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POLISH FINANCIAL SUPERVISION AUTHORITY

Annual report R for the year 2012

(year)

(according to par. 82 s. 1 pkt 3 of the Decree of Minister of Finance dated 19 February 2009 - Journal of Laws No. 33, item 259, with amendments)
for the issuers in sectors of production, construction, trade or services

for the **year 2012**, i.e. from **1 January 2012 to 31 December 2012**

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

date of issuance: **12 February 2013**

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)

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18 (number)

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Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Deloitte Audyt Sp. z o.o.)
(auditor)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	year / 2012	year / 2011	year / 2012	year / 2011
I. Revenue	7 427 000	7 840 000	1 779 519	1 893 674
II. Operating income	208 000	995 000	49 837	240 332
III. Profit before income tax	1 309 000	1 604 000	313 638	387 430
IV. Net income	1 184 000	1 951 000	283 688	471 245
V. Earnings per share (in PLN/EUR) (basic and diluted)	0.90	1.46	0.22	0.35
VI. Weighted average number of shares (in millions) (basic and diluted)	1 316	1 334	1 316	1 334
VII. Total comprehensive income	1 135 000	1 942 000	271 947	469 071
VIII. Net cash provided by operating activities	1 334 000	3 329 000	319 628	804 087
IX. Net cash used in investing activities	(1 980 000)	(85 000)	(474 411)	(20 531)
X. Net cash used in financing activities	(1 710 000)	(2 925 000)	(409 718)	(706 505)
XI. Total net change in cash and cash equivalents	(2 361 000)	316 000	(565 699)	76 327
	Balance as at 31/12/2012	**Balance as at 31/12/2011**	**Balance as at 31/12/2012**	**Balance as at 31/12/2011**
XII. Total current assets	1 623 000	4 146 000	396 996	938 689
XIII. Total non-current assets	22 941 000	24 331 000	5 611 516	5 508 739
XIV. Total assets	24 564 000	28 477 000	6 008 512	6 447 428
XV. Total current liabilities	6 758 000	8 266 000	1 653 050	1 871 491
XVI. Total non-current liabilities	6 201 000	7 572 000	1 516 804	1 714 363
XVII. Total equity	11 605 000	12 639 000	2 838 658	2 861 574
XVIII. Share capital	4 007 000	4 007 000	980 138	907 218

The statement of financial position data as at 31 December 2012 and 2011 presented in the table "Selected financial data" was translated into Euro at the average exchange rate of the National Bank of Poland on the end of the raporting period. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the years ended 31 December 2012 and 2011, were translated into Euro at an exchange rate which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of years ended 31 December 2012 and 2011.

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

1 Euro	31 December 2012	31 December 2011
Statement of financial position	4.0882 PLN	4.4168 PLN
Income statement, Comprehensive income, Cash Flows data	4.1736 PLN	4.1401 PLN

Dear Shareholders,

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

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

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

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

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

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

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

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

I am deeply convinced that this new medium term action plan will be a success, and that these measures are the ones we need to take to ensure the Group's long term viability. They also represent an opportunity for us to emerge even stronger, once the environment improves, a few years down the road.

Maciej Witucki
President of the Board and CEO
Telekomunikacja Polska

Deloitte.

Deloitte Polska
Spółka z ograniczoną
odpowiedzialnością Sp. k.
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AUDITOR'S OPINION

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

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

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

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

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

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

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

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

Deloitte.

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

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

The Report on the activities of the Company for the financial year 2012 is complete within the meaning of Article 49.2 of the Accounting Act and the Decree of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and consistent with underlying information disclosed in the audited financial statements.

Krzysztof Sowada
Key Certified Auditor
conducting the audit
No. 10944

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

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

Warsaw, 11 February 2013

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF TELEKOMUNIKACJA POLSKA S.A. FOR THE 2012 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Company

The Company operates under the business name Telekomunikacja Polska S.A. The Company's registered office is located in Warsaw at Twarda 18 St.

The Company operates as a joint stock company established by the notary deed of 4 December 1991 in front of Katarzyna Szachułowicz-Barańska, Notary Public in Warsaw (Repertory A No. 6480/91). The Company was entered in the Commercial Register kept by the District Court in Warsaw, XVI Business-Registry Division in Warsaw, section B, under the number RHB 29979, based on the decision of 13 December 1991. Currently, the Company is recorded in the Register of Entrepreneurs kept by the District Court in Warsaw, XII Business-Registry Division in Warsaw, under KRS No. 0000010681.

The Company has the tax identification number NIP: 526-02-50-995 assigned by Second Tax Office Warszawa – Śródmieście on 4 June 1993.

The REGON number assigned by the Statistical Office is: 012100784.

The Company operates based on the provisions of the Code of Commercial Companies.

In accordance with the Company's Articles of Association, the scope of its activity includes:
- production equipment (tele)communications [PKD 26.30.Z],
- construction of electricity and telecommunications [PKD 42.22.Z],
- electrical installation [PKD 43.21.Z],
- other retail sale performed in unspecialized shops [PKD 47.19.Z],
- retail sale of computers, peripherals and software in specialized stores [PKD 47.41.Z],
- retail sale of telecommunications equipment in specialized stores [PKD 47.42.Z],
- retail sale of audio-video equipment in specialized stores [PKD 47.43.Z],
- retail sale made by selling homes or internet [PKD 47.91.Z],
- other retail sale except stores, stalls or markets [PKD 47.99.Z],
- publishing of books [PKD 58.11.Z],
- issuing and mailing lists (such as address, telephone) [PKD 58.12.Z],
- other publishing [PKD 58.19.Z],
- production activities like movies, videos and television programs [PKD 59.11.Z],
- post-production activities Motion picture, video and television program [PKD 59.12.Z],
- distribution activities like movies, videos and television programs [PKD 59.13.Z],
- operation of sound recording and music [PKD 59.20.Z],
- television programming and broadcasting [PKD 60.20.Z],
- telecommunications activities wired [PKD 61.10.Z],
- the activities in the field of wireless telecommunications, with the exception of satellite telecommunications [PKD 61.20.Z],
- activities in the field of satellite telecommunications [PKD 61.30.Z],
- activity in the rest of telecommunications [PKD 61.90.Z],

- activities with the software [PKD 62.01.Z],
- activities of the consultancy [PKD 62.02.Z],
- activities related to facilities management [PKD 62.03.Z],
- other service activities in the field of information technology and computer [PKD 62.09.Z],
- processing data management web (hosting) and related activities [PKD 63.11.Z],
- other service activities in the field of information, not classified elsewhere [PKD 66.99.Z],
- finance lease [PKD 64.91.Z],
- the activities of insurance agents and brokers [PKD 66.22.Z],
- the activities of accounting, tax advice [PKD 69.20.Z],
- other advice on business and management [PKD 70.22.Z],
- activities in the field of architecture [PKD 71.11.Z],
- engineering activities and related technical consultancy [PKD 71.12.Z],
- research and experimental development on other natural sciences and engineering [PKD 72.19.Z],
- intermediation in the sale of time and place for the purpose of advertising on radio and television [PKD 73.12.A],
- mediation in the sale of space for advertising purposes in the electronic media (Internet) [PKD 73.12.C],
- market research and public opinion [PKD 73.20.Z],
- other professional, scientific and technical activities not elsewhere classified [PKD 74.90.Z],
- renting and leasing of office machinery, equipment, including computers [PKD 77.33.Z],
- renting and leasing of other machinery, equipment and tangible goods not elsewhere classified [PKD 77.39.Z],
- the activities of security activities in the handling of safety systems [PKD 80.20.Z].

In the audited period, the Company conducted mainly the following business activities:
- telecommunications services including voice telephony, data transmission, tele-info, visual, multimedia and related services provided on fixed line and ,land and satellite networks,
- investing, service and trade activities related to telecommunications services and infrastructure,
- research and development activities in the field of telecommunication.

As of 31 December 2012, the Company’s share capital amounted to PLN 4,007 million and was divided into 1,336 million ordinary shares with a face value of PLN 3 each. The ownership structure of the share capital as at 31 December 2012 was as follows:

	% of votes	*Nominal value (in PLN millions)*
France Telecom S.A.	49.79	1,995
Other shareholders	48.47	1,942
Treasury shares	1.74	70
Total	**100.00**	**4,007**

During the financial year no changes in the Company’s share capital value took place.

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

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

Apart from described above, 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.

After the balance-sheet date there were no changes in the Company's share capital.

As of 31 December 2012, the Company's equity amounted to PLN 11,605 million.

The Company's financial year is the calendar year.

Telekomunikacja Polska S.A. presented investments in subsidiaries and related party transactions respectively in the Notes 16 and 26 to the financial statements.

As at the opinion's date, the composition of the Company's Management Board was as follows:

- Maciej Witucki – President of the Management Board,
- Vincent Lobry – Vice President in charge of Marketing and Strategy,
- Piotr Muszyński – Vice President in charge of Operations,
- Jacques de Galzain – Board Member, Chief Financial Officer,
- Jacek Kowalski – Board Member in charge of Human Resources.

From 1 January 2012 until the opinion date no changes took place in the composition of Management Board.

2. Information about the financial statements for the prior financial year

The activities of the Company in 2011 resulted in a net profit of PLN 1,951 million. The financial statements of the Company for 2011 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Audyt Sp. z o.o. (currently: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.). On 13 February 2012 the certified auditor issued an unqualified opinion on those financial statements.

The General Meeting of TP S.A. which approved the financial statements for the 2011 financial year was held on 13 April 2012. The General Meeting of TP S.A. decided on the following distribution of the net profit for 2011:

- Dividends to shareholders – PLN 1,912 million,
- Reserve capital – PLN 39 million.

In accordance with applicable laws, the financial statements for the 2011 financial year were submitted to the National Court Register (KRS) on 19 April 2012 and filed for publication in Monitor Polski B on 25 April 2012. The financial statements were published in Monitor Polski B No. 1436 on 10 July 2012.

3. Details of the authorized entity and the Key Certified Auditor acting on its behalf

The audit of the financial statements was performed based on the agreement of 10 September 2012 concluded between Telekomunikacja Polska S.A. and Deloitte Audyt Sp. z o.o. (currently: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.) with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Krzysztof Sowada, Key Certified Auditor, (No. 10944), from 10 September 2012 to 11 February 2013.

The entity authorized to audit the financial statements was appointed by the resolution of the Supervisory Board of 10 July 2012 based on authorization included in Article 23 p. 2.8 of the Company's Articles of Association.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly:Deloitte Audyt Sp. z o.o.) and Krzysztof Sowada, Key Certified Auditor, confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009, No. 77, item 649, as amended) to express an unbiased and independent opinion on the financial statements of Telekomunikacja Polska S.A.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the Key Certified Auditor, as confirmed e.g. in the written representation of the Management Board of 11 February 2013.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

Presented below are the main items from the income statement as well as financial ratios describing the financial result of the Company and its financial position as compared to the same items in the previous years.

Main items from the income statement (in million PLN)	2012	2011	2010
Revenue	7,427	7,840	8,434
Operating expenses, net	(7,219)	(6,845)	(8,692)
Result from financial activity	1,101	609	1,405
Income tax	(125)	347	(124)
Net profit	1,184	1,951	1,023

	2012	2011	2010
Profitability ratios			
– gross profit margin Operating income *100% / Revenue	3%	13%	(3%)
– net profit margin Net profit *100% / Revenue	16%	25%	12%
– net return on equity Net profit *100% / Total equity	10%	15%	8%
Effectiveness ratios			
– assets turnover ratio Revenue / Total assets	0.30	0.28	0.29
– trade receivables turnover in days (Trade receivables, net year end + Trade receivables, net opening balance)/2*365 / Revenue	39	40	34
– trade liabilities turnover in days (Short term trade payables year end + Short term trade payables opening balance)/2*365 / (External purchases + Other operating expense)	158	159	159

Liquidity/Net working capital	2012	2011	2010
– debt ratio (Total current and non-current liabilities) *100% / Total assets	53%	56%	55%
– equity to assets ratio Total equity *100% / Total assets	47%	44%	45%
– net working capital Current assets - Current liabilities	(5,135)	(4,120)	(3,762)
– current ratio Current assets / Current liabilities	0.24	0.50	0.49
– quick ratio (Current assets - Inventories, net) / Current liabilities	0.23	0.50	0.49

The analysis of the above figures and ratios indicated the following trends occurring in the year 2012 in comparison to the year 2011 and 2010:

- decrease of profitability ratios in comparison to 2011 only,
- decrease of trade receivables turnover in comparison to 2011 only,
- decrease of trade liabilities turnover,
- decrease of net working capital,
- decrease of liquidity ratios.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation describing the accounting principles (policy) applied, including in particular: definition of the financial year and reporting periods thereof, methods of measuring assets and liabilities and determining the financial result, method of keeping the accounting records and the system of data and file protection. The documentation of the accounting policy was developed in line with the Accounting Act and in respect to the measurement of assets and liabilities plus equity as well as evaluation of presentation of the financial statements – in line with IFRS in the form adopted by the European Union. According to the resolution of Shareholders from 18 June 2005 starting from 1 January 2006 the Company is obliged to prepare its financial statement in line with International Financial Reporting Standards. Recent changes in accounting policy were approved for use starting from 1 January 2012 based on the resolution of the Management Board No. 25 dated 13 February 2012. Principal methods of measuring assets, liabilities and the financial result were presented in the explanatory notes.

Accounting principles selected at the Company's discretion pursuant to IFRS have been selected in a manner that correctly reflects specifics of its business operations, its financial standing and performance. The accounting principles have been applied in a continuous manner and unchanged compared to those applied to the accounting records and financial statements in the preceding financial year.

The Company's accounts are kept using the Oracle computer system in the Company's Shared Service Centre in Lublin. The Oracle system is password-protected against unauthorized access and has functional access controls. The description of the information system complies with the requirements of Article 10 clause 1 point 3 letter c) of the Accounting Act.

The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

In the audited documentation of business transactions, accounting records and the relationships between accounting entries, financial documents and financial statements complied with the requirements of section 2 of the Accounting Act.

The accounting records and evidence, the documentation of the accounting system and the approved financial statements of the Company are stored in compliance with section 8 of the Accounting Act.

The Company performed a physical count of assets and liabilities within the scope, timing and frequency required by the Accounting Act. Identified differences have been recorded and settled in the accounting records for the audited period.

2. Information about the audited financial statements

The audited financial statements were prepared as of 31 December 2012 and include:

- statement of financial position prepared as of 31 December 2012, with total assets and liabilities plus equity of PLN 24,564 million,
- income statement for the period from 1 January 2012 to 31 December 2012, with a net profit of PLN 1,184 million,

- statement of comprehensive income for the period from 1 January 2012 to 31 December 2012 with a total comprehensive income of PLN 1,135 million,
- statement of changes in equity for the period from 1 January 2012 to 31 December 2012, disclosing a decrease in equity of PLN 1,034 million,
- statement of cash flows for the period from 1 January 2012 to 31 December 2012, showing a cash outflow of PLN 2,356 million,
- notes, comprising a summary of significant accounting policies and other explanatory information.

The structure of assets and liabilities plus equity as well as items affecting the profit or loss has been presented in the financial statements.

3. Information about selected material items of the financial statements

Property, plant and equipment

Explanatory notes correctly describe changes in fixed assets, including disclosure of any impairment on such assets.

Investments in subsidiaries

Explanatory notes correctly describe changes in investments during the financial year.

Loans and receivables excluding trade receivables

The account contains mainly bonds bought from TP S.A. subsidiary - TP Invest Sp. z o.o. The transaction was properly described in the financial statements.

Structure of receivables

The ageing analysis of trade receivables was correctly presented in the respective explanatory note. The audited sample did not include expired or redeemed receivables.

Liabilities

Key items of the Company's liabilities include:
- financial liabilities at amortised cost in the amount of PLN 9,369 million,
- trade payables in the amount of PLN 1,388 million.

The nature of contracted loans and a description of how they are secured have been presented in explanatory notes. The audited sample did not include expired or redeemed liabilities.

Provisions

The structure of the above items is correctly described in the respective explanatory notes.
Provisions were determined at reliably estimated amounts.
The items are recognised completely and correctly in all material respects in relation to the financial statements as a whole.

4. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Company

The Company prepared the financial statement based on going concern principle. The explanatory notes give a correct and complete description of valuation principles regarding assets, equity and liabilities, principles of measurement of the financial result and preparation of the financial statements.

The explanatory notes fully describe the reporting items and present the remaining data required by the IFRS in a clear manner.

The financial statements have been supplemented with the Management Board's report on the activities of the Company in the 2012 financial year. The report contains all information required under Article 49.2 of the Accounting Act and regulation of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information to be disclosed by issuers of securities. We have audited the report with respect to the disclosed information derived directly from the audited financial statements.

IV. CLOSING COMMENTS

Management Board's Representation

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly:Deloitte Audyt Sp. z o.o.) and the Key Certified Auditor received a representation letter from the Company's Management Board, in which the Board stated that the Company complied with the laws in force.

Krzysztof Sowada
Key Certified Auditor
conducting the audit
No. 10944

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

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

Warsaw, 11 February 2013

TELEKOMUNIKACJA POLSKA S.A.

IFRS SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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INCOME STATEMENT

(in PLN millions, except for earnings per share)

	Note	12 months ended 31 December 2012 (audited)	12 months ended 31 December 2011 (audited)
Revenue	**3**	**7,427**	**7,840**
External purchases	4	(3,632)	(3,786)
Labour expenses	4	(1,382)	(1,334)
Other operating expense	4	(492)	(1,130)
Other operating income	4	522	468
Gains on disposal of assets	5	35	26
Gain on disposal of TP Emitel	5	-	1,251
Depreciation and amortisation	7,8	(2,250)	(2,324)
Impairment of non-current assets	6	(20)	(16)
Operating income		**208**	**995**
Dividend income	13	1,767	962
Interest income	13	295	389
Interest expense and other financial charges	13	(854)	(818)
Foreign exchange gains/(losses)	13	(63)	104
Discounting expense	13	(44)	(28)
Finance income, net		**1,101**	**609**
Income tax	22	(125)	347
Net income		**1,184**	**1,951**
Earnings per share (in PLN) (basic and diluted)	**28.6**	**0.90**	**1.46**
Weighted average number of shares (in millions) (basic and diluted)	28.6	1,316	1,334

STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	Note	12 months ended 31 December 2012 (audited)	12 months ended 31 December 2011 (audited)
Net income		**1,184**	**1,951**
Items that will not be reclassified to profit or loss			
Actuarial losses on post-employment benefits	12	(42)	(20)
Income tax relating to items not reclassified		8	4
Items that may be reclassified subsequently to profit or loss			
Gains/(losses) on cash flow hedges	18	(18)	9
Income tax relating to items that may be reclassified		3	(2)
Other comprehensive loss, net of tax		**(49)**	**(9)**
Total comprehensive income		**1,135**	**1,942**

STATEMENT OF FINANCIAL POSITION

(in PLN millions)

	Note	At 31 December 2012 (audited)	At 31 December 2011 (audited)
ASSETS			
Intangible assets	7	1,499	1,396
Property, plant and equipment	8	11,275	12,100
Investments in subsidiaries	16	7,196	7,228
Financial assets available for sale	16	-	4
Loans and receivables excluding trade receivables	16	2,501	2,845
Derivatives	18	127	277
Deferred tax assets	22	343	481
Total non-current assets		**22,941**	**24,331**
Inventories		55	54
Trade receivables	9	745	852
Loans and receivables excluding trade receivables	16	380	328
Derivatives	18	-	225
Other assets	9	207	88
Prepaid expenses		13	15
Cash and cash equivalents	17	223	2,584
Total current assets		**1,623**	**4,146**
TOTAL ASSETS		**24,564**	**28,477**
EQUITY AND LIABILITIES			
Share capital	23	4,007	4,007
Share premium		832	832
Treasury shares	23	(400)	(200)
Other reserves	12,18	(43)	6
Retained earnings		7,209	7,994
Total equity		**11,605**	**12,639**
Financial liabilities at amortised cost excluding trade payables	14,15	5,418	6,951
Derivatives	18	283	118
Employee benefits	12	316	241
Provisions	10	143	201
Other liabilities	11	15	15
Deferred income	11	26	46
Total non-current liabilities		**6,201**	**7,572**
Financial liabilities at amortised cost excluding trade payables	14,15	3,951	2,566
Derivatives	18	112	-
Trade payables	11	1,388	2,184
Employee benefits	12	139	158
Provisions	10	890	3,039
Income tax liabilities	22	67	13
Other liabilities	11	119	204
Deferred income	11	92	102
Total current liabilities		**6,758**	**8,266**
TOTAL EQUITY AND LIABILITIES		**24,564**	**28,477**

STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Treasury shares	Other reserves				Retained earnings [1]	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 12 months ended 31 December 2011	-	-	-	9	(20)	2	-	1,951	1,942
Purchase of treasury shares	-	-	(200)	-	-	-	-	-	(200)
Dividends	-	-	-	-	-	-	-	(2,003)	(2,003)
Balance at 31 December 2011 *(audited)*	**4,007**	**832**	**(200)**	**11**	**(87)**	**14**	**68**	**7,994**	**12,639**
Balance at 1 January 2012 *(audited)*	**4,007**	**832**	**(200)**	**11**	**(87)**	**14**	**68**	**7,994**	**12,639**
Total comprehensive income for the 12 months ended 31 December 2012	-	-	-	(18)	(42)	11	-	1,184	1,135
Purchase of treasury shares	-	-	(200)	-	-	-	-	-	(200)
Dividends	-	-	-	-	-	-	-	(1,969)	(1,969)
Balance at 31 December 2012 *(audited)*	**4,007**	**832**	**(400)**	**(7)**	**(129)**	**25**	**68**	**7,209**	**11,605**

[1] See Note 23.3.

STATEMENT OF CASH FLOWS

(in PLN millions)

	Note	12 months ended 31 December 2012 (audited)	12 months ended 31 December 2011 (audited)
OPERATING ACTIVITIES			
Net income		1,184	1,951
Adjustments to reconcile net income to cash from operating activities			
Depreciation and amortisation	7,8	2,250	2,324
Impairment of non-current assets	6	20	16
Gains on disposal of assets	5	(35)	(1,277)
Change in provisions		(2,225)	492
Income tax	22	125	(347)
Finance income, net		(1,101)	(631)
Operational foreign exchange and derivatives (gains)/losses, net		(9)	52
Change in working capital (trade)			
Increase in inventories		(1)	(13)
Decrease in trade receivables		111	40
Increase/(decrease) in trade payables		(324)	2
Change in working capital (non-trade)			
Decrease in prepaid expenses and other receivables		30	65
Increase/(decrease) in deferred income and other payables		(102)	9
Dividends received		1,706	962
Interest received		26	96
Interest and interest rates effect on derivatives paid, net		(520)	(522)
Exchange rate effect on derivatives, net		184	68
Income tax received		15	42
Net cash provided by operating activities		**1,334**	**3,329**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	7,8	(1,565)	(1,939)
Increase/(decrease) in amounts due to fixed assets suppliers		(484)	48
Decrease in receivables related to leased fixed assets		7	8
Exchange rate effect on derivatives economically hedging capital expenditures, net		(1)	4
Proceeds from sale of property, plant and equipment and intangible assets		56	37
Cash received from investments in subsidiaries	16	9	1,725
Cash paid for investments in subsidiaries		-	(9)
Increase in loans and other financial assets	16	(4)	(2)
Exchange rate effect on other derivatives, net		2	43
Net cash used in investing activities		**(1,980)**	**(85)**
FINANCING ACTIVITIES			
Redemption of bonds	14,15	-	(1,189)
Repayment of long-term debt	14,15	(663)	(233)
Increase in short-term debt	14,15	1,127	717
Purchase of treasury shares	23	(200)	(200)
Dividends paid	23	(1,969)	(2,003)
Exchange rate effect on hedging instruments, net		(5)	(17)
Net cash used in financing activities		**(1,710)**	**(2,925)**
Net change in cash and cash equivalents		**(2,356)**	**319**
Effect of changes in exchange rates and other impacts on cash and cash equivalents		(5)	(3)
Cash and cash equivalents at the beginning of the period		2,584	2,268
Cash and cash equivalents at the end of the period		**223**	**2,584**

1. Corporate information

1.1. 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.

The Company's operations are subject to regulatory controls of UKE, the government telecommunications market regulator. Under the Telecommunication Act, UKE can impose certain obligations on telecommunications companies that have a significant market power ("SMP"). Telekomunikacja Polska S.A. is deemed to be a SMP on certain markets.

1.2. The Management Board and the Supervisory Board of the Company

The Management Board of the Company at the date of the authorisation of these Separate Financial Statements was as follows:

Maciej Witucki – President of the Management Board, Chief Executive Officer,
Vincent Lobry – Vice President in charge of Marketing and Strategy,
Piotr Muszyński – Vice President in charge of Operations,
Jacques de Galzain – Board Member, Chief Financial Officer,
Jacek Kowalski – Board Member in charge of Human Resources.

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

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

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

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

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

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

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

2. Statement of compliance and basis for preparation

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

Comparative amounts for the year ended 31 December 2011 have been compiled using the same basis of preparation.

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

The Separate Financial Statements have been prepared on the going concern basis.

Telekomunikacja Polska S.A. is the parent company of the Telekomunikacja Polska Group ("the Group", "TP Group") and prepares consolidated financial statements for the year ended 31 December 2012.

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

The principles applied to prepare financial data relating to the year ended 31 December 2012 are described in Note 28 and are based on:

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

3. Revenue

(in PLN millions)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Fixed line telephony services	**4,188**	**4,750**
Subscriptions and voice traffic revenue	2,781	3,358
Wholesale revenue (including interconnect)	1,401	1,381
Other	6	11
Data Services	**2,829**	**2,714**
Broadband and TV revenue	1,379	1,363
Data transmission	837	755
Leased lines	612	594
Other	1	2
Sales of goods and other	**410**	**376**
Total revenue	**7,427**	**7,840**

Revenue is generated mainly in the territory of Poland. Approximately 5.2% and 5.1% of the total revenue for the 12 months ended 31 December 2012 and 2011, respectively, was earned from entities which are not domiciled in Poland, mostly from interconnect services.

4. Operating expense and income

4.1. External purchases

(in PLN millions)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Commercial expenses	(507)	(484)
– cost of handsets and other equipment sold	*(49)*	*(63)*
– commissions, advertising, sponsoring costs and other	*(458)*	*(421)*
Interconnect expenses	(850)	(944)
Network and IT expenses	(704)	(655)
Other external purchases	(1,571)	(1,703)
Total external purchases	**(3,632)**	**(3,786)**

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

4.2. Labour expenses

(in PLN millions)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Average number of employees (full time equivalent)	14,294	14,715
Wages and salaries	(1,181)	(1,187)
Social security and other charges	(287)	(267)
Long-term employee benefits [1]	(37)	38
Capitalised personnel costs	148	133
Other employee benefits	(25)	(51)
Total labour expenses	**(1,382)**	**(1,334)**

[1] See Note 12.

4.3. Other operating expense and income

(in PLN millions)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Trade and other receivables impaired or sold, net	(62)	(91)
Taxes other than income tax	(227)	(256)
Orange brand fee [1]	(29)	-
Employment termination expenses [2]	10	(152)
Operating foreign exchange losses, net	-	(52)
Dispute with DPTG [3]	-	(35)
Other expense and changes in provisions, net [4]	(184)	(544)
Total other operating expense	**(492)**	**(1,130)**
Income from shared resources	191	180
Recoveries on customer bad debts	33	29
Late payment interest on trade receivables	17	18
Operating foreign exchange gains, net	9	-
Other income	272	241
Total other operating income	**522**	**468**

[1] See Note 26.2.
[2] See Note 10, previously presented separately in the income statement as restructuring costs.
[3] Previously presented separately in the income statement.
[4] Includes the expense relating to the provision for proceedings by the European Commission related to broadband access amounting to PLN 458 million in 2011 (see Note 25.d).

Other expense and changes in provisions, net, include mainly donations and changes in provisions for claims and litigation, risks and other charges (see Note 10), except for provision for the dispute with DPTG (see Note 25.e).

Income from shared resources includes income from intragroup sale of goods or services that reflect either shared resources or an internal organisation of an administrative process (mainly IT and distribution fees).

4.4. Research and development

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

5. Gains on disposal of assets

5.1. Gain on disposal of TP Emitel

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

Gain on disposal amounting to PLN 1,251 million is presented separately in the income statement.

5.2. Gains on disposal of other assets

In the 12 months ended 31 December 2012 and 2011, gains on disposal of other assets amounted to PLN 35 million and PLN 26 million, respectively, and included mainly gains on disposal of properties.

6. Impairment

6.1. Information concerning the Cash Generating Units

Most of the Company's individual assets do not generate cash flow independently from other assets due to the nature of the Company's activities. The fixed network is treated as a separate Cash Generating Unit.

The Company considers certain indicators, including market liberalisation and other regulatory and economic changes in the Polish telecommunications market, in assessing whether there is any indication that an asset may be impaired. As at 31 December 2012 and 2011 the Company performed impairment tests of the fixed network. No impairment loss was recognised in 2012 and 2011 as a result of these tests.

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

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

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

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

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

CGU	*Fixed network*	
	31 December 2012	*31 December 2011*
Basis of recoverable amount	Value in use	Value in use
Sources used	Business plan	Business plan
	4 years cash flow projections	4 years cash flow projections
Growth rate to perpetuity	1%	0%
Post-tax discount rate	9.6%	8.9%
Pre-tax discount rate (1)	10.8%	10.5%

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

Sensitivity of recoverable amounts

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

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

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

6.2. Other property, plant and equipment and intangible assets

In the 12 months ended 31 December 2012 and 2011, the impairment loss on property, plant and equipment and intangible assets charged to the income statement amounted to PLN 12 million and PLN 8 million respectively, primarily including a net impairment loss as a result of a review of certain Company's properties.

6.3. Investments in subsidiaries

In the 12 months ended 31 December 2012 and 2011, the net impairment loss on TP S.A.'s investments in subsidiaries amounted to PLN 8 million and PLN 8 million (see Note 16.1).

7. Intangible assets

(in PLN millions)	*At 31 December 2012*			
	Cost	*Accumulated amortisation*	*Accumulated impairment*	*Net*
Software	4,600	(3,175)	-	1,425
Other intangibles	153	(67)	(12)	74
Total intangible assets	**4,753**	**(3,242)**	**(12)**	**1,499**

(in PLN millions)	*At 31 December 2011*				*At 1 January 2011*
	Cost	*Accumulated amortisation*	*Accumulated impairment*	*Net*	*Net*
Software	4,113	(2,785)	-	1,328	1,190
Other intangibles	139	(59)	(12)	68	57
Total intangible assets	**4,252**	**(2,844)**	**(12)**	**1,396**	**1,247**

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

(in PLN millions)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Opening balance net of accumulated amortisation and impairment	**1,396**	**1,247**
Acquisitions of intangible assets	526	570
Disposals and liquidations	(8)	(2)
Amortisation	(413)	(418)
Reclassifications and other, net	(2)	(1)
Closing balance	**1,499**	**1,396**

8. Property, plant and equipment

(in PLN millions)	*At 31 December 2012*			
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*
Land and buildings	3,063	(1,356)	(105)	1,602
Network	27,813	(18,963)	-	8,850
Terminals	2,073	(1,521)	-	552
IT equipment for corporate purposes	1,355	(1,027)	-	328
Investment grants	(247)	137	-	(110)
Other	175	(122)	-	53
Total property, plant and equipment	**34,232**	**(22,852)**	**(105)**	**11,275**

(in PLN millions)	*At 31 December 2011*				*At 1 January 2011*
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*	*Net*
Land and buildings	3,061	(1,237)	(95)	1,729	1,835
Network	27,307	(17,772)	(1)	9,534	9,840
Terminals	2,152	(1,563)	-	589	667
IT equipment for corporate purposes	1,319	(995)	-	324	409
Investment grants	(241)	124	-	(117)	(132)
Other	162	(121)	-	41	38
Total property, plant and equipment	**33,760**	**(21,564)**	**(96)**	**12,100**	**12,657**

Investment grants are non-repayable and relate mainly to certain property, plant and equipment received by TP S.A. from Public Telephone Committees (Społeczne Komitety Telefonizacji).

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

(in PLN millions)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Opening balance net of accumulated depreciation and impairment	**12,100**	**12,657**
Acquisitions of property, plant and equipment	1,039	1,369
Disposals and liquidations	(33)	(23)
Depreciation	(1,837)	(1,906)
Impairment	(12)	(8)
Dismantling costs, reclassifications and other, net	18	11
Closing balance	**11,275**	**12,100**

The carrying value of equipment held under finance leases as at 31 December 2012 and 2011 amounted to PLN 6 million and PLN 11 million, respectively. There were no additions during the 12 months ended 31 December 2012 and 2011 of equipment held under finance leases. Leased assets cannot be sold, donated, transferred by title or pledged and are a collateral for the related finance lease liability.

9. Trade receivables and other assets

(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*
Trade receivables, net	**745**	**852**
VAT receivable	-	31
Other [(1)]	207	57
Total other assets	**207**	**88**

[(1)] Mainly includes receivables related to advances and prepayments to suppliers, compensations and penalties and settlements with related parties.

TP S.A. considers there is no concentration of credit risk with respect to trade receivables due to its large and diverse customer base consisting of individual and business customers. The Company's maximum exposure to credit risk at the reporting date is best represented by the carrying amounts of receivables recognised in the statement of financial position.

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

(in PLN millions)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Beginning of period	**74**	**98**
Impairment losses, net	18	51
Impaired receivables sold or written-off and other movements	(35)	(75)
End of period	**57**	**74**

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

(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*
Neither impaired nor past due	117	190
Past due less than 180 days	136	145
Past due between 180 and 360 days	5	6
Past due more than 360 days	1	1
Total trade receivables collectively analysed for impairment, net	**259**	**342**
Trade receivables individually analysed for impairment [(1)]	486	510
Total trade receivables, net	**745**	**852**

[(1)] Mainly includes receivables from related parties (see Note 26) and telecommunications companies.

10. Provisions

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

(in PLN millions)	*At 1 January 2012*	*Increases*	*Reversals (utilisations)*	*Reversals (releases)*	*Foreign exchange effect*	*Discounting effect*	*At 31 December 2012*
Provisions for claims and litigation (see Note 25), risks and other charges	2,949	60	(2,171)	(33)	(18)	14	801
Provision for employment termination expenses	152	-	(62)	(10)	-	5	85
Dismantling provisions	139	15	(15)	-	-	8	147
Total provisions	**3,240**	**75**	**(2,248)**	**(43)**	**(18)**	**27**	**1,033**
Current	3,039						890
Non-current	201						143

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

(in PLN millions)	At 1 January 2011	Increases	Reversals (utilisations)	Reversals (releases)	Foreign exchange effect	Discounting effect	At 31 December 2011
Provisions for claims and litigation (see Note 25), risks and other charges	2,147	598	(44)	(29)	273	4	2,949
Provisions for employment termination expenses	27	152	(28)	-	-	1	152
Dismantling provisions	129	10	(8)	-	-	8	139
Total provisions	**2,303**	**760**	**(80)**	**(29)**	**273**	**13**	**3,240**
Current	2,176						3,039
Non-current	127						201

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

Provision for employment termination expenses

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

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

Dismantling provisions

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

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

11. Trade payables, other liabilities and deferred income

11.1. Trade payables

(in PLN millions)	At 31 December 2012	At 31 December 2011
Trade payables	793	1,125
Fixed assets payables	595	1,059
Total trade payables	**1,388**	**2,184**
Current	1,388	2,184
Non-current	-	-

11.2. Other liabilities

(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*
VAT payable	85	110
Other taxes payables	16	14
Other	33	95
Total other liabilities	**134**	**219**
Current	119	204
Non-current	15	15

11.3. Deferred income

(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*
Connection fees	100	99
Other	18	49
Total deferred income	**118**	**148**
Current	92	102
Non-current	26	46

12. Employee benefits

(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*
Jubilee awards	124	100
Retirement bonuses and other post-employment benefits	213	163
Salaries, other employee-related payables and payroll taxes due	118	136
Total employee benefits	**455**	**399**
Current	139	158
Non-current	316	241

Certain employees and retirees of the Company are entitled to long-term employee benefits in accordance with the Company's remuneration policy (see Note 28.20). These benefits are not funded. The Company does not operate any defined benefit pension plan.

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

(in PLN millions)	*12 months ended 31 December 2012*				*12 months ended 31 December 2011*			
	Jubilee awards	*Retirement bonuses*	*Other post-employment benefits*	*Total*	*Jubilee awards*	*Retirement bonuses*	*Other post-employment benefits*	*Total*
Present/carrying value of obligation at the beginning of the period	**100**	**81**	**82**	**263**	**127**	**87**	**71**	**285**
Current service cost [1]	7	5	-	12	7	5	1	13
Past service cost [1]	-	-	-	-	(21)	1	-	(20)
Interest cost [2]	6	5	5	16	6	5	4	15
Benefits paid	(14)	(1)	(6)	(21)	(10)	(2)	(7)	(19)
Actuarial losses for the period	25[1]	25[3]	17[3]	67	3 [1]	5 [3]	15 [3]	23
Curtailment [1]	-	-	-	-	(12) [4]	(20) [4]	(2) [4]	(34)
Present/carrying value of obligation at the end of the period	**124**	**115**	**98**	**337**	**100**	**81**	**82**	**263**

[1] Recognised under labour expense in the income statement.
[2] Recognised under discounting expense in the income statement.
[3] Recognised under actuarial losses on post-employment benefits in the statement of comprehensive income.
[4] Curtailment resulting from the Social Agreement concluded in the fourth quarter of 2011 (see Note 10).

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

	At 31 December 2012	*At 31 December 2011*
Discount rate	4.0%	6.1%
Wage increase rate	2.5% - 3.5%	3.0% – 3.5%
Expected average remaining working lives (in years)	15.5 – 16.6	16.0 – 16.6

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

(in PLN millions) *As at*	*Jubilee awards*	*Retirement bonuses*	*Other post-employment benefits*	*Total*
31 December 2012	124	115	98	337
31 December 2011	100	81	82	263
31 December 2010	127	87	71	285
31 December 2009	145	89	73	307
31 December 2008	144	74	93	311

13. Finance income and expense

(in PLN millions)	*12 months ended 31 December 2012* *Finance income, net*						*Operating income*		
	Dividend income	*Interest Income*	*Interest expense and other financial charges*	*Foreign exchange gains / (losses)*	*Discounting expense*	***Finance income / (costs), net***	*Interest income*	*Foreign exchange gains / (losses)*	*Impairment losses*
Investments in subsidiaries	1,767	-	-	-	-	**1,767**	-	-	(8)
Loans and receivables	-	295[1]	-	(4)	-	**291**	17 [3]	(10)	(18) [4]
– *including cash and cash equivalents*	-	*20*	-	*(4)*	-	***16***	-	-	-
Liabilities at amortised cost	-	-	(638) [2]	299	-	**(339)**	-	22	-
Derivatives	-	-	(216)	(358)	-	**(574)**	-	(21)	-
– *hedging derivatives*	-	-	*(61)*	*(130)*	-	***(191)***	-	-	-
– *derivatives held for trading*	-	-	*(155)*	*(228)*	-	***(383)***	-	*(21)*	-
Non-financial items [5]	-	-	-	-	(44)	**(44)**	-	18	-
Total	**1,767**	**295**	**(854)**	**(63)**	**(44)**	**1,101**	**17**	**9**	**(26)**

[1] Includes mainly interest income on bonds issued by subsidiaries and cash and cash equivalents.
[2] Includes mainly interest expense on bonds, bank borrowings, loans from subsidiaries and change in fair value of liabilities hedged by fair value hedges.
[3] Includes late payment interests on trade receivables.
[4] Includes impairment losses on trade receivables.
[5] Includes mainly provisions and employee benefits.

(in PLN millions)	*12 months ended 31 December 2011*								
	Finance income, net						*Operating income*		
	Dividend income	*Interest Income*	*Interest expense and other financial charges*	*Foreign exchange gains / (losses)*	*Discounting expense*	***Finance income / (costs), net***	*Interest income*	*Foreign exchange gains / (losses)*	*Impairment losses*
Investments in subsidiaries	962	-	-	-	-	**962**	-	-	(8)
Loans and receivables	-	389 [1]	-	(22)	-	**367**	18 [3]	12	(51) [4]
– *including cash and cash equivalents*	-	*88*	-	*(22)*	-	***66***	-	-	-
Liabilities at amortised cost	-	-	(678) [2]	(365)	-	**(1,043)**	-	(44)	-
Derivatives	-	-	(140)	491	-	**351**	-	253	-
– *hedging derivatives*	-	-	*(45)*	*220*	-	***175***	-	-	-
– *derivatives held for trading*	-	-	*(95)*	*271*	-	***176***	-	*253*	-
Non-financial items [5]	-	-	-	-	(28)	**(28)**	-	(273)	-
Total	**962**	**389**	**(818)**	**104**	**(28)**	**609**	**18**	**(52)**	**(59)**

[1] Includes mainly interest income on bonds issued by subsidiaries and cash and cash equivalents.
[2] Includes mainly interest expense on bonds, bank borrowings, loans from subsidiaries and change in fair value of liabilities hedged by fair value hedges.
[3] Includes late payment interests on trade receivables.
[4] Includes impairment losses on trade receivables.
[5] Includes mainly provisions and employee benefits.

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

14. Net financial debt

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

The maturity analysis of the Company's financial liabilities is based on contractual undiscounted payments.
As at 31 December 2012 and 2011, amounts in foreign currency were translated at the NBP period-end exchange rates. The variable interest payments arising from the financial instruments were calculated using the latest interest rates fixed before 31 December 2012 and 2011, respectively. Financial liabilities that can be repaid at any time at the Company's discretion are classified as current or non-current, depending on the expected repayment date; non-current balance is assigned to the period of the final contractual maturity date.

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

At 31 December 2012

(in PLN millions)			*Undiscounted contractual cash flows* [1]							
				Non-current						
	Note	*Carrying amount*	*Within 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total non-current*	*Total*
Trade payables (A)	***11***	**1,389**	**1,389**	**-**	**-**	**-**	**-**	**-**	**-**	**1,389**
Bonds	*15*	4,394	1,574	3,034	-	-	-	-	3,034	4,608
Bank borrowings	*15*	2,175	2,116	40	40	5	5	16	106	2,222
Finance lease liabilities		6	3	3	-	-	-	-	3	6
Loans from subsidiaries [3]	*15*	2,794	715	715	715	715	715	835	3,695	4,410
Financial liabilities at amortised cost – excluding trade payables		**9,369**	**4,408**	**3,792**	**755**	**720**	**720**	**851**	**6,838**	**11,246**
Derivatives - net [2]	*18*	268	196	226	-	-	-	-	226	422
Gross financial debt after derivatives (B)		**9,637**	**4,604**	**4,018**	**755**	**720**	**720**	**851**	**7,064**	**11,668**
Total financial liabilities (A) + (B)		**11,026**	**5,993**	**4,018**	**755**	**720**	**720**	**851**	**7,064**	**13,057**
Bonds issued by subsidiaries [3]	*16*	2,845								
Cash and cash equivalents	*17*	223								
Assets included in the calculation of net financial debt (C)		**3,068**								
Effective portion of cash flow hedges **(D)**		(7)								
Net financial debt (B)-(C)+(D)		**6,562**								

[1] Includes both nominal and interest payments.
[2] Both assets and liabilities are included.
[3] Bonds are included in the calculation as they are settled net with loans from subsidiaries.

At 31 December 2011

(in PLN millions)			*Undiscounted contractual cash flows* [1]							
				Non-current						
	Note	*Carrying amount*	*Within 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total non-current*	*Total*
Trade payables (A)	***11***	**2,184**	**2,184**	**-**	**-**	**-**	**-**	**-**	**-**	**2,184**
Bonds	*15*	4,705	1,653	186	3,278	-	-	-	3,464	5,117
Bank borrowings	*15*	1,684	719	961	44	43	5	24	1,077	1,796
Finance lease liabilities		11	6	3	3	-	-	-	6	12
Loans from subsidiaries [3]	*15*	3,117	715	715	715	715	715	1,550	4,410	5,125
Financial liabilities at amortised cost – excluding trade payables		**9,517**	**3,093**	**1,865**	**4,040**	**758**	**720**	**1,574**	**8,957**	**12,050**
Derivatives - net [2]	*18*	(384)	(140)	65	9	-	-	-	74	(66)
Gross financial debt after derivatives (B)		**9,133**	**2,953**	**1,930**	**4,049**	**758**	**720**	**1,574**	**9,031**	**11,984**
Total financial liabilities (A) + (B)		**11,317**	**5,137**	**1,930**	**4,049**	**758**	**720**	**1,574**	**9,031**	**14,168**
Bonds issued by subsidiaries [3]	*16*	3,148								
Cash and cash equivalents	*17*	2,584								
Assets included in the calculation of net financial debt (C)		**5,732**								
Effective portion of cash flow hedges **(D)**		11								
Net financial debt (B)-(C)+(D)		**3,412**								

[1] Includes both nominal and interest payments.
[2] Both assets and liabilities are included.
[3] Bonds are included in the calculation as they are settled net with loans from subsidiaries.

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

15. Financial liabilities at amortised cost excluding trade payables

15.1. Bonds

The table below provides an analysis of bonds issued by TP S.A.:

(in PLN millions)					*Amount outstanding at* [1]	
Series	*Nominal value (in millions of currency)*	*Nominal interest rate*	*Issue date*	*Redemption date*	*31 December 2012*	*31 December 2011*
A1	500 EUR	6.000%	22 May 2009	22 May 2014	2,115	2,281
A2	200 EUR	6.000%	17 July 2009	22 May 2014	879	960
Short-term bonds[2]	1,467 PLN	Zero-coupon bonds	2012	2013	1,400	1,464
Total bonds issued by the TP S.A.					**4,394**	**4,705**
Current					1,505	1,577
Non-current					2,889	3,128

[1] Includes accrued interest and the fair value adjustment to the bonds hedged by fair value hedge.
[2] Short-term bonds issued to the Company's subsidiaries under the TP S.A. Bond Issuance Programme of 15 July 2002.

TP S.A. issues short-term zero-coupon bonds denominated in PLN. The bonds are offered by private placement to the Group's entities, exclusively within the territory of the Republic of Poland. The bonds are redeemed at their par value.

The weighted average effective interest rate on bonds issued by TP S.A., before swaps, amounted to 5.76% as at 31 December 2012 and 2011. Effective interest rate was lower than nominal interest rate mainly due to issuance proceeds from A2 series exceeding the nominal value.

15.2. Bank borrowings

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

		Amount outstanding at [1]			
		31 December 2012		*31 December 2011*	
Creditor	*Repayment date*	*Currency (millions)*	*PLN (millions)*	*Currency (millions)*	*PLN (millions)*
Floating rate					
European Investment Bank	15 December 2015	25 EUR	102	33 EUR	147
European Investment Bank	15 June 2012	-	-	17 EUR	74
European Investment Bank	15 June 2012	-	-	26 PLN	26
European Investment Bank	15 September 2013	892 PLN	892	1,400 PLN	1,400
Bank Handlowy (syndicated)	22 October 2015	1,139 PLN[3]	1,139	(9) PLN[2]	(9)
Bank Handlowy (syndicated)	18 April 2013	2 PLN	2	(3) PLN[2]	(3)
Fixed rate					
Instituto de Credito Oficial	2 January 2021	13 USD	40	14 USD	49
Total bank borrowings borrowed by TP S.A.			**2,175**		**1,684**
Current			2,077		649
Non-current			98		1,035

[1] Includes accrued interest and bank borrowings issue costs.
[2] Paid arrangement fees.
[3] Revolving credit line.

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

15.3. Loans from subsidiaries

On 31 January 2009, the Company and its subsidiary TP Invest Sp. z o.o. concluded agreements, under which, among others, financial liabilities at amortised cost were recognised in the amount of PLN 3,909 million. As at 31 December 2012 and 2011, loans from TP Invest Sp. z o.o. amounted to PLN 2,794 million and PLN 3,117 million, respectively.

16. Financial assets

16.1. Investments in subsidiaries and assets available for sale

The Company's investments in subsidiaries and assets available for sale are presented below:

(in PLN millions)	*At 31 December 2012*			*At 31 December 2011*		
	Cost	*Impairment*	*Net*	*Cost*	*Impairment*	*Net*
Main companies						
PTK-Centertel Sp. z o.o.	*6,784*	*-*	*6,784*	*6,784*	*-*	*6,784*
Wirtualna Polska S.A.	*197*	*-*	*197*	*197*	*-*	*197*
TP Invest Sp. z o.o.	*101*	*-*	*101*	*101*	*-*	*101*
TP Edukacja i Wypoczynek Sp. z o.o.	*76*	*(17)*	*59*	*94*	*(17)*	*77*
Ramsat S.A.	*25*	*-*	*25*	*25*	*-*	*25*
Other	61	(31)	30	78	(34)	44
Total investments in subsidiaries	**7,244**	**(48)**	**7,196**	**7,279**	**(51)**	**7,228**
Exatel S.A.[(1)]	*-*	*-*	*-*	*14*	*(11)*	*3*
Other	*-*	*-*	*-*	*1*	*-*	*1*
Total assets available for sale	**-**	**-**	**-**	**15**	**(11)**	**4**

[(1)] Shareholding in Exatel S.A. was disposed of in 2012.

As at 31 December 2012 and 2011 the Company owned directly the following shares in its subsidiaries:

Entity	*Location*	*Scope of activities*	*Share capital owned by TP S.A. directly*		*Share capital owned by TP S.A. directly and indirectly*	
			31 December 2012	*31 December 2011*	*31 December 2012*	*31 December 2011*
PTK-Centertel Sp. z o.o.	Warsaw, Poland	Mobile telecommunications services, construction and operation of mobile telecommunications networks.	100.00%	100.00%	100.00%	100.00%
- Ramsat S.A.	Modlnica, Poland	Distributor of PTK-Centertel and TP S.A. products on mass and business market.	25.66%	100.00%	100.00%	100.00%
Orange Customer Service Sp. z o.o.	Warsaw, Poland	Post-sale services for TP S.A. and PTK-Centertel customers.	100.00%	-	100.00%	100.00%
Wirtualna Polska S.A.	Gdańsk, Poland	Internet portal and related services including internet advertising.	100.00%	100.00%	100.00%	100.00%
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100.00%	100.00%	100.00%	100.00%
OPCO Sp. z o.o.	Warsaw, Poland	Facilities management and maintenance.	100.00%	100.00%	100.00%	100.00%
Otwarty Rynek Elektroniczny S.A.	Warsaw, Poland	Provision of complex procurement solutions, including advisory, implementation and operation of e-commerce platform and IT systems, hosting.	100.00%	100.00%	100.00%	100.00%
TP Edukacja i Wypoczynek Sp. z o.o.	Warsaw, Poland	Hotel services, training and conference facilities.	100.00%	100.00%	100.00%	100.00%
TP Invest Sp. z o.o.	Warsaw, Poland	Services for Group entities, holding management.	100.00%	100.00%	100.00%	100.00%
- Contact Center Sp. z o.o.	Warsaw, Poland	Call-centre services and telemarketing.	0.04%	0.04%	100.00%	100.00%
- TP TelTech Sp. z o.o.	Łódź, Poland	Design and development of telecommunications systems, servicing telecommunications networks, monitoring of alarm signals.	2.27%	2.15%	100.00%	100.00%
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	Warsaw, Poland	Management of employee pension fund.	75.00%	75.00%	100.00%	100.00%
Fundacja Orange	Warsaw, Poland	Charity foundation.	50.00%	50.00%	100.00%	100.00%
Orange Polska Sp. z o.o.[1]	Warsaw, Poland	Investment operations.	100.00%	100.00%	100.00%	100.00%
PayTel S.A.[2]	Warsaw, Poland	E-commerce and electronic services, including GSM prepaid services, bill charging and processing of electronic financial transactions.	-	100.00%	-	100.00%

[1] Previously Bilbo Sp. z o.o.
[2] The Company was disposed of in 2012 (see below).

As at 31 December 2012 and 2011, the voting power held by the Company was equal to the Company's interest in the share capital of its subsidiaries.

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.

16.2. Loans and receivables excluding trade receivables

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

(in PLN millions)	*At 31 December 2012*			*At 31 December 2011*		
	Cost	*Impairment*	*Net*	*Cost*	*Impairment*	*Net*
Bonds issued by subsidiaries [1,2,3]	2,845	-	2,845	3,148	-	3,148
Bonds issued by entities accounted for using the equity method [1]	6	-	6	-	-	-
Loans receivables from subsidiaries [1]	11	-	11	7	-	7
Other	19	-	19	18	-	18
Total loans and receivables excluding trade receivables	**2,881**	**-**	**2,881**	**3,173**	**-**	**3,173**
Current	380	-	380	328	-	328
Non-current	2,501	-	2,501	2,845	-	2,845

[1] Includes accrued interest receivable.
[2] Included in net financial debt calculation (see Note 14).
[3] On 31 January 2009 the Company and TP Invest Sp. z o.o. concluded agreements, under which, among others, TP S.A. purchased bonds issued by TP Invest Sp. z o.o. Bonds have maturity between 2 weeks and 7 years.

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

17. Cash and cash equivalents

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

(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*
Current bank accounts and overnight deposits	123	353
Deposits up to 3 months	100	2,231
Total cash and cash equivalents	**223**	**2,584**

The Company's cash surplus is invested into short-term highly-liquid financial instruments e.g. bank deposits. The term of the investments depends on the immediate cash requirements of the Company. Short term deposits are made for varying periods of between one day and three months. The instruments earn interest which depends on the current money market rates and the term of investment.

As at 31 December 2012 and 2011, cash and cash equivalents included an equivalent of PLN 5 million and PLN 6 million, respectively, denominated in foreign currencies.

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

18. Derivatives

As at 31 December 2012 and 2011, the majority of Company's derivatives portfolio constitutes financial instruments for which there is no active market (over-the-counter derivatives) i.e. the interest rate and currency swaps. To price these instruments the Company applies standard valuation techniques, where the prevailing market zero-coupon curves constitute the base for calculation of discounting factors. Fair value is calculated using the net present value of future cash flows related to these contracts, quoted market forward interest rates, quoted market forward foreign exchange rates or, if quoted forward foreign exchange rates are not available, forward rates calculated based on spot foreign exchange rates using the interest rate parity method. A fair value of swap transaction represents discounted future cash flows converted into PLN at the period-end exchange rate.

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

Type of instrument [(1)]	*Hedged risk*	*Hedged nominal amount (in millions of currency)*	*Maturity*	*Fair value[(2)] (in PLN millions)*	
				Financial Asset	*Financial Liability*
At 31 December 2012					
Derivative instruments - fair value hedge					
CCIRS	Currency and interest rate risk	110 EUR	2014	-	(7)
IRS	Interest rate risk	110 EUR	2014	29	-
Total of fair value hedges				29	(7)
Derivative instruments - cash flow hedge					
CCIRS	Currency and interest rate risk	283 EUR	2014	-	(48)
IRS	Interest rate risk	33 EUR	2014	9	-
IRS	Interest rate risk	1,250 PLN	2014	-	(83)
Total of cash flow hedges				9	(131)
Derivative instruments – held for trading					
CCIRS	Currency and interest rate risk	307 EUR	2014	4	(78)
CCS	Currency risk	20 EUR	2014	4	-
NDF	Currency risk	350 EUR	2013	-	(86)
NDF	Currency risk	31 USD	2013	0	(5)
IRS	Interest rate risk	307 EUR	2014	81	-
IRS	Interest rate risk	2,359 PLN	2013-2014	-	(88)
Total of derivatives held for trading				89	(257)
Total of derivative instruments				**127**	**(395)**
Current				-	(112)
Non–current				127	(283)

[(1)] CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, NDF – non-deliverable forward.
[(2)] Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

Type of instrument [(1)]	*Hedged risk*	*Hedged nominal amount (in millions of currency)*	*Maturity*	*Fair value[(2)] (in PLN millions)*	
				Financial Asset	*Financial Liability*
At 31 December 2011					
Derivative instruments - fair value hedge					
CCIRS	Currency and interest rate risk	110 EUR	2014	35	-
IRS	Interest rate risk	110 EUR	2014	29	-
Total of fair value hedges				64	-
Derivative instruments - cash flow hedge					
CCIRS	Currency and interest rate risk	283 EUR	2014	56	-
CCS	Currency risk	6 EUR	2012	0	-
IRS	Interest rate risk	33 EUR	2014	9	-
IRS	Interest rate risk	1,276 PLN	2012-2014	-	(65)
Total of cash flow hedges				65	(65)
Derivative instruments – held for trading					
CCIRS	Currency and interest rate risk	313 EUR	2012-2014	56	(2)
CCS	Currency risk	27 EUR	2014	16	-
NDF	Currency risk	713 EUR	2012	213	(0)
NDF	Currency risk	22 USD	2012	7	-
IRS	Interest rate risk	307 EUR	2014	81	-
IRS	Interest rate risk	1,269 PLN	2014	-	(51)
Total of derivatives held for trading				373	(53)
Total of derivative instruments				**502**	**(118)**
Current				225	-
Non–current				277	(118)

[(1)] CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, NDF – non-deliverable forward.
[(2)] Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

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

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

(in PLN millions)	*12 months ended 31 December 2012*			*12 months ended 31 December 2011*		
	Before tax	*Tax*	*After tax*	*Before tax*	*Tax*	*After tax*
Effective part of gains/(losses) on hedging instrument	(148)	28	(120)	122	(23)	99
Reclassification to the income statement, adjusting:	130	(25)	105	(113)	21	(92)
- interest expense presented in finance income, net	*37*	*(7)*	*30*	*39*	*(7)*	*32*
- foreign exchange differences presented in finance income, net	*93*	*(18)*	*75*	*(152)*	*28*	*(124)*
Total gains/(losses) on cash flow hedges	**(18)**	**3**	**(15)**	**9**	**(2)**	**7**

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

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

19. Fair value of financial instruments

19.1. Fair value measurements

For the financial instruments measured subsequent to initial recognition at fair value, the Company classifies fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

19.1.1. Financial assets measured at fair value

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

(in PLN millions)	*At 31 December 2012*			
	Fair value measurement			
	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	-	89	-	89
Derivatives – held for trading	-	*89*	-	*89*
Hedging derivatives	-	38	-	38
Total financial assets measured at fair value	**-**	**127**	**-**	**127**

(in PLN millions)	*At 31 December 2011*			
	Fair value measurement			
	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	-	373	-	373
Derivatives – held for trading	-	*373*	-	*373*
Hedging derivatives	-	129	-	129
Total financial assets measured at fair value	**-**	**502**	**-**	**502**

During the 12 months ended 31 December 2012 and 2011, there was no transfer between Level 1 and Level 2 fair value measurements and no transfer into and out of Level 3 fair value measurement.

19.1.2. Financial liabilities measured at fair value

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

(in PLN millions)	*At 31 December 2012*			
	Fair value measurement			
	Level 1	*Level 2*	*Level 3*	*Total*
Financial liabilities at fair value through profit or loss	-	257	-	257
Derivatives – held for trading	-	*257*	-	*257*
Hedging derivatives	-	138	-	138
Total financial liabilities measured at fair value	**-**	**395**	**-**	**395**

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

During 12 months ended 31 December 2012 and 2011, there was no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurement.

19.2. Comparison of fair values and carrying amounts of financial instruments

As at 31 December 2012 and 2011, the carrying amount of cash and cash equivalents, current trade receivables and current trade payables, current loans and receivables and current financial liabilities at amortised cost approximates their fair value due to relatively short term maturity of those instruments or cash nature.

As at 31 December 2012 and 2011, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximates their fair value.

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

(in PLN millions)	*At 31 December 2012*		*At 31 December 2011*	
	Carrying amount [(1)]	*Estimated fair value*	*Carrying amount* [(1)]	*Estimated fair value*
Bonds with fixed interest rate	4,394	4,562	4,705	4,931
Bank borrowings with fixed interest rate	40	38	49	46
Loans from subsidiaries with fixed interest rate	2,794	3,161	3,117	3,336
Total financial liabilities	**7,228**	**7,761**	**7,871**	**8,313**
Bonds issued by subsidiaries with fixed interest rate	2,845	3,223	3,148	3,371
Total financial assets	**2,845**	**3,223**	**3,148**	**3,371**

[(1)] Carrying amount includes accrued interest.

The fair value of financial instruments is calculated by discounting expected future cash flows at the prevailing zero-coupon rates for a given currency. A theoretical zero-coupon curve is derived from the SWAP rate curve adjusted by the appropriate credit spread. Fair value amounts are translated to PLN at the National Bank of Poland period-end exchange rate.

20. Objectives and policies of financial risk management

20.1. Principles of financial risk management

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

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

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

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

20.2. Hedge accounting

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

Certain derivative instruments are classified as fair value hedges or cash flow hedges and the Company applies hedge accounting principles as stated in IAS 39 (see Note 28.16). The fair value hedges are used for hedging changes in the fair value of financial instruments that are attributable to particular risk and could affect the income statement. Cash flow hedges are used to hedge the variability of future cash flows that is attributable to particular risk and could affect the income statement.

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

Detailed information on derivative financial instruments, including hedging relationship, that are used by the Company is presented in Note 18.

20.3. Currency risk

The Company is exposed to foreign exchange risk arising from financial liabilities denominated in foreign currencies, namely bonds and bank borrowings denominated in EUR and USD (see Note 15) and trade receivables, trade payables and provisions of which a significant balance relates to the provision for the proceedings by the European Commission (see Note 25.d).

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

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

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

	Hedge ratio	
Currency exposure	*At 31 December 2012*	*At 31 December 2011*
Bonds and bank borrowings	99.7%	99.7%
DPTG provision (see Notes 25.e)	-	75.6%
EC proceedings provision (see Note 25.d)	75.8%	77.8%

The Company is also actively hedging the exposure to foreign exchange risk generated by operating and capital expenditures.

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

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

(in millions of currency)	*Effective exposure after hedging impacting income statement*				*Sensitivity to a change of the PLN against other currencies*			
	At 31 December 2012		*At 31 December 2011*		*At 31 December 2012*		*At 31 December 2011*	
					+10%	*-10%*	*+10%*	*-10%*
Hedged item	*Currency*	*PLN*	*Currency*	*PLN*	*PLN*		*PLN*	
Bonds and bank borrowings (USD)	3	9	3	10	1	(1)	1	(1)
DPTG provision (EUR) (see Notes 25.e)	-	-	134	592	-	-	59	(59)
EC proceedings provision (EUR) (see Note 25.d)	31	127	28	124	13	(13)	12	(12)
Total		**136**		**726**	**14**	**(14)**	**72**	**(72)**

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

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

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

20.4. Interest rate risk

The interest rate risk is a risk that the fair value or future cash flows of the financial instrument will change due to interest rates changes. The Company has interest bearing financial assets consisting mainly of bonds purchased from and loans granted to its subsidiaries (see Note 16) and financial liabilities consisting mainly of bonds and bank borrowings (see Note 15).

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

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

As at 31 December 2012 and 2011, the Company's proportion between fixed/floating rate debt (including hedging activities) was 58/42% and 64/36% respectively.

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

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

(in PLN millions)	*Potential increase /(decrease) in absolute value resulting from 1% change of interest rates*			
	At 31 December 2012		*At 31 December 2011*	
	+1%	*-1%*	*+1%*	*-1%*
Finance costs, net	35	(34)	28	(27)
Other comprehensive income	1	(1)	(1)	1
Fair value of gross financial debt after derivatives	(35)	34	(62)	66

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

- finance costs, net include the following items exposed to interest rate risk: a) interest cost on financial debt based on floating rate, after derivatives classified as hedges for accounting purpose b) interest income calculated on the bonds purchased from and loans granted to subsidiaries based on floating rate and c) the change in the fair value of derivatives that do not qualify for hedge accounting,
- the effective portion of the change in the fair value of derivatives classified as cash flow hedges is recognised directly in other comprehensive income,
- as at 31 December 2012, the fair value of gross financial debt after derivatives (excluding finance lease, loans from subsidiaries and arrangement fees) was PLN 7,007 million (as at 31 December 2011, PLN 6,239 million).

20.5. Liquidity risk

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

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

The Company also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. As at 31 December 2012, the Company had the following unused credit facilities amounting to PLN 2,495 million (as at 31 December 2011, PLN 3,767 million):

- PLN 860 million of the revolving credit lines,
- EUR 400 million of back-up credit facility.

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

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

The liquidity ratio, which represents the relation between available financing sources (i.e. cash and credit facilities) and debt repayments during next 12 and 18 months, is presented in the following table:

(in PLN millions)	*Liquidity ratios*	
	At 31 December 2012	*At 31 December 2011*
Liquidity ratio - next 12 months	78%	301%
Unused credit facilities	2,495	3,767
Cash and cash equivalents	223	2,584
Debt repayments[(1)]	3,471	2,109
Liquidity ratio (incl. derivatives) - next 12 months	74%	323%
Derivatives[(2)]	196	(140)
Liquidity ratio - next 18 months	43%	241%
Unused credit facilities	2,495	3,767
Cash and cash equivalents	223	2,584
Debt repayments[(1)]	6,352	2,630
Liquidity ratio (incl. derivatives) - next 18 months	40%	252%
Derivatives[(2)]	423	(109)

[(1)] Undiscounted principal payments on debt including PLN 1,402 million (PLN 1,467 million as at 31 December 2011) short-term bonds issued to Company's subsidiaries under the TP S.A. Bond Issuance Programme of 15 July 2002.
[(2)] Undiscounted net cash flows on derivatives; negative / positive amount represents positive/negative net result on cash flows.

The maturity analysis for the contractual undiscounted cash flows resulting from the Company's financial liabilities as at 31 December 2012 and 2011 is presented in Note 14. The average duration for the existing debt portfolio as at 31 December 2012 is 1.2 year (1.6 year as at 31 December 2011).

20.6. Credit risk

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

The main function of the Credit Committee under the control of the Chief Financial Officer is to coordinate and consolidate credit risk management activities across TP Group, which involve:
- clients' risk assessment,
- monitoring clients' business and financial standing,
- managing accounts receivable and bad debts.

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

There is no significant concentration of credit risk within the Company.
Further information on credit risk is discussed in Notes 9, 16, 17 and 18.

20.7. Management of covenants

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

As at 31 December 2011 TP S.A. was a party to loan and guarantee agreements including the financial covenant indicated above.

As at 31 December 2012 and 2011, the covenant was met.

21. Management of capital

Capital management strategy is developed at the Group level. Capital management policy is described in the Note 24 to Telekomunikacja Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2012.

22. Income tax

(in PLN millions)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Current income tax	24	34
Deferred tax	(149)	313
Total income tax	**(125)**	**347**

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

(in PLN millions)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Net income before tax	**1,309**	**1,604**
Less: Gain on disposal of TP Emitel (tax neutral)	*-*	*(1,251)*
Proceedings by the European Commission (see Note 25.d) [(1)]	*(28)*	*513*
Dividend income	*(1,767)*	*(962)*
Net income before tax, adjusted	(486)	(96)
Statutory tax rate	19%	19%
Theoretical tax	**92**	**18**
Effect of participation in the TP Tax Capital Group	(269)	-
Tax relief on new technologies	58	112
Reassessment of deferred tax asset on dispute with DPTG	-	233
Change in unrecognised deferred tax asset and other	(2)	(2)
Expense not deductible for tax purposes, net	(4)	(14)
Total income tax	**(125)**	**347**

(1) Includes foreign exchange effect.

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

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

During the 12 months ended 31 December 2012 and 2011 TP S.A. was a member of the TP Tax Capital Group.

Deferred tax

The net deferred tax assets consist of the following:

	Statement of financial position		*Income statement*	
(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Property, plant and equipment and intangible assets	196	(94)	290	87
Impairment of financial assets	16	21	(5)	2
Finance costs (income)/expense, net [(1)]	(113)	(161)	45	(67)
Accrued (income)/expense, net	150	618	(468)	272
Employee benefit plans [(2)]	58	43	7	(8)
Deferred income	22	26	(4)	3
Other differences	14	28	(14)	24
Deferred tax assets, net	**343**	**481**	**-**	**-**
Total deferred tax	**-**	**-**	**(149)**	**313**

(1) During the 12 months ended 31 December 2012 and 2011, PLN 3 million and PLN (2) million of change in deferred tax assets relating to finance income/expense was recognised in the statement of comprehensive income, respectively.
(2) During the 12 months ended 31 December 2012 and 2011, PLN 8 million and PLN 4 million of change in deferred tax assets relating to employee benefits was recognised in the statement of comprehensive income, respectively.

Unrecognised deferred tax assets relate mainly to temporary differences, which based on the Company's management assessment could not be utilised for tax purposes. As at 31 December 2012 and 2011, deductible

temporary differences, for which no deferred tax assets were recognised, amounted to PLN 95 million and PLN 86 million gross, respectively.

23. Equity

23.1. Share capital

As at 31 December 2012 and 2011, the share capital of the Company amounted to PLN 4,007 million and was divided into 1,336 million fully paid ordinary bearer shares of PLN 3 each.

The ownership structure of the share capital as at 31 December 2012 and 2011 was as follows:

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

(1) Number of shares according to the notification by Capital Group International, Inc. on 15 October 2010. On 15 October 2012, TP S.A. received a notification in which Capital Group Companies, Inc. informed that its share in the Company's share capital (including shares held by Capital Group International, Inc.) fell below 5%.
(2) Voting rights attributable to treasury shares cannot be exercised at the General Meeting of TP S.A.

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, except for the purchase of treasury shares (see Note 23.2).

23.2. Purchase of treasury shares

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

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

23.3. Dividends

On 12 April 2012, the General Meeting of TP S.A. adopted a resolution on the payment of an ordinary dividend of PLN 1.50 per share from 2011 profit and retained earnings from previous years. Total dividend, paid on 5 July 2012, amounted to PLN 1,969 million. Treasury shares (see Note 23.2) held on 21 June 2012, which was the dividend day, were not entitled to the dividend.

Retained earnings available for dividend payments amounted to PLN 4.4 billion as at 31 December 2012. The remaining balance of PLN 2.8 billion is unavailable for dividend payments due to restrictions of the Polish commercial law.

23.4. Share-based payments

Group incentive programme
On 28 April 2006, the General Meeting of TP S.A. approved an incentive programme ("the Program") for the key managers and executives ("the Beneficiaries") of Telekomunikacja Polska and its selected subsidiaries in order to further motivate management in their efforts aimed at the Group development and maximisation of its value. As a result of the Program, on 9 October 2007 TP S.A. issued 6,202,408 registered bonds with a nominal value, equal to issue price, of PLN 0.01 each with pre-emption rights to subscribe for Company shares with priority over the existing shareholders. A total of 6,047,710 bonds were subscribed and allocated to the Beneficiaries, the remaining 154,698 bonds had not been subscribed and were redeemed.

Pre-emption rights attached to the bonds to subscribe for the Company's shares may be exercised until 9 October 2017. One bond gives a right to subscribe for one ordinary share. The shares acquired upon exercising

pre-emption right attached to the bonds are ordinary bearer shares and are not subject to any restriction in trading. The right to subscribe for the shares shall be vested exclusively in the bondholders. The issue price of the shares is PLN 21.57 per share.

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

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

During the vesting period (years 2007-2010) the fair value of services received amounted to PLN 17 million. It was recognised in labour expenses in the amount of PLN 14 million, in investments in subsidiaries in the amount of PLN 3 million and as an increase in equity amounting to PLN 17 million.

France Telecom S.A. free share award plan

In 2007 France Telecom S.A. established a free share, equity-settled, award plan (“NExT plan”). Under the NexT plan 988,400 shares of France Telecom S.A. were offered to employees and executives of the Group. The grant date was established on 18 March 2008 that is the date when the main terms and conditions of the plan were announced to TP Group’s employees. The fair value of equity instruments at grant date was PLN 63.57 (an equivalent of EUR 17.95 translated at NBP period-end exchange rate at 18 March 2008).

During the vesting period (years 2008-2010) the fair value of services received, recognised in labour expenses and equity, amounted to PLN 51 million.

24. Unrecognised contractual obligations

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

24.1. Commitments related to operating leases

When considering the Company as a lessee, operating lease commitments relate to the lease of buildings, land and the agreement for the development and lease of new premises for the Company. Lease costs recognised in the income statement for the years ended 31 December 2012 and 2011 amounted to PLN 211 million and PLN 207 million, respectively. Most of the agreements are denominated in foreign currencies. Some of the above agreements are indexed with price indices applicable for a given currency.

Future minimum lease payments under non-cancellable operating leases, as at 31 December 2012 and 2011, were as follows:

(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*
Within one year	92	82
After one year but not more than five years	219	184
More than five years	248	272
Total minimum future lease payments	**559**	**538**

When considering the Company as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2012 and 2011 amounted to PLN 74 million and PLN 96 million, respectively.

24.2. Investment commitments

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

(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*
Property, plant and equipment	245	526
Intangibles	39	85
Total investment commitments	**284**	**611**
Amounts contracted to be payable within 12 months after the end of the reporting period	277	574

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

24.3. Memorandum of Understanding with UKE

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

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

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

24.4. Guarantees

As at 31 December 2012 and 2011, total guarantees granted by TP S.A. to purchasers of debt securities denominated in EUR and issued by a subsidiary amounted to PLN 2,967 million and PLN 3,205 million, respectively.

Other guarantees granted by the Company as at 31 December 2012 and 2011 amounted to PLN 10 million and PLN 15 million, respectively.

25. Litigation and claims (including contingent liabilities)

a. Issues related to the incorporation of Telekomunikacja Polska

Telekomunikacja Polska was established as a result of the transformation of the state-owned organisation Poczta Polska Telegraf i Telefon (“PPTiT”) into two entities – the Polish Post Office and Telekomunikacja Polska. During the transformation process and transfer of ownership rights to the new entities, certain items of property and other assets that are currently under Telekomunikacja Polska's control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that Telekomunikacja Polska's rights to certain properties may be questioned.

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

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

b. Tax contingent liability

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

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

c. Proceedings by UKE and UOKiK

According to the Telecommunications Act, the President of UKE may impose on a telecommunications operator a penalty of up to a maximum amount of 3% of the operator's prior year's revenue, if the operator does not fulfil certain requirements of the Telecommunications Act. According to the Act on Competition and Consumer Protection, in case of non-compliance with its regulations, the President of the Office of Competition and Consumer Protection ("UOKiK") is empowered to impose on an entity penalties of up to a maximum amount of EUR 50 million for refusal to provide requested information or up to a maximum amount of 10% of an entity's prior year's revenue for a breach of the law.

Proceedings by UKE related to broadband access
On 25 September 2006, UKE imposed a fine of PLN 100 million on TP S.A. for the infringement of the obligation to determine the price of the services on the basis of the cost of their provision and on clear, objective and non-discriminatory criteria, as a result of not implementing the offer to sell Neostrada (Internet services) separately from the fixed line subscription.
On 22 February 2007, after TP S.A. had separated providing Neostrada from fixed line telephony services, UKE imposed a fine of PLN 339 million on TP S.A. for non-performance of the regulatory obligation to submit its Neostrada price list for UKE's approval, and for failing to demonstrate that TP S.A. had met the requirements of the Polish Telecommunication Law that the price of services be based on their cost and determined on clear, objective and non-discriminatory criteria.
TP S.A. did not pay either of these fines and appealed against these decisions to the Court of Competition and Consumer Protection ("SOKiK").
In 2010 the European Court of Justice ruled that by regulating retail tariffs for broadband access services without carrying out a prior market analysis, Poland had failed to fulfil its obligations under the Universal Service Directive in conjunction with the Framework Directive.
On 18 April 2011, SOKiK overruled the UKE's decision imposing the fine of PLN 339 million. UKE appealed against the SOKiK verdict to the Court of Appeal on 6 June 2011 and, on 3 February 2012, the Court dismissed the appeal. On 4 July 2012, the Court of Appeal confirmed the verdict of SOKiK of 12 July 2011 that annulled the PLN 100 million fine. Therefore verdicts of SOKiK annulling both fines are binding. UKE lodged an appeal in cassation to the Supreme Court in both cases.

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

As at 31 December 2012, the Company recognised provisions for known and quantifiable risks related to proceedings against the Company initiated by UKE and UOKiK, which represent the Company’s best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed, as in the opinion of the Company’s Management such disclosure could prejudice the outcome of the pending cases.

d. Proceedings by the European Commission related to broadband access

In September 2008, the European Commission conducted an inspection at the premises of TP S.A. and PTK-Centertel. The aim of the inspection was to gather evidence of a possible breach by TP S.A. of competition rules on the broadband Internet market. On 17 April 2009, the European Commission notified TP S.A. of initiation of proceedings on the supposed refusal to provide services and non-price discrimination on the Polish wholesale market of broadband access to the Internet. On 1 March 2010, TP S.A. received a Statement of Objections from the European Commission regarding an alleged abuse of dominant position, by refusing to supply access to its wholesale broadband services. The Company responded to the Statement of Objections and provided the European Commission with requested information. TP S.A. received from the European Commission the letter of facts dated 28 January 2011 presenting evidence collected after the issue of the Statement of Objections as well as findings of the European Commission. TP S.A. responded to the letter of facts on 7 March 2011.

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

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

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

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

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

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

e. Dispute with DPTG

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

f. Other contingent liabilities and provisions

Apart from the above mentioned, operational activities of the 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. The Company believes that adequate provisions have been recorded for known and quantifiable risks.

26. Related party transactions

26.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

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

[1] Gross salaries, bonuses and non-monetary benefits.

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

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

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

[1] From the date of appointment.

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

(in PLN thousands)	*12 months ended 31 December 2012*		*12 months ended 31 December 2011*	
	Paid	*Accrued but not paid*	*Paid*	*Accrued but not paid*
Roland Dubois	-	-	1,718[1]	-
Total	**-**	**-**	**1,718**	**-**

[1] Includes remuneration and bonuses until the termination date, compensation and termination indemnities.

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

Supervisory Board compensation was as follows:

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

[1] Persons that were not members of the Supervisory Board of the Company as at 31 December 2012 but were members of the Supervisory Board of TP S.A. in 2012 or previous periods.
[2] Persons appointed to the Supervisory Board of the Company employed by France Telecom S.A. do not receive remuneration for the function performed.

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

In the years ended 31 December 2012 and 2011, TP S.A. did not enter into any significant transactions with members of the Management Board or the Supervisory Board or their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections and did not grant them any loans, advances or guarantees.

In the years ended 31 December 2012 and 2011, TP S.A. did not enter into any significant transactions with companies which were controlled or jointly controlled by the members of the TP S.A.'s Management Board or the Supervisory Board or their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections.

26.2. Related party transactions

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

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, costs of interconnect, leased lines, network services, consulting services and property rental and related fees. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

Income earned from France Telecom Group comprises mainly research and development services, interconnect, data transmission and reimbursement of rebranding expenditures. The purchases from the France Telecom Group

comprise mainly costs of leased lines, interconnect, network services, IT services, consulting services and brand fees.

TP S.A.'s financial income earned from its subsidiaries comprises dividends from subsidiaries, including a dividend paid by PTK-Centertel Sp. z o.o. in the amount of PLN 1,378 million in year 2012 and PLN 862 million in year 2011. The financial income also comprises interest on bonds issued by subsidiaries and interest on loans granted to subsidiaries. Financial costs incurred by TP S.A. in transactions with related parties mainly comprise interest on bonds issued to 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 25.e). The Company's financial receivables from its subsidiaries mainly comprise bonds issued by subsidiaries 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)	*12 months ended 31 December 2012*	*12 months ended 31 December 2011*
Sales of goods and services to:	**1,448**	**1,241**
TP Group	1,132	1,063
- TP Group (subsidiaries)	1,122	1,059
- TP Group's joint ventures (NetWorkS! Sp. z o.o.)	10	4
France Telecom Group	316	178
- France Telecom S.A. (parent)	127	134
- France Telecom (group excluding parent)	189	44
Purchases of goods (including inventories, tangible and intangible assets) and services from:	**1,384**	**1,539**
TP Group (subsidiaries)	1,222	1,367
France Telecom Group	162	172
- France Telecom S.A. (parent)	77	84
- France Telecom (group excluding parent)	85	88
- *including Orange Brand Services Limited (brand licence agreement)*	*29*	-
Financial income:	**2,040**	**1,262**
TP Group (subsidiaries)	2,040	1,262
Financial expense:	**509**	**566**
TP Group (subsidiaries)	508	566
France Telecom Group (parent)	1	-
Dividends paid:	**997**	**997**
France Telecom S.A. (parent)	997	997

On 24 July 2008, TP S.A., France Telecom S.A. and Orange Brand Services Limited (UK) (hereinafter referred to as "Orange") concluded a licence agreement under which TP S.A. acquired rights to operate under the Orange brand. The brand licence agreement provides that Orange receives a fee of up to 1.6% of the Company's operating revenue earned under the Orange brand. The agreement was concluded for 10 years with the possibility of renewal. TP S.A. introduced Orange as its brand in 2012.

(in PLN millions)	*At 31 December 2012*	*At 31 December 2011*
Receivables from:	**299**	**318**
TP Group	242	210
- TP Group (subsidiaries)	240	206
- TP Group's joint ventures (NetWorkS! Sp. z o.o.)	2	4
France Telecom Group	57	108
- France Telecom S.A. (parent)	41	102
- France Telecom (group excluding parent)	16	6
Financial receivables from:	**2,923**	**3,155**
TP Group	2,923	3,155
- TP Group (subsidiaries)	2,917	3,155
- TP Group's joint ventures (NetWorkS! Sp. z o.o.)	6	-
Payables to:	**335**	**383**
TP Group (subsidiaries)	268	262
France Telecom Group	67	121
- France Telecom S.A. (parent)	36	98
- France Telecom (group excluding parent)	31	23
Financial payables to:	**7,169**	**7,801**
TP Group (subsidiaries)	7,169	7,801

Additionally, when considering the Company as a lessor, future minimum lease payments under non-cancellable operating leases concluded with subsidiaries amounted to PLN 33 million as at 31 December 2012 and PLN 53 million as at 31 December 2011.

27. Subsequent events

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

28. Significant accounting policies

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

28.1. Use of estimates

In preparing the Company's accounts, the Company's management is required to make estimates, insofar as many elements included in the financial statements cannot be measured with precision. Management reviews these estimates if the circumstances on which they were based evolve, or in the light of new information or experience. Consequently, estimates made as at 31 December 2012 may be subsequently changed. The main estimates made are described in the following notes:

Note		*Type of information disclosed*
6, 28.15	Impairment of cash generating units and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
16.2, 28.16	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
22, 28.18	Income tax	Assumptions used for recognition of deferred tax assets.
12, 28.20	Employee benefits	Discount rates, salary increases, expected average remaining working lives.
18, 19, 28.16	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
10, 25, 28.19	Provisions	Provisions for employment termination expenses: discount rates and other assumptions. The assumptions underlying the measurement of provisions for claims and litigation.
28.12, 28.13	Useful lives of tangible and intangible assets	The useful lives and the amortisation method.
10	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
3, 28.8	Revenue	Allocation of revenue between each separable component of a packaged offer based on its relative fair value. Straight-line recognition of revenue relating to service access fees. Reporting revenue on a net versus gross basis (analysis of Company's involvement acting as principal versus agent).
28.17	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

28.2. Use of judgments

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

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

28.3. Application of new standards, amendments and interpretations

<u>Adoption of standards, amendments to standards and interpretations in 2012</u>

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

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

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

<u>Standards and interpretations issued but not yet adopted</u>

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

- IFRS 9 "Financial Instruments" applicable for financial years beginning on or after 1 January 2015. This standard has not been endorsed by the European Union;
- IFRS 10 "Consolidated Financial Statements". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014;
- Amendments to IAS 27 "Separate financial statements". These amendments have been endorsed by the European Union and they are applicable for financial years beginning on or after 1 January 2014;

- Amendments to IAS 28 "Investments in associates and joint ventures". These amendments have been endorsed by the European Union and they are applicable for financial years beginning on or after 1 January 2014;
- IFRS 11 "Joint Arrangements". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014;
- IFRS 12 "Disclosure of Interests in Other Entities". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2014;
- IFRS 13 "Fair Value Measurement". This standard has been endorsed by the European Union and it is applicable for financial years beginning on or after 1 January 2013;
- Amendments to IAS 19 "Employee Benefits". These amendments have been endorsed by the European Union and they are applicable for financial years beginning on or after 1 January 2013.

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

28.4. Accounting positions adopted by the Company in accordance with paragraphs 10 to 12 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

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

Multiple-elements arrangements

When accounting for multiple-elements arrangements (bundled offers) the Company has adopted the provisions of Generally Accepted Accounting Principles in the United States, Accounting Standards Codification 605-25 „Revenue Recognition – Multiple Element Agreements" (see Note 28.8 *Separable components of packaged and bundled offers*).

28.5. Options available under IFRSs and used by the Company

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

Standards		*Option used*
IAS 2	Inventories	Recognition of inventories at their original cost determined by the weighted average unit cost method.
IAS 16	Property, plant and equipment	Property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.
IAS 19	Employee benefits	Actuarial gains and losses on post-employment benefits are recognised immediately in their total amount in the other comprehensive income, with no recycling to the income statement.
IAS 20	Government grants and disclosure of government assistance	Non-repayable government grants related to assets decrease the carrying amount of the assets. Government grants related to income are deducted from the related expenses.
IAS 27	Consolidated and separate financial statements	Investments in subsidiaries and associates are accounted at cost.
IAS 38	Intangible assets	Intangible assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

28.6. Presentation of the financial statements

<u>Presentation of the statement of financial position</u>

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

<u>Presentation of the income statement</u>

As allowed by IAS 1 "Presentation of financial statements" expenses are presented by nature in the income statement.

Earnings per share

The net income per share for each period is calculated by dividing the net income for the period by the weighted average number of shares outstanding during that period. The weighted average number of shares outstanding is after taking account of treasury shares and, if applicable, the dilutive effect of the pre-emption rights attached to the bonds issued under TP S.A. incentive programme (see Note 23.4).

28.7. Effect of changes in foreign exchange rates

The functional currency of Telekomunikacja Polska is the Polish zloty.

Transactions in foreign currencies

Transactions in foreign currencies are converted into Polish zloty at the spot exchange rate prevailing as at the transaction date. Monetary assets and liabilities which are denominated in foreign currencies are remeasured at the end of the reporting period using the period-end exchange rate quoted by NBP and the resulting translation differences are recorded in the income statement:

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

28.8. Revenue

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

Separable components of packaged and bundled offers

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

For offers that cannot be separated into identifiable components, revenues are recognised in full over the life of the contract. The main example is connection to the service: this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognised over the average expected life of the contractual relationship.

Equipment sales

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

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

Equipment leases

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

Revenues from the sale or supply of content

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

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

Service revenue

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

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

Revenue from the sale of phone cards is recognised when they are used or expire.

Promotional offers

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

Loyalty programs

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

Points awarded to customers are treated as a separable component to be delivered out of the transaction that triggered the acquisition of the points. Part of the invoiced revenue is allocated to these points based on their fair value and deferred.
The Company participates in a loyalty program operated by a third party. A third party supplies the awards and the Company is collecting the consideration on behalf of a third party. Revenue is measured as a net amount retained on the Company’s own account and is recognised when the third party becomes obliged to supply the awards and is entitled to receive consideration for doing so.

Loyalty program that exists in the Company is without a contract renewal obligation.

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

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

28.9. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs, other than loyalty program costs (see Note 28.8), are recognised as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred.

28.10. Borrowing costs

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

28.11. Share issuance costs and treasury shares

If the Company purchases its own equity instruments, the consideration paid, including directly attributable incremental costs, is deducted from equity attributable to the Company equity holders and presented in the statement of financial position separately under "Treasury shares" until the shares are cancelled or reissued. Treasury shares are recognised using settlement date accounting.

28.12. Intangible assets

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

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

Research and development costs

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

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

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

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

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

Software

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

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

28.13. Property, plant and equipment

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

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

The cost of networks includes design and construction costs, as well as capacity improvement costs. The total cost of an asset is allocated among its different components and each component is accounted for separately when the

components have different useful lives or when the pattern in which their future economic benefits are expected to be consumed by the entity varies. Depreciation is established for each component accordingly.

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

Investment grants

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

Finance leases

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

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

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

Derecognition

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

Depreciation

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

Buildings	10 to 30 years
Network	2 to 30 years
Terminals	2 to 10 years
IT equipment for corporate purposes	3 to 5 years
Other	2 to 10 years

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

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

28.14. Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. Those assets are available for immediate sale in their

present condition subject only to terms that are usual and customary for sales of such assets and the sale is highly probable.

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

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

28.15. Impairment of non-current assets

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

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

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

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

28.16. Financial assets and liabilities

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

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

Except for investments in subsidiaries and associates which are accounted for at cost as allowed in IAS 27 “Consolidated and Separate Financial Statements”, financial assets and liabilities are recognised and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Recognition and measurement of financial assets

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

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

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

Dividends earned on investments in subsidiaries and assets available for sale are recognised in the income statement when the right of payment has been established.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables, cash and cash equivalents, bonds purchased from and loans granted to the Company's subsidiaries and other loans and receivables. They are carried in the statement of financial position under: "Loans and receivables excluding trade receivables", "Trade receivables" and "Cash and cash equivalents".

Cash and cash equivalents consist of cash in bank and on hand and highly-liquid instruments that are readily convertible into known amounts of cash and are subject to insignificant changes in value.

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

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

Trade receivables that are homogenous and share similar credit risk characteristics are tested for impairment collectively. When estimating the expected credit risk the Company uses historical data as a measure for a decrease in the estimated future cash flows from the group of assets since the initial recognition. In calculating the recoverable amount of receivables that are individually material and not homogenous, significant financial difficulties of the debtor or probability that the debtor will enter bankruptcy or financial reorganisation are taken into account.

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

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

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

Recognition and measurement of financial liabilities

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

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

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

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include derivatives that do not qualify for hedge accounting as set out in IAS 39 and are measured at fair value.

Recognition and measurement of derivative instruments

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

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

respectively, depending on the nature of the underlying transaction. The foreign exchange component of other derivatives held for trading is presented under foreign exchange gains or losses within finance costs.

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

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

The effects of applying hedge accounting are as follows:

- for fair value hedges of existing assets and liabilities, the change in fair value of the hedged portion of the asset or liability attributable to the hedged risk adjusts the carrying amount of the asset or liability in the statement of financial position. The gain or loss from the changes in fair value of the hedged item is recognised in profit or loss and is offset by the effective portion of the loss or gain from re-measuring the hedging instrument at fair value. The adjustment to the hedged item is amortised starting from the date when a hedged item ceases to be adjusted by a change in fair value of the hedged portion of liability attributable to the risk hedged,
- for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. Amounts recognised directly in other comprehensive income are subsequently recognised in profit or loss in the same period or periods during which the hedged item affects profit or loss. If a hedge of a forecast transaction results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability.

28.17. Inventories

Inventories are stated at the lower of cost and net realisable value. The Company provides for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans.

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

28.18. Income tax

The tax expense comprises current and deferred tax.

Current tax

The current income tax charge is determined in accordance with the relevant tax law regulations in respect of the taxable profit. Income tax payable represents the amounts payable at the end of the reporting period.

Deferred taxes

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. Deferred tax assets are recognised only when their recovery is considered probable. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit nor loss.

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

28.19. Provisions

A provision is recognised when the Company has a present obligation towards a third party, which amount can be reliably estimated and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Company's actions.

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

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

Provisions for dismantling and restoring sites

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

28.20. Pensions and other employee benefits

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

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

Actuarial gains and losses on jubilee awards plans are recognised as income or expense when they occur. Actuarial gains and losses on post-employment benefits are recognised immediately in their total amount in the other comprehensive income, with no recycling to the income statement. The present value of the defined benefit obligations is verified at least annually by an independent actuary. Demographic and attrition profiles are based on historical data.

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

28.21. Share-based payments

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

France Telecom S.A. operated its own equity-settled, share-based compensation plan under which employees of the Company rendered services to the Company as consideration for equity instruments of France Telecom S.A. In accordance with IFRS 2 "Share-based Payment", the fair value of the employee services received in exchange

for the grant of the equity instruments of France Telecom S.A. was recognised in these Separate Financial Statements as an expense with a corresponding increase in equity, over the period in which the service conditions were fulfilled (vesting period).

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

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

Management Board's Report on the Activity of

TELEKOMUNIKACJA POLSKA S.A.

in 2012

11 February 2013

This report on the activity of Telekomunikacja Polska S.A. (“TP S.A.”, “the Company” or “the Parent Company”) in 2012 has been drawn up in compliance with Article 91 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2009 No. 33, item 259, as amended).

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CHAPTER I
HIGHLIGHTS OF THE FINANCIAL STATEMENTS

as of 31 December 2012 and for the twelve-month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

	For 12 months ended				
	31 December 2012		31 December 2011		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Income Statement					
Revenue	7,427	1,780	7,840	1,894	-5.3%
EBITDA	2,478	594	3,335*	806	-25.7%
EBITDA margin	*33.4%*		*42.5%*		-9.1 pp
Operating income	208	50	995	240	-79.1%
Operating margin	*2.8%*		*12.7%*		-9.9 pp
Net income after tax	1,184	284	1,951	471	-39.3%
*Weighted average number of shares (in millions)***	*1,316*		*1,334*		*-1.3%*
Earnings per share (in PLN) (basic and diluted)	*0.90*	*0.22*	*1.46*	*0.35*	*-38.4%*
Statement of Cash Flows					
Net cash provided by operating activities	1,334	320	3,329	804	-59.9%
Net cash used in investing activities, including	(1,980)	(474)	(85)	(21)	N/A
Capital expenditures (on the accrual basis)	(1,565)	(375)	(1,939)	(468)	-19.3%
Net cash used in financing activities	(1,710)	(410)	(2,925)	(707)	-41.5%
Net change in cash and cash equivalents	(2,356)	(565)	319	77	N/A

	As of				
	31 December 2012		31 December 2011		Change
Statement of Financial Position	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Cash and cash equivalents	223	55	2,584	585	-91.4%
Intangible assets	1,499	367	1,396	316	7.4%
Property, plant and equipment	11,275	2,758	12,100	2,740	-6.8%
Total assets	24,564	6,009	28,477	6,447	-13.7%
Financial liabilities at amortised costs, of which:	9,369	2,292	9,517	2,155	-1.6%
Current	3,951	966	2,566	581	54.0%
Non-current	5,418	1,325	6,951	1,574	-22.1%
Other liabilities, current and non-current	3,590	878	6,321	1,431	-43.2%
Total equity	11,605	2,839	12,639	2,862	-8.2%

Notes on data conversion:

1 – PLN/EUR fx rate of 4.1736 applied

2 – PLN/EUR fx rate of 4.1401 applied

3 – PLN/EUR fx rate of 4.0882 applied

4 – PLN/EUR fx rate of 4.4168 applied

** Including proceeds from sale of TP Emitel*

*** Weighted average number of shares in 12 months ended 31 December 2012 and 2011, respectively*

1.1 Comments to the Income Statement Items

In 2012, TP S.A.'s revenue amounted to PLN 7,427 million and was lower by PLN 413 million as compared to 2011.

Operating income before depreciation and amortisation expense and impairment of non-current assets (EBITDA) amounted to PLN 2,478 million in 2012 and was lower by PLN 857 million as compared to 2011.

Operating income (EBIT) amounted to PLN 208 million in 2012 and was lower by PLN 787 million as compared to 2011.

In particular, year-on-year, in 2012:

- Commercial expenses were higher by PLN 23 million;
- Network and IT costs increased by PLN 49 million;
- Interconnect expenses decreased by PLN 94 million;

- Labour expenses were higher by PLN 48 million;
- Other operating expenses were lower by PLN 638 million (of which PLN 458 million resulted from an increase in provision for penalty imposed by the European Commission in 2011);
- Other operating income increased by PLN 54 million;
- Gain on disposal of assets was lower by PLN 1,242 million (of which PLN 1,251 related to gain on disposal of a subsidiary TP Emitel in 2011);
- Depreciation and amortisation decreased by PLN 74 million;

Net financial charges, before dividends from subsidiaries (PLN 1,767 million in 2012 as compared to PLN 962 million in 2011), amounted to PLN 666 million in 2012 and were PLN 313 million higher than in 2011, mainly due to PLN 63 million of net foreign exchange losses in 2012 (in comparison to PLN 104 million of net foreign exchange gains in 2011) and a decrease of PLN 94 million in interest income.

TP's net income (after dividends from subsidiaries) for the reported period amounted to PLN 1,184 million, which is a decrease of PLN 767 million compared with 2011. Earnings per share (after dividends from subsidiaries) decreased from PLN 1.46 to PLN 0.90.

1.2 Comments to the Cash Flow Statement Items

Net cash from operating activities totalled PLN 1,334 million and was lower by PLN 1,995 million year-on-year, mainly due to negative impact of settlement agreement with DPTG resulting in a payment of EUR 550 million (PLN 2,449 million) which was partially offset by a PLN 744 million increase in dividends received.

Net cash used in investing activities amounted to PLN 1,980 million in 2012 and was higher by PLN 1,895 million compared to 2011. The increase was attributable mainly to lower by PLN 1,716 million inflows related to cash received from investments in subsidiaries.

Net cash used in financing activities totalled PLN 1,710 million in 2012 and by PLN 1,215 million lower than in 2011, mainly due to an increase of PLN 410 million in short-term debt and redemption of bonds amounted to PLN 1,189 in 2011.

1.2.1 Capital Expenditures (CAPEX)

TP S.A.'s capital expenditures in 2012 totalled PLN 1,565 million in 2012 and was PLN 374 million lower than in 2011.

In 2012, TP S.A. invested mainly in the following areas:

- development of the broadband internet access network, which also enables provision of television services, as well as related purchases of subscriber terminals (carried out pursuant to the Memorandum of Understanding with UKE of 2009 and in public–private partnership schemes);
- further development of the fibre-optic network and transmission equipment in order to launch new backbone and access lines as well as further development of the IP new generation network to improve quality and increase speed of broadband transmission services;
- investment projects related to the portfolio development, sales and customer service as well as the modernisation and enhancement of the IT technical infrastructure;
- development of a new TV platform offering a package of high-quality TV channels in the broadband or satellite technology;
- implementation of investment projects related to the development of the Wirtualna Polska portal and on-line content;
- research and development.

1.3 Comments to the Statement of Financial Position Items

As at 31 December 2012, total equity amounted to PLN 11,605 million and was PLN 1,034 million lower than year before. The change is attributed mainly to the dividend payment of PLN 1,969 millions and purchase of own shares amounted to PLN 200 million, which were offset by net income (PLN 1,184 million) generated in 2012.

Property, plant, equipment and intangible assets decreased by PLN 722 million year-on-year, mainly as a result of amortisation and depreciation charge (PLN 2,250 million), which was partially offset by capital expenditures amounted to PLN 1,565 millions.

Total assets decreased by PLN 3,913 million in the reported period. The change resulted mainly from the aforementioned decrease of PLN 722 million in property, plant and equipment and intangible assets, a decrease of PLN 292 million in loans and receivables excluding trade receivables and a decrease of PLN 2,361 million in cash and cash equivalents.

Total non-current and current liabilities decreased by PLN 2,879 million to PLN 12,959 million as at 31 December 2012. The primary factors that contributed to the change included a decrease of PLN 2,207 million in provisions (mainly due to DPTG settlement) and a decrease of PLN 796 million in trade payables, which were offset by an increase of PLN 277 million in derivatives.

1.4 Related Parties Transactions

Please see Note 26 to the IFRS Financial Statements for information about TP S.A.'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 in the TP S.A. vs. DPTG dispute (described in TP S.A.'s financial statements and current reports). This compromise ends a dispute lasting from 2001 in relation to a contract signed in 1991.

According to the settlement, TP S.A. will pay DPTG a total of €550 mn (approx. PLN 2,449 mn) and DPTG will without any delay withdraw 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 27 to the IFRS Financial Statements for information on subsequent events.

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

Please see Note 25.d to the IFRS Financial Statements for information about the loan or borrowing collaterals or guarantees provided by the issuer or its subsidiaries.

1.8 Management of Financial Resources and Liquidity of TP S.A.

In 2012, TP S.A. financed its activities mostly by cash generated from operating activities, as well as by funds raised from loans and in bond issues in previous years.

In 2012, TP S.A. repaid long-term debt of bank loans totalling PLN 638 million.

Additional funds were raised by using a loan of PLN 1,740 million, which was available under a syndicated revolving loan agreement. Repayments of these financial instruments totalled PLN 600 million in the reported period.

As of 31 December 2012, TP S.A.'s financial liabilities totalled PLN 9,369 million (before derivatives), which is a decrease of PLN 148 million compared to 31 December 2011.

TP S.A.'s liquidity remained solid, owing to cash position, amounting to PLN 223 million at 31 December 2012, and available credit facilities totalling the equivalent of PLN 2.495 million (please see section 1.8.3 below for details).

Based on available cash, back-up and revolving credit facilities, as well as external sources of financing, TP S.A. has sufficient funds to carry out its investment projects, including capital investments, scheduled for implementation in 2013.

1.8.1 Bonds

TP S.A. did not issue any external long-term debt notes in the reported period.

As part of liquidity management, in 2012 TP S.A. issued and redeemed short-term bonds acquired by Group companies in a programme, which was set up in 2002 and totals PLN 2,500 million. As at the end of 2012, TP S.A.'s liabilities on the account of outstanding bonds in the programme decreased by PLN 64 million (compared to 31 December 2011).

1.8.2 Loan and Borrowings Agreements

In 2012, TP S.A. concluded the following loan financing agreements:

- On 12 January 2012, an agreement with France Telecom SA for short-term financing of up to €550 million to facilitate the DPTG settlement (which was subsequently fully repaid on 18 January 2012);
- Two current account overdraft agreements with RBS Bank (Polska) S.A. for PLN 62 million each. The agreements provided an overdraft facility in two periods: 12 January 2012 to 29 June 2012 and 2 July 2012 to 28 December 2012, respectively.

In 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).

Please see Notes 15.2, 15.3 and 16.2 to the IFRS Financial Statements for the detailed information on all bank loans (including their maturity dates) and guarantees granted.

1.8.3 Unused Credit Facilities

As of 31 December 2012, TP S.A. had outstanding general-purpose credit facilities amounting to an equivalent of PLN 2,495 million, specifically EUR 400 million and PLN 860 million.

1.8.4 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 31 December 2012 was met.

1.8.5 Guarantees and Collaterals

In the reported period, TP S.A. requested banks to issue banker's guarantees with respect to liabilities of TP Teltech Sp. z o.o., a TP S.A.'s wholly-owned subsidiary, towards its business partners, while TP S.A. promised to cover any claims related to payments under the guarantee. As of 31 December 2012, those guarantees totalled PLN 6 million.

1.8.6 Ratings

The ratings at the end of December 2012 were as follows:

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

1.8.7 Hedging Transactions

Please see Notes 18 and 20 to the IFRS Financial Statements for the detailed information about foreign exchange and interest rate hedging.

1.8.8 TP S.A.'s Financial Liquidity, Net Financial Debt and Status as a Going Concern

At 31 December 2012, TP S.A.'s quick and current ratios decreased as compared to the end of 2011. Lower liquidity of TP S.A. was driven by a decrease of PLN 2,523 million in current assets, including a decrease of PLN 2.361 million in cash, as well as an increase of PLN 651 million in current liabilities (less provisions and deferred income).

The liquidity ratios for TP S.A. at 31 December 2012 and 31 December 2011, respectively, are presented in the table below.

	31 December 2012	31 December 2011
Current ratio Current assets / current liabilities*	0.28	0.81
Quick ratio Total current assets – inventories / current liabilities*	0.27	0.80
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.14	0.63

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

TP S.A.'s net financial debt (after valuation of derivatives) increased to PLN 6,562 million at the end of 2012 (from PLN 3,412 million at the end of 2011).

Please see Note 20.5 to the IFRS Financial Statements for additional information about TP S.A.'s liquidity.

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, and
5. Jacek Kowalski - Board Member

hereby confirms that according to its best knowledge the financial statements and comparable data have been drawn up in compliance with the accounting regulations in force and reflect TP S.A.'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 TP S.A., including the description of major threats and risks.

2.2 Statement on Appointment of the Licensed Auditor of TP S.A.'s Financial Statements

TP S.A. Management Board hereby declares that the licensed auditor of the financial statements has been appointed in compliance with the relevant regulations and that both the auditor and the chartered accountants carrying out the audit meet the requirements to develop an impartial and independent opinion on the audited statements in compliance with the relevant regulations and professional standards.

2.3 Agreement with the Licensed Auditor

On 18 May 2012 and 9 September 2012, TP S.A. concluded agreements with an entity licensed to audit financial statements for auditing and reviewing the standalone financial statements of TP S.A. and the consolidated financial statements of the Telekomunikacja Polska Group ("the Group" or "Orange Polska") for reporting periods of 2012. Based on the agreement, Deloitte Polska Sp. z o.o. Sp. k. has performed the following:

- reviews of the standalone and consolidated financial statements for the first half of 2012;
- the audit of the standalone financial statements of the Company and the consolidated financial statements of the Group for 2012 prepared in accordance with IFRS;
- agreed procedures concerning audit and reviews of standalone and consolidated financial statements in 2012.

The aggregate remuneration (in PLN '000) for auditing and reviewing the above-mentioned financial statements and other services rendered by Deloitte Polska Sp. z o.o. Sp. k. for 2012 is presented below:

	2012
Audit of annual financial statements of the Group, including:	4,406
- Audit of annual financial statements of TP S.A. and the consolidated financial statements of the Group	2,415
- Audit of annual financial statements of subsidiaries*	1,991
Other authentication services to the Group, including:	1,859
- Review of financial statements of TP S.A. and the consolidated financial statements of the Group as of 30 June 2012	1,754
- Other authentication services**	105
Total amount payable by Group	6,265

* *The remuneration for audits of subsidiaries is payable under separate contracts between the auditor and each subsidiary.*
** *Including the remuneration paid to Deloitte Advisory sp. z o.o.*

The aggregate remuneration for auditing and reviewing the above-mentioned financial statements and other services rendered by Deloitte Polska Sp. z o.o. Sp. k. as of 2011 was as follows: PLN 5,674 thousand for audits/reviews of TP S.A.; PLN 111 thousand for audit-related and other services to TP S.A.; and PLN 2,026 thousand for audits of subsidiaries.

2.4 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 its results for 2012.

3 CORPORATE GOVERNANCE STATEMENT

(a) TP S.A.'s corporate governance policy

The Company, as an issuer of securities listed on the Warsaw Stock Exchange (WSE), is obliged to comply with the corporate governance practices set out in the *Code of Best Practice for WSE Listed Companies*, which is available at http://corp-gov.gpw.pl.

(b) Corporate governance compliance

In 2012, the Company complied with the corporate governance best practice referred to above.

Furthermore, referring to the Section I of the *Best Practice*, the Company informs that:

(1) The Company's Supervisory Board and the Remuneration Committee of the Supervisory Board reviewed the recommendations of the European Commission (section I.5) for remuneration of members of supervisory and management bodies and will make such changes as considered appropriate.

(2) One of the Company's priorities is to ensure equal access of women and men to management positions in the Company (section I.9). Therefore, TP S.A. has developed assumptions for a project, which will determine the proportion of employing men and women in managerial posts, as well as a new set of assumptions for the recruitment process. TP S.A. has followed a policy of appointing persons with proper competence, professional experience and expertise to its supervisory and management bodies.

(3) TP S.A. has not made a decision yet on the application of a rule that a company should enable its shareholders to participate in a General Assembly using electronic communication means particularly through real-time bilateral communication, as well as exercise their right to vote during a General Assembly either in person or through a plenipotentiary (sections I.12 and IV.10).

(c) Description of major features of TP S.A.'s internal control and risk management systems with respect to the process of development of standalone and consolidated financial statements (Please see chapter IV for additional information on key risk factors)

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

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

TP S.A. is diligent in its approach to reporting financial results and its ongoing communication with the Polish and international investment community, as well as fulfilling its disclosure obligations. Key managers responsible for the financial, legal, regulatory and internal control functions review financial statements and make comments thereto at the Disclosure Committee. The purpose of the Committee's meetings is to ensure that financial disclosures are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of TP S.A. In 2012, the Disclosure Committee had seven meetings.

The key elements of TP S.A.'s internal control and risk management system include the following procedures:

(1) An internal audit function, which reports directly to the President of the Management Board. The internal audit programme is annually reviewed by the Audit Committee which also analyses Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit, Management Board decisions regarding the appointment and remuneration of the Group Internal Audit Director require, since 2005, an opinion of the Audit and Remuneration Committees. The Group Internal Audit Director attends all meetings of the Audit Committee.

(2) The Company conducts ongoing assessments of the quality of the risk management system and controls. As part of this process, a Risk Map, which enables identification and classification of TP S.A. and the Group's financial and non-financial risks, is maintained.

(3) Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental, financial reporting and operational) effectively on an ongoing basis. It provides a framework for ongoing risk-controlling activities.

In 2012, the Management Board again completed a comprehensive assessment of TP S.A. and the Group's internal controls over financial reporting. Main deficiencies were identified and corrected or appropriate action points have been launched. As a result of the assessment, the Management concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at 31 December 2012.

(d) Indication of shareholders holding, directly or indirectly, significant batches of shares, including the number of shares held, the interest in the Share Capital, the corresponding number of votes and the percentage of the total voting power at the General Assembly

For the information about major shareholders please see section 8.3 below.

(e) Indication of holders of any securities granting special control rights and description of such rights

The Company has not issued any securities granting any special control rights to shareholders or other entities.

(f) Indication of any restrictions concerning the exercise of the voting rights on shares, such as restriction of the voting rights to a certain percentage or number of votes or temporary restriction of the voting rights, or regulations according to which, in conjunction with the Company, the rights on securities are separated from the ownership of securities

The Company has not introduced any specific restrictions concerning the exercise of the voting rights on shares.

(g) Indication of any restrictions concerning transfer of ownership of the securities issued by TP S.A.

The transfer of ownership of the securities issued by the Company is not subject to any restrictions.

(h) Description of procedures for appointment and removal of managing persons and their rights, particularly the right to make decisions regarding the issuance or redemption of shares

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

The powers of the Management Board are detailed in the Management Board by-laws, available at www.orange.pl/inwestorzy.

(i) Description of procedures for amending the Articles of Association or the deed of the company

Any amendment to the Articles of Association requires a resolution of the General Assembly adopted by a majority of the three quarters of votes.

(j) Rules of operation of the General Assembly and its major responsibilities, and description of the shareholders' rights and the way of exercise thereof, particularly the rules resulting from the General Assembly by-laws, if any, unless the information in this respect results directly from mandatory regulations

I. General Assemblies shall be held in Warsaw. The General Assembly shall be valid irrespective of the number of shares represented. According to the adopted by-laws, the General Assembly shall be opened by the Chairman of the Supervisory Board or his deputy, or, in case of their absence, by the President of the Management Board or a person designated by the Management Board. Thereafter, the Chairman shall be elected from among the persons entitled to take part in the General Assembly. After each subsequent

matter on the agenda has been presented the Chairman of the General Assembly shall open a discussion giving floor to speakers in the sequence in which they have declared their willingness to speak. Upon the consent of the General Assembly several items of the agenda may be discussed jointly. The participants may speak only on the matters which have been put on the agenda and are being considered at that moment.

II. Pursuant to the Regulations of the General Assembly of TP S.A., the shareholders have the following rights:

(1) The shareholders may take part in the General Assembly and exercise the right of vote in person or by attorneys-in-fact (other representatives).

(2) Each shareholder has the right to candidature for the Chairman of the General Assembly or to put forward one candidature for the position of the Chairman of the General Assembly to the minutes.

(3) When every point on the agenda is considered each shareholder has the right to one speech of 5 minutes and a reply of 5 minutes.

(4) Each shareholder has the right to ask questions on any matters on the agenda.

(5) The shareholder has the right to object a decision of the Chairman of the General Assembly. The General Assembly shall decide in a resolution whether the decision of the Chairman be upheld or reversed.

(6) Each shareholder has the right to suggest amendments or additions to draft resolutions, which are covered by the agenda of the General Assembly, by the time of closing the discussion over the item on the agenda referring to the draft resolution to which the suggestion is related.

(k) Composition and changes thereof in the last financial year, and description of bodies that manage, supervise or administer TP S.A. and any committees thereof

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

Composition on 1 January 2012 and 31 December 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, Mr. Jerzy Rajski and Mr. Wiesław Rozłucki expired.

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

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

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

Composition on 31 December 2012:

1. Prof. Andrzej K. Koźmiński - Chairman and Independent Board Member
2. Benoit Scheen - Deputy Chairman and Chairman of the Strategy Committee
3. Marc Ricau - Board Member and Secretary
4. Timothy Boatman - Independent Board Member and Chairman of the Audit Committee
5. Dr. Henryka Bochniarz - Independent Board Member
6. Thierry Bonhomme - Board Member
7. Jacques Champeaux - Board Member
8. Dr. Mirosław Gronicki - Independent Board Member
9. Sławomir Lachowski - Independent Board Member
10. Marie-Christine Lambert - Board Member
11. Pierre Louette - Board Member
12. Gérard Ries - Board Member
13. Dr. Wiesław 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 the Committees of the Supervisory Board on 31 December 2012:

The Audit Committee

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

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

The Remuneration Committee

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

The Strategy Committee

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

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

III. Operations of the Management Board

The operations of the Management Board shall be managed by its President, who shall be the superior of all the Company's employees. Meetings of the Management Board are chaired by the President of the Management Board or, in case of his absence, another member of the Management Board designated by the President. Resolutions may be adopted if all members of the Management Board have been duly notified about the meeting. Resolutions of the Management Board shall be adopted by absolute majority

of votes of all appointed members of the Management Board. Individual members of the Management Board shall manage the areas of the Company's operations assigned to them.

The responsibilities and obligations of the Management Board are detailed in the Management Board by-laws, available at www.orange.pl/inwestorzy.

IV. Operations of the Supervisory Board

The work of the Supervisory Board is co-ordinated by the Board Chairman with the assistance of the Board Secretary. The Supervisory Board shall hold a meeting at least once a quarter. The Management Board or a member of the Supervisory Board may demand convening a meeting, specifying a suggested agenda thereof. The Chairman of the Supervisory Board shall call a meeting within two weeks of the receipt of the aforementioned motion. In case the Chairman of the Supervisory Board fails to call a meeting within two weeks, the applicant may call it on his own, specifying the date, place and suggested agenda of the meeting. The Supervisory Board shall adopt resolutions by a simple majority of the votes cast and in the presence of at least half of all members of the Supervisory Board. In case of equal votes, the Chairman of the Supervisory Board shall have the decisive vote.

Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in further paragraphs.

The Supervisory Board by-laws are available at www.orange.pl/inwestorzy.

In particular, the Supervisory Board is responsible for the appointment and remuneration of the members of the Management Board, the appointment of the Company's independent auditors, and the supervision of the Company's business. As part of its supervisory responsibilities, it examines the Company's strategic plan and annual budget, monitors the Company's operating and financial performance, formulates opinions on incurring liabilities that exceed the equivalent of €100,000,000, formulates opinions on disposal of the Company's assets in exceed the equivalent of €100,000,000, evaluates the Management Board's report on the Company's activities and the Management Board's proposals regarding distribution of profits or covering losses. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to TP S.A.'s businesses.

Furthermore, an amendment to the Polish Accounting Act, dated September 29, 1994 was published in 2009 which increased the responsibility of the members of the Supervisory Board in regards to the reliability and fair presentation of the Company's financial reporting.

V. Operations of the Committees of the Supervisory Board

(A) The Audit Committee

The task of the Committee is to advise the Supervisory Board on the proper implementation of budgetary and financial reporting and internal control (including risk management) principles in the Group and to liaise with the auditors of the Group.

The key functions of the Audit Committee include:

1) Monitoring the integrity of the financial information provided by the Company and the Group in particular by reviewing:
    a. The relevance and consistency of the accounting methods used by the Company and the Group, including the criteria for the consolidation of the financial results;
    b. Any changes to accounting standards, policies and practices;
    c. Major areas of financial reporting subject to judgment;
    d. Significant adjustments arising from the audit;
    e. Statements on going concern;
    f. Compliance with the accounting regulations;

2) Reviewing at least annually the Group's system of internal control and risk management systems with a view to ensuring that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed;
3) Reviewing annually the Internal Audit program, including the review of independence of the Internal Audit function, and coordination between the internal and external auditors;
4) Analysing reports of the Group's Internal Audit and major findings of any other internal investigations and responses of the Management Board to them;
5) Making recommendations in relation to the selection and remuneration of the Director of the Internal Audit and on such function's budget;

6) Reviewing and providing an opinion to the Management and/or the Supervisory Board (where applicable) on significant transactions with related parties as defined by the corporate rules;
7) Monitoring the independence and objectivity of the Company's external auditors and presentation of recommendations to the Supervisory Board with regard to selection and remuneration of the Company's auditors, with particular attention being paid to remuneration for additional services;
8) Reviewing the issues giving rise to the resignation of the external auditor;
9) Discussing with the Company's external auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
10) Discussing with the Company's external auditors (in or without the presence of the Company Management Board) any problems or reservations, resulting from the financial statements audit;
11) Reviewing the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
12) Considering any other matter noted by the Audit Committee or the Supervisory Board;
13) Regularly informing the Supervisory Board about all important issues within the Committee's scope of activity;
14) Providing the Supervisory Board with its annual report on the Audit Committee's activity and results.

(B) The Remuneration Committee

The Remuneration Committee's task is to advise the Supervisory Board and Management Board on the general remuneration and nomination policy of the Group, determining the conditions of employment and remuneration (including the setting of objectives) of the Members of Management Board and giving recommendations to the Supervisory Board regarding salaries and the amounts of bonuses for the members of the Management Board.

(C) The Strategy Committee

The tasks of the Strategy Committee include:

(1) giving its opinion and recommendation to the Supervisory Board on the strategic plans put forward by the Management Board and any further suggestions made by the Supervisory Board regarding such strategic plan(s), and in particular on the main strategic options involved; and

(2) consulting on all strategic projects related to the development of the Group, the monitoring of the evolution of industrial partnerships within the Group and projects involving strategic agreements for the Group. It then reports and makes recommendations on each of these projects to the Supervisory Board.

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

(1) strategic agreements, alliances, and technological and industrial co-operation agreements, including aspects of the Group's strategic partnership with France Telecom; and

(2) significant acquisitions and sales of assets.

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

in 2012

4 FIXED LINE SEGMENT

4.1 Financial Performance

In 2012, TP S.A.'s revenue trend slightly improved, with revenue falling by 5.3% as compared with an 7.0% decrease in 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. An additional factor which contributed to the substitution process was the introduction of unlimited offers by mobile operators in 2012. Moreover, customers more and more frequently choose bundled offers in which the traditional fixed voice service is replaced with the VoIP functionality.

As a result of these developments, retail fixed voice customer base declined by 11.2% year-on-year, while its average fixed voice revenue per user dropped by 6.6%.

Broadband services were in a stabilisation phase, which was reflected in broadband revenue growth of 1.2%. This growth was supported mainly by sales of bundled services by TP S.A. and Orange Polska. In addition, data transmission revenue was up in 2012, mainly as a result of growing transit on TP S.A.'s fixed line network.

TP S.A.'s EBITDA margin was down 9.1 percentage points and EBITDA was lower by PLN 857 million year-on-year, mainly due to:

- gains on disposal of TP Emitel, amounting to PLN 1,251 million, which was reported in 2011;
- deterioration of the underlying EBITDA, driven by a decrease in revenue;
- the effect of a provision of PLN 458 million for a fine imposed by the European Commission which was recorded in 2011;
- the effect of a workforce restructuring provision of PLN 152 million which was recorded in 2011.

In order to mitigate the aforementioned downward trends, TP S.A. is focused on restoring the growth of revenues from broadband services, development of bundled offers and further optimisation of its cost base (please see section 7.3 for details).

4.2 Market and Competition

Fixed line penetration rate reached 23.7% of Poland's population at the end of December 2012, as compared to 24.6% 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. The number of WLR lines grew until June 2012, steadily declining thereafter. The volume of services based on local loop unbundling (LLU) stopped growing in 2012.

Broadband Internet Access Market

According to TP S.A.'s internal estimates, the total number of fixed broadband access lines increased by 3.6% in 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 is still used mainly at home and seems to be substitutive to fixed broadband access. The penetration of fixed broadband services in Poland's population had reached 18.6% by the end of December 2012 (compared to 18% at the end of 2011).

It is estimated that the value of the broadband market grew by 6.0% in 2012 (vs. 4.4% in 2011). A higher rate of market growth by value, as compared to both the 2011 growth and the market growth by volume, resulted from an increase in ARPU, which can be attributed to notable growth in popularity of high broadband speeds in 2012. The options of up to 2 Mb/s accounted for only about a third of all broadband lines in Polish households with fixed broadband access, as compared to 60% two years earlier. At the upper end, the share of options of 20 Mb/s or more exceeded 11% of all broadband lines.

Competitive pressure from cable television (CATV) operators has remained strong and their total market share has been steadily growing. It was estimated at 31% by volume (at the end of December 2012) or 29% by value (in the twelve 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. Alternative operators, primarily Netia, still make use of wholesale BSA and LLU based services. The total volume of BSA-based lines declined by 36,000 in 2012, while LLU-based lines were 185,000 at the end of December 2012 (compared to 186,000 a year earlier).

4.3 Fixed Line Voice Services

Fixed line voice services: revenues and key performance indicators

	For 12 months ended		
PLN million	31 December 2012	31 December 2011	Change
Revenues from fixed line services:	4,188	4,750	-11.8%
Subscription and traffic	2,781	3,358	-17.2%
Wholesale revenue incl. interconnect	1,401	1,381	1.4%
Other	6	11	-45.5%
Number of retail fixed lines, '000 (incl. VoIP services, which are the equivalent of subscriber lines)	4,904	5,516	-11.1%

TP S.A.'s retail fixed voice revenues saw further erosion in 2012, resulting mostly from continuous competitive pressure and fixed-to-mobile substitution. These revenues decreased by PLN 577 million (or 17.2%) year-on-year.

In 2012, TP S.A. continued efforts to contain the erosion of its fixed-line subscriber base, further increasing the loyalty of its fixed-line customers mainly through sales of 'doMowy' [home] tariff plans with loyalty agreements.

Towards the end of the third quarter of 2012, TP S.A. launched a new offer of 'Customised Home Plans'. The offer is based on two unlimited tariff plans (enabling unlimited calls for no extra cost either 24 hours/day or in the evening/weekend option) for calls to both domestic and international fixed line networks.

Apart from offers addressed to customers using only fixed line services, TP S.A. 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.

In mid-April 2012, responding to market changes, TP S.A. launched an attractive tariff plan for business customers, which is particularly 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.

Since August 2012, the business portfolio has included a new tariff plan offered for a moderate subscription fee, 'Economical Plan for Business'. In this plan, customers are offered a pool of 30 minutes for local and inter-zone calls.

4.4 Fixed Line Data Services

Fixed line data services: revenues and key performance indicators

	For 12 months ended		
PLN million, unless indicated otherwise	31 December 2012	31 December 2011	Change
Revenues from data services	2,829	2,714	4.2%
of which broadband internet services and TV	1,379	1,363	1.2%
of which data transmission	837	755	10.1%
of which leased lines	612	594	3.0%
of which other	1	2	-50%

Fierce price competition from CATV operators as well as competitive pressure from mobile broadband offers affect TP S.A.'s broadband revenue in Poland. Despite these factors, the number of TP S.A.'s retail broadband lines was up 1% year-on-year. TP S.A.'s broadband revenues increased by PLN 16 million. This was achieved mainly by promoting bundled offers. In addition, data transmission revenue

grew significantly, by 10.1%, mainly as a result of growing transit on TP S.A.'s fixed line network, which was generated by a joint-venture established by PTK Centertel and T-Mobile.

Broadband access market – key indicators:

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

A trend of increasing demand for higher broadband speeds, fuelled by the introduction of new options based on the VDSL technology (40 and 80 Mbps), continued in the market. Simultaneously, the number of speed options of the broadband service was reduced from eight to four by eliminating four low-end options.

In 2012, TP S.A. promoted bundled offers of broadband and digital TV, offered in both IPTV and DTH (satellite digital TV) technologies.

An important development for TP S.A.'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 at least fixed broadband service of TP S.A. 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 *Neostrada* plus one Orange service or PLN 30 in case of subscribing to *Neostrada* plus two Orange services.

An offer which enabled customers to buy a tablet for PLN 1 when signing up for *Neostrada* or FunPack HD and a TV set for PLN 1 when signing up for FunPack HD proved a great success.

In 2012, TP S.A. continued to develop its television service portfolio, particularly in collaboration with the *n* platform. The name of TP S.A.'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.

The Business Package service has been popular among small to medium enterprises. New offers, such as Turbo DSL and *Neostrada* Business, have been added to the broadband portfolio dedicated to business customers.

To facilitate running a professional business and developing an e-business platform, Orange Polska has introduced a new data transmission service, Business VPN, 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.

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 the operations of Orange Polska, including TP.S.A., now or may have such influence in the near future. Apart from this section, the threats and risks that may impact the 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 S.A. was designated as an operator having significant market power (“an SMP operator”) in the relevant retail markets 3 to 7 (according to the European Commission’s recommendation of 2003), namely:

- market for provision of national telephone services on a fixed public telephone network to consumers (market 3/2003);
- market for provision of international telephone services on a fixed public telephone network to consumers (market 4/2003);
- market for provision of national telephone services on a fixed public telephone network to end users, except consumers (market 5/2003);
- market for provision of international telephone services on a fixed public telephone network to end users, except consumers (market 6/2003); and
- market for provision of services of part or whole of the minimum set of leased lines with capacity of up to and including 2 Mb/s (market 7/2003).

With respect to the markets 3/2003 to 7/2003, TP S.A. has an obligation to submit costing results and regulatory accounting statements to an independent audit. TP S.A. 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 3/2003 to 7/2003. There is ban on both underpricing (to restrain competition) and overpricing.

In August 2012, the President of UKE issued new decisions for the markets 1/2003 (retail market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to consumers) and 2/2003 (retail market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to business customers). Compared to the previous decisions, the President of UKE lifted a ban on underpricing (with respect to access services) and overpricing. In addition, TP S.A. does not have to carry out costing and regulatory accounting for these markets any more. However, an obligation to have price lists and service rules approved remains in force.

Pursuant to President of UKE’s decisions, TP S.A. 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.A.’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.A.’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 S.A. 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 S.A. an obligation to provide conditional access. Wholesale pricing is to be cost-based. As a consequence of the decision, on 29 April 2011 the President of UKE declared that the previous SMP decision for TP S.A. 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 S.A. 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 S.A. 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 S.A.), 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 geographical areas (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. In November 2012, the President of UKE notified a draft decision recognising effective competition in the aforementioned 11 geographical areas to the European Commission. The Commission has expressed serious doubts about the draft decision, pointing to out-dated market assessment by the regulator and lack of sufficient evidence to support exclusion of these areas into a separate relevant market.

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 S.A. 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 geographical areas which are not regulated pursuant to the decision for the market 5/2007), TP S.A. 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.

5.2 TP S.A.'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. Please see Note 4.3 to the IFRS Financial Statements for additional information about brand fees.

5.3 EURO 2012 Project

Orange Polska 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 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). In addition to the distribution of ‘n packages’ together with the *Neostrada* + TV offer, the companies included another product line, Orange Free mobile broadband access, to the service portfolio combined with the ‘n platform’ offer. 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 TP S.A.’s Activity in the Area of ICT Services

In 2012, TP S.A. 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 2012, a new non-standard package was added to the portfolio, offering development of a customised offer. Moreover, an additional functionality of 10 GB online backup (embedded in the subscription) was added to all standard packages, so that customers can store, access and manage data in disc space. For an extra fee, the standard capacity of an account can be migrated to 30, 50 or 100 GB. This functionality is also available to customers that use the IT support service. A new element of the portfolio is an option to sign two-year agreements for both IT work post and IT support services.

In the beginning of 2012, a new cheaper option, ‘Remote IT support for computers’, was added to the IT For Business portfolio. This solution is dedicated to companies which do not need on-site visits of technical partners and enables a reduction in the service fee by approx. 50%.

Since October 2012, as part of its IT For Business portfolio, Orange Polska has been offering the ‘IT Work Post for Business’ (tablet) service, which complements the standard offer of lease of laptop or desktop computers combined with technical support. In this option, customers receive a tablet with pre-installed software.

Orange Polska’s customers are offered the latest generation hardware, which is regularly changed in the portfolio. Such changes were effected at the beginning of 2012 and in September.

In the segment of large enterprises, Orange Polska continued to offer and develop dedicated ICT solutions in response to the individual needs of customers. The technological domains of these solutions included LAN networks, IT security, corporate voice communication, unified communication and IT. There was particular focus on Orange datacenter hosted and maintained solutions with Unified Communication as a Service (UCaaS), whose sales launched in 2012, leading the way.

Orange Polska has used a Group company, Integrated Solutions, as a sales channel for these solutions.

Orange Polska expects further development towards commercial solutions managed by Orange Polska personnel in the IT infrastructure domain as well as solutions which increase the IT security of its customers.

5.6 Machine to Machine (M2M)

2012 saw further strengthening of Orange Polska’s position in the M2M market owing to the co-operation with the key suppliers of M2M solutions in all segments of this market in Poland.

In June 2012, Orange Polska launched a new service, M2M Connect Mini, which offers unlimited data transmission (with speed reduction after 500 MB). The service is a response to M2M customers’ needs related to applications which require the transfer of considerable amount of data, e.g. video monitoring.

In the third quarter, the pre-paid M2M No Subscription offer was launched, which enables customers to use SIM M2M cards for 1, 12, 24 or 36 months without the necessity to pay monthly fees or conclude a telecommunication service agreement in writing. As a result, suppliers of M2M end solutions have gained an opportunity to launch services with guaranteed communications for a prolonged period of time without the need to collect monthly fees from users.

5.7 CATV Operators

CATV operators, who hold an aggregate share of approximately 40% in the pay TV market and control 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.

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 has become Poland's second largest CATV operator.

5.8 Infrastructure Development

In the programme of rollout of DSLAM access nodes, by the end of 2012 TP S.A. had achieved the VDSL service availability for over 2,000 sites, which handle over 50% of xDSL users. Currently, over 2.5 million households are within the VDSL service coverage.

At the same time, migration of the aggregation network from ATM to the IP standard continued. As a result, by the end of 2012 over 50% of *Neostrada* and *Internet DSL* customers were handled using access nodes connected via the IP aggregation network.

As part of development of the core infrastructure of the IP network, TP S.A. implemented another new generation trunk router of switching capacity of over 1 Tb/s in 2012. The transfer capacity of TP S.A.'s IP core network increased by over 22%, reaching 385Gb/s.

To ensure the highest quality of the IP traffic generated by the users of its network, TP S.A. increased the total capacity of its international Internet links by 33% to 340Gb/s.

As part of development of the new generation core network based on the optic ROADM technology, which enables lines of speeds of 40 and 100 Gb/s, TP S.A. launched three new reconfigurable optic nodes, increasing their number to 22 and extending the geographical coverage of the ROADM network.

In addition, the infrastructure of the multi-service aggregation network, which expands the coverage of Ethernet-based services, was intensively developed. This enables connecting mobile network base stations of capacity of up to 1 Gb/s (or, in the future, up to 10 Gb/s). 106 new nodes of this network were added in 2012 and the total number of mobile base stations connected through them reached 277.

Furthermore, the capacity of the Content Delivery Network (CDN) was increased by more than 50% in 2012. CDN handles the transfer of VoD and Live TV content as well as multimedia files provided by Poland's largest media groups and Orange Polska for the 'Content Servers' and 'TV Here and There' services.

Owing to distributed infrastructure and location of equipment close to end users, the CDN network makes it possible to reduce costs of development of the capacity of the transmission network and the IP network.

With the launch of the new platform, TP S.A. also introduced a universal STB decoder, which handles both IPTV and DTH (satellite) technology. Thus, customers have gained access to a television service which meets the current expectations of Polish users and offers a modern and ergonomic fully graphical user interface.

5.9 Claims and Disputes, Fines and Proceedings

Please see Note 25 to the IFRS Financial Statements for detailed information about material proceedings and claims against Group companies as well as fines imposed thereon, particularly appellate procedure against a fine imposed by the European Commission.

5.10 Cost Calculation Results

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 S.A. had 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 S.A. had an obligation to prepare regulatory accounting statements for 2011 and submit them to an independent audit.

In performance of its regulatory obligations, TP S.A. submitted a manual for drawing up regulatory statements for 2011 as well as descriptions of service costing for 2013, including changes proposed by TP S.A. 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 issued a decision approving TP S.A.'s service costing description and regulatory reporting manual, which was subsequently supplemented by a decision of 17 July 2012.

On 29 May 2012, the President of UKE called upon Ernst&Young Audit sp. z o.o. to audit TP S.A.'s service costing for 2013 and regulatory accounting statements for 2011. The audit ended on 27 July 2012 with the submission of the audit report together with the auditor's opinion to the President of UKE and TP S.A. According to the audit report, the regulatory accounting statements for 2011 and service costing for 2013 have been developed in compliance with the mandatory regulations as well as the relevant regulatory reporting manual and service costing description approved by the President of UKE.

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.A.'s service costing descriptions for 2011 and regulatory reporting manual for 2009. This decision imposed on TP S.A. an obligation to carry out wholesale service costing on the avoided-cost basis. In TP S.A.'s opinion, the wholesale service costing methodology imposed by UKE is inconsistent with both EU and Polish regulations. On 11 February 2010, TP S.A. 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 S.A. filed a complaint against the aforementioned decision of the President of UKE with the Regional Administrative Court. The Court did not share TP S.A.'s point of view and rejected its complaint on 1 December 2010. On 10 March 2011, TP S.A. filed a cassation appeal against the Regional Administrative Court's ruling with the Supreme Administrative Court. The latter dismissed the appeal in its ruling of 25 September 2012.

Similar court proceedings were initiated in 2009 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.A.'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 S.A. 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 proceedings before the Regional Administrative Court are pending.

5.11 Functional Separation

On 22 October 2009, TP S.A. 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 S.A.

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 S.A. would have a right to appeal from such a potential decision.

On 16 November 2012, the Polish Parliament passed an amendment to the Telecommunication Law, implementing to the Polish law a new package of directives (revised in 2009), which regulates a procedure for the imposition of the functional separation obligation.

On 13 November 2012, the President of UKE decided to discontinue two sets of proceedings initiated on 6 January 2009, which UKE viewed as potentially leading to a functional separation of TP S.A., namely proceedings to designate TP S.A. as an SMP operator in the market for unbundled access to the local loop (equivalent of the market 11 of the European Commission's recommendation on the relevant markets of 2003) and impose the relevant regulatory obligations as well as proceedings to designate TP S.A. as an SMP operator in the bitstream access market (equivalent of the market 12 of the Commission's recommendation of 2003) and impose the relevant regulatory obligations. According to the reasons specified in the decisions, both sets of proceedings were discontinued in the wake of decisions issued for the market 4 and market 5.

5.12 Memorandum of Understanding with UKE

On 22 October 2009, the Presidents of TP S.A. and the Office of Electronic Communications (“UKE”) signed a memorandum of understanding (“MoU”) for the implementation of transparency and non-discrimination procedures in inter-operator relations. Pursuant to MoU, TP S.A. was to implement a number of technical, organisational and process solutions (“Chinese Walls”) to assure non-discrimination with respect to regulated services, that is equal treatment of alternative operators vs. TP S.A.’s retail arm and Group companies. In addition, TP S.A. was to invest in adding or upgrading 1.2 million broadband access lines in both urban and rural areas. The President of UKE declared freezing wholesale rates at the level resulting from the then effective reference offers till the end of 2012.

On 30 January 2012, TP S.A. and the President of UKE agreed to modify the conditions and time schedule of fulfilment of TP S.A.’s investment declaration within the MoU. TP S.A. committed itself to provide 220,000 lines of capacity of at least 30 Mb/s out of the 340,795 broadband lines remaining to be invested pursuant to MoU. As a result of replanning of investment tasks, the time schedule of completion of the aforementioned 220,000 lines was extended and they will be completed until 31 March 2013 unless unfavourable weather conditions cause additional arrangements between the Parties. TP S.A. expects that this modification will not impact the assumed total capital expenditures for the implementation of MoU. The changes allow TP S.A. to invest in attractive speed options and technologies, including VDSL. In addition, TP S.A.’s commitments support the implementation of the European Digital Agenda, that is the objective to provide all Europeans with Internet access of capacity of at least 30 Mb/s by 2020.

In 2012, TP S.A. performed its project obligations and obligations of a permanent nature under MoU according to a schedule adopted together with UKE. 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.A.’s wholesale and retail services. In 2011, a new KPI system was developed in consultation with UKE. In February 2012, the first report based on the new set of KPIs was submitted to UKE. In the subsequent reports submitted to UKE new KPIs were used in parallel to the earlier set of KPIs. Pursuant to a decision of the Steering Committee of 30 October 2012, the old KPI system was discontinued as from 1 October 2012 and replaced with the new one.

In 2012, the Group implemented the functionalities required due to changes in reference offers for regulated wholesale services in the IT solutions which had been developed pursuant to MoU. In addition, works related to anonymisation of information on the source of orders were continued within IT systems.

From the commencement of the MoU implementation to 31 December 2012, TP S.A. constructed and provided infrastructure enabling operation of a total of over 1,026,000 broadband lines. To complete its investment commitments declared in MoU, TP S.A. needs to invest in almost 224,000 lines in the first quarter of 2013, including 214,000 lines of capacity of 30 Mb/s or more.

In October 2012, the required number of lines set in the Appendix 8 to MoU was attained in coverage gap areas. Thus, the MoU objective in this category was achieved.

The proper implementation of MoU is verified by an external auditor on a quarterly basis. Reports on thirteen quarterly audits conducted hitherto have generally confirmed the effective implementation of MoU by TP S.A. In addition, TP S.A. delivered monthly reports to the President of UKE, describing progress in the implementation of MoU. These reports were published by UKE on its website.

5.13 Compensation for Universal Service Costs

In 2012, the Regional Administrative Court rejected TP S.A.’s complaints against the President of UKE’s decision of 6 September 2011 regarding compensation of the net cost deficit for provision of USO for the years 2006, 2007, 2008 and 2009. TP S.A. has filed cassation appeals with the Supreme Administrative Court with respect to the aforementioned rulings of the Regional Administrative Court.

On 30 June 2011, TP S.A. 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 S.A. compensation of PLN 55,1 million. Having reviewed TP S.A.’s request for the re-examination of the case, on 11 April 2012, the President of UKE upheld her decision. On 15 May 2012, TP S.A. filed complaints with the Regional Administrative Court against the President of UKE’s decisions of 11 April 2012 and 10 January 2012. The Court has not decided the case yet.

On 29 June 2012, TP S.A. 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 relevant administrative proceedings are pending.

The compensation is paid pro rata by all the operators (including TP S.A. 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 S.A. 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. All these proceedings are pending.

6 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

6.1 Market Outlook

According to TP S.A.'s estimates, the value of Poland's telecommunication market decreased by 0.6% in 2012. The main factors contributing to the decline were an MTR reduction, the introduction of the SMS networking regulation and a decrease in roaming fees. The market was also negatively affected by the launch of offers with unlimited SMSs/MMSs and calls to all networks. There is still a downward trend in the fixed-line voice segment.

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 mobile segment. Customers are offered higher speeds and data transfer volumes for a lower price, which positively affects the segment growth. Offers based on the LTE technology are growing in importance. No offers with unlimited data transfer have been launched by mobile operators 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. The negative effect of MTR reductions and unlimited offers is expected to accelerate in 2013.

The process of consolidation of the industry slowed down in 2012. The owners of Multimedia Polska have suspended a procedure for selling the company. Also Exatel will not be sold, as PGE has decided to keep this company within its structures. However, a process of privatisation of TK Telekom has started.

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 Orange Polska 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 portfolio, which includes services from outside the core telecommunication sector (multimedia, e-health, e-insurance);
- The ability to build and develop strategic alliances (e.g. with T-Mobile, TVN Group);
- 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.A.'s partners from the France Telecom Group, including close co-operation and R&D experience sharing within the Orange Labs network;
- Experienced workforce and well-developed work assessment and competence development system;
- Largest coverage of telecommunication network in Poland;
- Efficient use of benefits resulting from the Memorandum of Understanding with UKE.
- More predictable regulatory environment

Owing to these strengths, Orange Polska is the sole provider of an integrated offer and value-added services for telecommunication products nationwide. 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

The Group's action plan aims at strengthening its leadership in core market segments and developing new markets and value-added services, while preserving Orange Polska'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 reinforce a leadership position in Group's core markets, by leveraging on the convergence concept in order to maximise the potential of its existing and future customer bases, by providing its customer with convergent products and services, including both fixed and mobile components, offered at attractive prices and delivered via a convergent sales and distribution network;

- To systematically develop infrastructure required to offer cutting-edge technological solutions to customers, support the expected growth of data traffic;
- To continue to develop the offer for business customers in the Information and Communication Technology (ICT) market, particularly through the dedicated company, Integrated Solutions;
- To improve and unify its customer care, in coherence with the convergent service portfolio;
- To develop an even stronger sales network – by leveraging on convergent customer databases and also by developing remote sales channels which increase the offer availability;
- To continue the cost savings and transformation program, aimed at reducing the cost base and increasing operating efficiency;
- To adjust its recurring capital expenditure to the challenging environment, optimising the allocation of capital expenses while acquiring the spectrum needed for the future.

7 TP S.A.'S MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

7.1 Research and Development

TP S.A.'s Research and Development Centre (TP R&D) is a member of the international Orange Labs network, which consists of 15 Orange R&D units and laboratories in 9 countries (France, Spain, UK, Poland, China, Japan, Egypt, Jordan and USA).

Orange Labs provides innovative solutions, tests new services, develops network quality monitoring methods and carries out development and advance work on new technologies and services. In addition, Orange Labs co-operates with other business units within the organisation in the development of network and service development strategy.

Orange Labs actively promote innovation inside and outside Orange Polska. In 2012, in the Innovation Gardens programme, Orange Labs Poland ("OLP") in conjunction with TP S.A.'s business units and suppliers presented 36 prototype or commercial solutions (premières) and carried out 34 major events with the participation of representatives of FT, universities, suppliers and government administration. The Innovation Gardens were attended by a total of 4,672 visitors.

OLP has been involved in developing an innovative image of Orange Polska by participating in a number of Polish and international discussion panels, conferences and presentations as well as by organising or co-organising numerous training workshops.

Orange Labs Poland's Major Achievements in 2012:

- Nomination of OLP as the leader of the 'Dynamic Social Networks' project, which aims at providing competitive solutions for a social network of Orange customers by using the advantage of being a telecom operator (November 2012);
- Making the Colourcall application in Google Play available for Polish customers, particularly people with impaired hearing and/or seeing (October 2012);
- Launch of the 'Charging for Viewing' pilot service developed in conjunction with PTK Centertel, which is addressed to Orange pre-paid and mix customers ();
- Participation in the commercial implementation (testing) of the VDSL2 service in Bahrain (September 2012);
- Implementation, in conjunction with the Allegro Group, of Orange Polska's first business model based on Telco 2.0: www.tablica.pl (September 2012);
- Signing by the National Institute of Telecommunications, Orange Polska, T-Mobile, Polkomtel and Play of the Europe's first Memorandum of Understanding for developing Open Application Programming Interfaces (OPEN API), which crowned year-long efforts of OLP (September 2012);
- Launch of a new functionality in the VAT system (VDSL2 Automatic Tester), which makes automatic another step in the process of installation of VDSL2 for alternative operators (July 2012);
- Contribution to the development and implementation of the T-02 manual on FTTH network development and maintenance (July 2012);
- OLP's first invention was granted patent protection by the European Patent Office (July 2012);
- Launch of the Next Generation Internet Lab in Łódź to work on innovative solutions for customers (June 2012);
- Establishment of Europe's first Huawei Authorized Network Academy ("HANA") pursuant to an agreement between the Warsaw University of Technology, Huawei and Orange Polska. OLP's participation in the development of a research environment for developing LTE-based services (June 2012);
- Providing, in conjunction with TP Teltech, free Internet access (WiFi) in the fan zone at the Balloon Station during Euro 2012: link capacity of 200 Mb/s, simultaneous handling of up to 1,000 Internet users (June 2012);
- Launch of the 'Fibre-optic Line of Knowledge' project with Orange Labs' participation: the project was granted co-financing by the Polish Agency for Enterprise Development (PARP) in the 'HR Solutions of Tomorrow' competition. The grant totals almost PLN 4 million and the project aims at improving access to knowledge within an organisation (June 2012);

- Collaboration in the development, launch and maintenance of the ‘TV Here and There’ service: development of the technical concept of the service based on Orange Polska’s existing systems and the system architecture (encoding + publishing + DRM), as well as development and integration with CDN and E2E testing;
- IPv6 on the Orange network: since the beginning Orange Labs Poland has actively participated in the development of an architecture for *Neostrada*, DSL Internet Access and *Neostrada Business* services based on the IPv6 protocol. In 2012, OLP developed IPv6 technical solutions and tested the equipment used for provision of Internet access services;
- Over the last decade, the Polish Orange Labs has implemented and successfully settled seven international research grant projects under the sixth edition and nine projects under the seventh edition of the EU Framework Program. These projects included ALPHA: a project related to new generation access networks, particularly all types of in-building networks; 4WARD: development of new requirements for new generation network architecture; ONE LAB 2: development of communication technologies in the Open Networking Laboratory model; and NAPA-WINE: research on P2P-TV systems; as well as continuation of TALOS, GEYSERS OCEAN, DEMONS, HEMOLIA, COMMUNE CELTIC / SNIFFER projects till 2014 and the FUSION project till 2015;
- Development of mobile applications, including Eko-Polska, Orange Localiser, Ardoise, Orange Unify, Multimodal Voting and Mood.

Involvement in Standardisation Works:

Owing to OLP’s involvement in the work of standardisation organisations, such as ITU-T, ITU-R ISO/IEC, IEC/CENELEC, IETF, ETSI, MEF, Broadband Forum, TeleManagement Forum, Home Gateway Initiative, W3C and Metro Ethernet Forum, and a number of contributions, Orange Polska could influence the content of telecommunication standards in such areas as cloud computing, people and environment protection against electromagnetic radiation, new generation networks (NGNs), IP, signalling protocols, fibre-optic cables, etc.

Orange Labs Poland played a major role during a meeting of ISO/IEC SC32 in Cracow, managing a new task force for adjustment of standards in the Cloud Computing area.

The BroadBand Forum has successfully completed work on the first ever document submitted by OLP (Document TR-254: *Functionality Tests for Ethernet Based Access Nodes*).

7.2 R&D Co-operation with France Telecom (FT)

Key projects for FT (for which appropriate fee is charged):

Development

- Corporate responsibility over selected network solutions: Huawei Media Gateways, DSL, GPON Access, ZTE IN platforms, IP Routers and IMS Ericsson, NSN, STP and Optical Transmission;
- VDSL2 and FTTH technologies: validation and pilot implementations;
- Seamless Wireless Access (SWA): particularly WiFi and Offload areas;
- LTE: leadership of FT group projects as part of Future of Mobile services;
- CDMA-based projects for Poland and AMEA countries;
- Femtocells;
- Mobile applications: Android, iPhone;
- New TV: platforms and services for Poland;
- Broadband Network Gateway;
- Content Delivery Network;
- Orange Cloud: Funambo platform.

Research

- Cloud computing;
- Rich Communications Suite Architecture;
- Android OS-based Set Top Box;
- Accessibility solutions;
- Participation in standardisation works in 3GPP RAN2;

- Cloud Networking;
- Information Centric Networks;
- Software Defined Networks;
- ‘E2E Security and Dependability’ project: responsibility for ‘Trust Based Security’.

Intended involvement in research

- Dynamic Social Network: OLP has obtained leadership in the FT group in a research project;
- Cloud Platforms;
- Networks Management & Services;
- Digital Society;
- Sustainable Digital World.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

8 CHANGES IN TP S.A.'S STRUCTURE IN 2012

8.1 Changes in the Corporate Structure of TP S.A.

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

8.1.1 TP S.A. Management Board

As of 31 December 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.

For detailed information about the Management Board and Supervisory Board of TP S.A. please see section 3 above.

8.1.2 TP S.A.'s Business Units

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

As of 31 December 2012, TP had 65 business units reporting directly to:

1) President of TP Management Board: 2 business units;

2) Vice President of the Management Board in charge of Marketing and Strategy: 9 business units;

3) Vice President of the Management Board in charge of Operations: 10 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: 11 business units;

7) Executive Officer in charge of Corporate Matters: 6 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.

8.1.3 Orange Polska'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.

8.2 Ownership Changes Effected by TP S.A. in 2012

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

On 27 January 2012, TP S.A. signed a sale agreement with Warsaw-based Comp S.A. for all 24,000 shares held by TP S.A. 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.

8.2.2. Acquisition of Orange Customer Service sp. z o.o. by TP S.A.

On 7 September 2012, TP S.A. purchased 100% shares of Orange Customer Service sp. z o.o. from TP INVEST sp. z o.o., a wholly-owned subsidiary of TP S.A. Pursuant to the agreement, 400 shares in the share capital of Orange Customer Service sp. z o.o. were acquired by TP S.A.

8.2.3. Sale of Shares of EXATEL S.A. outside the Group

On 14 December 2012, TP S.A. signed a sale agreement with Polska Grupa Energetyczna (PGE) for 64,975 shares held in EXATEL S.A.

8.2.4. Changes of Equity in TP.S.A.'s Subsidiaries

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.

OPCO sp. z o.o.

On 13 September 2012, the Extraordinary General Assembly adopted a resolution on decreasing the share capital of OPCO sp. z o.o. from PLN 10,000,000 to PLN 3,000,000, i.e. by PLN 7,000,000, through redemption of 7,000 shares of the nominal value of PLN 1,000 each and the total nominal value of PLN 7,000,000. 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.

TP INVEST sp. z o.o.

On 13 September 2012, the Extraordinary General Assembly adopted a resolution on decreasing the share capital of TP INVEST sp. z o.o. from PLN 71,676,000 to PLN 20,000,000, i.e. by PLN 51,676,000, through redemption of 51,676 shares of the nominal value of PLN 1,000 each and the total nominal value of PLN 51,676,000. 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.

TP Edukacja i Wypoczynek sp. z o.o.

On 13 September 2012, the Extraordinary General Assembly adopted a resolution on decreasing the share capital of TP Edukacja i Wypoczynek sp. z o.o. from PLN 91,000,000 to PLN 70,000,000, i.e. by PLN 21,000,000, through redemption of 42,000 shares of the nominal value of PLN 500 each and the total nominal value of PLN 21,000,000. 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.

OTWARTY RYNEK ELEKTRONICZNY S.A.

On 13 September 2012, the Extraordinary General Assembly adopted a resolution on decreasing the share capital of OTWARTY RYNEK ELEKTRONICZNY S.A. from PLN 19,333,320 to PLN 14,333,320, i.e. by PLN 5,000,000, through redemption of 5,000,000 shares of the nominal value of PLN 1 each and the total nominal value of PLN 5,000,000. The reduction in the share capital was announced together with a summons on creditors to submit potential objections pursuant to article 456 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.

8.3 TP S.A.'s Shareholders

As of 31 December 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 31 December 2012 was as follows:

Shareholder	Number of shares held	Number of votes at the General Assembly of TP S.A.	Percentage of the total voting power at the General Assembly of TP S.A.	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%
Other shareholders	647,357,480	647,357,480	48.47%	1,942,072,440	48.47%
TP S.A. (treasury shares) (1)	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) Voting rights vested in treasury shares cannot be exercised at the General Assembly of TP S.A.

As of 31 December 2012, France Telecom held a 49.79% stake in the Company. France Telecom has the power to appoint the majority of TP S.A. Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

As of 31 December 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 S.A. 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. On 27 November 2012, in line with the authorisation granted in clause 1.7.a of the Resolution no. 3 of the Extraordinary General Meeting of Telekomunikacja Polska S.A. dated 13 October 2011 on authorisation for the Management Board to buy back the Company’s own shares for the purpose of their redemption, the Management Board of TP S.A. passed a resolution, after receiving a positive opinion of the Supervisory Board, concerning the Program termination.
TP S.A. 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 section 9.2.2 below).

9 TP S.A.'S STRUCTURE AS OF 31 DECEMBER 2012

9.1 Corporate Governance Bodies of TP S.A.

For detailed information about the Management Board and Supervisory Board of TP S.A. please see section 3 above.

9.1.1 TP Shares Held by Persons Who Manage or Supervise TP S.A.

As of 31 December 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 S.A. or related entities' shares as of 31 December 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 31 December 2012 was as follows:

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

The members of the Supervisory Board of TP S.A. do not participate in the Company's incentive program and as at 31 December 2012 held no first option bonds.

9.1.2 Information on the Remuneration of Persons Who Manage or Supervise TP S.A.

For information on the remuneration (including bonus) paid or payable by the Company to the persons appointed to its management and supervisory bodies please see Note 26.1 to the IFRS Financial Statements .

9.1.3 Contracts of Persons Who Manage TP S.A.

Employment contracts of the Members of TP S.A. Management Board include provisions concerning severance pay payable in the case of the contract termination by the Company (and in some cases due to the resignation of a Board Member) and provisions concerning compensation payable for the ban on competing activity after the termination of employment. The severance pay related to the employment contract termination is equal to six monthly salaries. The compensation for restraining from any activity competitive to that of TP S.A. for a period of twelve months after the termination of employment is up to six monthly salaries, calculated as cash equivalent for unused leave (this applies to the Management Board Members who were in charge as of the date of the Financial Statements).

9.1.4 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.

9.2 Workforce

As of 31 December 2012, TP S.A. employed 14,067 people (in full-time equivalents), which is a decrease of 5.3% compared to the end of December 2011.

TP S.A.'s workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2012-2013. Pursuant to the Social Agreement, in 2012 a total of 1,150 employees left TP S.A., 88.5% of which under the voluntary departure programme. Severance pay was paid to 1,047 departing employees and averaged PLN 59.3 thousand per employee in 2012.

The provision for employment termination expenses at TP S.A. after discount and utilisation was PLN 84.9 million as of the end of 2012 and accounted for the continuation of the voluntary departure programme at TP S.A. in 2013.

In 2012, external recruitment in TP S.A. totalled 382 positions. External recruitment was mainly related to sale positions and customer service staff.

9.2.1 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 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.A.'s employees who are covered by the Intragroup Collective Labour Agreement.

The package offered to departing employees in 2012 depended on their seniority in the Group and ranged 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 was increased by additional compensation of PLN 8,000 in 2012. Employees with seniority of 20 years received extra compensation of up to PLN 20,000 per employee.

9.2.2 Incentive Program

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

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

First Option Bonds

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

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

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

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

Size of the Program

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

Size of Individual Award

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

Exercise Period

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

bodies or those companies before the subscription date of B-series shares, all their bonds will be redeemed by way of payment of the nominal value of these bonds.

Issue Price of Shares

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

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

By the end of 2012, a total of 2,666,476 options had been redeemed as a result of the termination of Beneficiaries’ contracts of employment in the cases set out in the Program.

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

CHAPTER IV
KEY RISK FACTORS

10 RISK FACTORS AFFECTING THE ACTIVITIES OF ORANGE POLSKA, INCLUDING TP S.A.

The risks mentioned in this report are not intended to constitute an exhaustive list of all possible risks and uncertainties, which could adversely impact the Group's activities, its results, liquidity or capital resources. The system of internal control and risk management in the Group is designed and implemented by the TP S.A. Management Board. 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 25 to the IFRS Financial Statements for additional information about major outstanding claims and litigations). Our processes are designed to give reasonable, but cannot give absolute assurance that the risks significant to the Group are identified and addressed. There may be risks which are unknown or which are presently judged not to be significant but later prove to be significant. We have included comments on mitigations that are applied to help us manage the risks; however, it is possible that not all of these mitigations will be successful.

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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 reported within the industry. 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 an annual basis. The internal audit plan for each year is developed also taking account of a list of the major risks identified.

10.1 Implementation of the Group's Medium Term Action Plan

The medium-term plan focuses on stabilising the Group's leadership in Poland's telecommunication market, rebalancing 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 S.A. 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.

10.2 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.

Further information on the regulatory risks is set out in Section 11 below.

10.3 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 Group faces competition from not only telecom

companies but also players from outside the industry, such as television or providers of special services (VoIP). 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 organisation, procedures and systems aimed at offering the latest technological developments and improved products and services to its customers. In 2012, the Group continued to introduce further convergent offers like Orange Open which combines multi contract packages of fixed/mobile voice and data services, internet and television. 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.

10.4 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.

10.5 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, Polska Telefonia Komórkowa Centertel sp. z. o.o. 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.

10.6 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 deterioration of the Group'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.

10.7 System security and data protection

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.

10.8 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.

10.9 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.

10.10 Risk Related to Trade Agreements and Strategic Alliances

In order to attain its business objectives and to mitigate the risk in question, the Group attempts to extend its portfolio through trade agreements and strategic alliances that enable it to use products and services of external partners. It is assumed that such bilateral agreements will bring added value to both the 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 S.A.'s. In response, TP S.A.'s 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.

10.11 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.

10.12 Human Resources Risks and Organisation Structure Adjustment

The Group, its managers, continues transforming its internal culture in order to motivate the employees and drive the performance culture and also streamlining the organisation 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 S.A. 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.A.'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.

10.13 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 S.A.. 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.A.’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.A.’s predecessor’s obligations existing at the date of transformation.

10.14 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.

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.

10.15 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 Group 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 or similar 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 S.A. 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 avoid any unlawful materials from being broadcast.

10.16 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.

10.17 Risk of Impairment in Value of Assets

Recoverable amounts of the businesses which support the book value of non-current 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 financial statements of TP S.A. and the Group.

10.18 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 12 below.

11 TELECOMMUNICATIONS SECTOR RISKS

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

11.1 Regulatory Risks

Changes in the regulatory environment combined with increasing competition added to the pressure on the Group's top line in 2012.

TP S.A. 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 S.A. intends to turn to relevant EU institutions whenever it believes that European law is being breached.

11.1.1 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 S.A. would be subject to regulation throughout Poland with no geographical segmentation. In four geographical areas (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, and then, on 28 August 2012, sent recommendations for a change thereof. The Commission questioned lack of obligations of cost-orientation, KPI publication and regulatory accounting as well as non-publication of the terms of FTTH access. The Commission did not object to lack of geographical segmentation. Due to the Commission's objections, the President of UKE withdrew the draft decision from notification. A new analysis of the market 5 to be completed in 2013 has been announced.

11.1.2 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 S.A. 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 S.A. 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 S.A. The Regional Administrative Court rejected the complaint, ruling that the issue of reference offer approval should be rather examined by the Antimonopoly Court. TP S.A. has filed a cassation appeal against the ruling as well as an appeal to the Antimonopoly Court. The Supreme Administrative Court cancelled the Regional Administrative Court's ruling. However, having re-examined the case on 1 December 2012, the Regional Administrative Court rejected TP S.A.'s complaint. The Antimonopoly 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.A.'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.A.'s requests for SRO changes concern the following:

- LLU service – change resulting from an obligation imposed on TP S.A. in the market 4/2007 (new public consultation was launched on 11 December 2012);
- BSA service – change resulting from an obligation imposed on TP S.A. in the market 5/2007 (new public consultation was launched on 11 December 2012);
- 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.

In addition, on 31 January 2012, the President of UKE obligated TP S.A. 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 S.A. submitted draft changes for approval. The procedure is pending.

11.1.3 Leased Lines (RLLO)

Upon TP S.A.'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.A.'s demands. In particular, it introduces fees paid to TP S.A. for using an IT System Interface as a means of efficient communications with alternative operators for the purpose of provision of wholesale services. On 13 June 2012, TP S.A. filed an application for the re-examination of the decision approving changes in RLLO to the extent in which TP S.A.'s requests have not been accepted. On 28 September 2012, the President of UKE decided the case initiated by TP S.A.'s application for the re-examination of the decision. As the decision accounted for a great majority of TP S.A.'s demands, the Company did not appeal from it.

11.1.4 Cable Ducts (ROI)

On 13 July 2011 TP S.A. 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 S.A. submitted draft ROI to the President of UKE.

After completion of three rounds of consultations (November 2011, January and May 2012), on 23 November 2012, the President of UKE introduced the new ROI. The offer provides for access to cable ducts in the Indefeasible Right of Use (IRU) scheme in the Lease for the Implementation of Community Projects (DRPU) model. The DRPU model is the IRU scheme restricted to projects which are wholly or partially financed from public funds in EU Operational Programmes or other similar programmes.

IRU is a model of providing access to infrastructure which is similar to leasing. It involves transfer of telecommunication infrastructure to another entity to use and derive benefits for a period close to the expected economic life of that infrastructure against remuneration close to its market value. Infrastructure is provided for use for a long period (up to 25 years), which me be further extended. In addition, the IRU grantor has an obligation to maintain the infrastructure in proper condition (this includes repairs) at its own expense during the term of IRU. The DRPU model involves single payment of aggregate fees for the whole expected term of use of cables, less 6% discount. Under the reference offer, the DRPU user may provide the infrastructure obtained in this scheme to third parties without obtaining TP S.A.'s consent.

On 7 December 2012, TP S.A. filed a request for the re-examination of a decision which implemented ROI, questioning the IRU-DRPU scheme and technical solutions which weaken TP S.A.'s control of its assets.

11.1.5 Telecommunication Law Amendment

On 21 December 2012, the Act of 16 November 2012 on amending the Telecommunication Law and some other acts was promulgated in the Journal of Law. It came into force on 21 January 2013. 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 bill introduces a new regulatory tool of functional separation; grants the President of UKE a power to determine the terms of providing infrastructure (particularly network connections and in-building facilities) to other operators irrespective of the company's market position; introduces a new procedure for approval of regulatory means; extends subscriber's rights with respect to telecommunication agreements; introduces changes in the frequency area; implements a number of new regulations related to personal data protection; reduces the data retention period from 24 to 12 months; and introduces a new body of European regulators (BEREC). The Council of Ministers or the minister competent for communications will need to issue a dozen or so secondary regulations to the bill.

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

- 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);

- 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 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 Minister of Administration and Digitalisation of 12 October 2012 amending the decree on the national numbering plan for public telephone networks (JoL of 2012, item 1267).

11.2 Competitive Risks

11.2.1 CATV Operators

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

Holding an aggregate share of approximately 40% in the pay TV market and controlling 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.

2012 saw another step towards consolidation of the market, as Multimedia Polska effected the acquisition of Stream Communications, becoming Poland's second largest CATV operator.

11.2.2 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.

11.2.3 WLR, BSA and LLU Wholesale Markets

In October 2009, TP S.A. 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 S.A. launched the BSA service based on the VDSL technology using IP DSLAM equipment.

WLR Service

The access to TP S.A.'s network based on wholesale line rental (WLR) has been provided since 2006. By mid-2012, TP S.A. had provided WLR services to 23 operators. On 1 June 2012, DID became the first operator to place orders via a web interface in line with SRO. In 2012, also EasyCall and TIWS (Telefonica) signed up for SRO with respect to WLR, starting to place orders. In December 2012, an SRO agreement was signed by Novum. As at the end of December, TP S.A. handled about 1.59 million WLR lines.

BSA Service

The broadband access to a local subscriber loop (bitstream access – BSA) has been provided by TP S.A. since 2006. By the end of 2012, the agreements for TP S.A.'s BSA service had been signed by 24 operators. As at 31 December 2012, TP S.A. handled approximately 487,000 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.

Also on 1 February 2012, the President of UKE commenced consultation of a 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.

On 11 December 2012, the President of UKE commenced another round of consultation of a draft decision approving changes in SRO for the market 5, resulting from the SMP decision for the market 5 dated 28 April 2011.

LLU Service

The access to TP S.A.'s local subscriber loop (LLU service) has been provided since 2005. By the end of 2012, 25 operators had made use of the LLU offer, and the number of LLU lines handled by TP S.A. had exceeded 185,000.

In December 2010, the President of UKE issued a regulatory decision for TP S.A. 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 S.A. 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 a draft decision approving changes in SRO for the market 4, resulting from the SMP decision for the market 4 dated 30 December 2010.

On 11 December 2012, the President of UKE commenced another round of consultation of a draft decision approving changes in SRO for the market 4, resulting from the SMP decision for the market 4 dated 30 December 2010.

11.2.4 Mobile Internet Access

In 2012, Poland's mobile internet segment continued to grow rapidly. The mobile internet penetration of Poland's population exceeded 11% at the end of December 2012. In Poland, 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. 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 a bidding procedure for five segments from the 1800 MHz band for the purpose of LTE services, which opened in October 2012, bids have been submitted by six companies: P4, Polkomtel, PTK Centertel, Polska Telefonia Cyfrowa, Sferia and EmiTel. Frequencies in the 1800 MHz band are intended for urban areas.

UKE's bidding procedure for frequencies from the 800 MHz band, which are predestined for the development of LTE coverage in semi-urban and rural areas, is scheduled to be carried out in 2013–2014.

11.2.5 Leased Lines Market

TP S.A.'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.A.'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 S.A. 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.

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 S.A. and its rival companies have been expanding their service portfolio in this direction.

11.2.6 Interconnect Market

Mobile Termination Rates (MTR)

Based on the decisions for MNOs, the mobile termination rates of PLN 0.1223 / minute were implemented in the existing agreements as from 1 July 2012 (from alternative operators to whom TP S.A. provides transit services).

On 3 August 2012, the President of UKE commenced consultation and then, on 14 December 2012, issued decisions recognising operator's significant market power in the market for voice call termination on a mobile public telephone network and imposing, upholding and/or changing the related regulatory obligations with respect to the following operators:

- Aero2 sp. z o.o.
- Centernet S.A.
- Mobyland sp. z o.o.
- P4 sp. z o.o.
- Polkomtel sp. z o.o.
- Polska Telefonia Cyfrowa S.A.
- Polska Telefonia Komórkowa Centertel sp. z. o.o.

The most important element introduced by the SMP decisions is uniform mobile termination rates, which have been set at:

- PLN 0.0826 / minute from 1 January 2013 to 30 June 2013; and
- PLN 0.0429 / minute from 1 July 2013.

TP S.A. and the aforementioned operators agreed that the new rates would become effective on the date specified in the SMP decisions. Due to a change in MTRs, there is a risk of a decrease in TP S.A.'s transit revenues in the domestic market.

On 25 May 2012, an administrative court cancelled the decision which obligated Polkomtel to provide access to 70x numbers on TP S.A.'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. The parties have failed to reach an agreement for this traffic.

Fixed Termination Rates (FTR)

On 31 January 2012, the President of UKE issued a regulatory decision obligating TP S.A. to prepare changes in SRO for the market 3 (call termination on a public fixed line telephone network). The key changes to which TP S.A. has been obligated include introduction of a single rate for call termination on TP S.A.'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 S.A. 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 has not approved the changes in TP S.A.'s reference offer yet.

In two cases, courts in final and binding rulings have shared TP S.A.'s position in asymmetry-related litigation:

- UKE's decision introducing asymmetry (schedule of reaching symmetry and single tariff period) in settlements between TP S.A. and IT S.A. has been cancelled. The parties have returned to settlements based on rates from before UKE's decision;
- UKE's decision introducing asymmetry (schedule of reaching symmetry and single tariff period) in settlements between TP S.A. and MNI has been modified. The court has changed the President of UKE's decision by introducing three tariff periods to the asymmetry reduction schedule. As a result, the parties have returned to settlements based on rates from before UKE's decision.

The aforementioned rulings have contributed to eliminating asymmetry and reducing TP S.A.'s costs.

Flat Interconnect Rates

Due to lack of consent of alternative operators to introduce a flat rate model in settlements related to their networks, TP S.A. has applied to UKE for issuing a decision that would regulate this matter. On 18 July 2012, UKE refused to issue decisions introducing a flat rate model in settlements related to networks of operators other than TP S.A. TP S.A. has appealed to court against the refusal. Court proceedings are pending.

11.2.7 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 S.A. 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 39 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 80 foreign operators.

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

As shown by the experience of TP S.A.'s foreign partners (e.g. Telecom Italia, British Telecom, Deutsche Telecom and 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 S.A. 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.

The MTR reduction scheduled in the domestic market in 2013 will also affect revenues in the international segment. Thus, it poses a risk of a decrease in transit revenues in voice traffic terminated on Polish GSM networks.

11.2.8 International IP Transit Market

TP S.A.'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.A.'s position in this market.

11.2.9 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.

Since May 2011, TP S.A. has been offering 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 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).

12 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

12.1 Macroeconomic Factors and Factors Related to Poland

12.1.1 Economic Growth

2012 saw a decline in the economic growth rate in Poland. According to the Central Statistical Office's preliminary estimates, the economic growth was 2.0% (year-on-year). A slowdown in the GDP growth rate is attributed mainly to falling consumption (from Q2 2012) and slower growth in investments and export.

The 2013 Polish budget is based on the assumptions of 2.2% GDP growth. 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 further reduction in the volume of public investments. The latter may be mitigated by the Polish Investments project.

12.1.2 Inflation

Inflation stood at 2.4% (year-on-year) at the end of December 2012, while year-average CPI fell to 3.7%. The decrease in inflation rate observed from the second quarter of 2012 was a result of lower consumer demand, slower growth in food and energy prices and appreciation of zloty.

The interest rate cuts effected by the Monetary Policy Council in the second half of the year imply that the Central Bank does not expect significant inflationary pressure in 2013 and that inflation does not pose a threat to the Polish economy in the nearest future. Inflation will be further contained by economic slow-down and lower household consumption, as well as a reduction in gas prices at the beginning of 2013.

Potential demand shocks in the global market for raw materials remain a risk factor. In addition, a higher than expected inflation rate may also result from potential depreciation of the Polish zloty in case of a significant increase in risk aversion in global financial markets.

12.1.3 Unemployment and Labour Costs

The labour market was negatively affected by a breakdown in the construction sector and a slump in the manufacturing sector in 2012. Unemployment rate reached 13.4% at the end of 2012 (up 0.9 pp. year-on-year). Deteriorating situation in the labour market was reflected in a major decline in the wage growth rate, which was gradually decreasing throughout the year. In December, wages in the enterprise sector were up 2.4% in nominal terms or flat in real terms (year-on-year).

It may be expected that the current trends in the labour market will continue in 2013, though a rebound in the Eurozone and increased demand for Polish products may positively affect employment, contributing to its stabilisation (or even increase towards the end of the year). Owing to economic slowdown, relatively high unemployment rate and falling inflation, the pressure on wages should remain low.

12.1.4 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 Orange Polska. A trend observed over the recent years shows that the activity of the telecommunication market regulator has much more material effects on the Group and the telecommunication market as a whole than any political changes in Poland do.

12.1.5 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 business, financial condition and operations of TP S.A. and the Group. Competition, securities, telecommunication and other laws and regulations have been and continue to be subject to substantial changes in Poland.

12.1.6 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 TP S.A. and 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.

12.2 Factors Related to Financial Markets

12.2.1 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.

12.2.2 Interest Rates

Contrary to market expectations, the Monetary Policy Council raised interest rates in the second quarter of 2012. Then, in line with consensus, reduced them twice in the second half of the year. Overall, the reference interest rate fell by 0.25% to 4.25% in 2012. In the first half of 2012, the Monetary Policy Council's decisions were influenced by continued inflationary pressure, resulting from weaker Polish zloty and high fuel prices. It seems that economic slowdown was the leading factor behind the interest rate cuts in the second half of 2012. Financial markets expect further relaxation of the monetary policy in 2013 and a reduction in the reference interest rate by a further 0.75% to 1%.

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

12.2.3 Foreign Exchange Rates

Foreign exchange rate fluctuations affect TP S.A.'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 2012, zloty was among the best investments in the world of emerging markets, gaining 11% against euro. This was attributed mainly to portfolio investments in Polish treasury bonds. In the reported period, the exchange rate of zloty against euro was in the 4.0465 – 4.5135 bracket, while its exchange rate against the US dollar oscillated between 3.0690 and 3.5777. NBP's mean exchange rates of PLN against the US dollar and euro were 3.2581 and 4.1852, respectively, in 2012.

12.2.4 Situation at the Warsaw Stock Exchange

2012 saw growth in indices on the Warsaw Stock Exchange (WSE). At the same time, TP shares were down 22.3% (after the dividend-related reference price change), while the large-cap index, WIG20, gained 20.5%.

12.2.5 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 debt 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.

13 APPENDIX. PRODUCTS AND SERVICES

FIXED LINE VOICE

Business Customers

In 2011, in order to meet customer expectations and to improve its competitive position, TP introduced the following modifications in its business portfolio:

- ‘No Limit for Fixed’ Plan, which offers unlimited local and inter-zone calls to all networks, ILD calls to Zone 1 countries and international F2M calls to Australia, Canada and US, all embedded in the subscription fee;
- Since August 2012, the business portfolio has included a new tariff plan offered for a moderate subscription fee, ‘Economical Plan for Business’. In this plan, customers are offered a pool of 30 minutes for local and inter-zone calls.

Residential Customers

Promotional/Preventive Offers and Initiatives

- On 29 May 2012, the ‘Caution! Cheats have a hunch!’ informational campaign started. The purpose of the campaign was to bring customers’ attention to dishonest practices of some telecommunication companies. It lasted to 12 June 2012;
- On 15 October 2012, a one-month campaign dedicated to new home plans was launched. It aimed at highlighting changes in the offer, namely a possibility to make unlimited calls to domestic and international fixed line networks within the subscription fee (i.e. for no extra cost). The campaign covered 100 selected locations.

New Services and Tariff Plans

TP launched the following offers in 2012:

- In March 2012, the ‘Unique Subscription’ promotion for newly connecting customers who met some special conditions was launched. It offered a reduced subscription fee throughout the term of the agreement, provided that a loyalty agreement was signed for 12 or 24 months;
- In March 2012, the ‘120 Minutes with e-Invoice’ offer, which supported activation of e-invoices by fixed line customers, was extended. It involved extra 20 minutes for calls on domestic fixed networks, provided that e-invoice was activated. The offer lasted to September 2012;
- In April 2012, as part of rebranding, the ‘Pool of 1000 Minutes for Starters’ was introduced. It offered free activation of a pool of 1000 minutes for F2F calls, F2M calls to the Orange network and ILD calls to selected countries in which the Orange brand is present;
- Also as part of rebranding, the ‘Wednesdays with Orange’ campaign (two tickets for the price of one to Multikino cinema chain) was expanded to include subscribers of TP S.A.’s services;
- In May 2012, the ‘2012 Minutes for a Fan’ offer was prepared to accompany Euro 2012. Each fan could activate a pool of minutes for an attractive price for calls to all countries participating in the Euro 2012 tournament;
- In May 2012, ‘It’s Worth Staying with Minutes’ promotion was launched. Subscribers of the ‘Start Plan for Starters’ with a loyalty agreement were offered an additional pool of minutes for the same subscription fee;
- In September 2012, a new price list with ‘Customised Home Plan’ tariffs was introduced. Plans with fixed-time agreements, which offer unlimited calls to fixed line networks in Poland, European Union, US, Canada and Australia for a very attractive price, were added to the portfolio;
- In September 2012, ‘Loyal Customers Pay Less’ offer was launched. Loyal customers can activate, free of charge, a 50% discount on domestic F2F and F2M calls. The discount is valid for three months.

Connection Offers

With respect to the network connection service, in 2012 TP S.A.’s customers were offered the continuation of the ‘Connection for a Fair Price’ promotion on unchanged terms.

The promotion offers a discount on a one-off fee for connecting the first terminal to TP S.A.'s network via analog (POTS) lines. The offer includes two loyalty agreement options:

- POTS connection fee of PLN 10.09 (incl. VAT) in case of a 12-month agreement; or
- POTS connection fee of PLN 1.01 (incl. VAT) in case of a 24-month agreement.

F2M Price Reductions

On 1 March 2012, prices of calls to Play (P4), Cyfrowy Polsat, Mobyland and Centernet networks were reduced. The reduction reflected a decrease in MTRs charged by these operators. Currently, the price per minute ranges from PLN 0.30 to 0.46, depending on the operator.

DATA SEGMENT

Business Customers

Business VPN

On 30 April 2012, a new data transmission service for professional business activity and e-business platform development, Business VPN, was added to the portfolio. This replaced IP VPN and DSL Data Transmission services. Business VPN is a comprehensive solution which connects all branches of a company into a single corporate intranet using different technologies and infrastructure. This offer is addressed mainly to medium and large companies with a number of branches in Poland or even abroad, which, in addition to rapid data transfer and safe Internet access, are seeking data security and system reliability. Companies receive technical assistance within the subscription fee, so they do not need to organise network operation or eliminate potential failures.

Quality Assurance (SLA) Services for Business

In order to assure high quality of services provided to business customers, the SLA (Service Level Agreement) Quality Certificate for the Managed UTM service was introduced in mid-November 2012. Customers can report any failures in service functioning on a 24-hour basis and such failures are guaranteed to be removed within 8 or 12 hours (depending on the level chosen). In addition, the scope of the SLA Quality Certificate for the LAN Management service was extended to include LANs in the ‘Basic Management’ option and WLANs in the ‘Advanced Management’ or ‘Basic Management’ options.

Broadband Internet Access

One of new developments was the ‘Turbo DSL’ promotion, in which customers are offered a new option of the service, DSL 10 000 (download speed: 1 to 10 Mb/s, upload speed: 256 kb/s to 1 Mb/s), for an attractive price. This option has been also available to *Neostrada* users as ‘Turbo DSL for Neo’. In April, TP S.A. launched another offer, ‘IDSL Super-Promotion’, in which customers pay no installation fee for an expanded modem as well as no subscription fee for the first 30 days and no fees for increasing the maximum speed of transmission, and subsequently pay lower, more attractive fees. The promotion applies to DSL 1000, 2000, 4000, 8000 and 15 000 options ordered by phone for 24 months.

A new broadband Internet access service, *Neostrada* Business, was added to the business portfolio in December. It offers access speed of between 998 kb/s and 10 Mb/s, depending on technical means. It was provided as a pilot service to 19 December 2012 and has been offered on a commercial basis since 20 December 2012.

Furthermore, a new option, DSL 40 000, has been added to the DSL Internet Access service. Depending on technical means, download speed in this option is between 10 and 40 Mb/s, while upload speed ranges from 1 to 4 Mb/s. Also this option used to be provided as a pilot service and has been offered on a commercial basis since 20 December 2012.

Business Package: Service Bundle for SME

An attractive promotion, ‘Less for a Bundle’, was launched at the beginning of February. It offers a reduced installation fee and monthly subscription fee for selected packages and a reduced monthly fee for an optional increase in speed.

The ‘Free Talking’ promotion, offering an unlimited plan or a pool of minutes for an extra fee, was introduced in May 2012. In unlimited tariff plans, customers can make free calls to all Zone 1 fixed line networks, while pools of minutes offer 200, 700 or 2,000 minutes for calls to all mobile networks in Poland.

On 1 September 2012, this solution was introduced to the price list as service options. The fees and service rules related to the plans and packages are now the same as those offered in the ‘Free Talking’ promotion, which lasted to 31 August 2012.

In October, another promotion, ‘Free Talking Again’, was offered to customers. It reduced fees for four out of six unlimited tariff plans.

IT for Business

In April 2012, a new non-standard package was added to the portfolio, offering development of a customised offer. Moreover, an additional functionality of 10 GB online backup (embedded in the subscription) was added to all standard packages, so that customers can store, access and manage data in

disc space. For an extra fee, the standard capacity of an account can be migrated to 30, 50 or 100 GB. This functionality is also available to customers that use the IT support service. A new element of the portfolio is an option to sign two-year agreements for both IT work post and IT support services.

In the beginning of 2012, a new cheaper option, 'Remote IT support for computers', was added to the IT for Business portfolio. This solution is dedicated to companies which do not need on-site visits of technical partners and enables a cost reduction of approx. 50%.

Since October 2012, as part of its IT For Business portfolio, Orange Polska has been offering the 'IT Work Post for Business' (tablet) service, which complements the standard offer of lease of laptop or desktop computers combined with technical support. In this option, customers receive a tablet with pre-installed software.

M2M Services

Orange Polska has been offering comprehensive services to M2M customers through dedicated tariff plans and value-added services in the post-paid scheme. In the third quarter of 2012, the offer was expanded to include pre-paid services, which enable M2M customers to simplify their business model and a process of sales of telemetric solutions to end users, while retaining full telecommunication functionality.

Since the beginning of the fourth quarter, M2M customers have had access to a dedicated customer service line at *800. A team of Orange Polska's specialists has been providing quality assistance to telemetry customers on a 24 hours/7 days basis.

In 2012, new services were added to Orange Polska's M2M portfolio in the Telemetry Tariff 10. These include new pools of MB and SMSs, which enable even more flexible response to customer needs, as well as the M2M Connect Mini service, which is designed for M2M applications that require the transfer of high volume of data.

Residential Customers

Broadband Internet Access

In terms of broadband services, the most important development in 2012 was the simplification of the broadband Internet access portfolio, which involved a reduction in speed options from eight to four (through elimination of low-end options) coupled with price cuts:

- 'New Internet Power': 12-month or 24-month agreements for 10 to 80 Mb/s options. For a 24-month agreement, the prices are PLN 49.00 for 10 Mb/s, PLN 63.77 for 20 Mb/s, PLN 79.90 for 40 Mb/s and PLN 89.90 for 80 Mb/s.

An important development for TP S.A.'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 at least fixed broadband service of TP S.A. 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 *Neostrada* plus one Orange service or PLN 30 in case of subscribing to *Neostrada* plus two Orange services.

In the last quarter of 2012, a new offer was introduced, in which customers signing or renewing a *Neostrada* service agreement can buy a tablet for PLN 1 with a slightly increased subscription fee:

- 'New Internet Power with Tablet': only 24-month agreements for 10 to 80 Mb/s options. The activation fee is increased to PLN 49.90. The monthly prices are PLN 59.90 for 10 Mb/s, PLN 77.10 for 20 Mb/s, PLN 95.50 for 40 Mb/s and PLN 113.25 for 80 Mb/s.

Multimedia Services

2012 saw further development of the FunPack offer, which was included in the overall simplification of the service portfolio:

- 'New Internet Power in FunPack': 12-month or 24-month agreements for 10 to 80 Mb/s options. For a 24-month agreement, the prices are PLN 104.00 for 10 Mb/s, PLN 119.90 for 20 Mb/s, PLN 129.90 for 40 Mb/s and PLN 149.90 for 80 Mb/s.

In particular, the scope of the fixed line voice service was extended. In addition to the existing feature of unlimited F2F calls within Poland for no extra fee, also unlimited F2F calls to EU countries, US and Canada as well as F2M calls to US and Canada were embedded in the monthly fee.

The number of channels in TV packages was increased, e.g. to 54 on DTH or 59 on IPTV (including two HD channels) in the 'TV Basic' package.

- *n Television* packages: 'Welcome to HD' (84 channels on IPTV/79 on DTH, including 14 HD), 'HD World' (116 channels on IPTV, including 25 HD channels/121 on DTH, including 26 HD), 'HD Movies' (120 channels on IPTV, including 29 HD channels/125 on DTH, including 30 HD), 'Full HD' (123 channels on IPTV, including 32 HD channels/128 on DTH, including 33 HD) and 'All Inclusive' (128 channels on IPTV, including 35 HD channels/133 on DTH, including 36 HD).

Communication of functionalities introduced in 2011, such as 'Set-Top Box for PLN 0', started in ATL channels. In subsequent months, it was coupled by 'Hard Disc for PLN 0' offer, adding a PVR functionality to the set-top box.

An offer enabling customers to buy a tablet or a TV set for PLN 1 when signing up for 'FunPack HD' (with a higher subscription fee and increased activation fee) proved a major success:

- 'New Internet Power in FunPack with Tablet for PLN 1': only 24-month agreements for 10 to 80 Mb/s options. The activation fee is increased to PLN 49.90. The monthly prices are 113.98 for 10 Mb/s, PLN 131.14 for 20 Mb/s, PLN 147.24 for 40 Mb/s and PLN 164.99 for 80 Mb/s;

- 'FunPack with TV for PLN 1': only 24-month agreements for 10 to 80 Mb/s options. The activation fee is increased to PLN 49.90. The monthly prices are 179.00 for 10 Mb/s, PLN 199.00 for 20 Mb/s, PLN 219.00 for 40 Mb/s and PLN 239.00 for 80 Mb/s.

VoIP Services

In 2012, TP S.A. introduced a number of changes in its portfolio of VoIP services. In the second quarter of 2012, a new attractive offer of tariff plans in the *Neophone* service was introduced. This was accompanied by discontinuation of sales of the old tariff plans and the pre-paid *Neophone* service. *Neophone* is available regardless of the Internet access provider.

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, standard of data transmission on mobile networks

MAN – Metropolitan Area Network

MPLS – MultiProtocol Label Switching

M2M – Machine to Machine, telemetry

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 – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

UOKiK – Urząd Ochrony Konkurencji i Konsumentów (Office for Competition and Consumer Protection)

USO – Universal Service Obligation

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental