes made to the composition of the Supervisory Board have been described in detail in the Report on the Supervisory Board activities further in this section.

### Composition of the Committees of the Supervisory Board on 31 December 2012:

#### The Audit Committee

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

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

#### The Remuneration Committee

1. Dr. Wiesław Rożucki – Chairman
2. Benoit Scheen
3. Marc Ricau

#### The Strategy Committee

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

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

### Management Board

The Management Board consists of between 3 and 10 members, including the President. They are appointed and removed by the Supervisory Board by a simple majority of the votes cast. The term of office for the member of the Management Board is three years. The Management Board's remit comprises the management of all aspects of the Company's affairs, with the exception of the matters which under the Polish Commercial Companies Code or the Articles of Association shall be within the competence of the General Assembly or the Supervisory Board. In particular, the powers of the Management Board include development of the Group's strategy, economic and financial plans; establishment, transformation and

liquidation of the Company's business units; and governance of the Group subsidiaries. Any decisions regarding the issuance or redemption of the Company's shares are exclusively within the competence of the General Assembly.

The powers of the Management Board are detailed in the Management Board by-laws, available at [www.orange.pl/investors](http://www.orange.pl/investors)

### Internal control including risk management

The system of internal control and risk management in the Group 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.

The Code of Ethics, which was adopted within the Group in 2008, encompasses its relationship with customers, shareholders, employees, suppliers, competition and also with respect to the environment in which the Group operates. A warning system related to ethics and reporting of potential and actual fraud has been enhanced by the Group which is co-ordinated by the 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 Audit Committee of the Supervisory Board, the Chairman of the Ethics Committee and the Group Internal Audit Director.

The 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. Key managers responsible for the financial, legal, regulatory and internal control functions review financial statements and make comments thereto at the Disclosure Committee. The purpose of the Committee's meetings is to ensure that financial disclosures 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 2012, the Disclosure Committee had seven meetings.

The key elements of the Group's internal control and risk management 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, Management Board decisions regarding the appointment and remuneration of the Group Internal Audit Director require, since 2005, an opinion of the Audit and Remuneration Committees. The Group Internal Audit Director attends all meetings of the Audit Committee.

2) The Group conducts ongoing assessments of the quality of the 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.

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 ongoing risk-controlling activities.

In 2012, 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 2012.

**Report on the activity of the Supervisory Board of Telekomunikacja Polska S.A. and its committees and concise assessment of the Telekomunikacja Polska Group's standing in 2012**

**I. TP S.A. Supervisory Board composition:**

**Supervisory Board composition as of January 1, 2012:**

1. Prof. Andrzej K. Koźmiński – Chairman
2. Benoit Scheen – Deputy Chairman and Chairman of the Strategy Committee
3. Nathalie Clere – Secretary
4. Timothy Boatman – Board Member and Chairman of the Audit Committee
5. Thierry Bonhomme – Board Member
6. Jacques Champeaux – Board Member
7. Dr. Mirosław Gronicki – Board Member
8. Marie-Christine Lambert – Board Member
9. Pierre Louette – Board Member
10. Prof. Jerzy Rajski – Board Member
11. Gérard Ries – Board Member
12. Dr. Wiesław Rozłucki – Board Member

**In 2012 the following changes occurred in the composition of the Supervisory Board:**

On 5 January 2012, Mr. Henri de Joux was appointed by the Supervisory Board as a Member of the Supervisory Board.

On 12 April 2012, the mandates of Mr. Henri de Joux, Ms. Marie-Christine Lambert, Mr. Jerzy Rajski and Mr. Wiesław Rozłucki expired.

On the same day, Ms. Henryka Bochniarz, Mr. Sławomir Lachowski, Ms. Marie-Christine Lambert and Mr. Wiesław Rozłucki were appointed by the Annual General Assembly as Members of the Supervisory Board.

Ms. Nathalie Clere resigned from her function on the Supervisory Board as from 18 October 2012.

On the same day, Mr. Marc Ricau was appointed by the Supervisory Board as a Member of the Supervisory Board.

**Supervisory Board composition as of December 31, 2012:**

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

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

**Three permanent committees operate within the Supervisory Board. Their composition was the following (as of December 31, 2012):**

**Audit Committee**

Timothy Boatman – Chairman, Marc Ricau, Sławomir Lachowski and Marie-Christine Lambert – members;

**Remuneration Committee**

Dr. Wiesław Rozłucki – Chairman, Benoit Scheen and Marc Ricau – members;

**Strategy Committee**

Benoit Scheen – Chairman, Dr. Henryka Bochniarz, Jacques Champeaux, Dr. Mirosław Gronicki and Gérard Ries – members.

**II. Operation**

The Supervisory Board, acting in compliance with 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.

**In 2012 the Supervisory Board fulfilled its duties resulting from the provisions of the Commercial Companies Code:**

1. Evaluation of the Management Board's report on TP SA operations and the financial statements for the financial year 2011 and the Management Board's motion for distribution of the Company's profit;
2. Evaluation of the Management Board's report on TP Group's operations and the consolidated financial statements for the financial year 2011;
3. Filing with the General Assembly of the Shareholders reports presenting the results of the above mentioned evaluation.

The Supervisory Board took due care to ensure 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 the Best Practices for Companies listed on the Warsaw Stock Exchange, of which the following should be mentioned:**

- 1) expressing opinions on motions addressed to the General Assembly including the motion on amendments to the Articles of Association,
- 2) selecting an independent auditor to audit the Company's financial statements,
- 3) preparing opinions on TP and Telekomunikacja Polska Group budgets,
- 4) concise assessing of the Telekomunikacja Polska Group's standing in 2011, including an assessment of the internal control system and the significant risks management system,
- 5) amendments to the Regulations of the Supervisory Board,

The Supervisory Board met 6 times in 2012. The Board adopted 34 resolutions, of which 5 in writing (by correspondence).

The Supervisory Board used in its operations opinions of its Committees (the Audit Committee, the Remuneration Committee and the Strategy Committee), wherever applicable.

The reports of the three permanent committees of the Supervisory Board on their activities in 2012 are attached hereto.

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

The Supervisory Board was regularly monitoring the execution of its resolutions and recommendations, analysing the information presented by the Management Board.

**III. Concise assessment of Telekomunikacja Polska Group's standing in 2012**

This document is the Supervisory Board assessment of the TP Group's performance in 2012 in accordance with the 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 2012 financial results of the Group (the Company and its subsidiaries) as well as on the information obtained by the Supervisory Board during conducting its statutory tasks.

**Throughout 2012, the Supervisory Board focused on the following issues:**

- a) Group's financial results and performance in comparison to the budget;
- b) Continued implementation of the Group's medium term action plan and the development of the medium term action plan for 2013–2016;
- c) Resolving the dispute with DPTG;
- d) Rebranding of all products offered by TP S.A. to Orange;
- e) Completion of a TP S.A. share buy back program;
- f) Execution of the Memorandum of Understanding with the Office of Electronic Communications (UKE);
- g) Monitoring of the key programs for the Group's future, particularly a program of mobile access network sharing with T-Mobile;
- h) Customer satisfaction – the customer excellence programme;
- i) Providing opinion regarding development of convergent offers.

The Supervisory Board, through the work of its committees and all its members (including six independent members), was actively engaged in the process of evaluation of the most important initiatives, having in mind the interest of all the Group's stakeholders, including 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.

**Group's Operational Review**

Despite difficult operating conditions and extremely challenging competitive environment, Orange Polska delivered commercial progress in 2012. In spite of a price war in the mobile segment, Group's mobile customer base grew by 237,000. In the fixed line segment, the Group retained its broadband customer base while broadband ARPU from these services grew by 5%, mainly as a result of broadband, TV and VoIP service bundling. The 3P bundles proved a major success among Orange customers and their take-up increased to 248,000. In addition, the TV customer base grew by 11%, reaching 706,000 subscribers. This growth could be attributed to a rich offer of TV packages accompanied by a continued upward trend in Group's access line speeds, strengthened by the launch of VDSL-based service options. This has also contributed to mitigating a negative trend in fixed voice services. The fixed voice customer base decreased by 590 thousands in 2012 as compared to a decline by 670 thousands in 2011. Orange Polska also continued to boost data usage by popularising smartphones. Their number rose by 55.1% year-on-year, reaching almost 3.3 million, which contributed to an increase in messaging service and content revenues. Since the integration of all retail services of the Group under a single brand, Orange Polska has intensively promoted a convergent offer called Orange Open, which comprises of both fixed and mobile product components and addresses the customer's need to have a number of communication services, including mobile and fixed voice, mobile and fixed broadband as well as television.

Another major event was the rebranding of TP S.A.'s services to Orange in the second quarter of 2012, from which the Group will benefit for many years. A change of the brand for fixed activities not only enabled the Group to refresh their image, but also facilitated the launch of the first convergent offer on the Polish market, Orange Open. The sales of the new offer were encouraging in 2012 and the Group intends to continue to promote it as a flagship convergent solution for residential customers. In parallel to rebranding its fixed activities into Orange, the Group contributed towards the success of the EURO 2012 Championship, which was co-hosted by Poland, by successfully providing this tournament with telecommunication infrastructure and services. The event gained positive image both for Poland and the Group, as well as experience vital to the Group's ICT activity.



In 2012, the Group also paid close attention to the execution of the last full year of the Memorandum of Understanding with the President of UKE (signed in October 2009). The Group implemented the functionalities required due to changes in reference offers for regulated wholesale services in the IT solutions which had been developed pursuant to MoU. In addition, works related to ensure equal treatment of alternative operators and equivalence of access were continued within IT systems.

From the commencement of the MoU implementation to December 31, 2012, TP S.A. constructed and provided infrastructure enabling operation of a total of over 1,026,000 broadband lines. To complete its investment commitments declared in MoU, TP S.A. needs to invest in almost 224,000 lines in the first quarter of 2013, including 214,000 lines of capacity of 30 Mb/s or more. In October 2012, the required number of lines set in the Appendix 8 to MoU was attained in coverage gap areas. Thus, the MoU objective in this category was achieved.

All scheduled works concerning base stations on shared networks were completed in 2012. Currently, there is a total of almost 2,700 sites which transmit a signal of two operators. This is carried out through the NetWorkSI joint venture, owned by PTK Centertel and PTC (T-Mobile brand), which implements a network infrastructure and frequency sharing agreement. As a result, Orange customers in the areas where the project has been completed may now use a network which has 55% more sites. This has been reflected in a significant increase in service coverage, particularly in case of the 3G network, where the availability of modern mobile data transmission services based on the HSPA+DC technology has grown by over 23 percentage points.

### Group's Financial Overview

The Group's key strategic goals in 2012 were to:

- revamp the mobile offering in response to a price war, particularly in the post-paid segment;
- revamp the broadband offering to return to quarterly growth of the number of broadband customers and achieve an increase in ARPU;
- expand the TV content portfolio;
- strengthen promotion of convergent 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 rationalise Group's operations and processes in order to optimise operating expenses;

- meet the investment targets in broadband, as committed in the MoU Arrangement with UKE;
- optimise Capex spending based on sound investment criteria and without hampering growth;
- generate net free cash flow in line with the guidance of at least PLN 2 billion, which was subsequently revised to between PLN 1.5 billion and PLN 1.6 billion;
- optimise Group's balance sheet to improve return on assets base, particularly by optimisation 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.

Despite notable commercial successes, resulting from the implementation of its operating activity guidelines, the Group has been significantly affected by adverse business conditions, mainly deteriorating macroeconomic environment and the negative impact of a price war in the mobile market, which contributed to a decline in mobile ARPU. As a result of combination of these factors, in October 2012 the Group decided to revise its guidance for 2012. Group's final results for 2012 were within the Management's revised guidance. Group's revenue totalled PLN 14,147 million and decreased by 4.1% over 2011. EBITDA margin stood at 34.2%, while net free cash flow totalled PLN 1,542 million<sup>1</sup> compared with PLN 2,403 million generated in 2011.

In January 2012, acting in the best interest of the Company and its shareholders, TP S.A. Management Board signed a final settlement in the TP S.A. vs. DPTG dispute, for the total of EUR 550 million. The Supervisory Board supported the Management in their actions taken to settle the dispute.

<sup>1</sup> NCF for 2012 excluding EUR 550 million payment to DPTG.



Group's net debt increased to PLN 5,039 million in 2012, mainly as a result of the aforementioned settlement with DPTG. The Group has a solid balance-sheet with net gearing at 28% and the net debt to EBITDA ratio at 1. This, coupled with an effective hedging policy, enabled the Group to maintain its solid credit rating (A3/BBB+ with a negative outlook at December 31, 2012; Baa1 with a negative outlook at present) in a challenging competitive environment.

In 2012, TP S.A. paid a dividend of PLN 2,003 million, an equivalent of PLN 1.5 per share, payable in cash. In addition, as part of shareholder remuneration, on November 27, 2012 the Company partially completed a share buy back program, in which it had purchased 23.3 million shares for a total of PLN 400 million.

### Conclusions and 2013 Recommendations

The Polish telecom market started to undergo its most radical change ever, driven by MTR cuts and price wars in the mobile post-paid market in particular. As a result, this is forcing major adaptation at the Group. Despite intensive competition across all segments, especially a price war in the mobile market, as well as regulatory pressure, the Group delivered results within the revised guidance in 2012. The Supervisory Board believes that TP S.A. Management Board will make the appropriate efforts to reach Group's 2013 objectives.

The Supervisory Board's opinion is that in 2013 the Group should focus its activities on implementing the new medium term action plan, in which a new business model is to be developed to work in an environment where market growth by value is stagnant and where capital allocation has to be prioritised carefully, as cash is more scarce. In order to do so, the Group needs to build a much leaner and more flexible organisation, and also to:

- Effect the merger of TP S.A. and PTK Centertel Sp. z o.o.;
- Monitor business performance closely so as to be able to react quickly to unfavourable trading conditions caused by the continued volatility of the financial markets;
- Effectively promote Orange Open-like convergent services and, consequently, strengthen the leadership in value in fixed voice, mobile and broadband markets;
- Take actions to enable the Group's growth outside the telecommunication business in line with the strategic plan;
- Review outsourcing options for various activities and dispose of non-core assets to improve efficiency;
- Increase customer satisfaction and loyalty, also by implementing the customer excellence program;
- Monitor the Group's EBITDA margin;
- Optimise capital expenditure to below PLN 2 billion;
- Mitigate foreign exchange effect on commercial expenses, financial costs and capital expenditure;
- Intensify the cost base optimisation;
- Maintain financial stability, including taking advantage of France Telecom funding opportunities, and monitor the level and prognosis of debt ratios closely;
- Generate organic cash flow of at least PLN 0.8 billion<sup>2</sup>;
- Develop a new shareholder remuneration approach based on changing market dynamics;
- Complete the execution of the Memorandum of Understanding with the Regulator;
- Further enhance internal control and risk management measures;
- Continue with the network infrastructure and frequency sharing cooperation with PTC (T-Mobile brand) through the NetWorkS! joint venture.

<sup>2</sup>Excluding spectrum acquisition, change in consolidation and impact of risk and litigation.  
Organic cash flow = Net cash provided by operating activities – (CAPEX + CAPEX payables) + proceeds from sale of property, plant and equipment and intangible assets.

### IV. Assessment of the Group's internal controls including risk management

The Supervisory Board is responsible for reviewing the effectiveness of the Group's system of internal control and risk management designed and established by the Management Board.

This system allows to manage the risk of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures as needed). The relevant processes are designed to give reasonable, but cannot give absolute assurance that the risks significant to the Group are identified and addressed.

The key elements of this system of internal control, including risk management were presented in the Management Board's Report on the Activity of the Group for 2012, published on February 12, 2013.

In 2012, 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 controls and financial reporting at December 31, 2012. Continued efforts by the Management in this regard are also needed in 2013.

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

### **Report from the activities of Telekomunikacja Polska S.A. Supervisory Board's Audit Committee in 2012**

The Audit Committee was established by virtue of the resolution of the Supervisory Board no. 324/V/2002 dated June 14, 2002 (amended i.a. by the resolution of the Supervisory Board no. 9/12 dated March 14, 2012) 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 Telekomunikacja Polska S.A. (the "Company"), Telekomunikacja Polska Group (the "Group") and to liaise with its auditors.

#### **Composition**

In 2012, the Audit Committee was composed of the following persons:

##### **Chairman:**

Mr. Timothy Boatman ("Independent Director"),  
British Chartered Accountant

##### **Members:**

Ms. Marie Christine Lambert  
Ms. Nathalie Clere – until October 18, 2012 when she resigned  
Mr. Sławomir Lachowski ("Independent Director")  
– nominated on October 18, 2012  
Mr. Marc Ricau – nominated on October 18, 2012

The Secretary of the Committee was Mr. Jerzy Klonecki.

Mr. Jacek Chaber, Director of Internal Audit, attended all the meetings of the Audit Committee.

#### **Functions of the Committee**

The key functions of the Audit Committee include:

- 1) Monitoring the integrity of the financial information provided by the Company and the Group in particular by reviewing:
  - a. The relevance and consistency of the accounting methods used by the Company and the 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) Reviewing 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) Reviewing annually the Internal Audit program, including the review of independence of the Internal Audit function, and coordination between the internal and external auditors;
  - 4) Analysing reports of the Group's Internal Audit and major findings of any other internal investigations and responses of the Management Board to them;
  - 5) Making recommendations in relation to the selection and remuneration of the Director of the Internal Audit and on such function's budget;
  - 6) Reviewing and providing an opinion to the Management and/or the Supervisory Board (where applicable) on significant transactions with related parties as defined by the corporate rules;
  - 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) Reviewing the issues giving rise to the resignation of the external auditor;
  - 9) Discussing 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;
  - 10) Discussing with the Company's external auditors (in or without the presence of the Company Management Board) any problems or reservations, resulting from the financial statements audit;
  - 11) Reviewing the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
  - 12) Considering 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's scope of activity.
- Providing the Supervisory Board with its annual report on the Audit Committee's activity and results.

### Activity in 2012

The Audit Committee held 11 meetings in 2012, out of which 9 were regular meetings and 2 dedicated ad-hoc meetings, and in particular performed the following:

- 1) Reviewed the Company's and Group's published quarterly and annual financial statements, notably the relevance and consistency of the accounting methods used by the Company and the Group, particular attention was paid to those aspects where judgment is required, e.g. impairment of assets including goodwill, provisions for legal, tax and regulatory cases, revenue recognition and deferred tax;
- 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. The Audit Committee was briefed on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) plans to issue an update to its Internal Control Integrated Framework;
- 3) Reviewed the annual plan of the Internal Audit, its budget and progress reports, as well as monitored the responsiveness of management to Internal Audit findings and recommendations. In addition, the Committee met privately with Director of the Group's Internal Audit. The Audit Committee was provided with a report regarding the renewal in 2012 of the certification of Internal Audit activities by Institut Français de l'Audit et du Contrôle Interne (IFACI). The Audit Committee reviewed also the independence of the Internal Audit;
- 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 the Company and the Group for the financial year 2012 and to review half-yearly financial statements for the period of six months ended June 30, 2012. Deloitte Polska Sp. z o.o. Sp. k. (formerly Deloitte Audyt Sp. z o.o.) was first appointed as statutory auditor for the year ended December 31, 2009;
- 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. In addition, the Committee met privately with the lead partner of the statutory audit firm;
- 6) Reviewed the development and operation of the Group's Ethics Committee activity, anti-fraud and whistle-blowing programs managed by the Management Board; monitored results of investigations initiated by whistle-blowing;
- 7) Reviewed the Group's 2012 budget and addressed recommendations on it to the Supervisory Board;
- 8) Reviewed the 2012 shareholders' remuneration proposed by the Management;
- 9) Issued opinions on other matters referred to the Committee by the Supervisory Board and/or the Management Board including M&A transactions and participation in the tender for 1800 MHz frequency reservation;
- 10) Received regular reports from the Management on the implementation of the Memorandum of Understanding with UKE signed in 2009.

The Audit Committee materially complied with the *Recommendations on the work of the Audit Committee* issued in November 2010 by the Office of the Financial Supervision Authority in Poland.

In the year under review, the Audit Committee, especially its independent members, reviewed and gave opinions to the Management Board on significant transactions with related parties as defined by the corporate rules and received reports on them from the Group's Internal Audit.

### Timothy Boatman

Chairman of the Audit Committee of the Supervisory Board

March 28, 2013

**Report on the activity of the Remuneration Committee of the Supervisory Board of Telekomunikacja Polska S.A. in 2012**

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

The task of the Committee is to advise the Supervisory and Management Board on general remuneration policy of the TP Group and to make recommendations on appointment, performance objectives, remuneration procedures and amounts to the Supervisory and Management Board.

**Composition:**

In 2012, the Remuneration Committee was composed of the following persons:

**Chairman:**

Dr. Wiesław Rożlucki ("Independent Director")

**Members:**

Benoit Scheen

Nathalie Clere – until October 18, 2012

Marc Ricau – from October 18, 2012

The Secretary of the Committee was Jacek Kowalski, TP Management Board Member in charge of Human Resources.

**Activity in 2012:**

In 2012, the Remuneration Committee held 6 meetings and in particular developed recommendations for Supervisory Board consideration focused on the following remuneration-related issues:

1. Benefits under the employment contract for the Management Board Members. Standardization of the contracts structure.
2. Analysis of solutions for remuneration and reporting to the stock exchange of the Management Board Members compensation - within the context of EU good practices.
3. Discussion about the general level of remuneration of the Management Board Members and directors reporting directly to the CEO, in comparison to market benchmarks.
4. Discussion and implementation of new system of distribution and evaluation of targets- Performance Management.
5. Evaluation of MBO's of the Management Board Members for H2 of 2011 and H1 of 2012. REMCO recommendation about bonuses for the Management Board.
6. Approval of the Management Board Members targets for H2 of 2012 and H1 of 2013 (according to the Performance Management rules).

**Wiesław Rożlucki**

Chairman of the Remuneration Committee

March 28, 2013

### **Report from the activities of the Strategy Committee of the Supervisory Board of Telekomunikacja Polska S.A. in 2012**

The Strategy Committee was established by virtue of the Resolution of the TP Supervisory Board no. 417/05 dated June 15, 2005.

The major goal for the Strategy Committee is to give necessary support and advice for the Management Board in the area of TP Group strategic plans and initiatives of strategic importance.

#### **Strategy Committee members in 2012:**

##### **Chairman:**

Benoit Scheen

##### **Members:**

Dr. Henryka Bochniarz ("Independent Director")  
Jacques Champeaux  
Dr. Mirosław Gronicki ("Independent Director")  
Prof. Jerzy Rajski ("Independent Director")  
Gérard Ries

The Secretary of the Strategy Committee was Vincent Lobry, TP Management Board Member in charge of Marketing and Strategy.

#### **Activities in 2012:**

In 2012, the activities of the Strategy Committee of TP Group Supervisory Board concentrated on the development of new mid term strategy for TPG to adapt to changes undergoing on Polish telecom market. Among subjects discussed during the Committee meetings were: strategic positioning of Orange Poland, technology and investment strategy, Orange brand positioning including impact of rebranding of the fixed market products, development of services in new growth areas eg. ICT.

In all these areas the members of TP Group Management Board actively participated.

There were three Strategy Committee meetings in 2012 during which other Supervisory Board Members also participated: Chairman of the Supervisory Board, prof. Andrzej K. Koźmiński and Chairman of the Audit Committee, Timothy Boatman.

##### **Benoit Scheen**

Chairman of the Strategy Committee

March 28, 2013



# Financial statements

## Consolidated Income Statement

(in PLN millions, except for earnings per share)	Note	12 months ended	
		31 December 2012 (audited)	31 December 2011 (audited)
<b>Revenue</b>	<b>4</b>	<b>14,147</b>	<b>14,922</b>
External purchases	5	(6,953)	(7,012)
Labour expenses	5	(2,033)	(2,031)
Other operating expense	5	(830)	(1,573)
Other operating income	5	479	407
Gains on disposal of assets	6	35	32
Gain on disposal of TP Emitel	6	–	1,183
Depreciation and amortisation	9,10	(3,261)	(3,703)
Impairment of non-current assets	7	(16)	(9)
Share of profit of investments accounted for using the equity method	11	5	1
<b>Operating income</b>		<b>1,573</b>	<b>2,217</b>
Interest income	16	27	111
Interest expense and other financial charges	16	(517)	(450)
Foreign exchange gains	16	28	7
Discounting expense	16	(95)	(100)
<b>Finance costs, net</b>		<b>(557)</b>	<b>(432)</b>
Income tax	25	(161)	133
<b>Consolidated net income</b>		<b>855</b>	<b>1,918</b>
Net income attributable to owners of TP S.A.		855	1,917
Net income attributable to non-controlling interests		–	1
<b>Earnings per share (in PLN) (basic and diluted)</b>	<b>31.6</b>	<b>0.65</b>	<b>1.44</b>
Weighted average number of shares (in millions) (basic and diluted)	31.6	1,316	1,334

## Consolidated Statement of Comprehensive Income

(in PLN millions)	Note	12 months ended	
		31 December 2012 (audited)	31 December 2011 (audited)
<b>Consolidated net income</b>		<b>855</b>	<b>1,918</b>
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial losses on post-employment benefits	15	(50)	(11)
Income tax relating to items not reclassified		9	2
<b>Items that may be reclassified subsequently to profit or loss</b>			
Gains/(losses) on cash flow hedges	21	(25)	8
Translation adjustment		–	1
Income tax relating to items that may be reclassified		5	(2)
<b>Other comprehensive loss, net of tax</b>		<b>(61)</b>	<b>(2)</b>
<b>Total comprehensive income</b>		<b>794</b>	<b>1,916</b>
Total comprehensive income attributable to owners of TP S.A.		794	1,915
Total comprehensive income attributable to non-controlling interests		–	1

## Consolidated Statement of Financial Position

(in PLN millions)	Note	At 31 December 2012 (audited)	At 31 December 2011 (audited)
<b>Assets</b>			
Goodwill	8	4,016	4,016
Other intangible assets	9	2,958	2,955
Property, plant and equipment	10	13,935	14,912
Investments accounted for using the equity method	11	21	16
Derivatives	21	127	277
Other financial assets	19	14	16
Deferred tax assets	25	874	899
<b>Total non-current assets</b>		<b>21,945</b>	<b>23,091</b>
Inventories		194	214
Trade receivables	12	1,408	1,506
Derivatives	21	–	225
Other financial assets	19	20	17
Other assets	12	114	228
Prepaid expenses	12	67	78
Cash and cash equivalents	20	390	2,860
<b>Total current assets</b>		<b>2,193</b>	<b>5,128</b>
<b>Total assets</b>		<b>24,138</b>	<b>28,219</b>

## Consolidated Statement of Financial Position (continued)

# Financial statements

## continued

(in PLN millions)	Note	At 31 December 2011 (audited)	At 31 December 2010 (audited)
<b>Equity and liabilities</b>			
Share capital	26	4,007	4,007
Share premium		832	832
Treasury shares	26	(400)	(200)
Other reserves	15,21	(37)	24
Translation adjustment		(5)	(5)
Retained earnings		8,559	9,673
<b>Equity attributable to owners of TP S.A.</b>		<b>12,956</b>	<b>14,331</b>
Non-controlling interests		2	3
<b>Total equity</b>		<b>12,958</b>	<b>14,334</b>
Financial liabilities at amortised cost excluding trade payables	17,18	2,990	4,170
Derivatives	21	283	118
Trade payables	14	751	825
Employee benefits	15	374	285
Provisions	13	263	304
Other liabilities	14	15	15
Deferred income	14	26	48
<b>Total non-current liabilities</b>		<b>4,702</b>	<b>5,765</b>
Financial liabilities at amortised cost excluding trade payables	17,18	2,192	767
Derivatives	21	112	–
Trade payables	14	2,218	3,199
Employee benefits	15	205	240
Provisions	13	953	3,130
Income tax liabilities		120	37
Other liabilities	14	162	202
Deferred income	14	516	545
<b>Total current liabilities</b>		<b>6,478</b>	<b>8,120</b>
<b>Total equity and liabilities</b>		<b>24,138</b>	<b>28,219</b>

## Consolidated Statement of Changes in Equity

(In PLN millions)	Share capital	Share premium	Treasury shares	Other reserves			Translation adjustments	Retained earnings <sup>(1)</sup>	Equity attributable to owners of TP S.A.	Non-controlling interest	Total equity
				Hedging instruments	Actuarial losses on post-employment benefits	Deferred tax					
<b>Balance at 1 January 2011 (audited)</b>	<b>4,007</b>	<b>832</b>	<b>–</b>	<b>2</b>	<b>(66)</b>	<b>12</b>	<b>79</b>	<b>(6)</b>	<b>9,760</b>	<b>14,620</b>	<b>14 14,634</b>
Total comprehensive income for the 12 months ended 31 December 2011	–	–	–	8	(11)	–	–	1	1,917	1,915	1 1,916
Purchase of treasury shares	–	–	(200)	–	–	–	–	–	–	(200)	– (200)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	(1)	(1)	(11) (12)
Dividends	–	–	–	–	–	–	–	–	(2,003)	(2,003)	(1) (2,004)
<b>Balance at 31 December 2011 (audited)</b>	<b>4,007</b>	<b>832</b>	<b>(200)</b>	<b>10</b>	<b>(77)</b>	<b>12</b>	<b>79</b>	<b>(5)</b>	<b>9,673</b>	<b>14,331</b>	<b>3 14,334</b>
<b>Balance at 1 January 2012 (audited)</b>	<b>4,007</b>	<b>832</b>	<b>(200)</b>	<b>10</b>	<b>(77)</b>	<b>12</b>	<b>79</b>	<b>(5)</b>	<b>9,673</b>	<b>14,331</b>	<b>3 14,334</b>
Total comprehensive income for the 12 months ended 31 December 2012	–	–	–	(25)	(50)	14	–	–	855	794	– 794
Purchase of treasury shares	–	–	(200)	–	–	–	–	–	–	(200)	– (200)
Dividends	–	–	–	–	–	–	–	–	(1,969)	(1,969)	(1) (1,970)
<b>Balance at 31 December 2012 (audited)</b>	<b>4,007</b>	<b>832</b>	<b>(400)</b>	<b>(15)</b>	<b>(127)</b>	<b>26</b>	<b>79</b>	<b>(5)</b>	<b>8,559</b>	<b>12,956</b>	<b>2 12,958</b>

<sup>(1)</sup> See Note 26.3.

# Financial statements

## continued

### Consolidated Statement of Cash Flows

(in PLN millions)	Note	12 months ended 31 December 2012 (audited)	31 December 2011 (audited)
<b>Operating activities</b>			
Consolidated net income		855	1,918
Adjustments to reconcile net income to cash from operating activities			
Depreciation and amortisation	9,10	3,261	3,703
Impairment of non-current assets	7	16	9
Gains on disposal of assets	6	(35)	(1,215)
Change in provisions		(2,270)	517
Share of profit of investments accounted for using the equity method		(5)	(1)
Income tax	25	161	(133)
Finance costs, net		557	427
Operational foreign exchange and derivatives losses, net		12	71
Change in working capital (trade)			
Decrease in inventories		20	58
Decrease in trade receivables		119	143
Increase/(decrease) in trade payables		(573)	142
Change in working capital (non-trade)			
Decrease in prepaid expenses and other receivables		172	33
Decrease in deferred income and other payables		(121)	(23)
Interest received		27	115
Interest and interest rate effect on derivatives paid, net		(469)	(479)
Exchange rate effect on derivatives, net		183	72
Income tax paid		(46)	(188)
<b>Net cash provided by operating activities</b>		<b>1,864</b>	<b>5,169</b>
<b>Investing Activities</b>			
Purchases of property, plant and equipment and intangible assets	9, 10	(2,333)	(2,606)
Decrease in amounts due to fixed assets suppliers		(459)	(175)
Decrease in receivables related to leased fixed assets		7	7
Exchange rate effect on derivatives economically hedging capital expenditures, net		14	8
Proceeds from sale of property, plant and equipment and intangible assets		59	55
Proceeds from sale of subsidiaries, net of cash and transaction costs	3	3	1,633
Proceeds from sale of investments accounted for using the equity method		–	3
Cash paid for investments accounted for using the equity method	3	–	(15)
Decrease in loans and other financial assets	19	1	1
Exchange rate effect on other derivatives, net		(21)	(1)
<b>Net cash used in investing activities</b>		<b>(2,729)</b>	<b>(1,090)</b>



## Consolidated Statement of Cash Flows (continued)

(in PLN millions)	Note	12 months ended	
		31 December 2012 (audited)	31 December 2011 (audited)
<b>Financing activities</b>			
Redemption of bonds	17,18	–	(1,189)
Repayment of long-term debt	17,18	(644)	(234)
Increase/(decrease) in short-term debt	17,18	1,196	(7)
Purchase of treasury shares	26	(200)	(200)
Dividends paid	26	(1,970)	(2,004)
Acquisition of non-controlling interests		–	(12)
Exchange rate effect on hedging instruments, net		(5)	(17)
<b>Net cash used in financing activities</b>		<b>(1,623)</b>	<b>(3,663)</b>
<b>Net change in cash and cash equivalents</b>		<b>(2,488)</b>	<b>416</b>
Effect of changes in exchange rates and other impacts on cash and cash equivalents		18	(3)
Cash and cash equivalents at the beginning of the period		2,860	2,447
<b>Cash and cash equivalents at the end of the period</b>		<b>390</b>	<b>2,860</b>

## Segment information

For management purposes, the Telekomunikacja Polska Group (“the Group”) is organised 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 other companies offering services predominantly for those entities, and
- Mobile segment which includes entities offering predominantly telecom services based on mobile technology and other companies offering services predominantly for those entities.

Margin earned by Orange Customer Service Sp. z o.o. on intragroup transactions is eliminated from fixed and mobile segment data.

Segment performance is evaluated based on revenue, EBITDA, EBIT and capital expenditures. EBITDA corresponds to operating income before depreciation and amortisation expense, impairment of non-current assets and share of profit of investments accounted for using the equity method. EBIT corresponds to operating income.

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

Mobile telecommunications services are provided by Polska Telefonia Komórkowa – Centertel Sp. z o.o., a provider of DCS 1800, GSM 900 and UMTS mobile telecommunications and services based on the CDMA technology.

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 external revenue.

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

# Financial statements

## continued

### Segment information (continued)

Basic financial data of the business segments is presented below:

(in PLN millions)	Fixed line telecommunications	Mobile telecommunications	Eliminations and unallocated items	Consolidated
12 months ended 31 December 2012				
Revenue	7,836	7,478	(1,167)	14,147
External	6,885	7,262	–	14,147
Inter-segment	951	216	(1,167)	–
External purchases	(3,433)	(5,065)	1,545	(6,953)
Labour expenses	(1,835)	(198)	–	(2,033)
Other operating expense	(463)	(370)	3	(830)
Other operating income	603	257	(381)	479
Gains on disposal of assets	35	–	–	35
<b>EBITDA</b>	<b>2,743</b>	<b>2,102</b>	<b>–</b>	<b>4,845</b>
Depreciation and amortisation	(2,279)	(982)	–	(3,261)
Impairment of non-current assets	(15)	(1)	–	(16)
Share of profit of investments accounted for using the equity method	–	5	–	5
<b>EBIT</b>	<b>449</b>	<b>1,124</b>	<b>–</b>	<b>1,573</b>
Capital expenditures	1,580	755	–	2,335
At 31 December 2012				
Segment assets	14,021	9,039	(368)	22,692
Investments accounted for using the equity method	–	21	–	21
Unallocated assets	–	–	1,425	1,425
Total assets				24,138
Segment liabilities	3,285	2,566	(368)	5,483
Unallocated liabilities	–	–	5,697	5,697
Total liabilities				11,180
Equity	–	–	12,958	12,958
Total equity and liabilities				24,138

(in PLN millions)	Fixed line telecommunications	Mobile telecommunications	Eliminations and unallocated items	Consolidated
12 months ended 31 December 2011				
Revenue	8,282	7,706	(1,066)	14,922
External	7,481	7,441	–	14,922
Inter-segment	801	265	(1,066)	–
External purchases	(3,449)	(4,955)	1,392	(7,012)
Labour expenses	(1,819)	(212)	–	(2,031)
Other operating expense	(1,147)	(468)	42	(1,573)
Other operating income	550	225	(368)	407
Gains on disposal of assets	29	3	–	32
Gain on disposal of TP Emitel	1,183	–	–	1,183
<b>EBITDA</b>	<b>3,629</b>	<b>2,299</b>	<b>–</b>	<b>5,928</b>
Depreciation and amortisation	(2,365)	(1,338)	–	(3,703)
Impairment of non-current assets	(9)	–	–	(9)
Share of profit of investments accounted for using the equity method	–	1	–	1
<b>EBIT</b>	<b>1,255</b>	<b>962</b>	<b>–</b>	<b>2,217</b>
Capital expenditures	1,991	615	–	2,606
At 31 December 2011				
Segment assets	14,729	9,383	(204)	23,908
Investments accounted for using the equity method	–	16	–	16
Unallocated assets	–	–	4,295	4,295
Total assets				28,219
Segment liabilities	6,293	2,704	(204)	8,793
Unallocated liabilities	–	–	5,092	5,092
Total liabilities				13,885
Equity	–	–	14,334	14,334
Total equity and liabilities				28,219

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# Financial statements

## continued

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

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

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. and PTK-Centertel Sp. z o.o. are deemed to be SMPs on certain markets.

## 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 2012	31 December 2011
PTK-Centertel Sp. z o.o.	Warsaw, Poland	Mobile telecommunications services, construction and operation of mobile telecommunications network.	100.00%	100.00%
- Ramsat S.A.	Modlnica, Poland	Distributor of PTK-Centertel and TP S.A. products on mass and business market.	100.00%	100.00%
Orange Customer Service Sp. z o.o.	Warsaw, Poland	Post-sale services for TP S.A. and PTK-Centertel customers.	100.00%	100.00%
Wirtualna Polska S.A.	Gdańsk, Poland	Internet portal and related services including internet advertising.	100.00%	100.00%
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	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 Invest Sp. z o.o.	Warsaw, Poland	Services for Group entities, holding management.	100.00%	100.00%
- Contact Center Sp. z o.o.	Warsaw, Poland	Call-centre services and telemarketing.	100.00%	100.00%
- Telefon 2000 Sp. z o.o. <sup>(1)</sup>	Warsaw, Poland	No operational activity, in liquidation.	100.00%	100.00%
- TP TelTech Sp. z o.o.	Łódź, Poland	Design and development of telecommunications systems, servicing telecommunications network, monitoring of alarm signals.	100.00%	100.00%
- Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	89.27%	89.27%
- TPSA Finance B.V. <sup>(1)</sup>	Amsterdam, The Netherlands	Financial and investment operations.	100.00%	100.00%
- TPSA Eurofinance B.V. <sup>(1)</sup>	Amsterdam, The Netherlands	Financial and investment operations.	100.00%	100.00%
- TPSA Eurofinance France S.A.	Paris, France	Financial and investment operations.	99.99%	99.99%
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	Warsaw, Poland	Management of employee pension fund.	100.00%	100.00%
Fundacja Orange	Warsaw, Poland	Charity foundation.	100.00%	100.00%
Orange Polska Sp. z o.o. <sup>(2)</sup>	Warsaw, Poland	Investment operations.	100.00%	100.00%
PayTel S.A. <sup>(3)</sup>	Warsaw, Poland	E-commerce and electronic services, including GSM prepaid services, bill charging and processing of electronic financial transactions.	–	100.00%

<sup>(1)</sup> Companies in liquidation.

<sup>(2)</sup> Previously Bilbo Sp. z o.o.

<sup>(3)</sup> The Company was disposed of in 2012 (see Note 3).

In the 12 months ended 31 December 2012 and 2011, the voting power held by the Group was equal to the Group's interest in the share capital of its subsidiaries. Main acquisitions, disposals and changes in scope of consolidation are described in Note 3.

Additionally, the Group has investments accounted for using the equity method consisting mainly of the 50% interest in NetWorkS! Sp. z o.o. (see Note 11).



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# Financial statements

## continued

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### 1. Corporate information (continued)

#### 1.3. The Management Board and the Supervisory Board of the Company

The Management Board of the Company at the date of the authorisation 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,  
Jacques de Galzain – Board Member, Chief Financial Officer,  
Jacek Kowalski – Board Member in charge of Human Resources.

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

Prof. Andrzej K. Koźmiński – Chairman of the Supervisory Board, Independent Member of the Supervisory Board,  
Benoit Scheen – Deputy Chairman of the Supervisory Board,  
Marc Ricau – Secretary of the Supervisory Board,  
Timothy Boatman – Independent Member of the Supervisory Board,  
Dr. Henryka Bochniarz – Independent Member of the Supervisory Board,  
Thierry Bonhomme – Member of the Supervisory Board,  
Jacques Champeaux – Member of the Supervisory Board,  
Dr. Mirosław Gronicki – Independent Member of the Supervisory Board,  
Sławomir Lachowski – Independent Member of the Supervisory Board,  
Marie-Christine Lambert – Member of the Supervisory Board,  
Pierre Louette – Member of the Supervisory Board,  
Gerard Ries – Member of the Supervisory Board,  
Dr. Wiesław Rożucki – Independent Member of the Supervisory Board.

No changes occurred in the Management Board of the Company in the year ended 31 December 2012 and in the year 2013 until the date of the authorisation of these Consolidated Financial Statements.

The following changes occurred in the Supervisory Board of the Company in the year ended 31 December 2012 and in the year 2013 until the date of the authorisation of these Consolidated Financial Statements:

On 5 January 2012, the Supervisory Board of TP S.A. appointed Mr Henri de Joux as its member.

On 12 April 2012, TP S.A. Supervisory Board members' mandates of Prof. Jerzy Rajski and Mr Henri de Joux expired and were not renewed. On the same day the General Meeting of TP S.A. appointed Dr. Henryka Bochniarz and Mr Sławomir Lachowski as the Supervisory Board of TP S.A. members.

On 18 October 2012, Ms Nathalie Clere resigned from her position in the Supervisory Board of TP S.A. On the same day, the Supervisory Board of TP S.A. appointed Mr Marc Ricau as its member.

### 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 2011 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 Consolidated Financial Statements have been prepared on the going concern basis.

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

These Consolidated Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 11 February 2013.

The principles applied to prepare financial data relating to the year ended 31 December 2012 are described in Note 31 and are based on:

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2012,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2012 but for which the Group has opted for earlier application,
- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of IAS 8 (Use of judgements).

### 3. Main acquisitions, disposals and changes in scope of consolidation

On 27 January 2012, the Group concluded a share sale agreement with Comp S.A. under which the 100% shareholding in PayTel S.A. was disposed of for a total consideration amounting to PLN 6 million. PayTel's contribution to consolidated results was insignificant.

In 2011, the Group incorporated Integrated Solutions Sp. z o.o., a fully owned subsidiary whose scope of activities comprises provision of integrated IT and network services. Additionally, the Group and Polska Telefonia Cyfrowa S.A. incorporated NetWorkS! Sp. z o.o. (see Note 11).

If TP Emitel Sp. z o.o., a subsidiary disposed of in 2011 (see Note 6.1), had not been a part of the Group during the 12 months ended 31 December 2011, consolidated revenue and consolidated net income would be lower by PLN 154 million and PLN 65 million, respectively. TP Emitel Sp. z o.o. was included in the fixed line telecommunications operating segment.

### 4. Revenue

(in PLN millions)	12 months ended 31 December 2012	12 months ended 31 December 2011
<b>Fixed line telephony services</b>	<b>4,028</b>	<b>4,569</b>
Subscriptions and voice traffic revenue	2,856	3,419
Wholesale revenue (including interconnect)	1,167	1,139
Other	5	11
<b>Mobile telephony services</b>	<b>6,806</b>	<b>7,010</b>
Voice traffic revenue	3,817	4,112
Interconnect revenue	1,215	1,236
Messaging services and content	1,632	1,538
Other	142	124
<b>Data Services</b>	<b>2,424</b>	<b>2,433</b>
Broadband and TV revenue	1,539	1,520
Data transmission	633	642
Leased lines	251	269
Other	1	2
<b>Radio communications</b>	<b>8</b>	<b>113</b>
<b>Sales of goods and other</b>	<b>881</b>	<b>797</b>
<b>Total revenue</b>	<b>14,147</b>	<b>14,922</b>

Revenue is generated mainly in the territory of Poland. Approximately 3.3% and 3.2% of the total revenue for the 12 months ended 31 December 2012 and 2011, respectively, was earned from entities which are not domiciled in Poland, mostly from interconnect services.

### 5. Operating expense and income

#### 5.1. External purchases

(in PLN millions)	12 months ended 31 December 2012	12 months ended 31 December 2011
Commercial expenses	(2,550)	(2,493)
– cost of handsets and other equipment sold	(1,417)	(1,364)
– commissions, advertising, sponsoring costs and other	(1,133)	(1,129)
Interconnect expenses	(1,771)	(1,910)
Network and IT expenses	(913)	(876)
Other external purchases	(1,719)	(1,733)
<b>Total external purchases</b>	<b>(6,953)</b>	<b>(7,012)</b>

Other external purchases include mainly customer support and management services, postage costs, costs of content and ICT projects (Information and Communications Technology), rental costs and real estate operating and maintenance costs.

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### 5. Operating expense and income (continued)

#### 5.2. Labour expenses

(in PLN millions)	12 months ended 31 December 2012	12 months ended 31 December 2011
Average number of employees (full time equivalent)	22,700	24,119
Wages and salaries	(1,735)	(1,797)
Social security and other charges	(400)	(383)
Long-term employee benefits <sup>(1)</sup>	(45)	41
Capitalised personnel costs	182	181
Other employee benefits	(35)	(73)
<b>Total labour expenses</b>	<b>(2,033)</b>	<b>(2,031)</b>

<sup>(1)</sup> See Note 15.

#### 5.3. Other operating expense and income

(in PLN millions)	12 months ended 31 December 2012	12 months ended 31 December 2011
Trade and other receivables impaired or sold, net	(209)	(259)
Taxes other than income tax	(308)	(340)
Orange brand fee <sup>(1)</sup>	(140)	(125)
Employment termination expenses <sup>(2)</sup>	8	(172)
Operating foreign exchange losses, net	(12)	(71)
Dispute with DPTG <sup>(3)</sup>	–	(35)
Other expense and changes in provisions, net <sup>(4)</sup>	(169)	(571)
<b>Total other operating expense</b>	<b>(830)</b>	<b>(1,573)</b>
Recoveries on customer bad debts	143	138
Late payment interest on trade receivables	28	29
Other income	308	240
<b>Total other operating income</b>	<b>479</b>	<b>407</b>

<sup>(1)</sup> See Note 29.2.

<sup>(2)</sup> See Note 13, previously presented separately in the consolidated income statement as restructuring costs.

<sup>(3)</sup> Previously presented separately in the consolidated income statement.

<sup>(4)</sup> Includes the expense relating to the provision for proceedings by the European Commission related to broadband access amounting to PLN 458 million in 2011 (see Note 28.d).

Other expense and changes in provisions, net, include mainly changes in provisions for claims and litigation, risks and other charges (see Note 13), except for provision for the dispute with DPTG (see Note 28.e).

#### 5.4. Research and development

In the 12 months ended 31 December 2012, research and development costs expensed in the consolidated income statement amounted to PLN 60 million. The same amount was expensed in the consolidated income statement in the 12 months ended 31 December 2011.

## 6. Gains on disposal of assets

### 6.1. Gain on disposal of TP Emitel

On 22 June 2011, the Group and EM Bidco Sp. z o.o. concluded a share sale agreement under which the Group disposed of its 100% shareholding in TP Emitel, for a total consideration amounting to PLN 1,665 million, consisting of consideration received in cash amounting to PLN 1,737 million and liabilities assumed by the Group. Additionally, the Group incurred transaction costs.

The Group derecognised the following TP Emitel's assets and liabilities:

(in PLN millions)

<b>Assets:</b>	<b>598</b>
– Property, plant and equipment	401
– Trade receivables	42
– Cash and cash equivalents	88
– Other	67
<b>Liabilities:</b>	<b>132</b>
– Trade payables	30
– Employee benefits	27
– Other	75
<b>Net assets disposed of</b>	<b>466</b>

Gain on disposal amounting to PLN 1,183 million is presented separately in the consolidated income statement.

### 6.2. Gains on disposal of other assets

In the 12 months ended 31 December 2012 and 2011, gains on disposal of other assets amounted to PLN 35 million and PLN 32 million, respectively, and included mainly gains on disposal of properties.

## 7. Impairment

### 7.1. 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 fixed network, the mobile network and internet portal are treated as separate Cash Generating Units ("CGU"). The convergence of offers and core networks may lead in the future to redefined CGUs.

The Group considers certain indicators, including market liberalisation and other regulatory and economic changes in the Polish telecommunications market, in assessing whether there is any indication that an asset may be impaired. As at 31 December 2012 and 2011 the Group performed impairment tests of all Cash Generating Units (including goodwill and intangible assets with an indefinite useful life). No impairment loss was recognised in 2012 or 2011 as a result of these tests.

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

- value of the market, penetration rate, market share and the level of the competition, 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 or regulatory decisions concerning telecommunications licences allocation.

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.

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### 7. Impairment (continued)

#### 7.1. Information concerning the Cash Generating Units (continued)

Revenue is expected to erode in 2013 driven down by cuts of mobile termination rates ("MTR") and fixed-to-mobile ("F2M") tariffs, as well as by the decline of revenue from the traditional fixed line telephony services and retail price pressure. Operating expenses will be decreasing, but at a slower pace than the decline of revenue and, as a consequence, the EBITDA will be under pressure.

Discount rates used to determine values in use are based on weighted average cost of capital and reflect current market assessment of the time value of money and the risks specific to the respective Cash Generating Units' activities. Growth rates to perpetuity reflect Management's assessment of cash flows evolution after the fourth year.

Main CGUs	Fixed network	Mobile network	Internet portal
	At 31 December 2012		
Basis of recoverable amount	Value in use	Value in use	Value in use
Sources used	Business plan 4 years cash flow projections	Business plan 4 years cash flow projections	Business plan 4 years cash flow projections
Growth rate to perpetuity	1%	1%	3%
Post-tax discount rate	9.6%	9.9%	11.5%
Pre-tax discount rate <sup>(1)</sup>	10.8%	11.8%	13.4%

Main CGUs	Fixed network	Mobile network	Internet portal
	At 31 December 2011		
Basis of recoverable amount	Value in use	Value in use	Value in use
Sources used	Business plan 4 years cash flow projections	Business plan 4 years cash flow projections	Business plan 4 years cash flow projections
Growth rate to perpetuity	0%	0%	3%
Post-tax discount rate	8.9%	9.3%	11.3%
Pre-tax discount rate <sup>(1)</sup>	10.5%	11.6%	13.2%

<sup>(1)</sup> Post-tax discount rate adjusted to reflect the specific amount and timing of the future tax cash flows.

#### Sensitivity of recoverable amounts

The value in use of the fixed network as at 31 December 2012 is close to its carrying value and, consequently, any significant adverse change in a key assumption would result in an impairment loss. The table below shows how changes in key assumptions would lead to an increase or a decrease of fixed network's value in use:

(in PLN billions)	increase of	(decrease of)
	value in use	
Change of projected cash flows after fourth year by 10%	0.9	(0.9)
Change of growth rate to perpetuity by 0.5 p.p.	0.6	(0.5)
Change of post-tax discount rate by 0.5 p.p.	0.7	(0.6)

At 31 December 2012, any of the following changes in key assumptions:

- a 28% fall in projected cash flows after fourth year or
- a 3.1 p.p. decrease of growth rate to perpetuity or
- a 2.6 p.p. increase of post-tax discount rate would bring the value in use of mobile network to the level of its carrying value.

As the cash flows projected into perpetuity represent a significant portion of the value in use, the Group considers them to be a key assumption. Due to the link between cash flows from operations and investment capacity, the Group retains a net cash flows sensitivity. Discount rates used to determine values in use as at 31 December 2012 include 1 p.p. to reflect market and business risk.



## 7.2. Goodwill

In the 12 months ended 31 December 2012 and 2011, there was no goodwill written off. Details regarding impairment tests of goodwill are presented in Note 7.1.

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

In the 12 months ended 31 December 2012 and 2011, the impairment loss on property, plant and equipment and intangible assets charged to the income statement amounted to PLN 16 million and PLN 9 million respectively, primarily including a net impairment loss as a result of a review of certain Group's properties.

## 8. Goodwill

Goodwill arising from consolidated subsidiaries is as follows:

(in PLN millions)		At 31 December 2012			At 31 December 2011		
	CGU	Cost	Accumulated impairment	Net	Cost	Accumulated impairment	Net
PTK-Centertel	Mobile network	3,909	–	3,909	3,909	–	3,909
Ramsat	Mobile network	22	–	22	22	–	22
Wirtualna Polska	Internet portal	247	(162)	85	247	(162)	85
<b>Total goodwill</b>		<b>4,178</b>	<b>(162)</b>	<b>4,016</b>	<b>4,178</b>	<b>(162)</b>	<b>4,016</b>

## 9. Other intangible assets

(in PLN millions)		At 31 December 2012			
		Cost	Accumulated amortisation	Accumulated impairment	Net
Telecommunications licences		2,345	(1,349)	–	996
Software		5,928	(4,077)	–	1,851
Other intangibles		240	(115)	(14)	111
<b>Total other intangible assets</b>		<b>8,513</b>	<b>(5,541)</b>	<b>(14)</b>	<b>2,958</b>

(in PLN millions)		At 31 December 2011			At 1 January 2011	
		Cost	Accumulated amortisation	Accumulated impairment	Net	Net
Telecommunications licences		2,345	(1,212)	–	1,133	1,278
Software		5,337	(3,623)	–	1,714	1,501
Other intangibles		219	(98)	(13)	108	82
<b>Total other intangible assets</b>		<b>7,901</b>	<b>(4,933)</b>	<b>(13)</b>	<b>2,955</b>	<b>2,861</b>

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

(in PLN millions)		12 months ended 31 December 2012	12 months ended 31 December 2011
<b>Opening balance net of accumulated amortisation and impairment</b>		<b>2,955</b>	<b>2,861</b>
Acquisitions of intangible assets		756	753
Disposals and liquidations		(9)	(2)
Amortisation		(671)	(670)
Impairment		(1)	–
Reclassifications and other, net		(72)	13
<b>Closing balance</b>		<b>2,958</b>	<b>2,955</b>

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### 9. Other intangible assets (continued)

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

(in PLN millions)	Acquisition date	Concession term	Acquisition value (undiscounted)	Net book value	
				At 31 December 2012	At 31 December 2011
DCS 1800 licence <sup>(1)</sup>	1997	2027	318	–	16
GSM 900 licence	1999	2014	402	40	66
UMTS licence	2000	2023	2,495	955	1,051
<b>Total telecommunications licences</b>			<b>3,215</b>	<b>995</b>	<b>1,133</b>

<sup>(1)</sup> In 2012 the licence term was extended from 2012 to 2027 with no additional fees or costs incurred.

### 10. Property, plant and equipment

(in PLN millions)	At 31 December 2012			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land and buildings	3,405	(1,474)	(114)	1,817
Network	38,112	(27,128)	–	10,984
Terminals	2,073	(1,521)	–	552
IT equipment for corporate purposes	2,105	(1,512)	–	593
Investment grants	(247)	137	–	(110)
Other	414	(308)	(7)	99
<b>Total property, plant and equipment</b>	<b>45,862</b>	<b>(31,806)</b>	<b>(121)</b>	<b>13,935</b>

(in PLN millions)	At 31 December 2011			At 1 January 2011	
	Cost	Accumulated depreciation	Accumulated impairment	Net	Net
Land and buildings	3,394	(1,340)	(101)	1,953	2,147
Network	37,573	(25,677)	(1)	11,895	13,177
Terminals	2,160	(1,569)	–	591	670
IT equipment for corporate purposes	2,043	(1,551)	–	492	546
Investment grants	(241)	124	–	(117)	(132)
Other	405	(301)	(6)	98	92
<b>Total property, plant and equipment</b>	<b>45,334</b>	<b>(30,314)</b>	<b>(108)</b>	<b>14,912</b>	<b>16,500</b>

Investment grants are non-repayable and relate mainly 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 2012	12 months ended 31 December 2011
<b>Opening balance net of accumulated depreciation and impairment</b>	<b>14,912</b>	<b>16,500</b>
Acquisitions of property, plant and equipment	1,579	1,853
Disposals and liquidations	(40)	(42)
Depreciation	(2,590)	(3,033)
Impairment	(15)	(9)
Derecognition <sup>(1)</sup>	–	(401)
Dismantling costs, reclassifications and other, net	89	44
<b>Closing balance</b>	<b>13,935</b>	<b>14,912</b>

<sup>(1)</sup> Disposal of TP Emitel in 2011 (see Note 6.1).

The carrying value of equipment held under finance leases as at 31 December 2012 and 2011 amounted to PLN 9 million and PLN 13 million, respectively. During the 12 months ended 31 December 2012, acquisitions of equipment financed through finance leases amounted to PLN 2 million. There were no additions during the 12 months ended 31 December 2011 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.

#### 11. Investments accounted for using the equity method

Investments accounted for using the equity method consist mainly of the 50% interest in NetWorkS! Sp. z o.o. - a jointly controlled entity incorporated in April 2011, in which the Group and Polska Telefonía Cyfrowa S.A. hold a 50% interest each. NetWorkS! Sp. z o.o. conducts networks management, development and maintenance following the agreement on reciprocal use of mobile access networks between the venturers.

Summarised financial information of NetWorkS! is set out below:

(in PLN millions)	At 31 December 2012	At 31 December 2011
Total non-current assets	57	42
Total current assets	54	42
Total non-current liabilities	1	1
Total current liabilities	68	51
Total net assets	42	32
<b>The Group's share of net assets</b>	<b>21</b>	<b>16</b>

(in PLN millions)	12 months ended 31 December 2012	12 months ended 31 December 2011
Total income <sup>(1)</sup>	241	69
Total expenses	(231)	(67)
Profit	10	2
<b>The Group's share of profit</b>	<b>5</b>	<b>1</b>

<sup>(1)</sup> Consists of charges to shareholders of NetWorkS!.

#### 12. Trade receivables, other assets and prepaid expenses

(in PLN millions)	At 31 December 2012	At 31 December 2011
<b>Trade receivables, net</b>	<b>1,408</b>	<b>1,506</b>
VAT receivables	3	136
Other <sup>(1)</sup>	111	92
<b>Total other assets</b>	<b>114</b>	<b>228</b>
Inactivated mobile terminals in the external dealership network	53	60
Other prepaid expenses	14	18
<b>Total prepaid expenses</b>	<b>67</b>	<b>78</b>

<sup>(1)</sup> Mainly includes receivables related to advances and prepayments to suppliers and compensations and penalties.

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 receivables recognised in the statement of financial position.

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### 12. Trade receivables, other assets and prepaid expenses (continued)

Movement in the impairment of trade receivables in the 12 months ended 31 December 2012 and 2011 is presented below:

(in PLN millions)	12 months ended 31 December 2012	12 months ended 31 December 2011
<b>Beginning of period</b>	<b>301</b>	<b>339</b>
Impairment losses, net	87	129
Impaired receivables sold or written-off and other movements	(122)	(167)
<b>End of period</b>	<b>266</b>	<b>301</b>

The analysis of the age of net trade receivables that are collectively analysed for impairment is as follows:

(in PLN millions)	At 31 December 2012	At 31 December 2011
Neither impaired nor past due	600	644
Past due less than 180 days	355	384
Past due between 180 and 360 days	29	25
Past due more than 360 days	12	10
<b>Total trade receivables collectively analysed for impairment, net</b>	<b>996</b>	<b>1,063</b>
Trade receivables individually analysed for impairment <sup>(1)</sup>	412	443
<b>Total trade receivables, net</b>	<b>1,408</b>	<b>1,506</b>

<sup>(1)</sup> Mainly includes receivables from related parties (see Note 29) and telecommunications companies.

### 13. Provisions

For the 12 months ended 31 December 2012 movements of provisions were as follows:

(in PLN millions)	At 1 January 2012	Increases	Reversals (utilisations)	Reversals (releases)	Foreign exchange effect	Discounting effect	At 31 December 2012
Provisions for claims and litigation (see Note 28), risks and other charges	3,000	61	(2,174)	(35)	(18)	14	848
Provisions for employment termination expenses	170	2	(80)	(10)	-	5	87
Dismantling provisions	264	23	(20)	-	-	14	281
<b>Total provisions</b>	<b>3,434</b>	<b>86</b>	<b>(2,274)</b>	<b>(45)</b>	<b>(18)</b>	<b>33</b>	<b>1,216</b>
Current	3,130						953
Non-current	304						263

For the 12 months ended 31 December 2011 movements of provisions were as follows:

(in PLN millions)	At 1 January 2011	Increases	Reversals (utilisations)	Reversals (releases)	Foreign exchange effect	Discounting effect	At 31 December 2011
Provisions for claims and litigation (see Note 28), risks and other charges	2,194	606	(47)	(30)	273	4	3,000
Provisions for employment termination expenses	42	172	(45)	-	-	1	170
Dismantling provisions	195	65	(8)	-	-	12	264
<b>Total provisions</b>	<b>2,431</b>	<b>843</b>	<b>(100)</b>	<b>(30)</b>	<b>273</b>	<b>17</b>	<b>3,434</b>
Current	2,242						3,130
Non-current	189						304

The discount rate used to calculate the present value of provisions amounted to 2.75% - 5.08% as at 31 December 2012 and 2.75% - 6.18% as at 31 December 2011.

#### Provisions for employment termination expenses

Provisions for employment termination expenses as at 31 December 2012 consisted mainly of the estimated amount of termination benefits for employees scheduled to terminate employment in TP S.A. under the 2012-2013 Social Agreement.

In the fourth quarter of 2011, TP S.A. concluded with Trade Unions the Social Agreement under which up to 2,300 employees may take advantage of the voluntary departure package in years 2012 - 2013. The value of voluntary departure package varies depending on individual salary, employment duration and year of resignation. The basis for calculation of the provision for employment termination expenses is the estimated number, remuneration and service period of employees who will accept the voluntary termination until the end of 2013.

#### Dismantling provisions

The dismantling provisions relate to dismantling or removal of items of property, plant and equipment (mainly telecommunication poles and items of mobile access network) and restoring the site on which they are located. Based on environmental regulations in Poland, items of property, plant and equipment which may contain hazardous materials should be dismantled and utilised by the end of their useful lives by entities licensed by the State for this purpose.

The amount of dismantling provisions is based on the estimated: number of items that should be utilised/sites to be restored, time to their liquidation/restoration, current utilisation/restoration cost (obtained through a tender process) and inflation.

### 14. Trade payables, other liabilities and deferred income

#### 14.1. Trade payables

(in PLN millions)	At 31 December 2012	At 31 December 2011
Trade payables	1,241	1,810
Fixed assets payables	918	1,326
UMTS licence payable	810	888
<b>Total trade payables</b>	<b>2,969</b>	<b>4,024</b>
Current	2,218	3,199
Non-current <sup>(1)</sup>	751	825

<sup>(1)</sup> Includes only UMTS licence payable.

#### 14.2. Other liabilities

(in PLN millions)	At 31 December 2012	At 31 December 2011
VAT payables	116	124
Other taxes payables	22	20
Other	39	73
<b>Total other liabilities</b>	<b>177</b>	<b>217</b>
Current	162	202
Non-current	15	15

#### 14.3. Deferred income

(in PLN millions)	At 31 December 2012	At 31 December 2011
Subscription (including unused minutes in subscription system)	235	217
Unused minutes in the pre-paid system	183	192
Connection fees	96	121
Other	28	63
<b>Total deferred income</b>	<b>542</b>	<b>593</b>
Current	516	545
Non-current	26	48



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### 15. Employee benefits

(in PLN millions)	At 31 December 2012	At 31 December 2011
Jubilee awards	152	125
Retirement bonuses and other post-employment benefits	247	186
Salaries, other employee-related payables and payroll taxes due	180	214
<b>Total employee benefits</b>	<b>579</b>	<b>525</b>
Current	205	240
Non-current	374	285

Certain employees and retirees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 31.22). These benefits are not funded. The Group does not operate any defined benefit pension plan.

The changes in the present and carrying value of obligations related to long-term employee benefits for the 12 months ended 31 December 2012 and 2011 are detailed in the table below:

(in PLN millions)	12 months ended 31 December 2012				12 months ended 31 December 2011			
	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
<b>Present/carrying value of obligation at the beginning of the period</b>	<b>125</b>	<b>106</b>	<b>80</b>	<b>311</b>	<b>162</b>	<b>124</b>	<b>74</b>	<b>360</b>
Current service cost <sup>(1)</sup>	8	7	1	16	9	7	1	17
Past service cost <sup>(1)</sup>	–	–	–	–	(14)	2	–	(12)
Interest cost <sup>(2)</sup>	7	7	4	18	8	7	4	19
Benefits paid	(17)	(2)	(6)	(25)	(14)	(3)	(6)	(23)
Actuarial (gains)/losses for the period	29 <sup>(1)</sup>	31 <sup>(3)</sup>	19 <sup>(3)</sup>	79	(6) <sup>(1)</sup>	(3) <sup>(3)</sup>	14 <sup>(3)</sup>	5
Curtailment <sup>(1) (4)</sup>	–	–	–	–	(15)	(23)	(2)	(40)
Derecognition <sup>(5)</sup>	–	–	–	–	(5)	(5)	(5)	(15)
<b>Present/carrying value of obligation at the end of the period</b>	<b>152</b>	<b>149</b>	<b>98</b>	<b>399</b>	<b>125</b>	<b>106</b>	<b>80</b>	<b>311</b>

<sup>(1)</sup> Recognised under labour expense in the consolidated income statement.

<sup>(2)</sup> Recognised under discounting expense in the consolidated income statement.

<sup>(3)</sup> Recognised under actuarial losses on post-employment benefits in the consolidated statement of comprehensive income.

<sup>(4)</sup> Curtailment resulting mainly from the Social Agreement concluded in the fourth quarter of 2011 (see Note 13).

<sup>(5)</sup> Disposal of TP Emitel (see Note 6.1).

The valuation of obligations as at 31 December 2012 and 2011 was performed using the following assumptions:

	At 31 December 2012	At 31 December 2011
Discount rate	4.0%	6.1%
Wage increase rate	2.5% – 3.5%	3.0% – 3.5%
<b>Expected average remaining working lives (in years)</b>	<b>6.9 – 16.6</b>	<b>6.9 – 16.6</b>

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

(in PLN millions)	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
As at				
31 December 2012	152	149	98	399
31 December 2011	125	106	80	311
31 December 2010	162	124	74	360
31 December 2009	151	103	73	327
31 December 2008	152	87	94	333

## 16. Finance income and expense

12 months ended 31 December 2012

(in PLN millions)								
	Finance costs, net					Operating income		
	Interest Income	Interest expense and other financial charges	Foreign exchange gains / (losses)	Discounting expense	Finance income / (costs), net	Interest income	Foreign exchange gains / (losses)	Impairment losses
Loans and receivables	27	–	20	–	47	28 <sup>(2)</sup>	(11)	(87) <sup>(3)</sup>
– including cash and cash equivalents	25	–	20	–	45	–	–	–
Liabilities at amortised cost	–	(301) <sup>(1)</sup>	299	(18)	(20)	–	38	–
Derivatives	–	(216)	(291)	(19)	(526)	–	(57)	–
– hedging derivatives	–	(86)	(130)	–	(216)	–	(8)	–
– derivatives held for trading	–	(130)	(161)	(19)	(310)	–	(49)	–
Non-financial items <sup>(4)</sup>	–	–	–	(58)	(58)	–	18	–
<b>Total</b>	<b>27</b>	<b>(517)</b>	<b>28</b>	<b>(95)</b>	<b>(557)</b>	<b>28</b>	<b>(12)</b>	<b>(87)</b>

<sup>(1)</sup> Includes mainly interest expense on bonds and bank borrowings and change in fair value of liabilities hedged by fair value hedges.

<sup>(2)</sup> Includes late payment interests on trade receivables.

<sup>(3)</sup> Includes impairment losses on trade receivables.

<sup>(4)</sup> Includes mainly provisions and employee benefits.

12 months ended 31 December 2011

(in PLN millions)								
	Finance costs, net					Operating income		
	Interest Income	Interest expense and other financial charges	Foreign exchange gains / (losses)	Discounting expense	Finance income / (costs), net	Interest income	Foreign exchange gains / (losses)	Impairment losses
Loans and receivables	111	–	(5)	–	106	29 <sup>(2)</sup>	12	(129) <sup>(3)</sup>
– including cash and cash equivalents	109	–	(5)	–	104	–	–	–
Liabilities at amortised cost	–	(309) <sup>(1)</sup>	(365)	(95)	(769)	–	(114)	–
Derivatives	–	(141)	377	30	266	–	304	–
– hedging derivatives	–	(54)	221	–	167	–	16	–
– derivatives held for trading	–	(87)	156	30	99	–	288	–
Non-financial items <sup>(4)</sup>	–	–	–	(35)	(35)	–	(273)	–
<b>Total</b>	<b>111</b>	<b>(450)</b>	<b>7</b>	<b>(100)</b>	<b>(432)</b>	<b>29</b>	<b>(71)</b>	<b>(129)</b>

<sup>(1)</sup> Includes mainly interest expense on bonds and bank borrowings and change in fair value of liabilities hedged by fair value hedges.

<sup>(2)</sup> Includes late payment interests on trade receivables.

<sup>(3)</sup> Includes impairment losses on trade receivables.

<sup>(4)</sup> Includes mainly provisions and employee benefits.

During the 12 months ended 31 December 2012 and 2011 there was no significant ineffectiveness on cash flow hedges and fair value hedges.

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### 17. Net financial debt

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, marketable securities 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 2012 and 2011, 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 2012 and 2011, 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 2012

			Undiscounted contractual cash flows <sup>(1)</sup>							
(in PLN millions)			Non-current							
	Note	Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total non-current	Total
<b>Trade payables (excl. UMTS) (A)</b>	<b>14</b>	<b>2,159</b>	<b>2,159</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,159</b>
<b>UMTS licence payable (B)</b>	<b>14</b>	<b>810</b>	<b>61</b>	<b>114</b>	<b>114</b>	<b>114</b>	<b>114</b>	<b>585</b>	<b>1,041</b>	<b>1,102</b>
Bonds	18	2,994	172	3,034	–	–	–	–	3,034	3,206
Bank borrowings	18	2,179	2,120	40	40	5	5	16	106	2,226
Finance lease liabilities		9	6	3	–	–	–	–	3	9
<b>Financial liabilities at amortised cost <sup>(2)</sup></b>		<b>5,182</b>	<b>2,298</b>	<b>3,077</b>	<b>40</b>	<b>5</b>	<b>5</b>	<b>16</b>	<b>3,143</b>	<b>5,441</b>
Derivatives - net <sup>(3)</sup>	21	268	196	226	–	–	–	–	226	422
<b>Gross financial debt after derivatives (C)</b>		<b>5,450</b>	<b>2,494</b>	<b>3,303</b>	<b>40</b>	<b>5</b>	<b>5</b>	<b>16</b>	<b>3,369</b>	<b>5,863</b>
<b>Total financial liabilities (A) + (B) + (C)</b>		<b>8,419</b>	<b>4,714</b>	<b>3,417</b>	<b>154</b>	<b>119</b>	<b>119</b>	<b>601</b>	<b>4,410</b>	<b>9,124</b>
Marketable securities	19	6								
Cash and cash equivalents	20	390								
<b>Sub - total (D)</b>		<b>396</b>								
Effective portion of cash flow hedges (E)		(15)								
<b>Net financial debt (C)-(D)+(E)</b>		<b>5,039</b>								

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

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

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

At 31 December 2011

Undiscounted contractual cash flows <sup>(1)</sup>										
(in PLN millions)										
			Non-current							
	Note	Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total non-current	Total
<b>Trade payables (excl. UMTS) (A)</b>	<b>14</b>	<b>3,136</b>	<b>3,136</b>	–	–	–	–	–	–	<b>3,136</b>
<b>UMTS licence payable (B)</b>	<b>14</b>	<b>888</b>	<b>66</b>	<b>66</b>	<b>124</b>	<b>124</b>	<b>124</b>	<b>755</b>	<b>1,193</b>	<b>1,259</b>
Bonds	18	3,241	186	186	3,278	–	–	–	3,464	3,650
Bank borrowings	18	1,684	719	961	44	43	5	24	1,077	1,796
Finance lease liabilities		12	8	3	3	–	–	–	6	14
<b>Financial liabilities at amortised cost <sup>(2)</sup></b>		<b>4,937</b>	<b>913</b>	<b>1,150</b>	<b>3,325</b>	<b>43</b>	<b>5</b>	<b>24</b>	<b>4,547</b>	<b>5,460</b>
Derivatives - net <sup>(3)</sup>	21	(384)	(140)	65	9	–	–	–	74	(66)
<b>Gross financial debt after derivatives (C)</b>		<b>4,553</b>	<b>773</b>	<b>1,215</b>	<b>3,334</b>	<b>43</b>	<b>5</b>	<b>24</b>	<b>4,621</b>	<b>5,394</b>
<b>Total financial liabilities (A) + (B) + (C)</b>		<b>8,577</b>	<b>3,975</b>	<b>1,281</b>	<b>3,458</b>	<b>167</b>	<b>129</b>	<b>779</b>	<b>5,814</b>	<b>9,789</b>
Marketable securities	19	9								
Cash and cash equivalents	20	2,860								
<b>Sub - total (D)</b>		<b>2,869</b>								
Effective portion of cash flow hedges (E)		10								
<b>Net financial debt (C)-(D)+(E)</b>		<b>1,694</b>								

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

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

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

As at 31 December 2012 and 2011, most of the Group's trade payables mature within 3 months.

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

### 18.1. 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 2012	31 December 2011
TPSA Eurofinance France S.A	A1	500 EUR	6.000%	22 May 2009	22 May 2014	2,115	2,281
TPSA Eurofinance France S.A	A2	200 EUR	6.000%	17 July 2009	22 May 2014	879	960
<b>Total bonds issued by the Group</b>						<b>2,994</b>	<b>3,241</b>
Current						105	113
Non-current						2,889	3,128

<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 5.76% as at 31 December 2012 and 2011. Effective interest rate was lower than nominal interest rate mainly due to issuance proceeds from A2 series exceeding the nominal value.

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### 18.2. Bank borrowings

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

		Amount outstanding at <sup>(1)</sup>			
		31 December 2012		31 December 2011	
Creditor	Repayment date	Currency (millions)	PLN (millions)	Currency (millions)	PLN (millions)
<b>Floating rate</b>					
European Investment Bank	15 December 2015	25 EUR	102	33 EUR	147
European Investment Bank	15 June 2012	–	–	17 EUR	74
European Investment Bank	15 June 2012	–	–	26 PLN	26
European Investment Bank	15 September 2013	892 PLN	892	1,400 PLN	1,400
Bank Handlowy (syndicated)	22 October 2015	1,139 PLN <sup>(3)</sup>	1,139	(9) PLN <sup>(2)</sup>	(9)
Bank Handlowy (syndicated)	18 April 2013	2 PLN	2	(3) PLN <sup>(2)</sup>	(3)
Other credit lines	–	4 PLN	4	–	–
<b>Fixed rate</b>					
Instituto de Credito Oficial	2 January 2021	13 USD	40	14 USD	49
<b>Total bank borrowings of the Group</b>			<b>2,179</b>		<b>1,684</b>
Current			2,081		649
Non-current			98		1,035

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

<sup>(2)</sup> Paid arrangement fees.

<sup>(3)</sup> Revolving credit line.

The weighted average effective interest rate on the Group's bank borrowings, before swaps, amounted to 4.44% as at 31 December 2012 and 4.62% as at 31 December 2011.

### 19. Other financial assets

The Group's other financial assets are presented below:

(in PLN millions)	At 31 December 2012	At 31 December 2011
Financial assets at fair value through profit or loss excluding derivatives <sup>(1)(2)</sup>	6	9
Loans and receivables excluding trade receivables <sup>(3)</sup>	28	20
Assets available for sale <sup>(3)</sup>	–	4
<b>Total other financial assets</b>	<b>34</b>	<b>33</b>
Current	20	17
Non-current	14	16

<sup>(1)</sup> Included in net financial debt calculation (see Note 17).

<sup>(2)</sup> Previously included in "Financial assets at fair value through profit or loss" in the consolidated statement of financial position.

<sup>(3)</sup> Previously presented separately in the consolidated statement of financial position.

The Group's maximum exposure to credit risk is represented by the carrying amounts of other financial assets.

### 20. Cash and cash equivalents

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

(in PLN millions)	At 31 December 2012	At 31 December 2011
Cash on hand	1	–
Current bank accounts and overnight deposits	286	627
Deposits up to 3 months	103	2,233
<b>Total cash and cash equivalents</b>	<b>390</b>	<b>2,860</b>



The Group's cash surplus is invested into short-term highly-liquid financial instruments e.g. bank deposits. 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 three months. The instruments earn interest which depends on the current money market rates and the term of investment.

As at 31 December 2012 and 2011, cash and cash equivalents included an equivalent of PLN 12 million and PLN 20 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. Derivatives

As at 31 December 2012 and 2011, 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. 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. A fair value of swap transaction represents discounted future cash flows converted into PLN at the period-end exchange rate.

The derivative financial instruments used by the Group are presented below:

				Fair value <sup>(2)</sup> (in PLN millions)	
Type of instrument <sup>(1)</sup>	Hedged risk	Hedged nominal amount (in millions of currency)	Maturity	Financial Asset	Financial Liability
At 31 December 2012					
<b>Derivative instruments - fair value hedge</b>					
CCIRS	Currency and interest rate risk	110 EUR	2014	–	(7)
IRS	Interest rate risk	110 EUR	2014	29	–
Total of fair value hedges				29	(7)
<b>Derivative instruments - cash flow hedge</b>					
CCIRS	Currency and interest rate risk	283 EUR	2014	–	(48)
CCS	Currency risk	20 EUR	2014	4	–
NDF	Currency risk	75 EUR	2013	–	(10)
NDF	Currency risk	7 USD	2013	–	(1)
IRS	Interest rate risk	33 EUR	2014	9	–
IRS	Interest rate risk	1,250 PLN	2014	–	(83)
Total of cash flow hedges				13	(142)
<b>Derivative instruments – held for trading</b>					
CCIRS	Currency and interest rate risk	307 EUR	2014	4	(78)
NDF	Currency risk	275 EUR	2013	–	(76)
NDF	Currency risk	24 USD	2013	0	(4)
IRS	Interest rate risk	307 EUR	2014	81	–
IRS	Interest rate risk	2,359 PLN	2013-2014	–	(88)
Total of derivatives held for trading				85	(246)
<b>Total of derivative instruments</b>				<b>127</b>	<b>(395)</b>
Current				–	(112)
Non-current				127	(283)

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

<sup>(2)</sup> Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

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### 21. Derivatives (continued)

				Fair value <sup>(2)</sup> (in PLN millions)	
Type of instrument <sup>(1)</sup>	Hedged risk	Hedged nominal amount (in millions of currency)	Maturity	Financial Asset	Financial Liability
At 31 December 2011					
<b>Derivative instruments - fair value hedge</b>					
CCIRS	Currency and interest rate risk	110 EUR	2014	35	–
IRS	Interest rate risk	110 EUR	2014	29	–
Total of fair value hedges				64	–
<b>Derivative instruments - cash flow hedge</b>					
CCIRS	Currency and interest rate risk	283 EUR	2014	56	–
CCS	Currency risk	33 EUR	2012-2014	16	–
NDF	Currency risk	20 EUR	2012	0	(0)
IRS	Interest rate risk	33 EUR	2014	9	–
IRS	Interest rate risk	1,276 PLN	2012-2014	–	(65)
Total of cash flow hedges				81	(65)
<b>Derivative instruments – held for trading</b>					
CCIRS	Currency and interest rate risk	313 EUR	2012-2014	56	(2)
NDF	Currency risk	693 EUR	2012	213	–
NDF	Currency risk	22 USD	2012	7	–
IRS	Interest rate risk	307 EUR	2014	81	–
IRS	Interest rate risk	1,269 PLN	2014	0	(51)
Total of derivatives held for trading				357	(53)
<b>Total of derivative instruments</b>				<b>502</b>	<b>(118)</b>
Current				225	–
Non-current				277	(118)

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

<sup>(2)</sup> Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

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 change in fair value of cash flow hedges recognised in other comprehensive income is presented below:

(in PLN millions)	12 months ended 31 December 2012			12 months ended 31 December 2011		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Effective part of gains/(losses) on hedging instrument	(159)	30	(129)	158	(30)	128
Reclassification to the income statement, adjusting:	129	(24)	105	(117)	22	(95)
- interest expense presented in finance costs, net	37	(7)	30	39	(7)	32
- foreign exchange differences presented in finance costs, net	93	(17)	76	(152)	28	(124)
- foreign exchange differences presented in other operating expense	(1)	–	(1)	(4)	1	(3)
Transfer to the initial carrying amount of the hedged item	5	(1)	4	(33)	6	(27)
<b>Total gains/(losses) on cash flow hedges</b>	<b>(25)</b>	<b>5</b>	<b>(20)</b>	<b>8</b>	<b>(2)</b>	<b>6</b>

During the 12 months ended 31 December 2012 and 2011, there was no material forecast transaction for which hedge accounting was discontinued as it was no longer expected to occur.

Gains/(losses) on cash flow hedges cumulated in other comprehensive income as at 31 December 2012 are expected to mature and affect the income statement in the years 2013-2014.

## 22. Fair value of financial instruments

### 22.1. Fair value measurements

For the financial instruments measured subsequent to initial recognition at fair value, 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).

#### 22.1.1. 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.

(in PLN millions)	At 31 December 2012			
	Fair value measurement			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	6	85	–	91
Derivatives – held for trading	–	85	–	85
Marketable securities – held for trading	6	–	–	6
Hedging derivatives	–	42	–	42
<b>Total financial assets measured at fair value</b>	<b>6</b>	<b>127</b>	<b>–</b>	<b>133</b>

(in PLN millions)	At 31 December 2011			
	Fair value measurement			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	9	357	–	366
Derivatives – held for trading	–	357	–	357
Marketable securities – held for trading	9	–	–	9
Hedging derivatives	–	145	–	145
<b>Total financial assets measured at fair value</b>	<b>9</b>	<b>502</b>	<b>–</b>	<b>511</b>

During the 12 months ended 31 December 2012 and 2011, 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.

#### 22.1.2. Financial liabilities measured at fair value

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.

(in PLN millions)	At 31 December 2012			
	Fair value measurement			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	–	246	–	246
Derivatives – held for trading	–	246	–	246
Hedging derivatives	–	149	–	149
<b>Total financial liabilities measured at fair value</b>	<b>–</b>	<b>395</b>	<b>–</b>	<b>395</b>

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### 22. Fair value of financial instruments (continued)

#### 22.1.2. Financial liabilities measured at fair value (continued)

(in PLN millions)	At 31 December 2011			
	Fair value measurement			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	–	53	–	53
Derivatives – held for trading	–	53	–	53
Hedging derivatives	–	65	–	65
<b>Total financial liabilities measured at fair value</b>	<b>–</b>	<b>118</b>	<b>–</b>	<b>118</b>

During 12 months ended 31 December 2012 and 2011, 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.

#### 22.2. Comparison of fair values and carrying amounts of financial instruments

As at 31 December 2012 and 2011, the carrying amount of cash and cash equivalents, current trade receivables and current 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 2012 and 2011, 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 2011		At 31 December 2010	
	Carrying amount <sup>(1)</sup>	Estimated fair value	Carrying amount <sup>(1)</sup>	Estimated fair value
Bonds with fixed interest rate	2,994	3,162	3,241	3,467
Bank borrowings with fixed interest rate	40	38	49	46
UMTS licence payable	810	957	888	979
<b>Total</b>	<b>3,844</b>	<b>4,157</b>	<b>4,178</b>	<b>4,492</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 rates for a given currency. A theoretical zero-coupon curve is derived from the SWAP rate curve adjusted by the appropriate credit spread. Fair value amounts are translated to PLN at the National Bank of Poland period-end exchange rate.

### 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 stabilise cash flows and to ensure an adequate level of financial liquidity and flexibility.

The principles of the Group Financial Risk Management Policy have been approved by the Management Board. Operationally, financial risk management is conducted by TP Group Corporate Finance 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 areas:

- 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.

## 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 classified as fair value hedges or cash flow hedges and the Group applies hedge accounting principles as stated in IAS 39 (see Note 31.18). 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 21.

## 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 18) and trade receivables, trade payables and provisions of which a significant balance relates to the UMTS licence payable (see Note 14) and provision for the proceedings by the European Commission (see Note 28.d).

The Group's hedging policy, minimising 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.

The table below presents the hedge ratio of the Group's major currency exposures. The ratio compares the hedged nominal value of a currency exposure to the total nominal value of the exposure.

Currency exposure	Hedge ratio	
	At 31 December 2012	At 31 December 2011
Bonds and bank borrowings	99.7%	99.7%
UMTS licence payable	52.3%	54.8%
DPTG provision (see Notes 28.e)	–	75.6%
EC proceedings provision (see Note 28.d)	75.8%	77.8%

The Group is also actively hedging 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.

Effective exposure after hedging impacting consolidated income statement					Sensitivity to a change of the PLN against other currencies			
		At 31 December 2011	At 31 December 2010			At 31 December 2011	At 31 December 2010	
(in millions of currency)						+10%	-10%	
Hedged item	Currency	PLN	Currency	PLN	PLN		PLN	
Bonds and bank borrowings (USD)	3	9	3	10	1	(1)	1	(1)
UMTS licence payable (EUR)	129	527	129	570	53	(53)	57	(57)
DPTG provision (EUR) (see Notes 28.e)	–	–	134	592	–	–	59	(59)
EC proceedings provision (EUR) (see Note 28.d)	32	131	28	124	13	(13)	12	(12)
<b>Total</b>		<b>667</b>		<b>1,296</b>	<b>67</b>	<b>(67)</b>	<b>129</b>	<b>(129)</b>

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

#### 23.3. Currency risk (continued)

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

- unhedged portion of the notional amount of liabilities 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.

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect consolidated other comprehensive income. The sensitivity analysis prepared by the Group as at 31 December 2012 and 2011 displayed there was no significant impact on other comprehensive income resulting from a hypothetical 10% appreciation/depreciation of the PLN against other currencies.

#### 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 18).

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 2012 and 2011, the Group's proportion between fixed/floating rate debt (including hedging activities) was 47/53% and 52/48%, 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 per cent.

(in PLN millions)	Potential increase /(decrease) in value resulting from 1% change of interest rates			
	At 31 December 2012		At 31 December 2011	
	+1%	-1%	+1%	-1%
Finance costs, net	35	(34)	29	(28)
Other comprehensive income	1	(1)	(1)	1
Fair value of gross financial debt after derivatives	(35)	34	(60)	66

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 b) the change in the fair value of derivatives that do not qualify for hedge accounting,
- the effective portion of the change in the fair value of derivatives classified as cash flow hedges is recognised directly in other comprehensive income,
- as at 31 December 2012, the fair value of gross financial debt after derivatives (excluding finance lease and arrangement fees) was PLN 5,611 million (as at 31 December 2011, PLN 4,774 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 statement of financial position 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 2012, the Group had the following unused credit facilities amounting to PLN 2,517 million (as at 31 December 2011, PLN 3,790 million):

- PLN 882 million of credit lines,
- EUR 400 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.

The liquidity ratio, which represents the relation between available financing sources (i.e. cash 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 2012	At 31 December 2011
Liquidity ratio - next 12 months	141%	1,036%
Unused credit facilities	2,517	3,790
Cash and cash equivalents	390	2,860
Debt repayments <sup>(1)</sup>	2,069	642
Liquidity ratio (incl. derivatives) - next 12 months	128%	1,325%
Derivatives <sup>(2)</sup>	196	(140)
Liquidity ratio - next 18 months	59%	572%
Unused credit facilities	2,517	3,790
Cash and cash equivalents	390	2,860
Debt repayments <sup>(1)</sup>	4,950	1,163
Liquidity ratio (incl. derivatives) - next 18 months	54%	631%
Derivatives <sup>(2)</sup>	423	(109)

<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 contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2012 and 2011 is presented in Note 17. The average duration for the existing debt portfolio as at 31 December 2012 is 1.6 years (as at 31 December 2011, 2.0 years).

## 23.6. Credit risk

The Group's credit risk management objective is defined as supporting business growth while minimising financial risks by ensuring that customers and partners are always in a position to pay amounts due to 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.

There is no significant concentration of credit risk within the Group. Further information on credit risk is discussed in Notes 12, 19, 20 and 21.

## 23.7. Management of covenants

As at 31 December 2012 and 2011 TP S.A. was a party to loan agreement containing financial covenant, upon which the Group should meet the following financial ratio: Net Debt / EBITDA to be no higher than 3.5:1 confirmed on a semi-annual basis.

The covenant was met in years 2012 and 2011.

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### 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 the following key elements:

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

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 - at the maximum range of 35% - 40% in the long term,
- Net financial debt to EBITDA ratio - remaining below 1.5 in the long term.

The table below provides the capital ratios as at 31 December 2012 and 2011 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 2012	At 31 December 2011
Interest bearing bonds and bank borrowings and finance lease	5,182	4,937
Cash and cash equivalents	390	2,860
Marketable securities	6	9
Net financial debt before hedging	4,786	2,068
Derivatives <sup>(1)</sup>	253	(374)
Net financial debt	5,039	1,694
Equity	12,958	14,334
Equity and Net financial debt before hedging	17,744	16,402
Equity and Net financial debt	17,997	16,028
EBITDA <sup>(2)</sup>	4,845	4,780
Net Gearing before hedging ratio <sup>(3)</sup>	27.0%	12.6%
Net Gearing ratio <sup>(4)</sup>	28.0%	10.6%
Net financial debt before hedging / EBITDA <sup>(2)</sup> ratio	1.0	0.4
Net financial debt / EBITDA <sup>(2)</sup> ratio	1.0	0.4

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

<sup>(2)</sup> sGain on disposal of TP Emitel and dispute with DPTG are excluded from EBITDA in 2012 and 2011, because they do not relate to the Group's current operations.

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

<sup>(4)</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 a reasonable remuneration to the Group's shareholders. There are no external capital requirements imposed on the Group.

### 25. Income tax

(in PLN millions)	12 months ended 31 December 2012	12 months ended 31 December 2011
Current income tax	(122)	(169)
Deferred tax	(39)	302
<b>Total income tax</b>	<b>(161)</b>	<b>133</b>

The reconciliation between the 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 2012	12 months ended 31 December 2011
<b>Consolidated net income before tax</b>	<b>1,016</b>	<b>1,785</b>
Less: Gain on disposal of TP Emitel (tax neutral)	–	(1,183)
Proceedings by the European Commission (see Note 28.d) <sup>(1)</sup>	(28)	513
Consolidated net income before tax, adjusted	988	1,115
Statutory tax rate	19%	19%
<b>Theoretical tax</b>	<b>(188)</b>	<b>(212)</b>
Tax relief on new technologies	62	148
Reassessment of deferred tax asset on dispute with DPTG	–	233
Change in unrecognised deferred tax asset and other	–	(4)
Expense not deductible for tax purposes, net	(35)	(32)
<b>Total income tax</b>	<b>(161)</b>	<b>133</b>

<sup>(1)</sup> Includes foreign exchange effect.

As at 31 December 2011, the Company reassessed the tax realisation of deductible temporary differences on DPTG provision and increased deferred tax assets by PLN 233 million.

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

During the 12 months ended 31 December 2012 and 2011 TP S.A., PTK - Centertel Sp. z o.o. and TP Invest Sp. z o.o. comprised the TP Tax Capital Group.

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Tax losses are permitted to be utilised over 5 consecutive years with a 50% utilisation restriction for each annual tax loss in a particular year. During the 12 months ended 31 December 2012 and 2011, the Group entities utilised PLN 5 million and PLN 111 million, respectively, of their tax losses previously incurred. As at 31 December 2012 and 2011, there were no significant unused tax losses in the Group entities.

#### Deferred tax

The net deferred tax assets consist of the following:

	Consolidated statement of financial position		Consolidated income statement	
(in PLN millions)	At 31 December 2012	At 31 December 2011	12 months ended 31 December 2012	12 months ended 31 December 2011
Property, plant and equipment and intangible assets	390	(11)	401	77
Impairment of financial assets	61	68	(7)	(1)
Finance (income)/expense, net <sup>(1)</sup>	48	(28)	71	(15)
Accrued (income)/expense, net	188	672	(484)	252
Employee benefit plans <sup>(2)</sup>	70	52	9	(10)
Deferred income	102	113	(11)	(3)
Other differences	15	33	(18)	2
<b>Deferred tax assets, net</b>	<b>874</b>	<b>899</b>	<b>–</b>	<b>–</b>
<b>Total deferred tax</b>	<b>–</b>	<b>–</b>	<b>(39)</b>	<b>302</b>

<sup>(1)</sup> During the 12 months ended 31 December 2012 and 2011, PLN 5 million and PLN (2) million of change in deferred tax asset relating to finance income/expense was recognised in the consolidated statement of comprehensive income, respectively.

<sup>(2)</sup> During the 12 months ended 31 December 2012 and 2011, PLN 9 million and PLN 2 million of change in deferred tax asset relating to employee benefits was recognised in the consolidated statement of comprehensive income, respectively.

Unrecognised deferred tax assets relate mainly to temporary differences, which based on the Group's management assessment could not be utilised for tax purposes. As at 31 December 2012 and 2011, deductible temporary differences, for which no deferred tax assets were recognised, amounted to PLN 99 million and PLN 121 million gross, respectively. Additionally, unrecognised deferred tax assets relate to those tax losses, which are expected to expire rather than to be realised. As at 31 December 2012, tax losses for which no deferred tax assets were recognised, amounted to PLN 18 million gross. As at 31 December 2011, there were no significant tax losses for which no deferred tax assets were recognised.

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### 26. Equity

#### 26.1. Share capital

As at 31 December 2012 and 2011, 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 2012 and 2011 was as follows:

(in PLN millions)	At 31 December 2012			At 31 December 2011		
	% of votes	% of shares	Nominal value	% of votes	% of shares	Nominal value
France Telecom S.A.	49.79	49.79	1,995	49.79	49.79	1,995
Capital Group International, Inc. <sup>(1)</sup>	-	-	-	5.06	5.06	203
Other shareholders	48.47	48.47	1,942	44.30	44.30	1,775
Treasury shares <sup>(2)</sup>	1.74	1.74	70	0.85	0.85	34
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>4,007</b>	<b>100.00</b>	<b>100.00</b>	<b>4,007</b>

<sup>(1)</sup> Number of shares according to the notification by Capital Group International, Inc. on 15 October 2010. On 15 October 2012, TP S.A. received a notification in which Capital Group Companies, Inc. informed that its share in the Company's share capital (including shares held by Capital Group International, Inc.) fell below 5%.

<sup>(2)</sup> Voting rights attributable to treasury shares cannot be exercised at the General Meeting of TP S.A.

The Group has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders, except for the purchase of treasury shares (see Note 26.2).

#### 26.2. Purchase of treasury shares

During the 12 months ended 31 December 2012, in the course of the programme of buy-back of own shares, TP S.A. purchased a total of 11,978,133 own shares accounting for 0.9% of the share capital, for a total consideration of PLN 200 million.

As at 31 December 2012, TP S.A. held 23,291,542 own shares (out of 1,335,649,021 shares in issue) accounting for 1.74% of the share capital, purchased for a total consideration of PLN 400 million, for the purpose of their redemption. The treasury shares will be redeemed at the nearest General Meeting of TP S.A.

#### 26.3. Dividends

On 12 April 2012, the General Meeting of TP S.A. adopted a resolution on the payment of an ordinary dividend of PLN 1.50 per share from 2011 profit and retained earnings from previous years. Total dividend, paid on 5 July 2012, amounted to PLN 1,969 million. Treasury shares (see Note 26.2) held on 21 June 2012, which was the dividend day, were not entitled to the dividend.

TP S.A.'s retained earnings available for dividend payments to the Group's shareholders amounted to PLN 4.4 billion as at 31 December 2012. The remaining balance of the Group's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 1.6 billion of TP S.A.'s subsidiaries retained earnings as at 31 December 2012 was available for dividend payments by subsidiaries to TP S.A.

#### 26.4. Share-based payments

##### Group incentive programme

On 28 April 2006, the General Meeting 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 maximisation of its value. 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 pre-emption rights 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 154,698 bonds had not been subscribed and were redeemed.

Pre-emption rights attached to the bonds to subscribe for the Company's shares may be exercised until 9 October 2017. One bond gives a right to subscribe for one ordinary share. The shares acquired upon exercising pre-emption right attached to the bonds are ordinary bearer shares and are not subject to any restriction in trading. The right to subscribe for the shares shall be vested exclusively in the bondholders. The issue price of the shares is PLN 21.57 per share.

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

	12 months ended 31 December 2012		12 months ended 31 December 2011	
	number	exercise price (PLN)	number	exercise price (PLN)
Outstanding at the beginning of the period	3,588,678	21.57	3,935,226	21.57
Cancelled during the year	(207,444)	–	(346,548)	–
<b>Outstanding at the end of the year</b>	<b>3,381,234</b>	<b>21.57</b>	<b>3,588,678</b>	<b>21.57</b>

During the vesting period (years 2007-2010) the fair value of services received, recognised in labour expenses and equity, amounted to PLN 17 million.

#### France Telecom S.A. free share award plan

In 2007 France Telecom S.A. established a free share, equity-settled, award plan ("NExT plan"). Under the NExT plan 988,400 shares of France Telecom S.A. 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 to TP Group's employees. The fair value of equity instruments at grant date was PLN 63.57 (an equivalent of EUR 17.95 translated at NBP period-end exchange rate at 18 March 2008).

During the vesting period (years 2008-2010) the fair value of services received, recognised in labour expenses and equity, amounted to PLN 62 million.

## 27. Unrecognised contractual obligations

Management considers that, to the best of its knowledge, there are no existing unrecognised contractual obligations as at 31 December 2012 and 2011, other than those described below, likely to have a material impact on the current or future financial position of the Group.

### 27.1. Commitments related to operating leases

When considering the Group as a lessee, operating lease commitments relate to the lease of buildings, land and the agreement for the development and lease of new premises for the Group. Lease costs recognised in the consolidated income statement for the years ended 31 December 2012 and 2011 amounted to PLN 440 million and PLN 418 million, respectively. Most of the agreements are 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 2012 and 2011, were as follows:

(in PLN millions)	At 31 December 2012	At 31 December 2011
Within one year	212	227
After one year but not more than five years	372	372
More than five years	286	321
<b>Total minimum future lease payments</b>	<b>870</b>	<b>920</b>

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2012 and 2011 amounted to PLN 65 million and PLN 55 million, respectively.

### 27.2. Investment commitments

Investment commitments contracted for at the end of the reporting period but not recognised in the financial statements were as follows:

(in PLN millions)	At 31 December 2012	At 31 December 2011
Property, plant and equipment	333	609
Intangibles	62	99
<b>Total investment commitments</b>	<b>395</b>	<b>708</b>
Amounts contracted to be payable within 12 months after the end of the reporting period	386	665

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### 27. Unrecognised contractual obligations (continued)

#### 27.2. Investment commitments (continued)

Investment commitments represent mainly purchases of telecommunications network equipment, IT systems and other software (including investment commitments related to Memorandum of Understanding with UKE – see below).

#### 27.3. Memorandum of Understanding with UKE

On 22 October 2009, TP S.A. and UKE signed a Memorandum of Understanding concerning implementation of transparency and non-discrimination in inter-operator relations so as to avoid the risk of functional separation of the Company. In 2010 - 2012, TP S.A. carried out activities in accordance with a schedule established together with UKE and was systematically implementing technical and organisational solutions, in order to secure non-discriminatory relations with other operators including equal access to information. The Management Board believes that the Company has met its commitments under the Memorandum of Understanding.

TP S.A. was to invest in the development of 1.2 million broadband access lines up to 22 October 2012 (0.479 million new lines and 0.721 million upgraded existing lines), of which 1 million lines with bandwidths of at least 6 Mbps. On 30 January 2012, TP S.A. and UKE signed a modification of the Memorandum of Understanding under which the development of the remaining 0.341 million broadband access lines will be finalised by 31 March 2013, of which 0.22 million lines with bandwidths of at least 30 Mbps.

As at 31 December 2012, TP S.A. finalised the development of 1,026 million broadband access lines.

### 28. Litigation and claims (including contingent liabilities)

#### 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.

#### b. Tax contingent liability

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes, which often leads to the lack of system stability. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts.

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

#### c. Proceedings by UKE and UOKiK

According to the Telecommunications Act, the President of UKE may impose on a telecommunications operator a penalty of up to a maximum amount of 3% of the operator's prior year's revenue, if the operator does not fulfil certain requirements of the Telecommunications Act. According to the Act on Competition and Consumer Protection, 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.

#### *Proceedings by UKE related to broadband access*

On 25 September 2006, UKE imposed a fine of PLN 100 million on TP S.A. for the infringement of the obligation to determine the price of the services on the basis of the cost of their provision and on clear, objective and non-discriminatory criteria, as a result of not implementing the offer to sell Neostrada (Internet services) separately from the fixed line subscription.

On 22 February 2007, after TP S.A. had separated providing Neostrada from fixed line telephony 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 demonstrate that TP S.A. had met the requirements of the Polish Telecommunication Law that the price of services be based on their cost and determined on clear, objective and non-discriminatory criteria.

TP S.A. did not pay either of these fines and appealed against these decisions to the Court of Competition and Consumer Protection ("SOKiK").



In 2010 the European Court of Justice ruled that by regulating retail tariffs for broadband access services without carrying out a prior market analysis, Poland had failed to fulfil its obligations under the Universal Service Directive in conjunction with the Framework Directive.

On 18 April 2011, SOKiK overruled the UKE's decision imposing the fine of PLN 339 million. UKE appealed against the SOKiK verdict to the Court of Appeal on 6 June 2011 and, on 3 February 2012, the Court dismissed the appeal. On 4 July 2012, the Court of Appeal confirmed the verdict of SOKiK of 12 July 2011 that annulled the PLN 100 million fine. Therefore verdicts of SOKiK annulling both fines are binding. UKE lodged an appeal in cassation to the Supreme Court in both cases.

#### *Proceedings by UOKiK related to IP traffic*

On 20 December 2007, Office of Competition and Consumer Protection ("UOKiK") issued a decision concluding that TP S.A. had engaged in practices restricting competition when it downgraded IP traffic coming from domestic operators' networks to TP S.A.'s network via foreign operators' networks and imposed a fine of PLN 75 million on the Company. TP S.A. disagreed with the decision of UOKiK, did not pay the fine and appealed to SOKiK against the decision. In 2011, SOKiK reduced the fine to the amount of PLN 38 million and the parties appealed. On 20 June 2012, the Court of Appeal reversed, for procedural reasons, the verdict of SOKiK and remanded the case back to consideration by SOKiK. UOKiK lodged an appeal in cassation against this decision to the Supreme Court.

#### *Proceedings by UOKiK related to mobile television*

On 21 September 2010, UOKiK initiated competition proceedings against PTK-Centertel, Polkomtel S.A., Polska Telefonii Cyfrowa S.A. and P4 Sp. z o.o. claiming that they concluded an agreement regarding their relations with Info TV FM Sp. z o.o.

Info TV FM Sp. z o.o. is a telecommunications operator working in the field of radio diffusion and providing its services to radio and television broadcasters. 4MNO Sp. z o.o. (formerly Mobile TV Sp. z o.o.) is a company in which the four above companies involved in the proceedings are shareholders. UOKiK gave its prior approval to set up Mobile TV Sp. z o.o. Both companies applied to UKE for a licence to broadcast in the frequency band designed for the provision of audio-visual media services in DVB-H technology.

In March 2009, Info TV FM Sp. z o.o. was granted permission to use these frequencies. However, none of the four companies decided to introduce mobile television services to its customers.

On 23 November 2011, UOKiK issued a decision imposing fines on the four companies (on PTK-Centertel – PLN 35 million) for alleged agreement restricting competition on the domestic retail and wholesale market for mobile television based on DVB-H technology. On 7 December 2011, PTK-Centertel appealed against that decision.

The Management Board of PTK-Centertel did not agree on common actions with the other companies aimed at restricting the introduction of DVB-H service based on the offer of Info TV FM Sp. z o.o. It decided not to introduce mobile television services due to the market situation and for commercial reasons. There have been no developments after PTK-Centertel appealed against the decision of UOKiK.

As at 31 December 2012, the Group recognised provisions for known and quantifiable risks related to proceedings against the Group initiated by UKE and UOKiK, 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.

#### **d. Proceedings by the European Commission related to broadband access**

In September 2008, the European Commission conducted an inspection at the premises of TP S.A. and PTK-Centertel. 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. 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 1 March 2010, TP S.A. received a Statement of Objections from the European Commission regarding an alleged abuse of dominant position, by refusing to supply access to its wholesale broadband services. The Company responded to the Statement of Objections and provided the European Commission with requested information. TP S.A. received from the European Commission the letter of facts dated 28 January 2011 presenting evidence collected after the issue of the Statement of Objections as well as findings of the European Commission. TP S.A. responded to the letter of facts on 7 March 2011.

On 22 June 2011, the European Commission imposed on TP S.A. a EUR 127.6 million fine (approximately PLN 508 million) for abuse of dominant position on the wholesale broadband access market, before October 2009. TP S.A. has recorded a provision for the whole amount of the fine. In accordance with the decision the fine could have been provisionally paid or secured by a bank guarantee. On 27 September 2011, TP S.A. provided the bank guarantee to the European Commission.

The Company strongly disagrees with the decision and the disproportionate level of the fine, particularly as it believes that the European Commission did not take into account several important factors. The situation on the wholesale broadband market has been systematically improving since 2007. By constructing and providing fixed broadband infrastructure, the Company has been effectively remedying the difficulties on the Polish broadband market and it has been increasing the penetration rate of the broadband services. The irregularities pointed out by the European Commission were voluntarily removed by the Company in the past.

The decision is not final and TP S.A., in liaison with its legal advisors, appealed against it to the General Court of the European Union on 2 September 2011. The European Commission answered to the appeal on 13 January 2012. Based on previous similar cases, the proceedings at the Court may last two or three years. The judgment of the General Court of the European Union could be appealed to the Court of Justice by any of the parties.

# Financial statements

## continued

### 28. Litigation and claims (including contingent liabilities) (continued)

#### d. Proceedings by the European Commission related to broadband access (continued)

On 19 November 2012, TP S.A. received from the General Court the statement in intervention of Netia S.A. The Polish Chamber of Information Technology and Telecommunications was granted the time limit to submit its statement in intervention by 4 February 2013. That submission should be provided to TP S.A. through the General Court but TP S.A. has not yet received it. TP S.A. and the European Commission have the right to respond to these statements.

On 16 April 2012, TP S.A. received a notification of a hearing on Netia S.A.'s motion from the Warsaw Commercial Court. In its motion Netia S.A. called on TP S.A. for an amicable settlement of a damages claim based on the above mentioned European Commission decision. In the TP S.A. Management's opinion, Netia S.A.'s motion did not constitute any reasonable grounds on which to assess whether or not Netia S.A. suffered any damage. At the court session held on 10 May 2012, the parties did not reach an agreement.

The Management assesses the described above matters on a regular basis taking into account their developments.

#### e. Dispute with DPTG

On 12 January 2012, the Management Board of TP S.A., acting in the best interest of the Company and its shareholders, signed a settlement agreement that concluded the dispute between the Company and DPTG. Pursuant to the agreement, TP S.A. paid DPTG a total of EUR 550 million (PLN 2,449 million) and both parties waived any existing and possible new claim in relation to the dispute. All proceedings instituted by DPTG or TP S.A. within the dispute have been terminated.

#### f. Other contingent liabilities and provisions

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

### 29. Related party transactions

#### 29.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

(in PLN thousands)	12 months ended 31 December 2012		12 months ended 31 December 2011	
	Paid	Accrued but not paid	Paid	Accrued but not paid
Short-term benefits excluding employer social security payments <sup>(1)</sup>	11,044	656	10,545	1,380
Post-employment and other benefits	–	–	636	–
Termination benefits	–	–	636	–
<b>Total</b>	<b>11,044</b>	<b>656</b>	<b>11,817</b>	<b>1,380</b>

<sup>(1)</sup> Gross salaries, bonuses and non-monetary benefits.

Compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) paid during the 12 months ended 31 December 2012 and 2011 (including PLN 1.4 million and PLN 1.3 million accrued in previous periods, respectively) or accrued but not paid in accordance with contractual commitments by TP S.A. to TP S.A.'s Management Board and Supervisory Board members are presented below.

Persons that were Members of the Management Board of the Company as at 31 December 2012:

(in PLN thousands)	12 months ended 31 December 2012		12 months ended 31 December 2011	
	Paid	Accrued but not paid	Paid	Accrued but not paid
Maciej Witucki	2,807	122	2,892	382
Vincent Lobry	2,324	119	2,233	215
Piotr Muszyński	2,188	169	2,101	337
Jacques de Galzain	2,245	70	1,732 <sup>(1)</sup>	232
Jacek Kowalski	1,480	176	1,141 <sup>(1)</sup>	214
<b>Total</b>	<b>11,044</b>	<b>656</b>	<b>10,099</b>	<b>1,380</b>

<sup>(1)</sup> From the date of appointment.

Persons that were Members of the Management Board of the Company in 2012 or previous periods:

(in PLN thousands)	12 months ended 31 December 2012		12 months ended 31 December 2011	
	Paid	Accrued but not paid	Paid	Accrued but not paid
Roland Dubois	–	–	1,718 <sup>(1)</sup>	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>1,718</b>	<b>–</b>

<sup>(1)</sup> Includes remuneration and bonuses until the termination date, compensation and termination indemnities.

In the years ended 31 December 2012 and 2011, the members of TP S.A.'s Management Board did not receive any compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) from the Group's subsidiaries, associates or joint ventures.

Supervisory Board compensation was as follows:

(in PLN millions)	12 months ended 31 December 2012	12 months ended 31 December 2011
Prof. Andrzej Koźmiński	363	350
Benoit Scheen <sup>(2)</sup>	–	–
Marc Ricau <sup>(2)</sup>	–	–
Timothy Boatman	272	262
Dr. Henryka Bochniarz	113	–
Thierry Bonhomme <sup>(2)</sup>	–	–
Jacques Champeaux	181	175
Dr. Mirosław Gronicki	181	175
Sławomir Lachowski	79	–
Marie-Christine Lambert <sup>(2)</sup>	–	–
Pierre Louette <sup>(2)</sup>	–	–
Gerard Ries <sup>(2)</sup>	–	–
Dr. Wiesław Rozłucki	238	175
Olivier Barberot <sup>(1)(2)</sup>	–	–
Nathalie Clere <sup>(1)(2)</sup>	–	–
Olivier Faure <sup>(1)(2)</sup>	–	–
Ronald Freeman <sup>(1)</sup>	16	262
Henri de Joux <sup>(1)(2)</sup>	–	–
Prof. Jerzy Rajski <sup>(1)</sup>	69	175
Raoul Roverato <sup>(1)(2)</sup>	–	–
Olaf Swantee <sup>(1)(2)</sup>	–	–
<b>Total</b>	<b>1,512</b>	<b>1,574</b>

<sup>(1)</sup> Persons that were not members of the Supervisory Board of the Company as at 31 December 2012 but were members of the Supervisory Board of TP S.A. in 2012 or previous periods.

<sup>(2)</sup> Persons appointed to the Supervisory Board of the Company employed by France Telecom S.A. do not receive remuneration for the function performed.

In the years ended 31 December 2012 and 2011, the members of TP S.A.'s Supervisory Board did not receive any compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) from the Group's subsidiaries, associates or joint ventures.

# Financial statements

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### 29. Related party transactions (continued)

#### 29.1. Management Board and Supervisory Board compensation (continued)

In the years ended 31 December 2012 and 2011, the Group did not enter into any significant transactions with members of the TP S.A.'s Management Board or the Supervisory Board or 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 and did not grant them any loans, advances or guarantees.

In the years ended 31 December 2012 and 2011, the Group did not enter into any significant transactions with companies which were controlled or jointly controlled by the members of the TP S.A.'s Management Board or the Supervisory Board or 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.

#### 29.2. Related party transactions

As at 31 December 2012, France Telecom S.A. owned 49.79% of shares of the Company and had the power to appoint the majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

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

The Group's income earned and purchases from entities accounted for using the equity method comprise mainly transactions with NetWorkS! Sp. z o.o. (see Note 11).

Financial costs incurred by the Group in transactions with related parties comprise interest on a short-term loan from France Telecom S.A. received on 12 January 2012 and repaid after 6 days which allowed immediate realisation of the settlement agreement with DPTG (see Note 28.e). The Group's financial receivables from its related parties comprise bonds issued by NetWorkS! Sp. z o.o.

(in PLN millions)	12 months ended 31 December 2012	12 months ended 31 December 2011
<b>Sales of goods and services and other income from:</b>	<b>349</b>	<b>216</b>
TP Group's entities accounted for using the equity method	14	17
France Telecom S.A. (parent)	136	147
France Telecom (group excluding parent)	199	52
<b>Purchases of goods (including inventories, tangible and intangible assets) and services from:</b>	<b>435</b>	<b>375</b>
TP Group's entities accounted for using the equity method	123	34
France Telecom S.A. (parent)	99	117
France Telecom (group excluding parent)	213	224
– including Orange Brand Services Limited (brand licence agreement)	140	125
<b>Financial expense:</b>	<b>1</b>	<b>-</b>
France Telecom S.A. (parent)	1	-
<b>Dividends paid:</b>	<b>997</b>	<b>997</b>
France Telecom S.A. (parent)	997	997

In April 2005, PTK-Centertel and Orange Brand Services Limited (UK) (hereinafter referred to as "Orange") concluded a licence agreement under 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 was 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 under which TP S.A. acquired rights to operate under the Orange brand. The brand licence agreement provides that Orange receives a fee of up to 1.6% of the Company's operating revenue earned under the Orange brand. The agreement was concluded for 10 years with the possibility of renewal. TP S.A. introduced Orange as its brand in 2012.

(in PLN millions)	At 31 December 2012	At 31 December 2011
<b>Receivables from:</b>	<b>85</b>	<b>143</b>
TP Group's entities accounted for using the equity method	3	10
France Telecom S.A. (parent)	47	108
France Telecom (group excluding parent)	35	25
<b>Financial receivables from:</b>	<b>6</b>	<b>–</b>
TP Group's entities accounted for using the equity method	6	–
<b>Payables to:</b>	<b>127</b>	<b>236</b>
TP Group's entities accounted for using the equity method	11	9
France Telecom S.A. (parent)	49	147
France Telecom (group excluding parent)	67	80

### 30. Subsequent events

There was no significant event after the end of the reporting period.

### 31. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2012.

#### 31.1. 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 2012 may be subsequently changed. The main estimates made are described in the following notes:

	Note	Type of information disclosed
31.13, 31.17, 7	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.
31.18, 19	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
31.20, 25	Income tax	Assumptions used for recognition of deferred tax assets.
31.22, 15	Employee benefits	Discount rates, salary increases, expected average remaining working lives.
31.18, 21, 22	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
31.21, 13, 28	Provisions	Provisions for employment termination expenses: discount rates and other assumptions. The assumptions underlying the measurement of provisions for claims and litigation.
31.14, 31.15	Useful lives of tangible and intangible assets	The useful lives and the amortisation method.
13	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.
31.9, 4	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).
31.19	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

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# Financial statements

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### 31. Significant accounting policies (continued)

#### 31.2. Use of judgments

Where a specific transaction is not dealt with in any standard or interpretation, management uses its judgment 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.

#### 31.3 Application of new standards, amendments and interpretations

##### Adoption of standards, amendments to standards and interpretations in 2012

The following standards or amendments to standards and interpretations endorsed by the European Union were adopted by the Group as at 1 January 2012:

- Amendments to IFRS 7 "Financial Instruments: Disclosures – Transfers of Financial Assets".
- Amendments to IAS 1 "Presentation of Financial Statements".

The adoption of the standards and interpretations presented above did not result in any significant changes to the Group's accounting policies and to the presentation of the financial statements.

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

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

- IFRS 9 "Financial Instruments" applicable for financial years beginning on or after 1 January 2015. This standard has not been endorsed by the European Union;
- IFRS 10 "Consolidated Financial Statements". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014;
- Amendments to IAS 27 "Separate financial statements". These amendments have been endorsed by the European Union and they are applicable for financial years beginning on or after 1 January 2014;
- Amendments to IAS 28 "Investments in associates and joint ventures". These amendments have been endorsed by the European Union and they are applicable for financial years beginning on or after 1 January 2014;
- IFRS 11 "Joint Arrangements". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014;
- IFRS 12 "Disclosure of Interests in Other Entities". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014;
- IFRS 13 "Fair Value Measurement". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2013;
- Amendments to IAS 19 "Employee Benefits". These amendments have been endorsed by the European Union and they are applicable for financial years beginning on or after 1 January 2013.

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

#### 31.4. 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, Accounting Standards Codification 605-25 "Revenue Recognition – Multiple Element Agreements" (see Note 31.9 Separable components of packaged and bundled offers).



### 31.5 Options available under IFRSs and used by the Group

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

	Standards	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 cost less any accumulated depreciation and any accumulated impairment losses.
IAS 19	Employee benefits	Actuarial gains and losses on post-employment benefits are recognised immediately in their total amount in the other comprehensive income, with no recycling to the income statement.
IAS 20	Government grants and disclosure of government assistance	Non-repayable 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 cost less any accumulated depreciation and any accumulated impairment losses.
IAS 31	Interests in joint ventures	Interests in jointly controlled entities are accounted for using the equity method.

### 31.6 Presentation of the financial statements

#### Presentation of the statement of financial position

In accordance with IAS 1 "Presentation of financial statements", assets and liabilities are presented in the statement of financial position as current and non-current.

#### 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 and, if applicable, the dilutive effect of the pre-emption rights attached to the bonds issued under TP S.A. incentive programme (see Note 26.4).

### 31.7. 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.

Investments in associates and interests in joint ventures (in respect to jointly controlled entities) are accounted for using the equity method.

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# Financial statements

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### 31. Significant accounting policies (continued)

#### 31.8 Effect of changes in foreign exchange rates

The functional currency of Telekomunikacja Polska is the Polish zloty.

##### *Transactions in foreign currencies*

Transactions in foreign currencies are converted into Polish zloty at the spot exchange rate prevailing as at the transaction date. Monetary assets and liabilities which are denominated in foreign currencies are re-measured at the end of the reporting period using 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.

#### 31.9. Revenue

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

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

For the sale of multiple products or services, the Group evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting. A delivered item is considered a separate unit of accounting if (i) it has value to the customer on a standalone basis and (ii) there is objective and reliable evidence of the fair value of the undelivered item(s). The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on its relative fair value. However, when an amount allocated to a delivered item is contingent upon the delivery of additional items or meeting specified performance conditions, the amount allocated to that delivered item is limited to the non contingent amount. This case arises e.g. in the mobile business for sales of bundled offers including a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount allocable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue recognized for the handset sale is generally limited to the amount of the arrangement that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.

For offers that cannot be separated into identifiable components, revenues are recognized in full over the life of the contract. The main example is connection to the service: 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 recognised when the significant risks and rewards of ownership are transferred to the buyer (see also paragraph "Separable components of packaged and bundled offers").

When equipment associated to the subscription of telecommunication services is sold by a third-party retailer who purchases it from the Group, the related revenue is recognized when the equipment is sold to the end-customer.

##### *Equipment leases*

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

##### *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 recognised on a gross or a net basis, an analysis is performed using the following criteria:

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

##### *Service revenue*

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

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

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 is recognised over the period during which the advertisement appears.

##### *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 utilisation 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 a 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.

#### *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".

### **31.10. Subscriber acquisition costs, advertising and related costs**

Subscriber acquisition and retention costs, other than loyalty program costs (see Note 31.9), are recognised as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred.

### **31.11. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised 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.

### **31.12. Share issuance costs and treasury shares**

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 statement of financial position separately under "Treasury shares" until the shares are cancelled or reissued. Treasury shares are recognised using settlement date accounting.

### **31.13. Goodwill**

Goodwill recognized as an asset in the statement of financial position for business combination before January 1, 2010 comprises:

- goodwill as the excess of the cost of the business combination over the acquirer's interest in the acquiree's identifiable net assets measured at fair value at the acquisition-date; and
- goodwill relating to any additional purchase of non-controlling interests with no purchase price allocation.

In the period after January 1, 2010, there were no business combinations in the Group.

Goodwill represents a payment made in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised.

#### *Impairment tests and Cash Generating Units*

In accordance with IFRS 3 "Business Combinations", goodwill is not amortised but is tested for impairment at least once a year or more frequently when there is an indication that it may be impaired. IAS 36 "Impairment of Assets" requires these tests to be performed at the level of each cash generating unit (CGU) to which the goodwill has been allocated. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of business combination.

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# Financial statements

## continued

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### 31. Significant accounting policies (continued)

#### 31.13. Goodwill (continued)

##### *Recoverable amount*

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

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

Value in use is the present value of the future cash flows expected to be derived from the CGU or group of CGUs, including goodwill. Cash flow projections are based on economic and regulatory assumptions, telecommunications licences 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.

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

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

Intangible assets, consisting mainly of telecommunications licences, 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, 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. 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 recognised at the acquisition date separately from goodwill if the asset's fair value can be measured reliably, is identifiable, (i.e. is separable) or arises from contractual or the legal rights irrespective of whether the assets had been recognised by the acquiree before the business combination.

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

##### *Telecommunications licences*

Expenditures regarding telecommunications licences are amortised on a straight-line basis over the reservation period from the date when the network is technically ready and the service can be marketed.

##### *Research and development costs*

Development costs are recognised as an intangible asset if and only if the following can be demonstrated:

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

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

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

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

##### *Software*

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

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

### 31.15. 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.

When tangible assets are acquired in a business combination, their cost is determined in connection with the purchase price allocation based on their respective fair market value. When their fair market value is not readily determinable, cost is determined using generally accepted valuation methods.

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 network 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.

#### *Investment grants*

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

#### *Finance leases*

Assets acquired under leases that transfer substantially all risks and rewards of ownership to the Group are recorded as assets and an obligation in the same amount is recorded in liabilities. 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 specialised nature that only the lessee can use them without major modifications.

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

#### *Derecognition*

An item of property, plant and equipment is derecognised on its disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in 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
Network	2 to 33 years
Terminals	2 to 10 years
IT equipment for corporate purposes	3 to 5 years
Other	2 to 10 years

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

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

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# Financial statements

## continued

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### 31. Significant accounting policies (continued)

#### 31.16. 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 statement of financial position 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.

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

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

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

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, if any. 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.

#### 31.18. Financial assets and liabilities

Financial assets are classified as assets available-for-sale, assets at fair value through profit or loss, hedging derivative instruments and loans and receivables.

Financial liabilities are classified as financial liabilities at amortised cost, liabilities at fair value through profit or loss and hedging derivative instruments.

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

##### *Recognition and measurement of financial assets*

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

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

##### **Assets available-for-sale**

Available-for-sale assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets and consist of shares in companies. Investments in unquoted equity instruments whose fair value cannot be reliably estimated are measured at cost, less any impairment losses. Impairment losses on these equity instruments are not reversed.

##### **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, cash and cash equivalents and other loans and receivables. They are carried in the statement of financial position under "Other financial assets", "Trade receivables" and "Cash and cash equivalents".

Cash and cash equivalents 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.

Loans and receivables are recognised initially at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

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



Trade 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.

#### **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 principally for the purpose of selling them in the near term;
- derivative assets not qualifying for hedge accounting as set out in IAS 39.

Financial assets classified in this category are measured at fair value.

#### **Recognition and measurement of financial liabilities**

##### **Financial liabilities at amortised cost**

Financial liabilities measured at amortised cost include borrowings, trade accounts payable and fixed assets payable, including the UMTS licence liability and are carried in the statement of financial position under “Financial liabilities at amortised cost excluding trade payables” and “Trade payables”.

Borrowings and other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

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 recognised in the income statement.

##### **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.

#### **Recognition and measurement of derivative instruments**

Derivative instruments are measured at fair value and presented in the statement of financial position as current or non-current according to their maturity. Derivatives are classified as financial assets and liabilities at fair value through profit or loss or as hedging derivatives.

##### **Derivatives classified as financial assets and liabilities at fair value through profit or loss**

Except for gains and losses on hedging instruments (as explained below), gains and losses arising from changes in fair value of derivatives are immediately recognised in the income statement. The interest rate component of derivatives held for trading is presented under interest expense within finance costs. 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 costs, respectively, depending on the nature of the underlying transaction.

#### **Hedging derivatives**

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

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

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 statement of financial position. The gain or loss from the changes in fair value of the hedged item is recognised in profit or loss and is offset by the effective portion of the loss or gain from re-measuring the hedging instrument at fair value. The adjustment to the hedged item is amortised starting from the date when a hedged item ceases to be adjusted by a change in fair value of the hedged portion of liability attributable to the risk hedged,
- for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. Amounts recognised directly in other comprehensive income are subsequently recognised 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.

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# Financial statements

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### 31. Significant accounting policies (continued)

#### 31.19. Inventories

Inventories are stated at the lower of cost and net realisable value, except for mobile handsets or other terminals sold in promotional offers. Inventories sold in promotional offers are stated at the lower of cost or probable net realisable value, taking into account future 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 realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

#### 31.20. 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 end of the reporting period.

##### *Deferred taxes*

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. Deferred tax assets are recognised only when their recovery is considered probable. At the end of the reporting period 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 liabilities are not recognised if they arise from the initial recognition of goodwill, deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred tax assets and liabilities are not discounted. Deferred income tax is calculated using the enacted or substantially enacted tax rates at the end of the reporting period.

#### 31.21. Provisions

A provision is recognised when the Group has a present obligation towards a third party, which amount can be reliably estimated 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.

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 arise from past events and whose 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 for which 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 not recognised but disclosed where appropriate in the notes to the Consolidated Financial Statements.

##### *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.

### 31.22. 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 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).

Actuarial gains and losses on jubilee awards plans are recognised as income or expense when they occur. Actuarial gains and losses on post-employment benefits are recognised immediately in their total amount in the other comprehensive income, with no recycling to the income statement. 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.

Benefits falling due more than 12 months after the end of the reporting period are discounted using a discount rate determined by reference to market yields on Polish government bonds.

### 31.23. Share-based payments

TP S.A. operates an equity-settled, share-based compensation plan under which employees rendered 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 was recognised as an expense, with a corresponding increase in equity, over the period in which the service conditions were fulfilled (vesting period).

France Telecom S.A. operated its own equity-settled, share-based compensation plan under which employees of the Group rendered services to the Company and its subsidiaries as consideration for equity instruments of France Telecom S.A. In accordance with IFRS 2 "Share-based Payment", the fair value of the employee services received in exchange for the grant of the equity instruments of France Telecom S.A. was recognised in these Consolidated Financial Statements as an expense with a corresponding increase in equity, over the period in which the service conditions were fulfilled (vesting period).

The fair value of the employee services received was 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 was based on the number of equity instruments that were expected to vest.

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# Auditor's opinion

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

We have audited the attached consolidated financial statements<sup>1</sup> of the Telekomunikacja Polska Group ("the Group") with Telekomunikacja Polska S.A., with its registered office in Warsaw at Twarda 18 St., as the Parent Company ("TP S.A.", "the Company"), which comprise consolidated statement of financial position prepared as of 31 December 2012, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2012 to 31 December 2012 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the Group in line with the law is the responsibility of the Management Board of the Parent Company.

The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Group, express an opinion whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Group.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland and
- International Standards on Auditing.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Group as of 31 December 2012 as well as its profit or loss in the financial year ended 31 December 2012,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
- comply with the provisions of law applicable to the Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Group<sup>2</sup> for the 2012 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Decree of the Minister of Finance of 19 February 2009 on current and periodic information to be disclosed by issuers of securities and consistent with underlying information disclosed in the audited consolidated financial statements.

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**Krzysztof Sowada**  
Key Certified Auditor  
conducting the audit  
No. 10944

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

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

Warsaw, 11 February 2013

**The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.**

<sup>1</sup> as presented on pages 48 - 99.

<sup>2</sup> as included in the filed Financial Statements for Warsaw Stock Exchange.



