☐ - restated

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2011

(year)

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

for the **half-year** of **2011**, i.e. **from 1 January 2011 to 30 June 2011**

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

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

date of issuance: **27 July 2011**

TELEKOMUNIKACJA POLSKA SA
(full name of issuer)

TPSA
(abbreviated name of the issuer)

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

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(post code)

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(location)

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Deloitte Audyt Sp. z o.o.
(auditor)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	half-year 2011	**half-year 2010**	**half-year 2011**	**half-year 2010**
condensed interim consolidated financial statements data				
I. Revenue	7 519 000	7 860 000	1 895 244	1 962 939
II. Operating income	1 518 000	981 000	382 628	244 993
III. Profit before income tax	1 298 000	768 000	327 175	191 799
IV. Consolidated net income	1 184 000	610 000	298 440	152 340
V. Net income attributable to owners of TP S.A.	1 183 000	609 000	298 188	152 090
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.89	0.46	0.22	0.11
VII. Weighted average number of shares (in millions) (basic and diluted)	1 336	1 336	1 336	1 336
VIII. Total comprehensive income	1 177 000	622 000	296 675	155 337
IX. Total comprehensive income attributable to owners of TP S.A.	1 176 000	621 000	296 423	155 087
X. Net cash provided by operating activities	2 506 000	2 189 000	631 664	546 676
XI. Net cash provided by/(used in) investing activities	58 000	(1 007 000)	14 620	(251 486)
XII. Net cash used in financing activities	(11 000)	(184 000)	(2 773)	(45 952)
XIII. Total net change in cash and cash equivalents	2 546 000	1 000 000	641 746	249 738
	balance as at 30/06/2011	**balance as at 31/12/2010**	**balance as at 30/06/2011**	**balance as at 31/12/2010**
XIV. Total current assets	7 163 000	4 762 000	1 796 769	1 202 434
XV. Total non-current assets	22 542 000	24 111 000	5 654 442	6 088 175
XVI. Total assets	29 705 000	28 873 000	7 451 212	7 290 609
XVII. Total current liabilities	9 939 000	8 145 000	2 493 102	2 056 662
XVIII. Total non-current liabilities	5 959 000	6 094 000	1 494 757	1 538 772
XIX. Total equity	13 807 000	14 634 000	3 463 352	3 695 175
XX. Equity attributable to owners of TP S.A.	13 793 000	14 620 000	3 459 840	3 691 640
XXI. Share capital	4 007 000	4 007 000	1 005 117	1 011 792
condensed interim separate financial statements data				
	half-year 2011	**half-year 2010**	**half-year 2011**	**half-year 2010**
I. Revenue	3 934 000	4 313 000	991 606	1 077 119
II. Operating income	985 000	415 000	248 280	103 641
III. Profit before income tax	1 736 000	1 904 000	437 577	475 501
IV. Net income	1 733 000	1 854 000	436 821	463 014
V. Earnings per share (in PLN/EUR) (basic and diluted)	1.30	1.39	0.33	0.35
VI. Weighted average number of shares (in millions) (basic and diluted)	1 336	1 336	1 336	1 336
VII. Total comprehensive income	1 722 000	1 856 000	434 048	463 513
VIII. Net cash provided by operating activities	1 544 000	2 058 000	389 182	513 960
IX. Net cash used in investing activities	(1 014 000)	(426 000)	(255 589)	(106 388)
X. Net cash provided by/(used in) financing activities	1 620 000	(528 000)	408 338	(131 862)
XI. Total net change in cash and cash equivalents	2 143 000	1 104 000	540 166	275 711
	balance as at 30/06/2011	**balance as at 31/12/2010**	**balance as at 30/06/2011**	**balance as at 31/12/2010**
XII. Total current assets	8 166 000	3 658 000	2 048 362	923 667
XIII. Total non-current assets	23 724 000	24 959 000	5 950 936	6 302 300
XIV. Total assets	31 890 000	28 617 000	7 999 298	7 225 968
XV. Total current liabilities	11 280 000	7 420 000	2 829 479	1 873 595
XVI. Total non-current liabilities	7 991 000	8 297 000	2 004 465	2 095 043
XVII. Total equity	12 619 000	12 900 000	3 165 354	3 257 329
XVIII. Share capital	4 007 000	4 007 000	1 005 117	1 011 792

AUDITOR'S REPORT
ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2011

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

We have reviewed the attached condensed interim consolidated financial statements of the Telekomunikacja Polska Group ('the Group') with Telekomunikacja Polska S.A. having its registered office in Warsaw, at 18 Twarda St, as the Parent company, including a consolidated balance sheet prepared as of 30 June 2011, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the period from 1 January to 30 June 2011 and selected explanatory notes.

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

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

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

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

Our review did not reveal the need to make material changes in the attached condensed interim consolidated financial statements to present truly and fairly in all material respects the financial position of the Group as at 30 June 2011 and the financial result for the six month period ended 30 June 2011 in accordance with IAS 34.

Additionally, we would like to draw attention to the following matter:

As more fully explained in explanatory note 7 to the attached condensed interim consolidated financial statements and in note 31 to the consolidated financial statements for the year ended 31 December 2010, the Group is involved in a number of legal, arbitration and administrative proceedings. Any costs that may result from these proceedings are provided for when they become probable and when the amount may be reliably quantified. The amount of any provision is based on an assessment of the risk level in each case and represents the Group's best estimate of the amounts that are more likely than not to be payable. Occurrence of events during the proceedings, the outcome of which is uncertain, may lead to re-assessment of the risk and as a consequence the amount of the provisions may change.

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

....
represented by

....
entity authorized to audit
financial statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 26 July 2011

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

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

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

The ownership structure of the Company's share capital, based on the best information available to the Company as at 27 July 2011, i.e. the date of submission of the condensed interim report for the 6 months ended 30 June 2011:

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Percentage of the total number of votes at the General Meeting of Shareholders	Nominal value of shares held (in PLN)	Share in the capital
France Telecom S.A.	664,999,999	664,999,999	49.79%	1,994,999,997	49.79%
Capital Group International, Inc. (1)	67,546,647	67,546,647	5.06%	202,639,941	5.06%
Other shareholders	603,102,375	603,102,375	45.15%	1,809,307,125	45.15%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

(1) Number of shares according to the notification by Capital Group International, Inc. on 15 October 2010.

The ownership structure of the Company's share capital, based on the best information available to the Company as at 21 April 2011, i.e. the date of submission of the quarterly report for the first quarter of 2011:

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Percentage of the total number of votes at the General Meeting of Shareholders	Nominal value of shares held (in PLN)	Share in the capital
France Telecom S.A.	664,999,999	664,999,999	49.79%	1,994,999,997	49.79%
Capital Group International, Inc. (1)	67,546,647	67,546,647	5.06%	202,639,941	5.06%
Other shareholders	603,102,375	603,102,375	45.15%	1,809,307,125	45.15%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

(1) Number of shares according to the notification by Capital Group International, Inc. on 15 October 2010.

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

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

The number of bonds with a pre-emption right held by members of the Management Board of the Company at the dates of submission of the condensed interim report for the 6 months ended 30 June 2011 and the quarterly report for the first quarter of 2011 is as follows:

	27 July 2011	21 April 2011
Maciej Witucki	305,557	305,557
Vincent Lobry	-	-
Piotr Muszyński	190,896	190,896
Jacques de Galzain	-	-
Jacek Kowalski	25,241	25,241

The members of the Supervisory Board of TP S.A. do not participate in the Company's incentive program and as at 27 July 2011 and 21 April 2011 held no bond with a pre-emption right.

As at 27 July 2011, i.e. the date of submission of the condensed interim report for the 6 months ended 30 June 2011, Maciej Witucki, President of the Management Board, held 4,000 TP S.A. shares and there was no TP S.A. share held by other members of the Management Board and the Supervisory Board of TP S.A.

As at 21 April 2011, i.e. the date of submission of the quarterly report for the first quarter of 2011, Maciej Witucki, President of the Management Board, held 4,000 TP S.A. shares and there was no TP S.A. share held by other members of the Management Board and the Supervisory Board of TP S.A.

III. Information on guarantees or collaterals of loans or borrowings granted by the Company or its subsidiaries to other entities or their subsidiaries, where the total amount of the guarantee or a collateral accounts for 10% or more of the Company's equity

In the 6 months ended 30 June 2011, the Company and its subsidiaries did not grant guarantee or collateral of loan or borrowing to any entity or its subsidiary of the total value representing the equivalent of 10% or more of TP S.A.'s shareholders equity.

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

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

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

Over the next quarter, the Group's results may be further influenced by increasing competition from:

- cable television operators, offering also fixed voice and Internet access services, the potential of which may grow even further as a result of consolidation of market players;
- alternative fixed line operators providing fixed voice and Internet access services based on wholesale access to the Group's infrastructure;

- existing and new mobile operators which:
  - may increase price pressure on mobile revenue by competing for new subscribers on a saturated market,
  - enter the fixed voice market by attracting customers with Home Zone offers and introduce services based on wholesale access to the Group's infrastructure.

The Group may be also influenced by changes in the regulatory environment in Poland, in particular by continuously evolving regulated wholesale offers introduced in the last two years as well as a decrease in mobile termination rates (MTRs). On 11th May 2011 the President of UKE issued a decision for PTK Centertel setting the MTRs in PTK network – from 1st of July 2011 until 30th June 2012 in the amount of 15.20 groszy/minute and from 1st July 2012 – 12.23 groszy per minute. In exchange for slowdown of MTR cuts process, the President of UKE obliged PTK Centertel to make certain investments in white 2G and 3G zones.

Profitability could continue to be under pressure in 2011 mainly as a result of revenue erosion. Another factor influencing the market, including the Group, may be developments related to consolidation of players in the Polish telecommunication market, which has been progressing since 2010, including the ownership change in Polkomtel S.A., as well as, the rebranding of Era networks to T-mobile.

A Memorandum of Understanding ("MoU") concerning implementation of transparency and non-discrimination in inter-operator relations has been in force since 22 October 2009. Information on the MoU and its impact on the Group was presented in Note 30.1.c to the Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2010.

As described in Note 7 to the Telekomunikacja Polska Group Condensed IFRS Interim Consolidated Financial Statements for the 6 months ended 30 June 2011, there are some major legal and regulatory proceedings, the outcome of which is uncertain and may influence the Group's results.

VI. Foreign exchange rates

The balance sheet data as at 30 June 2011 and 31 December 2010 presented in the table "Selected financial data" was translated into Euro at the average exchange rate of the National Bank of Poland ("NBP") on the balance sheet dates. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the 6 months ended 30 June 2011 and 2010, was translated into Euro at an exchange rate which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of 6 month periods ended 30 June 2011 and 2010.

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

	30 June 2011	**31 December 2010**	**30 June 2010**
Balance sheet	3.9866 PLN	3.9603 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	3.9673 PLN	Not applicable	4.0042 PLN

TELEKOMUNIKACJA POLSKA GROUP

CONDENSED IFRS INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2011

Contents

CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for share data)

	6 months ended 30 June 2011 (unaudited)	*6 months ended 30 June 2010 (unaudited)*
Revenue	**7,519**	**7,860**
External purchases	(3,470)	(3,524)
Labour expenses	(1,087)	(1,158)
Other operating expense	(847)	(389)
Other operating income	171	89
Gains on disposal of assets	15	14
Gain on disposal of TP Emitel	1,188	-
Depreciation and amortization	(1,967)	(1,906)
Impairment of non-current assets	(4)	(5)
Operating income	**1,518**	**981**
Interest income	65	47
Interest expense and other financial charges	(258)	(226)
Foreign exchange gains	12	11
Discounting expense	(39)	(45)
Finance costs, net	**(220)**	**(213)**
Income tax	(114)	(158)
Consolidated net income	**1,184**	**610**
Net income attributable to owners of TP S.A.	1,183	609
Net income attributable to non-controlling interests	1	1
Earnings per share (in PLN) (basic and diluted)	**0.89**	**0.46**
Weighted average number of shares (in millions) (basic and diluted)	1,336	1,336

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	6 months ended 30 June 2011 (unaudited)	*6 months ended 30 June 2010 (unaudited)*
Consolidated net income	**1,184**	**610**
Gains/(losses) on cash flow hedges	(13)	13
Actuarial gains/(losses) on post-employment benefits	4	(1)
Income tax relating to components of other comprehensive income	2	(2)
Translation adjustment	-	2
Other comprehensive income/(loss), net of tax	**(7)**	**12**
Total comprehensive income	**1,177**	**622**
Total comprehensive income attributable to owners of TP S.A.	1,176	621
Total comprehensive income attributable to non-controlling interests	1	1

CONSOLIDATED BALANCE SHEET

(in PLN millions)

	At 30 June 2011 *(unaudited)*	***At 31 December 2010*** *(audited)*
ASSETS		
Goodwill	4,016	4,016
Other intangible assets	2,835	2,861
Property, plant and equipment	15,069	16,500
Investments in associates	3	3
Financial assets available for sale	4	4
Loans and receivables excluding trade receivables	12	22
Financial assets at fair value through profit or loss	15	52
Hedging derivatives	12	50
Deferred tax assets	576	603
Total non-current assets	**22,542**	**24,111**
Inventories	220	272
Trade receivables	1,601	1,637
Loans and receivables excluding trade receivables	10	10
Financial assets at fair value through profit or loss	49	28
Hedging derivatives	2	1
Income tax assets	1	7
Other assets	170	266
Prepaid expenses	117	94
Cash and cash equivalents	4,993	2,447
Total current assets	**7,163**	**4,762**
TOTAL ASSETS	**29,705**	**28,873**
EQUITY AND LIABILITIES		
Share capital	4,007	4,007
Share premium	832	832
Other reserves	20	27
Translation adjustment	(6)	(6)
Retained earnings	8,940	9,760
Equity attributable to owners of TP S.A.	**13,793**	**14,620**
Non-controlling interests	14	14
Total equity	**13,807**	**14,634**
Financial liabilities at amortised cost excluding trade payables	4,353	4,456
Financial liabilities at fair value through profit or loss	78	90
Hedging derivatives	157	191
Trade payables	778	751
Employee benefits	310	342
Provisions	208	189
Deferred tax liabilities	2	9
Other liabilities	15	-
Deferred income	58	66
Total non-current liabilities	**5,959**	**6,094**
Financial liabilities at amortised cost excluding trade payables	1,501	1,547
Financial liabilities at fair value through profit or loss	48	55
Hedging derivatives	136	54
Trade payables	2,435	3,156
Employee benefits	264	266
Provisions	2,751	2,242
Income tax payable	61	72
Other liabilities (including dividend of PLN 2,003 million paid on 7 July 2011)	2,202	220
Deferred income	541	533
Total current liabilities	**9,939**	**8,145**
TOTAL EQUITY AND LIABILITIES	**29,705**	**28,873**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Number of shares in issue (not in millions)	Share capital	Share premium	Other reserves				Translation adjustment	Retained earnings	Total	Non-controlling interests	Total equity
				Hedging instruments	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments					
Balance at 1 January 2010 *(audited)*	**1 335 649 021**	**4,007**	**832**	**20**	**(50)**	**5**	**75**	**(6)**	**11,656**	**16,539**	**14**	**16,553**
Total comprehensive income for the 6 months ended 30 June 2010		-	-	13	(1)	(2)	-	2	609	621	1	622
Share-based payments		-	-	-	-	-	4	-	-	4	-	4
Dividends		-	-	-	-	-	-	-	(2,003)	(2,003)	(1)	(2,004)
Balance at 30 June 2010 *(unaudited)*	**1 335 649 021**	**4,007**	**832**	**33**	**(51)**	**3**	**79**	**(4)**	**10,262**	**15,161**	**14**	**15,175**
Balance at 1 January 2011 *(audited)*	**1 335 649 021**	**4,007**	**832**	**2**	**(66)**	**12**	**79**	**(6)**	**9,760**	**14,620**	**14**	**14,634**
Total comprehensive income for the 6 months ended 30 June 2011		-	-	(13)	4	2	-	-	1,183	1,176	1	1,177
Dividends		-	-	-	-	-	-	-	(2,003)	(2,003)	(1)	(2,004)
Balance at 30 June 2011 *(unaudited)*	**1 335 649 021**	**4,007**	**832**	**(11)**	**(62)**	**14**	**79**	**(6)**	**8,940**	**13,793**	**14**	**13,807**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)

	6 months ended 30 June 2011 (unaudited)	*6 months ended 30 June 2010 (unaudited)*
OPERATING ACTIVITIES		
Consolidated net income	1,184	610
Adjustments to reconcile net income to funds generated from operations		
Depreciation and amortization	1,967	1,906
Impairment of non-current assets	4	5
Gains on disposal of assets	(1,203)	(14)
Change in provisions	471	5
Income tax	114	158
Finance costs, net excluding realised exchange rate effect on cash and cash equivalents	231	226
Operational foreign exchange and derivatives losses, net	3	6
Share-based payments	-	4
Change in working capital (trade)		
Decrease/(increase) in inventories	52	37
Decrease/(increase) in trade receivables	(33)	(209)
Increase/(decrease) in trade payables	(31)	(49)
Change in working capital (non-trade)		
Decrease/(increase) in prepaid expenses and other receivables	49	(38)
Increase/(decrease) in accrued expenses, other payables and deferred income	13	17
Interest received	68	47
Interest and interest rate effect on derivatives paid, net	(293)	(344)
Exchange rate effect on derivatives, net	(7)	(54)
Income tax paid	(83)	(124)
Net cash provided by operating activities	**2,506**	**2,189**
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(925)	(715)
Increase/(decrease) in amounts due to fixed assets suppliers	(676)	(299)
Proceeds from sale of property, plant and equipment and intangible assets	18	26
Proceeds from sale of subsidiaries, net of cash	1,637	-
Decrease/(increase) in marketable securities and other financial assets	3	(7)
Exchange rate effect on derivatives, net	1	(12)
Net cash provided by/(used in) investing activities	**58**	**(1,007)**
FINANCING ACTIVITIES		
Repayment of long-term debt	(111)	(116)
Decrease in bank overdrafts and other short-term borrowings	(3)	(1)
Exchange rate effect on derivatives, net	103	(67)
Net cash used in financing activities	**(11)**	**(184)**
Net change in cash and cash equivalents	2,553	998
Effect of changes in exchange rates and other impacts on cash and cash equivalents	(7)	2
Cash and cash equivalents at the beginning of the period	2,447	2,218
Cash and cash equivalents at the end of the period	**4,993**	**3,218**

SEGMENT REVENUE AND SEGMENT RESULTS

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

- Fixed line segment which includes entities offering predominantly telecom services based on fixed line technology and 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 amortization expense and reversal of impairment/impairment of goodwill and other non-current assets. EBIT corresponds to operating income.

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

Basic financial data on the business segments is presented below:

(in PLN millions)	Fixed line telecommunications	Mobile telecommunications	Eliminations and unallocated items	Consolidated
	6 months ended 30 June 2011			
Revenue:	4,229	3,823	(533)	7,519
External	3,832	3,687	-	7,519
Inter-segment	397	136	(533)	-
EBITDA	2,373	1,116	-	3,489
EBIT	1,157	361	-	1,518
Capital expenditures	641	284	-	925
	6 months ended 30 June 2010			
Revenue:	4,599	3,766	(505)	7,860
External	4,237	3,623	-	7,860
Inter-segment	362	143	(505)	-
EBITDA	1,780	1,112	-	2,892
EBIT	515	466	-	981
Capital expenditures	550	169	-	719

1. The Telekomunikacja Polska Group

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

The Group is the principal supplier of telecommunications services in Poland. Telekomunikacja Polska provides services, including fixed-line telecommunications services (local calls and long distance calls – domestic and international), Integrated Services Digital Network ("ISDN"), voice mail, dial-up and fixed access to the Internet, 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, electronic phone cards and provides data transmission, multimedia services and various Internet services.

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

2. Statement of compliance and basis for preparation

Basis for preparation

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

These Interim Consolidated Financial Statements should be read in conjunction with the audited Telekomunikacja Polska Group IFRS Consolidated Financial Statements and the notes thereto ("IFRS Consolidated Financial Statements") for the year ended 31 December 2010.

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

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

These Interim Consolidated Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorized for issuance by the Management Board on 26 July 2011.

Adoption of standards, amendments to standards and interpretations which are compulsory as at 1 January 2011

The following standards or amendments to standards and interpretations (already endorsed or in the process of being endorsed by the European Union) have become effective and are compulsory as at January 1, 2011:

- Amendments to IAS 32 "Financial Instruments: Presentation",
- Amendments to IAS 24 "Related Party Disclosures",
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments",
- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement",
- Improvements to International Financial Reporting Standards – a collection of amendments to IFRSs, the amendments are effective, in most cases, for annual periods beginning on or after 1 January 2011.

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 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 2013. This standard has not been endorsed by the European Union,
- Amendments to IFRS 7 "Financial Instruments: Disclosures" applicable for financial years beginning on or after 1 July 2011. These amendments have not been endorsed by the European Union,
- IFRS 10 "Consolidated Financial Statements" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- Amendments to IAS 27 "Separate financial statements" applicable for financial years beginning on or after 1 January 2013. These amendments have not been endorsed by the European Union,
- Amendments to IAS 28 "Investments in associates and joint ventures" applicable for financial years beginning on or after 1 January 2013. These amendments have not been endorsed by the European Union,
- IFRS 11 "Joint Arrangements" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- IFRS 12 "Disclosure of Interests in Other Entities" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- IFRS 13 "Fair Value Measurement" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- Amendments to IAS 1 "Presentation of Financial Statements" applicable for financial years beginning on or after 1 July 2012. These amendments have not been endorsed by the European Union,
- Amendments to IAS 19 "Employee Benefits" applicable for financial years beginning on or after 1 January 2013. These amendments have not been endorsed by the European Union.

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

3. Statement of accounting policies

The accounting policies and methods of computation used in the preparation of the Interim Consolidated Financial Statements are consistent with those described in the audited Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2010 (see Notes 2 and 3 to Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2010).

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

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

5. The nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence

5.1. The effect of changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinued operations

The list of entities included in the Group's consolidation as at and for the 6 months ended 30 June 2011 is presented in the Note 1.2 of the Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2010. Additionally, during the 6 months ended 30 June 2011, the Group incorporated Bilbo Sp. z o.o. and Integrated Solutions Sp. z o.o., fully owned subsidiaries, whose scope of activities comprises investment operations and provision of integrated IT and network services, respectively.

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 Sp. z o.o. ("TP Emitel"), for a total consideration amounting to PLN 1,665 million, consisting of principal consideration received in cash amounting to PLN 1,725 million, increased by the estimation of consideration adjustment to be received subsequently and decreased by liabilities assumed by the Group. Additionally, the Group accrued for transaction costs to be paid.

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

(in PLN millions)

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

Gain on disposal amounting to PLN 1,188 million is presented separately in the consolidated income statement.

Would TP Emitel not have been a part of the Group during the presented periods, consolidated revenue for the 6 months ended 30 June 2011 and 2010 would be lower by PLN 154 million and PLN 145 million, respectively. Under the same assumption, consolidated net income for the 6 months ended 30 June 2011 and 2010 would be lower by PLN 65 million and PLN 44 million, respectively.

TP Emitel was included in fixed line telecommunications operating segment.

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

As at 30 June 2011, the Management of the Group performed an assessment of risks of on-going and potential legal and regulatory proceedings. As a result, the Group recognised provisions for known and quantifiable risks related to these proceedings, which represent the Group's best estimate of the amounts which are more likely than not to be paid. The actual amount of a penalty or a claim, if any, is dependent on a number of future events, the outcome of which is uncertain, and as a consequence, the amount of the provision may change at a future date. As a rule, the provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management, such disclosure could prejudice the outcome of the pending cases.

Details of status of significant risks are presented in Note 7.

6. Dividends paid (aggregate or per share) separately for ordinary shares and other shares

On 14 April 2011, the General Shareholders' Meeting of TP S.A. adopted a resolution on the payment of an ordinary dividend of PLN 1.50 per share, i.e. PLN 2,003 million. The dividend was paid on 7 July 2011.

7. Current status of major litigation and claims, contingent liabilities and contingent assets since the last annual balance sheet date

a. Proceedings by UKE, UOKiK and the European Commission

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 (allocating costs of local loop entirely to fixed line subscription).
On 22 February 2007, after TP S.A. had separated providing Neostrada from fixed line services, UKE imposed a fine of PLN 339 million on TP S.A. for non-performance of the regulatory obligation to submit its Neostrada price list for UKE's approval, and for failing to demonstrate that TP S.A. had met the requirements of the Polish Telecommunication Law that the price of services (in particular the additional charge for the maintenance of the local loop paid by the Neostrada customers who do not subscribe for TP S.A.'s traditional fixed-line analogue services on the same local loop) be based on their cost and determined on clear, objective and non-discriminatory criteria.
TP S.A. believes that UKE has no right to challenge the Neostrada price since it is not defined as a regulated service and that the criteria used for setting Neostrada price were transparent and objective.
TP S.A. did not pay either of these fines and appealed against these decisions to the Court of Competition and Consumer Protection ("SOKiK").
Both appeal proceedings were suspended by SOKiK in connection with, among other matters, the proceeding of the European Commission against the Republic of Poland at the European Court of Justice on attempts of UKE to regulate retail tariffs for broadband access services without carrying out a prior market analysis. On 6 May 2010 the European Court of Justice ruled that by regulating retail tariffs for broadband access services without carrying out a prior market analysis, Poland has failed to fulfil its obligations under the Universal Service Directive in conjunction with the Framework Directive.
After resumption of the appeal proceedings, SOKiK, on 18 April 2011, overruled the UKE's decision imposing the fine of PLN 339 million. UKE appealed against the SOKiK verdict to the Court of Appeal. On 12 July 2011, SOKiK annulled for the second time the fine of PLN 100 million. SOKiK invalidated the fine for the first time in 2007.

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. disagrees with the decision of UOKiK and did not pay the fine. On 2 January 2008, TP S.A. appealed to SOKiK against the decision. On 11 April 2011, SOKiK reduced the fine to the amount of PLN 38 million. TP S.A. appealed to the Court of Appeal on 20 June 2011.

Proceedings by UOKiK related to mobile television
On 21 September 2010, UOKiK initiated competition proceedings against PTK- Centertel, Polkomtel S.A., Polska Telefonia Cyfrowa Sp. z o.o. 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 license to broadcast in the frequency band designed for the provision of audiovisual 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.
UOKiK claims that there was an agreement concluded between the four companies involved in the proceedings and it could restrict competition on the domestic wholesale market for mobile television based on DVB-H technology, and, as a result, limit the possibility for consumers to use mobile television.
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.
PTK-Centertel provided explanations to UOKiK on 5 October 2010. At this stage, the Group is not in a position to predict the evolution of these proceedings, and the risk related thereto is therefore classified as a contingent liability as defined by IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
According to the Act on Competition and Consumer Protection, in case of non-compliance with its regulations, the President of the UOKiK is empowered to impose on an entity penalties of up to a maximum amount of EUR 50 million for refusal to provide requested information or also up to a maximum amount of 10% of an entity's prior year's revenue for a breach of the law.

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.

The decision is not final and TP S.A., in liaison with its legal advisors, will appeal against it to the General Court of the European Union by 5 September 2011. 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 fine shall be settled within three months of the date of notification by the European Commission to the Company on the decision. The appeal does not suspend the obligation to settle the fine and the fine has to be provisionally paid pending the final outcome of the appeal process or the Company may provide a bank guarantee for the whole amount.

b. Dispute with DPTG

Information on details of the proceedings between the Company and DPTG is presented in Note 31.d to the Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2010 and has been consistently referred to in the consolidated financial statements of the Group since 2001 together with the development of the case over the years.

In June 2008, the Arbitration Tribunal decided to split the case into two periods and to render firstly an award settling DPTG's rights for the period from February 1994 to June 2004. On 3 September 2010, the Tribunal issued its partial award for the period from February 1994 to June 2004 (Phase I). It settles DPTG's claims at DKK 2,946 million (approximately EUR 396 million) including interest. The partial award was issued after nine years of arbitration proceedings. During this time, TP S.A. consistently contested both the basis of the DPTG case and, in particular, its interpretation of the contract, as a joint-venture and its related broad interpretation of the financing sub-clause at the heart of the dispute (14.8% of the certain profit from NSL over a period of 15 years) as well as the amount claimed. According to TP S.A., the contract is a sale contract. The contract valued DPTG's supplies remaining to be paid at EUR 17 million. By 2006, DPTG had already received from TP S.A. over EUR 84 million in performance of the contract.

The partial award states that the contract is a sale contract but nevertheless awards DPTG an amount as if the contract was a joint-venture. TP S.A., its legal counsel and independent experts all believe that the amount awarded is many times higher than DPTG's rights and that the award is inconsistent. The Company's Management strongly disputes both the contractual basis of the claim and the amounts awarded. Given the amounts awarded for Phase I, and potentially for Phase II, and the lack of consistency of the award, it is TP S.A's position that this award is contrary to Public Policy. As a consequence, acting in the best interests of the Company and its shareholders, TP S.A. did not pay the partial award and is taking all reasonable legal actions to resist the award issued by the Arbitration Tribunal.

On 2 December 2010, TP S.A. filed a claim before the Commercial Court in Vienna claiming for the setting aside of the partial award for Phase I. In July 2011, the parties submitted their submissions in accordance with the order issued by the Court on 30 March 2011. A further hearing at the Vienna Commercial Court is scheduled for 8 September 2011.

On 22 December 2010, DPTG introduced a request for enforcement of the award in Poland before the Court in Warsaw. On 9 June 2011, DPTG responded to TP S.A.'s defence. On 22 July 2011, the Warsaw Court ordered enforcement proceedings to be suspended until the final ruling of the Vienna Commercial Court in the annulment proceedings.

On 14 January 2011, DPTG filed its claim for Phase II, which amounts to DKK 2,386 million (approximately EUR 320 million) including interest. On 27 May 2011, TP S.A. submitted its answer to DPTG's claim for Phase II to the Arbitration Tribunal. At the organizational hearing on 10 June 2011, the Tribunal determined the schedule of the proceedings for Phase II until filing the post-hearing briefs by the parties on 25 January 2013.

Since 2001, TP S.A. has made what it considered to be an appropriate provision for this matter, as supported by outside counsel and other professional advisors. The Company's Management was obliged to adjust the level of the provision by virtue of the fact that an arbitral award had been rendered. As at 31 December 2010, the provision for the whole dispute was increased to EUR 542 million and will be reassessed on a regular basis taking into account further developments of the matter. Nevertheless, the amount of the provision should in no way be viewed as an indication by TP S.A. of the proper outcome of the dispute.

8. Information on the conclusion of one or more significant transactions by the Company or its subsidiaries with related party

As at 30 June 2011, France Telecom S.A. owned 49.79% of shares of the Company and held 49.79% of votes. France Telecom S.A. has the power to appoint the majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

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

(in PLN millions)	*6 months ended 30 June 2011*	*6 months ended 30 June 2010*
Sales of goods and services to:	**96**	**95**
- France Telecom S.A. (parent)	71	67
- France Telecom (group)	25	28
Purchases of goods (including inventories, tangible and intangible assets) and services from:	**170**	**160**
- France Telecom S.A. (parent)	56	62
- France Telecom (group)	114	98
- including Orange Brand Services Limited (brand licence agreement)	*59*	*58*
Dividends declared:	**997**	**997**
- France Telecom S.A. (parent)	997	997
- France Telecom (group)	-	-

(in PLN millions)	*At 30 June 2011*	*At 31 December 2010*
Receivables from:	**116**	**96**
- France Telecom S.A. (parent)	93	66
- France Telecom (group)	23	30
Payables to:	**209**	**189**
- France Telecom S.A. (parent)	132	102
- France Telecom (group)	77	87
Dividends payable to:	**997**	**-**
- France Telecom S.A. (parent)	997	-
- France Telecom (group)	-	-

Remuneration and bonuses, compensation and termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) paid in accordance with contractual commitments, by TP S.A. and Telekomunikacja Polska Group entities to TP S.A.'s Management Board and Supervisory Board members during the 6 months ended 30 June 2011 and 2010 amounted to PLN 7.2 million and PLN 5.1 million, respectively. In addition, PLN 2.2 million of a termination benefit accrued in 2009 was paid during the 6 months ended 30 June 2010. In the 6 months ended 30 June 2011 and 2010, the amount of accrued costs for bonuses for the Company's Management Board amounted to PLN 1.6 million and PLN 1.5 million, respectively.

In the 6 months ended 30 June 2011 no cost was recognised in respect of TP S.A.'s incentive programme as the vesting period of the programme ended in 2010. During the 6 months ended 30 June 2010, the estimated cost of share based payments under TP S.A.'s incentive programme allocated to the Company's Management Board amounted to PLN 0.3 million.

On 14 January 2011, Mr Roland Dubois resigned from the position of Management Board Member of TP S.A. in charge of Finance – Chief Financial Officer. As of 17 January 2011, his duties were passed on to Mr Jacques de Galzain.

On 27 January 2011, the Supervisory Board of the Company appointed Mr Jacques de Galzain and Mr Jacek Kowalski as Members of the Management Board of TP S.A. The Supervisory Board also appointed Mr Piotr Muszyński for a subsequent term of office.

On 12 July 2011, the Supervisory Board of the Company appointed Mr Maciej Witucki for his third consecutive term as the President of the Management Board of TP S.A. This third term will start on the day of the next General Shareholders' Meeting of TP S.A. in April 2012, for a period of three years.

Mr Raoul Roverato resigned from the Supervisory Board of TP S.A. with effect from 26 January 2011. On 27 January 2011, the Supervisory Board appointed Mr Gerard Ries as a Member of the Supervisory Board of TP S.A.

On 24 March 2011, Mr Olivier Barberot resigned from the Supervisory Board of TP S.A. On the same day, the Supervisory Board appointed Mr Pierre Louette as a Member of the Supervisory Board of TP S.A.

On 14 April 2011, the General Shareholders' Meeting of TP S.A. renewed mandates of the following Members of the Supervisory Board of TP S.A., whose term of office expired as of the day of this General Meeting: Mr Timothy Boatman and Mr Gerard Ries.

On 11 July 2011, Mr Olivier Faure resigned from the Supervisory Board of TP S.A. On 12 July 2011, the Supervisory Board appointed Mrs Nathalie Clere as a Member of the Supervisory Board of TP S.A.

9. Subsequent events

On 5 July 2011, TPSA Eurofinance France S.A. redeemed at maturity bonds series T of the total nominal value of EUR 300 million which were issued on 5 July 2004.

On 21 July 2011, the Group and Polska Telefonia Cyfrowa Sp. z o.o. ("PTC") signed an agreement on reciprocal use of radio access networks. The agreement has been signed for 15 years with an option to extend it.
On the same day, the parties also signed a shareholders agreement, which regulates the governance of NetWorkS! Sp. z o.o. - a company incorporated in April 2011, in which the Group and PTC hold a 50% interest each and which will conduct networks management, development and maintenance. In the Group Consolidated Financial Statements the investment in NetWorkS! Sp. z o.o. will be accounted for using the equity method.

AUDITOR'S REPORT
ON THE REVIEW OF THE CONDENSED INTERIM
SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2011

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

We have reviewed the attached condensed interim separate financial statements of Telekomunikacja Polska S.A. with its registered office in Warsaw at 18 Twarda St, ('the Company') including a balance sheet prepared as of 30 June 2011, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the period from 1 January to 30 June 2011 and selected explanatory notes.

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

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

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

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

Our review did not reveal the need to make material changes in the attached condensed interim separate financial statements to present truly and fairly in all material respects the financial position of the Company as at 30 June 2011 and the financial result for the six month period ended 30 June 2011 in accordance with IAS 34.

Additionally, we would like to draw attention to the following matter:

As more fully explained in explanatory note 8 to the attached condensed interim separate financial statements and in note 29 to the separate financial statements for the year ended 31 December 2010, the Company is involved in a number of legal, arbitration and administrative proceedings. Any costs that may result from these proceedings are provided for when they become probable and when the amount may be reliably quantified. The amount of any provision is based on an assessment of the risk level in each case and represents the Company's best estimate of the amounts that are more likely than not to be payable. Occurrence of events during the proceedings, the outcome of which is uncertain, may lead to re-assessment of the risk and as a consequence the amount of the provisions may change.

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

....
represented by

……………………………………
entity authorized to audit
financial statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 26 July 2011

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

Pursuant to Art. 89 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information to be disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state - Journal of Laws of 2009, no. 33, item 259, with amendments ("the Decree of the Minister of Finance of 19 February 2009"), the Management Board of Telekomunikacja Polska S.A. ("TP S.A.", "the Company") discloses the following information:

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

The ownership structure of the Company's share capital, based on the best information available to the Company as at 27 July 2011, i.e. the date of submission of the condensed interim report for the 6 months ended 30 June 2011:

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Percentage of the total number of votes at the General Meeting of Shareholders	Nominal value of shares held (in PLN)	Share in the capital
France Telecom S.A.	664,999,999	664,999,999	49.79%	1,994,999,997	49.79%
Capital Group International, Inc. (1)	67,546,647	67,546,647	5.06%	202,639,941	5.06%
Other shareholders	603,102,375	603,102,375	45.15%	1,809,307,125	45.15%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

(1) Number of shares according to the notification by Capital Group International, Inc. on 15 October 2010.

The ownership structure of the Company's share capital, based on the best information available to the Company as at 21 April 2011, i.e. the date of submission of the quarterly report for the first quarter of 2011:

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Percentage of the total number of votes at the General Meeting of Shareholders	Nominal value of shares held (in PLN)	Share in the capital
France Telecom S.A.	664,999,999	664,999,999	49.79%	1,994,999,997	49.79%
Capital Group International, Inc. (1)	67,546,647	67,546,647	5.06%	202,639,941	5.06%
Other shareholders	603,102,375	603,102,375	45.15%	1,809,307,125	45.15%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

(1) Number of shares according to the notification by Capital Group International, Inc. on 15 October 2010.

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

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

The number of bonds with a pre-emption right held by members of the Management Board of the Company at the dates of submission of the condensed interim report for the 6 months ended 30 June 2011 and the quarterly report for the first quarter of 2011 is as follows:

	27 July 2011	21 April 2011
Maciej Witucki	305,557	305,557
Vincent Lobry	-	-
Piotr Muszyński	190,896	190,896
Jacques de Galzain	-	-
Jacek Kowalski	25,241	25,241

The members of the Supervisory Board of TP S.A. do not participate in the Company's incentive program and as at 27 July 2011 and 21 April 2011 held no bond with a pre-emption right.

As at 27 July 2011, i.e. the date of submission of the condensed interim report for the 6 months ended 30 June 2011, Maciej Witucki, President of the Management Board, held 4,000 TP S.A. shares and there was no TP S.A. share held by other members of the Management Board and the Supervisory Board of TP S.A.

As at 21 April 2011, i.e. the date of submission of the quarterly report for the first quarter of 2011, Maciej Witucki, President of the Management Board, held 4,000 TP S.A. shares and there was no TP S.A. share held by other members of the Management Board and the Supervisory Board of TP S.A.

III. Information on guarantees or collaterals of loans or borrowings granted by the Company or its subsidiaries to other entities or their subsidiaries, where the total amount of the guarantee or a collateral accounts for 10% or more of the Company's equity

In the 6 months ended 30 June 2011, the Company and its subsidiaries did not grant guarantee or collateral of loan or borrowing to any entity or its subsidiary of the total value representing the equivalent of 10% or more of TP S.A.'s shareholders equity.

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

TP S.A. does not publish financial forecasts as defined by the Decree of the Minister of Finance of 19 February 2009.

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

Over the next quarter, the Company's results may be further influenced by increasing competition from:

- cable television operators, offering also fixed voice and Internet access services, the potential of which may grow even further as a result of consolidation of market players;
- alternative fixed line operators providing fixed voice and Internet access services based on wholesale access to TP S.A.'s infrastructure;

- existing and new mobile operators which:
  - may increase price pressure on TP S.A.'s fixed revenue by competing for new subscribers on a saturated market and thus increasing F2M substitution,
  - enter the fixed voice market by attracting customers with Home Zone offers and introduce services based on wholesale access to TP S.A.'s infrastructure.

The Company may be also influenced by changes in the regulatory environment in Poland, in particular by continuously evolving regulated wholesale offers introduced in the last two years as well as a decrease in mobile termination rates (MTRs). On 11th May 2011 the President of UKE issued a decision for PTK Centertel setting the MTRs in PTK network – from 1st of July 2011 until 30th June 2012 in the amount of 15.20 groszy/minute and from 1st July 2012 – 12.23 groszy per minute. In exchange for slowdown of MTR cuts process, the President of UKE obliged PTK Centertel to make certain investments in white 2G and 3G zones.

Profitability could continue to be under pressure in 2011 mainly as a result of revenue erosion. Another factor influencing the market, including the Company, may be developments related to consolidation of players in the Polish telecommunication market, which has been progressing since 2010, including the ownership change in Polkomtel S.A., as well as, the rebranding of Era networks to T-mobile.

A Memorandum of Understanding ("MoU") concerning implementation of transparency and non-discrimination in inter-operator relations has been in force since 22 October 2009. Information on the MoU and its impact on the Company was presented in Note 28.1.c to the Telekomunikacja Polska S.A. IFRS Separate Financial Statements for the year ended 31 December 2010.

As described in Note 8 to the Telekomunikacja Polska S.A. Condensed IFRS Interim Separate Financial Statements for the 6 months ended 30 June 2011, there are some major legal and regulatory proceedings, the outcome of which is uncertain and may influence the Company's results.

VI. Foreign exchange rates

The balance sheet data as at 30 June 2011 and 31 December 2010 presented in the table "Selected financial data" was translated into Euro at the average exchange rate of the National Bank of Poland ("NBP") on the balance sheet dates. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the 6 months ended 30 June 2011 and 2010, was translated into Euro at an exchange rate which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of 6 month periods ended 30 June 2011 and 2010.

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

	30 June 2011	**31 December 2010**	**30 June 2010**
Balance sheet	3.9866 PLN	3.9603 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	3.9673 PLN	Not applicable	4.0042 PLN

TELEKOMUNIKACJA POLSKA S.A.

CONDENSED IFRS INTERIM SEPARATE FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2011

Contents

INCOME STATEMENT

(in PLN millions, except for share data)

	6 months ended 30 June 2011 (unaudited)	*6 months ended 30 June 2010 (unaudited)*
Revenue	**3,934**	**4,313**
External purchases	(1,903)	(1,669)
Labour expenses	(699)	(882)
Other operating expense	(682)	(255)
Other operating income	255	120
Gains on disposal of assets	15	13
Gain on disposal of TP Emitel	1,252	-
Depreciation and amortization	(1,183)	(1,220)
Impairment of non-current assets	(4)	(5)
Operating income	**985**	**415**
Dividend income	962	1,691
Interest income	213	207
Interest expense and other financial charges	(427)	(412)
Foreign exchange gains	14	20
Discounting expense	(11)	(17)
Finance income, net	**751**	**1,489**
Income tax	(3)	(50)
Net income	**1,733**	**1,854**
Earnings per share (in PLN) (basic and diluted)	**1.30**	**1.39**
Weighted average number of shares (in millions) (basic and diluted)	1,336	1,336

STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	6 months ended 30 June 2011 (unaudited)	*6 months ended 30 June 2010 (unaudited)*
Net income	**1,733**	**1,854**
Gains/(losses) on cash flow hedges	(15)	3
Actuarial gains/(losses) on post-employment benefits	1	(1)
Income tax relating to components of other comprehensive income	3	-
Other comprehensive income/(loss), net of tax	**(11)**	**2**
Total comprehensive income	**1,722**	**1,856**

BALANCE SHEET

(in PLN millions)

	At 30 June 2011 (unaudited)	*At 31 December 2010 (audited)*
ASSETS		
Intangible assets	1,257	1,247
Property, plant and equipment	12,054	12,657
Investments in subsidiaries	7,243	7,636
Financial assets available for sale	4	4
Loans and receivables excluding trade receivables	2,998	3,147
Financial assets at fair value through profit or loss	20	57
Hedging derivatives	7	45
Deferred tax assets	141	166
Total non-current assets	**23,724**	**24,959**
Inventories	56	41
Trade receivables	977	857
Loans and receivables excluding trade receivables	315	304
Financial assets at fair value through profit or loss	43	20
Income tax assets	-	6
Other assets	2,318	126
Prepaid expenses	46	36
Cash and cash equivalents	4,411	2,268
Total current assets	**8,166**	**3,658**
TOTAL ASSETS	**31,890**	**28,617**
EQUITY AND LIABILITIES		
Share capital	4,007	4,007
Share premium	832	832
Other reserves	4	15
Retained earnings	7,776	8,046
Total equity	**12,619**	**12,900**
Financial liabilities at amortised cost excluding trade payables	7,297	7,556
Financial liabilities at fair value through profit or loss	78	90
Hedging derivatives	157	191
Employee benefits	250	269
Provisions	140	127
Other liabilities	15	-
Deferred income	54	64
Total non-current liabilities	**7,991**	**8,297**
Financial liabilities at amortised cost excluding trade payables	4,185	2,580
Financial liabilities at fair value through profit or loss	49	55
Hedging derivatives	136	54
Trade payables	1,695	2,100
Employee benefits	175	167
Provisions	2,725	2,176
Income tax payable	60	39
Other liabilities (including dividend of PLN 2,003 million paid on 7 July 2011)	2,168	180
Deferred income	87	69
Total current liabilities	**11,280**	**7,420**
TOTAL EQUITY AND LIABILITIES	**31,890**	**28,617**

STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Number of shares in issue (not in millions)	Share capital	Share premium	Other reserves				Retained earnings	Total
				Hedging instruments	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments		
Balance at 1 January 2010 *(audited)*	**1 335 649 021**	**4,007**	**832**	**11**	**(51)**	**7**	**64**	**9,026**	**13,896**
Total comprehensive income for the 6 months ended 30 June 2010		-	-	3	(1)	-	-	1,854	1,856
Share-based payments		-	-	-	-	-	4	-	4
Dividends		-	-	-	-	-	-	(2,003)	(2,003)
Balance at 30 June 2010 *(unaudited)*	**1 335 649 021**	**4,007**	**832**	**14**	**(52)**	**7**	**68**	**8,877**	**13,753**
Balance at 1 January 2011 *(audited)*	**1 335 649 021**	**4,007**	**832**	**2**	**(67)**	**12**	**68**	**8,046**	**12,900**
Total comprehensive income for the 6 months ended 30 June 2011		-	-	(15)	1	3	-	1,733	1,722
Dividends		-	-	-	-	-	-	(2,003)	(2,003)
Balance at 30 June 2011 *(unaudited)*	**1 335 649 021**	**4,007**	**832**	**(13)**	**(66)**	**15**	**68**	**7,776**	**12,619**

STATEMENT OF CASH FLOWS

(in PLN millions)

	6 months ended 30 June 2011 (unaudited)	*6 months ended 30 June 2010 (unaudited)*
OPERATING ACTIVITIES		
Net income	1,733	1,854
Adjustments to reconcile net income to funds generated from operations		
Depreciation and amortization	1,183	1,220
Impairment of non-current assets	4	5
Gains on disposal of assets	(1,267)	(13)
Change in provisions	426	(61)
Income tax	3	50
Finance income, net excluding realised exchange rate effect on cash and cash equivalents	(747)	(1,486)
Operational foreign exchange and derivatives gains, net	(4)	-
Share-based payments	-	4
Change in working capital (trade)		
Decrease/(increase) in inventories	(15)	6
Decrease/(increase) in trade receivables	(107)	(136)
Increase/(decrease) in trade payables	38	110
Change in working capital (non-trade)		
Decrease/(increase) in prepaid expenses and other receivables	34	(20)
Increase/(decrease) in accrued expenses, other payables and deferred income	14	45
Dividends received	531	879
Interest received	66	45
Interest and interest rate effect on derivatives paid, net	(311)	(351)
Exchange rate effect on derivatives, net	(7)	(53)
Income tax paid	(30)	(40)
Net cash provided by operating activities	**1,544**	**2,058**
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(598)	(509)
Increase/(decrease) in amounts due to fixed assets suppliers	(434)	(92)
Proceeds from sale of property, plant and equipment and intangible assets	18	24
Cash paid for investments in subsidiaries	(8)	-
Proceeds from sale of investments in subsidiaries	-	177
Decrease in marketable securities and other financial assets	3	5
Exchange rate effect on derivatives, net	5	(31)
Net cash used in investing activities	**(1,014)**	**(426)**
FINANCING ACTIVITIES		
Repayment of long-term debt	(110)	(116)
Increase/(decrease) in bank overdrafts and other short-term borrowings	1,627	(345)
Exchange rate effect on derivatives, net	103	(67)
Net cash provided by/(used in) financing activities	**1,620**	**(528)**
Net change in cash and cash equivalents	2,150	1,104
Effect of changes in exchange rates and other impacts on cash and cash equivalents	(7)	-
Cash and cash equivalents at the beginning of the period	2,268	1,996
Cash and cash equivalents at the end of the period	**4,411**	**3,100**

1. Telekomunikacja Polska S.A.

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

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

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

2. Statement of compliance and basis for preparation

<u>Basis for preparation</u>

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

These Interim Separate Financial Statements should be read in conjunction with the audited Telekomunikacja Polska S.A. IFRS Separate Financial Statements and the notes thereto ("IFRS Separate Financial Statements") for the year ended 31 December 2010.

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

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

These Interim Separate Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorized for issuance by the Management Board on 26 July 2011.

<u>Adoption of standards, amendments to standards and interpretations which are compulsory as at 1 January 2011</u>

The following standards or amendments to standards and interpretations (already endorsed or in the process of being endorsed by the European Union) have become effective and are compulsory as at January 1, 2011:

- Amendments to IAS 32 "Financial Instruments: Presentation",
- Amendments to IAS 24 "Related Party Disclosures",
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments",
- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement",
- Improvements to International Financial Reporting Standards – a collection of amendments to IFRSs, the amendments are effective, in most cases, for annual periods beginning on or after 1 January 2011.

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

Standards and interpretations issued but not yet adopted

Management has not opted for early 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 2013. This standard has not been endorsed by the European Union,
- Amendments to IFRS 7 "Financial Instruments: Disclosures" applicable for financial years beginning on or after 1 July 2011. These amendments have not been endorsed by the European Union,
- IFRS 10 "Consolidated Financial Statements" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- Amendments to IAS 27 "Separate financial statements" applicable for financial years beginning on or after 1 January 2013. These amendments have not been endorsed by the European Union,
- Amendments to IAS 28 "Investments in associates and joint ventures" applicable for financial years beginning on or after 1 January 2013. These amendments have not been endorsed by the European Union,
- IFRS 11 "Joint Arrangements" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- IFRS 12 "Disclosure of Interests in Other Entities" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- IFRS 13 "Fair Value Measurement" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- Amendments to IAS 1 "Presentation of Financial Statements" applicable for financial years beginning on or after 1 July 2012. These amendments have not been endorsed by the European Union,
- Amendments to IAS 19 "Employee Benefits" applicable for financial years beginning on or after 1 January 2013. These amendments have not been endorsed by the European Union.

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

3. Statement of accounting policies

The accounting policies and methods of computation used in the preparation of the Interim Separate Financial Statements are consistent with those described in the audited Telekomunikacja Polska IFRS Separate Financial Statements for the year ended 31 December 2010 (see Notes 2 and 3 to Telekomunikacja Polska S.A. IFRS Separate Financial Statements for the year ended 31 December 2010).

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

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

5. The nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence

5.1. The effect of changes in the composition of the Company during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinued operations

The list of subsidiaries of the Company as at and for the 6 months ended 30 June 2011 is presented in the Note 14.1 of the Telekomunikacja Polska S.A. IFRS Separate Financial Statements for the year ended 31 December 2010. Additionally, during the 6 months ended 30 June 2011, TP S.A. incorporated Bilbo Sp. z o.o. and Integrated Solutions Sp. z o.o., fully owned subsidiaries, whose scope of activities comprises investment operations and provision of integrated IT and network services, respectively.

On 23 May 2011, the Polish Financial Supervision Authority approved the sale agreement concluded in September 2010 under which 25% shares of PTE TP S.A was disposed to Orange Customer Service Sp. z o.o.

On 22 June 2011, Bilbo Sp. z o.o. together with TP S.A. concluded a share sale agreement with EM Bidco Sp. z o.o. under which the 100% shareholding in TP Emitel Sp. z o.o. was disposed of for a total consideration amounting to PLN 1,653 million, consisting of consideration received in cash by Bilbo Sp. z o.o. (to be transferred to TP S.A.) amounting to PLN 1,725 million, decreased by liabilities assumed by the Company.

Gain on disposal amounting to PLN 1,252 million is presented separately in the income statement.

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

As at 30 June 2011, the Management of the Company performed an assessment of risks of on-going and potential legal and regulatory proceedings. As a result, the Company recognised provisions for known and quantifiable risks related to these proceedings, which represent the Company's best estimate of the amounts which are more likely than not to be paid. The actual amount of a penalty or a claim, if any, is dependent on a number of future events, the outcome of which is uncertain, and as a consequence, the amount of the provision may change at a future date. As a rule, the provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management, such disclosure could prejudice the outcome of the pending cases.

Details of status of significant risks are presented in Note 8.

6. Loan agreements and debt securities

<u>Issuance of TP S.A. short term bonds under Bond Issuance Programme</u>

In the 6 months ended 30 June 2011, TP S.A. issued and redeemed short-term bonds to its subsidiaries under the TP S.A. Bond Issuance Programme of 15 July 2002. The bonds are denominated in PLN and have been offered by private placement, exclusively within the territory of the Republic of Poland. The bonds have been issued as non-material unsecured bearer discount bonds (zero-coupon bonds). The bonds are redeemed at their par value. TP S.A. does not anticipate introducing the bonds into public trading.

In the 6 months ended 30 June 2011, the net cash flows on the bonds amounted to PLN 1,621 million. As a result of the issues and redemptions, the aggregate par value of the outstanding bonds issued under the programme amounts to PLN 2,382 million as at 30 June 2011.

7. Dividends paid (aggregate or per share) separately for ordinary shares and other shares

On 14 April 2011, the General Shareholders' Meeting of TP S.A. adopted a resolution on the payment of an ordinary dividend of PLN 1.50 per share, i.e. PLN 2,003 million. The dividend was paid on 7 July 2011.

8. Current status of major litigation and claims, contingent liabilities and contingent assets since the last annual balance sheet date

a. Proceedings by UKE, UOKiK and the European Commission

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 (allocating costs of local loop entirely to fixed line subscription).
On 22 February 2007, after TP S.A. had separated providing Neostrada from fixed line services, UKE imposed a fine of PLN 339 million on TP S.A. for non-performance of the regulatory obligation to submit its Neostrada price list for UKE's approval, and for failing to demonstrate that TP S.A. had met the requirements of the Polish Telecommunication Law that the price of services (in particular the additional charge for the maintenance of the local loop paid by the Neostrada customers who do not subscribe for TP S.A.'s traditional fixed-line analogue services on the same local loop) be based on their cost and determined on clear, objective and non-discriminatory criteria.

TP S.A. believes that UKE has no right to challenge the Neostrada price since it is not defined as a regulated service and that the criteria used for setting Neostrada price were transparent and objective.
TP S.A. did not pay either of these fines and appealed against these decisions to the Court of Competition and Consumer Protection ("SOKiK").
Both appeal proceedings were suspended by SOKiK in connection with, among other matters, the proceeding of the European Commission against the Republic of Poland at the European Court of Justice on attempts of UKE to regulate retail tariffs for broadband access services without carrying out a prior market analysis. On 6 May 2010 the European Court of Justice ruled that by regulating retail tariffs for broadband access services without carrying out a prior market analysis, Poland has failed to fulfil its obligations under the Universal Service Directive in conjunction with the Framework Directive.
After resumption of the appeal proceedings, SOKiK, on 18 April 2011, overruled the UKE's decision imposing the fine of PLN 339 million. UKE appealed against the SOKiK verdict to the Court of Appeal. On 12 July 2011, SOKiK annulled for the second time the fine of PLN 100 million. SOKiK invalidated the fine for the first time in 2007.

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. disagrees with the decision of UOKiK and did not pay the fine. On 2 January 2008, TP S.A. appealed to SOKiK against the decision. On 11 April 2011, SOKiK reduced the fine to the amount of PLN 38 million. TP S.A. appealed to the Court of Appeal on 20 June 2011.

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.

The decision is not final and TP S.A., in liaison with its legal advisors, will appeal against it to the General Court of the European Union by 5 September 2011. 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 fine shall be settled within three months of the date of notification by the European Commission to the Company on the decision. The appeal does not suspend the obligation to settle the fine and the fine has to be provisionally paid pending the final outcome of the appeal process or the Company may provide a bank guarantee for the whole amount.

b. Dispute with DPTG

Information on details of the proceedings between the Company and DPTG is presented in Note 29.d to the Telekomunikacja Polska S.A. IFRS Separate Financial Statements for the year ended 31 December 2010 and has been consistently referred to in the separate financial statements of the Company since 2001 together with the development of the case over the years.

In June 2008, the Arbitration Tribunal decided to split the case into two periods and to render firstly an award settling DPTG's rights for the period from February 1994 to June 2004. On 3 September 2010, the Tribunal issued its partial award for the period from February 1994 to June 2004 (Phase I). It settles DPTG's claims at DKK 2,946 million (approximately EUR 396 million) including interest. The partial award was issued after nine years of arbitration proceedings. During this time, TP S.A. consistently contested both the basis of the DPTG case and, in particular, its interpretation of the contract, as a joint-venture and its related broad interpretation of the financing sub-clause at the heart of the dispute (14.8% of the certain profit from NSL over a period of 15 years) as well as the amount claimed. According to TP S.A., the contract is a sale contract. The contract valued DPTG's supplies remaining to be paid at EUR 17 million. By 2006, DPTG had already received from TP S.A. over EUR 84 million in performance of the contract.

The partial award states that the contract is a sale contract but nevertheless awards DPTG an amount as if the contract was a joint-venture. TP S.A., its legal counsel and independent experts all believe that the amount awarded is many times higher than DPTG's rights and that the award is inconsistent. The Company's Management strongly disputes both the contractual basis of the claim and the amounts awarded. Given the amounts awarded for Phase I, and potentially for Phase II, and the lack of consistency of the award, it is TP S.A's position that this award is contrary to Public Policy. As a consequence, acting in the best interests of the Company and its shareholders, TP S.A. did not pay the partial award and is taking all reasonable legal actions to resist the award issued by the Arbitration Tribunal.

On 2 December 2010, TP S.A. filed a claim before the Commercial Court in Vienna claiming for the setting aside of the partial award for Phase I. In July 2011, the parties submitted their submissions in accordance with the order issued by the Court on 30 March 2011. A further hearing at the Vienna Commercial Court is scheduled for 8 September 2011.

On 22 December 2010, DPTG introduced a request for enforcement of the award in Poland before the Court in Warsaw. On 9 June 2011, DPTG responded to TP S.A.'s defence. On 22 July 2011, the Warsaw Court ordered enforcement proceedings to be suspended until the final ruling of the Vienna Commercial Court in the annulment proceedings.

On 14 January 2011, DPTG filed its claim for Phase II, which amounts to DKK 2,386 million (approximately EUR 320 million) including interest. On 27 May 2011, TP S.A. submitted its answer to DPTG's claim for Phase II to the Arbitration Tribunal. At the organizational hearing on 10 June 2011, the Tribunal determined the schedule of the proceedings for Phase II until filing the post-hearing briefs by the parties on 25 January 2013.

Since 2001, TP S.A. has made what it considered to be an appropriate provision for this matter, as supported by outside counsel and other professional advisors. The Company's Management was obliged to adjust the level of the provision by virtue of the fact that an arbitral award had been rendered. As at 31 December 2010, the provision for the whole dispute was increased to EUR 542 million and will be reassessed on a regular basis taking into account further developments of the matter. Nevertheless, the amount of the provision should in no way be viewed as an indication by TP S.A. of the proper outcome of the dispute.

c. Guarantees

As at 30 June 2011 and 31 December 2010, total guarantees granted by Telekomunikacja Polska S.A. to purchasers of debt securities amounted to PLN 4,059 million and PLN 4,089 million, respectively.

9. Information on the conclusion of one or more significant transactions by the Company with related party

As at 30 June 2011, France Telecom S.A. owned 49.79% of shares of the Company and held 49.79% of votes. France Telecom S.A. has the power to appoint the majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

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

Revenue earned from France Telecom Group comprises mainly interconnect, data transmission and research and development services. The purchases from the France Telecom Group comprise mainly costs of leased lines, interconnect, network services, IT services, consulting services.

TP S.A.'s financial income earned from its subsidiaries comprises dividends from subsidiaries, including a dividend declared in the second quarter of 2011 by its wholly-owned subsidiary PTK-Centertel Sp. z o.o. in the amount of PLN 862 million, of which PLN 431 million was already distributed and PLN 431 million is to be distributed by 30 November 2011 and dividend declared in the second quarter of 2010 by PTK-Centertel Sp. z o.o. in the amount of PLN 1,600 million. The financial income also comprises interest on bonds issued by subsidiaries and interest on loans granted to subsidiaries. Financial costs incurred by TP S.A. in transactions with related parties mainly comprise interest on bonds issued to subsidiaries and interest on loans from subsidiaries. The Company's financial receivables from its subsidiaries mainly comprise bonds issued by subsidiaries, the aforementioned dividends and loans granted to subsidiaries, together with accrued interests. Financial payables to related parties comprise bonds issued to subsidiaries and loans from subsidiaries, together with accrued interests.

(in PLN millions)	*6 months ended 30 June 2011*	*6 months ended 30 June 2010*
Sales of goods and services to:	**621**	**492**
TP Group	536	408
- TP Group (subsidiaries)	536	408
- TP Group (associates)	-	-
France Telecom Group	85	84
- France Telecom S.A. (parent)	64	62
- France Telecom (group)	21	22
Purchases of goods (including inventories, tangible and intangible assets) and services from:	**801**	**471**
TP Group	708	398
- TP Group (subsidiaries)	708	398
- TP Group (associates)	-	-
France Telecom Group	93	73
- France Telecom S.A. (parent)	43	46
- France Telecom (group)	50	27
Financial income:	**1,114**	**1,853**
TP Group	1,114	1,853
- TP Group (subsidiaries)	1,114	1,853
- TP Group (associates)	-	-
France Telecom Group	-	-
- France Telecom S.A. (parent)	-	-
- France Telecom (group)	-	-
Financial expense:	**276**	**299**
TP Group	276	299
- TP Group (subsidiaries)	276	299
- TP Group (associates)	-	-
France Telecom Group	-	-
- France Telecom S.A. (parent)	-	-
- France Telecom (group)	-	-
Dividends declared:	**997**	**997**
TP Group	-	-
- TP Group (subsidiaries)	-	-
- TP Group (associates)	-	-
France Telecom Group	997	997
- France Telecom S.A. (parent)	997	997
- France Telecom (group)	-	-

(in PLN millions)	*At 30 June 2011*	*At 31 December 2010*
Receivables from:	**336**	**247**
TP Group	246	178
- TP Group (subsidiaries)	246	178
- TP Group (associates)	-	-
France Telecom Group	90	69
- France Telecom S.A. (parent)	86	60
- France Telecom (group)	4	9
Financial receivables from:	**3,725**	**3,435**
TP Group	3,725	3,435
- TP Group (subsidiaries)	3,725	3,435
- TP Group (associates)	-	-
France Telecom Group	-	-
- France Telecom S.A. (parent)	-	-
- France Telecom (group)	-	-
Payables to:	**411**	**460**
TP Group	294	357
- TP Group (subsidiaries)	294	357
- TP Group (associates)	-	-
France Telecom Group	117	103
- France Telecom S.A. (parent)	99	81
- France Telecom (group)	18	22
Financial payables to:	**9,706**	**8,243**
TP Group	9,706	8,243
- TP Group (subsidiaries)	9,706	8,243
- TP Group (associates)	-	-
France Telecom Group	-	-
- France Telecom S.A. (parent)	-	-
- France Telecom (group)	-	-
Dividends payable to:	**997**	**-**
TP Group	-	-
- TP Group (subsidiaries)	-	-
- TP Group (associates)	-	-
France Telecom Group	997	-
- France Telecom S.A. (parent)	997	-
- France Telecom (group)	-	-

In addition to the above mentioned receivables from TP Group subsidiaries, as at 30 June 2011 TP S.A. had a receivable amounting to PLN 1,725 million from Bilbo Sp. z o. o. resulting from disposal of TP Emitel shares.

Remuneration and bonuses, compensation and termination indemnities, including compensation under a competition prohibition clause (cash, benefits in kind or any other benefits) paid in accordance with contractual commitments, by TP S.A. and Telekomunikacja Polska Group entities to TP S.A.'s Management Board and Supervisory Board members during the 6 months ended 30 June 2011 and 2010 amounted to PLN 7.2 million and PLN 5.1 million, respectively. In addition, PLN 2.2 million of a termination benefit accrued in 2009 was paid during the 6 months ended 30 June 2010. In the 6 months ended 30 June 2011 and 2010, the amount of accrued costs for bonuses for the Company's Management Board amounted to PLN 1.6 million and PLN 1.5 million, respectively.

In the 6 months ended 30 June 2011 no cost was recognised in respect of TP S.A.'s incentive programme as the vesting period of the programme ended in 2010. During the 6 months ended 30 June 2010, the estimated cost of share based payments under TP S.A.'s incentive programme allocated to the Company's Management Board amounted to PLN 0.3 million.

On 14 January 2011, Mr Roland Dubois resigned from the position of Management Board Member of TP S.A. in charge of Finance – Chief Financial Officer. As of 17 January 2011, his duties were passed on to Mr Jacques de Galzain.

On 27 January 2011, the Supervisory Board of the Company appointed Mr Jacques de Galzain and Mr Jacek Kowalski as Members of the Management Board of TP S.A. The Supervisory Board also appointed Mr Piotr Muszyński for a subsequent term of office.

On 12 July 2011, the Supervisory Board of the Company appointed Mr Maciej Witucki for his third consecutive term as the President of the Management Board of TP S.A. This third term will start on the day of the next General Shareholders' Meeting of TP S.A. in April 2012, for a period of three years.

Mr Raoul Roverato resigned from the Supervisory Board of TP S.A. with effect from 26 January 2011. On 27 January 2011, the Supervisory Board appointed Mr Gerard Ries as a Member of the Supervisory Board of TP S.A.

On 24 March 2011, Mr Olivier Barberot resigned from the Supervisory Board of TP S.A. On the same day, the Supervisory Board appointed Mr Pierre Louette as a Member of the Supervisory Board of TP S.A.

On 14 April 2011, the General Shareholders' Meeting of TP S.A. renewed mandates of the following Members of the Supervisory Board of TP S.A., whose term of office expired as of the day of this General Meeting: Mr Timothy Boatman and Mr Gerard Ries.

On 11 July 2011, Mr Olivier Faure resigned from the Supervisory Board of TP S.A. On 12 July 2011, the Supervisory Board appointed Mrs Nathalie Clere as a Member of the Supervisory Board of TP S.A.

10. Subsequent events

On 4 July 2011, TP S.A. redeemed at maturity bonds series T of the total nominal value of EUR 300 million which were issued on 4 July 2004. The bonds were offered through private placement and were purchased exclusively by TPSA Eurofinance France S.A.

On 5 July 2011, TPSA Eurofinance France S.A. redeemed at maturity bonds series T of the total nominal value of EUR 300 million which were issued on 5 July 2004. The bonds were guaranteed by TP S.A.

Management Board's Report on the Activity of

TELEKOMUNIKACJA POLSKA GROUP

in the first half of 2011

26 July 2011

This report on the activity of the Telekomunikacja Polska Group ("the TP Group" or "the Group") in the first half of 2011 has been drawn up in compliance with Article 90 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2009 No. 33, item 259, as amended).

CHAPTER I.
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of 30 June 2011 and for the six-month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

	For 6 months ended				
	30 June 2011		30 June 2010		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue, including:	7,519	1,895	7,860	1,963	-4.3%
Fixed line services	4,229	1,066	4,599	1,149	-8.0%
Mobile services	3,823	964	3,766	941	1.5%
Eliminations and unallocated items	(533)	(134)	(505)	(126)	5.5%
EBITDA	3,489	879	2,892	722	20.6%
EBITDA margin	*46.4%*		*36.8%*		*9.6 pp*
Operating income	1,518	383	981	245	54.7%
Operating margin	*20.2%*		*12.5%*		*7.7 pp*
Consolidated net income	1,184	298	610	152	94.1%
Net income attributable to owners of TP SA	1,183	*298*	609	*152*	94.3%
*Weighted average number of shares (in millions)**	*1,336*		*1,336*		
Earnings per share (in PLN) (basic and diluted)	*0.89*	*0.22*	0.46	*0.11*	*93.5%*
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	2,506	632	2,189	547	14.5%
Net cash provided by/(used in) investing activities, including	58	15	(1,007)	(251)	N.A.
Capital expenditures (on accrual basis)	(925)	(233)	(715)	(179)	29.4%
Net cash used in financing activities	(11)	(3)	(184)	(46)	94%
Net change in cash and cash equivalents	2,553	644	998	249	155.8%

	As of				
	30 June 2011		31 December 2010		Change
Consolidated Balance Sheet	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Cash and cash equivalents	4,993	1,252	2,447	618	104%
Other intangible assets	2,835	711	2,861	722	-0.9%
Property, plant and equipment	15,069	3,780	16,500	4,166	-8.7%
Total assets	29,705	7,451	28,873	7,291	2.9%
Financial liabilities at amortised costs, of which:	5,854	1,468	6,003	1,516	-2.5%
Current	1,501	377	1,547	391	-3.0%
Non-current	4,353	1,092	4,456	1,125	-2.3%
Other liabilities, current and non-current	10,044	2,519	8,236	2,080	22.0%
Total equity	13,807	3,463	14,634	3,695	-5.7%

Notes:
1 – PLN/EUR fx rate of 3.9673 applied
2 – PLN/EUR fx rate of 4.0042 applied
3 – PLN/EUR fx rate of 3.9866 applied
4 – PLN/EUR fx rate of 3.9603 applied
** Weighted average number of shares in 6 months ended 30 June 2011*

1.1 Comments to the Consolidated Income Statement Items

TP Group's consolidated revenue amounted to PLN 7,519 million in the first half of 2011 and was lower by PLN 341 million compared to the first half of 2010. The decrease resulted mainly from a PLN 370 million decline in fixed line revenue which was only partially offset by a PLN 57 million increase of mobile revenue.

Earnings before depreciation and amortisation expense and impairment of non-current assets (EBITDA) amounted to PLN 3,489 million in the first half of 2011 and was PLN 597 million higher than in the first half of 2010.

Operating income (EBIT) amounted to PLN 1,518 million in the first half of 2011 and was PLN 537 million higher than in the first half of 2010.

In particular, year-on-year, in the first half of 2011:

- Network and IT costs decreased by PLN 27 million;
- Interconnect expenses decreased by PLN 77 million;
- Other external purchases increased by PLN 54 million;
- Labour expenses decreased by PLN 71 million;
- Depreciation and amortization increased by PLN 61 million;
- Gain on disposal of assets was higher by PLN 1,189 million;
- Provision for penalty imposed by the European Commission increased by PLN 458 million.

Net finance charges were PLN 7 million higher than in the first half of 2010, which resulted mainly from increase in interest expense of PLN 32 million, increase in interest income of PLN 18 million and decrease in discounting expense of PLN 6 million.

Consolidated net income attributable to owners of Telekomunikacja Polska S.A. ("the Company", "the Parent Company", "TP") amounted to PLN 1,183 million in the reported period, which is a 94.3% increase compared with the first half of 2010. Earnings per share increased from PLN 0.46 to PLN 0.89 in the compared periods.

1.2 Comments to the Consolidated Cash Flow Statement Items

Net cash from operating activities totalled PLN 2,506 million in the first half of 2011 and was up by PLN 317 million year-on-year. The difference was mainly due to; positive impact of changes in trade receivables (PLN 176 million year-on-year) and in prepaid expenses and other receivables (PLN 87 million year-on-year) combined with a decrease in interest paid and outflows related to derivatives, net (PLN 98 million year-on-year).

Net cash provided by investing activities amounted to PLN 58 million in the first half of 2011 and was higher by PLN 1,065 million compared to the first half of 2010, mainly a combination of an increase of PLN 1,637 million in proceeds from sale of subsidiaries (net of cash) and an increase of PLN 587 million in cash outflow on property, plant, equipment and intangible assets .

Net cash used in financing activities amounted to PLN 11 million in the first half of 2011 and was lower by PLN 173 million versus the first half of 2010. The decrease resulted mainly from positive impact of exchange rate effect on derivatives, net (PLN 170 million).

1.2.1 Capital Expenditures (CAPEX)

TP Group's capital expenditures in the first half of 2011amounted to PLN 925 million. In the first six months of 2011, TP Group further focused on its capital expenditure optimisation program, limiting investments to the following projects:

- sales related projects aimed at increasing and defending revenues;
- regulatory projects implemented in connection with the TP Group's significant market position; and
- infrastructure projects required to assure high quality of services.

Fixed Line Segment

Fixed line CAPEX totalled PLN 641 million in the first six months of 2011 and was PLN 91 million higher than in the first half of 2010. TP continued investments resulting from the Memorandum of Understanding signed with UKE on 22 October 2009.

The investment projects included:

- development of broadband internet access network, which also enables provision of television services., as well as related purchases of subscriber terminals;
- implementation of "Chinese Walls" in accordance with the Memorandum of Understanding with UKE;
- modernisation and development of IT infrastructure, aimed at optimisation of customer service processes;
- IT systems development, including implementation of investment projects related to the development of service portfolio;
- further development of fiber-optic network and transmission equipment in order to launch new backbone and access lines;
- implementation of investment projects related to the development of the WP portal and on-line content;
- implementation of investment projects for sales and after-sales purposes;

- research and development.

Mobile Segment – PTK Centertel

PTK Centertel's capital expenditures amounted to PLN 284 million in the first six months of 2011 and were PLN 115 million higher than in the first half of 2010.

Capital expenditures were focused on:

- further development of the 2G/3G radio network, including replacement of 2G network elements to provide customers with the highest service quality;
- development of core network;
- expansion of the HSPA+DC network to provide customers with access to fast data transfer;
- projects related to development of service portfolio for mass and business customers;
- implementation of investment projects for sales and after-sales purposes;
- optimisation and further development of the CDMA network, particularly for the purpose of the NMT migration (complementary to that at TP);
- modernisation and development of IT infrastructure, aimed at optimisation of customer service processes.

1.3 Comments to the Consolidated Balance Sheet Items

As of 30 June 2011, total equity amounted to PLN 13,807 million and was by PLN 827 million lower than six months before. The change is attributed mainly to the declaration of dividends of PLN 2,004 million, partially offset by net income (PLN 1,184 million) generated in current reporting period.

As of 30 June 2011, property, plant, equipment and intangible assets decreased by PLN 1,457 million compared to 2010 year-end, mainly as a result of amortisation and depreciation (PLN 1,967 million), derecognition of TP Emitel's property, plant and equipment (PLN 401 million), which was partially offset by capital expenditures amounting to PLN 925 million (financed through own resources).

Total assets increased by PLN 832 million compared to 2010 year-end. The change resulted mainly from the aforementioned decrease of PLN 1,457 million in property, plant, equipment and intangible assets, which was accompanied by an increase of PLN 2,546 million in cash and cash equivalents.

Total non-current and current liabilities increased by PLN 1,659 million to PLN 15,898 million as of 30 June 2011 (versus 31 Dec'10). The primary factors that contributed to the change included an increase of PLN 528 million in provisions, decrease of PLN 694 million in trade payables, decrease of PLN 149 million in financial liability at amortised cost and increase of PLN 1,997 million in other liabilities (including dividend payable of PLN 2,003 million in 2011).

1.4 Related Parties Transactions

Please see Note 8 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for information about TP Group's transactions with related entities.

1.5 Description of Significant Agreements

On 24 March 2011, Bilbo sp. z o.o., a TP's subsidiary, together with TP S.A. signed a preliminary sale agreement with Warsaw-based Kapiri Investments sp. z o.o., whose sole shareholder was Montagu IV (B) LP, for all shares held in Kraków-based TP Emitel.

On 22 June 2011, Bilbo sp. z o.o. and EM Bidco sp. z o.o. (formerly Kapiri Investments) signed the promised sale agreement pursuant to which TP Group sold all shares held in TP Emitel sp. z o.o.

(For additional information on the transaction please see section 7.2 below).

1.6 Subsequent Events

For the relevant information please see Note 9 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements.

1.7 Scope of Consolidation within the TP Group

For the relevant information please see Note 5.1 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements.

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

For the relevant information please see Section III of the Additional Information to the Condensed IFRS Interim Consolidated Half-Year Financial Statements.

1.9 Management of Financial Resources and Liquidity of the TP Group

In the reported period TP Group financed its activities mostly by use of cash generated from operating activities, as well as by use of funds raised in bond issues in previous years.

In the first half of 2011, TP Group repaid long-term debt of loans in amount PLN 111 million. All debt repayments were carried out on schedule.

TP Group did not raise additional financing liabilities from loans and bonds in the reported period.

As of 30 June 2011, TP Group's interest-bearing liabilities totalled PLN 5,838 million (before derivatives), which is a decrease of PLN 147 million compared to 31 December 2010.

The value of long-term liabilities under financial lease as of 30 June 2011 amounted to PLN 16 million and was lower by PLN 2 million as compared to 31 December 2010.

TP Group's liquidity remained solid, owing to strong cash position, (PLN 4,993 million at 30 June 2011) and available credit facilities (totalling an equivalent of PLN 3,617 million) (please see section 1.9.3 below for details).

1.9.1 Bonds

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

1.9.2 Loan and Borrowings Agreements

In the first half of 2011, TP Group concluded the following loan agreements:

- A current account overdraft agreement concluded by TP S.A. with RBS Bank (Polska) S.A. for PLN 62 million. The agreement provides an overdraft facility to secure the Parent Company's liquidity and current financing in the period between 1 July 2011 and 29 December 2011;
- On 6 June 2011, Otwarty Rynek Elektroniczny S.A. ("ORE"), a TP's subsidiary, signed a loan agreement with Bank Handlowy w Warszawie S.A. for a current account overdraft facility totalling PLN 1 million.

In the first half of 2011, TP Group did not use any bank loans. In the same period, the bank borrowings amounting of PLN 111 million were repaid.

1.9.3 Unused Credit Facilities

As of 30 June 2011, TP Group had outstanding general-purpose credit facilities amounting to an equivalent PLN 3,617 million, specifically (by Group companies):

- TP S.A.: PLN 2,000 million (revolving) and EUR 400 million (back-up);
- PTK Centertel: PLN 20 million (current account overdraft);
- Ramsat: PLN 1 million (current account overdraft); and
- ORE: PLN 1 million (current account overdraft).

1.9.4 Loan Covenants

Under agreements concluded, TP as the Parent Company is a party to loan and guarantee agreements imposing an obligation to meet the ratio of net debt to EBITDA not higher than 3.5:1 (tested for the TP Group on a six months' basis). The value of the ratio on 30 June 2011 was met.

1.9.5 Ratings of the TP Group

The ratings at 30 June 2011 were as follows:

Moody's Investor Services	A3, stable outlook
Standard and Poor's Rating Services	BBB+, stable outlook
Fitch IBCA	BBB+, stable outlook

1.9.6 Hedging Transactions

TP Group continued to minimise its exposure to foreign exchange volatility in the first half of 2011, covering almost 100% of its debt denominated in foreign currencies and 81% of the UMTS liabilities (the discounted carrying amount) and 77% of the nominal amount of DPTG provision. TP Group also continued its hedging policy, securing the portions of the exposure on its operational liabilities (e.g. handsets purchases) and capital expenditures.

1.9.7 TP Group’s Financial Liquidity, Net Financial Debt and Status as a Going Concern.

At 30 June 2011, TP Group’s quick and current ratios increased as compared to the end of 2010. Higher liquidity of TP Group was driven by an increase of PLN 2,401 million in current assets, including an increase of PLN 2,546 in cash, which was only partially offset by an increase of PLN 1,794 million in current liabilities.

The liquidity ratios for the TP Group at 30 June 2011 and 31 December 2010, respectively, are presented in the table below.

	30 June 2011	31 December 2010
Current ratio Current assets / current liabilities*	1.08	0.90
Quick ratio Total current assets – inventories / current liabilities*	1.04	0.85
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.80	0.53

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

TP Group’s net financial debt (after valuation of derivatives) decreased to PLN 1,191 million at the end of June 2011 (from PLN 3,817 million at the end of 2010).

2 STATEMENTS OF THE MANAGEMENT BOARD

2.1 Statement on Adopted Accounting Principles

TP Management Board, composed of:

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

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

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

2.2 Statement on Appointment of the Licensed Auditor of the TP Group's Consolidated Financial Statements

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

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

TP did not publish financial projections concerning results of the TP Group for 2011.

CHAPTER II.
MANAGEMENT BOARD'S REPORT ON OPERATING AND FINANCIAL PERFORMANCE OF THE TP GROUP

in the first half of 2011

3 FIXED LINE SEGMENT

3.1 Financial Performance

Fixed Line Segment: Income Statement

	For 6 months ended		
PLN million	30 June 2011	30 June 2010	Change
Revenues	4,229	4,599	-8.0%
EBITDA	2,373	1,780	33.3%
Margin, %	56.1%	38.7%	17.4 pp
Operating income	1,157	515	124.7%
Margin, %	27.4%	11.2%	16.2 pp

TP Group's fixed line business is under strong competitive pressure. Its revenue declined by 8.0% (year-on-year) in the first half of the year, which can be attributed to the following factors:

- fixed-to-mobile substitution of both access and traffic;
- customer price sensitivity, reflected in migration to WLR and LLU-based offers from competitors;

As a result, Group's retail fixed voice customer base declined by 11.0% year-on-year, while its average revenue per user dropped by nearly 5%.

The broadband market was in a stagnation phase, mainly due to intensive price competition. TP Group's broadband revenue fell in the first half of the year by 4.4% year-on-year, mainly as a result of a combination of the following factors:

- increase in retail broadband customer base (up 2.2%);
- decrease in retail broadband ARPU (down 6.2%).

Fixed line EBITDA margin for the first half of 2011 was 17.4 percentage points up since the comparable period of last year and EBITDA was higher by PLN 593 million, mainly due to:

- gains on disposal of TP Emitel, amounting to PLN 1,188 million ,
- PLN 458 million adverse impact of an increase in provisions for claims and litigation, in relation to the fine imposed by the European Commission,
- Deterioration of the underlying EBITDA, driven mainly by the contraction of revenue.

In order to mitigate the decreasing revenue trend on profitability of the fixed line segment, the TP Group is focused on restoring the growth of revenues from broadband and television services as well as further optimisation of its cost base (please see section 6.3 for details).

3.2 Market and Competition

Market for Fixed Line Voice Services

Fixed line penetration rate has been steadily falling in Poland. It reached 25.7% of the population at the end of June 2011, as compared to 26.2% at the end of December 2010. Increasing penetration rate and popularity of mobile technologies have led to migration of fixed customer and traffic to mobile networks. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is rather a direct substitute to fixed line telephony than a complementary service.

Cable television operators have further expanded the range of fixed line voice and internet access services. In addition, wireless home zone offers promoted by mobile operators have been gaining popularity. Growth in WLR lines slowed down and the volume of services based on local loop unbundling (LLU) stabilised in the first six months.

Broadband Internet Access Market

According to TP Group's internal estimates, total number of fixed broadband access lines increased by 6.5% in the first half of 2011 (y-o-y). The penetration of broadband services in total Poland population had reached 17.5% by the end of June 2011 (compared to 16.4% at the end of June 2010).

It is estimated that value of the broadband market grew by 4.7% in the first half of 2011 compared to +6.2% in the same period of 2010.

The strongest competitive pressure comes from cable television (CATV) operators. CATV operators' total market share has been steadily growing; it was estimated at 28% by volume (at the end of June) or 27% by value (in the first six months). Strengthening of CATV position results from popularity of bundled offers, which may be effectively sold by CATV operators due to their strong position on the television market, as well as from increasing broadband speeds, offered for the same or lower price.

New technologies contribute to development of local internet providers, which, though very fragmented, represent together a marked force in the broadband market, especially in small towns and rural areas.

Market consolidation is a clear trend in the broadband sector, as smaller internet providers are acquired by larger players, such as Netia, Multimedia Polska and Hyperion. Upon acceptance by UOKiK, UPC is to complete the acquisition of Aster.

The market has seen significant increase in broadband speed rates. CATV operators have been active in this area, investing in the DOCSIS 3.0 standard, which enhances network capacity and internet service parameters and facilitates implementation of new services. In May 2011, TP Group introduced fast broadband access offers based on the VDSL technology.

Alternative operators have continued to compete with use of wholesale BSA and LLU based services, as well as services based on a limited development of their own networks. As a result of implementation of the cost-based settlements in Q4 2010, BSA-based access has been visibly surpassed by LLU-based access in terms of net additions. In the first six months of 2011, BSA-based operators attracted incomparable less new customers: 3,000 (compared to 52,000 in the first half of 2010), while LLU-based lines reached 162,000 at the end of June (compared to 76,000 a year earlier).

TP Group has also been offering broadband services based on the CDMA technology. The broadband market share of this offer, by volume, is estimated at 2.4%.

3.3 Fixed Line Voice Services

Fixed line voice services: revenues and key performance indicators

	For 6 months ended		
PLN million, unless indicated otherwise	30 June 2011	30 June 2010	Change
Revenues from fixed line services:	2,331	2,665	-12.5%
Subscription and traffic	1,773	2,106	-15.8%
Payphone revenues	6	7	-14.3%
Wholesale revenue incl. Interconnect	552	552	0.0%
Number of fixed lines, '000 (excl. external WLR)	6,004	6,750	-11.0%

According to TP's estimates, the Company had the following market shares:

Fixed voice market share in the second quarter of 2011[1]

	2Q 2011 (estimated)	2Q 2010	Change
TP Group retail local access[1 2]	61.2%	66.2	-5.0pp
Value market share [1]	67.2%	70.1	-2.9pp

1 Company's estimation

2 Local access without Wholesale Line Rental but with Orange WLR part

Fixed-line service revenues saw further erosion in the first half of 2011resulting mostly from continuous competitive pressure and fixed-to-mobile substitution. These revenues decreased by PLN 334 million (or 12.5%) year-on-year.

TP has taken steps to contain the erosion of its fixed-line subscriber base, mainly through attempts to loyalise customers, by offering promotions related to fixed-term agreements. In April 2011, TP launched new tariff plans; ‘doMowy’, with 12-month or 24-month loyalty agreements. These offer much lower prices than the standard offer. The new offer attempts to meet customer expectations by enabling them to make international and fixed-to-mobile calls within the access fee. Introduction of the new plans is aimed at increasing the attractiveness of TP’s portfolio and building loyalty of customers through fixed-term agreements.

In voice services for the business market, TP continues to develop service portfolio based on pools of minutes and other benefits included in access fee. These offers are addressed mainly to SME companies. ‘Business Plans with pools of cash’ to be used for all types of calls, which were launched in May, are an example of such an offer. Furthermore, customised offers are often prepared for top-end customers. Sales of access lines were supported with the ‘Connection at a Fair Price’ promotion and a permanent offer ‘Package for New Companies’.

3.4 Fixed Line Data Services

Fixed line data services: revenues and key performance indicators

	For 6 months ended		
PLN million, unless indicated otherwise	30 June 2011	30 June 2010	Change
Revenues from data services	1,209	1,275	-5.2%
of which broadband internet services	743	777	-4.4%
of which dial-up internet services	1	3	-66.7%
of which data transmission	323	348	-7.2%
of which leased lines	142	147	-3.4%
xDSL* lines, ‘000	2,311	2,261	2.2%
Broadband** lines, ‘000	2,846	2,707	5.2%

* including CDMA and BSA PTK Centertel

** Including SDI, CDMA-based access and wholesale (BSA/LLU)

Broadband access market – key indicators:

	30 June 2011	**30 June 2010**	**30 June 2009**
Market penetration rate in Poland – broadband lines (in total population)	17.5%	15.9%	14.6%
Total number of broadband lines in Poland (thousands)	6 674	6 267	5 821
Volume Market share of TP Group (TP + PTK Centertel)	34.6%	36.0%	39.0%

Despite fierce competition, coming mostly from both CATV operators, the number of TP Group’s retail broadband lines increased (including CDMA and BSA PTK Centertel) by 2.2% year-on-year. At the same time, Group’s broadband revenues fell by PLN 34 million. Retail ARPU decreased from PLN 56.6 in the second quarter of 2010 to PLN 53.1 in the second quarter of 2011. This drove data revenues down by PLN 66 million or 5,2% as compared to 2010.

By the end of June 2011, TP Group’s fixed broadband customer base had increased by 2.2% (year-on-year). As a result of marketing and sales efforts, retail customer base has seen a rebound, which started in the third quarter of 2010. The second quarter of 2011 was the fourth consecutive quarter of growth in the retail fixed broadband customer base (before that, growth was last seen in the third quarter of 2009). New offer, based on the “cost plus” pricing structure, launched on October 1st 2010, has increased price attractiveness of TP’s service portfolio and positively affected the customer base evolution.

Increasing demand for higher broadband speeds is a visible market trend, fuelled by price reductions for the top speed options. Thanks to the *Neostrada* promotion introduced in October 2010, the share of 6 Mb/s and higher options grew to approximately 50% of new additions in Q2 2011 (compared to 12% in Q2 2010).

The *Neostrada* offer launched on October 1st 2010 was continued in the first half of 2011. On 1 January 2011, it was slightly modified following a change of VAT rate from 22% to 23%. The net price, however, did not change.

The offer includes ‘Internet of Your Dreams’: 12-month or 24-month agreements for 2 to 20 Mb/s options as well as ‘Light Internet’ for 512 kb/s and 1 Mb/s options.

Due to great interest, TP extended its Try&Buy promotional campaign, which is now bundled with the ‘Internet of Your Dreams’ promotional offer.

In the ‘Internet of Your Dreams / *Neostrada* Trial’ offer, customers can buy *Neostrada* for a promotional price, then cancel the service within the first thirty days without any cancellation fee. The promotion aims increasing the knowledge of new technologies.

In February 2011, a new offer was added to the *Neostrada* portfolio, bundling 2, 6, 10 and 20 Mb/s options with a laptop for PLN 1. The laptop price is included in a higher monthly access fee.

Frequent promotions of WiFi modems were used within the *Neostrada* offer in the first half of 2011. In selected periods, such modems were offered for PLN 1 in case of 24-month loyalty agreements.

In addition, TP has continued *Neostrada* retention offers, involving gadgets to encourage renewal of service agreements.

TP Group has a broad service portfolio for business customers, including both uncomplicated services for small to medium companies as well as more sophisticated solutions for large corporations.

TP’s services are unique in high quality, reliability and security level as well as professional customer support. TP has been steadily extending its service portfolio, investing in cutting-edge technologies, in order to offer solutions that meet customer needs in the continuously changing market.

Rapid growth of the IP VPN service continued throughout the first half of 2011. Customers are keen to sign up for the IP VPN service, as it not only streamlines functioning of their businesses but also reduces costs.

An increase in demand for the Internet DSL service has been reported. The ‘e-Store’ option, available since March 2011, has proven a very interesting solution for customers. Owing to this functionality, they can quickly and easily open their own e-store and sell products on the internet. A new promotional offer (DSL Sprinter, DSL Sprinter for Loyal Customers and DSL Sprinter for NEO) had turned out a marked success. Customers are offered low access fees during an initial period, reduced subscription fees for value-added services and an installation fee of PLN 1. In addition, in line with market expectations, TP has launched attractive ‘Raid’ promotions (DSL Raid, DSL Raid for NEO). Customers can sign up for a very attractive price offer, which involves reduced installation fee (for a modem with extended functionality) and access fee.

Also the *Business Package* offer has generated strong interest among business customers. The service provides customers with access to telephone, internet, security package, website space and email. The ‘Package for Everyone’ promotion was extended to the end of August.

The development of Information and Communication Technology (ICT) services continued in the first half of 2011. TP has enhanced its portfolio of laptops, which have unique configuration and are manufactured specifically for the Company. A growing number of business customers uses LAN development services, which are part of the LAN management portfolio, or sign up for an offer of development or expansion of a cable network on customer’s site.

4 MOBILE SEGMENT

4.1 Financial Performance

Mobile services segment: income statement

	For 6 months ended		
PLN million	30 June 2011	30 June 2010	Change
Segment revenue	3,823	3,766	1.5%
of which retail	3,094	2,982	3.8%
of which wholesale	729	784	-7.0%
EBITDA	1,116	1,112	0.4%
Margin, %	29.2%	29.5%	-0.3 pp
Operating income	361	466	-22.5%
Margin, %	9.4%	12.4%	-3 pp

Mobile segment’s revenue evolution has broadly followed market trends with the year-on-year growth of 1.5% in the first half of the year. Retail mobile revenue has grown by 3.8% year-on-year, while wholesale revenue has contracted by 7%, due to a 47% cut of the SMS MTR.

Orange has increased its customer base in the first half of 2011, by 203,000 clients, with growth reported in both quarters of the semester, with both the prepaid and the post-paid segments contributing positively.

The EBITDA for the mobile segment was on par with the comparable period of last year, up by PLN 4 million, as moderate increase in revenue was coupled with growing costs of customer acquisition and retention.

4.2 Market and Competition

The mobile voice market is in the saturation phase. The rate of growth of SIM cards has fallen. The number of mobile users increased in the first six months of 2011 by 2.5% and reached 48.7 million at the end of June 2011. As a result, the mobile penetration rate (among population) reached 127.4% (up from 119.8% at the end of June 2010).

The three leading mobile operators have been losing their total market share to PLAY and virtual operators: a decrease from 89.7% to 86.3% was reported between 30 June 2010 and the end of June 2011.

PTK Centertel’s estimated market share was 29.9% by volume at the end of June 2011 and 30.8% by value in the first half of 2011.

4.3 Mobile Voice Services

Mobile voice services sub-segment: key performance indicators

	For 6 months ended		
PLN ‘000, unless indicated otherwise	30 June 2011	30 June 2010	Change
Total customers	14,535	14,029	3.6%
of which pre-paid	7,568	7,238	4.6%
of which post-paid	6,967	6,792	2.6%
Net additions	203	315	-
of which pre-paid	193	148	-
of which post-paid	11	168	-
Churn rate			
pre-paid	30.1%	28.8%	
post-paid	7.2%	5.9%	
SAC, PLN	132	127	5.1%
Monthly blended ARPU, PLN	40	42	-5.1%

* Including customer base rationalisation

Orange customer base reached 14.5 million at the end of June 2011 (up 3.6% year-on-year, as compared to the average market growth estimated at approximately 6.4%). This rate of subscriber base growth can be considered a success, taking into consideration the activity of the new aggressive market players, mainly P4 (PLAY) – benefiting from a significant MTR asymmetry – but also MVNOs.

Blended ARPU was at PLN 40 in the first half of 2011, down 5.1% year-on-year. The decrease in ARPU resulted mostly from a regulatory SMSs MTR cut well as market pressure on prices of voice calls.

Blended unitary SAC (subscriber acquisition cost) was at PLN 132 in the first six months of 2011, up 5.1% year-on-year. The increase resulted mostly from significant growth of smartphones' share in the sale structure.

In April 2011, Orange modified its post-paid offering in order to better fit to customer needs. The post-paid portfolio includes Panther tariffs for users of mobile data services (internet, email, etc.), Dolphin for frequent users of voice services and Pelican for customers focused on text and community web-services. The new offer is well tailored to the needs of different customers, which increases their satisfaction and enhances perception of Orange as an innovative and user-friendly brand.

January 2011 saw the launch of the innovative 'Tailored Offer' to business customers, in which they can set the subscription fee themselves at PLN 1 increments. In addition, the 'Optimum Discount' offer was introduced in April. It is a promotional offer based on 'Optimum' and 'Optimum with Internet' tariff plans, in which customers pay a lower subscription fee (at least by half) during a period they choose. These offers meet customer expectations in the SOHO segment. As for a portfolio addressed to high-end segments, the 'Negotiated Offer' and the 'Business Package' have been updated consequently.

4.4 Mobile Data Services

For PTK Centertel, 2011 brought implementation of the HSPA+ DC technology, which enables data transfer at up to 42 Mb/s. The new technology was commercially launched in the first quarter of 2011 in five cities; Krakow, Wroclaw, Poznan, Szczecin and the Upper Silesian conurbation. At the end of Q2 2011, the technology coverage was extended to include further cities: Warsaw and Tricity (from 1 July 2011), and from 1 August 2011 it will cover also Wieliczka, Bialystok, Lublin, Torun, Bydgoszcz and Lodz. Further cities will be added in subsequent periods.

In May 2011, the Orange Combo offer was launched. It offers an a price discount for customers bundling Orange mobile broadband, fixed broadband, mobile voice and fixed voice services.

In the first half of 2011, the Orange Free Set was introduced in the mass market. It is a dedicated mobile broadband offer with subsidised tablets or netbooks at a very attractive price (starting from PLN 1). Simultaneously, Orange modified its primary mobile internet portfolio, Orange Free, offering it with a subsidised modem, at a promotional price starting from PLN 1. The new offer includes a new service option with 14 GB data transfer for PLN 79, while the data transfer limit in the PLN 99 option was increased to 20 GB. In addition, the SIM-only mobile internet portfolio has been modified and currently offers a 10% discount on the access fee throughout the twelve months' term of the agreement.

Towards the end of May 2011, Orange introduced the Business Everywhere day-by-day offer to business customers with options of low or no monthly access fee. It is the first offer in the business market in which a fee is charged only for the days when the data transfer service is actually used. The option with no monthly fee is available also to residential customers.

4.5 Other Developments in the Mobile Segment

4.5.1 Roaming

The number of roaming networks has continued to grow. As of the end of June 2011, PTK Centertel offered roaming services on 461 networks in 203 countries worldwide, including GPRS roaming on 244 networks in 96 countries and 3G roaming on 63 networks in 37 countries.

4.5.2 Hosting

As at 30 June 2011, PTK Centertel's infrastructure was used by three operators acting as a Mobile Virtual Network Operator (MVNO) or a Mobile Virtual Network Enabler (MVNE):

- MNI Telecom sp. z o.o., offering mobile services under its own brands, including Simfonia and Ezo, or for third parties;
- Aster sp. z o.o. acting as an MVNO with a mobile offer addressed to its own customer base ; and
- Telogic Polska sp. z o.o., acting as an MVNE and providing services to virtual operators.

4.5.3 Fixed Broadband Services

Since 2007, the Orange network has been offering fixed broadband services under a bitstream access service agreement with TP S.A.

In 2008, the range of the service was extended to include CDMA-based broadband internet access, which expanded its potential customer base. Orange fixed broadband offer has proved a success with the take-up exceeding 320 thousand subscribers at the end of June 2011. The use of CDMA considerably raises the broadband internet availability in poorly urbanised areas, contributing to their competitive potential and economic development. It also radically contains the problem of digital exclusion.

4.5.4 Orange Fixed Line Services

In 2008, PTK Centertel launched a fixed line service based on WLR access to TP’s network. By the end of June 2011, the take-up of these offers had reached 117 thousand lines.

A wireless home phone service (WLL) was introduced in the first half of 2010. Subscribers can make voice calls within few hundred meters from home. The service is offered under the Orange Zone name. It is an alternative for customers migrating from fixed line to similar solutions offered by other operators. The customer base of the service had reached approximately 40,000 by the end of June 2011.

5 MATERIAL EVENTS THAT HAD OR MAY HAVE INFLUENCE ON TP GROUP'S OPERATIONS

Presented below are the key events that, in Management's opinion, have influence on TP Group's operations now or may have such influence in the near future. Apart from this section, the threats and risks that may impact the Group's operational and financial performance are reviewed in detail in the Chapter IV hereof.

5.1 Regulatory Obligations

Pursuant to President of UKE's decisions issued in 2007, TP was designated as an operator having significant market power ("an SMP operator") in relevant retail markets 1 to 7 (according to the European Commission's recommendation of 2003). As a result, some regulatory obligations were imposed on TP with respect to its activity in retail markets. These include:

- Obligation to not overprice retail services of connecting to a fixed public telephone network and being on standby to provide telecommunications services;
- Obligation not to hinder other operators' entry into the retail market for services of connecting to a fixed public telephone network and being on standby to provide telecommunications services;
- Obligation not to restrict competition by underpricing services in the market for services of connecting to a fixed public telephone network and being on standby to provide telecommunications services;
- Obligation of regulatory accounting in line with the manual approved by the President of UKE and service cost calculation based on the Forward Looking Fully Distributed Cost (FL-FDC) methodology in line with the costing description approved by the President of UKE.

With respect to the markets 1/2003 to 7/2003, TP has an obligation to submit costing results and regulatory accounting statements to an independent audit. TP is also subject to an obligation to submit its price lists and terms of service provision for the President of UKE's approval with respect to services covered by the markets 1/2003 to 7/2003.

On 9 May 2011, the President of UKE's decisions imposing the universal service obligation on TP and determining the terms of provision thereof expired. Consequently, TP has no obligation to provide any universal service components on the terms specified in the President of UKE's previous decisions. In particular, TP does not carry out universal service costing and submit its results to an independent audit any more. However, TP still has to perform the obligations resulting from the valid rules of provision of telecommunication services which used to be universal service components. TP is carrying out talks with UKE on changing the rules of provision of the services which used to be rendered as part of the universal service obligation in order to adapt them to the new regulatory situation.

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

- In the domestic market for call origination services on a fixed public telephone network (market 8/2003): obligation to enable end-user service management, offer wholesale services for the purposes of resale (WLR), provide telecommunications infrastructure and enable colocation and other forms of facility sharing.
- In the market for broadband access services, including data transmission services (market 12/2003): obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to provide broadband services, including broadband data transmission services;
- In the domestic market for leased line terminating segment services (market 13/2003): obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to provide leased line terminating segment services; and
- In the domestic market for leased line trunk segment services, excluding connections between 145 locations (market 14/2003): obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to provide leased line trunk segment services.

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

On 30 December 2010, the President of UKE designated TP as an SMP operator in the domestic market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (market 4/2007). The scope of the market was extended to include not only copper but also fibre optic loops and subloops. With respect to fibre optic loops, UKE has imposed on TP an obligation to provide conditional access. Wholesale pricing is to be cost-based, with the price squeeze test as the basic method of verification. As a consequence of the decision, on 29 April 2011 the President of UKE declared that the previous SMP decision for TP with respect to the market 11/2003 had expired.

On 28 April 2011, the President of UKE designated TP as an SMP operator on the domestic market for wholesale broadband access services, excluding some local administrative units (market 5/2007). TP has been designated as an SMP operator for the whole territory of Poland except for 11 local administrative units (gminas), including the City of Warsaw. Other areas, which have been subjected to regulation, have been differentiated in terms of regulatory obligations. TP has the obligation to provide access within all areas, but in 10 rural gminas it has no costing or equal treatment obligations. Furthermore, in 230 gminas (less dominated by TP), the Company does not have an obligation to apply a reference offer; however, it has the obligation of equal treatment: on the same terms and conditions as in the areas where the reference offer is required. Fibre optic technology has been included into the product range of the market.

The SMP decision for the market 12/2003 is still in force and applies mainly to the 11 administrative units which are not regulated pursuant to the decision for the market 5/2007. The decision will remain in force until the regulatory obligations are cancelled by a separate decision of the President of UKE.

Pursuant to the SMP decisions for the markets 4/2007 and 5/2007 as well as 9/2003, 13/2003 and 14/2003, TP has an obligation to charge cost-based telecommunication access fees.

Pursuant to the SMP decisions for the markets 8/2003 and 12/2003, TP has an obligation to calculate costs of services and charge access fees based on the operator’s justified costs. The service costing results for these markets are subject to an independent audit.

In addition, an obligation of regulatory accounting and submission of the relevant statements to an independent audit has been imposed on TP in all the aforementioned wholesale markets.

Regulatory obligations of PTK Centertel market position

On 29 September 2009, the President of UKE designated PTK Centertel as an operator having significant market power in the market for call termination on PTK Centertel’s mobile network. The most important obligation is to provide call termination services based on costs; hence, MTR regulation by the President of UKE.

On 14 December 2010, President of UKE designated PTK Centertel as an SMP operator in the market for SMS termination on PTK Centertel’s mobile network. The most important regulatory obligation is to provide SMS termination services based on costs; hence, SMS MTR regulation by the President of UKE.

5.2 Co-operation Agreement between TP Group and TVN

On 9 March 2011, TP Group began to distribute its basic TV offering enhanced with content provided by TVN. In addition, TP’s TV portfolio was extended to include pay TV packages reflecting the ‘n – new generation television’ offer, as well as a package dedicated to TP subscribers. Following the launch of the distribution of the pre-paid HD TV service on TP Group’s distribution network and the distribution of Orange Free on TVN’s website, this is a next step in the process of implementation of the long-term framework cooperation agreement signed by TP Group and TVN in October 2010.

Owing to the cooperation, both companies intend to benefit from enhanced attractiveness of the multi-play offering, up-selling potential on each other’s customer bases as well as from cost synergies from joint technical, marketing and sales activities.

5.3 Agreement on Share Network Infrastructure and Radio Frequencies

21 July 2011: TP Group’s mobile arm – PTK Centertel sp. z o.o. (“PTK”) and Polska Telefonia Cyfrowa sp. z o.o. (“PTC”) signed an agreement on reciprocal use of radio access networks (“RAN Agreement”). The parties have also signed a Shareholders Agreement, which regulates the governance of a previously established company – NetWorkS! – in which the parties hold a 50% stake each and will finance its operations in the same proportions, and which will conduct management, planning, operations, development and maintenance of their access networks. The parties have previously obtained permission of the Polish Competition Office (“UOKiK”) for the establishment of the company.

Pursuant to the RAN Agreement, the Parties will render each other access services, in particular by providing radio transmission function for the other party, in order to service traffic generated by other party’s users. Depending on legal and technical conditions, the cooperation may also involve reciprocal use of frequencies.

The cooperation will be implemented gradually, particularly depending on the choice of infrastructure supplier. The cooperation will be based on a similar number of base stations owned by each party, which by the time of its full implementation (expected in 2014) may amount to a total of ca. 10,000 sites (both operators counted together), though each party will remain the owner of its respective network assets and frequencies. For TP Group, this provides a potential for reduction of the number of its sites by ca. 1,400, while simultaneously enhancing the network coverage and capacity.

The RAN Agreement has been signed for 15 years with an option to extend it. In case of termination thereof by either party upon prior termination notice, parties commit to continue their cooperation in a site sharing model (access to base stations of the other party) for a period of up to 10 years following the termination.

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

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

TP S.A.'s Management Board confirms that TP Group's cooperation with PTC will be limited to technical aspects and, in particular, that both operators will continue to compete on wholesale and retail telecommunication markets.

5.4 Development of Infrastructure-based Operators in the Mobile Market

The mobile operator PLAY has continued its growth path. In an increasingly saturated mobile market, PLAY's main objective has been to win customers from other operators. As a result of aggressive marketing and pricing policy as well as advertising campaigns, PLAY network became the leader in the mobile number portability market. The operator has been systematically increasing its value market share, due to an increase in its customer base and benefiting from an MTR asymmetry.

CenterNet launched its services in 2009. CenterNet provides services via PTC's network. However, in 2009, CenterNet also signed an agreement with Aero2, under which the latter is to provide its infrastructure for transmission in the 1800 MHz band.

In June 2011, NFI Midas, the owner of CenterNet, finalised the purchase of a 100% stake in Mobyland. Ultimately, the companies are to merge. Until then, Mobyland will act as a wholesale internet provider in the LTE technology, whereas Midas will provide services mainly to the SME segment.

Aero2 holds some frequencies in the 900 MHz band. However, the company does not use the frequencies on its own, but signed an agreement for their joint use with Sferia. Aero2 has been also allocated some frequencies in the 2.6 GHz band, which it plans to use for internet access services. In particular, Aero2 intends to provide wholesale data services. Mobile internet services via Aero2's network have been provided by Cyfrowy Polsat.

On 1 July 2011, Polkomtel's shareholders informed that they had signed an agreement for sale of a 100% stake in Polkomtel to Spartan Capital Holdings owned by Zygmunt Solorz-Żak, who holds a shareholding in POLSAT and intends to build a powerful telecommunication and media group which could compete with TP Group.

5.5 Mobile Virtual Network Operators (MVNOs)

First mobile virtual network operators entered the Polish market in 2007. The main competitive advantage of MVNOs has been low price of services, though it is expected that MVNOs will modify their business strategy and focus more on linking the mobile service with their core business (e.g. Carrefour: recharge linked to an amount spent in the store; Aster: mobile offer bundling with other portfolio components, i.e. cable TV and fixed line voice and broadband).

According to TP Group's internal estimates, a dozen or so MVNOs (this number changes depending on a criterion used, e.g. a number of operators or a number of brands/offers in the market) operated in the market in the first half of 2011 and their aggregate market share in Poland's mobile market was approximately 1.6%. The exact customer base is difficult to estimate.

5.6 New Brands in the Mobile Market

On 5 June 2011, PTC's network was rebranded from Era to T-Mobile. The T-Mobile network in Poland has adopted the "T" logo. Rebranding was accompanied by an offer of 'unlimited calls on the T-Mobile network" (unlimited calls to any numbers on the T-Mobile network in Poland and worldwide).

5.7 CATV Operators

CATV operators' share in the broadband market is systematically increased and was estimated at 28% by volume (as of the end of June 2011) or 27% by value (in the first half of 2011).

CATV operators, which operate in Poland's biggest cities, are perceived as technological leaders offering the highest internet access speeds. A common practice of cable operators is to offer higher speeds without increasing the service price, or even offer more services for a smaller price.

Poland's CATV market is still fragmented, though 2010 brought the acceleration of its consolidation processes.

5.8 Infrastructure Development

In the first half of 2011, TP continued to enhance its data networks infrastructure. This included increasing IP backbone network capacity and throughput of its data aggregation network, as well as increasing the capacity and geographical coverage for DSLAM equipment. Investments in backbone, aggregate and access networks have been carried out pursuant to the Memorandum of Understanding with UKE. TP has also developed new generation DSL access switches. These are compatible with the VDSL2 access technology, which enables setting up lines of speed up to 80 Mb/s .

In addition, infrastructure for providing *Videostrada tp*, Video-on-Demand (VoD) and Digital-to-Home (DTH) satellite television services has been further expanded.

PTK Centertel has continued development of the core network capacity in order to meet the growing demand. This involves implementation of the new-generation core network infrastructure based fully on IP protocol. Subsequent BSC and RNC radio controllers have been gradually migrated to the R4 network. As of end of June 2011, over 60% of GSM and UMTS/HSPA network users were handled using the new-generation core network.

PTK Centertel has also expanded the coverage of its UMTS/HSPA services and increased the capacity of its GSM network, while continuing investments in the CDMA network. The UMTS/HSPA network covered 61.9% of Poland's population and the CDMA network covered over 87.1% of Poland's territory at the end of June 2011. In addition, the company has continued the implementation of a new mobile data technology, HSPA-DC, reaching the coverage of 18.4% of Poland's population by the end of June 2011.

5.9 Claims, Disputes, Fines and Investigation by the European Commission

Please see Note 7 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for information.

5.10 Cost Calculation Results

TP

Under the regulatory obligations resulting from having significant market power in the relevant markets for call origination services on a fixed public telephone network (market 8/2003), bitstream access (market 12/2003) and retail services (markets 1/2003 to 7/2003), in 2011 TP is to carry out costing of services covered by the aforementioned markets for 2012, and submit the results thereof to an independent auditor selected by UKE. In addition, TP has an obligation to prepare regulatory accounting statements for 2010 and submit them to an independent audit.

In performance of its regulatory obligations, TP submitted a manual for drawing up regulatory statements for 2010 as well as descriptions of service costing for 2012 for the President of UKE's approval. On 16 May 2011, the President of UKE issued a decision on TP's service costing descriptions and regulatory reporting manual. On 31 May 2011, TP applied for the re-examination of the case by the President of UKE, requesting a change of incorrect provisions of the regulatory reporting manual.

On 17 May 2011, the President of UKE called upon Ernst&Young Audit sp. z o.o. to audit TP's service costing for 2012 and regulatory accounting statements for 2010. According to the call, the audit is to end on 31 August 2011 with the submission of the audit report together with the auditor's opinion to the President of UKE and TP.

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

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

Similar court proceedings were initiated in 2010 with respect to costing descriptions for 2010 and the regulatory reporting manual for 2008. On 30 March 2010, the Regional Administrative Court rejected TP's complaint against the President of UKE's decision approving service costing descriptions for 2010 and the regulatory reporting manual for 2008. Consequently, on 14 December 2010, TP filed a cassation appeal against the Regional Administrative Court's ruling with the Supreme Administrative Court. The procedure before the Supreme Administrative Court is pending.

PTK Centertel

In line with its costing obligations with respect to the call termination service on its mobile network ("MTR"), PTK Centertel completed annual cost calculation for MTR services. The costing results for the service of call termination on PTK Centertel's mobile network were submitted to the President of UKE on 30 April 2011.

With respect to SMS services, in line with the requirements specified in the President of UKE's decision of 14 December 2011, PTK Centertel completed SMS service costing and on 31 January 2011 submitted the calculation results to the President of UKE.

5.11 Functional Separation

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

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

On 23 April 2010, the Ministry of Infrastructure started preparations for the implementation of the new package of directives to the Polish law. The legislative work on the draft bill is currently at the stage of public consultation.

5.12 Memorandum of Understanding with UKE

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

Pursuant to MoU, the President of UKE has declared freezing wholesale rates till 2012. The "retail minus" methodology for determining wholesale rates was replaced with the "cost plus" model in 2010.

Over the next three years TP is to invest in 1.2 million broadband accesses, including 0.5 million new lines and 700 thousand to be upgraded. It is expected that approximately 1 million lines will have bandwidths of 6 Mb/s or more. This infrastructure will be deployed not only in conurbations, but also in small towns and across rural areas. In addition, TP is to implement technical and organisational solutions to differentiate access rights to information within the organisation ("Chinese Walls") and to secure non-discriminatory access to information by alternative operators.

It is anticipated that the President of UKE will withdraw from plans of functional separation of TP, provided that the Company implements the agreed solutions.

By mid-2011, TP had performed its project obligations according to a schedule adopted together with UKE and systematically implemented the obligations of a permanent nature. The key permanent obligation is the application of the non-discrimination rule in TP's operating activities related to inter-operator relations. Important initiatives in this area include a KPI monitoring process for TP's wholesale and retail services and compliance with the Good Practice Code that sets communication standards and practices to build a non-discriminatory culture within the organisation. A number of rules regulating various aspects of TP's relations with alternative operators have been developed to facilitate the provision of regulated services. TP has implemented Chinese Wall mechanisms, including IT system modifications as well as related legal and organisational changes. The programme of Chinese Walls has been complemented by the introduction of the Restricted Data Protection Programme at TP and data access restrictions in selected TP Group companies.

At the same time, TP has continued efforts aimed at implementation of a dedicated wholesale IT environment for supporting alternative operator service processes. The main components of this environment include: an electronic portal and channel for communications with alternative operators (particularly for placing orders for regulated services), a system to support the wholesale process execution, and a wholesale billing system.

From the commencement of the MoU implementation to 30 June 2011, TP constructed and provided infrastructure enabling operation of a total of 556.1 thousand broadband lines, including 73 thousand in the areas with no previous coverage.

The proper implementation of MoU is verified by an external auditor on a quarterly basis. Reports on seven quarterly audits conducted hitherto have generally confirmed the effective implementation of MoU by TP.

In addition, TP delivers a monthly report to the President of UKE, describing progress in implementation of the MoU. The report is published by UKE on its web service.

5.13 Compensation for Universal Service Costs

Until 8 May 2011, pursuant to the President of UKE's decision of 5 May 2006, TP used to be an operator designated to provide the universal service. Owing to the economic nature of this service, an operator designated to render it is eligible for compensation equal to the universal service net costs, which is the costs which the operator would not have borne if not for the obligation to provide the universal service.

TP has applied to the President of UKE for compensation of the universal service net cost for the years 2006 to 2009 in the total amount of PLN 803.7 million. In the course of administrative proceedings concerning compensation of the universal service net cost, the Net Cost Components were audited by an independent auditor.

On 24 May 2011, the President of UKE issued decisions on the net cost deficit for the years 2006, 2007, 2008 and 2009, in which she decided:

- To grant TP compensation of the net cost of a service of providing special measures for disabled users, excluding public payphones adapted for use by disabled users, for 2006 in the amount of PLN 744,838.18;
- To grant TP compensation of the net cost of a service of providing special measures for disabled users, excluding public payphones adapted for use by disabled users, for 2007 in the amount of PLN 1,269,111;
- To grant TP compensation of the net cost of a service of providing special measures for disabled users, excluding public payphones adapted for use by disabled users, for 2008 in the amount of PLN 1,829,836;
- To grant TP compensation of the net cost of a service of providing special measures for disabled users, excluding public payphones adapted for use by disabled users, for 2009 in the amount of PLN 1,826,517; and
- To grant TP compensation of the net cost of a public payphone service for 2009 in the amount of PLN 61,324,043.64.

The total compensation granted to TP for providing universal service components for the years 2006–2009 is PLN 66,994,345.82. At the same time, the President of UKE has decided to refuse compensation of the cost of other components of the universal service provided by TP.

On 30 June 2011, TP filed an application with UKE for compensation for 2010. The relevant net cost is PLN 269 million.

On 7 June 2011, TP applied to the President of UKE for the re-examination of all the decisions issued with respect to compensation of the net service cost.

The compensation is paid pro rata by all the operators (including TP and PTK Centertel) with revenues of more than PLN 4 million in the year for which the compensation is due.

The President of UKE will determine by way of individual decisions the share of particular operators in the compensation to be paid to the Company.

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

6 OUTLOOK FOR THE DEVELOPMENT OF THE TP GROUP

6.1 Market Outlook

According to TP Group's estimates the value of Poland's telecommunication market increased by 0,4% in the first half of 2011 compared to a decline of 4.6% in 2010. The main factors which contributed to the slight increase in the reported period were further erosion of fixed-line voice revenues and MTR for SMS reduction (from PLN 0.15 to PLN 0.08 as from 1 January 2011). The broadband internet access market is gradually getting saturated, which is reflected in lower growth rates both by volume and by value. Meanwhile retail revenue dynamics of mobile operators made positive impact on telecommunications market.

The Polish economy continued growth in the first half of 2011:

- Real GDP growth rate in the first quarter was 4.4% (as reported by the Central Statistical Office), as compared to 3.0% in the first quarter of 2010;
- Inflation was 5.0% y/y in May 2011;
- Unemployment rate was estimated at 11.8% at the end of June.

Growing popularity and availability of smartphones as well as tablets and other units that use mobile internet access is a new, visible trend in the market development.

In the broadband market, the model for determining BSA rates was changed on October 1, 2010. These rates are to be charged by TP Group while reselling telecommunication services to alternative operators. Now, TP Group can much better adjust its prices to the market environment, which raises the attractiveness of TP's offers compared to those of the competition.

As for the activity of TP's rivals, an expected market trend is further bundling of core services offered by particular operators with other telecom services and entertainment offers. Major developments in the business market will include combining telecom offers with IT offers (ICT)as well as further growth in the machine-to-machine (M2M) segment. TP Group has established Integrated Solutions to address the opportunities in the ICT market.

At the same time, the telecommunication market has entered another evolution phase, which involves growing concentration as well as establishment of co-operation between former rivals in selected business areas. The first signs of this trend could be seen in the market. These include the following developments:

- UPC has acquired Aster (the transaction is subject to UOKiK's approval);
- Zygmunt Solorz-Żak has acquired Polkomtel (the transaction is subject to UOKiK's approval);
- TP Group has been developing cooperation with TVN Group;
- PTK Centertel and PTC have established a joint-venture company for shared network operation;
- ERA has been rebranded to T Mobile.

Further mergers and acquisitions are anticipated. It is possible that the structure of the telecommunication and media markets will evolve substantially in the medium term.

6.2 TP Group's Strengths

TP Group operates in an increasingly challenging telecommunications market. Due to fierce competition and evolving market structure, actions taken by TP Group need to be determined and consistent. The ability to adapt to new conditions and respond to new market trends results from a number of TP Group's strengths.

The major strengths of TP Group are as follows:

- Poland's largest sales network enabling professional customer service during and after sales; simultaneously, modern distribution channels, particularly on-line, are being developed;
- Broad portfolio of services matching the needs of customers and enabling service integration;
- Unique offering, which includes services from outside the core telecommunication sector (e-health, e-insurance);
- TP Group's brands (TP, Orange, wp.pl) are trusted, associated with quality products and broadly recognised;
- Experienced workforce and well-developed work assessment and competence development system;
- Broad international co-operation and access to know-how of TP's partners from the France Telecom Group, including close co-operation and R&D experience sharing within the Orange Lab network;
- Established and predictable regulatory environment in the wake of the Memorandum of Understanding with UKE.

Owing to all these strengths, TP Group is able to provide its customers with offers which match their needs, while effectively responding to actions of its rivals.

6.3 TP Group’s Medium Term Action Plan

TP Group’s medium term actions are influenced by two major elements:

- Memorandum of Understanding with UKE; and
- TP Group’s strategy.

The Memorandum of Understanding with UKE was signed on 22 October 2009. In terms of the Medium Term Action Plan, MoU:

- brings order to TP’s relations with alternative operators;
- determines TP’s objectives in terms of investments in the broadband infrastructure (1.2 million broadband access lines in 2010-2012, including 0.5 new ones); and
- introduces changes in TP Group’s organisation and culture.

TP Group’s action plan aims at strengthening its leadership in core markets, while preserving the Group’s financial standing and revenues. The Group will flexibly respond to changing customer needs, offering an attractive range of services. It means the following efforts:

- To attain a strong leadership position in all TP Group’s core markets:
  - Fixed line segment – to maximise retention initiatives and minimise revenue erosion in the segment,
  - Mobile segment – to achieve the edge in the post-paid market and further strengthen the Orange brand,
  - Internet access – to expand the broadband customer base and further improve service quality by increasing transfer rates and extending the service coverage,
  - Television – to pursue co-operation with ITI in order to provide TP Group’s customers with the best quality television based on rich content offering and best technological solutions,
  - Innovativeness – to present attractive integrated offers that will meet the needs of TP Group’s customers;
- To systematically develop infrastructure required to offer cutting-edge technological solutions to customers;
- To develop a new offer for business customers in the Information and Communication Technology (ICT) market, particularly through a newly established dedicated company, Integrated Solutions;
- To improve customer care – to implement the “Misja Klient” (Mission: Customer) programme;
- To develop a strong sales network – to develop remote sales channels which increase the offer availability to customers.;
- Continuation of the cost savings and transformation program, aimed at reducing the cost base and increasing operating efficiency

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

7 CHANGES IN THE TP GROUP'S STRUCTURE IN THE FIRST HALF OF 2011

7.1 Changes in the Corporate Structure

In the first half of 2011, the Company did not implement any material changes in its corporate structure.

7.1.1 Management Board

As of 30 June 2011, the Management Board is composed of five Members, who have been assigned the direct supervision over the following Company's matters:

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

7.1.2 Business Units

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

As a result of simplification of the names of structures and managerial positions, as of 30 June 2011, TP had 66 business units reporting directly to:

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

2) Vice President of the Management Board in charge of Marketing and Strategy: 5 business units;

3) Vice President of the Management Board in charge of Operations: 12 business units;

4) Management Board Member in charge of Finance: 10 business units;

5) Management Board Member in charge of Human Resources: 11 business units;

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

7) TP Group Executive Officer in charge of Corporate Matters: 12 business units;

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

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

7.1.3 Group's New Premises

On 22 December 2009, TP signed an agreement with Bouygues Immobilier Polska for the development and lease of new premises for the TP Group. The new location, a low rise and energy efficient complex of buildings in proximity of the city centre, will be able to comfortably host approximately 3,500 employees. The development is to be concluded by 2013, while the lease period will be ten years, with extension options secured. On 11 June 2010, Bouygues Immobilier Polska completed the negotiations and concluded a memorandum of understanding for the purchase of land for construction of TP Group's new premises. The campus will be located at 160 Aleje Jerozolimskie Street in Warsaw. In autumn 2010, the property developer obtained a final approval to commence building works and in February 2011 the building contractor was appointed, to whom the building site was handed over. At the moment building works are taking place on substructure levels.

7.2 Ownership Changes within the TP Group in the first half of 2011

7.2.1 Establishment of Bilbo sp. z o.o.

On 4 February 2011, TP executed the deed of establishment of Warsaw-based Bilbo sp. z o.o. The initial share capital of the new company amounted to PLN 5,000 and was divided into 100 shares of the nominal value of PLN 50 each. TP subscribed to 100 shares at nominal price, corresponding to 100% voting power at the General Assembly of Bilbo sp. z o.o., against a contribution in cash of PLN 5,000. On 16 March 2011, the District Court in Warsaw registered Bilbo sp. z o.o.

7.2.2 Establishment of Integrated Solutions sp. z o.o.

On 13 April 2011, TP executed the deed of establishment of Warsaw-based Integrated Solutions sp. z o.o. The initial share capital of the new company amounted to PLN 5,000 and was divided into 10 shares of the nominal value of PLN 500 each. TP subscribed to 10 shares at nominal price, corresponding to 100% voting power at the General Assembly of Integrated Solutions sp. z o.o., against a contribution in cash of PLN 5,000. On 29 April 2011, the District Court in Warsaw registered Integrated Solutions sp. z o.o.

The new company began its operations on 7 June 2011.

Integrated Solutions sp. z o.o. is to render IT and telecommunication system integration services and provide dedicated solutions for data centres.

The new company is a response to growing demand for services related to comprehensive management of the ICT infrastructure.

The company's offer has been divided into four areas: LAN and WAN integration, unified communication, network and equipment security, as well as data centres and cloud computing.

Integrated Solutions addresses its offer to medium to large companies from all sectors which want to entrust professionals with solving infrastructure-related problems. Such business collaboration may be particularly beneficial to multi-branch companies, which will be able to use the most unique part of the offer: integration of IT systems with high-capacity data lines.

Integrated Solutions hires highly-qualified engineers with experience in the implementation of IT and telecommunication systems as well as advise to customers on integration of their ICT solutions. Integrated Solutions will actively and closely collaborate with other Group companies, particularly TP. Owing to the experience of the employees of these companies in IT and telecommunication system integration it will be possible to reach all sites in Poland handled by regional branches with Integrated Solutions' offer. Suppliers of the systems offered by Integrated Solutions include market leaders in network and telecommunication solutions as well as data centre systems. TP Group has been collaborating with the majority of these companies for years.

7.2.3 Establishment of NetWorkS! sp. z o.o.

On 29 April 2011, PTK Centertel sp. z o.o. and Polska Telefonia Cyfrowa sp. z o.o. executed the deed of establishment of Warsaw-based NetWorkS! sp. z o.o. The share capital of the new company is PLN 200,000 and is divided into 200 shares of the nominal value of PLN 1,000 each. PTK Centertel sp. z o.o. subscribed to 100 shares at nominal price, corresponding to 50% voting power at the General Assembly of NetWorkS! sp. z o.o., against a contribution in cash of PLN 100,000. On 26 May 2011, the District Court in Warsaw registered NetWorkS! sp. z o.o.

The objects of the new company is planning and development of networks as well as network maintenance and management.

7.2.4 Sale of a Minority Stake in Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A. to Orange Customer Service sp. z o.o.

Following an agreement of 22 December 2010 between Orange Customer Service sp. z o.o. and TP S.A., on 23 May 2011 the Financial Supervision Commission approved the purchase of 125 shares of Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A. (TP Employee Retirement Fund Company, "PTE") by Orange Customer Service sp. z o.o. The shares sold by TP S.A. are a 25% stake in PTE, which corresponds to the same voting power at the General Assembly of the latter.

7.2.5 Transfer of Shares of TP Emitel sp. z o.o. to Bilbo sp. z o.o. and Sale of TP Emitel sp. z o.o. outside TP Group

On 24 March 2011, Bilbo sp. z o.o., a TP's subsidiary, together with TP S.A. signed a preliminary sale agreement with Warsaw-based Kapiri Investments sp. z o.o., whose sole shareholder was Montagu IV (B) LP, for all shares held by TP Group in Kraków-based TP Emitel, each share of nominal value of PLN 500. The shares constituted 100% of the share capital of TP Emitel and corresponded to 100% voting power at the General Assembly of the latter.

On 6 June 2011, the District Court for Warsaw registered an increase in the share capital of Bilbo sp. z o.o. by PLN 1,725,000,000. All the new shares were taken up by TP S.A. against a non-cash contribution in the form of shares in TP Emitel sp. z o.o. Following the transaction, the share capital of Bilbo sp. z o.o. amounted to PLN 1,725,005,000 and was divided into 34,500,100 shares of the nominal value of PLN 50 each.

On 22 June 2011, Bilbo sp. z o.o. and EM Bidco sp. z o.o. (formerly Kapiri Investments) signed the promised sale agreement pursuant to which TP Group sold all shares held in TP Emitel sp. z o.o. The total sale price was PLN 1,725 million.

7.2.6 Changes of Equity in TP Group Companies

Otwarty Rynek Elektroniczny S.A.

On 13 April 2011, Extraordinary General Assembly of Otwarty Rynek Elektroniczny S.A. adopted two resolutions: (i) on redemption of 15,666,680 registered ordinary A-series shares against remuneration of PLN 47,000,040 for the redeemed shares; and (ii) on a decrease in the share capital from PLN 35,000,000 to PLN 19,333,320, i.e. by PLN 15,666,680, through redemption of 15,666,680 shares.

TP Emitel sp. z o.o.

On 10 May 2011, the District Court for Kraków registered a decrease in the share capital of TP Emitel sp. z o.o. by PLN 163,500,000. Following the transaction, the share capital of TP Emitel sp. z o.o. amounts to PLN 430,150,000 and is divided into 860,300 shares of the nominal value of PLN 500 each.

Integrated Solutions sp. z o.o.

On 26 May 2011, the District Court for Warsaw registered an increase in the share capital of Integrated Solutions sp. z o.o. by PLN 7,495,000. All the new shares were taken up by TP S.A. against a contribution in cash. Following the transaction, the share capital of Integrated Solutions sp. z o.o. amounts to PLN 7,500,000 and is divided into 15,000 shares of the nominal value of PLN 500 each.

Bilbo sp. z o.o.

On 22 June 2011, the Management Board of TP S.A. adopted a resolution on decreasing the share capital of Bilbo sp. z o.o. from PLN 1,725,005,000 to PLN 5,000, i.e. by PLN 1,725,000,000, through redemption of 34,500,000 shares of the nominal value of PLN 50 each and the total nominal value of PLN 1,725,000,000. The reduction in share capital will be announced together with a summons on creditors to submit potential objections pursuant to article 264 of the Code of Commercial Companies. The share capital reduction will be registered upon completion of a procedure of notifying the creditors.

7.3 Parent Company's Shareholders

As of 30 June 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 nominal value of PLN 3 each.

The ownership structure of the share capital based on information available on 30 June 2011 was as follows:

(in PLN millions)	*% of votes*[(2)]	*Nominal value*
France Telecom S.A.	49.79	1,995
Capital Group International, Inc.[(1)]	5.06	203
Other shareholders	45.15	1,809
Total	100.00	4.007

(1) The number of shares as of 15 October 2010 based on information provided by Capital Group International, Inc.

On 5 August 2010, the Ministry of Treasury informed that it had sold a 4.15% stake in TP on the Warsaw Stock Exchange, thus finally completing the privatisation of the Company.

As of 30 June 2011, France Telecom held a 49.79% stake in the Company. France Telecom has the power to appoint the majority of TP Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

As of 30 June 2011, the Company has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

TP did not issue any employee shares in 2011, but an Incentive Programme for the Key Managers was launched in 2007 (please see section 8.2.2 for further details).

8 TP GROUP'S STRUCTURE AS OF 30 JUNE 2011

8.1 Corporate Governance Bodies of the Parent Company

I. Composition of the Management Board and changes thereof in the first half of 2011

Composition on 1 January 2011:

1. Maciej Witucki - President of the Board
2. Vincent Lobry - Vice President of the Board
3. Piotr Muszyński - Vice President of the Board
4. Roland Dubois - Board Member

On January 14, 2011, Mr Roland Dubois resigned from the position of TP S.A. Management Board Member. Mr. Jacques de Galzain and Mr. Jacek Kowalski were appointed by the Supervisory Board as a Member of the Management Board on January 27, 2011.

Composition on 30 June 2011:

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

On 12 July 2011 the Supervisory Board of Telekomunikacja Polska S.A. appointed Mr Maciej Witucki for his third consecutive term as President of the TP S.A. Management Board. This third term will start on the day of the next General Meeting of the Shareholders in April 2012, for a period of three years.

II. Composition of the Supervisory Board and its Committees and changes thereof in 2011

Composition on 1 January 2011:

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

Mr. Raoul Roverato resigned from his function on the Supervisory Board as from 26 January 2011.

On 27 January 2011, Mr. Gérard Ries was appointed by the Supervisory Board as a Member of the Supervisory Board.

Mr. Olivier Barberot resigned from his function on the Supervisory Board as from 24 March 2011.

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

On 14 April 2011, the mandates of Messrs. Timothy Boatman and Gérard Ries expired.

On the same day, Messrs. Timothy Boatman and Gérard Ries were appointed by the Annual General Meeting as Members of the Supervisory Board.

Composition on 30 June 2011:

1. Prof. Andrzej K. Koźmiński - Chairman and Independent Board Member
2. Olaf Swantee - Deputy Chairman and Chairman of the Strategy Committee
3. Olivier Faure - Board Member and Secretary

4.	Timothy Boatman	- Independent Board Member and Chairman of the Audit Committee
5.	Thierry Bonhomme	- Board Member
6.	Jacques Champeaux	- Board Member
7.	Ronald Freeman	- Independent Board Member and Chairman of the Remuneration Committee
8.	Dr. Mirosław Gronicki	- Independent Board Member
9.	Marie-Christine Lambert	- Board Member
10.	Pierre Louette	- Board Member
11.	Prof. Jerzy Rajski	- Independent Board Member
12.	Gérard Ries	- Board Member
13.	Dr. Wiesław Rozłucki	- Independent Board Member

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

On 12 July 2011 Nathalie Clere was appointed the Supervisory Board member in connection with resignation dated 11 July 2011 of Mr. Olivier Faure from his position on the Supervisory Board of TP S.A.

Composition of Committees of the Supervisory Board on 30 June 2011:

The Audit Committee

1. Timothy Boatman – Chairman
2. Olivier Faure
3. Ronald Freeman
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. Ronald Freeman – Chairman
2. Olivier Faure
3. Dr. Wiesław Rozłucki
4. Olaf Swantee

The Strategy Committee

1. Olaf Swantee – Chairman
2. Jacques Champeaux
3. Dr. Mirosław Gronicki
4. Prof. Jerzy Rajski
5. Gérard Ries

8.1.1 TP Shares Held by Persons Who Manage or Supervise TP

As of 30 June 2011, Maciej Witucki, President of the Management Board, held 4,000 shares in the Company. Other members of the Management Board or Supervisory Board did not hold TP or related entities' shares as of 30 June 2011.

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

The number of first option bonds held by members of the Management Board of the Company on 30 June 2011 was as follows:

	30 June 2011
Maciej Witucki	305,557
Piotr Muszyński	190,896
Jacek Kowalski	25,241

The members of the Supervisory Board of TP do not participate in the Company's incentive program and as at 30 June 2011 held no first option bonds.

8.1.2 General Assembly

On 14 April 2011, the General Assembly of TP approved a dividend of PLN 2,003 million (i.e. PLN 1.5 per share). The dividend, net of withholding tax, was paid on 7 July 2011.

8.2 Employment in TP Group

As of 30 June 2011, TP Group employed 24,339 people (in full-time equivalents), which is a decrease of 1,946 (down 7.4%) year-on-year or a decrease of 1,297 (down 5.1%) compared to the end of December 2010.

The workforce reduction year-on-year resulted mainly from a decrease in TP S.A. and Orange Customer Service, as well as the sale of TP Emitel, whose workforce was 941 people at the moment of sale.

TP’s workforce reduction was mainly a result of a voluntary departure programme, carried out in accordance with the Social Agreement. In the first half of 2011, severance pay was paid to 265 employees, out of which 236 left TP under the voluntary departure programme, and averaged PLN 56 thousand per employee.

Voluntary departures were also effected in Orange Customer Service (“OCS”). In line with an agreement reached in October 2010 between the Management Board of OCS and trade unions, a total of 145 people left the company on a voluntary departure basis in the first six months of 2011. Severance pay for departing employees averaged PLN 54 thousand. Voluntary departures at OCS are effected on the same terms as at TP S.A..

As of the end of June 2011, the workforce restructuring provision after utilisation was PLN 20.8 million, including PLN 14.1 million at TP and PLN 6.7 million at OCS.

In the first six months of 2011, external recruitment in the TP Group totalled 658 positions (excluding temporary replacement agreements), down 6.1% year-on-year. External recruitment was mainly related to sale positions and customer service staff.

In the first half of 2011, costs of wages, social security and other employee benefits in TP Group totalled PLN 1,087.4 million, which is a 6.1% decrease year-on-year.

8.2.1 Social Agreement

In January 2011, a departure limit at TP S.A. for 2011 was set at 486, within the total limit specified in the 2009-2011 Social Agreement. It means that, together with departures under a voluntary departure programme carried out at OCS, approximately 800 people will leave the Group. In addition, the terms of compensation payments to employees, particularly long seniority ones, that would voluntarily leave the Company in 2011 were revised.

Other provisions, which concern the most important employee-related issues, such as employment policy, regular pay rises based on the Company’s remuneration policy and the scope of internal mobility, recruitment and outsourcing in the Company’s employment policy, did not change. In the first half of 2011, the voluntary departure programme was carried out in compliance with the agreed terms.

8.2.2 TP Group Incentive Program

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

The main purpose of the Program is to link the remuneration of key managers with their contribution into TP Group’s development through enabling them to benefit from the planned growth of the Company’s value; getting them more involved in the active management of the TP Group in order to increase its profitability.

First Option Bonds

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

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

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

The issue of new B-series shares has an impact on reducing the percentage share of the existing shareholders in the share capital of TP. In the case that the bondholders exercise the rights under all the bonds, the percentage share in the share capital of all existing shareholders will be reduced by 0.508%.

Size of the Program

In total, 7,113,000 of bonds enabling the subscription for 7,113,000 B series shares are to be issued in the Program.

Size of Individual Award

The number of bonds granted to particular Beneficiaries depends on the assessment of performance and operational involvement of each Beneficiary and the level of responsibility.

Exercise Period

The bondholders' right to subscribe for B-series shares might be exercised within seven years, i.e. from the third anniversary of the bonds issue date to the 10th anniversary of this date. The exercise of this right will be possible, in principle, only if the Beneficiary, on the day of its exercise, is the employee or member of the governing bodies of the Company or companies from the TP Group covered by the Program. As a general rule, if the Beneficiary stops being the employee or the member of TP governing bodies or those companies before the subscription date of B-series shares, all their bonds will be redeemed by way of payment of the nominal value of these bonds.

Issue Price of Shares

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

In September 2007, TP Management Board implemented the Program and the information memorandum was sent to potential Beneficiaries. Subscription letters were sent to 356 employees, out of which 339 managers subscribed for options (96% of potential Beneficiaries). The grant date was set up on 9 October 2007 and the option exercise price at PLN 21.57 (average TP close price of 20 sessions on Warsaw Stock Exchange proceeding the grant date). 6,047,710 A-series bonds were allotted to eligible managers and 154,698 bonds were taken by the trustee (KBC Securities). 0.9 million options out of 7.1 million were not issued. Cost of the Program of PLN 25 million has been booked over the vesting period.

By the end of June 2011, a total of 2,607,685 options had been redeemed as a result of the termination of Beneficiaries' contracts of employment in the cases set out in the Program.

The Program is secured by a control system according to the resolution that implemented the Program in the TP Group. The Program is subject to a special procedure consistent with the reporting standards that is implemented across France Telecom Group. The controls will include the verification of the number of Program beneficiaries, Program revaluation and settlements with the employees leaving the Company.

CHAPTER IV
KEY RISK FACTORS

9 RISK FACTORS AFFECTING THE ACTIVITIES OF TP GROUP

The risks mentioned in this report are not intended to constitute an exhaustive list of all possible risks, which may impact the Group's activities. The system of internal control and risk management in TP Group is designed and implemented by the Management. This approach allows to manage the risk of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures as needed) – (please see Note 7 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for additional information about major risks)

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Since 2007, TP Group has been developing a risk management system in TP and Group's other major companies. The Risk Management Policy has been developed and implemented within TP Group to determine the key risk management procedures and responsibilities. These solutions include procedures for risk identification, analysis and assessment, implementation of risk mitigation measures and verification of action results. This provides the Management Board with information about the key risks within the Group, so preventive actions may be additionally supported. The major risk identification and selection process is co-ordinated by the Internal Control and Risk Management Team and involves line personnel, managers and the TP Management Board. The review and assessment of the identified risks, the identification of the main causes and the implementation of action plans involve the participation of Group's top management.

The major risks are subject to monitoring. For such risks, preventive measures aimed at reducing the probability of their occurrence and limiting their potential impact on the Group's operations are implemented.

In line with the *TP Group Risk Management Policy*, the most significant risks are updated and submitted to the Management Board and the Audit Committee of the Supervisory Board at least once a year. The internal audit plan for each year is developed on the basis of a list of major risks approved by TP Management Board Members.

9.1 Implementation of TP Group's Medium-term Action Plan

The medium-term action plan for 2010–2012 focuses on stabilising the Group's leadership in Poland's telecommunication market, using the opportunities stemming from an agreement with UKE and re-balancing the organisation in order to achieve greater efficiency and ensure meeting the expectations of external and internal customers to the greatest possible extent.

Due to fierce competition and volatile regulatory environment, the Group's ability to achieve business objectives is under strong pressure, so TP carries out dedicated actions aimed at reducing the competitive pressure on its performance by constantly modernising its offers in the fixed-line and mobile segments and enhancing customer service. In line with its strategy, TP has been carrying out the previously announced actions, including sale of TP Emitel and establishment of a joint venture with PTC.

9.2 Timely Implementation of Regulatory Requirements

If TP Group companies are unable to satisfy the imposed regulatory requirements or fail to meet the indicated time limit, they may be at risk of initiation of administrative procedures and, consequently, administrative fines.

As provided in the Telecommunications Law, the President of UKE may impose on a telecommunications operator a penalty of up to 3% of its prior calendar year's revenues, if the operator does not fulfil certain requirements thereof.

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

According to article 13(11) of the Memorandum of Understanding between TP and UKE, in case of non-performance or improper performance by TP of the MoU provisions, including non-compliance with the auditor or President of UKE's recommendations regarding the IT audit, failure to meet the relevant deadlines or any actions inconsistent with the principles set out in MoU, the President of UKE may resume works on imposing a regulatory obligation of functional separation on TP. However, the information related to review of the implementation of the MoU provisions by TP indicate positive assessment thereof by UKE. Under the current legal regime, no fines can be imposed on TP for non-performance or improper performance of MoU.

TP's additional commitments related to investments in the mobile infrastructure resulting from MoU with UKE and the resulting timetable of MTR cuts do not pose a risk that TP's investment commitments will not be carried out.

9.3 Launch of New Products and Services

Fierce competition in the market and technological developments of new services result in strong pressure on price reductions in the mobile and fixed-line segments. There is a risk that the effect of price reductions will not be offset by increased volume of traffic on the network.

TP Group faces competition from not only telecom companies but also players from outside the industry, such as television or internet providers. Despite its efforts, the Group is still at risk of erosion of its revenues and market shares.

To maintain its competitive position, TP Group attempts to launch innovative products and services. Integrated Solutions is a new company established within the TP Group which will render IT and telecommunication system integration services and provide solutions for Data Centres. The establishment of the new company is a response to growing demand of customers for services related to comprehensive management of the ICT infrastructure.

Although the Company performs extensive marketing tests and has considerable knowledge of customer needs, there is a risk that some products or services may not meet customers' expectations and have to be withdrawn from the market or do not bring the expected return on investment. Such potential negative marketing effect could also lead to increased marketing spending for unplanned marketing actions or failure to generate expected revenues.

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

The current and intended ownership changes in the media and telecommunication industries may affect the achievement of business objectives and contribute to an increase of competition in the market.

9.4 Potential Saturation of Networks

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

9.5 Development of New Technologies and New Investments

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

Due to new services, growing customer needs and competitive pressure, TP Group undertakes costly investments in the network infrastructure. To achieve synergies and assure more efficient use of the network infrastructure, TP has established a joint venture with Polska Telefonia Cyfrowa sp. z o.o. However, there is a risk that the payback period will be longer than initially assumed. Moreover, insufficient offer and incorrect choice of technologies may negatively affect the achievement of intended revenue streams.

9.6 Non-availability or Failure of Technical Infrastructure

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

9.7 Non-availability or Failure of IT Systems

As rapid implementation or modification of IT systems has become a necessity to meet customer demand for attractive offers, there may be a risk of errors resulting from insufficient testing of new services or lack of data integrity within connected systems. Potential failures and reduced availability of critical systems, resulting from frequent changes in the applications used, can lead to decreased quality of services and delayed response to changing customer needs. No major failure or non-availability of IT systems occurred in 2010.

9.8 Dependence on External Partners

TP Group concludes contracts with external partners, particularly for maintenance of its networks and telecommunication and IT infrastructure.

Although adequate safety clauses are included in the contracts, there is still a risk of non-performance by the Company's partners, resulting in delays in network maintenance projects and a decrease in quality of services provided by TP Group. At the same time, the Group has partially outsourced operation and supervision of IT systems and processes to external suppliers of computer hardware and software.

In 2010, TP Group completed a process of consolidation of external suppliers. This enabled the Group to reduce the number of suppliers and negotiate better commercial terms, but on the other hand increased the risk related to dependence on key suppliers. This process is monitored on a current basis in order to assure its optimum operation and take effective corrective actions, if required.

9.9 Risk Related to Trade Agreements and Strategic Alliances

In order to attain its business objectives, TP Group attempts to extend its portfolio through trade agreements and strategic alliances that enable it to use products and services of external partners. It is assumed that such bilateral agreements will bring added value to both the company and its customers. However, there is a risk that the benefits resulting therefrom will fall short of the anticipated and planned levels.

At the same time, TP Group is at risk of losing a portion of its revenues due to migration of some of the existing customers who may sign beneficial trade agreements or arrangements with other telecom service providers which are competitive to TP. TP has undertaken a number of initiatives to reduce the exposure. In particular, it has signed a co-operation agreement with TVN Group: both companies have joined forces to satisfy growing demands of customers and provide them with an offer as complete as possible.

9.10 Availability of Skilled Employees

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

9.11 Human Resources Risk and Organisation Structure Adjustment

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

9.12 Issues Related to the Incorporation of TP

TP was established as a result of the transformation of the former state-owned organisation PPTiT into two entities – Poczta Polska and TP. During the transformation process and transfer of ownership rights to the new entities, certain items of property and other assets that are currently under the Company's control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that TP’s rights to certain properties may be questioned. Consequently, TP Group launched the “Poczta Polska project” in 2009. It is aimed at identifying any real estates being the subject of dispute with Poczta Polska, reaching an agreement as to their division and developing a legal strategy towards the real estate for which TP Group’s rights have been questioned.

A process of dissolution of co-ownership and regulation of limited rights in property (e.g. entering them in land and mortgage registers) is going on and will be continued for a few more years.

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

9.13 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. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes which often lead to the lack of well established regulations or legal precedents. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

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

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

TP Group possesses a vast customer base and constantly undertakes activities designed to prevent leakage of its customers’ data. In that respect, the Company complies with the relevant regulations, implements adequate policies, adheres to rules and guidelines, and conducts any relevant training. However, it is not possible to fully exclude the risk of an unintended leak of data. There are further risks which arise from TP Group’s operations as a broadcaster of Orange Sport and Orange Sport Info television channels. The risks include that of infringing copyrights, neighbouring rights or defaming persons or entities. In addition, the broadcasts are subject to regulations regarding the editor's responsibility for content of programmes comprising the service as well as a number of regulatory obligations imposed by the Polish Broadcasting Act. The risk of potential claims on such grounds is to a great extent insured. At the same time, TP uses its best efforts to properly perform its obligations under Polish copyright law, press law, intellectual property law, Broadcasting Act and Act on Suppression of Unfair Competition. It applies to all content used in all media, including the internet. Some element of risk derives from a lack of effective control over broadcast content, in particular during broadcasting of live programmes. However, it should be noted that TP exercises due diligence in preparing programmes to prevent any unlawful materials from being broadcast.

9.15 Environmental Risks

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

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

10 TELECOMMUNICATIONS SECTOR RISKS

This sections describes potential risks in the telecommunications sector that may affect TP Group's operations except for the developments described in the section 5 above.

10.1 Regulatory Risks

Changes in the regulatory environment combined with increasing competition added to the pressure on the TP Group's top line in the first half of 2011.

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

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

10.1.1 Single Reference Offer

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

On 13 October 2010, TP applied to the President of UKE for the re-examination of the decision, objecting the solutions which differed from the ones proposed by TP in the draft submitted for approval. On 5 April 2011, the President of UKE, having reviewed applications of TP and the Polish Chamber of Electronics and Telecommunications for the re-examination of the case, modified some provisions of the Single Reference Offer. However, the decision did not introduce any substantial changes to SRO.

On 5 May 2011, TP filed a complaint with the Regional Administrative Court against the decision of 5 April 2011, petitioning for cancellation of the decision in part, particularly with respect to the provisions which have a negative financial effect on TP.

On 30 March 2011, TP applied for a change of SRO with respect to the LLU service. The requested change reflects an obligation imposed on TP on the market 4/2007, according to which TP is modify SRO by adding new regulated services (e.g. access to fibre optic loop). The procedure related to changes in SRO is pending.

10.1.2 Bitstream Access

On 12 April 2010, the President of UKE decided to amend the BSA Reference Offer with respect to Section 8 (Price List). Owing to the fact that the decision differed from TP's application for amending the offer and the terms of the Memorandum of Understanding between TP and UKE, particularly with respect to Margin Squeeze and Price Squeeze tests, on 26 April 2010 TP filed an application for the re-examination of the case which ended with the decision amending the BSA Reference Offer. On 13 November 2010, TP filed a request for the discontinuation of the case in view of the President of UKE's decision of 29 October 2010 on approval of the Reference Offer (which, among other things, regulates the BSA service price list).

On 24 June 2010, the European Commission opened a case against Poland due to the President of UKE's failure to notify the draft amendment to the BSA Reference Offer (approved on 12 April 2010). The procedure is pending.

10.1.3 Leased Lines

On 18 October 2010, the President of UKE issued a decision with respect to the applications for the re-examination of the reference leased lines offer ("RLLO") for the markets 13 and 14, amending the RLLO approved on 31 December 2009. The new version of RLLO is more advantageous to TP than the former one, but it still includes some disadvantageous solutions. Consequently, on 19 November 2010 TP appealed against the new RLLO to the Regional Administrative Court. The procedure is pending.

10.1.4 Cable Ducts (ROI)

On 16 July 2010, the President of UKE decided to approve ROI in a modified version compared to the draft offer submitted by TP. The approved offer generally accounts for the changes suggested by TP, but there are still some modifications which are disadvantageous to the Company. Consequently, on 30 July 2010, TP filed a request for the re-examination of the decision which implemented ROI. On 18 July 2011 the President of UKE modified ROI, due to TP's motion for re-examination of the decision implementing ROI in 2010. The Regular accepted the most essential aspects of the motion. In particular, ROI was supplemented by provisions on collaterals and updated in the area of technical standards.

TP also took other legal steps to modify ROI. On 13 July 2011 TP submitted to President of UKE a motion for acceptance of modified ROI version. The motion comprises additional aspects compared with the motion for re-examination, for example on the field of charges regarding computer system interface (ISI).

10.1.5 Mobile Termination Rates (MTR)

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

In return for slowing down the process of MTR reduction, the President of UKE has obligated PTK Centertel to carry out specific investments in the areas of 2G/3G coverage gaps. The decision does not specify the amount to be invested, but determines a mechanism for calculating benefits and the resulting capital investment levels.

On 25 May 2011, the President of UKE issued a corresponding decision for Polkomtel. Hence, MTRs on Polkomtel's network will be symmetrical to those on PTK Centertel's network. Polkomtel's investment obligations will be determined using the same formula as in case of PTK Centertel.

On 29 June 2011, the President of UKE issued a decision for PTC, which corresponds to those issued previously for PTK Centertel and Polkomtel.

10.1.6 Roaming Rate Reduction

On 1 July 2011, PTK Centertel, implementing the European Commission's regulation, will reduce its international roaming prices. According to the regulation, the caps for roaming service rates are as follows (in Euro, net of VAT):

		Rate stated in EUR
Maximum average wholesale charge for regulated roaming calls		EUR 0.18
Maximum retail charge per minute of regulated roaming calls	Outgoing calls	EUR 0.35
	Incoming calls	EUR 0.11
Maximum average wholesale charge for SMS in regulated roaming		EUR 0.04
Maximum retail charge for SMS in regulated roaming	Sent SMS	EUR 0.11
	Received SMS	EUR 0.00
Maximum average wholesale charge for data transmission in regulated roaming		EUR 0.50
Default financial threshold for retail data transmission in a monthly billing period		EUR 50

On 6 July 2011, the European Commission presented a proposal for further regulation of international roaming. In addition to further reduction of charges and subjecting also retail data transmission to regulation, 'structural measures' were submitted for the first time. From 1 July 2014, these measures would enable customers to sign a mobile roaming contract, separate from their contract for national mobile services, whilst using the same phone number. In practice, this means that after each crossing of the border customers would be automatically switched to services of a roaming provider of their choice without the necessity to take any further action, whilst keeping the same mobile number and the same SIM-card.

At the same time, the Commission proposed to introduce a requirement that network operators in other Member States provide access to their networks at regulated wholesale rates. The Commission believes that this will encourage a greater number of operators to compete in the roaming service market.

According to the Commission's proposal, the maximum retail rates should remain regulated until mid-2016, while wholesale rates until 2022.

The Commission's proposal, according to the legislative path, will be transferred for further work in the European Parliament and the Council.

10.1.7 Works on a Draft Bill on Conversion of Fees for UMTS Licences Granted to Mobile Operators

The Government is working on a draft bill on conversion of UMTS licence fees. The draft bill would allow the three operators (PTK Centertel, PTC and Polkomtel) to apply for redemption of licence fees in return for earlier payments to the budget (EUR 30 million by each operator within three years after coming into force of the new bill), expenditure on ICT solutions for education (EUR 80 million by each operator within five years after coming into force of the new bill) and capital expenditure on the development of the telecommunication infrastructure for broadband internet access (EUR 190 million by each operator within up to five years after coming into force of the new bill). As the procedure is pending, these proposals, which were presented in the version of 7 June 2011, may change.

10.1.8 Telecommunication Law Amendment

A bill of 15 April 2011 (Journal of Law No. 102, item 578) amending articles 39 and 40 of the Telecommunication Law came into force on 2 June 2011. The amendment resulted from the fact that the European Commission had sent a justified opinion to the Polish Government that articles 39 and 40 of the Telecommunication Law were inconsistent with EU law.

Pursuant to the amendment, the provisions enabling the regulator to set on its own the rates to be charged by an operator, regardless of the operator's regulatory obligation to calculate costs and of the positive outcome of the costing audit, have been deleted from the Telecommunication Law. In addition, the provisions according to which the decisions on setting telecommunication access rates could be issued in a dispute settlement procedure have been abandoned.

Furthermore, the amendment obligates the President of UKE to indicate the methods which will be applied if the rates charged by an operator are incorrect.

10.2 Competitive Risks

10.2.1 CATV Operators

CATV operators are one of the major risks to TP on Broadband Market due to their investments in DOCSIS technology, fiber optics networks, WiMax and rich TV offer including HD channels..

CATV operators, which operate in Poland's biggest cities, are perceived as technological leaders offering the highest internet access speeds. A common practice of cable operators is to offer higher speeds without increasing the service price, or even offer more services for a smaller price.

Poland's CATV market is still fragmented, though 2010 brought the acceleration of its consolidation processes.

CATV operators' share in the broadband market is systematically increased and was estimated at 28% by volume (as of the end of June 2011) or 27% by value (in the first half of 2011).

10.2.2 Fixed/Mobile Substitution

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

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

F2M substitution depends mainly on two factors:

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

Another important factor is habits of customers, who use fixed line phones to call fixed line numbers and mobile phones to call mobile numbers, which owing to high mobile penetration contributes to customer migration to mobile operators. Consequently, a great number of customers prefers to purchase a bundle of mobile/internet/convergent services rather than use fixed line services alone.

In the future, it is fixed line voice services that may become an added value to internet or mobile services. VoIP services are particularly popular in this context. They are activated over a broadband line as the equivalent of a traditional fixed line.

Finally, the aggressive pricing and communication policy of the PLAY network has also significantly added to the F2M substitution. This operator has been making use of the asymmetry of mobile termination rates on its network with respect to other mobile operators, thus adding to the F2M substitution.

Another factor contributing to the fixed/mobile substitution is growing popularity of bundled offers which combine the functionality and price terms of both mobile and fixed services, which are provided by mobile operators via their mobile networks. By offering attractive integrated offers, mobile operators win over customers from fixed-line operators with respect to the full range of telecommunication services.

10.2.3 WLR, BSA and LLU Wholesale Markets

On 22 October 2009, TP and UKE concluded a Memorandum of Understanding, under which wholesale rates are to be frozen by UKE till 2012 and new procedures in inter-operator relations are to be introduced.

On 29 September 2010, the President of UKE approved a single reference offer for RIO, BSA, LLU and WLR services (“SRO”). In particular, the new SRO introduced the functionalities set forth in MoU between TP and UKE (though some implementation procedures differ from the functionalities being implemented by TP under MoU), namely:

- Uniform terms of provision of regulated services based on the Interconnection Cooperation Model;
- Introduction of ISI electronic communication;
- Departure from the ‘retail minus’ model provided that the Margin/Price Squeeze Test is positive;
- Procedure for amending the reference offer based on the Time-to-Market (TTM) mechanism;
- Regulations concerning subscriber line assignment and subscriber data change.

In addition, BSA access to TP subscribers connected to IP DSLAMs was introduced, though it had not been covered by MoU.

On 5 April 2011, the President of UKE, having reviewed applications of TP and the Polish Chamber of Electronics and Telecommunications (“KIGEiT”) for the re-examination of the case which ended with the President of UKE’s decision of 29 September 2010 (“SRO 1”), issued another decision (“SRO 2”), amending the Single Reference Offer in part. In particular:

- The assistance procedure has been supplemented;
- The provisions concerning reselling of regulated services have been corrected;
- The subscriber assignment process has been modified;
- The Interconnection Cooperation Model has been improved;
- Common forecasting of orders for BSA services based on DSLAMs and IP DSLAMs has been introduced;
- A time schedule for implementing new functionalities within the SRO has been adopted;
- An option of launching more than one 1-GE interface within one Service Zone on the managed IP access level during the BSA service implementation has been introduced;
- An option of building a mini power plant during the colocation service implementation has been introduced;
- The proposed changes in processes which have been agreed upon by the market (TP and KIGEiT) have been implemented; and
- The issues communicated by alternative operators and TP in the course of the proceedings have been accounted for.

WLR Service

The access to TP’s network based on wholesale line rental (WLR) has been provided since 2006. By mid-2011, TP had provided WLR services to 21 operators. As of the end of June, TP handled about 1.51 million WLR lines.

BSA Service

The access to TP’s broadband services based on access to a local subscriber loop through access to network nodes (bitstream access – BSA) has been provided since 2006.

By the end of June 2011, the agreements for TP's BSA service had been signed by 24 operators. The BSA Reference Offer has imposed on TP an obligation to provide the BSA service at the Non-managed IP, Managed IP, DSLAM and ATM levels. Alternative operators are free to choose the service option that they consider best for them, including the Non-managed IP option, in which a BSA operator needs no infrastructure of its own.

At the end of June 2011, TP handled approximately 530,000 BSA lines.

On 28 April 2011, the President of UKE issued a decision imposing on TP an obligation to submit a draft offer to regulate the market 5. In particular, the following changes were introduced:

- Release of the regulatory obligations with respect to 11 local administrative units (gminas) excluded from the broadband market regulation;
- Addition of a new Ethernet access level; and

- Introduction of an obligation to provide services on fibre optic lines.

Since 1 June 2011, TP has enabled alternative operators to provide VDSL services based using IP DSLAMs.

LLU Service

The access to TP's local subscriber loop (LLU service) has been provided since 2005. By 30 June 2011, 24 operators had made use of the LLU offer, and the number of LLU lines handled by TP had exceeded 160,000.

On 30 December 2010, the President of UKE issued a regulatory decision for TP with respect to the market 4 (domestic market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location), imposing new regulatory obligations on the Company.

10.2.4 Mobile Internet Access

Poland's mobile internet segment has continued rapid growth. The mobile internet penetration of Poland's population was estimated at over 7.8% at the end of June 2011. At the current stage of development of this market it seems that mobile internet access is more a substitution than a complementary service with respect to fixed internet access.

New players, including CATV operators, have been entering the market. Mobile broadband service providers have constantly aimed at enhancing the coverage and technological capacity of their networks in order to offer higher data transmission rates, which will enable the implementation and increase the availability of services based on new technologies of rapid mobile data transfer, such as HSPA+ and LTE.

The first commercial LTE network in the 1800MHz band has been launched by Mobyland and CenterNet. The network is to enable data download at up to 150 Mb/s and upload at up to 50 Mb/s. Cyfrowy Polsat is testing LTE-based mobile internet service over this network. In June, the Office of Electronic Communications annulled a bidding procedure for radio frequencies which was won by CenterNet and Mobyland in 2007. The decision is a consequence of PTC's appeal and the resulting ruling of the Supreme Administrative Court.

10.2.5 MVNO Hosting

The first six months of 2011 saw no significant changes in the MVNO market compared to 2010.

However, the situation of MVNOs in the Polish market is still uncertain, mainly as a result of rapid changes in mass market offers and high competitiveness of promotions by Orange, Era/T-Mobile, Plus and Play. On the other hand, MVNOs have been steadily, though at a slow pace, increasing their subscriber base. At the same time, still new partners interested in entering the MVNO market appear. Hence, a well-planned business case with proper operational support enables a positive return on investment even in the highly competitive MVNO market. This should be considered a positive sign and an opportunity to develop MVNO hosting services.

10.2.6 Leased Lines Market

On 31 December 2009, the President of UKE approved the Reference Offer for telecommunication access with respect to leased line terminating segment, leased line trunk segment and leased end-to-end lines services (RLLO).

Thus, the markets 13 and 14 were regulated, except for connections between 145 locations listed in the Appendix to the President of UKE's decision of 24 April 2009 (regarding regulatory obligations for the market 14). In addition, high-capacity lines, which are offered by TP on commercial terms negotiated with each operator on an individual basis, were included into the Reference Offer; as a result, 2.5 Gb/s and 100 Gb/s lines have been offered on the RLLO terms since December 2009.

On 22 January 2010, the President of UKE issued a decision recognising the market for leased line trunk segment services (market 14) in connections between 145 locations listed in an appendix thereto as effectively competitive with no significant market players.

On 18 October 2010, the President of UKE issued a decision amending RLLO of 31 December 2009. The purpose of the amendment was to determine the correct interpretation of various provisions being the subject of dispute, which had prevented proper functioning of the Reference Offer in the market. The most significant changes were introduced to the definitions of various types of leased lines; in line with TP and KIGEiT's proposals, the President of UKE decided not to divide leased lines into different sections any more, but simply classify them depending on the point of termination.

TP's principal competitors in the wholesale leased lines market are Exatel, TK Telecom, GTS Energis and Netia. These companies have network resources that enable them to compete with TP's offer in terms of both quality and price. A major part of the leased lines market is the retail segment with additional competition from smaller market players that develop their retail offer on the basis of lines leased from TP or other large players.

The current RLLO provides access to this service for a broad group of customers. The companies that have used the retail leased lines services so far, may, upon registration in the register of telecom operators, use the preferential wholesale price list. The existing regulations, especially in terms of pricing, contribute to the market erosion by value. The offer is particularly attractive with respect to analog lines without an allocated frequency band.

At the same time, the first six months of 2011 saw the continuation of an upward trend in the market for sophisticated data transmission services on managed networks. These solutions are increasingly popular in the business market, as they simplify corporate communications and enable easy incorporation of value-added services. They also enable companies to optimise their expenses and, as a result of telecom outsourcing, focus on their core activity. For this reason, in Poland, like in other European countries, customers have been migrating from traditional data transmission services (including leased lines) to managed solutions (IP VPN / MPLS). Both TP and alternative operators have been expanding their service portfolio in this direction.

10.2.7 Interconnect Market

On 5 April 2011, the President of UKE launched a consultation procedure on the detailed conditions of provision of regulatory obligations previously imposed on SMP mobile operators (i.e. regarding MTRs). Following the consultations, the President of UKE issued MTR decisions for PTK Centertel, Polkomtel (PLK) and PTC, setting the following mobile termination rates:

- PLN 0.1520 / minute in the 1 July 2011 to 30 June 2012 period; and
- PLN 0.1223 / minute from 1 July 2012.

On 5 April 2011, the President of UKE, having reviewed TP’s application of 13 October 2010 and Polish Chamber of Electronics and Telecommunications’ application of 12 October 2010 for the re-examination of the case which ended with the President of UKE’s decision of 29 September 2010, amended the Single Reference Offer of 29 September 2010, which regulates the terms of provision of RIO, BSA, LLU and WLR services (“Single Reference Offer – SRO”). In particular, with respect to RIO, the new single reference offer (“SRO 2”) no longer defines STM-1, STM-4 and STM-16 lines for the implementation of the Backbone Network Mode; a model of the offer implementation consistent with the RIO 2008, i.e. implementation of the Backbone Network Mode based on E1 lines, has been restored.

The President of UKE issued further decisions for alternative operators using the asymmetry model consistent with the President of UKE’s position of 16 December 2008 on the symmetry of voice call termination rates on fixed public telephone networks. UKE’s decisions have introduced a flat rate model without differentiation to tariff periods. TP has appealed against the methodology of determining call termination rates on fixed public telephone networks, which is disadvantageous to TP (as it actually results in an increase rather than a decrease in asymmetry).

10.2.8 International Long Distance Inbound and Gateway Markets

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

TP has been an active player in the international inbound and gateway markets, particularly by:

- expanding its foreign interconnect base;
- maintaining its share in Poland’s inbound market;
- actively attracting new gateway traffic volumes by winning subsequent operators for its ILD service;
- concluding short-term bilateral agreements with operators, which assure stable traffic volumes, stable revenues and costs, the optimum network usage and business predictability; and
- having signed agreements with 41 domestic operators, under which it provides services of call termination on foreign operators’ networks via its own network, and applying the same cooperation model in business relations with 71 foreign operators.

These efforts increase TP’s bargaining power in its relations with foreign partners.

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

In the first half of 2011, TP launched its first IP-based interconnect gateways. Such interconnections with a total of five foreign operators are either being tested or have already been launched. As shown by the experience of TP’s foreign partners, such as Telecom Italia, British Telecom, Deutsche Telecom or France Telecom, the migration of complete service portfolio is a difficult and prolonged process. Therefore, operators are still using mixed technology and have not entirely given up TDM.

10.2.9 International IP Transit Market

TP's principal competitors in this market are the biggest national operators, which develop or lease international lines to the main traffic exchange points. The presence of international operators in Poland further intensifies competition for access to the worldwide internet resources. The activity of the biggest domestic operators and the growing volume of IP traffic handled by international players have been gradually reducing TP’s position in this service market.

10.2.10 VoIP Segment

Constant growth in voice-over-Internet Protocol (VoIP) services in Poland is driven mostly by subscribers’ pursuit of lower voice rates. Owing to VoIP technology, some calls, namely between the users of the same VoIP internet application, are fully free of charge. This largely contributes to the popularity of this channel of communications, as reflected in the number of communicator users.

In May 2011, TP implemented the HD Phone service, which enables users to make calls of very high sound quality. Simultaneously, new plans meeting the demanding customers’ needs and expectations were introduced. The offer enables customers to use a pool of minutes available for the access fee not only for local and DLD calls, but also FTM and ILD calls. The new offer is based on geographical numbering.

The VoIP offer is developed by adding new services and functionalities.

11 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

11.1 Macroeconomic Factors and Factors Related to Poland

11.1.1 Economic Growth

In the first quarter of 2011, the Poland remained one of the fastest growing economies of the European Union. According to the Central Statistical Office, real GDP growth for the first quarter amounted to 4.4% (year-on-year). The GDP growth was fuelled mainly by private consumption (up 3.9% year-on-year), which was slightly lower than in the last quarter on 2011 but still high, and a rebound in investments (up 6%).

However, it seems impossible to clearly assess Poland's economic outlook based on this GDP growth, as it largely depends on the condition of other European economies and global macroeconomic climate. The Eurozone financial problems due to perturbations in Greece, Ireland, Portugal or Spain may affect further economic growth in Poland. Furthermore, a risk of a second wave of the economic crisis should be still considered, especially in the context of unfavourable information coming from the world's largest economies.

An additional risk is internal factors which affect Poland's economic stability, mainly growing inflation rate and the situation of the public sector finance. The potential fiscal measures (both on the revenue and expense side) may affect the economic growth rate in the short run. Prolonged slowdown may result in a further slump in foreign trade, a reduction of employment in Poland's export sector and a decrease in investment activity.

11.1.2 Inflation

CPI accelerated to 3.8% (year-on-year) in the first quarter of 2011 (from 2.9% (year-on-year) in the fourth quarter of 2010). This rate of growth of consumer prices made the Monetary Policy Council change interest rates again to 4.75% (as of the end of June), that is by a total of 1 ppt compared to the end of 2010. Such a position of the Central Bank may indicate that marked increase in the inflationary pressure in the recent months is a major risk for the Polish economy. The latest turbulence in Eurozone has a strong impact on the Polish currency market. Continuation of adverse external conditions, excessive depreciation of zloty against euro and a continued increase in the inflationary pressure may be influential in further changing of interest rates in the following months of 2011.

According to the adjusted inflation forecast for 2011 presented after Q1 2011 in the Longterm Financial Plan, the year-average inflation rate will grow to 3.5% (i.e. by 1.2 pp more than assumed in the 2011 Budget Bill).

11.1.3 Unemployment and Labour Costs

In 2010, unemployment rate stabilised at 12.3% by the end of the year. This trend continued in the first quarter of 2011, when unemployment rate reached 13.1% (up just 0.1 pp year-on-year).

The situation in the labour had no significant impact on wage growth, which slowed down compared to the last quarter of 2010. In the first quarter of 2011, nominal wage growth in the business sector averaged 4.3% (year-on-year).

11.1.4 Political and Economic Factors

Poland has undergone significant political, economic and social change in the last twenty years. Changes in political, economic, social and other conditions may have influence on the economy and the condition of enterprises, including the financial condition and performance of the Group. However, it seems unlikely that the parliamentary election scheduled for the second half of the year will diametrically change the situation on the political scene, which could affect the business environment. A trend observed over the recent years shows that the activity of the telecommunication market regulator has much more meaningful effects on the Group and the telecommunication market as a whole than any political changes in Poland do.

11.1.5 Changes in Regulation

Changes in law or regulations (or in the interpretation of existing law or regulations), whether caused by change in the Polish government or implementation of European Community law as a result of Poland's membership in the EU, could materially adversely affect the Group's business, financial condition and operations. Competition, securities, telecommunication and other laws and regulations have been and continue to be subject to substantial changes in Poland.

11.1.6 Polish Tax System

Polish tax laws and regulations, in particular as regards value added tax and income tax provisions are complex and subject to frequent change, varying interpretations and inconsistent and selective enforcement by the Ministry of Finance and local authorities. Such changes in Polish tax regulations may adversely affect the legal, business and financial situation of the Group in the future. The growing public debt and budget deficit influenced the decision to raise VAT by 1pp, to 23% and 8% as from 1 January 2011. Furthermore, the bill provides that should Poland's public debt exceed the cautionary threshold of 55% of GDP, there will be obligatory increases in VAT rates by 1pp in subsequent years until the maximum level of 25% and 10% is reached.

11.2 Factors Related to Financial Markets

11.2.1 General Risks Related to the Polish Market

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

11.2.2 Interest Rates

In the second quarter of 2011, in view of growing inflationary pressure, the Monetary Policy Council continued a cycle of interest rate increases, which started in the first quarter of 2011. The reference interest rate in Poland was raised by 100 basis points throughout the first six months of 2011, reaching 4.50% by the end of June. The financial markets estimate the aggregate reference interest rate increase in the second half of 2011 at 0.5%.

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

11.2.3 Foreign Exchange Rates

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

In addition, the fluctuations of the EUR/PLN exchange rate may affect comparative analyses conducted by UKE, in which TP's price offer is referred to the offers of its European peers. The strong Polish Zloty may have an adverse effect, when the prices of new services are determined by UKE on the basis of the EUR-denominated benchmarks.

In the first six months of 2011, the EUR/PLN rate was subject to minor fluctuations in the 3.8403–4.0800 bracket. Fluctuations were higher against the US dollar, for which the rate of exchange oscillated between 2.6458 and 3.0268. NBP's mean exchange rates of PLN against the Euro and the US dollar in the first half of 2010 were 3.9537 and 2.8179, respectively.

11.2.4 Situation at the Warsaw Stock Exchange

The first half of 2011 saw an increase in the indices on the Warsaw Stock Exchange (WSE). The WIG index, was up 1.9%. At the same time, TP shares gained 1.9% (or gained 12.2% excluding the dividend-related reference price change), while the large-cap index, WIG20, gained 2.1%.

11.2.5 Other Factors That May Influence the Price of TP Shares

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

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

GLOSSARY OF TELECOM TERMS

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

ARPL – Average Revenues per Line

ARPU – Average Revenues per User

AUPU – Average Usage per User

BSA – Bitstream Access Offer

CDMA (Code Division Multiple Access) – second generation wireless mobile network used also as a wireless local loop for locations where cable Access Is not economically justified

CPS/CS - Carriers Pre-Selection/Carriers Selection

DLD – Domestic Long Distance Calls

DSLAM - Digital Subscriber Line Access Multiplexer

F2M – Fixed to Mobile Calls

FVNO – Fixed Virtual Network Operator

ILD – International Calls

IP TV – TV over Internet Protocol

LC – Local Calls

LLU – Local Loop Unbundling

MAN – Metropolitan Area Network

MPLS – MultiProtocol Label Switching

MTR – Mobile Termination Rates

MVNO – Mobile Virtual Network Operator

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

POTS – Plain Old Telephone Service

RIO – Reference Interconnection Offer

SAC – Subscriber Acquisition Costs

SDI – Permanent (Rapid) Access to Internet

SMP – Significant Market Power

USO – Universal Service Obligation

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental