☐ - restated

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2010

(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 **2010**, i.e. **from 1 January 2010 to 30 June 2010**

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: **28 July 2010**

TELEKOMUNIKACJA POLSKA SA
(full name of the issuer)

TPSA (abbreviated name of the issuer)
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(auditor)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	half-year 2010	half-year 2009	half-year 2010	half-year 2009
condensed interim consolidated financial statements data				
I. Revenue	7 860 000	8 497 000	1 962 939	1 880 533
II. Operating income	981 000	1 111 000	244 993	245 883
III. Profit before income tax	768 000	847 000	191 799	187 456
IV. Consolidated net income	610 000	704 000	152 340	155 807
V. Net income attributable to owners of TP S.A.	609 000	703 000	152 090	155 586
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.46	0.53	0.11	0.12
VII. Weighted average number of shares (in millions) (basic and diluted)	1 336	1 336	1 336	1 336
VIII. Total comprehensive income	622 000	744 000	155 337	164 660
IX. Total comprehensive income attributable to owners of TP S.A.	621 000	743 000	155 087	164 439
X. Net cash provided by operating activities	2 189 000	2 880 000	546 676	637 394
XI. Net cash used in investing activities	(1 007 000)	(1 385 000)	(251 486)	(306 524)
XII. Net cash used in financing activities	(184 000)	(608 000)	(45 952)	(134 561)
XIII. Total net change in cash and cash equivalents	1 000 000	887 000	249 738	196 308
	balance as at 30/06/2010	balance as at 31/12/2009	balance as at 30/06/2010	balance as at 31/12/2009
XIV. Total current assets	5 431 000	4 189 000	1 310 000	1 019 668
XV. Total non-current assets	23 964 000	25 176 000	5 780 308	6 128 231
XVI. Total assets	29 395 000	29 365 000	7 090 308	7 147 899
XVII. Total current liabilities	6 692 000	5 222 000	1 614 164	1 271 116
XVIII. Total non-current liabilities	7 528 000	7 590 000	1 815 814	1 847 524
XIX. Total equity	15 175 000	16 553 000	3 660 331	4 029 259
XX. Equity attributable to owners of TP S.A.	15 161 000	16 539 000	3 656 954	4 025 851
XXI. Share capital	4 007 000	4 007 000	966 520	975 366
condensed interim separate financial statements data				
	half-year 2010	half-year 2009	half-year 2010	half-year 2009
I. Revenue	4 313 000	4 799 000	1 077 119	1 062 102
II. Operating income	415 000	674 000	103 641	149 168
III. Profit before income tax	1 904 000	3 328 000	475 501	736 544
IV. Net income	1 854 000	3 259 000	463 014	721 273
V. Earnings per share (in PLN/EUR) (basic and diluted)	1.39	2.44	0.35	0.54
VI. Weighted average number of shares (in millions) (basic and diluted)	1 336	1 336	1 336	1 336
VII. Total comprehensive income	1 856 000	3 288 000	463 513	727 691
VIII. Net cash provided by operating activities	2 058 000	3 782 000	513 960	837 022
IX. Net cash used in investing activities	(426 000)	(852 000)	(106 388)	(188 562)
X. Net cash used in financing activities	(528 000)	(1 701 000)	(131 862)	(376 461)
XI. Total net change in cash and cash equivalents	1 104 000	1 227 000	275 711	271 556
	balance as at 30/06/2010	balance as at 31/12/2009	balance as at 30/06/2010	balance as at 31/12/2009
XII. Total current assets	5 356 000	3 297 000	1 291 910	802 541
XIII. Total non-current assets	24 963 000	25 906 000	6 021 275	6 305 925
XIV. Total assets	30 319 000	29 203 000	7 313 184	7 108 466
XV. Total current liabilities	6 697 000	5 208 000	1 615 370	1 267 708
XVI. Total non-current liabilities	9 869 000	10 099 000	2 380 481	2 458 254
XVII. Total equity	13 753 000	13 896 000	3 317 333	3 382 503
XVIII. Share capital	4 007 000	4 007 000	966 520	975 366

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AUDITOR'S REPORT ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2010

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 Capital Group ('the Group') with Telekomunikacja Polska S.A. having its registered office in Warsaw, at 18 Twarda Str, as the Holding company, including a consolidated balance sheet prepared as of 30 June 2010, consolidated income statement and 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 2010 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 Supervisory Board of the Holding 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 holding company as well as other selected subsidiaries of the Telekomunikacja Polska Capital 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 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 2010 and the financial result for the six month period ended 30 June 2010 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 consolidated financial statements and in note 32 to the consolidated financial statements for the year ended 31 December 2009, 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, 27 July 2010

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 recognizing 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 28 July 2010, i.e. the date of submission of the condensed interim report for the 6 months ended 30 June 2010:

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%
State Treasury (1)	55,491,532	55,491,532	4.15%	166,474,596	4.15%
Other shareholders	615,157,490	615,157,490	46.06%	1,845,472,470	46.06%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

(1) Amounts presented are based on the number of shares registered by the State Treasury at the General Meeting of Shareholders of TP S.A. which was held on 23 April 2009. The State Treasury did not register its shares at the General Meeting of Shareholders of TP S.A. which was held on 23 April 2010.

The ownership structure of the Company's share capital, based on the best information available to the Company as at 22 April 2010, i.e. the date of submission of the quarterly report for the first quarter of 2010:

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%
State Treasury (1)	55,491,532	55,491,532	4.15%	166,474,596	4.15%
Other shareholders	615,157,490	615,157,490	46.06%	1,845,472,470	46.06%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

(1) Amounts presented are based on the number of shares registered by the State Treasury at the General Meeting of Shareholders of TP S.A. which was held on 23 April 2009.

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 2010 and the quarterly report for the first quarter of 2010 is as follows:

	28 July 2010	22 April 2010
Maciej Witucki	305,557	305,557
Vincent Lobry	-	-
Piotr Muszyński	190,896	190,896
Roland Dubois	-	-

The members of the Supervisory Board of TP S.A. do not participate in the Company's incentive program and as at 28 July 2010 and 22 April 2010 held no bond with a pre-emption right.

As at 28 July 2010, i.e. the date of submission of the condensed interim report for the 6 months ended 30 June 2010, there was no TP S.A. share held by members of the Management Board and the Supervisory Board of TP S.A.

As at 22 April 2010, i.e. the date of submission of the quarterly report for the first quarter of 2010, there was no TP S.A. share held by 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 2010, 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 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;
- alternative fixed line operators providing fixed voice and Internet access services based on wholesale access to TP 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 TP 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) which in 2009 was the most significant ever. These regulatory impacts as well as rather slow economic growth in Poland may drive TP Group's revenues below the level of last year. In addition, profitability could be under pressure in 2010 as a result of revenue erosion and impact of foreign exchange rates.

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 31.1.c to the Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2009.

As described in Note 8 to the Telekomunikacja Polska Group Condensed IFRS Interim Consolidated Financial Statements for the 6 months ended 30 June 2010, 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 2010 and 31 December 2009 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 2010 and 2009, were 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 2010 and 2009.

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 2010	**31 December 2009**	**30 June 2009**
Balance sheet	4.1458 PLN	4.1082 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.0042 PLN	Not applicable	4.5184 PLN

TELEKOMUNIKACJA POLSKA GROUP

CONDENSED IFRS INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2010

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CONSOLIDATED INCOME STATEMENT

(Amounts in PLN millions, except for share data)

	6 months ended 30 June 2010 *(unaudited)*	***6 months ended 30 June 2009*** *(see Note 2, unaudited)*
Revenue	**7,860**	**8,497**
External purchases	(3,524)	(3,834)
Labour expenses	(1,158)	(1,203)
Other operating expense	(389)	(330)
Other operating income	89	70
Gains on disposal of assets	14	14
Depreciation and amortization	(1,906)	(2,113)
(Impairment)/reversal of impairment of non-current assets	(5)	10
Operating income	**981**	**1,111**
Interest income	47	15
Interest expense and other financial charges	(226)	(160)
Foreign exchange gains/(losses)	11	(43)
Discounting expense	(45)	(76)
Finance costs, net	**(213)**	**(264)**
Income tax	(158)	(143)
Consolidated net income	**610**	**704**
Net income attributable to owners of TP S.A.	609	703
Net income attributable to non-controlling interests	1	1
Earnings per share (in PLN) (basic and diluted)	**0.46**	**0.53**
Weighted average number of shares (in millions) (basic and diluted)	1,336	1,336

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in PLN millions)

	6 months ended 30 June 2010 *(unaudited)*	***6 months ended 30 June 2009*** *(see Note 2, unaudited)*
Consolidated net income	**610**	**704**
Gains on cash flow hedges	13	40
Actuarial gains/(losses) on post-employment benefits	(1)	6
Income tax relating to components of other comprehensive income	(2)	(9)
Translation adjustment	2	3
Other comprehensive income, net of tax	**12**	**40**
Total comprehensive income	**622**	**744**
Total comprehensive income attributable to owners of TP S.A.	621	743
Total comprehensive income attributable to non-controlling interests	1	1

CONSOLIDATED BALANCE SHEET

(Amounts in PLN millions)

	At 30 June 2010 *(unaudited)*	***At 31 December 2009*** *(see Note 2, audited)*
ASSETS		
Goodwill	4,016	4,016
Other intangible assets	2,685	2,767
Property, plant and equipment	16,599	17,743
Investments in associates	3	3
Financial assets available for sale	4	4
Loans and receivables excluding trade receivables	11	11
Financial assets at fair value through profit or loss	69	62
Hedging derivatives	64	55
Deferred tax assets	513	515
Total non-current assets	**23,964**	**25,176**
Inventories	192	229
Trade receivables	1,607	1,475
Loans and receivables excluding trade receivables	23	13
Financial assets at fair value through profit or loss	112	9
Hedging derivatives	11	2
Income tax assets	1	24
Other assets	142	119
Prepaid expenses	125	100
Cash and cash equivalents	3,218	2,218
Total current assets	**5,431**	**4,189**
TOTAL ASSETS	**29,395**	**29,365**
EQUITY AND LIABILITIES		
Share capital	4,007	4,007
Share premium	832	832
Other reserves	64	50
Translation adjustment	(4)	(6)
Retained earnings	10,262	11,656
Equity attributable to owners of TP S.A.	**15,161**	**16,539**
Non-controlling interests	14	14
Total equity	**15,175**	**16,553**
Financial liabilities at amortised cost excluding trade payables	5,980	6,033
Financial liabilities at fair value through profit or loss	38	61
Hedging derivatives	103	148
Trade payables	821	790
Employee benefits	296	283
Provisions	201	215
Deferred tax liabilities	9	7
Deferred income	80	53
Total non-current liabilities	**7,528**	**7,590**
Financial liabilities at amortised cost excluding trade payables	319	375
Financial liabilities at fair value through profit or loss	-	89
Hedging derivatives	-	2
Trade payables	2,143	2,477
Employee benefits	308	302
Provisions	1,165	1,208
Income tax payable	11	2
Other liabilities (including dividend payable of PLN 2,003 million in 2010)	2,192	184
Deferred income	554	583
Total current liabilities	**6,692**	**5,222**
TOTAL EQUITY AND LIABILITIES	**29,395**	**29,365**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in PLN millions)

	Number of shares in issue (not in millions)	Share capital	Share premium	Treasury shares	Other reserves				Translation adjustment	Retained earnings	Total	Non-controlling interests	Total equity
					Hedging instruments	Actuarial gains/(losses) on post-employment benefits	Deferred taxes	Share-based payments					
Balance at 1 January 2009 *(audited)*	**1 335 649 021**	**4,106**	**832**	**(704)**	**(30)**	**-**	**6**	**32**	**(8)**	**12,983**	**17,217**	**13**	**17,230**
Effect of change in accounting policy for post-employment benefits *(see Note 2)*		-	-	-	-	(36)	6	-	-	-	(30)	-	(30)
Balance at 1 January 2009 after change in accounting policy *(audited)*	**1 335 649 021**	**4,106**	**832**	**(704)**	**(30)**	**(36)**	**12**	**32**	**(8)**	**12,983**	**17,187**	**13**	**17,200**
Total comprehensive income for the 6 months ended 30 June 2009		-	-	-	40	6	(9)	-	3	703	743	1	744
Share-based payments		-	-	-	-	-	-	15	-	-	15	-	15
Cancellation of treasury shares	-	(99)	-	704	-	-	-	-	-	(605)	-	-	-
Dividends		-	-	-	-	-	-	-	-	(2,003)	(2,003)	-	(2,003)
Balance at 30 June 2009 *(unaudited)*	**1 335 649 021**	**4,007**	**832**	**-**	**10**	**(30)**	**3**	**47**	**(5)**	**11,078**	**15,942**	**14**	**15,956**
Balance at 1 January 2010 *(audited)*	**1 335 649 021**	**4,007**	**832**	**-**	**20**	**-**	**(4)**	**75**	**(6)**	**11,655**	**16,579**	**14**	**16,593**
Effect of change in accounting policy for post-employment benefits *(see Note 2)*		-	-	-	-	(50)	9	-	-	1	(40)	-	(40)
Balance at 1 January 2010 after change in accounting policy *(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**

CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in PLN millions)

	6 months ended 30 June 2010 (unaudited)	*6 months ended 30 June 2009 (see Note 2, unaudited)*
OPERATING ACTIVITIES		
Consolidated net income	610	704
Adjustments to reconcile net income to funds generated from operations		
Depreciation and amortization	1,906	2,113
Impairment/(reversal of impairment) of non-current assets	5	(10)
Gains on disposal of assets	(14)	(14)
Change in other provisions	5	(58)
Income tax	158	143
Finance costs, net excluding realised exchange rate effect on cash and cash equivalents	226	302
Operational foreign exchange and derivatives (gains)/losses, net	6	(5)
Share-based payments	4	15
Change in working capital (trade)		
Decrease/(increase) in inventories	37	(40)
Decrease/(increase) in trade receivables	(209)	111
Increase/(decrease) in trade payables	(49)	(280)
Change in working capital (non-trade)		
Decrease/(increase) in prepaid expenses and other receivables	(38)	(42)
Increase/(decrease) in accrued expenses, other payables and deferred income	17	18
Interest received	47	15
Interest and interest rate effect on derivatives paid, net	(344)	(194)
Exchange rate effect on derivatives, net	(54)	197
Income tax paid	(124)	(95)
Net cash provided by operating activities	**2,189**	**2,880**
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(715)	(905)
Increase/(decrease) in amounts due to fixed assets suppliers	(299)	(493)
Proceeds from sale of property, plant and equipment and intangible assets	26	4
Proceeds from sale of subsidiaries, net of cash	-	16
Cash paid for acquisition of subsidiaries, net of cash	-	(25)
Decrease/(increase) in marketable securities and other financial assets	(7)	7
Exchange rate effect on derivatives, net	(12)	11
Net cash used in investing activities	**(1,007)**	**(1,385)**
FINANCING ACTIVITIES		
Issuance of bonds	-	2,199
Repayment of long-term debt	(116)	(1,021)
Increase/(decrease) in bank overdrafts and other short-term borrowings	(1)	(1,800)
Purchase of treasury shares including transaction cost	-	(4)
Exchange rate effect on derivatives, net	(67)	18
Net cash used in financing activities	**(184)**	**(608)**
Net change in cash and cash equivalents	998	887
Effect of changes in exchange rates on cash and cash equivalents	2	-
Cash and cash equivalents at the beginning of the period	2,218	1,640
Cash and cash equivalents at the end of the period	**3,218**	**2,527**

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
- mobile segment which includes entities offering predominantly telecom services based on mobile technology.

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

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

Basic financial data of the operating segments is presented below:

(in PLN millions)	Fixed line telecommunications	Mobile telecommunications	Eliminations and unallocated items	Consolidated
	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
- financed through own resources	546	169	-	715
- financed through finance leases	4	-	-	4
	6 months ended 30 June 2009 *(see Note 2)*			
Revenue:	5,087	3,952	(542)	8,497
External	4,715	3,782	-	8,497
Inter-segment	372	170	(542)	-
EBITDA	2,118	1,096	-	3,214
EBIT	749	362	-	1,111
Capital expenditures	548	357	-	905
- financed through own resources	548	357	-	905
- financed through finance leases	-	-	-	-

1. The Telekomunikacja Polska Group

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

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

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

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 2009.

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 27 July 2010.

Adoption of standards, amendments to standards and interpretations which are compulsory as at 1 January 2010

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, 2010:

- Revised IFRS 3 "Business Combinations",
- Revised IAS 27 "Consolidated and Separate Financial Statements",
- Amendments to IAS 39 "Financial Instruments: Eligible Hedged Items",
- IFRIC 17 "Distribution of Non-cash Assets to Owners",
- Improvements to International Financial Reporting Standards – a collection of amendments to IFRSs, the amendments are effective, in most cases, for annual periods beginning on or after 1 January 2010,

- Amendments to IFRS 2 “Share-based Payment” - Group cash-settled share-based payment transactions.

Except for revised IFRS 3 and revised IAS 27, 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.

The main effect of revised IFRS 3 “Business Combinations” has been:

- to add an option to permit recognition of 100% of the goodwill on acquisition of an entity, not just the acquiring entity’s portion of the goodwill, the choice of this option is allowed on a transaction-by transaction basis,
- to change the recognition and subsequent accounting requirements for contingent consideration,
- to require acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being expensed when incurred and
- for business combinations achieved in stages, to require remeasurement of previously held interests in the acquired entity at fair value. Any gain or loss arising from the remeasurement to be recognised in the income statement.

Revised IAS 27 has resulted in a change in accounting policy regarding increase or decrease in the Group’s ownership interest in its subsidiaries. In prior years, in the absence of specific requirements in International Financial Reporting Standards (“IFRS”), increase in interest in existing subsidiaries was treated in the same manner as the acquisition of subsidiaries, with goodwill being recognized where appropriate. There was no decrease in the interest in subsidiaries that did not involve loss of control in TP Group in prior years. Starting from 2010 increase or decrease in interest in existing subsidiaries that does not involve loss of control are dealt, under revised IAS 27, within equity, with no effect on goodwill or income statement.

Revised standards have to be applied prospectively to business combinations for which the transaction date is on or after 1 January 2010. No business combinations occurred during the 6 months ended 30 June 2010.

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):

- Amendments to IAS 32 “Financial Instruments: Presentation” applicable for financial years beginning on or after 1 February 2010,
- Amendments to IAS 24 “Related Party Disclosures” applicable for financial years beginning on or after 1 January 2011. These amendments have not been endorsed by the European Union,
- IFRS 9 “Financial Instruments” applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” applicable for financial years beginning on or after 1 July 2010. This interpretation has not been endorsed by the European Union,
- Amendments to IFRIC 14 “Prepayments of a Minimum Funding Requirement” applicable for financial years beginning on or after 1 January 2011. These amendments have not been endorsed by the European Union,
- Improvements to International Financial Reporting Standards – a collection of amendments to IFRSs, the amendments are effective, in most cases, for annual periods beginning on or after 1 January 2011. These amendments have not been endorsed by the European Union.

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

Change in accounting policy for post-employment benefits

In accordance with IAS 19 “Employee Benefits”, the actuarial gains and losses are recognized:
- in profit or loss either for their total amount or up to a portion using the corridor method which was the method applied by the Group until December 31, 2009,
- or in the other comprehensive income for their total amount.

The exposure draft published by the International Accounting Standards Board in April 2010 relating to the amendment to IAS 19 confirms the removal of the corridor method and proposes the immediate recognition of actuarial gains and losses in the other comprehensive income, with no recycling to income statement.
Following this publication, the Group has decided to account for defined benefit plans actuarial gains and losses in the other comprehensive income from January 1, 2010. This change in accounting policy results in the financial statements providing more relevant and comparative information as this policy is generally applied in telecommunications industry.

Change in accounting policy for post-employment benefits affected the Group’s financial statements as follows:

(in PLN millions)	**Data previously reported**	**Impact of changes in accounting policies**	**Data currently reported**
Consolidated income statement			
for the 6 months ended 30 June 2009			
Labour expenses	(1,204)	1	(1,203)
Operating income	1,110	1	1,111
Consolidated net income	703	1	704
Earnings per share (in PLN) (basic and diluted)	0.53	-	0.53
Consolidated statement of comprehensive income			
for the 6 months ended 30 June 2009			
Consolidated net income	703	1	704
Actuarial gains on post-employment benefits	-	6	6
Income tax relating to components of other comprehensive income	(8)	(1)	(9)
Total comprehensive income	738	6	744
Consolidated balance sheet			
at 31 December 2009			
Assets			
Deferred tax assets	506	9	515
Total non-current assets	25,167	9	25,176
Total assets	29,356	9	29,365
Equity			
Other reserves	91	(41)	50
Retained earnings	11,655	1	11,656
Total equity	16,593	(40)	16,553
Non-current liabilities			
Employee benefits	234	49	283
Total non-current liabilities	7,541	49	7,590
Consolidated statement of cash flows			
for the 6 months ended 30 June 2009			
Consolidated net income	703	1	704
Change in other provisions	(57)	(1)	(58)
Net cash provided by operating activities	2,880	-	2,880

Changes in presentation of the financial statements

Adoption of revised IFRS 3

Following the changes in IFRS 3 "Business Combinations" (effective from 1 January 2010), the accounting term "Minority interest" was changed to "Non-controlling interests" in these Interim Consolidated Financial Statements.

Changes in presentation of items of the consolidated statement of cash flows

In 2010 the Group changed the presentation of certain items of net cash provided by operating activities in the consolidated statement of cash flows. The changes comprise the presentation of the following two adjustments to reconcile net income to funds generated from operations: finance costs, net excluding realised exchange rate effect on cash and cash equivalents and operational foreign exchange and derivatives (gains) / losses, net. In previous accounting periods, the aforementioned items were grouped as follows: interest income and expense, foreign exchange (gains) / losses, net and derivatives, net (for the 6 months ended 30 June 2009 amounting to PLN 214 million, PLN 292 million and PLN (209) million, respectively). These changes have no effect on net cash provided by operating activities.

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

3. Statement of accounting policies

Except for the changes described in Note 2, 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 2009 (see Notes 2 and 3 to Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2009).

4. Explanatory comments about the seasonality or cyclicality of interim 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 2010 is presented in the Note 1.2 of the Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2009.

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 2010, 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. Information regarding the amount of the provisions has not been separately disclosed, as in the opinion of the Company's Management such disclosure could prejudice the outcome of the pending cases.

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

6. Loan agreements

On 25 January 2010, TP S.A. concluded a revolving loan agreement with an international syndicate of banks for a total amount of EUR 400 million. The purpose of the new back-up line was to refinance the EUR 550 million revolving back-up facility that supported the Group's liquidity. The agreement was signed for a period of three years and expires on 18 April 2013. The loan interest is based on the EURIBOR rate for the relevant interest periods plus a bank margin. Under a financial covenant included in the agreement, the Group should meet the following financial ratio: Net Debt / EBITDA to be no higher than 3.5:1 confirmed on a semi-annual basis. As at 30 June 2010, the covenant was met and the back-up line remained undrawn.

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

On 23 April 2010, 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 day on which the right to dividend was set was 17 June 2010 and the payment date was 1 July 2010.

8. Current status of major contingent liabilities or contingent assets since the last annual balance sheet date

a. Proceedings by UKE, UOKiK and the European Commission

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). TP S.A. did not pay the fine and appealed to the Court of Competition and Consumer Protection ("SOKiK"). On 22 May 2007, the Court invalidated the fine on procedural grounds. UKE appealed this verdict and on 10 April 2008, the Appeal Court revoked the judgment of SOKiK and remanded the case back to consideration by SOKiK. On 2 June 2009, SOKiK suspended the proceeding until the end of the European Commission proceeding against Poland in the European Court of Justice on attempts of UKE to regulate retail prices of broadband services without a prior analysis of a relevant market, the result of which could, in SOKiK opinion, impact the proceeding suspended by SOKiK.

On 22 February 2007, after TP S.A. had separated providing Neostrada from fixed line services, UKE imposed a fine of PLN 339 million on TP S.A. for non-performance of the regulatory obligation to submit its Neostrada price list for UKE's approval, and for failing to 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. did not pay the fine and, on 7 March 2007, appealed against the decision. SOKiK suspended also this proceeding.

On 6 May 2010 the European Court of Justice passed a judgment in the European Commission proceeding against Poland. The Court 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. SOKiK has not yet resumed any of these two appeal proceedings. 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.

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. At the same time, UOKiK ordered TP S.A. to immediately cease this practice. 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. The matter is currently being investigated by SOKiK.

In September 2008, the European Commission conducted an inspection at the premises of TP S.A. and PTK-Centertel Sp. z o.o. The aim of the inspection was to gather evidence of a possible breach by TP S.A. of competition rules on the broadband Internet market. 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 on 2 June 2010. The audience before the European Commission is scheduled on 10 September 2010. At this stage, TP S.A. 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.

Under European law, the European Commission may impose a fine on an entity of up to 10% of its total turnover of the preceding business year if it proves infringement of rules on competition. Moreover, the Commission may impose any behavioural or structural remedies which are proportionate to the infringement committed and necessary to bring the infringement effectively to an end. Such a decision can be appealed to the General Court (formerly the Court of First Instance). The Commission may also impose a fine of up to 1% of the total turnover of the preceding business year for providing incorrect or misleading information.

b. Dispute with DPTG

Information on the background and earlier stages of the arbitration proceedings between the Company and DPTG is presented in Note 32.e to the Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2009.

In June 2008, the Arbitration Tribunal decided to split the case into two periods and to render firstly an award settling DPTG's rights for the period from February 1994 to June 2004. In January 2009, the Arbitration Tribunal held a hearing on the merits of the claim and then issued a first set of Directions to the experts of the parties and of the Tribunal for the quantification of DPTG's rights. After a second hearing held in April 2009, dedicated to the examination of the experts, the Tribunal issued a second set of Directions for quantification by the experts of the parties only. The experts responded in July and, in August 2009, the parties filed post-hearing-briefs including legal opinions on the merits of the claim.

In the course of the proceedings, DPTG modified the amount of its claim. In October 2008, it calculated its claim at DKK 6,278 million (approximately EUR 840 million) excluding interest for the period up to the end of 2007. In its post-hearing-brief dated 28 August 2009, DPTG amended its claim in principal adjusting it to the period from February 1994 to June 2004 at DKK 2,781 million (approximately EUR 370 million) and calculated the interest claim on that principal for the period until 28 August 2009 at an amount ranging up to DKK 2,257 million (approximately EUR 300 million). Such amended claim replaced the previous one. The claim for the period from July 2004 to the end of the contract period (January 2009) will be presented to the Tribunal at a later date.

As requested by the Tribunal, on 11 March 2010, TP S.A. submitted to the Tribunal the final quantification of its position for the first period ("final prayers for relief"). On 20 July 2010 the Chairman of the Tribunal

advised that the Tribunal does not anticipate issuing an award (for the period from February 1994 to June 2004-Phase1) before the beginning of September 2010.

The Company strongly disputes both the contractual basis of the claim and the amounts claimed. It has presented to the Tribunal an alternative position based on its clear understanding, and intent, of the contract.

Management has made what it considers to be an appropriate provision for this matter, as supported by outside Counsel and other professional advisers. Information regarding the amount of the provision has not been separately disclosed as, in the opinion of Management, such disclosure could prejudice the outcome of the pending case.

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

As at 30 June 2010, 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 a 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, data transmission and research and development services. The purchases from the France Telecom Group mainly comprise costs of interconnect and leased lines, network services, IT services, consulting services and brand fees.

(in PLN millions)	*6 months ended 30 June 2010*	*6 months ended 30 June 2009*
Sales of goods and services to:	**95**	**98**
- France Telecom S.A. (parent)	67	65
- France Telecom (group)	28	33
Purchases of goods (including inventories, tangible and intangible assets) and services from:	**160**	**162**
- France Telecom S.A. (parent)	62	56
- France Telecom (group)	98	106
- including Orange Brand Services Limited (brand licence agreement)	*58*	*60*
Dividends declared:	**997**	**997**
- France Telecom S.A. (parent)	997	997
- France Telecom (group)	**-**	**-**

(in PLN millions)	*At 30 June 2010*	*At 31 December 2009*
Receivables from:	**81**	**87**
- France Telecom S.A. (parent)	52	59
- France Telecom (group)	29	28
Payables to:	**193**	**230**
- France Telecom S.A. (parent)	113	124
- France Telecom (group)	80	106
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 2010 and 2009 amounted to PLN 5.1 million and PLN 7.3 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 2010 and 2009, the amount of accrued costs for bonuses for the Company's Management Board amounted to PLN 1.5 million and PLN 2.6 million, respectively.

In addition to the amounts presented above, 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. During the 6 months ended 30 June 2009, the estimated cost of share-based payments under TP S.A.'s and France Telecom S.A.'s incentive programmes allocated to the Company's Management Board amounted to PLN 0.7 million. In the 6 months ended 30 June 2010, no cost was recognised in respect of France Telecom S.A.'s incentive programme as the vesting period of the programme ended in 2009.

Mr Vivek Badrinath resigned from the Supervisory Board of TP S.A. with effect on 22 April 2010.
On 23 April 2010, the Annual General Meeting of Shareholders appointed Mr Thierry Bonhomme and Mr Olaf Swantee to the Supervisory Board of TP S.A. and renewed mandates of the following persons, whose term of office expired as of the day of this General Meeting: Mr Jacques Champeaux, Mr Ronald Freeman and Mr Mirosław Gronicki. On the same day, the term of office in the Supervisory Board of TP S.A. expired for Mr Antonio Anguita.

10. Subsequent events

There was no significant event after the balance sheet date.

Deloitte.

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AUDITOR'S REPORT
ON THE REVIEW OF THE CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2010

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 str, ('the Company') including a balance sheet prepared as of 30 June 2010, income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows for the period from 1 January to 30 June 2010 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 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 consolidated 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 holding 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 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 2010 and the financial result for the six month period ended 30 June 2010 in accordance with IAS 34.

District Court for the city of Warsaw, KRS No. 0000031236, NIP: 527-020-07-86, REGON: 010076870
Share Capital: 100 000 PLN

Member of Deloitte Touche Tohmatsu

Deloitte.

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 2009, 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, 27 July 2010

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 recognizing 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 28 July 2010, i.e. the date of submission of the condensed interim report for the 6 months ended 30 June 2010:

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%
State Treasury [(1)]	55,491,532	55,491,532	4.15%	166,474,596	4.15%
Other shareholders	615,157,490	615,157,490	46.06%	1,845,472,470	46.06%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

[(1)] Amounts presented are based on the number of shares registered by the State Treasury at the General Meeting of Shareholders of TP S.A. which was held on 23 April 2009. The State Treasury did not register its shares at the General Meeting of Shareholders of TP S.A. which was held on 23 April 2010.

The ownership structure of the Company's share capital, based on the best information available to the Company as at 22 April 2010, i.e. the date of submission of the quarterly report for the first quarter of 2010:

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%
State Treasury [(1)]	55,491,532	55,491,532	4.15%	166,474,596	4.15%
Other shareholders	615,157,490	615,157,490	46.06%	1,845,472,470	46.06%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

[(1)] Amounts presented are based on the number of shares registered by the State Treasury at the General Meeting of Shareholders of TP S.A. which was held on 23 April 2009.

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 2010 and the quarterly report for the first quarter of 2010 is as follows:

	28 July 2010	22 April 2010
Maciej Witucki	305,557	305,557
Vincent Lobry	-	-
Piotr Muszyński	190,896	190,896
Roland Dubois	-	-

The members of the Supervisory Board of TP S.A. do not participate in the Company's incentive program and as at 28 July 2010 and 22 April 2010 held no bond with a pre-emption right.

As at 28 July 2010, i.e. the date of submission of the condensed interim report for the 6 months ended 30 June 2010, there was no TP S.A. share held by members of the Management Board and the Supervisory Board of TP S.A.

As at 22 April 2010, i.e. the date of submission of the quarterly report for the first quarter of 2010, there was no TP S.A. share held by 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 2010, 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;
- 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) which in 2009 was the most significant ever. These regulatory impacts as well as rather slow economic growth in Poland may drive TP S.A.'s revenues below the level of last year. In addition, profitability could be under pressure in 2010 as a result of revenue erosion and impact of foreign exchange rates.

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 2009.

As described in Note 8 to the Telekomunikacja Polska S.A. Condensed IFRS Interim Separate Financial Statements for the 6 months ended 30 June 2010, 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 2010 and 31 December 2009 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 2010 and 2009, were 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 2010 and 2009.

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 2010	31 December 2009	30 June 2009
Balance sheet	4.1458 PLN	4.1082 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.0042 PLN	Not applicable	4.5184 PLN

TELEKOMUNIKACJA POLSKA S.A.
CONDENSED IFRS INTERIM SEPARATE FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2010

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INCOME STATEMENT

(Amounts in PLN millions, except for share data)

	6 months ended 30 June 2010 *(unaudited)*	***6 months ended 30 June 2009*** *(see Note 2, unaudited)*
Revenue	**4,313**	**4,799**
External purchases	(1,669)	(1,767)
Labour expenses	(882)	(934)
Other operating expense	(255)	(209)
Other operating income	120	100
Gains on disposal of assets	13	17
Depreciation and amortization	(1,220)	(1,342)
(Impairment)/reversal of impairment of non-current assets	(5)	10
Operating income	**415**	**674**
Dividend income	1,691	2,897
Interest income	207	153
Interest expense and other financial charges	(412)	(343)
Foreign exchange gains/(losses)	20	(35)
Discounting expense	(17)	(18)
Finance income, net	**1,489**	**2,654**
Income tax	(50)	(69)
Net income	**1,854**	**3,259**
Earnings per share (in PLN) (basic and diluted)	**1.39**	**2.44**
Weighted average number of shares (in millions) (basic and diluted)	1,336	1,336

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in PLN millions)

	6 months ended 30 June 2010 *(unaudited)*	***6 months ended 30 June 2009*** *(see Note 2, unaudited)*
Net income	**1,854**	**3,259**
Gains on cash flow hedges	3	30
Actuarial gains/(losses) on post-employment benefits	(1)	6
Income tax relating to components of other comprehensive income	-	(7)
Other comprehensive income, net of tax	**2**	**29**
Total comprehensive income	**1,856**	**3,288**

BALANCE SHEET

(Amounts in PLN millions)

	At 30 June 2010 *(unaudited)*	***At 31 December 2009*** *(see Note 2, audited)*
ASSETS		
Intangible assets	1,027	1,055
Property, plant and equipment	12,710	13,421
Investments in subsidiaries	7,651	7,651
Financial assets available for sale	4	4
Loans and receivables excluding trade receivables	3,288	3,422
Financial assets at fair value through profit or loss	84	75
Hedging derivatives	49	41
Deferred tax assets	150	237
Total non-current assets	**24,963**	**25,906**
Inventories	36	42
Trade receivables	823	697
Loans and receivables excluding trade receivables	288	276
Financial assets at fair value through profit or loss	114	2
Hedging derivatives	-	1
Income tax assets	1	17
Other assets	944	232
Prepaid expenses	50	34
Cash and cash equivalents	3,100	1,996
Total current assets	**5,356**	**3,297**
TOTAL ASSETS	**30,319**	**29,203**
EQUITY AND LIABILITIES		
Share capital	4,007	4,007
Share premium	832	832
Other reserves	37	31
Retained earnings	8,877	9,026
Total equity	**13,753**	**13,896**
Financial liabilities at amortised cost excluding trade payables	9,231	9,429
Financial liabilities at fair value through profit or loss	38	61
Hedging derivatives	103	148
Employee benefits	277	267
Provisions	144	148
Deferred income	76	46
Total non-current liabilities	**9,869**	**10,099**
Financial liabilities at amortised cost excluding trade payables	1,730	2,109
Financial liabilities at fair value through profit or loss	-	90
Hedging derivatives	-	1
Trade payables	1,394	1,371
Employee benefits	211	213
Provisions	1,120	1,164
Income tax payable	8	-
Other liabilities (including dividend payable of PLN 2,003 million in 2010)	2,162	194
Deferred income	72	66
Total current liabilities	**6,697**	**5,208**
TOTAL EQUITY AND LIABILITIES	**30,319**	**29,203**

STATEMENT OF CHANGES IN EQUITY

(Amounts in PLN millions)

	Number of shares in issue (not in millions)	Share capital	Share premium	Treasury shares	Other reserves				Retained earnings	Total
					Hedging instruments	Actuarial gains/(losses) on post-employment benefits	Deferred taxes	Share-based payments		
Balance at 1 January 2009 *(audited)*	**1 335 649 021**	**4,106**	**832**	**(704)**	**(28)**	**-**	**5**	**27**	**8,277**	**12,515**
Effect of change in accounting policy for post-employment benefits *(see Note 2)*		-	-	-	-	(36)	6	-	-	(30)
Balance at 1 January 2009 after change in accounting policy *(audited)*	**1 335 649 021**	**4,106**	**832**	**(704)**	**(28)**	**(36)**	**11**	**27**	**8,277**	**12,485**
Total comprehensive income for the 6 months ended 30 June 2009		-	-	-	30	6	(7)	-	3,259	3,288
Share-based payments		-	-	-	-	-	-	12	-	12
Cancellation of treasury shares	-	(99)	-	704	-	-	-	-	(605)	-
Dividends		-	-	-	-	-	-	-	(2,003)	(2,003)
Balance at 30 June 2009 *(unaudited)*	**1 335 649 021**	**4,007**	**832**	**-**	**2**	**(30)**	**4**	**39**	**8,928**	**13,782**
Balance at 1 January 2010 *(audited)*	**1 335 649 021**	**4,007**	**832**	**-**	**11**	**-**	**(2)**	**64**	**9,025**	**13,937**
Effect of change in accounting policy for post-employment benefits *(see Note 2)*		-	-	-	-	(51)	9	-	1	(41)
Balance at 1 January 2010 after change in accounting policy *(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**

STATEMENT OF CASH FLOWS

(Amounts in PLN millions)

	6 months ended 30 June 2010 (unaudited)	*6 months ended 30 June 2009 (see Note 2, unaudited)*
OPERATING ACTIVITIES		
Net income	1,854	3,259
Adjustments to reconcile net income to funds generated from operations		
Depreciation and amortization	1,220	1,342
Reversal of impairment of non-current assets	5	(10)
Gains on disposal of assets	(13)	(17)
Change in other provisions	(61)	(79)
Income tax	50	69
Finance costs, net excluding realised exchange rate effect on cash and cash equivalents	(1,486)	(2,625)
Operational foreign exchange and derivatives (gains)/losses, net	-	(14)
Share-based payments	4	11
Change in working capital (trade)		
Decrease/(increase) in inventories	6	(18)
Decrease/(increase) in trade receivables	(136)	111
Increase/(decrease) in trade payables	110	(98)
Change in working capital (non-trade)		
Decrease/(increase) in prepaid expenses and other receivables	(20)	(37)
Increase/(decrease) in accrued expenses, other payables and deferred income	45	18
Dividends received	879	1,897
Interest received	45	10
Interest and interest rates effect on derivatives paid, net	(351)	(246)
Exchange rate effect on derivatives, net	(53)	196
Income tax paid	(40)	13
Net cash provided by operating activities	**2,058**	**3,782**
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(509)	(510)
Increase/(decrease) in amounts due to fixed assets suppliers	(92)	(331)
Proceeds from sale of property, plant and equipment and intangible assets	24	4
Cash paid for investment securities	-	(36)
Proceeds from sale of investments in subsidiaries	177	19
Decrease/(increase) in marketable securities and other financial assets	5	10
Exchange rate effect on derivatives, net	(31)	(8)
Net cash used in investing activities	**(426)**	**(852)**
FINANCING ACTIVITIES		
Issuance of bonds	-	2,199
Repayment of long-term debt	(116)	(1,021)
Increase/(decrease) in bank overdrafts and other short-term borrowings	(345)	(2,893)
Purchase of treasury shares including transaction cost	-	(4)
Exchange rate effect on derivatives, net	(67)	18
Net cash used in financing activities	**(528)**	**(1,701)**
Net change in cash and cash equivalents	1,104	1,229
Effect of changes in exchange rates on cash and cash equivalents	-	(2)
Cash and cash equivalents at the beginning of the period	1,996	1,051
Cash and cash equivalents at the end of the period	**3,100**	**2,278**

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 and Voice over Internet Protocol ("VoIP"). In addition, the Company provides leased lines, radio-communications and other telecommunications value added services, sells telecommunications equipment, electronic phone cards and provides data transmission, multimedia services and various Internet services. Telekomunikacja Polska 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

Basis for preparation

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 2009.

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 27 July 2010.

Adoption of standards, amendments to standards and interpretations which are compulsory as at 1 January 2010

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, 2010:

- Revised IFRS 3 "Business Combinations",
- Revised IAS 27 "Consolidated and Separate Financial Statements",
- Amendments to IAS 39 "Financial Instruments: Eligible Hedged Items",
- IFRIC 17 "Distribution of Non-cash Assets to Owners",
- Improvements to International Financial Reporting Standards – a collection of amendments to IFRSs, the amendments are effective, in most cases, for annual periods beginning on or after 1 January 2010,
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions.

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):

- Amendments to IAS 32 "Financial Instruments: Presentation" applicable for financial years beginning on or after 1 February 2010,
- Amendments to IAS 24 "Related Party Disclosures" applicable for financial years beginning on or after 1 January 2011. These amendments have not been endorsed by the European Union,
- IFRS 9 "Financial Instruments" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" applicable for financial years beginning on or after 1 July 2010. This interpretation has not been endorsed by the European Union,
- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement" applicable for financial years beginning on or after 1 January 2011. These amendments have not been endorsed by the European Union,
- Improvements to International Financial Reporting Standards – a collection of amendments to IFRSs, the amendments are effective, in most cases, for annual periods beginning on or after 1 January 2011. These amendments have not been endorsed by the European Union.

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

Change in accounting policy for post-employment benefits

In accordance with IAS 19 "Employee Benefits", the actuarial gains and losses are recognized:

- in profit or loss either for their total amount or up to a portion using the corridor method which was the method applied by the Company until December 31, 2009,
- or in the other comprehensive income for their total amount.

The exposure draft published by the International Accounting Standards Board in April 2010 relating to the amendment to IAS 19 confirms the removal of the corridor method and proposes the immediate recognition of actuarial gains and losses in the other comprehensive income, with no recycling to income statement.
Following this publication, the Company has decided to account for defined benefit plans actuarial gains and losses in the other comprehensive income from January 1, 2010. This change in accounting policy results in the financial statements providing more relevant and comparative information as this policy is generally applied in telecommunications industry.

Change in accounting policy for post-employment benefits affected the Company's financial statements as follows:

(in PLN millions)	**Data previously reported**	**Impact of changes in accounting policies**	**Data currently reported**
Income statement			
for the 6 months ended 30 June 2009			
Labour expenses	(935)	1	(934)
Operating income	673	1	674
Net income	3,258	1	3,259
Earnings per share (in PLN) (basic and diluted)	2.44	-	2.44
Statement of comprehensive income			
for the 6 months ended 30 June 2009			
Net income	3,258	1	3,259
Actuarial gains on post-employment benefits	-	6	6
Income tax relating to components of other comprehensive income	(6)	(1)	(7)
Total comprehensive income	3,282	6	3,288
Balance sheet			
at 31 December 2009			
Assets			
Deferred tax assets	228	9	237
Total non-current assets	25,897	9	25,906
Total assets	29,194	9	29,203
Equity			
Other reserves	73	(42)	31
Retained earnings	9,025	1	9,026
Total equity	13,937	(41)	13,896
Non-current liabilities			
Employee benefits	217	50	267
Total non-current liabilities	10,049	50	10,099
Statement of cash flows			
for the 6 months ended 30 June 2009			
Net income	3,258	1	3,259
Change in other provisions	(78)	(1)	(79)
Net cash provided by operating activities	3,782	-	3,782

Changes in presentation of the financial statements

Changes in presentation of items of the statement of cash flows

In 2010, the Company changed the presentation of certain items of net cash provided by operating activities in the statement of cash flows. The changes comprise the presentation of the following two adjustments to reconcile net income to funds generated from operations: finance costs, net excluding realised exchange rate effect on cash and cash equivalents and operational foreign exchange and derivatives (gains) / losses, net. In previous accounting periods, the aforementioned items were grouped as follows: interest income and expense, foreign exchange (gains) / losses, net and derivatives, net (for the 6 months ended 30 June 2009 amounting to PLN (2,682) million, PLN 243 million and PLN (200) million, respectively). These changes have no effect on net cash provided by operating activities.

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

3. Statement of accounting policies

Except for the changes described in Note 2, 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 2009 (see Notes 2 and 3 to Telekomunikacja Polska S.A. IFRS Separate Financial Statements for the year ended 31 December 2009).

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 2010 is presented in the Note 14.1 of the Telekomunikacja Polska S.A. IFRS Separate Financial Statements for the year ended 31 December 2009.

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 2010, 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. Information regarding the amount of the provisions has not been separately disclosed, as in the opinion of the Company's Management such disclosure could prejudice the outcome of the pending cases.

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

6. Loan agreements and debt securities

<u>Loan agreements</u>

On 25 January 2010, TP S.A. concluded a revolving loan agreement with an international syndicate of banks for a total amount of EUR 400 million. The purpose of the new back-up line was to refinance the EUR 550 million revolving back-up facility that supported TP S.A.'s liquidity. The agreement was signed for a period of three years and expires on 18 April 2013. The loan interest is based on the EURIBOR rate for the relevant interest periods plus a bank margin. Under a financial covenant included in the agreement, TP S.A. should meet the following financial ratio: Net Debt / EBITDA calculated on the Group's consolidated results to be no higher than 3.5:1 confirmed on a semi-annual basis. As at 30 June 2010, the covenant was met and the back-up line remained undrawn.

Issuance of TP S.A. short term bonds under Bond Issuance Programme

In the 6 months ended 30 June 2010, 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 2010, the net cash flows on the bonds amounted to PLN (357) million. As a result of the issues and redemptions, the aggregate par value of the outstanding bonds issued under the programme amounts to PLN 1,120 million as at 30 June 2010.

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

On 23 April 2010, 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 day on which the right to dividend was set was 17 June 2010 and the payment date was 1 July 2010.

8. Current status of major contingent liabilities or contingent assets since the last annual balance sheet date

a. Proceedings by UKE, UOKiK and the European Commission

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). TP S.A. did not pay the fine and appealed to the Court of Competition and Consumer Protection ("SOKiK"). On 22 May 2007, the Court invalidated the fine on procedural grounds. UKE appealed this verdict and on 10 April 2008, the Appeal Court revoked the judgment of SOKiK and remanded the case back to consideration by SOKiK. On 2 June 2009, SOKiK suspended the proceeding until the end of the European Commission proceeding against Poland in the European Court of Justice on attempts of UKE to regulate retail prices of broadband services without a prior analysis of a relevant market, the result of which could, in SOKiK opinion, impact the proceeding suspended by SOKiK.

On 22 February 2007, after TP S.A. had separated providing Neostrada from fixed line services, UKE imposed a fine of PLN 339 million on TP S.A. for non-performance of the regulatory obligation to submit its Neostrada price list for UKE's approval, and for failing to 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. did not pay the fine and, on 7 March 2007, appealed against the decision. SOKiK suspended also this proceeding.

On 6 May 2010 the European Court of Justice passed a judgment in the European Commission proceeding against Poland. The Court 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. SOKiK has not yet resumed any of these two appeal proceedings. 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.

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. At the same time, UOKiK ordered TP S.A. to immediately cease

this practice. 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. The matter is currently being investigated by SOKiK.

In September 2008, the European Commission conducted an inspection at the premises of TP S.A. and PTK-Centertel Sp. z o.o. The aim of the inspection was to gather evidence of a possible breach by TP S.A. of competition rules on the broadband Internet market. 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 on 2 June 2010. The audience before the European Commission is scheduled on 10 September 2010. At this stage, TP S.A. 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.

Under European law, the European Commission may impose a fine on an entity of up to 10% of its total turnover of the preceding business year if it proves infringement of rules on competition. Moreover, the Commission may impose any behavioural or structural remedies which are proportionate to the infringement committed and necessary to bring the infringement effectively to an end. Such a decision can be appealed to the General Court (formerly the Court of First Instance). The Commission may also impose a fine of up to 1% of the total turnover of the preceding business year for providing incorrect or misleading information.

b. Dispute with DPTG

Information on the background and earlier stages of the arbitration proceedings between the Company and DPTG is presented in Note 29.e to the Telekomunikacja Polska S.A. IFRS Separate Financial Statements for the year ended 31 December 2009.

In June 2008, the Arbitration Tribunal decided to split the case into two periods and to render firstly an award settling DPTG’s rights for the period from February 1994 to June 2004. In January 2009, the Arbitration Tribunal held a hearing on the merits of the claim and then issued a first set of Directions to the experts of the parties and of the Tribunal for the quantification of DPTG’s rights. After a second hearing held in April 2009, dedicated to the examination of the experts, the Tribunal issued a second set of Directions for quantification by the experts of the parties only. The experts responded in July and, in August 2009, the parties filed post-hearing-briefs including legal opinions on the merits of the claim.

In the course of the proceedings, DPTG modified the amount of its claim. In October 2008, it calculated its claim at DKK 6,278 million (approximately EUR 840 million) excluding interest for the period up to the end of 2007. In its post-hearing-brief dated 28 August 2009, DPTG amended its claim in principal adjusting it to the period from February 1994 to June 2004 at DKK 2,781 million (approximately EUR 370 million) and calculated the interest claim on that principal for the period until 28 August 2009 at an amount ranging up to DKK 2,257 million (approximately EUR 300 million). Such amended claim replaced the previous one. The claim for the period from July 2004 to the end of the contract period (January 2009) will be presented to the Tribunal at a later date.

As requested by the Tribunal, on 11 March 2010, TP S.A. submitted to the Tribunal the final quantification of its position for the first period (“final prayers for relief”). On 20 July 2010 the Chairman of the Tribunal advised that the Tribunal does not anticipate issuing an award (for the period from February 1994 to June 2004-Phase1) before the beginning of September 2010.

The Company strongly disputes both the contractual basis of the claim and the amounts claimed. It has presented to the Tribunal an alternative position based on its clear understanding, and intent, of the contract.

Management has made what it considers to be an appropriate provision for this matter, as supported by outside Counsel and other professional advisers. Information regarding the amount of the provision has not been separately disclosed as, in the opinion of Management, such disclosure could prejudice the outcome of the pending case.

c. Guarantees

As at 30 June 2010 and 31 December 2009, total guarantees granted by Telekomunikacja Polska S.A. to purchasers of debt securities amounted to PLN 4,221 million and PLN 4,242 million, respectively.

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

As at 30 June 2010, 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 a 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 mainly comprises interconnect and leased lines, fees for distribution of products through its own sales network, property rental and related fees. The purchases from the subsidiaries comprise mainly costs of interconnect, leased lines, network services, selling fees, property rental and related fees as well as customer support and management services. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

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

TP S.A.'s financial income earned from its subsidiaries comprises dividends from subsidiaries, including a dividend declared in the second quarter of 2010 by its wholly-owned subsidiary PTK-Centertel Sp. z o.o. in the amount of PLN 1,600 million, of which PLN 800 million was already distributed and PLN 800 million is to be distributed by 31 October 2010. The financial income also comprises interest on bonds issued by the subsidiaries and interest on loans granted to the subsidiaries. Financial costs incurred by TP S.A. in transactions with related parties mainly comprise interest on bonds issued to the subsidiaries and interest on loans from the subsidiaries. The Company's financial receivables from its subsidiaries mainly comprise bonds issued by the subsidiaries, the aforementioned dividends and loans granted to the subsidiaries, together with accrued interests. TP S.A.'s financial payables to related parties comprise bonds issued to the subsidiaries and loans from the subsidiaries, together with accrued interests.

(in PLN millions)	*6 months ended 30 June 2010*	*6 months ended 30 June 2009*
Sales of goods and services to:	**492**	**483**
TP Group	408	402
- TP Group (subsidiaries)	408	402
- TP Group (associates)	-	-
France Telecom Group	84	81
- France Telecom S.A. (parent)	62	55
- France Telecom (group)	22	26
Purchases of goods (including inventories, tangible and intangible assets) and services from:	**471**	**405**
TP Group	398	322
- TP Group (subsidiaries)	398	322
- TP Group (associates)	-	-
France Telecom Group	73	83
- France Telecom S.A. (parent)	46	55
- France Telecom (group)	27	28
Financial income:	**1,853**	**3,040**
TP Group	1,853	3,040
- TP Group (subsidiaries)	1,853	3,040
- TP Group (associates)	-	-
France Telecom Group	-	-
- France Telecom S.A. (parent)	-	-
- France Telecom (group)	-	-
Financial expense:	**299**	**237**
TP Group	299	237
- TP Group (subsidiaries)	299	237
- 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 2010*	*At 31 December 2009*
Receivables from:	**203**	**185**
TP Group	149	125
- TP Group (subsidiaries)	149	125
- TP Group (associates)	-	-
France Telecom Group	54	60
- France Telecom S.A. (parent)	47	52
- France Telecom (group)	7	8
Financial receivables from:	**4,371**	**3,683**
TP Group	4,371	3,683
- TP Group (subsidiaries)	4,371	3,683
- TP Group (associates)	-	-
France Telecom Group	-	-
- France Telecom S.A. (parent)	-	-
- France Telecom (group)	-	-
Payables to:	**351**	**295**
TP Group	267	203
- TP Group (subsidiaries)	267	203
- TP Group (associates)	-	-
France Telecom Group	84	92
- France Telecom S.A. (parent)	68	80
- France Telecom (group)	16	12
Financial payables to:	**8,910**	**9,398**
TP Group	8,910	9,398
- TP Group (subsidiaries)	8,910	9,398
- 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 31 December 2009 TP S.A. had a receivable amounting to PLN 177 million from TP Invest Sp. z o.o. resulting from disposal of Virgo Sp. z o.o. shares in 2009.

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 2010 and 2009 amounted to PLN 5.1 million and PLN 7.3 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 2010 and 2009, the amount of accrued costs for bonuses for the Company's Management Board amounted to PLN 1.5 million and PLN 2.6 million, respectively.

In addition to the amounts presented above, 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. During the 6 months ended 30 June 2009, the estimated cost of share-based payments under TP S.A.'s and France Telecom S.A.'s incentive programmes allocated to the Company's Management Board amounted to PLN 0.7 million. In the 6 months ended 30 June 2010, no cost was recognised in respect of France Telecom S.A.'s incentive programme as the vesting period of the programme ended in 2009.

Mr Vivek Badrinath resigned from the Supervisory Board of TP S.A. with effect on 22 April 2010.
On 23 April 2010, the Annual General Meeting of Shareholders appointed Mr Thierry Bonhomme and Mr Olaf Swantee to the Supervisory Board of TP S.A. and renewed mandates of the following persons, whose term of office expired as of the day of this General Meeting: Mr Jacques Champeaux, Mr Ronald Freeman and Mr Mirosław Gronicki. On the same day, the term of office in the Supervisory Board of TP S.A. expired for Mr Antonio Anguita.

10. Subsequent events

There was no significant event after the balance sheet date.

Management Board's Report on the Activity of

TELEKOMUNIKACJA POLSKA GROUP

in the first half of 2010

28 July 2010

This report on the activity of the Telekomunikacja Polska Group ("the TP Group" or "the Group") in the first half of 2010 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).

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CHAPTER I

HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of 30 June 2010 and for the six-month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

	For 6 months ended				
	30 June 2010		30 June 2009		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue, including:	7,860	1,963	8,497	1,881	-7.5%
Fixed line services	4,599	1,149	5,087	1,126	-9.6%
Mobile services	3,766	941	3,952	875	-4.7%
Eliminations and unallocated items	(505)	(126)	(542)	(120)	-6.8%
EBITDA	2,892	722	3,214	711	-10.0%
EBITDA margin	*36.8%*		*37.8%*		-1.0pp
Operating income	981	245	1,111	246	-11.7%
Operating margin	*12.5%*		*13.1%*		-0.6 pp
Consolidated net income	610	152	704	156	-13.4%
Net income attributable to owners of TP SA	609	152	703	156	-13.4%
*Weighted average number of shares (in millions)**	*1,336*		*1,336*		
Earnings per share (in PLN) (basic and diluted)	0.46	0.11	0.53	0.12	-13.2%
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	2,189	547	2,880	637	-24.0%
Net cash used in investing activities, including	(1,007)	(251)	(1,385)	(307)	-27.3%
Capital expenditures (on accrual basis)	(715)	(179)	(905)	(200)	-21.0%
Net cash used in financing activities	(184)	(46)	(608)	(135)	-69.7%
Net change in cash and cash equivalents	998	249	887	196	

	As of				
	30 June 2010		31 December 2009		Change
Consolidated Balance Sheet	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Cash and cash equivalents	3,218	776	2,218	540	45.1%
Other intangible assets	2,685	648	2,767	674	-3.0%
Property, plant and equipment	16,599	4,004	17,743	4,319	-6.4%
Total assets	29,395	7,090	29,365	7,148	0.1%
Financial liabilities at amortised costs, of which:	6,299	1,519	6,408	1,560	-1.7%
Current	319	77	375	91	-14.9%
Non-current	5,980	1,442	6,033	1,469	- 0.9%
Other liabilities, current and non-current	7,921	1,911	6,404	1,558	23.7%
Total equity	15,175	3,660	16,553	4,029	-8.3%

Notes:

1 – PLN/EUR fx rate of 4.0042 applied

2 – PLN/EUR fx rate of 4.5184 applied

3 – PLN/EUR fx rate of 4.1458 applied

4 – PLN/EUR fx rate of 4.1082 applied

** Weighted average number of shares in 6 months ended 30 June 2010*

1.1 Comments to the Consolidated Income Statement Items

TP Group's consolidated revenues amounted to PLN 7,860 million in the first half of 2010 and were lower by PLN 637 million compared to the first half of 2009. Lower revenues resulted from a decrease of PLN 488 million in fixed line revenues, mainly due to further erosion of the fixed line customer base, and a decrease of PLN 186 million in mobile revenues, mainly due to the effects of reductions in mobile termination rates.

Operating income before depreciation and amortisation expense and impairment of non-current assets (EBITDA) amounted to PLN 2,892 million in the first half of 2010 and was PLN 322 million lower compared to the first half of 2009.

Operating income (EBIT) amounted to PLN 981 million in the first half of 2010 and was PLN 130 million lower than in the first half of 2009.

In particular, year-on-year, in the first half of 2010:

- Commercial expenses decreased by PLN 36 million;
- Network and IT costs decreased by PLN 32 million;
- Purchases and payments to other operators (interconnect and roaming costs) decreased by PLN 179 million;
- Labour expenses were lower by PLN 45 million;
- Depreciation and amortization expense decreased by PLN 207 million
- Net finance costs charges were PLN 51 million lower than in the first half of 2009 (for details, please see Condensed IFRS Interim Consolidated Half-Year Financial Statements).

Consolidated net income attributable to owners of Telekomunikacja Polska S.A. ("the Company", "the Parent Company", "TP") amounted to PLN 609 million in the reported period, which is a 13.4% decrease compared with the first half of 2009. Earnings per share decreased from PLN 0.53 to PLN 0.46 in the reported period.

1.2 Comments to the Consolidated Cash Flow Statement Items

Net cash provided by operating activities totalled PLN 2,189 million in the first half of 2010 and was lower by PLN 691 million year-on-year, mainly due to; trade receivables fluctuation (PLN 320 million year-on-year) and exchange rate effect on derivatives paid, net (PLN 251 million year-on-year) combined with increased outflows from interest and interest rate effects on derivatives paid, net (PLN 150 million year-on-year).

Net cash used in investing activities amounted to PLN 1,007 million in the first half of 2010 and was lower by PLN 378 million compared to the first half of 2009, which was attributable mainly to a decrease of PLN 384 million in cash outflow on property, plant, equipment and intangible assets (year-on-year).

Net cash outflows from financing activities amounted to PLN 184 million in the first half of 2010 and were by PLN 424 million lower than in the first half of 2009. The decrease resulted from lower repayments of long-term debt (PLN 905 million) and lower repayments of bank overdrafts and other short-term borrowings (PLN 1,799 million). These changes were partially compensated by lower proceeds from issuance of bonds by PLN 2,199 million.

1.2.1 Capital Expenditures (CAPEX)

TP Group's capital expenditures amounted to PLN 719 million in the first half of 2010. Specifically, fixed line segment and mobile segment capital expenditure amounted to PLN 550 million and PLN 169 million respectively.

Owing to *force majeure* events (long and frosty winter in the first quarter of 2010 and flood in May 2010), TP Group launched and continued its investment projects in difficult conditions.

In the first half of 2010, 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 universal service obligation and significant market position in the telecommunications market; and
- Infrastructural projects required to assure the proper quality of services.

Fixed Line Segment

Fixed line CAPEX totalled PLN 550 million in the first half of 2010 and was PLN 9 million lower than in the first half of 2009.

TP continued its investments under the Investment Declaration resulting from the Memorandum of Understanding signed with UKE on 22 October 2009.

The investment projects included:

- Development of broadband internet access services, particularly television (TVoSAT and Videostrada TP), through purchases of subscriber terminals (Set-Top-Box TV decoders and Livebox modems);
- Modernisation, development and renewal of IT infrastructure, aimed at customer service processes and costs optimisation;

- IT systems development (introduction of new offers and functionalities, modernisation and system support);
- Further development of fiber-optic network and transmission equipment, in order to launch new backbone and access lines;
- Launch of investment projects for after-sales (recorders);
- Further development of the CDMA radio network infrastructure;
- Removal (replacement) of the analog radio access network;
- Continuation of a convergent offer project;
- Expansion of the MAN Metro network;
- Modernisation of network monitoring and management system;
- Development of local area networks (LANs); and
- Research and development (innovative projects related to the development of infrastructure and equipment for the presentation of prototypes and maintenance of the existing infrastructure).

Mobile Segment – PTK Centertel

PTK Centertel's capital expenditures totalled PLN 169 million in the first half of 2010 and were PLN 188 million lower than in the first half of 2009.

Capital expenditures were focused on:

- Development of the CDMA network in the 450 MHz band, to enable access to broadband data transmission in the areas where it is otherwise difficult;
- Expansion of the UMTS/HSPA network, to provide PTK Centertel's customers with the highest service quality and access to rapid data transfer based on cutting-edge technologies.

The CDMA network covered 78.4% of Poland's territory, while the UMTS/HSPA network covered 56% of Poland's population at the end of the first half of 2010.

Other key areas of investments were:

- Capacity for voice services, aimed at maintaining quality;
- Service platforms for Orange multimedia services; and
- New generation (R4) core network infrastructure.

1.3 Comments to the Consolidated Balance Sheet Items

As of 30 June 2010, total equity amounted to PLN 15,175 million and was by PLN 1,378 million lower than six months before. The change is attributed mainly to the declaration of dividends of PLN 2,003 million, partially offset by net income (PLN 610 million) generated in current reporting period.

As of 30 June 2010, property, plant, equipment and intangible assets decreased by PLN 1,226 million year-on-year, mainly as a result of amortisation and depreciation (PLN 1,906 million), partially offset by capital expenditures amounting to PLN 719 million (including PLN 715 million of capital expenditures financed through own resources, and PLN 4 million financed through finance leases).

Total current and non-current assets amounted to PLN 29,395 – level comparable to 2009 year-end.

Total non-current and current liabilities increased by PLN 1,408 million to PLN 14,220 million as of 30 June 2010.

The change is attributed mainly to an increase of current liabilities, dividends of PLN 2,003 million paid on July 1st , which was compensated to some extent by a PLN 334 million decrease of trade payables. Total non-current liabilities amounted to 7,528 and were comparable to 2009 year-end.

1.4 Related Parties Transactions

Please see Note 9 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

For information on significant loan and borrowing agreements, please see section 1.9.2.

On 28 April 2010 TP Emitel Sp. z o.o., a subsidiary of TP S.A., and Telewizja Polska S.A. (“TVP”) concluded an agreement for DVB-T (Digital Video Broadcasting – Terrestrial) multiplex broadcasting and network services. Pursuant to the Agreement, TP Emitel will become a technical operator of Poland’s third digital terrestrial television (DTT) multiplex. The nationwide multiplex will contain up to seven channels. Within the next ten years, TP Emitel will receive from TVP a total of PLN 615.6 million for the third multiplex signal broadcast, signal retransmission, including TVP Info channel regionalisation, as well as development and maintenance of the relevant data communication platform.

Currently, TP Emitel carries out DTT broadcast tests in Warsaw, Poznan, Zielona Gora and Zagan. In total, the signal reaches approximately 20% of Poland’s population. The broadcast pattern is that planned for the first multiplex (TVP1, TVP2, TVP Info, Polsat, TVN, TV4 and TV Puls channels). On February 26, the Office of Electronic Communications authorised TP Emitel to continue the broadcast until the end of May 2010.

1.6 Subsequent Events

Please see Note 10 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for information on subsequent events.

1.7 Scope of Consolidation within the TP Group

Please see Note 5.1 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for information about the scope of consolidation within the TP Group, including the description of the Group’s organisation.

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

Please see Section III of the Additional Information to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for the information about the loan or borrowing collaterals or guarantees provided by the issuer or its subsidiaries.

1.9 Management of Financial Resources and Liquidity of the TP Group

In the reported period, TP Group financed its activities mostly using cash generated from operating activities, as well as obtained from last year’s bond issues.

In the first half of 2010, TP Group repaid long-term debt of PLN 113 million. All debt repayments were carried out on schedule.

TP Group did not raise additional financing in the reported period.

As of 30 June 2010, TP Group’s interest-bearing liabilities totalled PLN 6.299 million (before derivatives), which is a decrease of PLN 109 million compared to 31 December 2009.

TP Group’s liquidity remained solid, owing to strong cash position, amounting to PLN 3.218 million at 30 June 2010, and available credit facilities totalling the equivalent of PLN 4.200 million (please see section 1.9.3 for details).

Based on available cash, back-up and revolving credit facilities, as well as external sources of financing, the TP Group has sufficient funds to carry out its investment projects, including capital investments, scheduled for implementation in 2010.

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 2010, TP Group concluded the following loan and guarantee agreements:

- On 25 January 2010, the Parent Company concluded a revolving loan agreement with an international syndicate of banks for a total amount of €400 million. The purpose of the new agreement was to refinance a revolving overdraft facility of €550 million that secures TP’s liquidity. The agreement was signed for a period of three years and expires on 18 April 2013. The loan interest is based on the EURIBOR rate for the relevant interest periods plus a bank margin. The agreement includes a loan covenant (please see section 1.9.4 for details);

- On 1 March 2010, TP concluded an agreement with Nordea Bank Polska S.A. and Nordea Bank Finland PLC, under which the latter granted a guarantee of €83 million to the European Investment Bank to secure TP's EUR-denominated obligations under the Financing Agreement of 20 December 2000. The agreement includes a loan covenant (please see section 1.9.4 for details);
- On 23 March 2010, TP concluded an agreement with PKO Bank Polski S.A., under which the latter granted a guarantee of PLN 143 million to the European Investment Bank to secure TP's PLN-denominated obligations under the Financing Agreement of 20 December 2000. The agreement includes a loan covenant (please see section 1.9.4 for details);
- TP concluded a current account overdraft agreement with RBS Bank (Polska) S.A., totalling PLN 62 million. The agreement provided an overdraft facility to secure the Parent Company's liquidity and current financing in the period between 11 January 2010 and 30 June 2010.

In the first half of 2010, TP Group did not use any bank loans. In the same period, the bank borrowings in the amount of PLN 113 million were repaid.

1.9.3 Unused Credit Facilities

As of 30 June 2010, TP Group had outstanding general-purpose credit facilities amounting to an equivalent PLN 4,200 million, including:

- EUR 400 million and PLN 2,500 million available to TP;
- EUR 5 million and PLN 20 million available to PTK Centertel.
- PLN 1 million available to Ramsat.

1.9.4 Loan Covenants

Under agreements concluded in the first half of 2010, TP as the Parent Company is a party to a loan agreement 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 ratio of net debt to EBITDA calculated as of 30 June 2010 was 0.5:1 (compared with 0.6:1 in the same period of 2009).

1.9.5 Ratings of the TP Group

The ratings at 30 June 2010 were as follows:

Moody's Investor Services	A3, stable outlook
Standard and Poor's Rating Services	BBB+, stable outlook (confirmed in July 2010)
Fitch IBCA	BBB+, stable outlook (confirmed in June 2010)

1.9.6 Hedging Transactions

TP Group continued to minimise its exposure to foreign exchange volatility in the first half of 2010, covering almost 100% of its debt denominated in foreign currencies and 82% of the UMTS liabilities (the discounted carrying amount). TP Group also continued its hedging policy, securing the portions of the exposure on its operational liabilities (e.g. handsets purchases).

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

At 30 June 2009, TP Group's quick and current ratios decreased compared to the end of 2009. The lower TP Group liquidity was driven by an increase of PLN 1,470 million in current liabilities, which was only partially offset by an increase of PLN 1,242 million in current assets and a decrease of PLN 37 million in inventories.

For the super-quick ratio, which remained flat compared to the end of 2009, the increase in liabilities was offset by an increase of PLN 109 million in receivables.

The liquidity ratios for the TP Group at 30 June 2010 and 31 December 2009, respectively, are presented in the table below.

	30 June 2010	31 December 2009
Current ratio Current assets / current liabilities*	1.09	1.22
Quick ratio	1.05	1.15

Total current assets – inventories / current liabilities*		
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.73	0.72

*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 2,999 million at the end of June 2010 (from PLN 4,382 million at the end of 2009).

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. Roland Dubois - Board Member

hereby confirms that according to its best knowledge the condensed interim 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 entity authorised to audit financial statements, carrying out the review of the condensed interim consolidated financial statements, has been appointed in compliance with the relevant regulations and that both the entity and the certified auditors carrying out the review meet the requirements to issue an impartial and independent auditor's report on the review of the condensed interim consolidated 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 the results of the TP Group for the first half of 2010.

CHAPTER II

MANAGEMENT BOARD’S REPORT ON OPERATING AND FINANCIAL PERFORMANCE OF THE TP GROUP

in the first half of 2010

3 FIXED LINE SEGMENT

3.1 Financial Performance

Fixed Line Segment: Income Statement

	for 6 months ended		
PLN million	30 June 2010	30 June 2009	Change
Revenues	4,599	5,087	-9.6%
EBITDA	1,780	2,118	-16.0%
Margin, %	38.7%	41.6%	-2.9pp
Operating income	515	749	-31.2%
Margin, %	11.2%	14.7%	-3.5pp

TP Group's fixed line business remains under strong regulatory and competitive pressure. Revenue decline, which slowed down in the second quarter (to -8.7% year-on-years from -10.5% in the first three months this year) can be attributed to the following factors:

- fixed-to-mobile substitution in access and traffic;
- customer price sensitivity, reflected in further migration to Wholesale Line Rental-based offers from alternative operators;
- regulatory reduction of retail fixed-to-mobile prices (in November 2009), following MTR cuts in 2009.

As a result, retail fixed voice base (PSTN and ISDN only) declined by -10.9% year-on-year while fixed voice average revenue per line dropped by -6.3%.

At the same time, the broadband segment entered a stagnation phase, mainly due to intensive price competition and past regulatory framework (BSA), which had made TP Group's retail service non-competitive in terms of prices. Broadband service revenue fell by 2%, mainly as a result of a combination of the following factors:

- decrease in retail broadband customer base (down 0.3%);
- decrease in retail broadband ARPU (down 2.7%);
- stable revenue stream from business data transmission services.

Fixed line EBITDA margin was down 2.9 percentage points. Operating expenses decreased by PLN 150 million (or 5.1%), mainly as a result of lower interconnect costs (down PLN 94 million), labour expenses (down PLN 43 million) and network & IT expenses (down PLN 23 million).

In order to mitigate the trend of decreasing revenues and profitability of the fixed line segment, the TP Group continues to focus on increasing its revenues from data services, mainly broadband and data transmission, and value-added services, such as VoIP, television and multimedia services, as well as to continue streamlining its cost base (please see section 6.3 for details).

3.2 Market and Competition

Market for Fixed Line Voice Services

The fixed line penetration rate continued to fall in the first half of 2010, reaching 26.8% of the population at the end of June 2010 (compared to 27.1% at the end of 2009).

Increasing popularity of mobile technologies has been greatly contributing to fixed voice traffic migration to mobile networks. In Central and Eastern Europe (including Poland), where the fixed line penetration at the time of introduction of mobile technology was much lower than in West European countries, the mobile telephony is much more a direct substitute to fixed line telephony than a complementary service.

In addition, competition further intensified in the fixed line telecommunications market in Poland, putting additional pressure on TP's voice fixed line revenues.

Cable television operators focused on expanding the range of fixed line voice and internet access services. Mobile operators continued to develop and promote Home Zone offers and launched voice tariff reductions in an attempt to attract fixed line customers to mobile. An increase in the number of WLR (wholesale line rental) lines was accompanied by steady growth in unbundled local loops purchased by alternative operators under wholesale LLU (local loop unbundling) agreements.

Regulatory decisions had an impact on top line, as a result of reductions in interconnection rates, both mobile termination rates (which for TP Group results in the requirement to lower retail F2M prices) and F2F termination rates (under RIO). The on-going fixed/mobile substitution mainly contributes to deterioration of the fixed line customer base in Poland. This applies not only to TP, but also to a number of other fixed line local access operators.

TP faces competition in virtually all fixed line voice market segments.

Broadband Internet Access Market

According to TP Group’s internal estimates, Poland’s fixed broadband market expanded by 8% during the first half of 2010 in terms of access lines (year-on-year), a significant slowdown compared with the 11% growth one year before. The penetration of broadband services in total Poland population reached 16.5% by the end of June 2010 (compared to 15.3% at the end of June 2009).

The growth of the broadband market value was slightly over 6% in the first half of 2010 (year-on-year).

Cable television (CATV) operators continue to exert strong competitive pressure on TP Group. Their total market share has been systematically growing, though a majority of the biggest CATV operators reported a downward trend in net additions (year-on-year) in their subsequent quarterly results. As of the end of June 2010, CATV operators’ market share was estimated at 27% by volume or 24% by value. The gradually strengthening market position of cable TV providers results from a growing popularity of bundled offers, which may be effectively sold owing to CATV operators’ strong position on the television market.

Development and growing popularity of new technologies, including radio access, contributes to the dynamic development of small local internet providers, especially outside big cities. Such players, though very fragmented, represent together a marked competitive force in the broadband market.

Since the beginning of 2010, BSA-based operators have attracted fewer new customers: 52,000 (compared to 64,000 in the first six months of 2009). At the end of June 2010, BSA-based broadband lines represented a 8% share in the broadband market (by volume).

The LLU-based customer base reached 76,000 at the end of June 2010. Further growth in the popularity of the LLU access is expected (also as a result of migration from BSA).

TP Group has taken active measures to maintain its competitive edge in this rapidly growing market. Orange’s market share in the BSA segment was approximately 27% at the end of June 2010.

Since December 2008, TP Group (under the Orange brand) has also been offering broadband services based on the CDMA radio technology. Orange’s broadband market share at the end of June 2010 was estimated at near 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 2010	30 June 2009	Change
Revenues from fixed line services:	2,665	3,091	-13.8%
Subscription and traffic	2,106	2,509	-16.1%
Payphone revenues	7	14	-50.0%
Interconnect	552	567	-2.6%
Number of fixed lines, ‘000 (excl. WLR and VoIP)	6,750	7,503	-10.0%

Retail fixed voice service revenues saw further erosion in the first half of 2010 resulting from a continuous competitive pressure coming from WLR-based operators and from fixed-to-mobile substitution. These revenues decreased by PLN 403 million (or 16.1%) compared to the first half of 2008. TP’s revenues were negatively impacted by the regulatory environment, in particular reduction of retail fixed-to-mobile prices as well as reference interconnect offer (RIO) rates.

Total number of lines served by TP decreased by 576,000, a 6.7% decline compared to the end of June 2009. This erosion was driven by a 753,000 drop in retail lines (-10.0% year-on-year), partially offset by growth in wholesale lines (WLR) by 177,000 (+16.1%).

TP is actively working to further limit the erosion of its home phone subscriber base by active sales of new tariff plans ('doMowy 60' [Home 60], 'doMowy 300' [Home 300] and 'doMowy 1200' [Home 1200]) and value added services, as well as intensified sales of fixed broadband internet access. Furthermore, during the first half 2010 TP Group launched fixed telephony service provided by PTK Centertel using the WLL mobile technology, thus offering price-sensitive customers an alternative to similar solutions offered by competitors . These initiatives, especially the new tariff plans, are aimed at increasing customer loyalty by using the 12-month/24-month loyalty agreements.

The above mentioned limited TP's traffic market share erosion in all traffic types. According to TP's estimates, the Company had the following market shares:

Fixed voice market share in second quarter of 2010[1]

	2 Q 2010 (estimated)	2 Q 2009	Change
Overall traffic[2] :	74.6%	76.4%	-1.8pp
of which domestic long distance calls	71.1%	72.8%	-1.7pp
of which fixed-to-mobile calls	77.2%	77.3%	-0,1pp
of which international calls	64.2%	65.5%	-1.3pp
of which local calls	75.5%	77.8%	-2.3pp
Retail local access[3]	66.2%	71.4%	-5.2 pp
Total local access[4]	79.1%	81.9%	-2.8pp

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 2010	30 June 2009	Change
Revenues from data services	1,275	1,301	-2.0%
of which broadband internet services	777	789	-1.5%
of which dial-up internet services	3	8	-62.5%
of which data transmission	348	344	1.2%
of which leased lines	147	160	-8.1%
xDSL* lines, '000	2,022	2,117	-4.5%
Broadband** lines, '000	2,707	2,571	5.3%

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

Due to growing competition from both CATV operators and small, micro internet providers, the total number of TP's broadband lines decreased (including CDMA and BSA PTK Centertel) by 0.3% year-on-year. At the same time, broadband revenues fell by PLN 12 million. Retail ARPU decreased from PLN 58.8 in the second quarter of 2009 to PLN 56.6 in the second quarter of 2010. This combined with the 1.2% growth in data transmission revenues and the 8.1% decrease in leased line revenues resulted in data revenues decreasing by PLN 26 million or 2.0% as compared to the first half of 2009.

[1] Shares in TP's network traffic based on billing data
[2] Traffic share at the as per quarter based on TP's network (mass and business segments)
[3] Excluding customers using TP's lines under WLR/LLU agreements with extra-group operators
[4] Including customers using TP's lines under WLR/LLU agreements

Data services of the fixed line segment accounted for 16.2% of TP Group's total revenues in the first half of 2010 (as compared to 15.3% in the first half of 2009). TP expects to see further growth in data revenues and in its share of TP Group's total revenues.

Broadband access market – key indicators:

	30 June 2010	30 June 2009	30 June 2008
Market penetration rate in Poland – broadband lines (in total population)	16.5%	15.3%	13.8%
Total number of broadband lines in Poland (thousands)	6,281	5,821	5,265
Market share of TP Group (TP + PTK Centertel)	36.0%	39.0%	40.4%

3.4.1 Mass Market

TP Group's fixed broadband customer base decreased by 1.6% year-on-year in the first half of 2010. This was mainly caused by a dynamic development of competitive offers, including those based on LLU and BSA services, with the regulated "retail minus" pricing structure. Economic slowdown, clearly visible since March 2009, was another factor hindering the evolution of the customer base

TP continued to observe a trend of increasing demand for higher broadband speeds, fuelled by price reductions for the top speed options. The 2 Mb/s or higher options accounted for approximately 40% of sales. Owing to a promotional offer for the high-end options of *Neostrada* (6Mb/s, 10Mb/s and 20Mb/s) introduced in April, the 6 Mb/s or higher options accounted for approximately 15% of new additions in the second quarter of 2010 (compared to 2% in the second quarter of 2009).

According to TP's estimates, the total number of mass market connections grew by 6.8% in the first half of 2010 (year-on-year) reaching 5.7 million, bringing the household penetration rate (accoding to dwelling definition) to 42.5% at the end of June 2010, still a relatively low level compared to other countries.

Given that almost 100% of TP's fixed line subscribers are within xDSL coverage (as at the end of June 2010), xDSL services have a solid growth potential.

Facing this very competitive environment and the economic slowdown, TP remained the innovative leader, competing with other operators on service quality by encouraging customers to use higher bandwidth options and cutting-edge access terminals. TP continued to promote bundled offers of broadband and digital TV, offered in both xDSL and DTH (satellite digital TV) technologies, which were accompanied by a rich content offer.

The most important broadband offers available in the first half of 2010 included:

- 'Your Internet' (launched on 7 April 2010)

  This was a bundle promotion combining TP's internet access service (*Neostrada*) with an anti-virus software licence, which enabled TP to promote the Safe Media standard. In addition to lower fees, customers who subscribed to the service on-line received a gift (e.g. digital camera, GPS navigation system or mp4 player, depending on the option and the term of agreement).

Another promotion was dedicated to high-speed *Neostrada* options (6 Mb/s or higher):

- 'Internet Premium' (launched on 7 April 2010)

  The promotion offered reductions in high-speed *Neostrada* prices of up to 43%. The access fees started as low as PLN 1 per month for up to nine months (in case of a 36-month loyalty agreement). The average prices were just PLN 67.68 for the 6 Mb/s option, PLN 75.18 for the 10 Mb/s option, and PLN 82.68 for the 20 Mb/s option. Like 'Your Internet', this promotion also enabled customers to use a safety package.

There was also a promotion offering a reduced fee for the voice and internet bundle:

- 'NeoCalls All Day Long' (launched on 6 May 2010)

  The promotion offered a reduced fee for the *Neostrada* and IP phone (*Neofon*) bundle, which was just PLN 20 higher than the price of *Neostrada* alone (in case of a 24-month loyalty agreement).

Owing to great interest, TP extended its Try&Buy promotional campaign:

- 'Internet Trial' (extended to August 2010)

In this offer, customers can buy *Neostrada* for a promotional price, then cancel the service within the first three months without any cancellation fee. This promotion aims at reducing the key barrier in broadband growth; lack of interest due to limited knowledge of new technologies.

In addition, a promotion for internet beginners was extended:

- ‘Internet for a Good Start’ (extended to September 2010)

  This activates the segment of customers who have not used the internet it is based on the 256 kbps option.

The aforementioned bundle promotions have generated considerable interest in the market.

3.4.2 Business Market

In response to the market demand, in the first half of 2010 TP further extended its data transmission portfolio, particularly in the managed services segment, and launched a number of attractive promotions. A range of dedicated marketing initiatives and sales campaigns were carried out.

Rapid growth of the IP VPN service continued in the first half of 2010. TP stimulated sales, promoted long-term agreements and made its IP VPN offer more attractive by enhancing the service security.

The business market saw a particularly dynamic increase in sales of the Internet DSL service. A new promotional campaign launched in December 2009, involving three promotional offers (i.e. DSL Sprinter, DSL Sprinter for Loyal Customers and DSL Sprinter for NEO), turned out a marked success. Customers were offered preferential access fees during an initial period, reduced subscription fees for value-added services and an installation fee of PLN 1. The new promotion was supported (in January and February) by an advertising campaign on professional portals, including telepolis.pl, computerworld.pl, IDG.pl, wp.pl and interia.pl.

In February 2010, TP broadened its portfolio of managed services by introducing a new LAN management service, which involves installation and lease of CPE devices set-up and managed by TP. It has two options, a simple one, i.e. LAN basic management, and a more complex one, i.e. LAN advanced management. The service is addressed to middle and large multi-site companies with ten or more employees per site. It is targeted at the existing and prospective users of data transmission services, though it may also be provided to customers that use no such services.

VoIP: TP Business IP Package

The ‘Packages for Everyone’ promotion was introduced in June 2010. It offers a reduced monthly fee for selected business packages throughout the term of the 24 month loyalty agreement. The new offer is available to both new customers and the existing subscribers to the *TP Business Package* service. It will last to 31 December 2010.

Voice Services

In the area of basic voice services for the business market, TP continues to develop a service portfolio based on pools of minutes and other benefits included in the subscription fee. Such offers are addressed mainly to SME companies. ‘Phone in the Business Plan’ terminal offer was added to the portfolio in the first half of 2010. Customised offers are prepared for a growing number of large companies. Development of such offers involves a mechanism that has been already used for the purpose of bidding procedures under the Public Procurement Law. This mechanism, expanded to include additional functionalities, has enabled TP to reduce the time to prepare and approve an offer, while assuring the proper level of TP’s revenues.

In addition, the 801-5 infoline service was added to the business numbers portfolio. The new service (offered for a subscription fee of PLN 1) reduces the costs, as the call fee is transferred from the subscriber (the infoline owner) to the calling party.

4 MOBILE SEGMENT

4.1 Financial Performance

Mobile services segment: income statement

	For 6 months ended		
PLN million	30 June 2010	30 June 2009	Change
Segment revenue	3,766	3,952	-4.7%
of which retail	2,980	3,006	-0.9%
of which wholesale	784	945	-17.0%
EBITDA	1,112	1,096	1.5%
Margin, %	29.5%	27.7%	1.8pp
Operating income	466	362	28.7%
Margin, %	12.4%	9.2%	3.2pp

The mobile services market declined for the first time ever in the second quarter of 2009, with -1.1% decrease in value. The downward trend continued throughout the second half of 2009 and the first half of 2010. The market lost -5.6% in value (year-on-year) in the first six months of 2010. Most of this loss can be attributed to the impact of MTR reductions (36% in march 2009 and further 23% in July 2009). In addition, price competition coupled with economic slowdown (impacting customer behaviour) has put additional pressure on the mobile market evolution.

In such market conditions, mobile segment revenue fell by 4.7%, though the downward trend has slowed down in the second quarter (down -9.1% year-on-year) compared to the first quarter (down -0.2% year-on-year). Retail revenue was down -0.9%, as a result of competitive price pressure coupled with customers limiting their spending. Again, these effects were partially offset by higher revenue generated by fixed services sold under Orange brand (mainly WLR and CDMA-based broadband). The customer base of which increased by 58.6%, reaching 239,000 subscribers.

Wholesale revenue accelerated its decline to -17.0%, a result of MTR cuts, partially offset by growth in traffic.

Orange increased its customer base by 1.9%. In particular, its post-paid subscriber base grew by 5.3%, reconfirming TP Group’s strategic focus on value. Dedicated mobile broadband subscriptions were also further up by 14.5%. Pre-paid base was down 1.1%, a result of fierce price competition in 2009.

EBITDA margin for mobile segment increased to 29.5%, more than of offsetting the decline in revenue.

4.2 Market and Competition

The mobile market has entered the saturation phase. The rate of growth of active SIM cards has fallen significantly. The number of mobile users increased in the first six months of 2010 by 1.8% (compared to the end of 2009) and reached 45.8 million at the end of June 2010. As a result, the mobile penetration rate (among population) reached 119.8% (up from 116.4% at the end of June 2009).

In the first half of 2010 the mobile market is continuously under fierce price competition. A price war in the pre-paid, mix and post-paid segments, which had been initiated in 2009 by P4 (acting under the PLAY brand), triggered considerable reductions in the price per minute. The competition for new customers spread into other mobile market segments, especially mobile broadband services.

The three leading mobile operators have been losing their market shares to PLAY and virtual operators. In total, they lost 4.0 percentage points of market share (a decrease from 93.7% to 89.8% between the end of June 2009 and the end of June 2010).

- PTK Centertel’s estimated market share by volume was 30.7% at the end of June 2010;
- PTK Centertel’s estimated market share by value was 31.7% in the first half of 2010. Non-core services have a growing share by value in the revenue structure of mobile operators.

4.3 Mobile Voice Services

Mobile voice services sub-segment: key performance indicators

	For 6 months ended		
PLN '000, unless indicated otherwise	30 June 2010	30 June 2009	Change
Total customers	14,029	13,768	1.9%
of which pre-paid	7,238	7,318	-1.1%
of which post-paid	6,791	6,449	5.3%
Net additions	315	-414	-
of which pre-paid	148	-696*	-
of which post-paid	168	282	-41%
Churn rate			
of which pre-paid	28.8%	35.1%	
of which post-paid	5.9%	5.4%	
SAC, PLN	127	137	-7%
Monthly blended ARPU, PLN	42	45	-5%

* Including customer base rationalisation

PTK Centertel's customer base was 14,029 thousand at the end of June 2010 (up 1.9% year-on-year, as compared to the average market growth estimated at 3 - 4%). Lower subscriber base dynamics can be attributed mainly to activity of new aggressive market players, mainly P4 (PLAY) but also MVNOs, who accounted for a significant share in the mobile market growth.

Net additions totalled 315 thousand: the pre-paid customer base increased by 148 thousand, while the post-paid base by 168 thousand, taking the share of post-paid customers in the customer structure to 48% at the end of June 2010 (up from 47% at the and of June 2009).

Although PTK Centertel increased its post-paid subscriber base and the post-paid share in net additions, this did not contribute to an increase in acquisition costs, mainly as a result of savings and optimisation efforts. Blended unitary SAC (subscriber acquisition cost) was PLN 127 in the first half of 2010, down 7% year-on-year.

Blended ARPU was at PLN 42 in 1H2010, down 5% year-on-year. The decrease in ARPU resulted from a decrease in the average price per minute and a regulatory reduction of mobile termination rates (introduced in 2009).

In April 2010, PTK Centertel introduced innovative segmented offers in the post-paid mass market. Depending on the usage profile, customers can choose from three groups of tariff plans: Dolphin tariffs for frequent and intensive users of voice services, Pelican for customers focused on text and community web-services, and Panther for intensive users of mobile data services (internet, email, etc.). The new offer is well tailored to the needs of different customers, which increases their satisfaction, enhances perception of Orange as an innovative and user-friendly brand, and increases ARPU.

4.4 Mobile Data Services

In the first half of 2010, PTK Centertel continued to expand the fast data transmission technology, HSUPA 2.0 (High Speed Uplink Packet Access) and HSDPA 7.2 (High Speed Downlink Packet Access) with the maximum speed of 7.2 Mb/s, on its network. This is already available in Poland's major cities, which enables Orange customers to transfer data at higher speeds. As of the end of June 2010, 56% of Poland's population was covered with the UMTS/HSDPA technology. Over 87 new UMTS stations were launched in the first half of 2010.

Currently, the data portfolio includes Business Everywhere service for business customers as well as Orange Free service (pre-paid or post-paid) for residential customers.

Orange is the only operator to provide a category of mobile internet services that combine GSM/3G and CDMA access, offering Orange Free Pro and Business Everywhere Pro solutions. As a result of simultaneous access to CDMA and GSM/3G (HSDPA and UMTS) networks, Orange mobile internet services have the largest range in Poland. In cities customers can connect using the 3G technologies, while elsewhere they can use the CDMA network. Both business and residential customers are offered a

fixed/mobile broadband bundle: while purchasing any option of fixed broadband service they can sign up for a promotional offer of mobile internet access.

In the first half of 2010, Orange introduced an attractive SIM-only mobile internet offer: a 25% discount throughout the term of the agreement. In June, it extended a portfolio of terminals dedicated to this offer, introducing the HP Mini 210 netbook in a subsidised scheme. Since June 1, customers can purchase this netbook with any Orange Free tariff plan for a price starting from PLN 1.

The mobile broadband internet access customer base (EDGE and 3G dedicated data services) increased to 433 thousand customers at the end of June 2010 (from 375 thousand at the end of June 2009).

4.5 Other Developments in the Mobile Segment

4.5.1 Roaming

The number of roaming partners further increased in the first half of 2010. As of the end of June, Orange offered roaming services on 440 networks in 193 countries worldwide, including GPRS roaming on 215 networks in 87 countries and 3G roaming on 62 networks in 36 countries. Roaming regulation initiated in June 2007 by the European Commission significantly reduced voice roaming prices, and in July 2009 also SMS and wholesale data transmission rates. As a result of the regulation, roaming revenues and costs decreased compared with 2009. However, the simultaneous appreciation of the Polish zloty as well as increased usage (stimulated by lower prices) and a growing number of interconnect discount agreements improved the roaming margin.

4.5.2 Hosting

As at 30 June 2010, PTK Centertel's infrastructure was used by three virtual operators:

– MNI Telecom Sp. z o.o., offering different brands, including Simfonia and Ezo;

– Aster Sp. z o.o., offering mobile services under its own brand name; and

– Telogic Polska Sp. z o.o., a virtual operator enabler (agreement signed in 2009).

On 21 June 2010, PTK Centertel and Avon Mobile Sp. z o.o. terminated the relevant MVNO agreement.

4.5.3 Fixed Broadband Services

In 2007, PTK Centertel signed a Bitstream Access service agreement with TP in order to offer fixed broadband services to Orange customers.

Towards the end of 2008, the Orange Freedom functionality was extended to include CDMA-based broadband internet access, which greatly expanded its potential customer base.

The Orange BSA-based offer proved a great success with the take-up reaching 239 thousand subscribers at the end of June 2010, corresponding a share of almost 4% in the fixed broadband market.

Ultimately, CDMA is to cover the majority of Poland's territory. By the end of June 2010, the coverage had reached 78,4% of Poland's territory. The use of the CDMA technology considerably raises the broadband internet availability in rural and poorly urbanised areas, contributing to their competitive potential and economic development. It also radically contains the problem of digital exclusion.

4.5.4 Fixed Line Services

Towards the end of 2008, PTK Centertel launched a fixed line service based on WLR access to TP's network. Dedicated offers to business and mass markets were introduced on this basis. By the end of June 2010, the take-up of these offers had reached 67 thousand lines.

A wireless home phone service was introduced in the first half of 2010. Subscribers can make voice calls within 500 m from home. The service is offered under Orange Zone and Extra Business Zone brand names. It is intended as an alternative for customers migrating from fixed line to similar solutions offered by other operators. The take-up of the service had reached 12 thousand by the end of June 2010.

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

Below are presented the key events that in the 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 not to 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 to 7, 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 to 7.

Furthermore, as part of the universal service obligation (USO), TP has to carry out universal service costing and submit its results to an independent audit.

The universal service is a range of telecommunication services that should be available to all end-users of fixed public telephone networks in the territory of Poland at the specified quality and at an affordable price. The USO components include:

- Connecting a single terminal at the subscriber's main location (excluding ISDN);
- Maintaining the subscriber line capable of providing telecommunication services;
- Providing national and international telephone calls, including calls to mobile networks, facsimile communications and data communications (particularly internet access);
- Providing directory enquiry services and directories;
- Providing special measures for disabled users; and
- Providing payphone services.

For additional information about USO, please see section 10.1 below.

Pursuant to President of UKE's decisions, TP is also an SMP operator in the relevant wholesale markets 8, 9, 11, 12, 13 and 14 (excluding connections between 145 locations), according to the European Commission's recommendation of 2003. The resulting regulatory obligations imposed on TP include:

- 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 call origination on a fixed network (it involves enabling end-user service management, offering wholesale services for the purposes of resale (WLR), providing telecommunications infrastructure and enabling collocation and other forms of facility sharing) – the obligation resulting from the decision for the market 8,
  - provide call termination on a fixed public telephone network (it involves enabling end-user service management, offering wholesale services for the purposes of resale (WLR), providing

telecommunications infrastructure and enabling collocation and other forms of facility sharing) – the obligation resulting from the decision for the market 9;

- 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 unbundled access (including shared access) to the subscriber metallic loop or a segment of the subscriber metallic loop for the provision of broadband and voice services – the obligation resulting from the decision for the market 11;
- 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 – the obligation resulting from the decision for the market 12;
- 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 – the obligation resulting from the decision for the market 13;
- 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 – the obligation resulting from the decision for the market 14.

The obligations imposed on TP in the markets 8, 9, 11 & 12 include an obligation to calculate costs of service provision and charge access fees based on the operator's justified costs. The service costing results for these markets are subject to an independent audit.

Pursuant to SMP decisions for the markets 9, 13 & 14, TP has an obligation to determine cost-based access fees.

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.

In May 2010, the President of UKE carried out public consultation regarding the future of the universal service in Poland (for more information, please see section 10.1.14).

5.2 Development of New Infrastructure-based Operators in the Mobile Market

PLAY, the fourth mobile operator, continued rapid growth in the first half of 2010. In view of increasingly evident saturation of the mobile market, PLAY's main objective became to win customers over from other operators. As a result of aggressive marketing and pricing policy and intensive advertising campaigns, particularly regarding number portability, PLAY became the leader in the mobile number portability market (according to P4's forecasts, approximately 600,000 – 700,000 numbers will migrate to PLAY in 2010).

In a press conference, P4 reported revenues of PLN 0.7 billion in the first half of 2010. The revenue growth resulted mainly from a rapid increase in the customer base and MTR asymmetry to the benefit of P4.

In addition to further extensive efforts in the mobile internet market, P4 has entered the fixed line market (UKE has allocated a fixed numbering pool in all zones to P4; the operator is also testing GSM gateways to which a fixed line could be connected, as it intends to launch a service modelled on 'Home Era') and the MVNO hosting market (CATV operators willing to launch voice services may be potentially interested in co-operation with P4). P4 together with PTK Centertel have indicated their intention to take part in a bidding procedure for the LTE network.

The fifth operator, CenterNet, officially launched its services on 30 May 2009. It introduced the first offer to mass market customers in July 2009. Until 30 June 2010, CenterNet had an agreement with the Lux Veritatis Foundation, for which it provided hosting services for the wRodzinie virtual operator and the Polish Fishing Portal, Rybobranie.pl. However, the further market presence of the wRodzinie brand is uncertain, as the Lux Veritatis Foundation and CenterNet accused each other of breaching the agreement and, consequently, mutually terminated it on 30 June 2010. CenterNet has not given up its plans of launching its own brand, Extreme. At present, CenterNet provides services via PTC's network. In December 2009, CenterNet signed an agreement with Aero2, under which the latter is to provide its infrastructure for transmission in the 1800 MHz band. In March 2010, Inea and Mediatel signed a letter of intent regarding co-operation in the development of infrastructure for providing mobile services in Great Poland (Poznań Region). At the end of April 2010, Aero2 acquired CenterNet's debt notes maturing in mid-2011, while in May the President of Aero2 became also the President of CenterNet.

Aero2 also holds some frequencies in the 900 MHz band, which it won in a bidding procedure in the second half of 2008. The company does not use the frequencies on its own, but has signed an agreement for their joint use with Sferia. Aero2, which is linked to Zygmunt Solorz-Żak, has been also allocated some frequencies in the 2.6 GHz band, which are to be used for internet access services.

Aero2 intends to provide particularly wholesale data services. Mobile internet services via Aero2's network have been offered by Cyfrowy Polsat, which had attracted 5,000 customers by the end of the first quarter of 2010.

Sferia, a portable fixed line network operator, has rendered CDMA-based services in the cities of Warsaw and Ostrołęka and their vicinity. It has 350 base stations and their number is to grow to approximately 1,200 by the end of 2010. The company's main shareholder is Zygmunt Solorz-Żak. Sferia co-operates with Aero2, another company linked to Mr. Solorz-Żak. Both companies are developing a rapid mobile internet access network and will sell access thereto on a wholesale basis.

In 2010, the Polish shareholders of Polkomtel (the Plus network operator) declared an intention to sell a 75% stake held in the company (this was announced by the President of PKN Orlen on 13 May 2010).

5.3 Mobile Virtual Network Operators (MVNOs)

First virtual operators have entered in to 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.

According to TP Group's internal estimates, 13 MVNOs had the total base of approximately 496 thousands SIM cards at the end of June 2010, which corresponded to 1.1% of Poland's mobile market by volume. The exact customer base is hard to estimate due to the fact that MVNOs are not required to publish such data and due to unclear interpretation of their announcements concerning sold and active SIM cards. It is estimated that less than 50% of SIM cards are used on a regular basis.

MVNOs' market share by value is probably slightly lower than by volume (in first half of 2010 is approximately 0.4%), owing to the fact MVNO offers attract low-end users.

The first half of 2010 saw the following developments in the MVNO market:

- In June 2010, after three years of presence, myAvon decided to withdraw from the MVNO market;
- The further market presence of the wRodzinie brand is uncertain, as the Lux Veritatis Foundation and CenterNet accuse each other of breaching the agreement;
- CP Telecom, the Carrefour Mova MVNO, is now owned by A4, which has purchased its shares totalling PLN 5.4 million par for €2, taking over the operator's debts.

5.4 New Brands in the Mobile Market

Although MVNOs have not been spectacularly successful in Poland so far, further brands continue to enter this market.

- In January 2010, Inea presented its post-paid offer addressed to residential customers. Upon the launch of its mobile service Inea has become a quadruple-play (4-play) operator.
- On 1 February 2010, Telefonia Dialog offered mobile services as a virtual operator under the Diallo brand. Telefonia Dialog's services are hosted on Polkomtel's network and Diallo is addressed to both post-paid and pre-paid residential and business customers.

In addition, rebranding of two out of three largest brands in the Polish mobile market, Plus and Era, is possible within the next few years.

5.5 CATV Operators

In the broadband market, the TP Group is under the strongest competitive pressure from cable television (CATV) operators, whose aggregate market share has been systematically growing. At the end of June 2010, CATV operators' share in the broadband market was estimated at 27% by volume or 24% by value.

CATV operators may be divided into two categories; operators concentrated in Poland's biggest cities (UPC, Aster and new players in Warsaw: Multimedia Polska and Vectra) and operators active in smaller towns (e.g. Inea and Toya). Vectra was particularly active in 2009; through the acquisition of the Spray

network it entered the Warsaw market in March 2009 and has been carrying out an intensive marketing campaign there since then.

CATV operators are sometimes perceived as having a kind of monopoly in the biggest cities of Poland, as a number of residential districts is dominated by the infrastructure of one operator, which is an entry barrier for other players. However, a process of duplicating operator’s infrastructure has already begun, especially since the entry of Multimedia Polska and Vectra into the Warsaw market. As a result of constant development of their infrastructure (sometimes also by investments in FTTH), cable operators are able to provide higher internet access speeds (even up to 120 Mb/s) than those offered by fixed operators using xDSL technologies.

A common practice of cable operators is to offer higher speeds without increasing the service price. In addition, CATV operators search for market niches, as illustrated by student-dedicated offers of UPC, Multimedia Polska, Inea and Toya. Other trends include adding mobile broadband to fixed broadband service for a small charge (such bundles are offered by Aster City and Multimedia Polska) and development of diversified regional offers in selected areas, such as new residential estates.

Cable operators have still considerable growth potential in terms of broadband services. This results from growing popularity of package offers, that may be effectively sold owing to CATV operators’ strong position on the television market. CATV operators have been very actively promoting their package offers (e.g. UPC’s ‘Take 3, Pay for 2 Forever’ promotional campaign). Poland’s cable television market is fragmented, though there is a growing number of reports about potential consolidation. It is believed that Vectra, UPC and Multimedia Polska are the potential buyers, while Aster City or Stream Communications are mentioned amongst potential acquisitions targets.

CATV operators may potentially intensify their activity in the business market. In July 2010 Aster acquired a 100% stake in Mediatel 4B, a provider of services to the business market.

5.6 Infrastructure Development

In the first half of 2010, TP continued to enhance the infrastructure of its data networks, including IP VPN and broadband networks. This included IP backbone network expansion, enhancement of a network for aggregation of data traffic (from and to customers), and capacity increase for DSLAM access equipment. A significant portion of investments in backbone, aggregate and access networks has been carried out pursuant to the Memorandum of Understanding with UKE dated 22 October 2009.

As part of its efforts to increase the availability of very high speed internet access services and the geographical coverage of the *Videostrada* service, TP implemented new-generation DSL access switches. These are compatible with the VDSL2 access technology, which enables operation of 50 Mb/s subscriber lines.

In addition, the multimedia services infrastructure *Videostrada tp*, Video-on-Demand (VoD) and Digital-to-Home (DTH) satellite television, was further expanded. This has gradually increased the geographical coverage of these services and enabled service portfolio extention to include additional TV channels and more films available on a VoD basis. In particular several high-definition (HD) channels were added to the DTH TV offer.

In the first half of 2010, TP completed a process of adapting its telephone network to the requirements of the Decree of the Minister of Infrastructure of 28 February 2008. The final stage of the adaptation process was the elimination of ‘0’ in DLD dialling codes on 15 May 2010.

PTK Centertel continues a project aimed at increasing the core network capacity to meet the growing demand for voice and data services on both 2G (GSM) and 3G (UMTS/HSPA) networks. The project involves the implementation of new-generation core network infrastructure (R4; based on 3GPP standards). Subsequent BSC and RNC radio controllers have been gradually migrated to the R4 network. As at the end of June 2010, over 20% of GSM and UMTS/HSPA network users were handled using the new-generation core network.

PTK Centertel not only expanded the reach of its UMTS/HSPA services and increased the capacity of its GSM network, but also continued investments in the CDMA network (in the 450 MHz band). The UMTS/HSPA network covered 56% of Poland’s territory, while the CDMA network covered 78.4% three quarters of Poland’s territory at the end of June 2010.

5.7 Claims, Disputes and Fines

Please see Note 8 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for detailed information about material disputes and proceedings against the TP Group companies as well as fines imposed thereon.

5.8 Investigation by the European Commission

Please see Note 8 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for detailed information about investigations by the European Commission.

5.9 Cost Calculation Results

TP

Under the regulatory obligations imposed on TP as an operator having significant market power in the relevant markets for interconnect (markets 8 % 9), unbundled local loop access (market 11), bitstream access (market 12) and retail services (markets 1 to 7) as well as its obligations as a universal service provider, in 2010 TP is to carry out costing of services covered by the aforementioned markets for 2011, and submit the results thereof to an independent auditor selected by UKE. In addition, TP has an obligation to prepare regulatory accounting statements for 2009 and submit them to an independent audit.

In performance of its regulatory obligations, TP submitted a manual for drawing up regulatory statements for 2009 as well as descriptions of service costing for 2011 for the President of UKE's approval. On 28 January 2010, the President of UKE issued a decision on TP's service costing descriptions and regulatory reporting manual. This decision, like the one issued in 2009, 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 filed an application 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.

TP filed a complaint against the aforementioned decision of the President of UKE with the Regional Administrative Court on 2 June 2010. Similar court proceedings were initiated in 2009 with respect to the last year's costing descriptions and regulatory reporting manual. On 30 March 2010, the Regional Administrative Court rejected TP's last year's complaint. However, in its ruling the Court did not directly address the issue of the avoided-cost methodology, but just other specific charges raised by TP. In this year's complaint, TP indicated only the avoided-cost methodology as a disputed issue, so the Court may be expected to address this charge.

On 29 April 2010, the President of UKE called upon Ernst&Young to audit TP's service costing for 2011 and regulatory accounting statements. The audit started on 10 May 2010 and is to end by 31 July 2010 with the submission of the audit report together with the auditor's opinion to the President of UKE and TP.

PTK Centertel

Under the MTR costing obligations imposed on mobile operators by the President of UKE, PTK Centertel shall submit cost calculation results based on MTR actual costs on an annual basis, within a hundred and twenty days after the end of each financial year. In performance of this obligation, PTK Centertel completed the MTR cost calculation and on 30 April 2010 submitted to the President of UKE the costing results for the call termination on PTK Centertel's mobile network service.

TP Emitel

Under the regulatory accounting obligations imposed on TP Emitel by the President of UKE, TP Emitel is to develop regulatory accounting statements for 2009 and submit them to an independent audit.

On 24 June 2010, the President of UKE approved TP Emitel's manual for isolating and allocating assets and liabilities, income and expense to regulated activities for 2009. The manual was approved in the version proposed by TP Emitel.

Under an agreement signed for 2008 and 2009 statements, TP Emitel is to be audited by Deloitte Audyt Sp. z o.o. in conjunction with Deloitte Business Consulting S.A. On 25 February 2010, the President of UKE called upon the auditor to carry out an audit at TP Emitel. The audit is scheduled to start on 12 July 2010 and end before 30 July 2010 with the submission of the regulatory accounting statements together with the auditor's opinion to the President of UKE.

At the same time, the President of UKE's procedure regarding an amendment to the SMP decision for TP Emitel for the market 18 is continued. According to a draft decision, TP Emitel would be released of an obligation to prepare regulatory accounting statements and submit them to an independent audit. Public consultation of the draft decision ended on 21 May 2010 and it was submitted to UOKiK for opinion.

5.10 Functional Separation (UKE's Plans)

On 22 October 2009, following negotiations, 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 implement the package within fifteen months (i.e. by May 2011). 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 work on a new act should end by 25 May 2011. Then, a new regulatory measure, functional separation, will be added to Poland's legal system.

5.11 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, UKE has declared freezing wholesale rates till 2012, while TP is to invest in construction or modernisation of 1.2 million broadband access lines within that period. In addition, TP is implementing 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 latter implements the agreed solutions.

Stabilisation of conditions for business operations and investments in the telecommunications market is another major element of MoU. The President of UKE declared freezing wholesale rates till the end of 2012 at the level defined in the current reference offers. The "retail minus" methodology for defining wholesale rates will be replaced with the "cost plus" model. As a result, over the next three years TP will be in a position to invest in 1.2 million broadband accesses, including 0.5 million new lines and 0.7 million 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. The management currently estimates that related capital expenditures will amount to around PLN 3 billion.

The MoU provides for gradual withdrawal of legal cases and claims between TP, UKE and alternative operators, which is to be aligned with the implementation of the agreement.

In the first half of 2010, TP 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. The most important initiatives in this area include a KPI monitoring process to assure the quality of TP's wholesale and retail services, the Time-to-Market service development process, and compliance with the Good Practice Code that sets communication standards and practices to build a non-discriminatory culture within the organisation.

With respect to the Investment Program, TP and UKE agreed upon the implementation details, which were published, together with TP's 2010 Investment Plan, on UKE and TP's websites. TP's investment plan includes over 10,000 projects in over 4,000 locations in approximately 2,000 communes[5] all over Poland. By 30 June 2010, TP had constructed and provided infrastructure enabling operation of 149,000 broadband lines. Considering the completed projects and the expected outcome of the on-going ones, TP

[5] Polish gminas

has already invested in the fixed broadband infrastructure for a total of approximately 600,000 access lines, which accounts for 50% of its investment obligations.

In performance of TP's obligation to block access of its retail arm to restricted information and data, following the adoption of the Good Practice Code and the introduction of information domains corresponding to different access rights for particular business units, TP adopted the Chinese Wall Regulations. In addition, basic and advanced training of employees and Technical Partners in non-discrimination and Chinese Wall mechanisms was conducted.

As part of a project aimed at separation of retail and wholesale IT environments and introduction of access profiling on the existing functionality basis, a total of 96 IT systems were reviewed. As a result, 57 IT systems were adapted to the Chinese Wall requirements and 9 systems were put out of use. The systems that did not have the access profiling functionality on 31 January 2010 were reported for functional development in 2010.

Simultaneously to the existing systems profiling, TP continued efforts aimed at implementation of a dedicated wholesale IT environment for supporting alternative operator service processes. The main components of this environment will include: ISI, an electronic portal and channel for placement of wholesale orders by alternative operators (the stage one of the implementation has been completed by providing an application that enables alternative operators to access general information and manage their accounts on their own); PRM, a system to support the wholesale process execution; and NSRM, a wholesale billing system.

The implementation of Margin Squeeze and Price Squeeze tests for broadband services is being prepared. TP and UKE have agreed upon the methodology and models of such tests for the BSA, WLR and LLU services. TP has submitted a completed questionnaire regarding test data collection to UKE.

The proper implementation of MoU by TP is verified by an external auditor on a quarterly basis. Reports on three quarterly audits conducted hitherto generally confirmed the effective implementation of MoU by TP. Results presented by the auditor (AT Kearney) in the final report from the audit #3, delivered to UKE on July 16th, show substantial progress comparing to the former audits. Most of the areas are evaluated positively or show TP's execution ahead of the plans (like BBI Program). The majority of obligations were judged as met in the full range defined by the Arrangement, satisfied in an alternative way or are expected to be carried out properly in the future due deadlines. Only less than 2% of obligations were evaluated to be inconsistent with the provisions and / or schedule of the Arrangement and require some corrective actions from TP. Most of the auditor's reservations relate to Chinese Walls and non-discrimination areas, where work is in progress and auditor expects that next audits will confirm TP's compliance with the Arrangement. The progress was also positively commented by the UKE President on the UKE website. The implementation of the MoU is also regularly discussed by a steering committee including TP CEO and the President of UKE.

5.12 Compensation for Universal Service Costs

Pursuant to the President of UKE's decision of 5 May 2006, TP is an operator designated to provide the universal service. Owing to the special 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. 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 pending procedures related to compensation of the universal service net cost concern the following applications submitted by TP:

- Application for 2006: On 29 June 2007, TP applied to UKE for compensation for 2006 (8 May to 31 December). The Company calculated the deficit related to provision of the universal service at PLN 139.93 million. UKE refused to grant any compensation to TP. The Company appealed against the refusal to the Regional Administrative Court, which on 25 June 2008 reversed UKE's decision refusing to grant the compensation. The ruling was appealable and UKE appealed to the Supreme Administrative Court, which on 5 August 2009 rejected UKE's cassation appeal. Consequently, UKE has to re-examine TP's application for compensation of the net costs for 2006.
- Application for 2007: On 27 June 2008, TP filed an application with UKE for compensation for 2007. The net costs were stated at PLN 219.19 million. On 30 October 2009, the Regional Administrative Court examined TP's complaint for the President of UKE's inactivity with respect to the decision for 2007. The court ordered UKE to issue the decision within two months after the case file transfer. The ruling is appealable. The procedure at UKE is pending.

- Application for 2008: On 26 June 2009, TP filed an application with UKE for compensation for 2008. The net costs were stated at PLN 208.4 million. The procedure at UKE is pending.

UKE's proceedings regarding net deficit compensation for previous years have been extended owing to pending auditor selection procedure. The closing date for bids is 8 July 2010.

On 20 June 2010, TP applied to UKE for compensation for 2009. The net costs were stated at PLN 236.2 million.

5.13 Supporting of the development of telecommunication services and networks Act of May 7th, 2010

The purpose of the act is to create a legal framework allowing the local government to run a telecommunications business, with special emphasis put on broadband Internet access.

As EU funds may be allocated to the development of broadband networks, the act anticipates an easier and streamlined investment process in the telecommunications industry. This would be particularly advantageous for local government entities. The act provides:

- facilitate, to the maximum possible extent, local government's use of EU funds dedicated to the construction of broadband networks,

- support for the local government aiming at the creation of strong operators run by the local government on rural or poorly urbanized areas, supported by public funds,

- increase the control of the President of the Office of Electronic Communications (UKE) over the telecommunications market in the area of investments.

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 declined by 5.4% in the first half of 2010 compared to the first six months of 2009. The main factors which contributed to the decline in the reported period were falling wholesale revenues of mobile operators as a result of UKE's decision on radical MTR reduction in 2009 and the effects of the 2009 price war in the mobile market. The broadband market is slowly saturating and its growth rate by value has more then halved.

The Polish economy has shown first signs of recovery in the first half of 2010:

- Real GDP growth rate for the first quarter of 2010 was 3% (reported by the Central Statistical Office), a significant improvement over the 0.7% growth in the first quarter of 2009;
- Consumer inflation was 2.1% y/y in June 2010 (based on estimates of analysts surveyed by ISB, which were published on 13 June 2010).
- Unemployment is estimated to have fallen to 11.6% at the end of June (after an initial rise to 13% in February 2010).

A slight increase in the GDP growth rate to 2.9% with inflation at 2.4%[6] are expected in 2010 (according to the NBP and Monetary Policy Council's forecast released on 2 June 2010).

The impact of the global financial crisis on the telecom sector results has been moderate. Both residential and business customers, facing economic slowdown, have not been reducing the usage of telecommunication services ,but rather seeking cost optimisation within the possibilities offered by the industry. Internet access services and e-commerce and web advertising services (in line with their growing popularity), have remained relatively insensitive to the economic slowdown.

The main factors negatively affecting the telecommunications market value in the first half of 2010 were related to the mobile market developments: (i) MTR cuts in Q1 and Q3 2009 (the resulting decrease in revenues from call termination on operators' own networks is still visible in 2010), (ii) F2M retail price reductions, introduced by TP in April and November 2009 following the MTR cuts, and (iii) continuation of the price war, that was initiated by Play back in 2009. The intensive price competition in the mobile market continued throughout the first half of 2010, particularly with the introduction of a new post-paid offer by Plus, with an on-net/off-net rate of PLN 0.29 per minute. The resulting price erosion was only partially offset by increased usage, leading to a further decrease in ARPU and hindering mobile operators' performance.

The price competition in the mobile market is stimulating fixed-to-mobile substitution due to the cost ratio between mobile and fixed rates.

A slowdown in the internet access market development was a result of growing saturation (which is seen in lower customer base growth) and aggressive price competition in the market, particularly from cable network and mobile operators.

6.2 TP Group's Strengths

TP Group faces a competitive challenge in Poland's increasingly difficult telecommunications market. Strong competitive and regulatory pressures lead to price erosion. Technological advances and changing requirements and expectations of customers force constant and flexible offer development by operators.

In this challenging market environment, TP Group has some unique strength that enable it to compete effectively with other players. Owing to these strengths, TP Group has sustained leadership in the major market segments.

The TP Group's major strengths that not only enable it to successfully continue its core activity but also expand to non-core areas is its unique resources:

- Largest customer base in the market, including both households and business customers; with 6.8 million fixed and 14.0 million mobile customers, TP Group's is in unique position to reach a broad base of potential users of other services of the TP Group;
- Best developed telecommunication and IT infrastructure in Poland, which is to be further expanded pursuant to the Memorandum of Understanding with UKE; ultimately, 1.2 million broadband access

[6] According to the National Bank of Poland's forecast.

lines, including 1 million of bandwidths of 6 Mb/s or more, built or modernist, enabling a broad range of sophisticated services;

- Well-developed and modern sales & distribution and customer service networks, including use of modern channels to reach customers; this strength has been reinforced by the salesforce integration across the Group and optimisation of sales processes;
- Strength of TP Group's brands (TP, Orange, Neostrada), which are broadly recognised in the Polish market, and the image of a reliable company;
- Broad portfolio of products that meet different customer needs;
- Sound financial base for future growth;
- Access to FT Group's experience and best practices; international expertise and knowledge from different telecom markets are a clear benefit for TP Group's development;
- Highly-qualified and professional workforce; good internal incentive and employee assessment systems;
- Group's own R&D facilities (Orange Labs Polska) and co-operation with the Orange Lab network in the FT Group, enabling access to their expertise and solutions.

Owing to all these strengths, TP Group has all the capabilities to provide each category of customers with exactly the quality products they are looking for at the price they are prepared to pay.

6.3 TP Group's Medium Term Action Plan

One of the most important developments that will continue to affect the TP Group's action plan for the next few years is the Memorandum of Understanding signed with UKE (pleas see 5.11 for detailes). It enables stable growth in established and predictable regulatory environment.

The agreement will also result in changes in the Group's organisation and culture and extended co-operation with alternative operators.

TP Group's objective for the next few years is to fully exploit the opportunities brought by the Memorandum of Understanding with UKE. In addition, the Group will still focus on its core activity, competing in the markets with growth potential, where it will be able to make the optimum use of its strengths.

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

- Fixed line segment – to maintain and defend TP Group's position by maximising retention initiatives and minimising revenue erosion in the segment. The key activity in the fixed line market is securing customer loyalty through the introduction of attractive tariff plans.
- Mobile segment – TP Group's goal is to regain leadership in this market. The Orange brand is to be further strengthened by making both pre-paid and post-paid service portfolio even more attractive. In addition, TP Group wants to be the innovation leader in the mobile internet market and set development trends there.
- Internet access – further improvement in service quality by increasing transfer rates and extending the portfolio to include services based on innovative technologies. In addition, TP Group will expand the geographical range of services by the use of a range of alternative technologies, such as CDMA. Offering the internet access at any location in Poland is one of the fundamental priorities in the Group's development.
- Data services – to maintain the leadership in the data transmission market. This goal will be achieved by providing a complete service portfolio, offering both proven (ATM, FR) and innovative (IP VPN, Metroethernet) technologies.
- Television – further customer base expansion and service quality improvement through technology and content development. TP Group will introduce cutting-edge technologies to assure the top quality of television to its customers. In addition, the scope and attractiveness of the content offer will further increase.
- Integrated offer – responding to customer needs, TP Group will aim at attractive integrated offers combining modern products. Both TP and Orange will use a broad portfolio of their products to offer integrated solutions that will meet the needs of their customers.

- Continuation of saving and transformation projects launched last year, which are aimed at reducing the cost base and improving the operating efficiency.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

7 CHANGES IN THE TP GROUP'S STRUCTURE IN THE FIRST HALF OF 2010

7.1 Changes in the Corporate Structure

, The main organisational changes in the TP Group's structure in the first half of 2010 included:

- Integration of TP and PTK Centertel's support functions (accounting, controlling, treasury, office administration, HR, payroll);
- Changes in the TP Group's sales structures, namely the integration of the TP Group Mass Market Sales Division and the TP Group Business Market Division into the TP Group Sales Division.

In addition, on 20 April 2010 the Management Board took an important step towards the organisational structure optimisation by adopting a resolution on limiting the number of managerial positions and linking them to the size of the area managed.

7.1.1 Management Board

There were no changes in the composition of the TP Management Board. The Management Board is composed of four 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 – Chief Operating Officer; and
- Management Board Member – Chief Financial Officer.

7.1.2 Business Units

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

As of 30 June 2010, TP had the following business units:

1) 2 Offices (TP Management Board Office and Office of TP President's Plenipotentiary for the Implementation of the TP/UKE Memorandum of Understanding);
2) 25 Departments reporting directly to the President of TP Management Board, TP Management Board Members or TP Group Executive Officers;
3) 20 Divisions;
4) 5 TP Group Regions: North, South, East, West and Central.

In addition, five structures responsible for specific areas (Strategy & Development, Product and Content Development, Business Services Marketing, Home Services Marketing, and Content) report directly to the Vice President of the Management Board in charge of Marketing and Strategy.

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. The cost of lease under the agreement will provide the Group with approximately EUR 9 million savings per annum compared to the current situation.

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.

7.2 Ownership Changes within the TP Group in the first half of 2010

7.2.1 Merger of Prado Sp. z o.o. and Ramsat S.A.

On 4 January 2010, the District Court for Cracow registered a merger of Prado Sp. z o.o and Ramsat S.A.

7.2.2 Registration of a Decrease in the Share Capital of Virgo Sp. z o.o.

Decrease in the share capital of Virgo Sp. z o.o. from PLN 289,262,000 to PLN 200,000, i.e. by 289,062,000, was registered on 2 June 2010 in the National Court Register (KRS). The decrease was effected through the redemption of 578,124 shares held by TP Invest Sp. z o.o. pursuant to the Resolution 10/2009 of the General Assembly of Virgo Sp. z o.o. dated 29 December 2009. Currently, the share capital of Virgo Sp. z o.o. amounts to PLN 200,000 and is divided into 400 shares of the nominal value of PLN 500 each.

7.3 Parent Company's Shareholders

As of 30 June 2010, 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 28 July 2010 was as follows:

(in PLN millions)	*% of votes*[2]	*Nominal value*
France Telecom S.A.	49.79	1,995
State Treasury[1]	4.15	166
Other shareholders	46.06	1.846
Total	100.00	4.007

[1] The figures presented are based on the number of shares registered by the State Treasury at the Extraordinary General Assembly of TP held on 23 April 2009. State Treasury did not register its shares at the General Assembly of TP held on 23 April 2010

As of 30 June 2010, 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 2010, 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 the first half of 2010, 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 2010

8.1 Corporate Governance Bodies of the Parent Company

8.1.1 Management Board

The composition of the Management Board did not change in the first half of 2010 and was as follows:

1. Maciej Witucki – President of TP Management Board
2. Vincent Lobry – Vice President of TP Management Board in charge of Marketing and Strategy
3. Piotr Muszyński – Vice President of TP Management Board – Chief Operating Officer
4. Roland Dubois – TP Management Board Member – Chief Financial Officer

8.1.2 Supervisory Board and Its Committees and Changes in Their Composition in the First Half of 2010

The Supervisory Board composition on 1 January 2010:

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

Mr Vivek Badrinath resigned from his position on the Supervisory Board, effective on 22 April 2010.

On 23 April 2010, the mandates of Messrs. Antonio Anguita, Jacques Champeaux, Ronald Freeman and Mirosław Gronicki expired. On the same day, Messrs. Thierry Bonhomme, Jacques Champeaux, Ronald Freeman, Mirosław Gronicki and Olaf Swantee were appointed by the Annual General Assembly as Members of the Supervisory Board.

The Supervisory Board composition on 30 June 2010:

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. Prof. Jerzy Rajski – Independent Board Member
11. Raoul Roverato – Board Member
12. Dr. Wiesław Rozłucki – Independent Board Member
13. Olaf Swantee – Board Member

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

Composition of the Supervisory Board Committees on 30 June 2010:

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 and up to date financial experience and has qualifications in accounting and auditing.

The Remuneration Committee

1. Ronald Freeman – Chairman
2. Olivier Barberot
3. Dr. Wiesław Rozłucki
4. Olaf Swantee

The Remuneration Committee is chaired by Mr. Ronald Freeman, an independent member of the Supervisory Board.

The Strategy Committee

1. Olivier Barberot – Chairman
2. Jacques Champeaux
3. Olivier Faure
4. Dr Mirosław Gronicki
5. Prof. Jerzy Rajski

8.1.3 TP Shares Held by Persons Who Manage or Supervise TP

Members of the Management Board or Supervisory Board do not hold TP or related entities' shares.

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 2010 was as follows:

	30 June 2010
Maciej Witucki	305,557
Piotr Muszyński	190,896

The members of the Supervisory Board of TP do not participate in the Company's incentive program and as at 30 June 2010 held no first option bonds.

As of 30 June 2010, the persons managing or supervising the Company did not hold TP S.A. shares.

8.1.4 General Assembly

On 23 April 2010, the General Assembly of TP approved a dividend of PLN 2,003 million (equivalent to PLN 1.5 per share). The dividend, net of withholding tax, was paid on 1 July 2010.

8.2 Employment in TP Group

As of 30 June 2010, TP Group employed 26,285 people (in full-time equivalents) and was down 9.2% year-on-year.

The workforce reduction resulted mainly from a decrease in TP (by 2,940 employees). This was partially offset by an increase in workforce mainly in Contact Center (by 80 employees), Ramsat (by 43 employees) and Teltech (by 40 employees).

TP's workforce reduction was mainly a result of a voluntary departure programme, which was carried out in the first half of 2010 in accordance with the Social Agreement. In the first six months of 2010, severance pay was paid to 1,188 employees, out of which 1,133 left TP under the voluntary departure programme, and averaged PLN 57.3 thousand per employee.

The workforce restructuring provision after discount and utilisation was PLN 74.3 million at the end of June 2010.

In the first half of 2010, external recruitment in the TP Group totalled 701 positions (excluding temporary replacement agreements), down 12.9% year-on-year. External recruitment was mainly related to sale positions and customer service staff.

Costs of wages, social insurance contributions and other employee benefits in the TP Group amounted to PLN 1,158 million in the first half of 2010 (down 3.8% year-on-year).

8.2.1 Social Agreement

In December 2009, a departure limit for 2010 was set at 1,980, within the total limit specified in the 2009-2011 Social Agreement. The terms of compensation payments to employees, particularly long seniority ones, that would voluntarily leave the Company in 2010 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 2010, 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 (including Executive Committee members); 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. Dilution of the existing shares upon the issue of the new ones will be 0.43% (instead of assumed 0.51%). Cost of the Program of PLN 25 million has been booked over the vesting period.

By 30 June 2010, a total of 2,128,967 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 TP GROUP'S INTERNAL RISKS

The risks mentioned in this report are not intended to constitute an exhaustive list of all possible risks, which may impact the Group. The system of internal control and risk management is designed and implemented by the Management to manage the risk of failure to achieve business objectives. It can only provide reasonable and not absolute 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 when justified).

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Since 2007, TP Group has been enhancing 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 factors within the Group, so preventive actions may be additionally supported. The major risk identification and selection process is co-ordinated by the Enterprise 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 Group's top management.

The priority 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*, an updated TP Group Risk Map is submitted to the Management Board and the Audit Committee of the Supervisory Board. The internal audit plan for each year is developed on the basis of a list of priority risks selected by TP Management Board Members and TP Group Executive Officers.

TP Group's major risks are further used in the strategy revision process and, operationally, in the planning and budgeting process, while defining business objectives and planning actions and initiatives.

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

In February 2010, TP Group announced a new medium-term action plan for 2010–2012, which 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 improve it meet the expectations of external and internal customers to the greatest possible extent.

Due to constant regulatory changes in the telecommunication market, the business action plan will be revised accordingly to assure that the Group's business objectives are fully achieved. However, owing to uncertainty as to the actions of alternative operators, there is a risk that not all the assumed objectives will be achieved as planned.

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.

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 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 the MoU, the President of UKE may resume works on imposing a regulatory obligation of functional separation on TP. Under the current legal regime, no fines can be imposed on TP for non-performance or improper performance of MoU.

9.3 Availability of Skilled Employees

TP Group operates in a market which is affected by a constant risk related to attracting or retaining skilled employees in all business areas. This risk is particularly noticeable in customer service and sales, where personnel rotation is relatively high, and in the technology area, where highly competent employees need to be attracted. Changes in Poland’s labour market increase the risk related to availability of skilled employees, 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.

9.4 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 decrease in customer satisfaction. This risk is mitigated by the proper network development planning, preventive maintenance, implementation of business continuity plans and insurance schemes. The 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 losses as a result, will be borne by the Group.

The Group is exposed to the risk of incorrect selection of access infrastructure technology, as a result of an unexpected shift towards other, previously underestimated or non-existing technologies. The currently recommended network access technologies could turn out to be unfit or insufficient for the implementation of the products expected by customers, while the services provided on the basis of such technologies may fail to meet customer expectations. Owing to the volume of investments involved, such a development may have a long-term and significant negative impact on the financial results and profitability of the Group companies.

9.5 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. To meet customer demand, or upon pressure from service providers or regulatory authorities, TP Group may over the medium-term be required to undertake massive capital expenditure programs designed to increase the capacity of its networks. There is no guarantee that any such necessary or mandatory capital expenditure programs will pay for themselves. If it is not possible to assure returns on such capital expenditure, TP Group’s financial position could be adversely affected as a result.

9.6 IT Systems

As rapid implementation of IT systems has become a necessity to meet changing customer demands and keep pace with the rapid development of competitive offers, there may be a risk of errors or lack of data integrity within connected systems resulting from insufficient testing. Potential failures and reduced availability of critical systems, resulting from frequent changes in the used applications, can lead to decreased quality of services and deteriorated response to customer requests.

9.7 Launch of New Products and Services

To maintain its competitive advantage, TP Group has been launching innovative products and services. Although the Company performs marketing tests, there is a risk that some products or services may not be successful 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 additional marketing actions or failure to generate expected revenues.

In addition, new products and services require 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. Another risk to timely implementation is consultations with UKE, which are

often prolonged. Delays in the launch of new products and services may result in lower than planned take-up, posing a risk to the achievement of the Group's budgeted financial results.

9.8 Dependence on External Partners

TP Group concludes contracts with external partners 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 deficiencies from the Company's partners, resulting in delays in maintenance work and a decrease in quality of services provided by the Group. Similarly, the Group has partially outsourced operation and supervision of IT systems and processes to external suppliers of computer hardware and software. Although it is TP Group's policy to diversify outsourcing, there is a risk that major deficiencies from any key suppliers may negatively affect Group's operational and financial performance.

9.9 Environmental Risk

The Group believes that its activities do not pose a serious threat to the environment. The Group does not engage in any production process which creates a significant threat to rare or non-renewable resources, natural resources (water, air, etc.) or to biodiversity. The Group activities generate waste for which recycling is closely controlled, such as waste electronic equipment, electronics at end-of-life, batteries and storage cells, cables and treated poles as well as other waste.

The Group has implemented action plans aimed at the limitation of its impact on the environment and at maintaining compliance with Polish regulations on environment protection. The Group has been a subject of environmental audits which have confirmed its compliance with Polish regulations and highlighted achievements in the field of limiting the impact on the environment. To achieve improvements in the area of environmental protection the Group has established an on-going system for monitoring and reporting environmental impact. A dedicated team has been established to carry out on-going supervision regarding regulatory compliance, emission levels, as well as to meet other legal requirements in the area of environmental protection.

The Group has recorded a dismantling provision for obligations related to dismantlement and removal of items of its property, plant and equipment as required by the environmental regulations (see Note 28 to TP Group IFRS Consolidated Financial Statements for the year ended 31 December 2009).

9.10 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 – the Polish Post Office 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.

Responding to this issue, TP Group launched the "Polish Post Office project" in 2009. It is aimed at identifying any real estates being the subject of dispute with the Polish Post Office, 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.

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

9.11 Tax Contingent Liability

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes which often 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 (see Note 28 to TP Group IFRS Consolidated Financial Statements for the year ended 31 December 2009).

9.12 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 programmes. The risks include that of infringing copyrights, neighbouring rights or defaming persons or entities, which is amplified by 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 every exploitation field, 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.

9.13 Human Resources Risk and Adjustment of the Organisation Structure

TP 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, improved functioning of employee representative bodies, professional development opportunities, training and 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, including protracted slowdown in the telecommunication market, 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 performs the communications ahead of any reorganisation.

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 2010.

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 (appeals against all unjustified UKE’s decisions are pending). The Group intends to turn to relevant EU institutions whenever it believes that European law is being breached.

10.1.1 Single Reference Offer

On 1 March 2010, the President of UKE obliged TP to change RIO, WLR, BSA and LLU reference offers in their entirety. TP is to introduce a single common process referred to as the Interconnect Co-operation Model, which comprises a number of component processes, including subscriber line orders, assignments, migration with/without number portability (NP), full/shared access deactivation and subscriber’s decision to give up service subscription. Consequently, the deadlines for providing access to particular Regulated Services and other deadlines related to the co-operation between TP and other operators have been unified. In addition, the decision regarding draft single reference offer includes uniform collocation terms.

On 15 March 2010, TP applied to the President of UKE for the re-examination of the case that ended with the decision obliging TP to change RIO, WLR, BSA and LLU reference offers in their entirety. In its application, TP indicated that there were no legal grounds to change the three offers in the manner proposed by UKE.

On 31 March 2010, TP submitted a draft single reference offer for RIO, WLR, BSA and LLU telecommunication access for the President of UKE’s approval. Then, on 19 May and 1 July 2010, TP submitted applications modifying the draft single reference offer.

On 29 June 2010, UKE, having reviewed TP’s application, changed its decision on obliging TP to develop a single reference offer.

On 1 July 2010, UKE released the draft single reference offer for public consultation, which is to end on 30 July 2010. At the same time, UKE announced that the draft would be notified to the European Commission. The draft being consulted is inconsistent with the version submitted by TP.

10.1.2 WLR Service

Pursuant to the Memorandum of Understanding between TP and UKE of 22 October 2009, at the end of October TP withdrew appeals against the majority of WLR decisions, except for decisions for GTS Energis, Dialog, Exatel, Premium Internet, E-Telko, Tele2, Mediatel and Netia. TP promised to withdraw appeals against the latter within 7 days after conclusion of agreements with the relevant operators that would be consistent with Appendix 4 to the Memorandum of Understanding between TP and UKE. Consequently, pursuant to an agreement between TP and Netia dated 23 December 2009 (consistent with Appendix 4 to MoU), on 24 December 2009 TP withdrew its appeal against the WLR decision for Netia (Tele2, Premium Internet), whereas pursuant to an agreement between TP and GTS Energis dated 2 June 2010 (consistent with Appendix 4 to MoU), on 8 June 2010 TP withdrew its appeal against the WLR decision for GTS Energis.

10.1.3 Local Loop Unbundling

TP performs its regulatory obligations on the basis of *TP’s reference offer determining the general terms of local subscriber loop access agreements (full or shared access*, which was approved on 28 November 2008 and subsequently amended on 29 May 2009. Pursuant to the Memorandum of Understanding between TP and UKE, TP withdrew an appeal against the reference offer from the Regional Administrative Court at the end of October 2009. The proceedings in the case were discontinued.

10.1.4 Bitstream Access

In line with the Memorandum of Understanding between TP and UKE, on 6 November 2009, TP filed an application with the President of UKE for amending TP's reference offer for broadband access, including BSA ("the BSA Reference Offer") with respect to Section 8 (Price List). The application aims at introduction of a new 'cost plus' model in accordance with the Memorandum of Understanding.

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. The application is pending.

TP began negotiations with alternative operators on amending interconnect agreements by adjusting the rates to those specified in the BSA Reference Offer of 12 April 2010. As negotiations were prolonged, in June 2010 TP filed 10 applications with UKE for issuing decisions that would implement the settlement model set forth in the BSA Reference Offer.

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).

On 1 July 2010, UKE opened (national) consultation of a draft single reference offer, covering also BSA. UKE announced that the draft would be notified to the European Commission.

10.1.5 Leased Lines

After UKE completed the market analysis and imposed regulatory obligations on TP with respect to the domestic market for leased lines services (market 13/2003) and the trunk segment of the domestic market for leased lines services (market 14), TP submitted a draft leased lines reference offer for the markets 13 & 14 ("RLLO") in July 2009.

On 31 December 2009, the President of UKE approved RLLO (the decision was delivered to TP on 4 January 2010). TP appealed against the decision on 18 January 2010, and so did the Polish Chamber of Electronics and Telecommunications (KIGEiT).

10.1.6 Cable Ducts (ROI)

In June 2009, TP applied to UKE for a decision confirming the expiration of the decision which implemented ROI. The Company argued that owing to the completion of the analysis of relevant markets, the grounds for the implementation of ROI (namely interim provisions of the Telecommunication Law) were no longer valid. On 17 February 2010, the President of UKE refused to confirm the expiration of the decision on ROI approval. TP did not file a complaint.

In line with UKE's decision of 17 July 2009, that was issued upon NASK's request in August 2009, TP submitted a new draft ROI for the President of UKE's approval. The changes included incorporation of a cable chamber into the scope of a cable duct and enabling installation of operators' equipment therein, more strict regulations regarding duct obstruction removal, construction of branches connected to TP's cable ducts and procedures for reporting and handling complaints. The revised offer has not been approved by UKE yet.

10.1.7 Mobile Termination Rates (MTR)

Under the President of UKE's decision of 30 September 2008 (the 2008 MTR decision), the rates for the mobile termination service on the PTK Centertel's network should be set at PLN 0.2162 per minute from 1 January 2009 on and to PLN 0.1677 per minute from 1 July 2009 on. The decision was issued even though a decision of 26 April 2007 which determined subsequent MTR reductions until mid-2010 (the 2007 MTR decision) was in force; consequently, on 30 December 2008, the President of UKE issued a decision on the expiration of the 2007 MTR decision.

In spite of serious legal doubts, this action by the President of UKE necessitates the use of MTRs set out in the decision of 30 September 2008. Therefore, PTK Centertel commenced negotiations with other operators to conclude the relevant annexes to the interconnect agreements to account for new rates for call termination on the PTK Centertel's network. However, none of the operators agreed to the annexes proposed by PTK Centertel, so the negotiations were submitted to the President of UKE, who issued the relevant decisions replacing the interconnect agreements in this respect.

On 8 March 2010, the Antimonopoly Court reversed the President of UKE's decision of 30 September 2008 on changing MTRs due to lack of a consolidation and consultation procedure. UKE appealed against the Antimonopoly Court's ruling. If the ruling is upheld by a higher-instance court, the interconnect decisions based on the MTR decision of 2008 would lose their legal grounds. In such case, it would be possible to resume interconnect settlements using the rates specified in the MTR decision of 2007.

10.1.8 Regulatory Obligations in the SMS Market

On 13 April 2010, UKE launched an analysis of the SMS service on PTK Centertel's network in order to identify the relevant market; determine whether there is any operator having significant market power or any operators having collective significant market power in the relevant market; designate an SMP operator or collective SMP operators; and impose regulatory obligations on such an operator or operators. As the market has been limited to a single operator's network, PTK Centertel's position should be possible to demonstrate, so there is a high risk that UKE will designate PTK Centertel as an SMP operator and, in addition to imposing standard obligations (i.e. non-discrimination, telecommunication access, etc.), will set, already in the SMP decision, wholesale SMS rates that may be lower than those applied now.

10.1.9 Roaming Rate Reduction

Pursuant to the European Commission's regulation, on 1 July 2010 PTK Centertel reduced its roaming rates for incoming calls from PLN 0.85 to PLN 0.74 (incl. VAT) and for SMSs from PLN 0.57 to 0.54 (incl. VAT). The rates for outgoing calls remained the same, i.e. PLN 1.79 (incl. VAT).

In addition, since 1 July 2010 receiving a voice mail message while roaming has been free and a default data roaming limit of €50 has been set for each customer within EU.

The reduction in prices of voice and SMS roaming may result in lower roaming revenue.

10.1.10 Fixed Termination Rates on Networks of Alternative Operators (Designated as SMP Operators in the Market 9)

On 16 December 2008, upon completion of the public consultation process, the President of UKE adopted a position on the symmetry of voice call termination rates on fixed public telephone networks. According to the President of UKE's position, the maximum asymmetry index for fixed termination rates (FTRs) for call termination on TP's network within a numbering zone should be 92% from 1 January 2009 on and then should be gradually reduced to reach 0% on 1 January 2014, whereas in case of call termination outside the transit area, the FTR asymmetry with respect to TP's rates should decrease from 9% to 0% between 1 January 2009 and 1 January 2014.

This position is inconsistent with the opinion of the European Regulators Group and the European Commission, which point out that the introduction of the FTR symmetry is the optimum solution.

In June 2010, the President of UKE opened consultation for Petrotel and Inteligent Technologies decisions that designate them as SMP operators in the market 3/2007 (call termination on a fixed telephone network). For the first time in case of fixed network operators, regulatory obligations proposed by the President of UKE include a ban on overpricing with reference to the allowed asymmetry in settlements with TP. The FTR asymmetry has been sanctioned until mid-2012, the maximum asymmetry index being 27% for the benefit of the alternative operator for local calls and 3% outside transit area.

10.1.11 Telecommunication Law Amendment

The Telecommunication Law amendment of 24 April 2009 was published in the Journal of Laws (No. 86, item 554) on 20 May 2010. The Law was passed to comply with the EU Court of Justice's judgement of 22 January 2009 (case C-492/07). In its judgement, ECS held that a definition of a subscriber in the Telecommunication Law was inconsistent with a definition provided in Article 2.k) of the Directive 2002/21/EC of the European Parliament and of the Council of 7 March 2002 on a common regulatory framework for electronic communications networks ("the Framework Directive") (Official Journal L108, p.33).

The subscriber definition has been extended and now covers:

(i) subscribers who are a party to a written telecommunication service agreement with a public telecommunication service provider; and

(ii) subscribers who are not a party to a written telecommunication service agreement with a public telecommunication service provider.

New obligations of telecommunication operators include:

1. Obligation to determine the rules of providing service to subscribers who are not a party to a written agreement according to the provisions of the Telecommunication Law amendment (Articles 59 & 60);
2. Obligation to deliver any proposed amendment to the terms of agreement in writing to subscribers who have provided their personal data (Article 60a);
3. Obligation to announce any proposed amendment to the terms of agreement (Article 60a);
4. Obligation to inform a subscriber about the right to terminate the agreement (also electronically, upon subscriber's request) if he does not accept the proposed amendment (Article 60a);
5. Obligation to promptly announce any change to the service provider's name, address or seat (Article 60a);
6. Obligation to announce the price list and deliver it to subscribers who have provided their personal data (Article 61);
7. Obligation to announce any proposed change to the price list (Article 61);
8. Obligation to provide a directory service to its subscribers who have provided their personal data (Article 66);
9. Obligation to transfer the number upon subscriber's request free of charge (Article 71);
10. Obligation to provide the President of UKE free of charge with the data of subscribers who have provided their personal data (Article 78);
11. Obligation to provide pre-paid subscribers who have provided their personal data with a basic or detailed billing upon subscriber's request (this may be provided for a fee) (Article 80);
12. Obligation to include subscriber data in the nationwide directory and the nationwide directory service upon subscriber's consent (Article 103);
13. Obligation to inform its subscribers who have provided their personal data about any intended changes in their individual numbers and about their new numbers (Article 131).

In addition, the amendment introduced sanctions for non-performance or improper performance of some of the aforementioned obligations (Article 209(13a)).

10.1.12 New Regulation on Data Retention

The Decree of the Minister of Infrastructure of 28 December 2009 on the detailed data specifications and types of public telecommunication network operators and public telecommunication service providers obligated to data retention and storage was issued pursuant to delegation set out on article 180c(2) of the Telecommunication Law. The obligation to retain, store, protect and provide applies to the data required to determine the network termination point, the telecommunication terminal, the end user, the date, time and duration of a call, the type of call and the location of the telecommunication terminal. The scope of data differs depending on the type of network and the type of service. Article 180c(2.2) of the Telecommunication Law provides that the types of public telecommunication network operators and public telecommunication service providers obligated to data retention and storage shall be determined in a decree. The new decree has imposed this obligation on operators of fixed or mobile public telecommunication networks and providers of public telecommunication services on such networks, as well as providers of public internet access, email and VoIP services. The decree came into force on 1 January 2010. In April 2010, upon TP's request the Polish Chamber of Information Technology and Telecommunications (PIIT) applied to the Ministry of Infrastructure for amending the Decree by extending the deadline for the implementation of its requirements, particularly with respect to ineffective call data retention, by at least six months.

10.1.13 Consultation by the Ministry of Infrastructure Regarding the Future of USO

In February 2010, the Ministry of Infrastructure carried out public consultation regarding the future of the universal service in Poland. The main issues on the consultation agenda included:

- The scope of universal service obligation in view of a proposal to extend USO to include broadband access and mobile communications;
- Transparency of the process of verification of net cost compensation applications;
- Change in the model of universal service financing by operators;
- Determining the minimum number of payphones.

In its opinion, TP objected to the USO extension to broadband access and mobile telephony. Similar position was presented by the industry chambers, Polish Chamber of Electronics and

Telecommunications (KIGEiT) and Polish Chamber of IT and Telecommunications (PIIT). In addition, TP pointed out that the current system was transparent and provided for the participation of operators, through the chambers of commerce, in the compensation proceedings. However, in TP's opinion, the current model of financing needed to be changed due to its ineffectiveness, as TP had received no compensation hitherto. As for the minimum number of payphones, TP called for removal of the obligation to provide payphone service in consideration of high mobile penetration.

10.1.14 Consultation of the President of UKE's Concept of USO in Poland

On 14–28 May 2010, the President of UKE carried out public consultation regarding the future of the universal service in Poland. The President of UKE presented a general concept of a new model of the universal service in Poland. The main assumptions for the universal service obligation are as follows:

- According to the President of UKE's concept, USO will not be extended to include broadband internet access;
- The President of UKE will have the right to decide, based on the market situation analysis, whether it is necessary to designate an operator designated to provide the universal service, and such a decision will be made separately for each universal service component and, if required and reasonable, separately for different parts of the territory of Poland;
- Introduction of the technological neutrality principle, which provides for:
  - considering in the market analysis any services equivalent to those of connecting new users to a fixed network, keeping the connection ready and enabling fax transmission and internet access via subscriber lines,
  - providing the aforementioned services by the designated universal service operator in the form of their functional equivalents;
- Opening the nationwide directory service to competition;
- Introducing direct support for low-income users and/or users with special needs or, alternatively, obligating the designated universal service operator to offer special tariff plans;
- The net cost of the universal service would be reimbursed either from public funds (definitely in case of extension of the scope of the universal service) or a sector fund designed similarly to the existing solution;
- The President of UKE is considering two options of the payphone service: the payphone service obligation is to be either fully excluded (preferred solution) or incorporated into USO. In case of the latter option, the President of UKE's proposal provides for a period of *vacatio legis*, during which payphone availability will be negotiated with local authorities.

In response to the President of UKE's consultation agenda, TP presented its position, backing the following solutions:

- Exclusion of broadband services from USO;
- Introduction of the technological neutrality principle;
- Exclusion of the payphone service from USO.

With respect to other solutions, TP has requested the President of UKE to specify their terms and conditions in more detail.

10.2 Competitive Risks

10.2.1 Fixed/Mobile Substitution

Fixed/mobile substitution is one of the major development challenges for the fixed line segment across Europe. The process of F2M substitution has been particularly intensive in Central and Eastern Europe (including Poland), 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.

The great majority of mobile operators offer MTM (mobile-to-mobile) rates, especially on-net, that are competitive to F2M rates.

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 still 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.

At present, it is fixed line voice services which are becoming an added value to internet or mobile services rather than the other way round. VoIP services are particularly popular in this context. They are activated over a broadband line as the equivalent of a traditional fixed line. This includes a dedicated fixed-line number, which enables easy two-way communication with public telephone networks.

Finally, the aggressive pricing and communication policy of the PLAY network (operated by P4) 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 (which aims at winning over customers from other mobile networks), thus adding to the F2M substitution.

In addition to the pure F2M substitution, bundled mobile and fixed offers have been gaining popularity in the market. These include the ‘Era Fixed Line’ service (two numbers available on one SIM card for a low monthly fee of PLN 5, the fixed line number being active within the home zone of several kilometres) as well as ‘Home Era’ and ‘Era Home Line’ (WLR) offers. By offering attractive bundling offers (pure mobile service + home phone) on their networks, wireless operators win over customers from traditional ‘wired’ telecom operators.

10.2.2 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.

The access to TP’s network based on wholesale line rental (WLR) has been provided since 2006. By the end of June 2010, the relevant regulatory decisions had been issued for Tele2, GTS Energis, Telefonia Dialog, Premium Internet (Netia’s subsidiary), PTC, eTelko, Exatel, MNI, Polkomtel, Długie Rozmowy, eTel, Multimedia Polska, Multimedia Południe, Multimedia Zachód, Mediatel, Telekomunikacja Kolejowa, Netia, In2Loop (Netia’s subsidiary) and Telekomunikacja Novum.

In 2009, TP signed RIO 2008-compliant WLR agreements with the following operators: DID, Crowley Data Poland, VTR, Telekontakt24 and Telestrada, as well as an annex to an agreement with GTS Energis adjusting the terms of provision of the WLR service to RIO 2008.

In 2009, the President of UKE issued two RIO 2008-compliant WLR decisions for new WLR operators: In2Loop (member of the Netia Group) and Telekomunikacja Novum, as well as two WLR decisions for the existing operators: Telefonia Dialog and Długie Rozmowy S.A., partially adapting the terms of provision of the WLR service to RIO 2008.

In the first six months of 2010, TP concluded RIO 2008-compliant WLR agreements with two operators, ETelko and Multimedia Polska, for which the relevant WLR decisions had been issued before.

In the first half of 2010, on average, TP handled 47 thousand WLR orders of alternative operators per month, while the average monthly net increase in executed WLR orders was 14 thousand.

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 2009, TP had signed BSA agreements with 21 companies: ATM, Długie Rozmowy, ESPOL, E-Telko, eTOP, Exatel, GTS Energis, Intertele Mediatel 4B (formerly eTel), MNI, Netia, Petrotel, Polkomtel, PTC, PTK, Sferia, Supermedia, Tele2 (currently Netia), Telefonia Dialog, Telekomunikacja Kolejowa, Telekomunikacja Novum and VECTRA. In addition, an individual decision was issued by UKE in one case (Supermedia).

The BSA Reference Offer 2008, which is currently binding, has imposed on TP an obligation to provide the BSA service at the following levels: Non-managed IP, Managed IP, DSLAM and ATM (currently provided). Upon implementation of all the functionalities specified in the offer, alternative operators will be 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.

In the first half of 2010, TP signed 2008 BSA Reference Offer-compliant BSA agreements with Intertele and Etelko. In case of Długie Rozmowy, on 19 March 2010 UKE issued an individual decision, adapting

the terms of provision of the BSA service to the Reference Offer in force. By the end of June 2010, TP had provided BSA services on the basis of the valid 2008 BSA Reference Offer to the following operators: Exatel, GTS Energis, PTC, Intertele, E-Telko and Długie Rozmowy. In case of Netia and Etop, the terms of settlements between TP and these operators were amended in line with the reference offer in force. For Telekomunikacja Kolejowa, UKE issued an individual decision, adjusting the terms of settlements to the reference offer in force.

The access to TP's local subscriber loop (LLU service) has been provided since 2005. LUPRO, WDM Computers and Netia were the first operators to offer LLU-based services. In the first half of 2010, TP signed further LLU agreements (with Syrion, Syriusz and Multimedia Polska).

Rates for wholesale line rental (WLR), bitstream access (BSA) and local loop unbundling (LLU) on TP's network were determined in the Memorandum of Understanding of 22 October 2009 between TP and UKE.

In 2009, TP Reference Offer of Regulated Services (BSA, WLR, LLU, RIO and 'Superoffer'), which significantly changes the terms of the reference offers in force, was released for public consultation. On 1 March 2010, UKE obligated TP to develop a single reference offer. In performance of this obligation TP submitted such a draft offer within the deadline specified by the Regulator.

10.2.3 Mobile Internet Access

The mobile internet has continued its rapid growth in the first half of 2010. In fact, it has been the fastest growing segment of the telecommunication market in Poland. The mobile internet penetration of Poland's population was estimated at over 5% at the end of June 2010. 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.

The leading providers of mobile broadband services have aimed at enhancing their technological capacity in order to offer higher data transmission rates as well as at increasing the network throughput and the service range.

Steadily falling prices of terminals have eliminated the entry barrier, which until recently was the modem price. Another important factor is the price of the service itself. Operators compete not only by increasing data transfer limits but also by offering lower subscription fees.

There was a clear trend of mobile broadband bundling with fixed access and voice services among the operators that launched commercial services in 2009.

Cyfrowy Polsat entered the mobile broadband market in the first half of 2010. In addition, new telecom operators have announced their plans to launch mobile broadband services.

10.2.4 MVNO Hosting

Some new players have entered the MVNO hosting market, namely:

- wRodzinie: brand owned by CenterNet S.A.; and
- INEA: Great Poland's largest regional telecom operator (January 2010).

However, the situation of MVNOs in the Polish market is still very difficult, mainly as a result of the unequal treatment of market players by the regulator, particularly the asymmetry in MTRs, which was 126% in the January – June 2010 period and is 110% in the July – December 2010 period. In this situation, MVNOs have limited chances to come up with a competitive and profitable offer.

The latest market developments included AVON Mobile Sp. z o.o.'s decision to withdraw from the MVNO market.

10.2.5 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 Gbps and 100 Gbps 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 in connections between 145 locations listed in an appendix thereto as effectively competitive with no significant market players.

TP's principal competitors in the leased lines interconnect (wholesale) market are Exatel, Telekomunikacja Kolejowa, 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, 2009 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 unify and simplify corporate communications and enable easy incorporation of a number of value-added services. They also enable companies to optimise their capital and operating 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 follow this trend, expanding their service portfolio in this direction.

10.2.6 Interconnect Market

The President of UKE has issued decisions for Netia, PT Telegram, Intelligent Technologies S.A. and Aster, 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.

On 1 March 2010, the President of UKE obliged TP to unify procedures and common elements of the RIO, BSA and LLU offers in a single reference offer as well as to introduce changes and new elements into the latter. In particular, TP was obliged to redefine the rules and manner of communication with and access to the Information System Interface (ISI); introduce the Interconnect Co-operation Model into the new offer; determine the terms and conditions of number portability in line with secondary legislation; redefine a procedure for determining and submitting demand forecasts to TP by alternative operators; and introduce the Time-to-Market process into the new offer.

10.2.7 ILD (International Long Distance) Inbound and Gateway Markets

Competition in the ILD inbound and gateway markets is still very intensive.

This is a consequence of a dramatic decrease in domestic interconnect rates and active search by domestic operators for additional sources of revenue. As a result, mobile and fixed network operators establish more and more direct interconnections with both incumbent operators and international operators that focus on voice traffic wholesale, trying 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 are still a source of relatively high revenues.

In this situation, TP has been constantly expanding its foreign interconnect base and increasing its share in Poland's inbound market. On the other hand, TP has been actively attracting new gateway traffic volumes by winning subsequent operators for the ILD service. These efforts increase TP's bargaining power in its relations with foreign partners, which contributed to an increase in revenue from this service in the second quarter of 2010. As part of its international sales strategy, TP concludes short-term bilateral agreements with operators, assuring, to a great extent, stable traffic volumes, stable revenues and costs, the optimum network usage and business predictability.

Another on-going trend in the market for voice calls (including ILD) is a rapid increase in VoIP household penetration rate across Europe (especially Western Europe), which in turn stimulates growth in calls effected in this technology. Therefore, a number of operators is migrating or planning to migrate from the existing TDM technology to the IP technology both within their own networks and in the interconnect traffic (also international). TP is also planning to launch two IP-based interconnect gateways in 2010. However, it is worth noting that migration to the IP technology is a long-term process and involves considerable investments in new infrastructure.

As shown by the experience of TP's foreign partners, such as Telecom Italia, British Telecom, Deutsche Telecom or France Telecom, even though the VoIP technology has been functioning in the market for several years, the migration of complete service portfolio is a difficult and time-consuming process, so both the aforementioned operators and other foreign partners of TP are still using mixed technology and have not entirely given up TDM.

10.2.8 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 in the CEE region, as well as international operators active in Poland.

10.2.9 VoIP Segment

Constant growth in voice-over-Internet Protocol (VoIP) services in Poland is driven mostly by cost-conscious 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.

TP competes with VoIP providers with two of its services: *telefonia internetowa tp* and *neofon tp*. TP anticipates that growth of broadband internet access services will facilitate increased use of the VoIP technology.

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 2010, the Polish economy remained among the European Union leaders in terms of economic growth. In fact, Poland was the only country to report uninterrupted growth in 2009, though in the first quarter, eleven other member states reported GDP growth (year-on-year) for the first time in twelve months. According to the Central Statistical Office's data, real growth rate was 3.0% in the first quarter of 2010 (year-on-year). The GDP growth was fuelled mainly by a 2.2% increase in consumption, which was accompanied by a marked decrease (-12.4%) in investments. However, it seems impossible to clearly assess Poland's economic outlook based on this positive trend in GDP growth rate, as it largely depends on the condition of other European economies, and the Euroland countries are only recovering from the worst crisis in decades. According to the European Commission's data, in the first quarter of 2010 the European Union as a whole reported real GDP growth (year-on-year) for the first time in over twelve months. It was estimated at 0.5%.

The main risk factor for the forecast is the length of recession in the Euroland countries, which are Poland's main trade partners. Prolonged recession may further decrease foreign trade, cut the employment in Poland's export sector and reduce the investment activity. An additional risk factor is 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.

In view of the economic slowdown in other European countries, stable domestic demand should be a growth engine in Poland. However, prolonged slowdown in Europe may also affect the condition of the Polish economy.

According to the inflation projection presented in the Monetary Policy Council's Inflation Report of June 2010, Poland's GDP is expected to grow by 3.2% y/y in 2010. After surprisingly good results at the end of 2009, even more optimistic GDP growth forecast stems from bank predictions, which average at 2.3%. As for now, the Management Board has assumed in TP Group budget plans that GDP growth will reach 1.8% in 2010.

11.1.2 Inflation

The inflation rate was 2.1% at the end of June 2010 (year-on-year).

The fact that the Monetary Policy Council refrained from interest rate cuts imply that the Central Bank does not expect a significant inflationary pressure in 2010 and that inflation is not considered a major risk for the Polish economy.

The inflation rate is expected to fall in 2010 as a result of appreciation of the Polish zloty (and resulting drop in costs of imported goods) and reduced growth of food and energy prices. The budget bill assumes inflation at 1%. The Monetary Policy Council is slightly less optimistic, estimating price growth at 1.5% (year-on-year).

11.1.3 Unemployment and Labour Costs

Over the last few years Poland has seen rapid growth in wages accompanied by a decrease in the unemployment rate. In 2008, the wage growth reached its peak (10.2%), while the unemployment rate fell to the historical low (8.8%) in October 2008. However, the last months of 2008 saw deterioration in the labour market and a rise in the unemployment rate. In 2009, unemployment was even higher, reaching 11.9% at the end of December. Unemployment continued to rise in the first half of 2010, reaching plateau only in May.

The deterioration in the labour market led to significant slowdown in wage growth, the rate of which gradually fell throughout the year. In the first half of 2010, nominal wage growth in the business sector averaged 3.3%.

Further growth of unemployment to approximately 12.8–13.0% at the end of December is assumed in the budget bill for 2010 and market analysts' forecasts. In addition, further slowdown of wage growth is expected. According to the general market consensus, the year-average wage growth (in nominal terms) should not exceed 2.4% in 2010.

11.1.4 Political and Economic Factors

Poland has undergone significant political, economic and social change in the last 20 years. Changes in political, economic, social and other conditions may have material effects on the business, financial condition and results of operations of the Group in the future. There can be no assurance that future political decisions will not adversely affect the business, financial condition or results of operations of the Group.

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 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.

11.2 Factors Related to Financial Markets

11.2.1 General Risks Related to the Polish Market

Although Poland reported a positive rate of GDP growth in 2009, in which it stands apart from other European countries, it 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

The reference interest rates have not been changed since June 2009, when signs of a significant decrease in the economic activity and recession at Poland's main trade partners made the Monetary Policy Council cut the reference interest rate by 0.25% to 3.50%. In view of expected decreasing inflation pressure, the Monetary Policy Council will probably postpone any decisions regarding interest rates until the end of 2010.

A potential increase in interest rates in the second half of 2010 is estimated at up to 50 basis points. This 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 PLN/EUR 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.

The rate of exchange of the Polish Zloty (PLN) against the US dollar and the Euro fluctuated In the first six months of 2010. During that period, the National Bank of Poland's strongest exchange rate of PLN was 2.7930 against the US dollar and 3.8356 against the Euro, while the weakest was 3.4916 and 4.1770, respectively. NBP's mean exchange rates of PLN against the US dollar and the Euro in the first half of 2010 were 3.0199 and 3.9993, respectively.

11.2.4 Situation at the Warsaw Stock Exchange

The first half of 2010 saw a decrease in the indices on the Warsaw Stock Exchange (WSE). The prime index, WIG, was down 1.5%. At the same time, TP shares lost 9.9% (or raised 1.9% excluding the dividend-related reference price change), whereas the large-cap index, WIG20, lost 4.9%.

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.

11.2.6 Potential Sale of TP S.A. Shares by the State Treasury

At 31 December 2009, the Ministry of Treasury held a 4.15% stake in TP S.A., corresponding to 4.15% of the voting power at the General Assembly. Should the State Treasury decide to sell the shares held, this could affect the Company's share price at the Warsaw Stock Exchange.

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

WLR – Wholesale Line Rental