☐ - restated

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2012

(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 **2012**, i.e. **from 1 January 2012 to 30 June 2012**

including condensed 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: **25 July 2012**

TELEKOMUNIKACJA POLSKA SA
(full name of issuer)

TPSA (abbreviated name of the issuer)

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

00-105 (post code)

Warsaw (location)

Twarda (street)

18 (number)

22 527 23 23 (telephone)

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investors@orange.com (e-mail)

www.orange.pl (www)

526-02-50-995 (NIP)

012100784 (REGON)

Deloitte Audyt Sp. z o.o.
(entity authorized to audit)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	half-year 2012	half-year 2011	half-year 2012	half-year 2011
condensed consolidated financial statements data				
I. Revenue	7 190 000	7 519 000	1 701 936	1 895 244
II. Operating income	861 000	1 518 000	203 806	382 628
III. Profit before income tax	626 000	1 298 000	148 180	327 175
IV. Consolidated net income	497 000	1 184 000	117 644	298 440
V. Net income attributable to owners of TP S.A.	497 000	1 183 000	117 644	298 188
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.38	0.89	0.09	0.22
VII. Weighted average number of shares (in millions) (basic and diluted)	1 319	1 336	1 319	1 336
VIII. Total comprehensive income	508 000	1 177 000	120 248	296 675
IX. Total comprehensive income attributable to owners of TP S.A.	508 000	1 176 000	120 248	296 423
X. Net cash provided/(used in) by operating activities	(332 000)	2 506 000	(78 587)	631 664
XI. Net cash provided by/(used in) investing activities	(1 391 000)	58 000	(329 262)	14 620
XII. Net cash used in financing activities	(274 000)	(11 000)	(64 858)	(2 773)
XIII. Total net change in cash and cash equivalents	(1 991 000)	2 546 000	(471 287)	641 746
	balance as at 30/06/2012	**balance as at 31/12/2011**	**balance as at 30/06/2012**	**balance as at 31/12/2011**
XIV. Total current assets	3 107 000	5 128 000	729 120	1 161 022
XV. Total non-current assets	21 962 000	23 091 000	5 153 826	5 227 993
XVI. Total assets	25 069 000	28 219 000	5 882 947	6 389 015
XVII. Total current liabilities	7 332 000	8 120 000	1 720 602	1 838 435
XVIII. Total non-current liabilities	5 065 000	5 765 000	1 188 604	1 305 244
XIX. Total equity	12 672 000	14 334 000	2 973 740	3 245 336
XX. Equity attributable to owners of TP S.A.	12 670 000	14 331 000	2 973 271	3 244 657
XXI. Share capital	4 007 000	4 007 000	940 323	907 218
condensed separate financial statements data				
	half-year 2012	half-year 2011	half-year 2012	half-year 2011
I. Revenue	3 776 000	3 934 000	893 812	991 606
II. Operating income	177 000	985 000	41 897	248 280
III. Profit before income tax	1 499 000	1 736 000	354 826	437 577
IV. Net income	1 512 000	1 733 000	357 904	436 821
V. Earnings per share (in PLN/EUR) (basic and diluted)	1.15	1.30	0.27	0.33
VI. Weighted average number of shares (in millions) (basic and diluted)	1 319	1 336	1 319	1 336
VII. Total comprehensive income	1 513 000	1 722 000	358 140	434 048
VIII. Net cash provided by/(used in) operating activities	(215 000)	1 544 000	(50 892)	389 182
IX. Net cash used in investing activities	(993 000)	(1 014 000)	(235 052)	(255 589)
X. Net cash provided by/(used in) financing activities	(744 000)	1 620 000	(176 111)	408 338
XI. Total net change in cash and cash equivalents	(1 956 000)	2 143 000	(463 002)	540 166
	balance as at 30/06/2012	**balance as at 31/12/2011**	**balance as at 30/06/2012**	**balance as at 31/12/2011**
XII. Total current assets	2 579 000	4 146 000	605 214	938 689
XIII. Total non-current assets	23 278 000	24 331 000	5 462 652	5 508 739
XIV. Total assets	25 857 000	28 477 000	6 067 867	6 447 428
XV. Total current liabilities	7 180 000	8 266 000	1 684 932	1 871 491
XVI. Total non-current liabilities	6 694 000	7 572 000	1 570 882	1 714 363
XVII. Total equity	11 983 000	12 639 000	2 812 053	2 861 574
XVIII. Share capital	4 007 000	4 007 000	940 323	907 218

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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 2012

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

We have reviewed the attached condensed interim consolidated financial statements of the Telekomunikacja Polska Group ('the Group') with Telekomunikacja Polska S.A. having its registered office in Warsaw, at 18 Twarda St, as the Parent company, including a consolidated balance sheet prepared as of 30 June 2012, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the period from 1 January to 30 June 2012 and selected explanatory notes.

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

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

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

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

Deloitte.

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 2012 and the financial result for the six month period ended 30 June 2012 in accordance with IAS 34.

Krzysztof Sowada
Key certified auditor
conducting the review
No. 10944

Gavin Flook
Deputy Chairman of the Management Board

represented by

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-854 Warsaw

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

Warsaw, 24 July 2012

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

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

I. Shareholders entitled to exercise at least 5% of total voting rights at the General Meeting of 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 25 July 2012, i.e. the date of submission of the condensed interim report for the 6 months ended 30 June 2012:

Shareholder	Number of shares held	Number of votes at the General Meeting of TP S.A.	Percentage of the total number of votes at the General Meeting of TP S.A.	Nominal value of shares held (in PLN)	Share in the capital
France Telecom S.A.	664,999,999	664,999,999	49.79%	1,994,999,997	49.79%
Capital Group International, Inc. (1)	67,546,647	67,546,647	5.06%	202,639,941	5.06%
Other shareholders	579,810,833	579,810,833	43.41%	1,739,432,499	43.41%
Telekomunikacja Polska S.A. (treasury shares) (2)	23,291,542	23,291,542	1.74%	69,874,626	1.74%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

(1) Number of shares according to the notification by Capital Group International, Inc. on 15 October 2010.
(2) Voting rights attributable to treasury shares cannot be exercised at the General Meeting of TP S.A.

The ownership structure of the Company's share capital, based on the best information available to the Company as at 26 April 2012, i.e. the date of submission of the quarterly report for the first quarter of 2012:

Shareholder	Number of shares held	Number of votes at the General Meeting of TP S.A.	Percentage of the total number of votes at the General Meeting of TP S.A.	Nominal value of shares held (in PLN)	Share in the capital
France Telecom S.A.	664,999,999	664,999,999	49.79%	1,994,999,997	49.79%
Capital Group International, Inc. (1)	67,546,647	67,546,647	5.06%	202,639,941	5.06%
Other shareholders	584,423,115	584,423,115	43.75%	1,753,269,345	43.75%
Telekomunikacja Polska S.A. (treasury shares) (2)	18,679,260	18,679,260	1.40%	56,037,780	1.40%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

(1) Number of shares according to the notification by Capital Group International, Inc. on 15 October 2010.
(2) Voting rights attributable to treasury shares cannot be exercised at the General Meeting of TP S.A.

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 2012 and the quarterly report for the first quarter of 2012 is as follows:

	25 July 2012	26 April 2012
Maciej Witucki	305,557	305,557
Vincent Lobry	-	-
Piotr Muszyński	190,896	190,896
Jacques de Galzain	-	-
Jacek Kowalski	25,241	25,241

The members of the Supervisory Board of TP S.A. do not participate in the Company's incentive program and as at 25 July 2012 and 26 April 2012 held no bond with a pre-emption right.

Maciej Witucki, President of the Management Board of TP S.A., held 4,000 TP S.A. shares as at 25 July 2012 and 26 April 2012. There was no TP S.A. share held by other members of the Management Board or 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 2012, the Company and its subsidiaries did not grant guarantee or collateral of loan or borrowing to any entity or its subsidiary of the total value representing the equivalent of 10% or more of TP S.A.'s shareholders equity.

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

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

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

Factors that, in the Management Board's opinion, have influence on the Group's operations or may have such influence in the near future are presented in Section 5 of Management Board's Report on the Activity of Telekomunikacja Polska Group in the first half of 2012. Additionally, threats and risks that may impact the Group's operational and financial performance are reviewed in detail in the Chapter IV of the above mentioned Report.

VI. Foreign exchange rates

The balance sheet data as at 30 June 2012 and 31 December 2011 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 2012 and 2011, was translated into Euro at an exchange rate which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of 6 month periods ended 30 June 2012 and 2011.

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 2012	31 December 2011	30 June 2011
Balance sheet	4.2613 PLN	4.4168 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.2246 PLN	Not applicable	3.9673 PLN

TELEKOMUNIKACJA POLSKA GROUP

CONDENSED IFRS INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2012

Contents

CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings per share)

	6 months ended 30 June 2012 *(unaudited)*	***6 months ended 30 June 2011*** *(unaudited)*
Revenue	**7,190**	**7,519**
External purchases	(3,588)	(3,470)
Labour expenses	(1,069)	(1,087)
Other operating expense	(338)	(847)
Other operating income	304	171
Gains on disposal of assets	20	15
Gain on disposal of TP Emitel	-	1,188
Depreciation and amortisation	(1,650)	(1,967)
Impairment of non-current assets	(10)	(4)
Share of profit of investments accounted for using the equity method	2	-
Operating income	**861**	**1,518**
Interest income	17	65
Interest expense and other financial charges	(219)	(258)
Foreign exchange gains	14	12
Discounting expense	(47)	(39)
Finance costs, net	**(235)**	**(220)**
Income tax	(129)	(114)
Consolidated net income	**497**	**1,184**
Net income attributable to owners of TP S.A.	497	1,183
Net income attributable to non-controlling interests	-	1
Earnings per share (in PLN) (basic and diluted)	**0.38**	**0.89**
Weighted average number of shares (in millions) (basic and diluted)	1,319	1,336

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	6 months ended 30 June 2012 *(unaudited)*	***6 months ended 30 June 2011*** *(unaudited)*
Consolidated net income	**497**	**1,184**
Gains/(losses) on cash flow hedges	14	(13)
Actuarial gains on post-employment benefits	-	4
Income tax relating to components of other comprehensive income	(3)	2
Other comprehensive income/(loss), net of tax	**11**	**(7)**
Total comprehensive income	**508**	**1,177**
Total comprehensive income attributable to owners of TP S.A.	508	1,176
Total comprehensive income attributable to non-controlling interests	-	1

CONSOLIDATED BALANCE SHEET

(in PLN millions)

	At 30 June 2012 *(unaudited)*	***At 31 December 2011*** *(audited)*
ASSETS		
Goodwill	4,016	4,016
Other intangible assets	2,893	2,955
Property, plant and equipment	14,162	14,912
Investments accounted for using the equity method	18	16
Financial assets available for sale	4	4
Loans and receivables excluding trade receivables	15	12
Financial assets at fair value through profit or loss	62	132
Hedging derivatives	48	145
Deferred tax assets	744	899
Total non-current assets	**21,962**	**23,091**
Inventories	208	214
Trade receivables	1,514	1,506
Loans and receivables excluding trade receivables	14	8
Financial assets at fair value through profit or loss	20	234
Hedging derivatives	9	-
Income tax assets	1	1
Other assets	353	227
Prepaid expenses	119	78
Cash and cash equivalents	869	2,860
Total current assets	**3,107**	**5,128**
TOTAL ASSETS	**25,069**	**28,219**
EQUITY AND LIABILITIES		
Share capital	4,007	4,007
Share premium	832	832
Treasury shares	(400)	(200)
Other reserves	35	24
Translation adjustment	(5)	(5)
Retained earnings	8,201	9,673
Equity attributable to owners of TP S.A.	**12,670**	**14,331**
Non-controlling interests	2	3
Total equity	**12,672**	**14,334**
Financial liabilities at amortised cost excluding trade payables	3,535	4,170
Financial liabilities at fair value through profit or loss	37	53
Hedging derivatives	30	65
Trade payables	819	825
Employee benefits	303	285
Provisions	275	304
Other liabilities	15	15
Deferred income	51	48
Total non-current liabilities	**5,065**	**5,765**
Financial liabilities at amortised cost excluding trade payables	1,075	767
Financial liabilities at fair value through profit or loss	21	-
Hedging derivatives	2	-
Trade payables	2,399	3,199
Employee benefits	262	240
Provisions	952	3,130
Income tax payable	16	37
Other liabilities (including dividend of PLN 1,969 million paid on 5 July 2012)	2,103	202
Deferred income	502	545
Total current liabilities	**7,332**	**8,120**
TOTAL EQUITY AND LIABILITIES	**25,069**	**28,219**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Treasury shares	Other reserves				Translation adjustment	Retained earnings	Total	Non-controlling interests	Total equity
				Hedging instruments	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments					
Balance at 1 January 2011 *(audited)*	**4,007**	**832**	**-**	**2**	**(66)**	**12**	**79**	**(6)**	**9,760**	**14,620**	**14**	**14,634**
Total comprehensive income for the 6 months ended 30 June	-	-	-	(13)	4	2	-	-	1,183	1,176	1	1,177
Dividends	-	-	-	-	-	-	-	-	(2,003)	(2,003)	(1)	(2,004)
Balance at 30 June 2011 *(unaudited)*	**4,007**	**832**	**-**	**(11)**	**(62)**	**14**	**79**	**(6)**	**8,940**	**13,793**	**14**	**13,807**
Balance at 1 January 2012 *(audited)*	**4,007**	**832**	**(200)**	**10**	**(77)**	**12**	**79**	**(5)**	**9,673**	**14,331**	**3**	**14,334**
Total comprehensive income for the 6 months ended 30 June	-	-	-	14	-	(3)	-	-	497	508	-	508
Purchase of treasury shares	-	-	(200)	-	-	-	-	-	-	(200)	-	(200)
Dividends	-	-	-	-	-	-	-	-	(1,969)	(1,969)	(1)	(1,970)
Balance at 30 June 2012 *(unaudited)*	**4,007**	**832**	**(400)**	**24**	**(77)**	**9**	**79**	**(5)**	**8,201**	**12,670**	**2**	**12,672**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)

	***6 months ended 30 June 2012** (unaudited)*	***6 months ended 30 June 2011** (unaudited)*
OPERATING ACTIVITIES		
Consolidated net income	497	1,184
Adjustments to reconcile net income to cash from operating activities		
Depreciation and amortisation	1,650	1,967
Impairment of non-current assets	10	4
Gains on disposal of assets	(20)	(1,203)
Change in provisions	(2,249)	471
Share of profit of investments accounted for using the equity method	(2)	-
Income tax	129	114
Finance costs, net	235	231
Operational foreign exchange and derivatives (gains)/losses, net	(6)	3
Change in working capital (trade)		
Decrease in inventories	6	52
Decrease/(increase) in trade receivables	12	(33)
Decrease in trade payables	(251)	(31)
Change in working capital (non-trade)		
Decrease/(increase) in prepaid expenses and other receivables	(156)	49
(Decrease)/increase in accrued expenses, other payables and deferred income	(74)	13
Interest received	17	68
Interest and interest rate effect on derivatives paid, net	(316)	(293)
Exchange rate effect on derivatives, net	184	(7)
Income tax (paid)/received	2	(83)
Net cash provided by/(used in) operating activities	**(332)**	**2,506**
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(883)	(925)
Decrease in amounts due to fixed assets suppliers	(545)	(676)
Decrease in receivables related to leased fixed assets	3	3
Exchange rate effect on derivatives economically hedging capital expenditures, net	17	1
Proceeds from sale of property, plant and equipment and intangible assets	36	18
Proceeds from sale of subsidiaries, net of cash and transaction costs	3	1,637
Increase in loans and other financial assets	(4)	-
Exchange rate effect on other derivatives, net	(18)	-
Net cash provided by/(used in) investing activities	**(1,391)**	**58**
FINANCING ACTIVITIES		
Repayment of long-term debt	(122)	(111)
Increase/(decrease) in short-term debt	53	(3)
Purchase of treasury shares	(200)	-
Exchange rate effect on hedging instruments, net	(4)	103
Dividend paid to non-controlling interests	(1)	-
Net cash used in financing activities	**(274)**	**(11)**
Net change in cash and cash equivalents	(1,997)	2,553
Effect of changes in exchange rates and other impacts on cash and cash equivalents	6	(7)
Cash and cash equivalents at the beginning of the period	2,860	2,447
Cash and cash equivalents at the end of the period	**869**	**4,993**

SEGMENT REVENUE AND SEGMENT RESULTS

For management purposes, the Telekomunikacja Polska Group ("the Group") is organised into business units based on their products, and has two reportable operating segments as follows:

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

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

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

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 2012			
Revenue:	3,929	3,810	(549)	7,190
External	3,501	3,689	-	7,190
Inter-segment	428	121	(549)	-
EBITDA	1,442	1,077	-	2,519
EBIT	288	573	-	861
Capital expenditures	635	249	-	884
	6 months ended 30 June 2011			
Revenue:	4,229	3,823	(533)	7,519
External	3,832	3,687	-	7,519
Inter-segment	397	136	(533)	-
EBITDA before gain on disposal of TP Emitel (1)	*1,185*	*1,116*	-	*2,301*
EBITDA	2,373	1,116	-	3,489
EBIT	1,157	361	-	1,518
Capital expenditures	641	284	-	925

(1) See Note 5.

1. The Telekomunikacja Polska Group

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

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

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

2. Statement of compliance and basis for preparation

<u>Basis for preparation</u>

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 2011.

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 authorised for issuance by the Management Board on 24 July 2012.

<u>Adoption of standards, amendments to standards and interpretations which are compulsory as at 1 January 2012</u>

The following standards or amendments to standards and interpretations (already endorsed or in the process of being endorsed by the European Union) have become effective and are compulsory as at January 1, 2012:

- Amendments to IFRS 7 "Financial Instruments: Disclosures – Transfers of Financial Assets".

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

Standards and interpretations issued but not yet adopted

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

- IFRS 9 "Financial Instruments" applicable for financial years beginning on or after 1 January 2015. This standard has not been endorsed by the European Union,
- IFRS 10 "Consolidated Financial Statements" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- Amendments to IAS 27 "Separate financial statements" applicable for financial years beginning on or after 1 January 2013. These amendments have not been endorsed by the European Union,
- Amendments to IAS 28 "Investments in associates and joint ventures" applicable for financial years beginning on or after 1 January 2013. These amendments have not been endorsed by the European Union,
- IFRS 11 "Joint Arrangements" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- IFRS 12 "Disclosure of Interests in Other Entities" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- IFRS 13 "Fair Value Measurement" applicable for financial years beginning on or after 1 January 2013. This standard has not been endorsed by the European Union,
- Amendments to IAS 1 "Presentation of Financial Statements" applicable for financial years beginning on or after 1 July 2012. These amendments have been endorsed by the European Union,
- Amendments to IAS 19 "Employee Benefits" applicable for financial years beginning on or after 1 January 2013. These amendments have been endorsed by the European Union.

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

3. Statement of accounting policies

The accounting policies and methods of computation used in the preparation of the Interim Consolidated Financial Statements are consistent with those described in the audited IFRS Consolidated Financial Statements for the year ended 31 December 2011 (see Notes 2 and 3 to IFRS Consolidated Financial Statements for the year ended 31 December 2011).

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

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

5. Changes in scope of consolidation

The list of entities included in the Interim Consolidated Financial Statements as at and for the 6 months ended 30 June 2012 is presented in the Note 1.2 to the IFRS Consolidated Financial Statements for the year ended 31 December 2011.

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

If TP Emitel Sp. z o.o., a subsidiary disposed of in 2011, had not been a part of the Group during the 6 months ended 30 June 2011, consolidated revenue and consolidated net income would be lower by PLN 154 million and PLN 65 million, respectively. TP Emitel Sp. z o. o. was included in the fixed line telecommunications operating segment.

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

Apart from the major litigation and claims described in Note 9, operational activities of the Group are subject to legal and administrative regulations and the Group is a party to a number of legal proceedings and commercial contracts related to its operational activities. As at 30 June 2012, the Management of the Group performed an assessment of risks of on-going and potential proceedings. As a result, the Group recognised provisions for known and quantifiable risks related to these proceedings, which represent the Group's best estimate of the amounts which are more likely than not to be paid. The actual amount of a penalty or a claim, if any, is dependent on a number of future events, the outcome of which is uncertain, and as a consequence, the amount of the provision may change at a future date. As a rule, the provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management, such disclosure could prejudice the outcome of the pending cases.

The amount of cash flows from operating activities for the 6 months ended 30 June 2012 includes the effect of the settlement agreement with DPTG (see Note 9.c) resulting in a payment of EUR 550 million (PLN 2,449 million).

7. Purchase of treasury shares

During the 6 months ended 30 June 2012, in the course of the programme of buy-back of own shares, TP S.A. purchased a total of 11,978,133 own shares accounting for 0.9% of the share capital, for a total consideration of PLN 200 million. Details of the programme are described in Note 29.3 to the IFRS Consolidated Financial Statements for the year ended 31 December 2011.

As at 30 June 2012, TP S.A. held 23,291,542 own shares (out of 1,335,649,021 shares in issue) accounting for 1.74% of the share capital, purchased for a total consideration of PLN 400 million. The programme can be carried out until the total amount of funds allocated to the programme is PLN 800 million, but not later than 31 December 2012.

8. Dividends

On 12 April 2012, the General Meeting of TP S.A. adopted a resolution on the payment of an ordinary dividend of PLN 1.50 per share from 2011 profit and retained earnings from previous years. Total dividend, paid on 5 July 2012, amounted to PLN 1,969 million. Treasury shares (see Note 7) held on 21 June 2012, which was the dividend day, were not entitled to the dividend.

9. Changes in major litigation and claims, contingent liabilities and contingent assets since the last annual balance sheet date

The information hereunder refers to the matters presented in Note 31.c-e to the IFRS Consolidated Financial Statements for the year ended 31 December 2011 or describes major matters that occurred after 31 December 2011.

a. Proceedings by UKE and UOKiK

Proceedings by UKE related to broadband access
On 3 February 2012, the Court of Appeal confirmed the verdict of SOKiK of 18 April 2011 that annulled the PLN 339 million fine. On 8 May 2012, UKE lodged a cassation appeal to the Supreme Court.
On 4 July 2012, the Court of Appeal confirmed the verdict of SOKiK of 12 July 2011 that annulled the PLN 100 million fine. UKE can lodge a cassation appeal to the Supreme Court.

Proceedings by UOKiK related to IP traffic
On 20 June 2012, the Court of Appeal reversed, for procedural reasons, the verdict of SOKiK of 11 April 2011 reducing the fine of PLN 75 million to the amount of PLN 38 million and remanded the case back to consideration by SOKiK.

Proceedings by UOKiK related to mobile television
There were no developments after PTK-Centertel appealed on 7 December 2011 against the decision of UOKiK imposing the fine of PLN 35 million.

b. Proceedings by the European Commission related to broadband access

On 13 January 2012, the European Commission answered to the appeal brought on 2 September 2011 by TP S.A. to the General Court of the European Union against the decision of the European Commission imposing the EUR 127.6 million fine.

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

c. Dispute with DPTG

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

10. Related party transactions

As at 30 June 2012, France Telecom S.A. owned 49.79% of shares of the Company and held 49.79% of votes at the General Meeting of TP S.A. France Telecom S.A. has the power to appoint the majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

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

The Group's income earned and purchases from entities accounted for using the equity method comprise mainly transactions with NetWorkS! Sp. z o.o. - a jointly controlled entity of the Group and Polska Telefonia Cyfrowa S.A. which conducts networks management, development and maintenance.

Financial costs incurred by the Group in transactions with related parties comprise interest on a short-term loan from France Telecom S.A. received on 12 January 2012 and repaid after 6 days which allowed immediate realisation of the settlement agreement with DPTG (see Note 9.c). The Group's financial receivables from its related parties comprise bonds issued by NetWorkS! Sp. z o.o.

(in PLN millions)	*6 months ended 30 June 2012*	*6 months ended 30 June 2011*
Sales of goods, services and other income from:	**228**	**96**
TP Group's entities accounted for using the equity method	7	-
France Telecom S.A. (parent)	63	71
France Telecom (group excluding parent)	158	25
Purchases of goods (including inventories, tangible and intangible assets) and services from:	**221**	**170**
TP Group's entities accounted for using the equity method	61	-
France Telecom S.A. (parent)	65	56
France Telecom (group excluding parent)	95	114
- including Orange Brand Services Limited (brand licence agreement)	*57*	*59*
Financial expense:	**1**	**-**
France Telecom S.A. (parent)	1	-
Dividend declared:	**997**	**997**
France Telecom S.A. (parent)	997	997

(in PLN millions)	*At 30 June 2012*	*At 31 December 2011*
Receivables from:	**187**	**143**
TP Group's entities accounted for using the equity method	9	10
France Telecom S.A. (parent)	59	108
France Telecom (group excluding parent)	119	25
Financial receivables from:	**6**	**-**
TP Group's entities accounted for using the equity method	6	-
Payables to:	**214**	**236**
TP Group's entities accounted for using the equity method	11	9
France Telecom S.A. (parent)	121	147
France Telecom (group excluding parent)	82	80
Dividend payable to:	**997**	**-**
France Telecom S.A. (parent)	997	-

Compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) paid in accordance with contractual commitments to TP S.A.'s Management Board and Supervisory Board members during the 6 months ended 30 June 2012 and 2011 amounted to PLN 6.2 million and PLN 7.2 million, including PLN 1.4 million and PLN 1.3 million accrued in previous periods, respectively. During the 6 months ended 30 June 2012 and 2011, the amount of accrued cost of compensation for the Company's Management Board amounted to PLN 1.7 million and PLN 1.6 million, respectively.

11. Subsequent events

On 2 July 2012, TP S.A. drew PLN 1,490 million of the revolving credit line concluded in October 2010.

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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 2012

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

We have reviewed the attached condensed interim separate financial statements of Telekomunikacja Polska S.A. with its registered office in Warsaw at 18 Twarda St, ('the Company') including a balance sheet prepared as of 30 June 2012, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the period from 1 January to 30 June 2012 and selected explanatory notes.

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

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

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

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

Deloitte.

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 2012 and the financial result for the six month period ended 30 June 2012 in accordance with IAS 34.

Krzysztof Sowada
Key certified auditor
conducting the review
No. 10944

Gavin Flook
Deputy Chairman of the Management Board

represented by

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-854 Warsaw

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

Warsaw, 24 July 2012

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.

TELEKOMUNIKACJA POLSKA S.A.

CONDENSED IFRS INTERIM SEPARATE FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2012

Contents

INCOME STATEMENT

(in PLN millions, except for earnings per share)

	6 months ended 30 June 2012 *(unaudited)*	***6 months ended 30 June 2011*** *(unaudited)*
Revenue	**3,776**	**3,934**
External purchases	(1,897)	(1,903)
Labour expenses	(724)	(699)
Other operating expense	(169)	(682)
Other operating income	312	255
Gains on disposal of assets	20	15
Gain on disposal of TP Emitel	-	1,252
Depreciation and amortisation	(1,131)	(1,183)
Impairment of non-current assets	(10)	(4)
Operating income	**177**	**985**
Dividend income	1,590	962
Interest income	153	213
Interest expense and other financial charges	(393)	(427)
Foreign exchange gains/(losses)	(6)	14
Discounting expense	(22)	(11)
Finance income, net	**1,322**	**751**
Income tax	13	(3)
Net income	**1,512**	**1,733**
Earnings per share (in PLN) (basic and diluted)	**1.15**	**1.30**
Weighted average number of shares (in millions) (basic and diluted)	1,319	1,336

STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	6 months ended 30 June 2012 *(unaudited)*	***6 months ended 30 June 2011*** *(unaudited)*
Net income	**1,512**	**1,733**
Gains/(losses) on cash flow hedges	1	(15)
Actuarial gains on post-employment benefits	-	1
Income tax relating to components of other comprehensive income	-	3
Other comprehensive income/(loss), net of tax	**1**	**(11)**
Total comprehensive income	**1,513**	**1,722**

BALANCE SHEET

(in PLN millions)

	At 30 June 2012 (unaudited)	*At 31 December 2011 (audited)*
ASSETS		
Intangible assets	1,402	1,396
Property, plant and equipment	11,551	12,100
Investments in subsidiaries	7,228	7,228
Financial assets available for sale	4	4
Loans and receivables excluding trade receivables	2,679	2,845
Financial assets at fair value through profit or loss	74	148
Hedging derivatives	36	129
Deferred tax assets	304	481
Total non-current assets	**23,278**	**24,331**
Inventories	58	54
Trade receivables	839	852
Loans and receivables excluding trade receivables	349	328
Financial assets at fair value through profit or loss	23	225
Other assets	630	88
Prepaid expenses	52	15
Cash and cash equivalents	628	2,584
Total current assets	**2,579**	**4,146**
TOTAL ASSETS	**25,857**	**28,477**
EQUITY AND LIABILITIES		
Share capital	4,007	4,007
Share premium	832	832
Treasury shares	(400)	(200)
Other reserves	7	6
Retained earnings	7,537	7,994
Total equity	**11,983**	**12,639**
Financial liabilities at amortised cost excluding trade payables	6,144	6,951
Financial liabilities at fair value through profit or loss	37	53
Hedging derivatives	30	65
Employee benefits	253	241
Provisions	167	201
Other liabilities	15	15
Deferred income	48	46
Total non-current liabilities	**6,694**	**7,572**
Financial liabilities at amortised cost excluding trade payables	2,423	2,566
Financial liabilities at fair value through profit or loss	23	-
Trade payables	1,470	2,184
Employee benefits	179	158
Provisions	876	3,039
Income tax payable	13	13
Other liabilities (including dividend of PLN 1,969 million paid on 5 July 2012)	2,092	204
Deferred income	104	102
Total current liabilities	**7,180**	**8,266**
TOTAL EQUITY AND LIABILITIES	**25,857**	**28,477**

STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Treasury shares	Other reserves				Retained earnings	Total
				Hedging instruments	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments		
Balance at 1 January 2011 *(audited)*	**4,007**	**832**	**-**	**2**	**(67)**	**12**	**68**	**8,046**	**12,900**
Total comprehensive income for the 6 months ended 30 June 2011	-	-	-	(15)	1	3	-	1,733	1,722
Dividends	-	-	-	-	-	-	-	(2,003)	(2,003)
Balance at 30 June 2011 *(unaudited)*	**4,007**	**832**	**-**	**(13)**	**(66)**	**15**	**68**	**7,776**	**12,619**
Balance at 1 January 2012 *(audited)*	**4,007**	**832**	**(200)**	**11**	**(87)**	**14**	**68**	**7,994**	**12,639**
Total comprehensive income for the 6 months ended 30 June 2012	-	-	-	1	-	-	-	1,512	1,513
Purchase of treasury shares	-	-	(200)	-	-	-	-	-	(200)
Dividends	-	-	-	-	-	-	-	(1,969)	(1,969)
Balance at 30 June 2012 *(unaudited)*	**4,007**	**832**	**(400)**	**12**	**(87)**	**14**	**68**	**7,537**	**11,983**

STATEMENT OF CASH FLOWS

(in PLN millions)

	6 months ended 30 June 2012 *(unaudited)*	***6 months ended 30 June 2011*** *(unaudited)*
OPERATING ACTIVITIES		
Net income	1,512	1,733
Adjustments to reconcile net income to cash from operating activities		
Depreciation and amortisation	1,131	1,183
Impairment of non-current assets	10	4
Gains on disposal of assets	(20)	(1,267)
Change in provisions	(2,223)	426
Income tax	(13)	3
Finance income, net	(1,322)	(747)
Operational foreign exchange and derivatives gains, net	(10)	(4)
Change in working capital (trade)		
Increase in inventories	(4)	(15)
Decrease/(increase) in trade receivables	20	(107)
Increase/(decrease) in trade payables	(279)	38
Change in working capital (non-trade)		
Decrease/(increase) in prepaid expenses and other receivables	(89)	34
Increase/(decrease) in accrued expenses, other payables and deferred income	(21)	14
Dividends received	1,228	531
Interest received	16	66
Interest and interest rates effect on derivatives paid, net	(369)	(311)
Exchange rate effect on derivatives, net	184	(7)
Income tax (paid)/received	34	(30)
Net cash provided by/(used in) operating activities	**(215)**	**1,544**
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(622)	(598)
Decrease in amounts due to fixed assets suppliers	(431)	(434)
Decrease in receivables related to leased fixed assets	4	3
Exchange rate effect on derivatives economically hedging capital expenditures, net	(1)	1
Proceeds from sale of property, plant and equipment and intangible assets	35	18
Cash received from/(paid for) investments in subsidiaries	9	(8)
Increase in loans and other financial assets	(1)	-
Exchange rate effect on other derivatives, net	14	4
Net cash used in investing activities	**(993)**	**(1,014)**
FINANCING ACTIVITIES		
Repayment of long-term debt	(131)	(110)
Increase/(decrease) in short-term debt	(409)	1,627
Purchase of treasury shares	(200)	-
Exchange rate effect on hedging instruments, net	(4)	103
Net cash provided by/(used in) financing activities	**(744)**	**1,620**
Net change in cash and cash equivalents	(1,952)	2,150
Effect of changes in exchange rates and other impacts on cash and cash equivalents	(4)	(7)
Cash and cash equivalents at the beginning of the period	2,584	2,268
Cash and cash equivalents at the end of the period	**628**	**4,411**

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 fixed-line telephony services (local, domestic and international calls), Integrated Services Digital Network ("ISDN"), fixed access to the Internet, TV and Voice over Internet Protocol ("VoIP"). In addition, the Company provides leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, multimedia services and various Internet services. Telekomunikacja Polska provides telecommunications services on the basis of entry number 1 in the register of telecommunications companies maintained by the President of Office of Electronic Communication ("UKE").

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

2. Statement of compliance and basis for preparation

<u>Basis for preparation</u>

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

These Interim Separate Financial Statements should be read in conjunction with the audited Telekomunikacja Polska S.A. IFRS Separate Financial Statements and the notes thereto ("IFRS Separate Financial Statements") for the year ended 31 December 2011.

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 Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 24 July 2012.

<u>Adoption of standards, amendments to standards and interpretations which are compulsory as at 1 January 2012</u>

The following standards or amendments to standards and interpretations (already endorsed or in the process of being endorsed by the European Union) have become effective and are compulsory as at January 1, 2012:

- Amendments to IFRS 7 "Financial Instruments: Disclosures – Transfers of Financial Assets".

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 and full application of the following standards and interpretations (already endorsed or in the process of being endorsed by the European Union):

- IFRS 9 “Financial Instruments” applicable for financial years beginning on or after 1 January 2015. This standard has not been endorsed by the European Union,
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- Amendments to IAS 19 “Employee Benefits” applicable for financial years beginning on or after 1 January 2013. These amendments have been endorsed by the European Union.

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

3. Statement of accounting policies

The accounting policies and methods of computation used in the preparation of the Interim Separate Financial Statements are consistent with those described in the audited IFRS Separate Financial Statements for the year ended 31 December 2011 (see Notes 2 and 3 to IFRS Separate Financial Statements for the year ended 31 December 2011).

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. Disposals of investments in subsidiaries

The list of subsidiaries of the Company as at and for the 6 months ended 30 June 2012 is presented in the Note 13.1 to the IFRS Separate Financial Statements for the year ended 31 December 2011.

On 27 January 2012, TP S.A. concluded a share sale agreement with Comp S.A. under which the investment in PayTel S.A. was disposed of and the loan receivable from PayTel S.A. settled for a total consideration amounting to PLN 6 million.

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

Apart from the major litigation and claims described in Note 9, operational activities of the Company are subject to legal and administrative regulations and the Company is a party to a number of legal proceedings and commercial contracts related to its operational activities. As at 30 June 2012, the Management of the Company performed an assessment of risks of on-going and potential proceedings. As a result, the Company recognised provisions for known and quantifiable risks related to these proceedings, which represent the Company's best estimate of the amounts which are more likely than not to be paid. The actual amount of a penalty or a claim, if any, is dependent on a number of future events, the outcome of which is uncertain, and as a consequence, the amount of the provision may change at a future date. As a rule, the provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management, such disclosure could prejudice the outcome of the pending cases.

The amount of cash flows from operating activities for the 6 months ended 30 June 2012 includes the effect of the settlement agreement with DPTG (see Note 9.c) resulting in a payment of EUR 550 million (PLN 2,449 million).

7. Purchase of treasury shares and issuance of TP S.A. short term bonds

<u>Purchase of treasury shares</u>

During the 6 months ended 30 June 2012, in the course of the programme of buy-back of own shares, TP S.A. purchased a total of 11,978,133 own shares accounting for 0.9% of the share capital, for a total consideration of PLN 200 million. Details of the programme are described in Note 26.3 to the IFRS Separate Financial Statements for the year ended 31 December 2011.

As at 30 June 2012, TP S.A. held 23,291,542 own shares (out of 1,335,649,021 shares in issue) accounting for 1.74% of the share capital, purchased for a total consideration of PLN 400 million. The programme can be carried out until the total amount of funds allocated to the programme is PLN 800 million, but not later than 31 December 2012.

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

In the 6 months ended 30 June 2012, 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 2012, the net cash flows on the bonds amounted to PLN (497) million. As a result of the issues and redemptions, the aggregate par value of the outstanding bonds issued under the programme amounted to PLN 1,004 million as at 30 June 2012.

8. Dividends

On 12 April 2012, the General Meeting of TP S.A. adopted a resolution on the payment of an ordinary dividend of PLN 1.50 per share from 2011 profit and retained earnings from previous years. Total dividend, paid on 5 July 2012, amounted to PLN 1,969 million. Treasury shares (see Note 7) held on 21 June 2012, which was the dividend day, were not entitled to the dividend.

9. Changes in major litigation and claims, contingent liabilities and contingent assets since the last annual balance sheet date

The information hereunder refers to the matters presented in Note 28.c-e to the IFRS Separate Financial Statements for the year ended 31 December 2011 or describes major matters that occurred after 31 December 2011.

a. Proceedings by UKE and UOKiK

Proceedings by UKE related to broadband access
On 3 February 2012, the Court of Appeal confirmed the verdict of SOKiK of 18 April 2011 that annulled the PLN 339 million fine. On 8 May 2012, UKE lodged a cassation appeal to the Supreme Court.
On 4 July 2012, the Court of Appeal confirmed the verdict of SOKiK of 12 July 2011 that annulled the PLN 100 million fine. UKE can lodge a cassation appeal to the Supreme Court.

Proceedings by UOKiK related to IP traffic
On 20 June 2012, the Court of Appeal reversed, for procedural reasons, the verdict of SOKiK of 11 April 2011 reducing the fine of PLN 75 million to the amount of PLN 38 million and remanded the case back to consideration by SOKiK.

b. Proceedings by the European Commission related to broadband access

On 13 January 2012, the European Commission answered to the appeal brought on 2 September 2011 by TP S.A. to the General Court of the European Union against the decision of the European Commission imposing the EUR 127.6 million fine.

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

c. Dispute with DPTG

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

d. Guarantees

As at 30 June 2012 and 31 December 2011, total guarantees granted by Telekomunikacja Polska S.A. to purchasers of debt securities denominated in EUR and issued by a subsidiary amounted to PLN 3,002 million and PLN 3,205 million, respectively.

10. Related party transactions

As at 30 June 2012, France Telecom S.A. owned 49.79% of shares of the Company and held 49.79% of votes at the General Meeting of TP S.A. France Telecom S.A. has the power to appoint the majority of TP S.A.'s Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

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

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

TP S.A.'s financial income earned from its subsidiaries comprises dividends, interest on bonds issued by subsidiaries and interest on loans granted to subsidiaries. Financial costs incurred by TP S.A. in transactions with related parties mainly comprise interest on bonds issued to the subsidiaries, interest on loans from the subsidiaries and interest on a short-term loan from France Telecom S.A. received on 12 January 2012 and repaid after 6 days which allowed immediate realisation of the settlement agreement with DPTG (see Note 9.c). The Company's financial receivables from its related parties mainly comprise bonds issued by subsidiaries and NetWorkS! Sp. z o.o., dividends from and loans granted to the subsidiaries, together with accrued interests. 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 2012*	*6 months ended 30 June 2011*
Sales of goods, services and other income from:	**743**	**621**
TP Group	531	536
- TP Group (subsidiaries)	526	536
- TP Group's joint ventures (NetWorkS! Sp. z o.o.)	5	-
France Telecom Group	212	85
- France Telecom S.A. (parent)	59	64
- France Telecom (group excluding parent)	153	21
Purchases of goods (including inventories, tangible and intangible assets) and services from:	**695**	**801**
TP Group (subsidiaries)	616	708
France Telecom Group	79	93
- France Telecom S.A. (parent)	51	43
- France Telecom (group excluding parent)	28	50
Financial income:	**1,729**	**1,114**
TP Group (subsidiaries)	1,729	1,114
Financial expense:	**263**	**276**
TP Group (subsidiaries)	262	276
France Telecom S.A. (parent)	1	-
Dividend declared:	**997**	**997**
France Telecom S.A. (parent)	997	997

(in PLN millions)	*At 30 June 2012*	*At 31 December 2011*
Receivables from:	**354**	**318**
TP Group	202	210
- TP Group (subsidiaries)	200	206
- TP Group's joint ventures (NetWorkS! Sp. z o.o.)	2	4
France Telecom Group	152	108
- France Telecom S.A. (parent)	54	102
- France Telecom (group excluding parent)	98	6
Financial receivables from:	**3,370**	**3,155**
TP Group	3,370	3,155
- TP Group (subsidiaries)	3,364	3,155
- TP Group's joint ventures (NetWorkS! Sp. z o.o.)	6	-
Payables to:	**329**	**383**
TP Group (subsidiaries)	229	262
France Telecom Group	100	121
- France Telecom S.A. (parent)	81	98
- France Telecom (group excluding parent)	19	23
Financial payables to:	**6,976**	**7,801**
TP Group (subsidiaries)	6,976	7,801
Dividend payable to:	**997**	**-**
France Telecom S.A. (parent)	997	-

Compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) paid in accordance with contractual commitments to TP S.A.'s Management Board and Supervisory Board members during the 6 months ended 30 June 2012 and 2011 amounted to PLN 6.2 million and PLN 7.2 million, including PLN 1.4 million and PLN 1.3 million accrued in previous periods, respectively. During the 6 months ended 30 June 2012 and 2011, the amount of accrued cost of compensation for the Company's Management Board amounted to PLN 1.7 million and PLN 1.6 million, respectively.

11. Subsequent events

On 2 July 2012, TP S.A. drew PLN 1,490 million of the revolving credit line concluded in October 2010.

Management Board's Report on the Activity of

TELEKOMUNIKACJA POLSKA GROUP

in the first half of 2012

24 July 2012

This report on the activity of the Telekomunikacja Polska Group ("the Group" or " Orange Polska") in the first half of 2012 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).For additional information please refer to the full year 2011 report.

CHAPTER I.
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of 30 June 2012 and for the six-month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

	For 6 months ended				
	30 June 2012		30 June 2011		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue, including:	7,190	1,702	7,519	1,895	-4.4%
Fixed line services	3,929	930	4,229	1,066	-7.1%
Mobile services	3,810	902	3,823	964	-0.3%
Eliminations and unallocated items	(549)	(130)	(533)	(135)	3.0%
EBITDA	2,519	596	3,489*	879	-27.8%
EBITDA margin	*35.0%*		*46.4%*		*-11.4pp*
Operating income	861	204	1,518*	383	-43.3%
Operating margin	*12.0%*		*20.2%*		*-8.2pp*
Consolidated net income	497	118	1,184*	298	-58.0%
Net income attributable to owners of TP SA	*497*	*118*	*1,183*	*298*	*-58.0%*
*Weighted average number of shares (in millions)***	*1,319*		*1,336*		
Earnings per share (in PLN) (basic and diluted)	*0.38*	*0.09*	*0.89*	*0.22*	*-57.3%*
Consolidated Statement of Cash Flows					
Net cash provided by/(used in) operating activities	(332)	(79)	2,506	632	-
Net cash provided by/(used in) investing activities, including:	(1,391)	(329)	58	15	-
Capital expenditures (on accrual basis) financed through own resources	(883)	(209)	(925)	(233)	-4.5%
Net cash used in financing activities	(274)	(65)	(11)	(3)	240.1%
Net change in cash and cash equivalents	(1,997)	(473)	2,553	644	-

	As at				
	30 June 2012		31 December 2011		Change
Consolidated Balance Sheet	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Cash and cash equivalents	869	204	2,860	648	-69.6%
Other intangible assets	2,893	679	2,955	669	-2.1%
Property, plant and equipment	14,162	3,323	14,912	3,376	-5.0%
Total assets	25,069	5,883	28,219	6,389	-11.2%
Financial liabilities at amortised cost,of which:	4,610	1,082	4,937	1,118	-6.6%
Current	1,075	252	767	174	40.2%
Non-current	3,535	830	4,170	944	-15.2%
Other liabilities, current and non-current	7,787	1,827	8,948	2,026	-13.0%
Total equity	12,672	2,974	14,334	3,245	-11.6%

Notes on convenience translation:
1 – PLN/EUR fx rate of 4.2246 applied
2 – PLN/EUR fx rate of 3.9673 applied
3 – PLN/EUR fx rate of 4.2613 applied
4 – PLN/EUR fx rate of 4.4168 applied
** includes profit from sale of TP Emitel*
*** Weighted average number of shares in the 6 months ended 30 June 2012 and 2011.*

1.1 Comments to the Consolidated Income Statement Items

The Group’s consolidated revenue amounted to PLN 7,190 million in the first half of 2012 and was lower by PLN 329 million compared to the first half of 2011. The decrease in revenue resulted mainly from a PLN 300 million decline in fixed line revenue.

Operating income before depreciation and amortisation expense, impairment of non-current assets and share of profit of investments accounted for using the equity method (EBITDA) amounted to PLN 2,519 million in the first half of 2012 and was PLN 970 million lower than in the first half of 2011.

Operating income (EBIT) amounted to PLN 861 million in the first half of 2012 and was PLN 657 million lower than in the first half of 2011.

In particular, year-on-year, in the first half of 2012:

- Commercial expenses increased by PLN 119 million;
- Labour expenses decreased by PLN 18 million;
- Other operating expenses decreased by PLN 509 million (of which PLN 458 million resulted from an increase in provision for penalty imposed by the European Commission in the first half of 2011);
- Other operating income increased by PLN 133 million;
- Gains of disposal of assets were lower by PLN 1,183 million (of which PLN 1,188 related to gain on disposal of a subsidiary TP Emitel in the first half of 2011);
- Depreciation and amortization decreased by PLN 317 million.

Net finance charges were PLN 15 million higher than in the first half of 2011.

Consolidated net income attributable to owners of Telekomunikacja Polska S.A. ("the Company", "the Parent Company", "TP") amounted to PLN 497 million in the reported period, which is a 58% decrease compared to the first half of 2011. Earnings per share decreased from PLN 0.89 to PLN 0.38.

1.2 Comments to the Consolidated Cash Flow Statement Items

Net cash from operating activities totalled PLN (332) million in the first half of 2012 and was lower by PLN 2,838 million year-on-year, mainly due to negative impact of a settlement agreement with DPTG resulting in a payment of EUR 550 million (PLN 2,449 million) in the first half of 2012.

Net cash used in investing activities amounted to PLN 1,391 million in the first half of 2012 and was higher by PLN 1,449 million compared to the first half of 2011, which was attributable mainly to a decrease by PLN 1,634 million in cash inflows from proceeds from sale of subsidiaries, net of cash and transaction costs.

Net cash used in financing activities amounted to PLN 274 million in the first half of 2012 and was by PLN 263 million higher than in the first half of 2011. The increase resulted mainly from purchase of treasury shares in the first half of 2012 for a total consideration of PLN 200 million.

1.2.1 Capital Expenditures (CAPEX)

The Group's capital expenditures in the first half of 2012 amounted to PLN 884 million. In the first six months of 2012, the Group invested mainly in the following areas:

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

Fixed Line Segment

Fixed line CAPEX totalled PLN 635 million in the first half of 2012 and was PLN 6 million lower than in the first half of 2011. TP continued investments resulting from the Memorandum of Understanding signed with UKE on 22 October 2009.

Investment projects included mainly:

- development of broadband internet access network, which also enables provision of television services, as well as related purchases of subscriber terminals;
- further development of fibre-optic network and transmission equipment in order to launch new backbone and access lines;
- implementation of investment projects for sales and after-sales service purposes;
- further development of the IP new generation network to improve quality and increase speed of broadband transmission services;
- modernisation and development of IT infrastructure, aimed at optimisation of customer service processes;

- IT systems development, including implementation of investment projects related to the development of service portfolio;
- investments in new TV platform, offering a package of high-quality TV channels in the broadband or satellite technology;
- enhancement of the modern telecommunication infrastructure to provide full range of telecommunication services and products to UEFA and other customers during the Euro 2012 tournament;
- implementation of investment projects related to the development of the Wirtualna Polska portal and on-line content;
- research and development.

Mobile Segment

Capital expenditures in mobile segment amounted to PLN 249 million in the first half of 2012 and were PLN 35 million lower than in the first six months of 2011.

Capital expenditures were focused on:

- network consolidation jointly with T-Mobile, facilitating the management and expansion of the network infrastructure of Orange and T-Mobile mobile network operators in order to expand the range of GSM/UMTS services and enhance their quality;
- further expansion of the HSPA + Dual Carrier network;
- further development of the 2G/3G radio network, including replacement of 2G network elements;
- development of core network infrastructure for mobile services;
- projects related to development of service portfolio for customers;
- implementation of investment projects for sales and after-sales purposes;
- optimisation and further development of the CDMA network, including completion of the NMT migration process;
- modernisation and development of IT infrastructure, aimed at optimisation of customer service processes.

1.3 Comments to the Consolidated Balance Sheet Items

As at 30 June 2012, total equity amounted to PLN 12,672 million and was by PLN 1,662 million lower than as at 31 December 2011. The change is attributable mainly to the declaration of dividend (PLN 1,969 million) and purchase of own shares (PLN 200 million), which were partially offset by net income (PLN 497 million) generated in 2012.

As at 30 June 2012, property, plant, equipment and intangible assets decreased by PLN 812 million compared to 2011 year-end, mainly as a result of amortisation and depreciation (PLN 1,650 million), which was only partially offset by capital expenditures, amounting to PLN 884 million.

Total assets decreased by PLN 3,150 million compared to 2011 year-end. The change resulted mainly from the aforementioned decrease of PLN 812 million in property, plant and equipment and intangible assets and a decrease of PLN 1,991 million in cash and cash equivalents.

Total liabilities decreased by PLN 1,488 million to PLN 12,397 million as at 30 June 2012. The primary factors that contributed to the change included a decrease of PLN 2,207 million in provisions (mainly due to DPTG settlement), a decrease of PLN 806 million in trade payables, a decrease of PLN 327 million in financial liabilities at amortised cost and an increase of PLN 1,901 million in other liabilities (mainly as a result of an increase in dividend payable by PLN 1,969 million in 2012).

1.4 Related Parties Transactions

Please see Note 10 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements about Group's transactions with related entities.

1.5 Description of Significant Agreements

Acting in the best interest of the Company and its shareholders, on 12 January 2012 TP S.A.'s Management Board signed a settlement agreement in the TP S.A. vs. DPTG dispute (described in TP S.A.'s financial statements and current reports). This compromise ended a dispute lasting from 2001 in relation to a contract signed in 1991.

According to the settlement, TP S.A. paid DPTG a total of €550 mn (approx. PLN 2,455 mn) and DPTG without any delay withdrew all its claims with regards to this long lasting dispute, including enforcement procedures regarding €396 mn awarded by the Arbitration Tribunal in Vienna (Austria) for Phase 1 of the dispute, its approx. €320 mn claim (including interest) submitted to the Arbitration Tribunal for Phase 2, as well as any other claims, damages or legal fees with relation to the legal actions taken by any of the parties.

1.6 Subsequent Events

Please see Note 11 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for information on subsequent events.

1.7 Scope of Consolidation within the Group

Please see Note 5 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements for information about the scope of consolidation within the Group.

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 Consolidated Half-Year report PSr 2012 for the relevant information.

1.9 Management of Financial Resources and Liquidity of the Group

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

In the first half of 2012, the Group repaid long-term debt of bank loans totalling PLN 119 million and short-term debt relating to a loan of €550 million received from France Telecom SA in the same period. All debt repayments were carried out on schedule.

As of 30 June 2012, Group’s interest-bearing liabilities totalled PLN 4,598 million (before derivatives), which is a decrease of PLN 327 million compared to 31 December 2011.

The value of long-term liabilities under financial lease as of 30 June 2012 amounted to PLN 12 million and remained flat compared to 31 December 2011.

The Group’s liquidity remained solid, owing to strong cash position, amounting to PLN 869 million at 30 June 2012, and available credit facilities totalling the equivalent of PLN 3,726 million (please see section 1.9.3 below for details).

1.9.1 Bonds

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

1.9.2 Loan and Borrowings Agreements

In the first half of 2012, the Group companies concluded the following loan and guarantee agreements:

- On 12 January 2012, the Parent Company concluded an agreement with France Telecom SA for short-term financing of up to €550 million (which was subsequently fully repaid on 18 January 2012);
- A current account overdraft agreement concluded by TP S.A. with RBS Bank (Polska) S.A. for PLN 62 million. The agreement provides an overdraft facility to secure the Parent Company’s liquidity and current financing in the period between 12 January 2012 and 29 June 2012;
- An annex to a loan agreement between Otwarty Rynek Elektroniczny S.A., a TP’s subsidiary, and Bank Handlowy w Warszawie S.A., which extended the term of the current account overdraft facility totalling PLN 1 million to 22 April 2013;
- An annex to a loan agreement between Ramsat S.A., a TP’s subsidiary, and Bank Przemysłowo-Handlowy S.A., which extended the term of the current account overdraft facility totalling PLN 2 million to 5 January 2013.

In the first half of 2012 TP S.A. fully repaid a loan from the European Investment Bank under a loan agreement concluded in 2000 (the last instalment was repaid).

1.9.3 Unused Credit Facilities

As of 30 June 2012, the Group had outstanding general-purpose credit facilities amounting to an equivalent PLN 3,726 million, specifically (by Group companies):

- TP S.A.: PLN 2,000 million (revolving) and EUR 400 million (back-up);
- PTK Centertel: PLN 20 million (current account overdraft);
- Ramsat: PLN 0.7 million (current account overdraft); and
- ORE: PLN 1 million (current account overdraft).

1.9.4 Loan Covenants

Under agreements concluded, TP S.A. as the Parent Company is a party to loan and guarantee agreements imposing an obligation to meet the ratio of net debt to EBITDA not higher than 3.5:1 (tested for the Group on a six months' basis). The value of the ratio on 30 June 2012 was met.

1.9.5 Ratings

The ratings at 30 June 2012 were as follows:

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

1.9.6 Hedging Transactions

In the first half of 2012, the Group continued to minimise its exposure to foreign exchange volatility and interest rate risk, covering, as of 30 June 2012, almost 100% of its debt denominated in foreign currencies, 85% of the UMTS liabilities (the discounted carrying amount) and 77% of a provision for the fine imposed by the European Commission were hedged against foreign exchange risk. The Group also continued its hedging policy, securing the portions of the exposure on its operational liabilities (e.g. handsets purchases) and investment liabilities. With respect to interest rate risk arising from debt financing, as of 30 June 2012 the Group's proportion between fixed/floating rate debt (including hedging activities) was 53/47%.

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

At 30 June 2012, Group's quick and current ratios decreased as compared to the end of 2011. Lower liquidity of the Group was driven by a decrease of PLN 2,021 million in current assets, including a decrease of PLN 1,991 million in cash, as well as an increase of PLN 1,433 million in current liabilities (less provisions and deferred credits).

The liquidity ratios for the Group at 30 June 2012 and 31 December 2011, respectively, are presented in the table below.

	30 June 2012	31 December 2011
Current ratio Current assets / current liabilities*	0.53	1.15
Quick ratio Total current assets – inventories / current liabilities*	0.49	1.11
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.24	0.77

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

Group's net financial debt (after valuation of derivatives) increased to PLN 3,716 million at the end of June 2012 (from PLN 1,694 million at the end of December 2011).

2 STATEMENTS OF THE MANAGEMENT BOARD

2.1 Statement on Adopted Accounting Principles

TP Management Board, composed of:

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

hereby confirms that according to its best knowledge the condensed interim half-year consolidated financial statements and comparable data have been drawn up in compliance with the accounting regulations in force and reflect the 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 Consolidated Financial Statements

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

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

TP S.A. did not publish financial projections concerning results of the Group for 2012.

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

in the first half of 2012

3 FIXED LINE SEGMENT

3.1 Financial Performance

Fixed Line Segment: Income Statement

	For 6 months ended		
PLN million	30 June 2012	30 June 2011	Change
Revenues	3,929	4,229	-7.1%
EBITDA	1,442	2,373	-39.2%
Margin, %	36.7%	56.1%	-19.4pp
Operating income	288	1,157	-75.1%
Margin, %	7.3%	27.4%	-20.1pp

In the first half of 2012, the fixed line revenue trend improved, with revenue falling by 7.1% as compared with an 8.0% decrease in the first six months of 2011. The revenue decline was mainly a result of a further decrease in the number of fixed lines due to fixed-to-mobile substitution and customer price sensitivity, which continued to stimulate their migration to WLR-based offers from alternative operators.

As a result, retail fixed voice customer base declined by 11.8% year-on-year, while its average fixed voice revenue per user dropped by 4.5%.

The broadband market was in a stabilisation phase, mainly due to intensive price competition. In the first six months of 2012, the Group's broadband revenue fell by 2.2% year-on-year, mainly as a result of a combination of the following factors:

- increase in retail broadband customer base (up 1.4%), fuelled by bundled offers;
- decrease in retail broadband ARPU (down 1.1%).

Fixed line EBITDA margin was 19.4 percentage points down and EBITDA was lower by PLN 931 million year-on-year, mainly due to:

- gains on disposal of TP Emitel, amounting to PLN 1,188 million, which was reported in the first half of 2011;
- deterioration of the underlying EBITDA, driven mainly by a decrease in revenue.

In order to mitigate the aforementioned downward trends, the Group is focused on restoring the growth of revenues from broadband services, as well as, further optimizing of its cost base (please see section 6.3 for details).

3.2 Market and Competition

Fixed line penetration rate reached 24.2% of Poland's population at the end of June 2012, as compared to 24.8% at the end of December 2011. The decline is mainly attributable to growing penetration rate and popularity of mobile technologies, which leads to migration of fixed customers and traffic to mobile networks. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a direct substitute to fixed line telephony.

Cable television operators have further expanded the range of fixed line voice and internet access services. In addition, wireless home zone offers promoted by mobile operators have been gaining popularity. In the first half of 2012, growth in WLR lines stabilised, while the volume of services based on local loop unbundling (LLU) fell for the first time (following the growth slowdown in 2011).

Broadband Internet Access Market

According to Group's internal estimates, total number of fixed broadband access lines increased by 4.8% in the first half of 2012 (y-o-y), which means that the market grew at a slower pace than a year earlier. To a great extent this has been a result of the popularisation of mobile broadband access, which currently seems to be substitutive to fixed broadband access. The penetration of fixed broadband services in Poland's population had reached 18.3% by the end of June 2012 (compared to 17.5% at the end of June 2011), while the household penetration rate increased to 45.8%.

It is estimated that value of the broadband market grew by 5.9% in the first six months of 2012 compared to +4.9% in the first half of 2011.

Competitive pressure from cable television (CATV) operators has remained strong and their total market share has been growing. It was estimated at 29.5% by volume (at the end of June 2012) or 28.5% by value (in the first six months of 2012). The market success of CATV results from popularity of bundled offers, which may be effectively sold by CATV operators due to their strong position on the television market. Another important factor is growing broadband speeds offered by CATV operators for the same price, which contributes to growth in average line speed and raises customers' expectations in this respect.

Since May 2011, Orange Polska has offered fast broadband access based on the VDSL2 technology.

Alternative operators, primarily Netia, still make use of wholesale BSA and LLU based services. The volume of BSA-based lines stabilised in the first half of 2012 (compared to a slight decrease in twelve months of 2011), while LLU-based lines reached 184,000 at the end of June 2012 (compared to 162,000 a year earlier).

Orange Polska has continued to offer broadband services based on the CDMA technology. The total number of such lines is close to the number of LLU-based lines in Poland.

3.3 Fixed Line Voice Services

Fixed line voice services: revenues and key performance indicators

	For 6 months ended		
PLN million	30 June 2012	30 June 2011	Change
Revenues from fixed line services:	2,080	2,331	-10.8%
Subscription and traffic	1,493	1,773	-15.8%
Wholesale revenue incl. interconnect	585	552	6.0%
Other	2	6	-66.7%
Number of fixed lines, '000 (incl. lines operated by PTK Centertel and VoIP services, which are the equivalent of subscriber lines)	5,326	6,038	-11.8%

TP's fixed-line retail revenues saw further erosion in the first half of 2012, resulting mostly from continuous competitive pressure and fixed-to-mobile substitution. These revenues decreased by PLN 280 million (or 15.8%) year-on-year.

In the first six months of 2012, TP continued efforts to contain the erosion of its fixed-line subscriber base. Growing sales of 'doMowy' [home] tariff plans with 12-month or 24-month loyalty agreements further contributed to building loyalty of fixed line customers.

Apart from offers addressed to customers using only fixed line services, TP has continued portfolio initiatives to loyalise customers using other services in addition to fixed line phones. These include FunPack HD (broadband, TV and voice), offering unlimited calls to fixed line terminals in Poland, EU countries, USA and Canada, as well as *Neostrada* offer with unlimited calls to fixed line terminals in Poland.

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

Fixed voice market share in second quarter of 2012

	2Q 2012 (estimated)	**2Q 2011**	**Change**
Retail local access[1]	57.6%	62.9%	-5.3pp
Value market share	64.0%	66.7%	-2.7pp

In mid-April 2012, responding to market changes, Orange Polska launched a new tariff plan for business customers, which is recommended to companies generating large volume of domestic calls and heavily communicating with their branches or partners abroad. The 'No F2F Limit' plan offers unlimited local and intrazone calls to all networks, international calls to zone 1 countries and international F2M calls to Australia, Canada and USA embedded in the subscription.

[1] Without Wholesale Line Rental but with Orange WLR and VoIP services, which are the equivalent of subscriber lines

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 2012	30 June 2011	Change
Revenues from data services	1,207	1,234	-2.2%
of which broadband internet services and TV	759	768	-1.2%
of which data transmission	320	323	-0.9%
of which leased lines	127	142	-10.6%
other	1	1	-
xDSL(1) lines, '000	2,344	2,311	1.4%
Broadband(2) lines, '000	2,895	2,846	1.7%

(1) Excluding wholesale (BSA/LLU)
(2) Including wholesale (BSA/LLU)

Fierce price competition from CATV operators, as well as, competitive pressure from mobile broadband offers affect Group's broadband revenue in Poland. Despite these factors, the number of Group's retail broadband lines (including CDMA and PTK Centertel's BSA) increased by 1.4% year-on-year. At the same time, Group's broadband revenues fell by PLN 9 million. Retail ARPU decreased from PLN 55.1 at in the forth half of 2011 to PLN 54.5 in the first half of 2012. This drove data revenues down by PLN 27 million or 2.2%.

Broadband access market – key indicators:

	30 Jun 2012	**30 Jun 2011**
Market penetration rate in Poland – broadband lines (in total population)	18.3%	17.5%
Total number of broadband lines in Poland (thousands)	7,001	6,681
Market share of Orange Polska (TP + PTK Centertel)	33.5%	34.6%

A trend of increasing demand for higher broadband speeds, fuelled by price reductions for the top speed options and introduction of new options based on the VDSL technology (40 and 80 Mbps) continued in the market.

In 2012, TP promoted bundled offers of broadband and digital TV, offered in both IPTV and DTH (satellite digital TV) technologies: *Neostrada* and *Neostrada* with TV offers, FunPack and *n Television* packages.

An important development for TP's broadband portfolio was the introduction of a convergent offer, Orange Open, which accompanied the rebranding process. It offers a discount on a monthly access fee if a customer uses FunPack HD of TP plus mobile voice and/or broadband service of PTK Centertel. In such case, the aggregate monthly fee is reduced by PLN 15 in case of subscribing to FunPack HD plus one Orange service or PLN 30 in case of subscribing to FunPack HD plus two Orange services.

In the first six months of 2012, the Group continued the development of its television service portfolio, particularly in collaboration with the *n* platform. The name of TP's television services was changed upon rebranding. Currently, these services are provided as Orange TV.

Orange Polska offers a broad service portfolio for small to medium companies as well as sophisticated solutions for large corporations. These services are unique in high quality and reliability, high security levels and professional support for users.

A new data transmission service, Business VPN, has been added to the business portfolio, replacing IP VPN and DSL data transmission offers. It is a comprehensive solution which enables customers to integrate all branches of a company within a single corporate network using various technologies and infrastructure.

4 MOBILE SEGMENT

4.1 Financial Performance

Mobile services segment: income statement

	For 6 months ended		
PLN million, unless indicated otherwise	30 June 2012	30 June 2011	Change
Segment revenue	3,810	3,823	-0.3%
of which retail	3,078	3,094	-0.5%
of which wholesale	732	729	0.4%
EBITDA	1,077	1,116	-3.5%
Margin, %	28.3%	29.2%	-0.9pp
Operating income	573	361	58.7%
Margin, %	15.0%	9.4%	5.6pp

Despite fierce competitive price pressure, mobile revenue decline was contained to 0.3% year-on-year. EBITDA for the mobile segment was down 3.5%, while EBITDA decreased by 0.9 percentage point, mainly as a result of growing marketing costs and higher prices of mobile terminals. PTK Centertel increased its customer base by 222 thousand in the first half of 2012.

4.2 Market and Competition

The mobile voice market is in the saturation phase. The number of mobile users increased in the first half of 2012 by 2.7% and the mobile penetration rate (among population) reached 136% at the end of June.

The three leading operators have been losing their total market share to PLAY. A decrease from 86.3% to 83.4% was reported between 30 June 2011 and the end of June 2012.

PTK Centertel's estimated market share was 28.5% by volume at the end of June 2012 and 30.2% by value in the first half of 2012.

4.3 Mobile Voice Services

Mobile voice services sub-segment: key performance indicators

	For 6 months ended		
PLN '000, unless indicated otherwise	30 June 2012	30 June 2011	Change
Total customers	14,757	14,535	1.5%
of which pre-paid	7,820	7,568	3.3%
of which post-paid	6,937	6,967	-0.4%
Net additions	99	203	-
of which pre-paid	139	192	-
of which post-paid	-39	11	-
Churn rate			
pre-paid	33.5%	30.1%	-
post-paid	7.3%	7.2%	-
SAC, PLN	119	132	-9.8%
Monthly blended ARPU, PLN	40	41	-2.6%

PTK Centertel's customer base reached 14.8 million at the end of June 2012 (up 1.5% year-on-year). This rate of subscriber base growth can be considered a success, taking into consideration the aggressive market players, mainly P4 (PLAY), which benefits from a significant MTR asymmetry.

Blended ARPU was at PLN 40 in the first half of 2012, down 2.6% year-on-year. The decrease resulted mostly from a regulatory MTR cut for incoming calls and SMSs as well as market pressure on prices.

Blended unitary SAC (subscriber acquisition cost) was at PLN 119 in the first half of 2012, down 9.8% year-on-year.

The most important developments in the mass market in the first half of 2012 included a new offer for customers transferring numbers from other operators as well as the Orange Open convergent offer, combining mobile and fixed line, which addresses the need to use a number of different communication services, such as mobile and fixed line telephony, mobile and fixed-line broadband access and TV.

In the business portfolio, the most important development in the first half of 2012 was a launch of new tariff plans, 'Beneficial for Business', in February.

4.4 Mobile Data Services

The first half of 2012 saw the continuation of sales of PTK Centertel's mobile broadband services through the Orange Free (with modem) and Orange Free Set (with netbook, tablet or notebook) offers, the latter accounting for 50% of sales. PTK Centertel promoted its offer with a netbook at the best price in the market.

It is also worth noting that the share of the Panther tariff plan, offering a large data transmission pool embedded in the subscription, grew from a single digit in 2011 to over 20% in new sales and over 25% in retention in 2012. Moreover, additional data transmission packages are promoted among smartphone users (in Dolphin and Pelican tariff plans).

In terms of mobile business portfolio, in the first half of 2012 the Group took steps to provide its customers with even greater opportunity in using the Orange network. These efforts included:

- Email offer: BlackBerry BIS service was implemented over Beneficial Plans; in addition, data packages were upgraded (Email Package for Business from 100 MB to 333 MB at the same price of PLN 8 and MSE Mail from 250 MB to 750 MB at the same price of PLN 16);
- Business Everywhere Try&Buy offer: commercial launch in February/March 2012;
- New ultrabook offer: Asus UX21, Asus UX31, Aspire One D270 and Acer Aspire 5750;In addition, pre-paid offer for data services in the B2B segment as well as long-term starters with SIM cards or as all-in-one (AIO) sets were introduced in June.

4.5 Other Developments in the Mobile Segment

4.5.1 Roaming

As of the end of June 2012, PTK Centertel offered roaming services on 494 networks in 205 countries worldwide, including GPRS roaming on 293 networks in 109 countries and 3G roaming on 64 networks in 38 countries.

4.5.2 Hosting

As at 30 June 2012, PTK Centertel's infrastructure was used by three operators acting in the market as MVNO or MVNE:

- MNI Mobile S.A., offering mobile services in both the MVNO and MVNE scheme under its own brands or for third parties. As a result of ownership changes and acquisition of the Crowley brand by Netia SA, this offer is likely to be closed within MNI's hosting services. Similar scenario may be expected for the Stream brand, which MNI has sold to Multimedia. Due to discontinuation of the Mobilking offer on the PTC's network, any interested users have been migrated to the You&MNI offer hosted on PTK Centertel's network;
- UPC Polska (formerly Aster sp. z o.o.) as an MVNO; and
- Telogic Polska sp. z o.o., MVNE providing services to virtual operators (Inea, Inotel Telestrada and Metroport).

5 MATERIAL EVENTS THAT HAD OR MAY HAVE INFLUENCE ON ORANGE POLSKA'S OPERATIONS

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

5.1 Regulatory Obligations

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

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

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

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

- In the domestic market for leased line terminating segment services (market 13/2003): obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to provide leased line terminating segment services; and
- In the domestic market for leased line trunk segment services, excluding connections between 145 locations (market 14/2003): obligation to provide other operators with telecommunications access to TP's network, including the use of network elements and associated facilities, in order to provide leased line trunk segment services.

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

- In the domestic market for call origination on a fixed public telephone network (market 2/2007): obligation to enable end-user service management, offer wholesale services for the purposes of resale (WLR), provide telecommunications infrastructure and enable colocation and other forms of facility sharing;
- In the domestic market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (market 4/2007): The scope of the market was extended to include not only copper but also fibre optic loops and subloops. With respect to fibre optic loops, UKE has imposed on TP an obligation to provide conditional access. Wholesale pricing is to be cost-based, with the price squeeze test as the basic method of verification. As a consequence of the decision, on 29 April 2011 the President of UKE declared that the previous SMP decision for TP with respect to the market 11/2003 had expired;
- In the domestic market for wholesale broadband access services, excluding some local administrative units (market 5/2007). TP has been designated as an SMP operator for the whole territory of Poland except for 11 local municipalities, including the City of Warsaw. Other areas, which have been subjected to regulation, have been differentiated in terms of regulatory

obligations. TP has the obligation to provide access within all areas, but in 10 rural municipalities it has no costing or equal treatment obligations. Furthermore, in 230 municipalities (less dominated by TP), the Company does not have an obligation to apply a reference offer; however, it has the obligation of equal treatment: on the same terms and conditions as in the areas where the reference offer is required. Fibre optic technology has been included into the product range of the market.

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

Pursuant to SMP decisions for the markets 2/2007, 3/2007, 4/2007 and 5/2007 as well as 13/2003 and 14/2003, TP has an obligation to charge cost-based telecommunication access fees and an obligation to carry out regulatory accounting in accordance with a manual approved by the President of UKE. The relevant regulatory statements for these markets have to be submitted to an independent audit.

Pursuant to the SMP decision for the market 12/2003 (with respect to 11 administrative units which are not regulated pursuant to the decision for the market 5/2007), TP has an obligation to calculate costs of services and charge access fees based on the operator’s justified costs. The service costing results for these markets are subject to an independent audit.

Regulatory obligations of PTK Centertel market position

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

On 12 September 2011, UKE published a draft decision on the relevant market for the market for voice call termination on PTK Centertel’s mobile network. The draft decision maintains an SMP position of PTK Centertel in the market for call termination on its network and imposes the following obligations on the operator: non-discrimination obligation; obligation to provide access; obligation to disclose and publish information on matters related to providing access; and obligation to set cost-based fees (under Article 40 of the Telecommunication Law) to 31 December 2012 and, from 1 January 2013, obligation to set and apply fees based on the bottom-up model for an effective operator (under Article 44 of the Telecommunication Law). In addition, pursuant to the draft decision, by 30 April 2012 PTK Centertel was obliged to submit data required to develop an effective operator profile.

On 4 November 2011, the European Commission communicated its reservations about the aforementioned draft decision for PTK Centertel (as well as draft decisions for Polkomtel, PTC and P4), indicating that adoption of such means would be an obstacle to creating a uniform market and would violate the principle of regulatory predictability.

In the context of the European Commission’s objections, the President of UKE has continued analysis of call termination markets. New decisions in this area are expected before the end of 2012. Most likely, SMP position of PTK Centertel will be confirmed and further MTR regulation and cuts will be implemented.

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

5.2 TP’s Rebranding to Orange

On 29 March 2012, TP S.A.’s Management Board decided to use the Orange brand for identification of all products offered by TP S.A. The Company has effectively implemented the rebranding, extending the new brand to all TP S.A.’s services.

The telecommunication market is evolving towards convergence of fixed and mobile services and concentration around one strong brand. TP S.A. expects that extending the Orange brand to its products will have a positive impact on its revenues and profitability and will contribute to growth in customer satisfaction and a decrease in churn in the fixed line segment. The change of the brand will also help to refresh the Company’s image, as Orange is perceived as more friendly, modern and trustworthy. In addition, as a result of rebranding TP S.A. will gain access to a greater number of FT Group’s innovative solutions, which will bring specific benefits to customers.

5.3 EURO 2012 Project

The Group provided and maintained a number of ICT services throughout UEFA EURO 2012™. While preparing technical solutions, a focus was to enable their use after the tournament for rendering services to Orange customers. In particular, the project involved the following elements:

- Development of a cutting-edge, fully-redundant, high-capacity transport network, ROADM, for broadcasting the TV signal during the tournament and ensuring communication between the key locations in Poland;
- Development of a dedicated IP trunk network and access solutions;
- Provision of dedicated solutions for voice transmission from stadiums based on the existing SDH network infrastructure;
- Provision of fixed-line and mobile voice services as well as PCs and office equipment;
- Enhancement of a mobile network in the key tournament locations.

The experience gained by the Group during the tournament provides an effective basis for both implementation of highly sophisticated ICT projects and further transformation of its operating model in order to increase customer satisfaction from Group's services.

5.4 Co-operation between the Group and TVN

In the first half of 2012, the Group continued to distribute its basic TV offering enhanced with content provided by TVN as well as pay TV packages corresponding to the *n platform* offer (the distribution started in 2011). On 16 April 2012, the Group launched a new offer reflecting *n platform* packages – package prices and content were changed and a new all-inclusive package was introduced. These are further steps in a process of implementation of the long-term framework co-operation agreement signed by the Group and TVN in October 2010.

Owing to the co-operation, both companies intend to benefit from enhanced attractiveness of the multi-play offering and up-selling potential as well as cost synergies.

5.5 Group's Activity in the Area of ICT Services

In the first half of 2012, the Group continued to develop its information and communication technology (ICT) service portfolio. The IT business portfolio is a package offer of software, hardware and IT support or support only for customers who already own computer and office equipment. In April, a new non-standard package was added to the portfolio, offering development of a customised offer and an additional functionality of 10 GB online backup with an option to migrate to 30, 50 or 100 GB of space.

5.6 Agreement on Shared Network Infrastructure and Radio Frequencies

Orange Polska (through PTK Centertel) has intensified technical co-operation with Polska Telefonia Cyfrowa sp. z o.o. ("PTC") based on:

- agreement on reciprocal use of radio access networks ("RAN Agreement") signed in July 2011; and
- joint venture NetWorkS! sp. z o.o. ("NetWorkS!") – in which PTK Centertel and PTC hold a 50% stake each and which conducts management, planning, operations, development and maintenance of their access networks.

One of major elements of the co-operation has been the selection of common infrastructure providers. In January 2012, PTK Centertel signed framework agreements with Huawei and Nokia Siemens Networks for supply of equipment for modernisation of networks infrastructure. The agreements do not constitute a commitment on behalf of PTK Centertel to make any purchases and do not determine any minimum amount thereof.

The agreements have been negotiated on the basis of the criteria agreed between PTK Centertel / PTC and NetworkS! as well as PTK Centertel / PTC's procurement needs determined by NetWorkS! Similar agreements have been signed by PTC, as well.

By the end of June 2012, shared RAN networks had been launched in seven areas in Poland, covering the following towns: Nowy Sącz, Suwałki, Biała Podlaska, Chełm, Malbork, Zamość and Świnoujście. Orange customers in these areas may now use a network which has 70% more sites; which in particular effected in the growth of the coverage with 3G network services - by 23 percentage points on average.

By mid-2014, full implementation of the agreement between PTK Centertel and PTC will result in a total of ca. 10,000 base stations transmitting the signal for both operators.

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

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

PTK Centertel's co-operation with PTC is limited to technical aspects and, in particular, both operators continue to compete on wholesale and retail telecommunication markets.

5.7 Development of Infrastructure-based Operators in the Mobile Market

The mobile operator PLAY continued rapid growth of its customer base in the first six months of 2012. In an increasingly saturated mobile market, PLAY's main objective has been to win customers from other operators. As a result of aggressive marketing and pricing policy, PLAY became the leader in the mobile number portability market. The operator has been systematically increasing its value market share, due to an increase in its customer base and benefiting from an MTR asymmetry.

As a result of transactions effected in 2011, NFI Midas has become the owner of a group of telecommunication companies, CenterNet, Mobyland and Aero2, which hold attractive frequencies. It facilitates frequency management and provision of services to large and demanding operators. Based on the technology provided by NFI Midas' subsidiaries, Cyfrowy Polsat and Polkomtel are developing an LTE-based access offer.

Following ownership changes in 2011, Cyfrowy Polsat and Polkomtel, both owned by Zygmunt Solorz-Żak, established co-operation to launch a joint offer and cross-sell their products.

5.8 Development of the LTE Technology and Its Impact on the Telecommunications Market

In 2012, commercial services based on the LTE technology were launched by Cyfrowy Polsat and Polkomtel, which belong to the same group of companies. So far, this fact does not seem to have any major influence on the current operating results of both operators in the mobile broadband segment.

In the short term, apart from improving the operator's image, the implementation of LTE services should not be a watershed development in the broadband market for the following reasons:

- limited geographical coverage of LTE services;
- low market penetration with terminals compatible with this standard;
- currently available technologies, HSPA+, HSPA+DC, are sufficient to handle a majority of value-added services, including applications, informational services or VoD.

The Office of Electronic Communications intends to hold a bidding procedure for frequencies in the 1800 MHz band in 2012. The frequency allotment decision is expected at the end of November.

5.9 Mobile Virtual Network Operators (MVNOs)

First mobile virtual network operators debuted in 2007. Their main competitive advantage has been low price of services, though it is expected that MVNOs will modify their business strategy and focus not on price but on added value resulting from linking the mobile service with their core business (e.g. Carrefour: recharge linked to an amount spent in the store).

According to Group's internal estimates, a dozen or so MVNOs (this number changes depending on a criterion used, e.g. a number of operators or a number of brands/offers in the market) operated in the market as at end of June 2012 and their aggregate market share in Poland's mobile market was approximately 1.6%. The exact customer base is difficult to estimate.

5.10 New Brands in the Mobile Market

At the end of March 2012, Viacom International in conjunction with Polska Telefonia Cyfrowa (T-Mobile) launched the MTV Mobile offer of mobile services. This pre-paid and mix offer is targeted at young people and involves access to entertainment from the MTV library.

5.11 CATV Operators

CATV operators, who hold an aggregate share of approximately 40% in the pay TV market and control almost one third of the broadband market, have an ambition to provide not only primary services, such as internet or voice, but also entertainment. Hence, promotions offering game consoles, IPTV, HD channel portfolio, music-on-demand and 3D television. As usage of such services will generate growing demand for higher capacities, CATV operators modernise their own networks and, more and more frequently, lease third party’s fibre-optic lines.

CATV operators, which operate in Poland’s biggest cities, are perceived as technological leaders offering the highest internet access speeds. Their common practice is to offer higher speeds or increase the scope of services within a package (e.g. with mobile internet) without increasing the service price.

The first half of 2012 brought another step towards consolidation of the market, as acquisition of Stream Communications by Multimedia Polska was approved by the Office of Competition and Consumer Protection (UOKiK). As a result of the acquisition, Multimedia Polska will become Poland’s second largest CATV operator with almost 830,000 customers.

5.12 Infrastructure Development

In the first half of 2012, TP continued to enhance its data networks infrastructure. This included installation of ROADM optic network equipment, increasing IP core network capacity and throughput of its data aggregation network, as well as increasing the capacity and geographical coverage for DSLAM equipment. Investments in backbone, aggregate and access networks have been carried out pursuant to the Memorandum of Understanding with UKE. TP has also developed new generation DSL access switches. These are compatible with the VDSL2 access technology, which enables setting up lines of speed up to 80 Mbps.

As part of development of the core infrastructure of the IP network and ROADM optic network, TP implemented two new generation trunk routers of switching capacity of over 1 Tbps and optic equipment to set up lines of speeds of 40 and 100 Gbps. As a result, it will be possible to increase the network capacity in subsequent quarters. In the first half of 2012, the capacity of international Internet links increased by 18%.

In addition, multi-service aggregate network infrastructure, expanding the coverage of Ethernet-based services, was intensively developed. This will enable connecting mobile network base stations of capacity of up to 1 Gbps or, in the future, even 10 Gbps. Thirty new nodes of this network were added in the first six months of 2012.

In 2012, PTK Centertel continued development of the core network capacity. The process of implementation of the new-generation core network infrastructure based fully on IP protocol has reached its final stage. Subsequent BSC and RNC radio controllers have been gradually migrated to the R4 network. As at end of June 2012, over 97% of GSM and UMTS/HSPA network users were handled using the new-generation core network.

PTK Centertel has also expanded the coverage of its UMTS/HSPA services and increased the capacity of its GSM network, while continuing investments in the CDMA network. At the of June 2012, the UMTS/HSPA network covered 68% of Poland’s population. In addition, the company has continued the implementation of a new mobile data technology, HSPA+DC, reaching the coverage of over 62% of Poland’s population.

In a process of consolidation of a network developed jointly with T-Mobile, the first clusters of the consolidated radio access network were launched.

5.13 Claims and Disputes, Fines and Proceedings

Please see Note 9 to the Condensed IFRS Interim Consolidated Half-Year Financial Statements enclosed for detailed information about material disputes and proceedings against Group companies, including investigation by the European Commission, as well as fines imposed thereon.

5.14 Cost Calculation Results

TP

Under the regulatory obligations resulting from having significant market power in the relevant markets for bitstream access (market 12/2003) and retail services (markets 1/2003 to 7/2003), in 2012 TP has an obligation to carry out costing of services covered by the aforementioned markets for 2013, and submit the results thereof to an independent auditor selected by UKE. In addition, TP has an obligation to prepare regulatory accounting statements for 2011 and submit them to an independent audit.

In performance of its regulatory obligations, TP submitted a manual for drawing up regulatory statements for 2011 as well as descriptions of service costing for 2013, including changes proposed by TP to account also for a portion of fixed costs in cost allocation, for the President of UKE's approval. The President of UKE accepted these changes and on 28 May 2012 approved TP's service costing description and regulatory reporting manual.

On 29 May 2012, the President of UKE called upon Ernst&Young Audit sp. z o.o. to audit TP's service costing for 2013 and regulatory accounting statements for 2011. The audit will end by 31 July 2012 with the submission of the audit report together with the auditor's opinion to the President of UKE and TP.

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

On 28 January 2010, the President of UKE issued a decision on TP's service costing descriptions for 2011 and regulatory reporting manual for 2009. This decision imposed on TP an obligation to carry out wholesale service costing on the avoided-cost basis. In TP's opinion, the wholesale service costing methodology imposed by UKE is inconsistent with both EU and Polish regulations. On 11 February 2010, TP applied for the re-examination of the case by the President of UKE, but on 4 May 2010 the President of UKE issued a decision upholding the previously defined costing methodology. On 2 June 2010, TP filed a complaint against the aforementioned decision of the President of UKE with the Regional Administrative Court. The Court did not share TP's point of view and rejected its complaint on 1 December 2010. On 10 March 2011, TP filed a cassation appeal against the Regional Administrative Court's ruling with the Supreme Administrative Court. On 5 April 2012, the Supreme Administrative Court cancelled the Regional Administrative Court's ruling and transferred the case back for re-examination. The re-examination of the case by the Regional Administrative Court is pending.

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

PTK Centertel

In line with its costing obligations with respect to the call termination service on its mobile network ("MTR"), PTK Centertel completed annual cost calculation for MTR services. The costing results for the service of call termination on PTK Centertel's mobile network were submitted to the President of UKE on 30 April 2012.

5.15 Functional Separation

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

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

On 14 June 2012, the Permanent Committee of the Council of Ministers adopted a draft bill amending the Telecommunication Law. It provides for potential functional and structural separation. Owing to pending legislative work, the content of the draft bill may change.

5.16 Memorandum of Understanding with UKE

The President of UKE has declared freezing wholesale rates at the level resulting from current framework offers till the end of 2012. The “retail minus” methodology for determining wholesale rates was replaced with the “cost plus” model in 2010. Over the three years TP should invest in 1.2 million broadband accesses, including 0.5 million new lines and 700 thousand to be upgraded. It is expected that approximately 1 million lines will have bandwidths of 6 Mb/s or more. This infrastructure will be deployed not only in conurbations, but also in small towns and across rural areas.

In the first half of 2012, TP performed its project obligations according to a schedule adopted together with UKE and systematically implemented the obligations of a permanent nature. As in the preceding year, the key permanent obligation was the application of the non-discrimination rule in operating activities related to inter-operator relations. An important initiative in this area is a KPI monitoring process for TP’s wholesale and retail services. In 2011, a new KPI system was developed in consultation with UKE and is being implemented on a production scale. It was used in parallel to the existing set of KPIs throughout the first half of 2012 and will fully replace the latter in July 2012. On 10 February 2012, the first report based on the new set of KPIs was submitted to UKE.

In 2012, the Group has been implementing the functionalities required due to changes in regulated wholesale service offers in the IT solutions which have been developed. In addition, works related to anonymisation of information on the source of orders have continued within IT systems.

From the commencement of the MoU implementation to 30 June 2012, TP constructed and provided infrastructure enabling operation of a total of 953,375 broadband lines, which corresponds to 102.8% of the target for that period set in MoU.

The proper implementation of MoU is verified by an external auditor on a quarterly basis. Reports on ten quarterly audits conducted hitherto have generally confirmed the effective implementation of MoU by TP. In addition, TP delivers a monthly report to the President of UKE, describing progress in implementation of the MoU. The report is published by UKE on its web service.

On 30 January 2012, TP and the President of UKE agreed to modify the conditions and time schedule of fulfilment of TP’s investment declaration within the MoU. TP committed itself to ensure availability of services with capacity of at least 30 Mbps for 220,000 lines out of the 340,795 broadband lines remaining to be invested pursuant to MoU. As a consequence, due to necessary replanning of investment tasks, the time schedule of completion of the aforementioned 220,000 lines was extended and they can be completed until 31 March 2013 unless unfavourable weather conditions would cause additional arrangements between the Parties.

TP expects that this modification will not impact the total level of capital expenditures for the implementation of MoU, with some postponements possible from 2012 to 2013. Furthermore it will allow TP time needed to invest into attractive speed options and technologies, including VDSL, thus also supporting implementation of the European Digital Agenda in Poland.

For additional information on the MoU please see the Management Board's Report on the Group’s activity in 2011.

5.17 Compensation for Universal Service Costs

In 2012, the Regional Administrative Court rejected TP’s complaints against the President of UKE’s decision of 6 September 2011 regarding compensation of the net cost deficit for the years 2006, 2007, 2008 and 2009. TP has filed cassation appeals with the Supreme Administrative Court for 2006 and 2007 and intends to file them for 2008 and 2009 as well.

On 30 June 2011, TP filed an application with UKE for compensation of PLN 269 million for 2010. In the course of administrative proceedings, the Net Cost Components were audited by an independent auditor, who submitted his opinion (without reservations) together with the audit report to the President of UKE.

On 10 January 2012, the President of UKE issued a decision on the net cost deficit for 2010, granting TP compensation of PLN 55,1 million mainly for providing the public payphone service. TP applied to the President of UKE for the re-examination of the case. On 27 April 2012, the President of UKE upheld his decision of 10 January 2012. On 15 May 2012, TP filed complaints with the Regional Administrative Court in Warsaw against the President of UKE’s decisions of 27 April 2012 and 10 January 2012. The court proceedings are pending.

On 29 June 2012, TP filed an application with UKE for compensation of the net cost deficit for the period from 1 January 2011 to 8 May 2011 in the amount of PLN 33,8 million.

The compensation is paid pro rata by all the operators (including TP and PTK Centertel) with revenues of more than PLN 4 million in the year for which the compensation is due. The President of UKE will determine by way of individual decisions the share of particular operators in the compensation to be paid to the Company.

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

In the second half of 2011, the President of UKE initiated four sets of proceedings to determine the share of particular operators in the compensation for the years 2006, 2007, 2008 and 2009. On 10 May 2012, the President of UKE initiated similar proceedings concerning compensation for 2010.

For additional information on compensation for universal service costs please see the Management Board's Report on the Group's activity in 2011.

6 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

6.1 Market Outlook

According to Group's estimates the value of Poland's telecommunication market increased by 0.8% in the first half of 2012 (year-on-year). The main growth factors were the broadband market and the mobile market, but these are gradually getting saturated. Offers which greatly extend the term of pre-paid accounts are a major factor influencing the mobile market growth by volume. There is still a downward trend in the fixed-line voice market.

Growing popularity and availability of smartphones as well as tablets and other units that use mobile internet access is a new, visible trend in the market development. Customers are offered higher speeds and data transfer volumes for a lower price, which positively affects the market growth. In the first half of 2012, operators also proposed new offers with unlimited SMSs/MMSs and calls to all networks. No offers with unlimited data transfer have been launched so far.

An expected market trend is further bundling of telecommunication services with television and entertainment. Major developments in the business market will include combining telecom offers with ICT offers as well as growth in the machine-to-machine (M2M) segment.

At the current stage of the market development, further consolidation of the industry is worth noting. The owners of Multimedia Polska have initiated a procedure for selling the company. A process of privatisation of TK Telekom has started. However, Exatel will not be sold, as PGE has decided to keep this company within its structures.

6.2 Orange Polska's Strengths

Orange Polska operates in an increasingly challenging market. Due to fierce competition and the market structure, actions taken by the Group need to be determined and consistent. The ability to adapt to the existing conditions and respond to new market trends results from a number of Orange Polska's strengths, the most important of which are as follows:

- Broad portfolio of services matching diverse needs of customers;
- Market's broadest bundle of services within a single offer;
- The most recognisable brand in the telecommunications market;
- Unique offering, which includes services from outside the core telecommunication sector (e-health, e-insurance);
- Poland's largest sales network, enabling professional customer service during and after sales; simultaneously, modern distribution channels, particularly on-line, are being developed;
- Broad international co-operation and access to know-how of TP's partners from the France Telecom Group, including close co-operation and R&D experience sharing within the Orange Lab network;
- Experienced workforce and well-developed work assessment and competence development system;
- More predictable regulatory environment in the wake of the Memorandum of Understanding with UKE.

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

6.3 Orange Polska's Medium Term Action Plan

Orange Polska's medium term actions are influenced by two major elements:

- Memorandum of Understanding with UKE; and
- Orange Polska's medium term action plan.

The Memorandum of Understanding with UKE was signed on 22 October 2009 and remains in force to the end of the first quarter of 2013. In terms of the medium term action plan, MoU:

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

The Group's action plan aims at strengthening its leadership in core market segments, while preserving the Group's financial standing and revenues. The Group will flexibly respond to changing customer needs, offering an attractive range of services and solutions to accompany customers in their everyday life. It means the following efforts:

- To attain a strong leadership position in all Group's core markets:
  - Fixed line segment – to maximise retention initiatives, particularly through gradual migration of fixed line customers to VoIP services, and minimise revenue erosion in the segment through gradual convergence of fixed line and mobile services under the common Orange brand,
  - Mobile segment – to attain the market leadership by value, increase revenue (ARPU) and improve customer satisfaction through new mobile content, service bundling and value-added services,
  - Internet access – to expand the broadband customer base and further improve service quality by increasing transfer rates, extending service coverage and ensuring top connection quality,
  - Television and entertainment – to strengthen the market position by close co-operation with the strategic provider of rich content and development of additional service functionalities (three-screen TV, full interactiveness), as well as to increase the service attractiveness by combining them with broad entertainment content provided in co-operation with the leading content distributors,
  - Innovativeness – to present attractive integrated offers that will meet the needs of Orange Polska's customers;
- To systematically develop infrastructure required to offer cutting-edge technological solutions to customers;
- To develop a new offer for business customers in the Information and Communication Technology (ICT) market, particularly through a newly established dedicated company, Integrated Solutions;
- To improve customer care;
- To develop a strong sales network – to develop remote sales channels which increase the offer availability;
- Continuation of the cost savings and transformation program, aimed at reducing the cost base and increasing operating efficiency.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

7 CHANGES IN THE GROUP'S STRUCTURE IN THE FIRST HALF OF 2012

7.1 Changes in the Corporate Structure of TP

In the first half of 2012, the Company did not implement any material changes in its corporate structure.

7.1.1 TP's Management Board

As of 30 June 2012, the Management Board is composed of five Members, who have been assigned the direct supervision over the following Company's matters:

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

7.1.2 TP's Business Units

The total number of business units within TP's organisation did not change.

As of 30 June 2012, TP had 64 business units reporting directly to:

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

2) Vice President of the Management Board in charge of Marketing and Strategy: 7 business units;

3) Vice President of the Management Board in charge of Operations: 11 business units;

4) Management Board Member in charge of Finance: 9 business units;

5) Management Board Member in charge of Human Resources: 9 business units;

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

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

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

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

7.1.3 Group's New Premises

On 22 December 2009, TP signed an agreement with Bouygues Immobilier Polska for the development and lease of new premises. The new location, a low rise and energy efficient complex of buildings in proximity of the city centre, will be able to host approximately 3,300 employees. The development is to be concluded in the second half of 2013, while the lease period will be ten years, with extension options secured. On 11 June 2010, Bouygues Immobilier Polska completed the negotiations and concluded a memorandum of understanding for the purchase of land for construction of the Group's new premises. The campus will be located at 160 Aleje Jerozolimskie Street in Warsaw. In 2010, the property developer obtained a final building permit and in February 2011 the building contractor was appointed, to whom the building site was handed over. The construction work continues: the structure of all levels has been erected and the installation of windows and the facade as well as work on technical services has begun.

A procedure of selecting a financial investor for the 'Orange Campus' has been completed. The Orange Campus, which since the beginning has been implemented as a lease project, was initially owned by the French developer Bouygues Immobilier (BI). The Group, which has hired the developer to erect the complex and signed an agreement for the lease thereof, has decided not to exercise its right of first purchase. The whole project has been purchased by Qatar Holding LCC, a subsidiary of Qatar Investment Authority. For the Group, the existing mutual obligations agreed upon with the developer remain binding.

7.1.4 Changes in the Structure of TP's Subsidiaries

There were no major organisational changes in TP's subsidiaries in the first half of 2012.

7.2 Ownership Changes within the Group in the First Half of 2012

7.2.1. Sale of Shares of PayTel S.A. by TP outside the Group

On 27 January 2012, TP signed a sale agreement with Warsaw-based Comp S.A. for all 24,000 shares held by TP in PayTel S.A. The shares constituted 100% of the share capital of PayTel S.A. and corresponded to 24,000 votes at the General Assembly of the latter. The total sale price was PLN 5,700,000. The sale price will be increased by PLN 1,500,000, provided that on the first day of the 37th month after the date of agreement all the agreements specified therein and concluded on 27 January 2012 between PayTel S.A. and Orange Customer Service sp. z o.o. or PTK Centertel sp. z o.o. will remain in force.

7.2.2. Changes of Equity in Group Companies

TP Edukacja i Wypoczynek sp. z o.o.

On 6 December 2011, the Extraordinary General Assembly adopted a resolution on decreasing the share capital of TP Edukacja i Wypoczynek sp. z o.o. from PLN 98,754,000 to PLN 91,000,000, i.e. by PLN 7,754,000, through redemption of 15,508 shares of the nominal value of PLN 500 each and the total nominal value of PLN 7,754,000. The reduction in the share capital was announced together with a summons on creditors to submit potential objections pursuant to article 264 of the Code of Commercial Companies. Following a procedure of notifying the creditors, the share capital reduction was registered in the National Court Register on 1 June 2012.

TP TELTECH sp. z o.o.

On 28 March 2012, the Extraordinary General Assembly adopted a resolution on decreasing the share capital of TP TELTECH sp. z o.o. from PLN 51,125,000 to PLN 48,505,000, i.e. by PLN 2,620,000, through redemption of 52,400 shares of the nominal value of PLN 50 each and the total nominal value of PLN 2,620,000. The reduction in the share capital was announced together with a summons on creditors to submit potential objections pursuant to article 264 of the Code of Commercial Companies. Following a procedure of notifying the creditors, the share capital reduction will be registered in the National Court Register.

7.3 Parent Company's Shareholders

As of 30 June 2012, the share capital of the Company amounted to PLN 4,007 million and was divided into 1,336 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital based on information available on 30 June 2012 was as follows:

Shareholder	Number of shares held	Number of votes at the General Assembly	Percentage of the total voting power at the General Assembly	Nominal value of shares held (in PLN)	Interest in the Share Capital
France Telecom S.A.	664,999,999	664,999,999	49.79%	1,994,999,997	49.79%
Capital Group International, Inc.(1)	67,546,647	67,546,647	5.06%	202,639,941	5.06%
Other shareholders	579,810,833	579,810,833	43.41%	1,739,432,499	43.41%
TP S.A. (treasury shares)(2)	23,291,542	23,291,542	1.74%	69,874,626	1.74%
TOTAL	**1,335,649,021**	**1,335,649,021**	**100.00%**	**4,006,947,063**	**100.00%**

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

(2) Voting rights vested in treasury shares cannot be exercised at the General Assembly of TP S.A.

As of 30 June 2012, 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 2012, 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.

On 27 October 2011, the Company began the execution of a programme of the buy back of the Company's own shares for the purpose of their redemption. In line with the authorisation granted by the Extraordinary General Meeting held on 13 October 2011, the programme will be carried out until the total amount of funds utilised for its execution achieves PLN 800,000,000, but not later than December 31, 2012. TP SA Management Board has been informed by France Telecom SA – the strategic shareholder of the Company – that France Telecom does not intend to participate in the programme.

TP did not issue any employee shares in 2012, but an Incentive Programme for the Key Managers was launched in 2007 (for more information please see the Management Board's Report on the Group's activity in 2011).

8 GROUP'S STRUCTURE AS OF 30 JUNE 2012

For the description of the Group's structure please see Note 1.2 to the IFRS Consolidated Financial Statements for 2011.

8.1 Corporate Governance Bodies of the Parent Company

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

Composition on 1 January 2012 and 30 June 2012:

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

On 12 April 2012, Mr. Vincent Lobry was appointed by the Supervisory Board as Vice President of the Management Board for Marketing for another term of office.

II. Composition of the Supervisory Board and its Committees and changes thereof in 2012

Composition on 1 January 2012:

1. prof. Andrzej K. Koźmiński - Chairman and Independent Board Member
2. Benoit Scheen - Deputy Chairman and Chairman of the Strategy Committee
3. Nathalie Clere - 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. dr Mirosław Gronicki - Independent Board Member
8. Marie-Christine Lambert - Board Member
9. Pierre Louette - Board Member
10. prof. Jerzy Rajski - Independent Board Member
11. Gérard Ries - Board Member
12. dr Wiesław Rozłucki - Independent Board Member

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

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

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

Composition on 30 June 2012:

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

At present, TP S.A. has six independent members in the Supervisory Board, namely: prof. Andrzej K. Koźmiński, Timothy Boatman, dr Henryka Bochniarz, dr Mirosław Gronicki, Sławomir Lachowski and dr Wiesław Rozłucki.

Composition of Committees of the Supervisory Board on 30 June 2012:

The Audit Committee

1. Timothy Boatman – Chairman
2. Nathalie Clere
3. Marie-Christine Lambert

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

The Remuneration Committee

1. dr Wiesław Rozłucki – Chairman
2. Benoit Scheen
3. Nathalie Clere

The Strategy Committee

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

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

8.1.1 TP Shares Held by Persons Who Manage or Supervise TP

As of 30 June 2012, Maciej Witucki, President of the Management Board, held 4,000 shares in the Company. Other members of the Management Board or Supervisory Board did not hold TP or related entities' shares as of 30 June 2012.

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 2012 was as follows:

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

The members of the Supervisory Board of TP do not participate in the Company's incentive program and as at 30 June 2012 held no first option bonds.

8.1.2 General Assembly

On 12 April 2012, the Annual General Assembly of TP approved a dividend of PLN 1,969 million (i.e. PLN 1.5 per share). A total of 1,312,357,479 shares were eligible for dividend, while 23,291,542 shares were not subject to dividend payment as these were treasury shares bought back for the purpose of redemption. The dividend, net of withholding tax, was paid on 5 July 2012.

8.2 Workforce

As of 30 June 2012, Orange Polska employed 23,411 people (in full-time equivalents), which is a decrease of 3.8% compared to the end of June 2011.

The workforce reduction year-on-year resulted mainly from a decrease in TP S.A. (by 322 employees) and PTK Centertel (by 376 employees, including transfer of 344 employees to NetWorkS!), as well as sale of Paytel (52 employees) in 2012. The workforce reduction was partially offset by some increase in workforce, mainly in Ramsat (by 106 employees), Wirtualna Polska (by 17 employees) and Teltech (by 15 employees) as well as the establishment of Integrated Solutions (with workforce of 29).

TP's workforce reduction was mainly a result of a voluntary departure programme, carried out in 2012 in accordance with the Social Agreement. In 2012, severance pay was paid to 305 employees, out of which 298 (or 97.7%) left TP under the voluntary departure programme, and averaged PLN 62 thousand per employee.

The voluntary departure programme was also effected in Orange Customer Service (OCS). In line with an agreement reached in 2011 between the Management Board of OCS and trade unions, a total of 92 people left the company on a voluntary departure basis in 2012. Severance pay for departing employees averaged PLN 48.5 thousand. Voluntary departures at OCS are effected on the same terms as at TP.

The workforce restructuring provision at TP after discount and utilisation was PLN 136.1 million as of the end of June 2012 and accounted for the continuation of the departure programme at TP in 2012–2013. The workforce restructuring provision at OCS was PLN 13.3 million as of the end of June 2012 and accounted for the continuation of the voluntary departure programme in 2012 as well as severance pay for employees leaving under group lay-offs.

In May 2012, a workforce restructuring provision of PLN 1.6 million was established at PTK Centertel for severance pay for up to 40 people who will leave the company in 2012.

In the first half of 2012, external recruitment in the Group totalled 633 positions. External recruitment was mainly related to sale positions and customer service staff.

8.2.1 Social Agreement

A new Social Agreement for the years 2012-2013 concluded by the Management Board of TP S.A. with trade unions has been effective since 1 January 2012. The Social Agreement regulates issues related to employment policy, including the role of internal mobility, recruitment and outsourcing, pay rises (not less than 4.5% in 2012 and 2013) and enabling employees who cannot adapt their professional profile to the changing market needs to leave TP with compensation.

In the years 2012–2013, up to 2,300 employees with seniority of over 6 years will be able to make use of the voluntary departure package, including up to 1,150 employees in 2012. The voluntary departure offer is addressed to TP's employees who are covered by the Intragroup Collective Labour Agreement.

The package offered to departing employees depends on their seniority in the Group and ranges between 4 and 15 average basic monthly salaries of the employee from the last three months of employment, but not higher than the average basic monthly salary of employees covered by the Intragroup Collective Labour Agreement as of 31 December 2011. This is increased by additional compensation of PLN 8,000 in 2012. Employees with seniority of 20 years will receive extra compensation of up to PLN 20,000 per employee.

CHAPTER IV
KEY RISK FACTORS

9 RISK FACTORS AFFECTING THE ACTIVITIES OF ORANGE POLSKA

The risks mentioned in this report are not intended to constitute an exhaustive list of all possible risks, which may impact the Group's activities. The system of internal control and risk management in the Group is designed and implemented by the Management. This approach allows to manage the risk of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures as needed) – (please see Note 31 to the IFRS Annual Financial Statements for additional information about major outstanding claims and litigations).

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The Group has developed a risk management process which encompasses risk identification, analysis and assessment, implementation of risk mitigation measures and verification of action results. This provides the Management Board with information about the key risks within the Group, so preventive actions may be additionally supported. The Risk Management team provides structure, facilitates communication and reviews external risks faced by peers. The review and assessment of the identified risks, the identification of the main causes and the implementation of action plans involve the participation of Group's top management. The major risks are subject to monitoring. For such risks, preventive measures aimed at reducing their vulnerability and limiting their potential impact on the Group's operations are implemented. The top risks are updated and submitted by the Management Board to the Supervisory Board on a regular basis. The internal audit plan for each year is developed also taking account of a list of the major risks identified.

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

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

Due to fierce competition and volatile regulatory environment, the Group's ability to achieve business objectives is under strong pressure, so TP carries out dedicated actions aimed at reducing the competitive pressure on its performance by constantly modernising its offers in the fixed-line and mobile segments and enhancing customer service. In line with its strategy, the Group has been carrying out the previously announced actions, including rebranding of fixed segment services and developing its products and systems aimed at offering the latest technology developments and improved products and services to its customers.

9.2 Regulatory decisions and changes in the regulatory environment could adversely impact the Group

The Group must comply with various regulatory obligations governing the provision of its services and products, also relating to obtaining and renewing licenses. The Group faces a number of regulatory constraints as result of its historically dominant position in the fixed-line telecommunication market.

If Group companies are unable to satisfy the imposed regulatory requirements or fail to meet imposed requirements, they may be at risk of initiation of administrative procedures and, consequently, imposition of administrative fines. As provided in the Telecommunications Law, the President of UKE may impose a penalty of up to 3% of its prior calendar year's revenues on a telecommunications operator, 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 of Competition and Consumer Protection (UOKiK) may impose a penalty of up to 10% of its prior financial year's revenues on a company, for failing to provide the information requested or a penalty of up to EUR 50 million for providing misleading information.

According to article 13(11) of the Memorandum of Understanding between TP and UKE, in case of non-performance or improper performance of the MoU provisions by TP, including non-compliance with the auditor or President of UKE's recommendations regarding the IT audit, failure to meet the relevant deadlines or any actions inconsistent with the principles set out in MoU, the President of UKE may resume works on imposing a regulatory obligation of functional separation on TP.

Further information on the regulatory risks is set out in Section 10.

9.3 The extent of competition and the resulting pressure on services and prices

Fierce competition in the market and technological developments of new services result in strong pressure on price reductions in the mobile segment and also in the fixed segment. There is a risk that the effect of price reductions will not be offset by increased volume of traffic on the network. Competition could lead to a reduction in the rate at which the Group adds new customers, a decrease in the size of the Group market share and a decline in ARPU. The recently implemented post-paid offers for B2B and B2C by the mobile network operators may create pressure on revenue and margins. The Group faces competition from not only telecom companies but also players from outside the industry, such as television or internet providers. Despite its efforts, the Group is still at risk of erosion of its revenues and market shares.

In response to this competition, the Group strives to better answer customer needs in terms of the quality and simplicity of services. The Group is developing an organization, procedures and systems aimed at offering the latest technological developments and improved products and services to its customers. In 2012, the Group introduced further fixed-mobile convergent offers, including Orange Open which combines 3P fixed services offers with mobile voice and mobile data. The Group continues to offer IT and telecommunication system integration services and provides solutions for business clients' needs.

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

9.4 Potential Saturation of Networks

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

9.5 New Investments in network infrastructure

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

Due to new services, growing customer needs and competitive pressure, the Group undertakes costly investments in the network infrastructure. To achieve synergies and assure more efficient use of the network infrastructure, TP has established a joint venture Networks! with Polska Telefonia Cyfrowa sp. z o.o. with the objective to build the best-in-class mobile network development by 2014. In 2012, the Group continued the development of HSPA+ DC and deployment of fixed and radio IP backhaul to handle increasing traffic.

The deployment process of the VDSL technology is in progress. Should the Group not manage to control the complexities of networks, technologies and processes necessary to meet the expectations of its customers with regards to quality and easy-of-use, it might lose or not gain market share or to be required to cut margins in its core market and its financial position and results could be adversely affected.

9.6 Non-availability or Failure of Technical Infrastructure

The technical infrastructure required to offer the Group's products and services is exposed to a risk of failure and interruption resulting from natural disasters or intentional human actions. Interruptions in technical infrastructure operations have a direct impact on provision of services and supply of products by the Group, which in turn translates into lower revenues from such products and services and a decline in customer satisfaction and the Company's image. This risk is mitigated by the proper network development planning, preventive maintenance, implementation of business continuity plans and insurance schemes. The Group is generally covered by an insurance policy which protects it against loss of assets and profit if the Group's telecom infrastructure has been damaged. Aerial lines and submarine cables are excluded from the insurance policy and damage to these assets, and resulting losses, will be borne by the Group. In addition, any material failure in maintaining the security of technical infrastructure systems may significantly damage our reputation and may lead to disruptions in business processes, resulting in revenue losses. Therefore the Group implements measures, as far as it is practicable, to protect the technical infrastructure from cyber-attacks and to detect the disclosure of sensitive data to unauthorised parties and to promptly react to security incidents.

9.7 Non-availability or Failure of IT Systems

As rapid implementation or modification of IT systems has become a necessity to meet customer demand for attractive offers, there may be a risk of malfunctions resulting from insufficient testing of new services or lack of data integrity within connected systems. Potential failures and reduced availability of critical systems, resulting from frequent changes in the applications used, can lead to decreased quality of services and delayed response to changing customer needs. No major failure or non-availability of IT systems occurred in the first six months of 2012.

9.8 Dependence on External Partners

The Group concludes contracts with external partners, particularly for development and maintenance of its networks and telecommunication and IT infrastructure. Although adequate safety clauses are included in the contracts, there is still a risk of non-performance by the Group’s suppliers, resulting in delays and a decrease in quality of services provided by the Group. At the same time, the Group has partially outsourced operation and supervision of IT and networks systems and processes to external suppliers. This process has been monitored on a current basis in order to assure its optimum operation and taking effective corrective actions, if required.

9.9 Risk Related to Trade Agreements and Strategic Alliances

In order to attain its business objectives, the Group attempts to extend its portfolio through trade agreements and strategic alliances that enable it to use products and services of external partners and to mitigate risk. It is assumed that such bilateral agreements will bring added value to both the Group and its customers. However, there is a risk that the benefits resulting from them will fall short of the anticipated and planned levels. At the same time, the Group is at risk of losing a portion of its revenues due to migration of some of the existing customers who may sign beneficial trade agreements or arrangements with other telecom service providers which are competitive to TP. In response, TP has undertaken a number of initiatives to reduce the exposure. In particular, a co-operation agreement with TVN Group is continued: both companies have joined forces to satisfy growing demands of customers and provide them with as complete an offer as possible.

9.10 Availability of Skilled Employees

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

9.11 Human Resources Risks and Organisation Structure Adjustment

The Group, its managers, continues transforming its internal culture in order to inspire the employees and drive the performance culture and also streamlining the organization and infrastructure in order to confront the competition and to take account of new technologies, new and more efficient business models through the transformation program. If the Group does not complete these transformations successfully, its operating margins, financial position and results could be adversely impacted.

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

9.12 Issues Related to the Incorporation of TP S.A.

TP S.A. was established as a result of the transformation of the former state-owned organisation PPTiT into two entities – Poczta Polska and TP. During the transformation process and transfer of ownership rights to the new entities, certain items of property and other assets that are currently under the Company’s control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that TP’s rights to certain properties may be questioned. A process of dissolution of co-ownership and regulation of limited rights in property (e.g. entering them in land and mortgage registers) is going on and will be continued for a few more years.

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

9.13 Tax Contingent Liability

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes causing considerable volatility of the tax system. 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 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. TP S.A. and certain of its subsidiaries were subject to audits by the tax office in respect of taxes paid. Certain of these audits have not yet been finalised.

The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard.

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

The 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 the Group’s operations as a broadcaster of Orange Sport television channels. The risks include that of infringing copyrights, neighbouring rights or defaming persons or entities. In addition, the broadcasts are subject to regulations regarding the editor's responsibility for content of programmes comprising the service as well as a number of regulatory obligations imposed by the Polish Broadcasting Act. TP uses its best efforts to properly perform its obligations under Polish copyright law, press law, intellectual property law, Broadcasting Act and Act on Suppression of Unfair Competition. It applies to all content used in all media, including the internet. Some element of risk derives from a lack of effective control over broadcast content, in particular during broadcasting of live programmes. However, it should be noted that the Group exercises due diligence in preparing programmes to prevent any unlawful materials from being broadcast.

9.15 Environmental Risks

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

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

9.16 Risk of Impairment in value of assets

Recoverable amounts of the businesses which support the book value of long term assets, including recorded goodwill, are sensitive to the valuation method and to the assumptions used in the model. They are also sensitive to any change in the business environment that is different to assumptions used. For further information on the impairment of goodwill and the recoverable amounts see the notes in the annual consolidated financial statements of the Group.

9.17 Sovereign debt and banking crisis in euro zone

The risk of economic slow-down in Europe as a result of sovereign debt and banking crisis in certain Euro countries may have a negative impact on the companies' spending and increased fiscal pressure on households also in Poland. This may also have a negative impact on the exchange and interest rates and more difficult access to new financing. For further information refer to section 11.

10 TELECOMMUNICATIONS SECTOR RISKS

This section describes potential risks in the telecommunications sector that may affect the 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 Group's top line in the first half of 2012.

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).

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

10.1.1 Regulatory Changes in the BSA Market

On 26 March 2012, UKE notified its new draft decision for the market 5/2007 (Bitstream) to the European Commission. According to the draft decision, TP would be subject to regulation throughout Poland with no geographical segmentation. In four local administrative units (municipalities), namely Warsaw, Lublin, Wrocław and Toruń, regulatory obligations would be limited to access and non-discrimination. BSA in the FTTH technology would be subject to access and non-discrimination obligations.

On 26 April 2012, the European Commission communicated its serious doubts about the draft decision. The Commission questioned lack of obligations of cost-orientation, KPI publication and regulatory accounting as well as lack of reference offer for BSA. The Commission did not object lack of geographical segmentation. On 11 June 2012, BEREC published its opinion on the draft decision, supporting the European Commission's position.

The proceedings related to UKE's decision for the market 5 are pending.

10.1.2 Single Reference Offer

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

Upon the re-examination of the decision, on 5 May 2011, TP filed a complaint with the Regional Administrative Court against the decision of 5 April 2011, petitioning for cancellation of the decision in part, particularly with respect to the provisions which have a negative financial effect on TP. The Regional Administrative Court rejected the complaint, ruling that the issue of reference offer approval should be rather examined by the Antimonopoly Court. TP has filed a cassation appeal against the ruling as well as an appeal to the Antimonopoly Court. The court proceedings are pending.

On 4 October 2011, the President of UKE amended SRO with respect to the VDSL service. The procedure had been opened upon TP's request following the TTM procedure. The key change in SRO is the introduction of new speed options of 40 Mb/s and 80 Mb/s for the managed IP level of service.

In particular, pending proceedings at UKE initiated upon TP's requests for SRO changes concern the following:

- LLU service – change resulting from an obligation imposed on TP in the market 4/2007;
- BSA service – change resulting from an obligation imposed on TP in the market 5/2007;
- call initiation service in performance of an obligation imposed in the market 2/2007;
- reflecting regulated retail services in wholesale services and, consequently, TTM process;
- provision of increased-charge services as a result of amendment to the Telecommunication Law in this respect;
- amendment to the Appendix 19 concerning SRO implementation.

In addition, on 31 January 2012, the President of UKE obligated TP to change SRO with respect to call termination service, particularly by eliminating division into tariff periods. In performance of its obligations resulting from the decision, on 1 March 2012 TP submitted draft changes for approval. The procedure is pending.

10.1.3 Leased Lines

Upon TP's request, on 15 July 2011, an administrative procedure was opened before UKE for approval of changes in the reference offer. On 30 May 2012, the President of UKE approved the changes in the reference leased lines offer. The decision mostly accounts for TP's demands. In particular, it introduces fees paid to TP for using an IT system interface (ISI) as a means of efficient communications with alternative operators for the purpose of provision of wholesale services. On 13 June 2012, TP filed an application for the re-examination of the decision approving changes in RLLO to the extent in which TP's requests have not been accepted.

10.1.4 Cable Ducts (ROI)

On 13 July 2011 TP applied to President of UKE for approval of a modified version of ROI, particularly with respect to fees for using an IT system interface (ISI). On 7 October 2011, TP submitted draft ROI to the President of UKE. This contained additional changes, which had been mostly agreed upon during workshops with other operators.

In November and December 2011, the President of UKE carried out the first round of consultation concerning the aforementioned changes in ROI. The great majority of the provisions of the draft new reference offer were consistent with TP's request.

In January and February 2012, the President of UKE held the second round of consultation related to ROI. The consulted draft decision involved providing access to cable ducts in the Indefeasible Right of Use (IRU) scheme, which is similar to long-term lease. In this scheme, the infrastructure purchase cost may be financed with public aid. TP has communicated its comments in its official position, indicating the need to introduce a number of limitations to the scheme.

On 12 May 2012, the President of UKE launched the third round of consultation related to ROI. The consulted draft decision provides for IRU scheme referred to as "scheme for the implementation of community projects" (DRPW), which is a modified version of UKE's previous proposal. It provides that the term of the relevant agreement in this scheme may be between 15 and 25 years. The procedure is pending.

10.1.5 Mobile Termination Rates (MTR)

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

In return for slowing down the process of MTR reduction, the President of UKE has obligated PTK Centertel (as well as PTC, Polkomtel and P4) to carry out specific investments in the areas of 2G/3G coverage gaps. The decision does not specify the amount to be invested, but determines a mechanism for calculating benefits and the resulting capital investment levels. Pursuant to the decision, PTK Centertel should regularly report on completed investments.

The investment process resulting from the decision has been carried out in line with the terms of the decision and a time schedule specified therein. Eleven investment projects related to 2G coverage gaps were launched in the first half of 2011, then 28 investments in 2G coverage gaps and 34 investments in 3G coverage gaps were started in the second half of 2011. PTK Centertel regularly submits the relevant reports to UKE, two months after the end of each six-month period.

In September 2011, the President of UKE issued a draft decision designating PTK Centertel as an operator having significant market power in the market for call termination on a mobile network. The draft decision imposes on PTK Centertel an obligation to set cost-based fees (under Article 40 of the Telecommunication Law) to 31 December 2012 and, from 1 January 2013, an obligation to set and apply fees based on the bottom-up model for an effective operator (under Article 44 of the Telecommunication Law). Due to the European Commission's objection to the draft decision, UKE has not been able to adopt the proposed means.

Currently, the President of UKE continues her analysis of call termination markets. New decisions in this respect are likely to be issued before the end of 2012. New decisions in this area are expected before the end of 2012. Most likely, SMP position of PTK Centertel will be confirmed and further MTR regulation and cuts will be implemented.

10.1.6 Roaming Rate Reduction

In May 2012, the European Parliament and the Council adopted a new EU roaming regulation ("the Roaming III Regulation"), which will come into force on 1 July 2012.

According to the regulation, the caps for roaming service rates are as follows (in Euro, net of VAT):

Maximum retail rates, Eurotariffs, in euro cents (“c”):

- From 1 July 2012: data transfer (per MB) – 70c; outgoing calls – 29c; incoming calls – 8c; SMS – 9c
- From 1 July 2013: data transfer (per MB) – 45c; outgoing calls – 24c; incoming calls – 7c; SMS – 8c
- From 1 July 2014: data transfer (per MB) – 20c; outgoing calls – 19c; incoming calls – 5c; SMS – 6c. These tariffs will remain valid until 30 June 2017.

Maximum wholesale rates:

- From 1 July 2012: data transfer (per MB) – 25c; calls – 14c; SMS – 3c
- From 1 July 2013: data transfer (per MB) – 15c; calls – 10c; SMS – 2c
- From 1 July 2014: data transfer (per MB) – 5c; calls – 5c; SMS – 2c . These tariffs will remain valid until 30 June 2022.

PTK Centertel will have the obligation to adjust its roaming prices to the caps specified in the regulation as from 1 July 2012. In addition, the new regulation provides for separating roaming from other services to enable separate sales. It means that customers will not have to buy roaming services exclusively from their operator, but will be able to buy them from any provider. This option may be exercised from 1 July 2014.

In addition, the regulation imposes an obligation to provide wholesale access to roaming services, which is to involve either direct wholesale access or wholesale roaming resale access to roaming services. Providers shall meet all reasonable requests for access to all network elements and related facilities as well as the relevant services, software and information systems required to provide regulated roaming services to customers.

As from 1 January 2013, operators shall publish a reference offer, which shall include all components necessary for wholesale roaming access. By 30 September 2012, BEREC shall, after consulting stakeholders and the European Commission, lay down detailed guidelines for wholesale roaming access.

10.1.7 Telecommunication Law Amendment

On 13 February 2012, a draft bill amending the Telecommunication Law was announced. The purpose of the bill is to implement a new package of telecommunication directives: Directive 2009/140/EC of the European Parliament and of the Council of 25 November 2009, Directive 2009/136/EC of the European Parliament and of the Council of 25 November 2009 and Regulation (EC) 1211/2009 of the European Parliament and of the Council of 25 November 2009 establishing the Body of European Regulators for Electronic Communications (BEREC).

The draft bill introduces a new regulatory tool of functional separation and a new procedure for approval of regulatory means, extends customer’s rights with respect to telecommunication agreements, introduces changes in the frequency area, introduces a number of new regulations related to personal data protection, amends data retention provisions and introduces the new body of European regulators (BEREC). The draft bill is currently at the last stage of government legislation work and in June/July is expected to be sent to the Parliament. The bill is to come into force in September/October 2012.

Secondary Regulations

The following secondary regulations to the Telecommunication Law were promulgated in 2012:

- Decree of the Council of Ministers of 3 April 2012 amending the decree on the National Frequency Allocation Table (Journal of Law of 2012, item 537);
- Decree of the Council of Ministers of 20 January 2012 on the technical and operational requirements for interfaces enabling performance of tasks and obligations connected with the national defence, state security and public safety and order (JoL of 2012, item 200);
- Decree of the Minister of Administration and Digitalisation of 15 December 2011 amending the decree on the detailed requirements for numbering management on public telephone networks (JoL of 2012, item 12).

10.2 Competitive Risks

10.2.1 CATV Operators

CATV operators are one of the major risks to TP on the broadband market.

Holding an aggregate share of approximately 40% in the pay TV market and controlling almost one third of the broadband market, they have an ambition to provide not only services such as internet or voice, but also entertainment. Hence, promotions offering game consoles, IPTV, HD channel portfolio, music-on-demand and 3D television. As usage of such services will generate growing demand for higher capacities, CATV operators modernise their own networks and, more and more frequently, lease third party's fibre-optic lines.

CATV operators, which operate in Poland's biggest cities, are perceived as technological leaders offering the highest internet access speeds. Their common practice is to offer higher speeds or increase the scope of services within a package without increasing the service price.

The first half of 2012 saw another step towards consolidation of the market, as acquisition of Stream Communications by Multimedia Polska was approved by the Office of Competition and Consumer Protection (UOKiK). As a result of the acquisition, Multimedia Polska will become Poland's second largest CATV operator.

10.2.2 Fixed/Mobile Substitution

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

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

F2M substitution depends mainly on two factors:

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

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

Another factor contributing to the fixed/mobile substitution is growing popularity of bundled offers which combine the functionality and price terms of both mobile and fixed services, which are provided by mobile operators via their mobile networks.

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

10.2.3 WLR, BSA and LLU Wholesale Markets

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

In September 2010, the President of UKE approved a single reference offer ("SRO 1"), which in particular introduced the functionalities set forth in MoU. On 5 April 2011, the President of UKE issued another decision ("SRO 2"), partly amending the Single Reference Offer of 2010 (particularly with respect to operator relations and process handling). SRO was updated once again by the President of UKE on 5 October 2011. The last amendment resulted from the fact that on 1 June 2011 TP launched the BSA service based on the VDSL technology using IP DSLAM equipment.

WLR Service

The access to TP's network based on wholesale line rental (WLR) has been provided since 2006. By the end of June 2012, TP had provided WLR services to 21 operators. On 1 June 2012, DID became the first operator to place orders via a web interface in line with SRO. As at 30 June 2012, TP handled about 1.67 million WLR lines.

BSA Service

The broadband access to a local subscriber loop (bitstream access – BSA) has been provided by TP since 2006. By the end of June 2012, the agreements for TP's BSA service had been signed by 25 operators. As at 30 June 2012, TP handled approximately 523,000 BSA lines.

On 1 February 2012, the President of UKE released a draft SMP decision regulating the relevant market 5 (broadband internet access) for consultation. The draft decision restores regulation for 11 previously deregulated local administrative units (gminas), while reducing regulatory regulations for 4 gminas, and reduces regulatory obligations for fibre-optic lines.

Simultaneously, also on 1 February 2012, the President of UKE commenced consultation of her draft decision approving changes in SRO for the markets 4 and 5, resulting from the SMP decisions for the markets 4 and 5 dated 30 December 2010 and 28 April 2011, respectively.

LLU Service

The access to TP's local subscriber loop (LLU service) has been provided since 2005. By the end of June 2012, 25 operators had made use of the LLU offer, and the number of LLU lines handled by TP had exceeded 184,000.

In December 2010, the President of UKE issued a regulatory decision for TP with respect to the market 4 (access to subscriber loop). In particular, the decision introduced an additional regulatory obligation to provide services via optic-fiber subscriber lines.

In performance of its obligation pursuant to the decision, TP submitted a draft reference offer to UKE on 30 March 2011. No decision specifying new regulatory obligations had been issued by the Regulator by the end of June 2012.

On 31 January 2012, the President of UKE released a draft decision on fees in the market 4 for consultation.

On 1 February 2012, the President of UKE commenced consultation of her draft decision approving changes in SRO for the market 4, resulting from the SMP decision for the market 4 dated 30 December 2010.

10.2.4 Mobile Internet Access

In the first six months of 2012, Poland's mobile internet segment continued to grow rapidly. The mobile internet penetration of Poland's population was estimated at almost 10% at the end of June 2012. Mobile internet access seems to be a substitution with respect to fixed internet access, which has slowed down growth of the latter for the last two years. Nearly half of mobile internet users use it exclusively or almost exclusively at home.

Mobile broadband service providers have aimed at enhancing the coverage and technological capacity of their networks in order to offer higher data transmission rates. Commercial services based on the LTE technology are provided by Cyfrowy Polsat and Polkomtel. In 2012, UKE intends to hold a bidding procedure for frequencies in the 1800 MHz, in which Poland's leading telecommunication operators intend to participate.

10.2.5 Leased Lines Market

TP's principal competitors in the wholesale leased lines market are Exatel, TK Telecom, GTS Poland and Netia. These companies have network resources that enable them to compete with TP's offer in terms of 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 reference offer (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, 2011 saw churn towards sophisticated data transmission services on managed networks. For this reason, in Poland, like in other European countries, customers have been migrating from traditional data transmission services to managed solutions. Both TP and its rival companies have been expanding their service portfolio in this direction.

10.2.6 Interconnect Market

MTR

Based on previous decisions for MNOs, the mobile termination rates resulting from these decisions have been implemented in the existing agreements as from 1 July 2012. The new rate will be PLN 0.1223 / minute. The introduction of the reduced rate in settlements will affect both costs and revenue (from alternative operators to whom TP provides transit services).

On 25 May 2012, an administrative court cancelled the decision which obligated Polkomtel to provide access to 70x numbers on TP’s network to its customers. Due to no basis for traffic and settlements (vindicating payments), traffic to services using 70x numbers from Polkomtel’s network has been blocked.

FTR

On 31 January 2012, the President of UKE issued a regulatory decision obligating TP to prepare changes in SRO for the market 3 (call termination on a public fixed line telephone network). The key changes to which TP has been obligated include introduction of a single rate for call termination on TP’s network within a numbering zone, in the transit area and outside the transit area, without any division to tariff periods. In performance of this obligation, TP submitted a draft reference offer to UKE. The decision with the new obligations has not been issued yet. This change in SRO will eliminate asymmetry resulting from a schedule for reaching symmetry of rates on alternative operators’ networks which does not account for a division into three tariff periods.

The President of UKE issued subsequent decisions for alternative operators introducing rates consistent with the schedule and a single tariff period in their settlements with TP. In addition, the President of UKE issued an FTR decision for alternative operators (setting rates on Polkomtel and e-Telko’s networks). The decision introduces rates inconsistent with UKE’s schedule. FTRs to be applied by Polkomtel and e-Telko in their own relations are also inconsistent with the rates to be used by both operators in their settlements with TP (which are consistent with the schedule). The implementation of this decision may affect call termination purchase costs.

In two cases, courts shared TP’s position in asymmetry-related litigation:

- UKE’s decision introducing asymmetry (schedule of reaching symmetry and single tariff period) in settlements between TP and ITSA was cancelled. The parties returned to settlements based on rates from before UKE’s decision (TP challenged invoices issued after the date of the Decision) and subsequently signed an annex introducing asymmetry with three tariff periods;
- UKE’s decision introducing asymmetry (schedule of reaching symmetry and single tariff period) in settlements between TP and MNI was modified. The court accepted one of TP’s motions in the appeal procedure and changed the President of UKE’s decision by introducing three tariff periods to the asymmetry reduction schedule. As a result, the parties returned to settlements based on rates from before UKE’s decision (TP challenged invoices issued after the date of the Decision).

The aforementioned rulings have contributed to eliminating asymmetry and reducing TP’s costs.

10.2.7 International Long Distance Inbound and Gateway Markets

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

TP has been an active player in the international inbound and gateway markets, which is particularly reflected in the following actions:

- expanding its foreign interconnect base;
- maintaining its share in Poland’s inbound market;
- attracting new gateway traffic volumes by winning subsequent operators for its ILD service;
- conclusion of short-term bilateral agreements with operators, which assure stable traffic volumes, stable revenues and costs, the optimum network usage and business predictability; and
- co-operation with over 40 domestic operators, providing services of call termination on foreign operators’ networks via its own network, as well as similar co-operation model in business relations with 79 foreign operators.

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

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

In 2011, TP launched its first IP-based interconnect gateways. Such interconnections with a total of nine foreign operators have been launched so far. In addition, TP has been working on attracting further international operators to co-operate with TP on the IP interconnect basis.

As shown by the experience of TP’s foreign partners (e.g. Telecom Italia, British Telecom, Deutsche Telecom or France Telecom), the migration of complete service portfolio is a difficult and prolonged process. Therefore, operators are still using mixed technology and have not entirely given up TDM. TP has also adopted a similar model: it introduces a growing number of IP-based services into its portfolio, while not giving up the TDM technology.

10.2.8 International IP Transit Market

TP's principal competitors in this market are domestic operators which develop or lease international lines to the main traffic exchange points. The presence of international operators in Poland further intensifies competition for access to the worldwide internet resources. The activity of domestic operators and the growing volume of IP traffic handled by international players (of Tier-1) have been gradually reducing TP’s position in this market.

10.2.9 VoIP Segment

Constant growth in voice-over-Internet Protocol (VoIP) services in Poland is driven mostly by subscribers’ pursuit of lower voice rates. Owing to VoIP technology, some calls, namely between the users of the same VoIP 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.

For many years the VoIP technology has been widely used in Poland for providing fixed voice services in the form of fully functional equivalents of traditional fixed lines. Orange Polska has also been active in the market for VoIP services.

In May 2011, TP implemented the HD Phone service, which enables users to make calls of very high sound quality. The service, which has been constantly enhanced and adapted to changing needs of customers, is a major component of multi-play offers, such as FunPack, which combines broadband, TV and VoIP services.

In April 2012, an international plan was added to FunPack. It offers unlimited local and intrazone calls, as well as DLD and ILD calls to fixed line and mobile networks (within Zone I).

11 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

11.1 Macroeconomic Factors and Factors Related to Poland

11.1.1 Economic Growth

The economic growth slowed down to 3.5% (year-on-year) in the first quarter of 2012. The GDP growth slowdown resulted from lower consumption and slower growth in investments.

According to government assumptions, GDP growth in 2012 will slow down to 2.5%. Poland's economic outlook largely depends on the condition of other European economies and the economic climate in global markets. Owing to strong ties between the Polish economy and economies of other European countries, the current crisis in the Eurozone and a drop in confidence due to perturbations in some of its countries will affect further economic growth in Poland. The pace of solving Eurozone problems and the effectiveness of the solutions applied will determine the economic outlook of the European Union, and, consequently, Poland.

An external factor affecting the economic growth rate in Poland will be the outcome of the structural reforms which the government wants to implement. The public finance consolidation is going to result in a decrease in direct contribution of public expenditure into growth of domestic demand and a reduction in the volume of public investments (compared to 2011).

11.1.2 Inflation

CPI fell to 4.1% (year-on-year) in Q1 2012 (from 4.6% (year-on-year) in Q4 2011). According to the guidance contained in the 2012 budget bill, the inflation rate will drop to 2.8%, which seems unlikely considering high inflation at the beginning of the year.

In the second half of 2012, the inflationary pressure should subside as a result of tightened monetary policy introduced in May (an increase in the reference interest rate by 0.25 percentage points to 4.75%). Inflation will be further contained by economic slow-down and lower household consumption. A risk factor for the achievement of the inflation rate target is potential demand shocks in the global market for raw materials. In addition, a higher than expected inflation rate may also result from potential depreciation of the Polish zloty in case of a further significant increase in risk aversion in global financial markets.

11.1.3 Unemployment and Labour Costs

The beginning of the year saw deterioration in the labour market. According to the estimates of the Ministry of Labour and Social Policy, unemployment rate reached 12.4% at the end of June 2012 (up 0.5 pp. year-on-year). An increase in the mandatory disability insurance and accident insurance contributions in the first half of the year will negatively affect wage growth. As a result, net wage growth may be outpaced by the inflation rate in 2012. In the first quarter, the average gross wage in the enterprise sector was 5.3% up in nominal terms and 1.2% in real terms. These data indicate that the pressure on wages remains low and higher inflation is not reflected in higher wage demands, which is clearly a result of relatively high unemployment.

11.1.4 Political and Economic Factors

Poland has undergone significant political, economic and social change in the last twenty years. Changes in political, economic, social and other conditions may have influence on the economy and the condition of enterprises, including the financial condition and performance of the Group. A trend observed over the recent years shows that the activity of the telecommunication market regulator has much more meaningful effects on the Group and the telecommunication market as a whole than any political changes in Poland do.

11.1.5 Changes in Regulation

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

11.1.6 Polish Tax System

Polish tax laws and regulations, in particular as regards value added tax and income tax provisions are complex and subject to frequent change, varying interpretations and inconsistent and selective enforcement by the Ministry of Finance and local authorities. Such changes in Polish tax regulations or other potential changes may adversely affect the legal, business and financial situation of the Group in the future. The growing public debt and budget deficit influenced the decision to raise VAT by 1pp, to 23% and 8% as from 1 January 2011. Furthermore, the bill provides that should Poland’s public debt exceed the cautionary threshold of 55% of GDP, there will be obligatory increases in VAT rates by 1pp in subsequent years until the maximum level of 25% and 10% is reached. The first such an increase was scheduled on 1 July 2012, but as the aforementioned condition has not been met, VAT rates will remain at the same level. On 1 February 2012, mandatory disability insurance contribution was increased from 6% to 8%. The increase was in the portion financed by the employer, which automatically increases labour costs.

11.2 Factors Related to Financial Markets

11.2.1 General Risks Related to the Polish Market

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

11.2.2 Interest Rates

Contrary to market expectations, the Monetary Policy Council raised interest rates in the second quarter of 2012. The reference interest rate was raised by 25 basis points and was 4.75% on 30 June 2012. The main factor behind the change was continued inflationary pressure, resulting from weaker Polish zloty and high fuel prices. If the gradual cooling of the economy will bring about the intended effects, it may be expected that interest rates will not change until the end of 2012 despite the central bank’s restrictive attitude.

A potential increase in interest rates should not have any major influence on the 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 exchange rate of the zloty against the euro 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 external situations, especially European Union’s debt problems, were the main reasons behind the higher fluctuations and depreciation of the Polish currency against the US dollar and the Euro in the first half of 2012. In the reported period, the exchange rate of the zloty against the euro was in the 4.1062 – 4.5135 bracket, while its exchange rate against the US dollar oscillated between 3.0730 a 3.5777. NBP’s mean exchange rates of PLN against the US dollar and the Euro in the first six months of 2012 were 3.2740 and 4.2449, respectively.

11.2.4 Situation at the Warsaw Stock Exchange

The first half of 2012 saw growth in indices on the Warsaw Stock Exchange (WSE). The WIG index, was up 8.6%. At the same time, TP shares were down 9.6% (or 0.9% after the dividend-related reference price change), while the large-cap index, WIG20, gained 6.1%.

11.2.5 Other Factors That May Influence the Price of TP S.A. Shares

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

- Change in the Group’s ratings;

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

GLOSSARY OF TELECOM TERMS

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

ARPL – Average Revenues per Line

ARPU – Average Revenues per User

AUPU – Average Usage per User

BSA – Bitstream Access Offer

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

DLD – Domestic Long Distance Calls

DSLAM - Digital Subscriber Line Access Multiplexer

F2M – Fixed to Mobile Calls

FVNO – Fixed Virtual Network Operator

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

LC – Local Calls

LLU – Local Loop Unbundling

LTE – **Long Term Evolution**

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

UKE – Office of Electronic Communications

UOKiK – Office of Competition and Consumer Protection

USO – Universal Service Obligation

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental