

LSE - Current Report (32/2003), Telekomunikacja Polska S.A., (TPSA) - Warsaw,
Poland
12 May 2003

Pursuant to art. 81 section 1, point 2 of the act - Law on Public Trading in securities of August 21, 1997 (Dz. U.; Official Journal 2002 no. 49, item 447, as amended), on the type, form and scope of the current and periodic information and the time-scale of such information disclosure by the issuers of securities admitted to public trading, the Management Board of Telekomunikacja Polska S.A.(hereinafter referred to as TPSA) is hereby announcing consolidated financial report for the three months ended 31 March 2003 (including figures for the three months ended 31 March 2002 for comparison purposes) prepared according to IFRS, International Financial Reporting Standards.

**TELEKOMUNIKACJA POLSKA GROUP
IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2003 AND 2002**

Translation of the report originally issued in Polish

**TELEKOMUNIKACJA POLSKA GROUP
CONSOLIDATED BALANCE SHEETS
AS AT 31 MARCH 2003 AND 31 DECEMBER 2002**

	Note	31 March	31 December
		2003	2002
		unaudited	audited
		(in PLN millions)	
ASSETS			
Current assets			
Cash and cash equivalents	8	566	661
Deferred costs	9	56	20
Receivables	10	2,888	2,975
Other financial assets	11	229	163
Current income taxes		212	236
Inventories	12	260	287
		-----	-----
Current assets		4,211	4,342
		-----	-----
Non-current assets			
Deferred costs	9	6	6
Non-current receivables		2	2
Investments accounted for using the equity method		9	9
Other financial assets	11	844	386
Property, plant and equipment	13	27,046	27,617
Intangible assets	14	2,812	2,781
Deferred tax assets	19	312	283
		-----	-----
Non-current assets		31,031	31,084
		-----	-----
Total assets		35,242	35,426
		=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans, debt securities and other borrowings	15	2,209	2,223
Accrued expenses and other payables	16	2,375	3,509
Current income taxes		1	3
Provisions	17	572	672
Deferred income	18	265	198
		-----	-----
Current liabilities		5,422	6,605
		-----	-----
Non-current liabilities			
Loans, debt securities and other borrowings	15	14,577	13,409
Accrued expenses and other payables	16	1,247	1,305
Provisions	17	32	44
Deferred income	18	202	265
Deferred tax liabilities	19	20	190
		-----	-----
Non-current liabilities		16,078	15,213
		-----	-----
Minority interest	20	603	634
		-----	-----
Shareholders' equity			
Common stock	21	4,200	4,200
Share premium		832	832
Revaluation reserve		2,311	2,311
Other reserves		(184)	(216)
Retained earnings		5,980	5,847
		-----	-----
Shareholders' equity		13,139	12,974
		-----	-----
Total liabilities and shareholders' equity		35,242	35,426
		=====	=====

The notes to the consolidated financial statements are an integral part of these Consolidated Balance Sheets

**TELEKOMUNIKACJA POLSKA GROUP
CONSOLIDATED PROFIT AND LOSS ACCOUNTS
FOR THE THREE MONTHS ENDED 31 MARCH 2003 AND 2002**

	Note	3 months ended 31 March	
		2003	2002
		unaudited	unaudited
		(in PLN millions)	
Revenue	22	4,492	4,384
Other operating revenue	22	146	131
Total operating revenue		4,638	4,515
Operating expenses:			
Employee related expenses		(792)	(923)
Depreciation and amortisation		(1,102)	(1,039)
Payments to other operators		(475)	(446)
Purchased services		(632)	(537)
Raw materials and consumables		(112)	(130)
Goods purchased for resale		(212)	(307)
Work performed by the enterprise and capitalised		12	49
Other operating expenses	22	(378)	(304)
Total operating expenses		(3,691)	(3,637)
Operating profit		947	878
Interest revenue and other financial revenue	23	209	157
Interest expense and other charges	23	(450)	(513)
Foreign exchange gains and losses, net	23	(538)	(335)
Profit before income tax		168	187
Income tax	19	(66)	(102)
Profit after income tax before minority interest		102	85
Minority interest	20	31	53
Loss of investments accounted for under equity method		-	(1)
Net profit		133	137
Net profit per share (in PLN)		0.10	0.10
Weighted average common stock outstanding (millions)		1,400	1,400

The notes to the consolidated financial statements are an integral part of these Consolidated Profit and Loss Accounts

TELEKOMUNIKACJA POLSKA GROUP
CONSOLIDATED CASH FLOW STATEMENTS FOR THE THREE MONTHS ENDED
31 MARCH 2003 AND 2002

	3 months ended 31 March	
	2003	2002
	unaudited	unaudited
	(in PLN millions)	
Cash flows from operating activities		
Net profit	133	137
Adjustments for:		
Minority interest	(31)	(53)
Depreciation and amortisation	1,102	1,039
Foreign exchange (gains)/losses, net	659	346
Interest and dividend (income)/charges, net	124	338
(Gain)/loss on investment activities	6	12
Income tax on current year profit	66	102
Net income tax recovered/(paid)	(258)	(211)
Other non-cash items, net	11	(13)
	-----	-----
Net cash flows from operating activities before changes in working capital	1,812	1,697
Changes in working capital:		
Decrease/(increase) in receivables, net of allowance	87	332
Decrease/(increase) in inventories	27	51
(Decrease)/increase in provisions	(116)	127
(Decrease)/increase in payables and other short-term liabilities	(66)	(605)
Decrease/(increase) in deferred costs	(36)	67
(Decrease)/increase in deferred income	4	(23)
	-----	-----
Net cash flows generated from operating activities	1,712	1,646
	=====	=====
Cash flows from investing activities		
Proceeds from sale of fixed assets and intangibles	3	2
Proceeds from sale of non-current financial assets	2	-
Interest received	-	2
Purchase of fixed assets and intangibles	(1,376)	(1,749)
Payments for DCS, GSM and UMTS concessions	-	(17)
Purchase of financial assets	(20)	-
Other cash flows (applied in)/generated from investing activities, net	(20)	(1)
	-----	-----
Net cash flows applied in investing activities	(1,411)	(1,763)
	=====	=====

The notes to the consolidated financial statements are an integral part of these Consolidated Cash Flow Statements

TELEKOMUNIKACJA POLSKA GROUP
CONSOLIDATED CASH FLOW STATEMENTS FOR THE THREE MONTHS ENDED
31 MARCH 2003 AND 2002

	3 months ended 31 March	
	2003	2002
	unaudited	unaudited
	(in PLN millions)	
Cash flows from financing activities		
Proceeds from loans and borrowings	242	900
Issuance of short-term securities	-	594
Interest received	138	44
Repayment of loans and borrowings	(186)	(721)
Redemption of short-term securities	(100)	(350)
Interest paid	(477)	(406)
Other cash flows (applied in)/generated from financing activities, net	(14)	(3)
	-----	-----
Net cash flows generated from financing activities	(397)	58
	-----	-----
Effects of exchange rate changes on cash and cash equivalents	1	(7)
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(95)	(66)
	=====	=====
Cash and cash equivalents at the beginning of period	661	615
	=====	=====
Cash and cash equivalents at the end of period	566	549
	=====	=====

The notes to the consolidated financial statements are an integral part of these Consolidated Cash Flow Statements

Translation of the report originally issued in Polish

TELEKOMUNIKACJA POLSKA GROUP
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2003 AND 2002

	Common stock (Note 21)	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total shareholders' equity
	(in PLN millions)					
1 January 2002	4,200	832	2,334	(221)	4,750	11,895
Correction of an error*	-	-	-	-	220	220
Changes of accounting policy**	-	-	-	-	(14)	(14)
1 January 2002 adjusted audited	4,200	832	2,334	(221)	4,956	12,101
Net profit for 3 months ended 31 March 2002	-	-	-	-	137	137
Impairment of fixed assets	-	-	(22)	-	-	(22)
Effect of cash flow hedge accounting***	-	-	-	26	-	26
31 March 2002 unaudited	4,200	832	2,312	(195)	5,093	12,242
	=====	=====	=====	=====	=====	=====
1 January 2003 unaudited	4,200	832	2,311	(216)	5,847	12,974
Net profit for 3 months ended 31 March 2003	-	-	-	-	133	133
Effect of cash flow hedge accounting***	-	-	-	32	-	32
31 March 2003 unaudited	4,200	832	2,311	(184)	5,980	13,139
	=====	=====	=====	=====	=====	=====

* effect of application of IAS 39 in respect of accounting for embedded derivatives (see Note 3)

** effect of recognition of deferred income from sale of telephone cards (see Note 3)

*** see Note 6(u)

The notes to the consolidated financial statements are an integral part of these Consolidated Statements of Shareholders' Equity

**TELEKOMUNIKACJA POLSKA GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

1. Principal activities

The Telekomunikacja Polska Group (“the Group”) comprises Telekomunikacja Polska S.A. (“TPSA”, “the Company”, “the parent company”), a joint stock company incorporated in Poland, together with its subsidiaries. The Group is the principal supplier of telecommunications services in Poland. In accordance with the permit granted to the Company by the Telecommunications and Postal Service Regulatory Office (“URTiP”), TPSA has non-exclusive rights to provide all public telecommunication services in Poland for a period of 25 years (until 2026). Under the Telecommunications Act, TPSA had exclusive rights to provide international public telephony services throughout Poland. This right expired in December 2002. Through its subsidiary, Polska Telefonia Komórkowa-Centertel Sp. z o.o. (“Centertel”, “PTK-Centertel Sp. z o.o.”), the Group is one of Poland’s three DCS 1800 and GSM 900 mobile telecommunications providers and the country’s only NMT 450 mobile telecommunications provider. On 20 December 2000 PTK-Centertel was granted a concession for third generation UMTS services, which will expire in 2023. The NMT, DCS and GSM concessions expire in 2016, 2012 and 2014, respectively. In addition, TPSA together with its subsidiaries provide leased lines, radio-communications and other telecommunications value added services, sell telecommunications equipment and produce fibre optic cables and chip cards. TP Internet Sp. z o.o. is a TPSA subsidiary established in 1999 to provide Internet, data transmission and multimedia services. TP Invest Sp. z o.o. is a TPSA subsidiary established in 2000 to perform consultancy and investment activities relating to the financing of its subsidiaries and associates. TPSA Finance B.V. and TPSA Eurofinance B.V. are special purpose companies incorporated in the Netherlands, established in connection with the issue of bonds (see Note 15(b)). Wirtualna Polska S.A., TP Internet’s subsidiary, manages one of Poland’s leading Internet portals and provides a wide range of Internet services.

There is no significant periodicity and cyclicity in operations of the Group.

Cogecom S.A., a subsidiary of France Telecom S.A., is a parent company of TPSA

The total average number of Group employees in the three months ended 31 March 2003 and 2002 was 46,568 and 61,949 respectively. TPSA’s registered office is located in Warsaw at ul. Nowy Świat 6/12.

The Telecommunications Act, which became effective on 1 January 2001, introduced a broad liberalisation of the telecom market in Poland, restricting those activities for which a permit is required from the regulatory authorities and authorising the provision of telecommunications services in specified forms on the basis of notification alone. The Telecommunications Act established a new regulatory agency, the URTiP, and granted it broad supervisory, control and decision-making powers in relation to the telecom market, including the power to determine the prices of services and the terms of cooperation between operators. The Telecommunications Act also authorises the Council of Ministers to issue regulations that may increase the liberalisation of the telecom market. Furthermore, the President of the Office for the Protection of Competition and Customers has the right to influence TPSA tariffs by regulating the competitive practices of entities with significant positions on the market.

On 3 September 2001 and 31 December 2001 the President of the URT (currently URTiP) issued two decisions stating that TPSA has a dominant position on the domestic market for public telecommunication services as well as on the domestic leased lines market. On 24 December 2002 the President of the URTiP issued decision stating that TPSA has a significant position on the domestic interconnect market.

On 31 December 2002 the President of the URTiP issued decision stating that PTK-Centertel Sp. z o.o. has a significant position on the domestic market for public mobile telecommunications services. PTK appealed the decision to the Court for Protection of Competition and Customers on 10 January 2003. The appeal has not been investigated by the date of the preparation of these financial statements.

According to the Telecommunications Act, the decisions stating the telecommunications operator’s significant or dominant position in the market result in certain obligations. Among others, the operator may not refuse to connect another operator’s legally constructed telecommunications network to its

TELEKOMUNIKACJA POLSKA GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

telecommunications network. The President of URTiP may determine the time limit to conclude agreement regarding connection of telecommunication network; the negotiations must be finalised within 90 days since the date of a motion. Additionally, the President of the URTiP is entitled to reject the tariffs or changes in tariffs proposed by the operator. The tariffs or changes to tariffs rejected by the President of the URTiP do not become legally binding.

2. Basis of presentation

TPSA was incorporated in Poland and commenced operations on 4 December 1991. With effect from this date, TPSA assumed the telecommunications business of Polska Poczta, Telegraf i Telefon ("PPTiT"), TPSA's predecessor. The opening balance of the assets and liabilities contributed to TPSA on its formation was recorded at amounts equal to those recorded in the books of PPTiT.

The Group maintains its books of accounts in accordance with the accounting principles and practices employed by enterprises in Poland, as required by the Accounting Act dated 29 September 1994 and regulations issued on its basis ("PAS"). These consolidated financial statements include certain adjustments not reflected in the books of the Group's entities in order to present these consolidated statements in accordance with the Standards issued by the International Accounting Standards Board, except in respect of accounting for fixed assets referred to in Note 4. These adjustments are presented in Note 34.

The preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS"; until April 2001 International Accounting Standards, "IAS") means that Management is required to make estimates and assumptions affecting the amounts reported in the financial statements and notes thereto. The actual results may differ from these assumptions and estimates.

3. Changes in accounting policies and correction of errors

(a) Correction of fundamental errors

In the financial statements for the three month period ended 31 March 2002 the Group's entities, apart from PTK-Centertel Sp. z o.o., did not apply IAS 39 in respect of accounting for embedded derivatives. These entities were not able to separate embedded derivatives from the host contracts due to a lack of adequate system solutions. PTK-Centertel Sp. z o.o. applied IAS 39 in respect of accounting for embedded derivatives for the first time as at 31 March 2002. Embedded derivatives are recognised correctly in comparative financial data for the 3 month period ended 31 March 2002 presented in these financial statements.

As a result of the above application appropriate changes were made to the opening balances of retained earnings and minority interest as at 1 January 2002 and the financial data were restated for comparative period.

The application of IAS 39 in respect of accounting for embedded derivatives resulted in:

- an increase in retained earnings as at 1 January 2002 of PLN 220 million;
- an increase in minority interest as at 1 January 2002 of PLN 6 million;
- an increase in the net profit for the 3 month period ended 31 March 2002 of PLN 7 million.

TELEKOMUNIKACJA POLSKA GROUP
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(b) Changes in accounting policies

The Group changed its presentation policy for penalties for the cancellation of telecommunication services agreements due to the fault of its customers in the third quarter 2002. The Company believes that this change will result in a more appropriate presentation of the above transactions in its financial statements. Financial data for the comparative period were adequately restated.

In the financial statements for the 3 month period ended 31 March 2002 the Group recognized penalties up to the amount expected to be recovered on the basis of historical data. At present, the penalties are fully recognised as receivables with a corresponding entry in other operating revenue. The related receivables are fully provided for with a corresponding charge to other operating expenses. The change in presentation policy has no impact on the consolidated net profit and consolidated retained earnings but has resulted in an increase in gross receivables and an allowance for doubtful debt as at 1 January 2002 and 31 March 2002, amounting to PLN 134 million and PLN 166 million, respectively. Financial data for the comparative periods were adequately restated.

In order to ensure a more appropriate presentation of revenues, the Group has changed its accounting policy in respect of the recognition of revenues from the sale of telephone cards in the fourth quarter 2002. According to previous policy, revenues from the sale of telephone cards were recognised at the moment of sale. At present, revenues from the sale of telephone cards are deferred and recognised when earned (see Note 6(o)). The change in the accounting policy used for revenue recognition was applied retrospectively, the opening balance of retained earnings as at 1 January 2002 was adjusted and the financial data for the periods after this date were restated in order to maintain comparability.

This change resulted in a decrease in retained earnings as at 1 January 2002 of PLN 14 million and did not change net profit for the 3 month period ended 31 March 2002 significantly.

In addition, in order to ensure the comparability of the financial statements certain reclassifications were made to the financial statements for the 3 month period ended 31 March 2002 to ensure that they comply with the 2003 presentation.

4. Reporting currency, hyperinflation and effect on property, plant and equipment

These financial statements are reported in million of Polish zloty ("PLN"). They have not been adjusted for the effects of inflation as required by International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies".

International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") requires that the carrying amounts of assets and liabilities reported in a period of hyperinflation should be expressed in the measuring unit current at the end of the hyperinflationary period and constitute the basis for the carrying amounts in the subsequent financial statements. The Polish economy was hyperinflationary until the end of 1996 and ceased to be hyperinflationary in 1997. The Group last revalued its fixed assets as at 1 January 1995 to reflect the effects of inflation by applying price indices determined by the Central Statistical Office for individual groups of assets. This revaluation was not performed in accordance with the provisions of IAS 29 since the Group did not use a general price index and did not subsequently revalue its fixed assets as at 31 December 1996. As a result, the cumulative balances of property, plant and equipment as at 31 March 2003 and 31 December 2002, which existed prior to 31 December 1996, have not been expressed in the measuring unit current at the end of 1996. The Group is unable to quantify the impact on these financial statements of non-compliance with IAS 29.

The above revaluation was not performed in accordance with the provisions of IAS 16 since the revaluation method did not assure that the revalued amount of fixed assets was approximate to their fair value as at the date of revaluation.

**TELEKOMUNIKACJA POLSKA GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

5. Authorisation of financial statements. Changes in the Management Board

These financial statements were authorised for issuance by the Management Board on 12 May 2003.

There were no changes in the Management Board in the three month period ended 31 March 2003.

6. Statement of accounting policies

(a) Principles of consolidation

These consolidated financial statements comprise the financial statements of TPSA and the following subsidiaries:

<u>Group entity</u>	Percentage of share capital owned by the Group	
	31 March 2003	31 December 2002
PTK– Centertel Sp. z o.o.	66%	66%
TPSA Finance B.V.	100%	100%
TPSA Eurofinance B.V.	100%	100%
TP EmiTel Sp. z o.o.	100%	100%
TP Internet Sp. z o.o.	100%	100%
TP Invest Sp. z o.o.	100%	100%
OTO Lublin Sp. z o.o.	100%	100%
Otwarty Rynek Elektroniczny S.A.	100%	100%
Parkiet Media S.A.	83%	83%
Magellan Net S.A.*	77%	77%
Enerkom Sp. z o.o.**	-	68%
Prywatne Sieci Telekomunikacyjne S.A.	100%	100%
Tel – Arp Sp. z o.o.	100%	100%
Telefon 2000 Sp. z o.o.	95%	95%
Telefony Podlaskie S.A.	55%	55%
Incenti S.A.	51%	51%
TP Sircom Szkolenia i Rekreacja Sp. z o.o.	100%	100%
TP Edukacja i Wypoczynek Sp. z o.o.***	100%	100%
TP TelTech Sp. z o.o.	100%	100%
TP DITEL S.A.	100%	100%
Wirtualna Polska S.A.	50% + 1 share	50% + 1 share

* Effective from 1 January 2003 the financial statements of Magellan Net S.A. are no longer consolidated due to insignificance of financial data.

** Effective from 1 January 2003 the financial statements of Enerkom Sp. z o.o. are no longer consolidated due to insignificance of financial data. The company was sold on 10 January 2003.

*** Previously TP Wypoczynek Południe Sp. z o.o.

The voting power held by the Group is equal to the Group's interest in capital in all subsidiaries as at 31 March 2003.

The consolidated financial statements include all material enterprises that are controlled by the parent company. Control is presumed to exist when the parent company owns, directly or indirectly through subsidiaries, more than half of the voting rights of a given enterprise, unless it can be clearly demonstrated that such ownership does not constitute control. Control also exists in cases where the parent company owns one half or less of the voting rights of a given enterprise but has the power to appoint or remove the majority of the members of the management or supervisory board, cast a majority of votes at meetings of management or supervisory board or has any other power to govern the financial and operating policies of the enterprise.

TELEKOMUNIKACJA POLSKA GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All subsidiaries are incorporated in Poland, except for TPSA Finance B.V. and TPSA Eurofinance B.V., which are incorporated in the Netherlands. All material inter-company balances and transactions have been eliminated in the consolidation. The consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

(b) Cash and cash equivalents

Cash and cash equivalents in the balance sheet include cash on hand, cash at banks and all highly liquid deposits with original maturities of three months or less. Cash and cash equivalents in the cash flow statement also include bank overdrafts.

(c) Financial assets - receivables

Receivables are stated at the fair value of the consideration given and are carried at cost, less the provision for doubtful debts. The carrying amount of receivables subject to normal trade credit terms approximates their fair value.

(d) Other financial assets

The Company classifies financial assets in the following categories:

- a) loans and receivables originated by the Group's entities and not held for trading,
- b) financial assets held to maturity,
- c) financial assets held for trading,
- d) financial assets available for sale.

Financial assets are measured on initial recognition at cost, which is the fair value of the consideration given to acquire these investments. Transaction costs are included in the initial measurement of all financial assets. Purchases and sales of financial assets on a regulated market are recognised using settlement date accounting. After initial recognition the Group measures financial assets, including derivatives, at their fair values, without any deduction for transaction costs which it may incur on sale or any other disposal, except for loans and receivables originated by the Group and not held for trading, held-to-maturity investments and any financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. The above financial assets are measured at amortised cost using the effective interest rate method if they have a fixed maturity. Those that do not have a fixed maturity are measured at cost.

Changes in the fair value of financial assets measured at fair value, excluding effective portion of the change in the fair value of instruments designated as cash flow hedge (see Note 6 (u)), are included in the net profit or loss for the period. Changes in the carrying amount of financial assets measured at amortised cost are included in the net profit or loss for the period.

All financial assets are subject to review for impairment.

(e) Investments accounted for using the equity method

Investments accounted for under the equity method are measured on initial recognition at cost and are thereafter adjusted for the post acquisition change in the parent company's share of net assets of the associated companies.

TELEKOMUNIKACJA POLSKA GROUP
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As at 31 March 2003, the following Group associates were accounted for using the equity method:

Telefony Opalenickie S.A.	25%
RWT Telefony Polskie S.A.	25%

The voting rights held by the Group are equal to the Group's interest in the capital of the above associates.

(f) Inventories

Inventories are stated at the lower of acquisition cost (on a weighted average basis) and net realisable value less provision for obsolete items. The Group provides for slow-moving or obsolete stock, including mobile handsets offered on promotional terms under the pre-paid packages, based on inventory rotation ratios and current marketing plans.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost or revalued amount less accumulated depreciation.

The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs, maintenance and overhaul costs, as well as costs of cabling within the customers' premises are charged to the profit and loss account in the period in which the costs are incurred. In situations when it may be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Revaluations of property, plant and equipment were performed in Poland as mandated by the Minister of Finance and were designed to reflect the level of inflation. Revaluations were performed using the indices determined by the Central Statistical Office for individual groups of fixed assets. This is a departure from IAS 29, which requires the application of a general price index. The last revaluation took place on 1 January 1995 and was designed to reflect the specific price levels as at September 1994. As a result of this revaluation, both the carrying amount and the tax base of the assets subject to revaluation have been increased. The Group has not revalued its property, plant and equipment as at 31 December 1996, which is a departure from IAS 29. According to this standard, assets must be restated to a measurement unit current as at the end of the hyperinflationary period. Since the inception of the Group, the revaluations have increased the net book value of property, plant and equipment by a total of PLN 2,349 million. The Group's share in the revaluations amounts to PLN 2,334 million. Construction-in-progress was not subject to revaluation. Depreciation is based on revalued amounts. Unless Poland is subject to a period of further hyperinflation, the Group does not intend to include the effects of any further revaluations in its financial statements prepared under IFRS.

As further described in Note 27(d), the Group receives certain assets from local authorities or municipalities. These assets are stated at fair value at the date of transfer to the Group.

The parent company received certain fixed assets from Public Telephone Committees (Spółeczne Komitety Telefonizacji – "SKT"). This infrastructure is recorded in the books as fixed assets with a corresponding entry in liabilities. These assets are depreciated on a regular basis. Sales of services to SKT members are recorded as revenues and corresponding amounts are deducted from liabilities.

Property, plant and equipment are depreciated over their useful lives. Upon their withdrawal from use or sale, the cost (or revalued amount) of assets disposed and the related accumulated depreciation are removed from the books of account, and any resulting gain or loss is taken to the profit and loss account.

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Fixed assets are depreciated using straight-line method, except for part of telecommunications and other equipment, for which reducing balance method is used.

Annual depreciation rates are as follows:

Buildings	2.5%
Duct, cable and other outside plant	4.5%
Telephone exchanges and other plant and equipment	4.5-20.0%
Computer equipment	30.0%
Vehicles and other	14.0-25.0%

In 2002 TPSA has started the project of reassessment of useful lives of fixed assets. This project has not been finished as at the date of the preparation of these financial statements. TPSA is not able to estimate the effect, if any, of the above reassessment on the net carrying amount of fixed assets as at 31 March 2003 and on depreciation for the three months ended 31 March 2003.

Construction-in-progress represents plant and properties under construction and is stated at cost. This comprises cost of construction, plant and equipment and other direct costs, including borrowing costs as described in Note 6(q). Construction-in-progress is not depreciated until the relevant assets have been completed and placed into operational use.

The Group reviews the net carrying value of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable (see Note 13). Increases and reversals of impairment losses are charged to the profit and loss account, unless the fixed assets are carried at revalued amount. Impairment loss of a revalued asset is treated as a revaluation decrease.

(h) Leased assets

Assets leased under agreements, which transfer to the Group substantially all the benefits and risks of ownership of a given asset, are treated as if the asset had been purchased outright. The Group's finance leases are recognised as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Depreciation on the relevant assets is calculated over their useful lives. The capital element (principal) of the lease payments is applied to reduce the outstanding obligation and the interest element is charged to the profit and loss account.

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(i) Intangible assets excluding goodwill and negative goodwill

Intangible assets except for telecommunications concessions are stated at cost less amortisation on a straight-line basis using annual amortisation rates ranging from 20% to 50%.

Telecommunication concessions are valued at the present value of payments due plus borrowing costs capitalised as detailed in Note 6 (q), less amortisation. The present value of concessions as at 31 March 2003 and 31 December 2002 was calculated using a discount rate of 6% p.a. The development period terminates together with the start of operational validity. The concessions are amortised over the period reflecting concession rights starting from the beginning of their operational validity.

The Group reviews the net carrying value of intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

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In 2002 TPSA has started the project of reassessment of useful lives of intangibles. This project has not been finished as at the date of the preparation of these financial statements. TPSA is not able to estimate the effect, if any, of the above reassessment on the net carrying amount of intangibles as at 31 March 2003 and on amortisation for 3 months period ended 31 March 2003.

(j) Goodwill and negative goodwill

Goodwill is stated as the excess of the purchase consideration over the Group's interest at the fair value of the net identifiable assets acquired. Goodwill on consolidation is capitalised and amortised on a straight-line basis over its useful life. The amortisation period reflects the Group's best estimate of the period during which future economic benefits are expected to flow to the Group.

Negative goodwill is recognised in the income statement as follows:

- a) the amount of negative goodwill which relates to expected future losses and expenses that are identified in the Company's acquisition plan and which may be reliably measured is recognised as income when the future losses and expenses are recognised.
- b) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.
- c) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is immediately recognised as income.

(k) Loans, debt securities and other borrowings

Loans, debt securities and other borrowings are recognised initially at their cost, i.e. at the fair value of the consideration received. Transaction costs are included in the initial measurement of these financial liabilities. After initial recognition loans, debt securities and other borrowings are measured at amortised cost, except for financial liabilities designated as hedged items, which are subject to measurement under the hedge accounting provisions as described in Note 6(u).

(l) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate may be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in the carrying amount of a provision reflecting the passage of time is recognised as a financial expense.

(m) Deferred income

Investment contributions received in cash as contributions to the cost of network construction or constructed telephone infrastructure from local authorities (further referred to as "grants") are deferred and amortised to other operating revenue over the life of the assets to which the investment contributions relate. Deferred income includes also deferred revenues from subscriptions relating to future periods, the sale of telephone cards in "prepaid" system in PTK and revenues from the sale of telephone cards in TPSA (see Note 6 (o)).

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(n) Minority interest

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned by the parent company, either directly or indirectly. Minority interest is recognised at acquisition as the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets of the subsidiary.

(o) Revenue recognition

Revenues, net of value added tax ("VAT"), for all services are recognised when:

- a) the amount of revenue may be reliably measured,
- b) it is probable that the economic benefits associated with the transaction will flow to the enterprise,
- c) the stage of completion of the transaction at the balance sheet date may be reliably measured, and
- d) the costs incurred for the transaction and the costs to complete the transaction may be reliably measured.

Revenues are received from the Group's customers and other network operators, both domestic and foreign, for the use of its network and for completing connections. A proportion of the revenue received is paid to other operators for the use of their networks, where appropriate. These revenues and costs are stated in these consolidated financial statements at gross amounts. Revenues earned from connecting subscribers to the network are recognised upon the activation of the service.

The Group leases lines to its customers. Lease income is recognised as revenue on a straight-line basis over the lease term. The activation fee is recognized when the client service is activated.

PTK-Centertel Sp. z o.o., a subsidiary of TPSA, sells prepaid mobile telephony services. An activation fee for prepaid services is recognised upon the activation of the service. Revenues from the sale of telephone cards in "prepaid" mobile telephony system and revenues from the sale of telephone cards in fixed line telephony system are deferred and recognised when earned.

(p) Operating expenses

Operating expenses are charged in the period to which they relate. Research and development costs are expensed when incurred except for certain development costs that meet the criteria specified by IAS 38, which are recognised as assets and amortised over a period of 3 years. In the three months ended 31 March 2003 and 31 March 2002 the Group did not spend any material amount on research and development.

TPSA's subsidiary, PTK-Centertel Sp. z o.o., sells mobile handsets on promotional terms. Any discounts on handsets are recognised at the moment of sale and activation of service according to the best practices in telecommunications industry.

In line with Polish business practice, shareholders are allowed to distribute profits to increase the Social Fund designed for the welfare of its employees. TPSA historically allocated part of its net profit to the Social Fund. Final authorisation of profit distribution to the Social Fund is given after the year end during the General Shareholders' Meeting, when the annual profit available for distribution is approved. In the financial statements prepared under IFRS such distributions are recognised as operating expense of the period to which the profit distribution related.

TELEKOMUNIKACJA POLSKA GROUP
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(q) Borrowing costs

Borrowing costs are written off to the profit and loss account as incurred net of an amount capitalised calculated using the weighted average capitalisation rate. Borrowing costs are capitalised as part of the costs of the qualifying fixed asset up to the date of commissioning and amortised to the profit and loss account over the period in which the asset is depreciated. Borrowing costs eligible for capitalisation include interest, amortisation of discount on bonds and commercial papers issued, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, foreign exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs and the effects of hedging instruments related to external indebtedness.

(r) Jubilee awards and retirement bonuses

According to the Group's remuneration policies, certain employees 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 allowances represent one-off payments paid on retirement. Both items vary according to the employee's average remuneration and length of service. Jubilee awards and retirement benefits are not funded. An independent actuary estimates the net present value of the jubilee award and retirement bonus obligations at the end of the financial year. Accrued obligations are those future discounted payments, adjusted by employee attrition rates, which were earned by the employees up to the balance sheet dates. Demographic and attrition profiles are based on historical data. A valuation of obligations as at 31 December 2002 was performed using a discount rate of 5% and a wage inflation rate of 3%.

The present value of the jubilee awards and retirement bonuses adjusted for planned employment restructuring as at 31 March 2003 and 31 December 2002 amounted to PLN 409 million and PLN 406 million respectively.

During the three month periods ended 31 March 2003 and 31 March 2002, the total amount of jubilee awards and retirement bonus payments paid by the Group amounted to PLN 10 million and PLN 17 million respectively.

(s) Termination indemnities

The Group's entities pay termination indemnities in the event of the termination of employment without any defined reason as part of the reorganisation of a given company. By law, the Group's entities are also required to pay termination indemnities in the case of group redundancies. Group redundancies arise where there is a lay-off of at least 10% of employees at companies of up to 1000 employees or at least 100 employees at companies with over 1000 employees, at any one time or over a period of no more than three months. Expenses relating to termination indemnities are accrued when the Management Boards of the Group's entities, having taken a firm decision resulting in future payments of indemnities, have begun the implementation of the restructuring plan or communicated the restructuring plan to those affected by it in a sufficiently specific manner to bring about a valid expectation that the companies will carry out the restructuring (see Note 17).

The net present value of restructuring provision is calculated at the balance sheet date as the future discounted payments of termination indemnities described above. The calculation of the restructuring provision amount was performed as at 31 March 2003 using a discount rate equal to the average borrowing cost of similar maturity indebtedness denominated in Polish zloty.

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(t) *Foreign exchange transactions*

Transactions denominated in foreign currencies are recorded in the local currency (Polish zloty) at the following exchange rates:

- 1) the bid or offer rates used by the bank where the transaction is conducted – to record transactions involving the sale or purchase of foreign currencies and payments of receivables or liabilities;
- 2) the average exchange rates as quoted by the National Bank of Poland (“NBP”) on the day of the transaction, unless a different rate has been determined on an appropriate document – to record all other transactions.

Cash and receivables denominated in foreign currencies are translated at the balance sheet date using the daily average bid exchange rate of the entity’s principal bank or the daily average rate of the NBP, whichever is lower. Liabilities denominated in foreign currencies are translated at the balance sheet date using the daily average offer exchange rate of the entity’s principal bank, or the daily average rate of the NBP, whichever is higher. Any gains or losses arising from a change in exchange rates subsequent to the date of the transaction are included as foreign exchange gains or losses in the profit and loss account, except if capitalised as described in Note 6(q).

The Company translates its share of foreign monetary assets and liabilities for the purpose of the incorporation of the financial statements of foreign subsidiaries, constituting integral part of operations of the parent company, at the current NBP exchange rates prevailing at the balance sheet date. Non-monetary items are translated using the exchange rate at the date of the transaction. Revenues and expenses from foreign operations are translated using average rates during the period.

(u) *Derivative financial instruments*

The Group uses forward contracts and currency swaps to mitigate exposure against foreign currency fluctuations on liabilities denominated in foreign currencies. The Group uses interest rate swaps to mitigate exposure against interest rate fluctuations on liabilities based on fixed interest rates. These contracts are valued at fair value in the balance sheet. 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, calculated based on spot foreign exchange rates using the interest rate parity method.

These contracts are presented in the balance sheet as financial assets or financial liabilities. Except when contracts qualify as hedges, changes in the fair value of financial instruments are recognised as other financial expenses/revenue in the profit and loss account in the period of the change. When contracts qualify as fair value hedges, related gains and losses offset symmetrically the effects on the net profit or loss of the change in the fair value of the hedged items. A gain or loss on the hedged item attributable to the hedged risk is included in the net profit or loss for the period.

When contracts qualify as cash flow hedges the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised under equity. The ineffective portion is immediately reported in the profit and loss account. The effective part of the gain/loss on the hedging instrument recognised under equity in the three month periods ended 31 March 2003 and 31 March 2002, excluding the effect on deferred tax, increased other equity reserves by PLN 269 million and decreased by PLN 37 million, respectively. The amounts that have been recognised directly under equity are included in the profit and loss account in the same period during which the hedged firm commitment or forecasted transactions affect the profit and loss account or enter into the initial measurement of the acquisition cost or other carrying amount of the asset or liability as appropriate. The amounts transferred from equity to profit and loss account, excluding the effect on deferred tax, increased by PLN 225 million and decreased by PLN 9 million profit for the three months ended 31 March 2003.

TELEKOMUNIKACJA POLSKA GROUP
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Embedded derivatives are separated from the host contracts and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- the hybrid instrument is not measured at fair value with changes in the fair value reported in the net profit or loss.

Embedded derivatives are measured at fair value.

(v) *Income tax*

The corporate income tax charge is based on profit for the year and takes into account deferred taxation. Deferred tax is calculated using the liability method. Under the liability method the expected tax effects of temporary differences are determined using enacted tax rates and reported either as liabilities for taxes payable or assets representing future decrease of tax charge. Temporary differences are the differences between the carrying amount of an asset or liability in the balance sheet and its taxable base. The calculation of deferred tax also includes tax losses from previous years, which according to tax regulations may decrease the taxable profit. The net deferred tax liabilities or assets is included under non-current liabilities or non-current assets, respectively.

Deferred tax assets are only recognised on temporary differences provided it is probable they will be realised.

(w) *Profit / loss per share*

Profit/loss per share for each period is calculated by dividing the profit/loss for the period, before and after extraordinary items, if any, by the weighted average number of shares outstanding during that period. The Company does not present diluted profit/loss per share, as there are no dilutive potential ordinary shares.

7. Changes in the Group's organisation

On 10 January 2003 the Group sold all shares held in Enerkom Sp. z o.o. Effective from 1 January 2003 the Group ceased to consolidate this company due to insignificance of financial data.

On 21 February 2003 the Group sold associated company Centrum Badawczo – Wdrożeniowe Optotrakt Sp. z o.o., in which the Group held 45% of shares.

8. Cash and cash equivalents

	31 March 2003	31 December 2002
	unaudited	audited
	(in PLN millions)	
Cash on hand	3	3
Current bank accounts	250	133
Overnight deposits	239	283
Deposits up to 3 months	27	195
Other	47	47
	----	----
Total	566	661
Less: short – term portion	(566)	(661)
	----	----
Long - term portion	-	-
	=====	=====

TELEKOMUNIKACJA POLSKA GROUP
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Breakdown of cash and cash equivalents by currency is as follows:

	31 March 2003	31 December 2002
	<u>unaudited</u>	<u>audited</u>
	<u>(in PLN millions)</u>	
Polish zloty	536	637
Euro	23	14
U.S. dollar	7	10
	----	----
Total	566	661
	=====	=====

The concentration of the credit risk relating to cash and cash equivalents is limited as the Group places its cash at high credit quality institutions.

9. Deferred costs

	31 March 2003	31 December 2002
	<u>unaudited</u>	<u>audited</u>
	<u>(in PLN millions)</u>	
Social Fund	22	-
IT services	12	8
Insurance	5	3
Perpetual usufruct charge	6	-
Advertising	2	1
Rents and leases	3	2
Research and development costs	3	3
Other	9	9
	----	----
Total	62	26
Less: short-term portion	(56)	(20)
	----	----
Long-term portion	6	6
	=====	=====

10. Receivables

	31 March 2003	31 December 2002
	<u>unaudited</u>	<u>audited</u>
	<u>(in PLN millions)</u>	
Trade receivables	3,603	3,575
Tax receivables	65	51
Social fund loans	71	77
Other receivables	79	117
	----	----
Subtotal	3,818	3,820
Less allowance for doubtful accounts	(930)	(845)
	----	----
Total	2,888	2,975
	=====	=====

Total receivables include amounts of PLN 266 million and PLN 239 million of receivables denominated in foreign currencies as at 31 March 2003 and 31 December 2002, respectively. Trade receivables relate primarily to the billing of telecommunications services. Credit terms of typical sales are approximately 14 days. Tax receivable balances comprise recoverable VAT on capital purchases and VAT to be settled in the next periods.

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The concentration of credit risk relating to trade receivables is limited due to the large number of customers comprising the Group's customer base and their dispersion across many different industries, principally in Poland.

The allowance for doubtful accounts and changes therein for the period of the three months ended 31 March 2003 and 31 March 2002 are as follows:

	3 months ended 31 March	
	2003	2002
	unaudited	unaudited
	(in PLN millions)	
Allowance, beginning of period	845	978
Charged to expense	164	134
Utilised	(79)	(8)
	-----	-----
Allowance, end of period	930	1,104
	=====	=====

11. Other financial assets

	31 March	31 December
	2003	2002
	unaudited	audited
	(in PLN millions)	
Short-term financial assets		
Financial assets available for sale	28	8
Financial assets held to maturity	70	46
Financial assets held for trading	131	109
	-----	-----
Total short-term financial assets	229	163
	=====	=====
Long-term financial assets		
Financial assets available for sale	835	355
Financial assets held for trading	9	31
	-----	-----
Total long-term financial assets	844	386
	=====	=====

As at 31 March 2003 and 31 December 2002 financial assets available for sale include the fair value of hedging derivative financial instruments (see Note 28), amounting to PLN 731 million and PLN 229 million respectively.

Financial assets available for sale are measured at cost (due to the lack of active markets for these assets) or fair value. As at 31 March 2003 and 31 December 2002, financial assets available for sale amounting to PLN 131 million and PLN 134 million, respectively, were measured at cost. This position consists mainly of shares in satellite organisations, which are not quoted on an active market.

As at 31 March 2003 and 31 December 2002, all financial assets held for trading were measured at fair value.

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12. Inventories

	31 March 2003 unaudited	31 December 2002 audited
	(in PLN millions)	
Cables, wires, engineering inventory and other materials	96	100
Goods for resale	204	217
	-----	-----
Subtotal	300	317
Less allowance for obsolete inventory	(40)	(30)
	-----	-----
Total	260	287
	=====	=====

As at 31 March 2003 and 31 December 2002 goods for resale include the net amount of PTK-Centertel's mobile handsets of PLN 148 million and PLN 149 million, respectively.

13. Property, plant and equipment

		Land	Buildings, duct, cable and other outside plant	Telephone exchanges and other plant and equipment	Vehicles and other	Construction in progress	Total
		(in PLN millions)					
Cost or revalued amount							
1 January 2002		17	18,382	21,588	859	2,201	43,047
Correction of an error*		-	-	187	-	-	187
1 January 2002 adjusted	audited	17	18,382	21,775	859	2,201	43,234
Additions		-	136	518	13	(119)	548
Transfers		19	18	99	20	(117)	39
Disposals		-	(25)	(176)	(6)	-	(207)
		-----	-----	-----	-----	-----	-----
31 March 2002	unaudited	36	18,511	22,216	886	1,965	43,614
		=====	=====	=====	=====	=====	=====
1 January 2003	unaudited	35	19,316	24,700	927	2,096	47,074
Additions		-	81	453	10	(104)	440
Transfers		-	3	63	-	(67)	(1)
Disposals		-	(11)	(118)	(8)	-	(137)
		-----	-----	-----	-----	-----	-----
31 March 2003	unaudited	35	19,389	25,098	929	1,925	47,376
		=====	=====	=====	=====	=====	=====
Accumulated depreciation							
1 January 2002		-	4,412	11,126	624	-	16,162
Correction of an error*		-	-	14	-	-	14
1 January 2002 adjusted	audited	-	4,412	11,140	624	-	16,176
Charge for the period		-	194	705	38	-	937
Impairment loss/ (reversal of impairment loss)		-	-	(21)	-	-	(21)
Transfers		4	54	(58)	11	-	11
Disposals		-	(22)	(154)	(6)	-	(182)
		-----	-----	-----	-----	-----	-----
31 March 2002	unaudited	4	4,638	11,612	667	-	16,921
		=====	=====	=====	=====	=====	=====
1 January 2003	unaudited	6	5,167	13,543	728	13	19,457
Charge for the period		2	210	749	25	-	986
Impairment loss / (reversal of impairment loss)		-	(7)	15	-	1	9
Transfers		(1)	-	1	-	-	-
Disposals		-	(7)	(108)	(7)	-	(122)
		-----	-----	-----	-----	-----	-----
31 March 2003	unaudited	7	5,363	14,200	746	14	20,330
		=====	=====	=====	=====	=====	=====
Net book value							
31 March 2002	unaudited	32	13,873	10,604	219	1,965	26,693
		=====	=====	=====	=====	=====	=====
Net book value							
31 March 2003	unaudited	28	14,026	10,898	183	1,911	27,046
		=====	=====	=====	=====	=====	=====

*Effect of application of IAS 39 in respect of accounting for embedded derivatives (see Note 3).

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Transfers between construction-in-progress and other categories within the same organizational unit of TPSA are eliminated. The line "transfers" includes transfers between categories of fixed assets and transfers between different organizational units of TPSA.

Property, plant and equipment include borrowing costs incurred in connection with the construction of these assets. In the three month periods ended 31 March 2003 and 2002, the Group capitalised PLN 34 million and PLN 62 million of borrowing costs, respectively. The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation in the three month periods ended 31 March 2003 and 2002 were 7.4 % p.a. and 12.2% p.a., respectively.

International Accounting Standard 36 „Impairment of assets” requires that the recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired and an impairment loss should be recognised whenever the carrying amount of an asset exceeds its recoverable amount. As at 31 December 2002 the Group has identified certain indications, including market liberalisation and other regulatory and economic changes in the Polish telecommunications market, that could act as a triggering factor for the potential impairment of assets. Where possible, the recoverable amount was estimated for individual assets. The recoverable amount of such assets was determined at their net selling price or their value in use. If it was not possible to estimate the recoverable amount of the individual asset, the Group identified the cash-generating unit (“CGU”) to which the asset belongs. The recoverable amount of a CGU was determined as its value in use being the present value of estimated future cash flows expected to arise from the continuing use and residual value of a CGU and from its disposal at the end of its useful life. For the purpose of the impairment test, the entire fixed network, the entire mobile network and the entire radio diffusion network were treated as one cash-generating unit.

The accumulated impairment loss for fixed assets intended for liquidation or sale recognised by the Group as at 31 March 2003 and 31 December 2002 amounted to PLN 139 million and PLN 130 million respectively, and related primarily to its fixed line operations.

In the three month periods ended 31 March 2002 the impairment gain charged to the profit and loss account amounted to PLN 32 million (other operating revenue). In the three month periods ended 31 March 2003 the impairment loss charged to the profit and loss account amounted to PLN 12 million (other operating expenses).

The gross carrying amounts of certain property, plant and equipment items of PLN 3,928 million and PLN 3,767 million are fully depreciated as at 31 March 2003 and 31 December 2002 respectively, however, these items are still in active use.

The property, plant and equipment pledged as security for loans or bank guarantees as at 31 March 2003 and 31 December 2002 had a carrying value of PLN 813 million and PLN 756 million, respectively.

The Group does not insure a significant portion of its assets against, for instance, property damage, natural catastrophes, environmental contamination or loss of profits. Accordingly, the Group would not receive any compensation in the event of the loss of or damage to any such assets or interruptions in their operations.

In accordance with the Framework for the Preparation and Presentation of Financial Statements prepared by the International Accounting Standards Board an asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. Perpetual usufruct granted to the entities of the Group by virtue of law meets this definition. Accordingly the asset should be recognized at its historical cost. As at the date of the first adoption of IFRS and as at the date of these financial statements, the historical cost of the asset could not be determined reliably and therefore no asset has been recognized in these financial statements.

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14. Intangible assets

		DCS 1800 concession	GSM 900 concession	UMTS concession	Software and other intangibles	Goodwill	Total
(in PLN millions)							
Cost							
1 January 2002		349	384	1,599	1,062	139	3,533
Correction of an error*		-	-	-	18	-	18
1 January 2002 adjusted	audited	349	384	1,599	1,080	139	3,551
Additions		2	-	-	65	-	67
Financial costs capitalised		-	-	31	-	-	31
Transfers		-	-	-	81	-	81
Disposals		-	-	-	(8)	-	(8)
31 March 2002	unaudited	351	384	1,630	1,218	139	3,722
1 January 2003	unaudited	349	382	1,748	1,389	139	4,007
Additions		-	-	-	58	-	58
Financial costs capitalised		-	-	88	-	-	88
Transfers		-	-	-	1	-	1
Disposals		-	-	-	(6)	-	(6)
31 March 2003	unaudited	349	382	1,836	1,442	139	4,148
Accumulated amortisation							
1 January 2002		89	49	-	584	55	777
Correction of an error*		-	-	-	4	-	4
1 January 2002 adjusted	audited	89	49	-	588	55	781
Charge for the period		6	7	-	87	2	102
Transfers		-	-	-	35	-	35
Disposals		-	-	-	(6)	-	(6)
31 March 2002	unaudited	95	56	-	704	57	912
1 January 2003	unaudited	113	74	-	942	97	1,226
Charge for the period		6	7	-	92	11	116
Transfers		-	-	-	-	-	-
Disposals		-	-	-	(6)	-	(6)
31 March 2003	unaudited	119	81	-	1,028	108	1,336
Net book value							
31 March 2002	unaudited	256	328	1,630	514	82	2,810
31 March 2003	unaudited	230	301	1,836	414	31	2,812

*Effect of the application of IAS 39 in respect of accounting for embedded derivatives (see Note 3).

The DCS 1800 and GSM 900 concessions are 15-year concessions acquired by PTK - Centertel Sp. z o.o. in 1997 and 1999, respectively. The UMTS concession, which expires in 2023, was acquired by PTK-Centertel Sp. z o.o. in 2000. Another concession owned by PTK - Centertel Sp. z o.o. (NMT 450) has been obtained free of charge. TPSA's rights to provide telecommunications services are based on a 25-year permit granted on the basis of the Telecommunications Act. This permit expires in 2026.

The goodwill reported as at 31 March 2003 represents solely the net book value of goodwill on consolidation arising on the purchase of shares of Wirtualna Polska S.A. This goodwill is amortised over a period of 2 years.

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15. Loans, debt securities and other borrowings

	Note	31 March 2003 unaudited	31 December 2002 audited
(in PLN millions)			
Bank loans	(a)	5,436	4,959
Bonds	(b)	11,249	10,475
Short-term securities	(c)	100	197
Other borrowings	(d)	1	1
		-----	-----
Total		16,786	15,632
Less: short-term portion		(2,209)	(2,223)
		-----	-----
Long-term portion		14,577	13,409
		=====	=====

As at 31 March 2003 repayments of loans, bonds and other borrowings fall due in:

	(in PLN millions) unaudited
12 months ended 31 March:	
2004	2,209
2005	3,464
2006	3,550
2007	2,644
2008	449
Thereafter	4,470

Total	16,786
	=====

The above schedule of debt repayments includes the effect of the application of hedge accounting principles in the valuation of hedged item, described in detail in Note 6(u).

(a) Bank loans

Bank loans analysed by currency are as follows:

	31 March 2003 unaudited	31 December 2002 audited
(in PLN millions)		
Polish zloty	1,043	1,063
U.S. dollar*	952	921
Euro*	3,441	2,975
	-----	-----
Total	5,436	4,959
	=====	=====

* As at 31 March 2003 and 31 December 2002 the Group was a party to a number of currency and interest rate swaps which were designated as a fair value hedge (total amount of USD 110 million and USD 80 million, respectively and EUR 151 million and EUR 146 million, respectively). The data presented in the above table includes the fair value adjustments to the bank loans being hedged.

Bank loans denominated in Polish zloty are primarily subject to floating interest rates linked to WIBOR. The weighted average annual interest rate on Polish zloty denominated loans amounted to 7.3% p.a. and 12.2% p.a. in the three months ended 31 March 2003 and 31 March 2002, respectively. Bank loans denominated in Polish zloty have maturities ranging from 2003 to 2006.

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Bank loans denominated in foreign currencies were subject to both fixed and floating rates in the following proportions:

	31 March 2003	31 December 2002
	unaudited	audited
Fixed rates	19.7%	22.5%
Floating rates	80.3%	77.5%
	-----	-----
	100.0%	100.0%

Floating interest rates on foreign currency bank loans are based on LIBOR and EURIBOR rates, except for the loan granted by the International Bank for Reconstruction and Development and three loans granted by the European Investment Bank, where interest rates are regulated by these financial institutions.

Bank loans denominated in foreign currencies are subject to the following effective interest rates:

	31 March 2003	31 December 2002
	unaudited	audited
Less than 4% p.a.	72.8%	91.8%
Between 4% and 8% p.a.	26.8%	7.8%
Over 8% p.a.	0.4%	0.4%
	-----	-----
	100.0%	100.0%

Bank loans denominated in foreign currencies have maturities ranging from 2003 – 2021.

As at 31 March 2003 and 31 December 2002 bank loans amounting to PLN 425 million and PLN 416 million, respectively, were subject to government guarantees. Loans secured on specific assets of the Group as at 31 March 2003 and 31 December 2002 amounted to PLN 874 million and PLN 776 million, respectively.

(b) Bonds

On 10 December 1998, TPSA Finance B.V. issued bonds with a total nominal value of USD 1 billion. The bonds issue was made up of two tranches: five-year bonds with a nominal value of USD 200 million, fixed interest rate of 7.125% p.a. and maturity date on 10 December 2003 and ten-year bonds with a nominal value of USD 800 million, a fixed interest rate of 7.75% p.a. and a maturity date on 10 December 2008. The total proceeds from the issuance of TPSA Finance B.V. bonds amounted to USD 987 million. The underwriters and issue agents as well as the primary buyers of the bonds were J.P. Morgan Securities Inc. and Salomon Smith Barney Inc.

The redemption of the bonds issued by TPSA Finance B.V. is guaranteed by TPSA.

On 27 October 1999, TPSA Eurofinance B.V. issued bonds with a total nominal value of EUR 400 million, a total issue price of EUR 395 million, a fixed interest rate of 6.125% p.a. with a maturity date on 27 October 2004.

On 22 December 1999 TPSA Eurofinance B.V. issued bonds with a total nominal value of EUR 100 million, a total issue price of EUR 101 million, a fixed interest rate of 6.125% p.a. with a maturity date on 27 October 2004.

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On 13 March 2000 TPSA Eurofinance B.V. issued bonds with a total nominal value of EUR 475 million, a total issue price of EUR 470 million, a fixed interest rate of 6.5% p.a., with a maturity date on 13 March 2007.

The total proceeds from the issue of the above three tranches of TPSA Eurofinance B.V. bonds amounted to EUR 966 million. The underwriters and issue agents as well as the primary buyers of the bonds were Deutsche Bank and Salomon Smith Barney International.

The redemption of the bonds issued by TPSA Eurofinance B.V. is guaranteed by TPSA.

The three tranches of TPSA Eurofinance B.V. bonds were issued under the Euro Medium-Term Note Programme signed on 22 October 1999. The programme authorised TPSA Eurofinance B.V. to issue bonds of a total value up to the equivalent of USD 1 billion and with a maturity date of at least one month and no more than 30 years after the date of issuance. The Programme was extended to USD 2 billion in March 2001.

On 1 March 2001 TPSA Eurofinance B.V. issued bonds with a total nominal value of EUR 500 million, a total purchase price of EUR 495 million, a fixed interest rate of 6.625% p.a. and with a maturity date on 1 March 2006.

The issue constitutes the fourth tranche under the extended Euro Medium-Term Note Programme signed on 22 October 1999. The Programme was arranged by Deutsche Bank and Schroder Salomon Smith Barney.

The redemption of the bonds issued by TPSA Eurofinance B.V. is guaranteed by TPSA.

On 9 December 2002 TPSA issued bonds with a total nominal value of PLN 300 million, a total purchase price of PLN 297 million, a fixed interest rate of 7.25% p.a. and with a maturity date on 12 December 2005. The issue was arranged by Bank Handlowy w Warszawie SA. It was the first tranche within the scope of the Note Issuance Programme amounting to PLN 1 billion, signed on 14 October 2002. The Programme was admitted for public trading on 29 October 2002.

Bonds analysed by currency are as follows:

	<u>31 March</u> <u>2003</u> unaudited	<u>31 December</u> <u>2002</u> audited
	(in PLN millions)	
Polish zloty	305	297
U.S. dollar*	4,238	3,900
Euro*	6,706	6,278
	-----	-----
Total	11,249	10,475

* As at 31 March 2003 and 31 December 2002 the Group was a party to a number of currency and interest rate swaps which were designated as a cash flow hedge (total amount of EUR 675 million and EUR 725 million, respectively) and fair value hedge (total amount USD 775 million and EUR 250 million and PLN 200 million as at 31 March 2003 and USD 600 million and EUR 250 million and PLN 200 million as at 31 December 2002). The data presented in the above table includes the fair value adjustments to the bonds being hedged.

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(c) *Short-term securities*

Short-term securities are denominated in Polish zloty. They are issued at a discount and have maturities in 2003. The effective interest rates on short-term securities range from 7.5% to 7.7% p.a.

(d) *Other borrowings*

Other borrowings and credits as at 31 March 2003 and 31 December 2002 were denominated in Euro and comprised vendor financing. These borrowings and credits are subject to a fixed interest rate of 3.9% p.a. and will mature in 2006.

As at 31 March 2003 and 31 December 2002 the Group did not report other material borrowings and credits secured on assets.

The Group uses various methodologies to assess and manage financial risk:

- In order to mitigate the currency risk of its debt the Group enters into currency swap transactions in respect of part of foreign currency indebtedness in order to effectively convert it into Polish zloty indebtedness.
- In order to mitigate the interest rate and currency risk of its debt the Group enters into interest rate and currency swap transactions in respect of part of its fixed interest rate indebtedness to effectively convert it into floating interest rate indebtedness.
- In order to reduce the interest rate risk of the loan portfolio, the proportion of the fixed and floating rates is determined by management based on historical trends and future predictions. As Management expects interest rates to decrease in Poland, the majority of Polish zloty loans have floating interest rates.
- The Group continuously monitors the achievable interest rates and attempts to replace its loans with more favourable ones in response to market conditions.

Based on the arrangements made with banks the Group has unused bank loan facilities amounting to PLN 1,960 million as at 31 March 2003. Unused loan facilities amounting to PLN 1,124 million are designated to finance specific projects.

16. Accrued expenses and other payables

	31 March 2003	31 December 2002
	unaudited	audited
	(in PLN millions)	
Trade and capital expenditure payables	1,303	2,492
Concessions payable	876	790
Jubilee awards and retirement bonuses	409	406
Accrued expenses	384	381
Social security and taxes	360	257
Salaries and wages	129	105
Fair value of derivative financial instruments	72	266
Deposits and contract guarantees	27	25
Other payables	62	92
	-----	-----
Total	3,622	4,814
Less: short-term portion	(2,375)	(3,509)
	-----	-----
Long-term portion	1,247	1,305
	=====	=====

Payment terms for trade payables are variable depending on contract terms.

TELEKOMUNIKACJA POLSKA GROUP
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Accrued expenses and other payables (including the fair value of derivative financial instruments) include PLN 1,069 million and PLN 1,217 million of amounts denominated in foreign currencies as at 31 March 2003 and 31 December 2002, respectively. The primary foreign currency payable as at 31 March 2003 and 31 December 2002 concerns the acquisition of the UMTS concession and amounted to EUR 197 and 194 million, respectively.

17. Provisions

	31 March 2003	31 December 2002
	unaudited	audited
	(in PLN millions)	
Restructuring provision	194	334
Provision for tax dispute (see Note 27(a))	118	116
Provision for litigation and other claims	292	266
	-----	-----
Total	604	716
Less: short – term portion	(572)	(672)
	-----	-----
Long – term portion	32	44
	=====	=====

As at 31 March 2003 the restructuring provision consisted of the amount of compensation and other benefits for employees scheduled to terminate employment under the employment restructuring programme for the period 2003-2004, as approved by the Company's Management. Under this programme 24,270 employees are scheduled to terminate their employment in TPSA and certain subsidiaries during 2002 – 2004.

In 2002 the Company changed its estimate of the restructuring provision. Due to a higher than anticipated number of voluntary redundancies and the impact of regulatory changes relating to termination indemnities for employees allowed to receive pre-retirement benefits, TPSA increased the present value of the restructuring provision by PLN 239 million in the second quarter of 2002.

The changes in the provisions in the three month period ended 31 March 2003 and 2002 are detailed in the following table:

		Restructuring provision	Provision for real estate tax	Provision for tax dispute	Provision for litigation and other claims	Total
		(in PLN millions)				
1 January 2002	audited	781	1	264	-	1,046
Additions		-	-	90	-	90
Utilised		(260)	-	-	-	(260)
		-----	-----	-----	-----	-----
31 March 2002	unaudited	521	1	354	-	876
		=====	=====	=====	=====	=====
1 January 2003	unaudited	334	-	116	266	716
Additions		-	-	2	26	28
Utilised		(140)	-	-	-	(140)
		-----	-----	-----	-----	-----
31 March 2003	unaudited	194	-	118	292	604
		=====	=====	=====	=====	=====

The provision for tax dispute of PLN 244 million was released as a result of the Group's estimation of exposure to potential tax risk as of 31 December 2002 (see Note 27(a)).

TELEKOMUNIKACJA POLSKA GROUP
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18. Deferred income

	<u>31 March</u> <u>2003</u> unaudited	<u>31 December</u> <u>2002</u> audited
	(in PLN millions)	
Grants (see Note 6(m))	273	265
Prepaid services	191	182
Other	3	16
	-----	-----
Total	467	463
Less: short-term portion	(265)	(198)
	-----	-----
Long-term portion	202	265
	=====	=====

Changes in grants were as follows:

	<u>3 months ended 31 March</u>	
	<u>2003</u> unaudited	<u>2002</u> unaudited
	(in PLN millions)	
Beginning of period	265	275
Net amounts received	14	-
Amortisation	(6)	(4)
	-----	-----
End of period	273	271
	=====	=====

19. Income tax

	<u>3 months ended 31 March</u>	
	<u>2003</u> unaudited	<u>2002</u> unaudited
	(in PLN millions)	
Current income tax charge for the period	280	211
Deferred tax benefit *	(214)	(109)
	-----	-----
	66	102
	=====	=====

*The deferred tax included in the net profit or loss of the period. The remaining part of the deferred tax benefit has been included in the revaluation reserve and other reserves. The deferred tax decreased other reserves by PLN 15 million in the 3 months ended 31 March 2003 and increased revaluation reserve and other reserves by a total amount of PLN 58 million in the 3 months ended 31 March 2002.

The reconciliation between the reported income tax expense and the theoretical amount arising through the application of the statutory income tax rates is as follows:

	<u>3 months ended 31 March</u>	
	<u>2003</u> unaudited	<u>2002</u> unaudited
	(in PLN millions)	
Profit before income tax	168	187
	-----	-----
Tax rate	27%	28%
Income tax calculated at statutory rate	45	52
Effect of income/expenses not subject to income tax	15	18
Change in valuation allowance	7	33
Other	(1)	(1)
	-----	-----
Income tax expense for the period	66	102
	=====	=====

TELEKOMUNIKACJA POLSKA GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Enacted Corporate Income Tax rates are as follows:

<u>Year</u>	<u>Enacted tax rate</u>
2002	28%
From 2003	27%

Expenses not subject to income tax consist of certain expense items which, under Polish tax law, are specifically determined as non-tax deductible. Income not subject to income tax was immaterial.

The valuation allowance relates mainly to the tax losses and temporary differences reported by certain consolidated entities, as no reasonable expectation of their realisation exists. In these financial statements the Group re-assessed the probability to recover certain temporary differences, which were written down in prior periods, and recognised the related deferred tax assets. The recognised deferred tax assets on the above temporary differences amounted to PLN 46 million and decreased deferred tax expense in the first quarter of 2003.

Tax losses of consolidated subsidiaries incurred in previous years and in the first quarter of 2003 for which the deferred tax assets was written down as at 31 March 2003 amounted to PLN 67 million, PLN 102 million, PLN 220 million and PLN 96 million and will expire in 2005, 2006, 2007 and 2008 respectively. As at 31 March 2003 the entities of the Group did not report any tax losses which could be used solely by the end of 2003 or 2004.

During the 3 month period ended 31 March 2003 TPSA's subsidiary PTK Centertel decreased its taxable income by PLN 186 million due to the realisation of a part of the tax losses reported in 1999 and 2000.

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The net deferred tax liabilities/(assets) consist of the following:

	31 March 2003	31 December 2002
	unaudited	audited
	(in PLN millions)	
Deferred tax liabilities:		
Accelerated tax depreciation	440	448
Accrued income	485	422
Unrealised foreign exchange gains	264	264
Embedded derivatives	48	71
	-----	-----
	1,237	1,205
Offsetting deferred tax liabilities and deferred tax assets within one entity	(1,217)	(1,015)
	-----	-----
Deferred tax liabilities after offsetting within one entity	20	190
Deferred tax assets:		
Unrealised foreign exchange losses	(634)	(489)
Accrued expenses	(534)	(421)
Unused tax losses of subsidiaries carried forward	(271)	(278)
Jubilee awards and retirement bonuses	(110)	(102)
Excess of book over tax depreciation	(197)	(194)
Bad debt provision	(243)	(235)
Restructuring provision	(52)	(81)
Other	(9)	(12)
	-----	-----
	(2,050)	(1,812)
Valuation allowance	521	514
Offsetting deferred tax assets and deferred tax liabilities within one entity	1,217	1,015
	-----	-----
Deferred tax assets after valuation allowance and after offsetting within one entity	(312)	(283)
	-----	-----
Net deferred tax assets	(292)	(93)
	=====	=====

Under Polish tax regulations, until the end of 1999 taxpayers were allowed to reduce the taxable income by the costs of purchasing qualifying fixed assets acquired in a given tax year (investment tax allowance deduction). In addition, the taxable income might have been further reduced in the following year by 50% of the previous year deduction (investment tax bonus). From 1 January 2000 taxpayers are no longer allowed to deduct capital expenditures from the taxable income, except for capital expenditures relating to qualifying fixed assets being still under construction, which were subject to investment tax allowance before 31 December 1999. In respect of the investment tax allowances utilised in 1999 and subsequent years taxpayers may take advantage of related investment tax bonus.

Both the initial deduction and the additional deduction applied in one year are limited to 10% in 2002 and 2001, according to the Corporate Income Tax Law. The opportunity to claim a deduction, which is not used in a given year due to lower pre-tax profit, is forfeited and cannot be carried over into the next year.

TPSA took advantage of the above described investment tax allowance scheme in 1994 – 2002. The Company deducted PLN 2,561 million from taxable income over the period. Additionally, in 1995 - 2002 TPSA took additional deduction (investment tax bonus) of PLN 1,481 million (see also Note 27(b)).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Minority interest

	3 months ended 31 March	
	2003	2002
	unaudited	unaudited
	(in PLN millions)	
Beginning of period	634	621
Correction of an error*	-	6
Beginning of period, adjusted	634	627
Share of results for the period	(31)	(53)
	-----	-----
End of period	603	574
	=====	=====

* Effect of application of IAS 39 in respect of accounting for embedded derivatives (see Note 3).

21. Shareholders' equity

As at 31 March 2003 the share capital of the Group represented by the parent company's share capital amounted to PLN 4,200 million and was divided into 1,400 million fully paid ordinary bearer shares of PLN 3 each.

No changes were made in the number of shares in the three months ended 31 March 2003.

The ownership structure of the share capital as registered at 31 March 2003 was as follows:

	<u>% of votes</u>	<u>Nominal value (in PLN millions)</u>
France Telecom S.A. (Cogecom S.A.)	33.9	1,425
State Treasury	17.9	753
Kulczyk Holding S.A. (Tele-Invest S.A. and Tele-Invest II S.A.)	13.6	570
Bank of New York	10.0	419
Other shareholders	24.6	1,033
	-----	-----
Total	100.0	4,200
	=====	=====

France Telecom and Kulczyk Holding consortium holds a call option to buy additional 10% of TPSA share capital. The option may be exercised under the condition that the State Treasury will be selling TPSA shares in the public offer.

Cogecom SA, a subsidiary of France Telecom SA, is a dominant company to TPSA with the right to dismiss and appoint the majority of the members of TPSA's Management Board.

On 14 April 2003 the State Treasury transferred the ownership of 43,860 thousand shares of TPSA to Kompania Węglowa S.A. The shares transferred to Kompania Węglowa S.A. account for 3.13% of the share capital of TPSA and provide 3.13% of the votes at the General Shareholders' Meeting of TPSA.

The profit of TPSA available for distribution under Polish law as presented in the financial statements prepared according to Polish Accounting Standards for the year ended 31 December 2002 amounted to PLN 957 million. According to Polish law, the profit available for distribution is the annual profit approved by the General Shareholders' Meeting (see Note 31 (b)).

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The share premium includes an amount of PLN 713 million which, according to the Notary Deed of 4 December 1991, relates to the contribution of the telecommunications business of PPTiT at the formation of TPSA. As the regulations relating to the transformation of PPTiT are somewhat 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.

The revaluation reserve represents the Group's share in the revaluation reserve arising from revaluations performed by Group entities taking into account impairment losses recognised on revalued assets (see Note 6 (g)).

22. Revenue and other operating expenses

Revenue for the 3 months ended 31 March 2002 and 31 March 2003 is as follows:

	3 months ended 31 March	
	2003	2002
	<u>unaudited</u>	<u>unaudited</u>
	(in PLN millions)	
Fixed line telephony services:	3,107	3,153
Subscriptions, connections and similar charges	1,001	992
Traffic revenues	2,006	2,011
Payphone revenues	28	78
Other	72	72
Mobile telephony services	662	515
Interconnect revenues:	340	318
LTOs and other licensed domestic operators	48	78
Mobile telephony operators	161	104
International incoming traffic	131	136
Leased lines	98	119
Radio communications	84	87
Data transmission	118	81
Telex and telegraphy	-	3
Manufacturing, equipment sales and other	83	108
	-----	-----
Total	4,492	4,384
	=====	=====

Revenues are generated on the territory of Poland. 2.9% and 3.6% of the total revenues for the three months ended 31 March 2003 and 2002, respectively, were received from foreign parties, mostly in respect of interconnect arrangements.

Other operating revenue in the three months ended 31 March 2003 and 31 March 2002 are as follows:

	3 months ended 31 March	
	2003	2002
	<u>unaudited</u>	<u>unaudited</u>
	(in PLN millions)	
Revaluation of assets*	64	40
Fines and penalties	35	33
Other	47	58
	-----	-----
Total	146	131
	=====	=====

TELEKOMUNIKACJA POLSKA GROUP
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Other operating expenses in the three months ended 31 March 2003 and 31 March 2002 are as follows:

	3 months ended 31 March	
	2003	2002
	unaudited	unaudited
	(in PLN millions)	
Revaluation of assets*	182	138
Taxes and other charges	143	135
Other	53	31
Total	378	304

* Revaluation of assets relates to fixed assets, receivables and inventories

23. Financial revenue and charges, net

Financial revenue and charges comprise the following:

	3 months ended 31 March	
	2003	2002
	unaudited	unaudited
	(in PLN millions)	
Interest revenue	23	31
Other financial revenue	186	126
Interest revenues and other financial revenue	209	157
Interest expense	(361)	(369)
Commissions and other charges	(139)	(217)
Total interest expense and other charges	(500)	(586)
Interest and similar charges capitalised	50	73
Interest expense and other charges	(450)	(513)
Total foreign exchange losses, net	(610)	(355)
Foreign exchange losses capitalised	72	20
Foreign exchange losses, net	(538)	(335)

During the 3 month period ended 31 March 2003 and 31 March 2002, other financial revenue include revenue from derivatives in the amount of PLN 177 million and PLN 100 million, respectively.

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24. Commitments

(a) Operating lease commitments

Lease commitments mainly relate to the lease of buildings, land, computer equipment and vehicles. Lease costs recognised in the profit and loss account in the three months ended 31 March 2003 and 2002 amounted to PLN 29 million and PLN 55 million, respectively. Majority of the above mentioned agreements is denominated in foreign currency; some of the above agreements are indexed with price indices applicable for a given currency. Future minimum lease payments under non-cancellable operating leases, with a term of more than one year as at 31 March 2003, were as follows:

	<u>(in PLN millions)</u>
	<u>unaudited</u>
12 months ended 31 March :	
2004	199
2005	176
2006	159
2007	145
2008	135
Thereafter	328
Total minimum lease payments	1,142

(b) Purchase commitments

As at 31 March 2003 and 31 December 2002 capital expenditures on tangible fixed assets amounting to PLN 1,323 million and PLN 1,408 million respectively were committed under contractual arrangements, with PLN 74 million and PLN 124 million due after one year. Capital expenditures on fixed assets principally relate to the telecommunications network.

As at 31 March 2003 and 31 December 2002 capital expenditures on intangible assets amounting to PLN 362 million and PLN 174 million respectively, were committed under contractual arrangements. As at 31 March 2003 and 31 December 2002 capital expenditures amounting to PLN 163 million and PLN 143 million were due after one year. Capital expenditures on intangibles principally relate to the implementation and development of customer relationship management system as well as purchase and implementation of billing systems and software.

(c) North-South Link

On the basis of the initial agreement dated 18 January 1991, signed between the legal predecessor of TPSA – Polska Poczta, Telegraf i Telefon (“PPTiT”) and the Danish Great Northern Telegraph Company (“GN”) and the final agreement dated 17 April 1991 between PPTiT and the Danish-Polish Telecommunication Group (“DPTG”), the legal successor of GN, a fibre optical link called North-South Link (“NSL”) connecting the northern and southern Polish borders, with a total length of 1,500 km, was constructed and commissioned. The total cost of the investment was estimated at DKK 210 million and was shared between the parties. The share of PPTiT was DKK 84 million whilst DPTG paid an amount of DKK 126 million. Ownership rights to this investment were transferred to the Company on commissioning and DPTG was granted 14.8% of the net profit from the cable during a period of 15 years starting as of the day on which the first part of the cable was commissioned, i.e. from 16 November 1993. Net profit is calculated as income from long-distance and international traffic transmitted via this link based on agreed usage fees per minute less maintenance costs, depreciation and income tax. The Company is responsible for the maintenance of the cable. For the purposes of the net profit calculation, the parties agreed that annual maintenance costs would amount to 7% of the cable cost as adjusted for inflation index limited to 5% denominated in Special Drawing Rights (SDR). The Company was required to maximise data flow through the cable.

DPTG’s share in the cable net profit for the three month periods ended 31 March 2003 and 2002 amounted to PLN 10 million and PLN 7 million respectively and was recognised as an expense.

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25. Related party transactions

As at 31 March 2003 France Telecom, via its subsidiary company Cogecom S.A., owned 33.9% of shares of the parent company (see Note 21). In addition, France Telecom via its subsidiary France Telecom Mobiles International, as the minority shareholder, indirectly owns 34% of the shares of PTK-Centertel Sp. z o.o. The Group provides and receives interconnect services from France Telecom on normal commercial terms.

In the three months ended 31 March 2003 and 2002 the Group purchased services from France Telecom amounting to PLN 10 million and PLN 18 million respectively, and sold services amounting to PLN 3 million and PLN 6 million, respectively. Furthermore, in the three months ended 31 March 2003 and 2002, France Telecom provided free of charge services to TPSA worth PLN 4 million and PLN 6 million respectively. The Group did not execute any significant purchase or sales transactions with Cogecom S.A. in the three months ended 31 March 2003 and 2002.

As at 31 March 2003 the Polish State Treasury owned 17.9% of the shares of the parent company (see Note 21). In general, the Group provides services to government organisations on normal commercial terms.

As at 31 March 2003, Tele-Invest S.A. together with Tele-Invest II S.A., subsidiaries of Kulczyk Holding S.A., owned 13.6% of shares of the parent company (see Note 21). The Group did not execute any significant purchase or sales transactions with Tele-Invest S.A. or Tele-Invest II S.A. in the three months ended 31 March 2003 and 2002.

As at 31 March 2003 the Group's receivables from France Telecom amounted to PLN 4 million, while the Group's payables to France Telecom amounted to PLN 3 million. As at 31 March 2003 the Group did not report any significant receivables and payables to the rest of the above related parties.

Total remuneration and bonuses (cash and benefits in kind) paid or payable by Telekomunikacja Polska S.A. to TPSA Management Board members in the three months ended 31 March 2003 and 2002 amounted to PLN 2 million and PLN 2 million, respectively.

In the three month period ended 31 March 2003 and 31 March 2002 TPSA did not pay to the members of TPSA's Management and Supervisory Board any compensation, termination indemnities and compensation under the competition clause in significant amounts.

The members of TPSA's Management Board did not receive and will not receive in the three months period ended 31 March 2003 remuneration and bonuses (cash and benefits in kind) in significant amount from TPSA subsidiary and associated companies for the performance of various functions at their authorities. In the three months ended 31 March 2002, the members of TPSA's Management Board received remuneration and bonuses (cash and benefits in kind) amounting to a total of PLN 1 million from TPSA subsidiary and associated companies.

In the three month periods ended 31 March 2003 and 2002 in TPSA did not incur costs of remuneration of Company's Supervisory Board members in significant amounts.

TELEKOMUNIKACJA POLSKA GROUP
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26. Segment reporting

The Group operates in two major reportable segments, namely fixed line telecommunications and mobile telecommunications. The two segments are strategic business units, each of which offers a different service.

The parent company operates in the fixed line telecommunications sector where it provides local, domestic long distance and international public telephony services. In addition, TPSA provides leased lines, radio-communication and other telecommunications value added services. TPSA's subsidiary TP TelTech Sp. z o.o. sells telecommunications equipment. TPSA's subsidiary TP Emitel Sp. z o.o. provides radio broadcasting, radio-communications and data transmission services.

Mobile telecommunications services are provided by the subsidiary PTK-Centertel Sp. z o.o. which is a provider of NMT 450, DCS 1800 and GSM 900 mobile telecommunications in Poland. According to the UMTS concession granted in December 2000 and subsequent amendments to its conditions, PTK-Centertel Sp. z o. o. will be allowed to provide third generation services from 1 January 2005 (see Note 27 (c)).

Other operations relate to the businesses of other companies that make up the Group. Other operations do not fulfil the conditions for reportable segments under International Accounting Standard No. 14 "Segment Reporting".

The Group operates in one geographical segment, the territory of the Republic of Poland.

The accounting policies are uniform for all segments. Transactions between segments take place on an arm's-length basis. These transactions are eliminated in consolidation.

Segment assets and liabilities do not include investments accounted for using the equity method or deferred taxes.

Translation of the report originally issued in Polish

**TELEKOMUNIKACJA POLSKA GROUP
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Basic financial data on the business segments is presented below:

	Fixed line telecommunications	Mobile telecommunications	Other	Eliminations	Consolidated
31 March 2003					
Segment assets	32,934	7,045	526	(5,584)	34,921
Investments accounted for using the equity method	-	-	9	-	9
Deferred tax assets	12	364	2	(66)	312
Total assets	32,946	7,409	537	(5,650)	35,242
Segment liabilities	18,890	5,737	106	(2,650)	22,083
Deferred tax liabilities	67	-	-	(47)	20
Total liabilities	18,957	5,737	106	(2,697)	22,103
31 December 2002					
Segment assets	32,929	6,982	627	(5,404)	35,134
Investments accounted for using the equity method	-	-	9	-	9
Deferred tax assets	6	290	2	(15)	283
Total assets	32,935	7,272	638	(5,419)	35,426
Segment liabilities	19,018	5,523	161	(2,440)	22,262
Deferred tax liabilities	192	-	-	(2)	190
Total liabilities	19,210	5,523	161	(2,442)	22,452
3 months ended 31 March 2003					
Sales:	3,638	972	53	(171)	4,492
Inter-segment	26	129	16	(171)	-
external	3,612	843	37	-	4,492
Depreciation and amortisation	899	174	30	(1)	1,102
Operating result	872	141	(64)	(2)	947
Net profit / (loss)	230	(78)	(61)	42	133
Impairment loss charged/(reversed)	8	-	1	-	9
Capital expenditure	323	255	8	-	586
Net cash flow from:					
operating activities	1,503	243	(28)	(6)	1,712
investing activities	(1,142)	(197)	(22)	(50)	(1,411)
financing activities	(412)	(46)	-	61	(397)
3 months ended 31 March 2002					
Sales:	3,779	732	30	(157)	4,384
Inter-segment	39	114	4	(157)	-
external	3,740	618	26	-	4,384
Depreciation and amortisation	882	139	16	2	1,039
Operating result	966	(18)	(70)	-	878
Net profit / (loss)	325	(165)	(74)	51	137
Impairment loss charged/(reversed)	(21)	-	-	-	(21)
Capital expenditures	356	281	9	-	646
Net cash flow from:					
operating activities	1,433	21	34	158	1,646
investing activities	(1,286)	(407)	(13)	(57)	(1,763)
financing activities	(244)	403	-	(101)	58

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27. Contingent liabilities and uncertainties

(a) Tax, customs and foreign exchange regulations in Poland

Regulations relating to value-added tax, corporate income tax, and payroll (social) taxes have been radically changed in comparison to the tax regulations which existed prior to the economic and political transformation in Poland. The lack of reference to well-established regulations and the relatively short period in which these new tax regulations have been in place results in there being a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. Tax settlements, together with other areas of legal compliance areas (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

There are no formal procedures in Poland for agreeing the final level of tax charge for a period. Tax settlements may be subject to review within a period of 5 subsequent years.

The Management Board is convinced that the Company fulfils tax regulation requirements for all crucial matters relating to its activities. However, there is a risk that the authorities may have a different opinion as to the interpretation of the law than the companies within the Group, which could have a significant influence on their tax liabilities.

Following the review conducted by the Warsaw Tax Inspection Office at the parent company, TPSA received decision dated 27 September 2001, stating that the Company understated its VAT settlements for 1996 by PLN 72 million, together with penalty interest. The Company paid the amount under question. On 12 October 2001 TPSA appealed the decisions of the Warsaw Tax Inspection Office to the Tax Chamber in Warsaw.

On 2 October 2002 the Tax Chamber overruled the decision of the Warsaw Tax Inspection Office of 27 September 2001 regarding the results of the VAT settlements and decreased the disputed VAT settlements to PLN 9 millions (overdue tax liabilities excluding accrued interest). On 17 October 2002 TPSA received the overpaid VAT plus penalty interest which amounted to a total of PLN 64 million. The Company has questioned the decision of the Tax Chamber which determined the new amount of the VAT underpayment for 1996 and accordingly appealed the decision dated 2 October 2002 to the Supreme Administrative Court on 30 October 2002. In accordance with the procedure provided for in the act on the Supreme Administrative Court, on 21 January 2003 the Tax Chamber filed a response to the TPSA's appeal at the Supreme Administrative Court which exhausts administrative procedures related to the appeal. The Tax Chamber rejected TPSA's charges and asked for rejection of the TPSA's appeal. On 14 April 2003 TPSA applied to the Minister of Finance to initiate proceedings to reverse the decision of the Tax Chamber of 2 October 2002 regarding results of the VAT settlements. TPSA's appeals to NSA and the Minister of Finance have not been investigated by the date of the preparation of these financial statements.

Due to discrepancies between the decisions of the Tax Chamber and the Warsaw Tax Inspection Office the Company's Management Board believes that there is a high probability of obtaining a favourable verdict of the Supreme Administrative Court in this case. Given the stage of the disputes, the parent company decided to release a provision for the tax dispute of PLN 147 million in the third quarter of 2002. In addition, the results of the 1996 Warsaw Tax Inspection Office inspection and the decision of the Tax Chamber may lead to the questioning of the Company's other tax liabilities related to other reporting periods. The maximum exposure estimated by the Company amounts to PLN 204 million as at 31 March 2003. The risk assessment made by the Company's Management Board as at 31 March 2003 does not indicate that an additional provision should be created in this respect.

On 13 July 2000 the Warsaw Tax Inspection Office began an inspection of the 1997 VAT settlements of the subsidiary PTK-Centertel Sp. z o.o. On 12 February 2001 the scope of the inspection was

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extended to include the CIT settlements for 1997. On 29 October 2001 PTK-Centertel Sp. z o.o. received a decision dated 25 October 2001 stating that the VAT underpayment for 1997, together with penalty interest, amounted to PLN 65 million. The Tax Inspection Office agreed to suspend the collection of this amount until the Tax Chamber has investigated the appeal submitted by PTK-Centertel Sp. z o.o. on 12 November 2001. On 9 December 2002 PTK-Centertel received a decision from the Tax Chamber partly overruling the Tax Inspector's decision. The total liability together with penalty interest amounting to PLN 22 million, as determined in the decision of the Tax Chamber, was paid by PTK on 9 December 2002. On 8 January 2003 PTK-Centertel appealed the decision to the Supreme Administrative Court. The appeal had not yet been considered as at the date of the preparation of these financial statements.

Furthermore, PTK-Centertel Sp. z o.o. received a decision dated 4 February 2002 on the inspection of the Company's 1997 CIT settlements which stated a CIT underpayment of PLN 9 million. The company appealed this decision to the Tax Chamber on 18 February 2002. The Tax Inspection Office agreed to suspend the execution of this decision until 15 April 2002. On 15 April 2002 PTK-Centertel Sp. z o.o. paid the amount in question together with accumulated interest amounting to PLN 9 million. On 27 May 2002 PTK-Centertel Sp. z o.o. received the decision of Tax Chamber upholding the decision of the Tax Inspection Office dated 4 February 2002. On 21 June 2002 PTK-Centertel appealed the decision to the Supreme Administrative Court. The appeal had still not been investigated as at the date of the preparation of these financial statements.

On 8 September 2000 the Warsaw Tax Inspection Office began inspections of the 1998 and 1999 VAT settlements of the subsidiary PTK-Centertel Sp. z o.o.. On 30 December 2002 PTK-Centertel received the decision from the Tax Inspection Office stating that the VAT underpayment for 1998 together with penalty interest amounted to PLN 12 million. The company appealed the decision to the Warsaw Tax Chamber. The Tax Inspection Office agreed to suspend execution of the decision in respect of an amount of PLN 7.5 million. On 28 January 2003 PTK-Centertel Sp. z o.o. paid the outstanding part of the sum in question, which amounted to PLN 4.5 million. The appeal to the Tax Chamber had not been considered as at the date of the preparation of these financial statements. The review for 1999 had not been completed as at the date of the preparation of these financial statements.

Taking into account the stage of the disputes, as at 31 March 2003 the Group entities set up a provision of PLN 118 million reflecting the best estimate of amounts that are more likely than not to be claimed.

(b) Investment tax allowances

In 1994 – 2002 TPSA took advantage of the investment tax allowance scheme. Under this scheme, when calculating its taxable income, TPSA deducted PLN 2,561 million in respect of investment in qualifying fixed assets in the period. In addition, during the period 1995 – 2002 the Company took an additional investment tax bonus of PLN 1,281 million. These deductions reduced the tax charges of TPSA by PLN 1,440 million in 1994-2002 as follows:

	(in PLN millions)
1994	138
1995	252
1996	311
1997	282
1998	207
1999	159
2000	71
2001	17
2002	3

Total	1,440
	=====

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According to the tax regulations, taxpayers are obliged to refund utilised allowances, if any of the following events occurs within three years of the end of the year in which the deductions were made:

- the taxpayer has overdue tax, social security and other tax-related liabilities,
- ownership of assets subject to investment tax allowances is transferred to another party in any form (this does not relate to the transfer of ownership resulting from the transformation of the legal status, merger or division of economic entities),
- any leasing contract in respect of assets subject to investment tax allowances is no longer deemed to be a finance lease contract,
- the taxpayer is placed into liquidation or declared bankrupt,
- the taxpayer receives reimbursement of investment outlays in any form.

Furthermore, the Company may only utilise the deduction when certain conditions have been fulfilled prior to making the deduction, including a lack of tax arrears. If these conditions have not been fulfilled as at the moment of the utilisation of the deductions, the tax authorities may question the rights to the investment tax allowances.

Tax reviews carried out at the Company identified certain irregularities in historical tax settlements. These reviews did not question the Company's rights to investment allowance. However, in the future, tax reviews may question the Company's rights to investment tax allowances or decide that the Company has lost its rights to allowances due to non-compliance with related requirements.

In 1999 tax legislation was modified allowing for the right of retention of investment tax allowances even in cases where a taxpayer has tax arrears provided that the taxpayer either adjusts its tax return and pays the arrears plus penalty interest or the taxpayer pays the overdue amount plus penalty interest within 14 days of the receipt of the tax authorities' decision establishing the existence of tax arrears. However, these modifications do not apply to the right to investment allowances utilised before 1 January 1997 as well as arrears resulting from unpaid social security charges.

(c) Concessions for mobile telecommunications

The subsidiary company PTK-Centertel Sp. z o.o. has the only concession in Poland for the provision of NMT 450 services across the whole country, a concession to provide DCS 1800 services in certain areas of Poland, a concession to provide GSM 900 services in the whole of Poland and a concession to provide services according to the UMTS European telecommunication standard across the whole of Poland. These mobile concessions are granted for set periods of time and require that PTK-Centertel Sp. z o.o. fulfils certain concession objectives, including a commitment to ensure that the DCS 1800 network encompasses a given number of subscribers, and that the GSM 900 and UMTS networks cover a given percentage of the territory of Poland by a set deadline. In addition, the UMTS network should guarantee subscribers a specific pre-determined capacity to facilitate data transmission. The UMTS operator is required to commence services no later than on 1 January 2004. If PTK-Centertel Sp. z o.o. fails to meet these objectives, the concessions may be withdrawn. On 18 September 2001 PTK-Centertel applied to the URT for a 12 month extension in the deadline for the commencement of UMTS services. This application was accepted on the basis of a decision dated 24 April 2002.

PTK-Centertel Sp. z o.o. met all requirements related to the telecommunications concessions as at 31 March 2003. The company believes that it will be able to meet all requirements related to the above concessions in the future.

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(d) Rights to assets and division of liabilities

Issues related to incorporation of TPSA

The parent company was established as a result of the transformation of the state owned organisation PPTiT into two entities – Polish Post Office and TPSA. During the transformation process and transfer of the ownership rights to the new entities, certain items of property and other assets that are currently under the Company's control were omitted and the documentation relating to the transformation process is incomplete in respect of certain items of property. This means that TPSA's rights to certain properties may be questioned.

In addition, as 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 the Company's predecessor's obligations existing at the moment of transformation.

Assets received free of charge

Since June 1998, following the petitions of several local authorities and associations of local authorities addressed to the Office for the Protection of Competition and Customers ("OPCC"), administrative proceedings have been instituted against TPSA on the basis of Art. 5 par. 1 items 3 and 6 of the Act on Prevention of Monopolistic Practices and Customer Protection dated 24 February 1990. The proceedings referred to the Company's monopolistic practices involving the abuse of its dominant market position through the imposition on local authorities of unfavourable conditions relating to mutual capital expenditures on the development of telecommunications infrastructure on the territories of the local authorities in question. According to the local authorities, TPSA gained unjustified benefits as a result of its monopolistic practices.

As at the date of preparation of these consolidated financial statements all last resort appeals taking place in front of the Supreme Court were resolved in TPSA's favour (the most recent last resort appeal was rejected on 19 March 2003). Taking into account the recent rulings of the Supreme Court in the cases already closed, other local communities as well as the President of OPCC may be discouraged from opening another anty-monopolistic proceedings against TPSA.

As a result of the above, the parent company did not report any provision in this respect as at 31 March 2003.

(e) Dispute with DPTG

As has been described in more detail in Note 24(c) the Company has a revenue sharing agreement with DPTG. There is a dispute between DPTG and the Company relating to the basis used for the calculation of the revenues to be shared between the parties and the resulting settlements between both parties. On 22 March 2001 DPTG requested termination or re-negotiation of the contract as the traffic accounted for by TPSA has been decreasing since 1999. As the Company did not accept the suggested terms of termination of the re-negotiation of the agreement, DPTG claimed arbitration in June 2001.

On 5 November 2002 DPTG filed a motion with the arbitration court in which it demanded that TPSA pay the estimated amount of EUR 280 million (i.e. PLN 1,157 million translated at Bank Handlowy's exchange rate as at 31 March 2003). The arbitration court hearing was held on 14 November 2002 and both parties were given additional time until 15 February 2003 to finalise the negotiations. On 17 February and 14 April 2003 TPSA submitted the final statements of its position to the arbitration court. The court proceedings are still underway. As at the date of preparation of these consolidated financial statements the arbitration court proceeding was still pending. Irrespective of arbitration court proceeding, parties are conducting negotiations to close the above litigation out of court.

In the third quarter of 2002 TPSA created a provision in this respect which represents the Company's best estimate of the amounts which are more likely than not to be paid. The information usually

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required by International Accounting Standard No. 37 "Provisions, Contingent Liabilities and Contingent Assets" is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation.

(f) Investigations by URTiP and OPCC

A number of investigative proceedings concerning TPSA are currently underway at URTiP and OPCC.

According to the Telecommunication Act the President of URTiP may impose on the telecommunication operator a penalty in the maximum amount of up to 3% of the operator's prior year's revenue, if the operator does not fulfil certain requirements of the Telecommunication Act.

In case of non-compliance with the ban prohibiting competition limiting agreements or the abuse of dominant market position the President of OPCC is empowered, according to the Act on Consumer Protection and the Prevention of Monopolistic Practices, to impose on an entity penalties in the maximum amount of up to EUR 5 million, but not more than 10% of an entity's prior year's revenue.

As at the date of the preparation of these financial statements investigations concerning TPSA were still at the explanatory stage. The Management of the Company believes that as at the date of the preparation of these financial statements the Company fulfils all requirements of the above mentioned legal acts and the risk of imposing the penalty on the Company is not significant. For that reason these financial statements do not include any provision in this respect.

(g) Contract withdrawal

In April 2002 the Company withdrew from a contract with one of its suppliers which related to a project undertaken by the Company. Under this contract, in order for the Company to withdraw, it must be able to prove that the project is not financially viable. The outstanding value of the contract amounts to PLN 32 million.

If the justification for the withdrawal from the contract appears to be insufficient, the Company may incur losses in this respect. As the Company's Management Board believes that such losses are remote, these financial statements do not include any provision in this respect.

(h) Claims against Wirtualna Polska S.A.

Wirtualna Polska S.A. ("WP"), a subsidiary of TP Internet was requested to pay USD 10 million in respect of a claim relating to the Wirtualna Polska directory and name rights and then called upon to settle. WP and its shareholders rejected the settlement offer, seeing no sufficient grounds for the claims. The Company's Management Board concluded that the probability of losses is remote and therefore no provision was accounted for in these financial statements in respect of the above request.

(i) Pia Piasecki SA claims

TPSA concluded a contract with PIA Piasecki SA for the design and construction of the Twarda Tower building. As the terms of the contract were not met due to a delay in the performance of the work, in the middle of 2002 TPSA lodged a claim on the basis of the bank guarantee for the performance of the contract, amounting to a total of PLN 17 million.

On 30 December 2002 PIA Piasecki claimed arbitration and demanded from TPSA an amount of PLN 111 million as compensation for the claim made on the basis of the bank guarantee as well as for losses related to the completion of the contract. According to the Management Board of TPSA the claim is unjustified, therefore no provision was recorded in this respect as at 31 March 2003.

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(j) Claim from Polskie Centrum Sprzedaży Bezpośredniej S.A. („PCSB S.A.”)

On 18 June 2002 PCSB SA filed a claim at the court against PTK-Centertel in the amount of PLN 64 million as a penalty for damages in accordance with the contract signed between the parties. PCSB SA did not provide PTK-Centertel with any documents concerning their alleged damages concerning PTK-Centertel's alleged non-compliance with the conditions of the contract. According to the Management of PTK-Centertel, the claim is unjustified, therefore no provision was recorded in this respect as at 31 March 2003.

(k) An appeal against the profit appropriation resolution

On July 26, 2001 two members of TPSA's Supervisory Board appealed to the Warsaw District Court against the Company's final profit appropriation resolution for the year 2000, adopted by the General Shareholders' Meeting on June 28, 2001. The resolution which was appealed against by the petitioners specified that the Company would not declare and pay dividends from the profit for the year 2000. The petitioners requested that the Court assert the alternative resolution considered, but not passed during the General Shareholders' Meeting, declaring a dividend, amounting to PLN 448,000 thousand, to be paid from the profit for the year 2000 as having been lawfully adopted.

According to the Management Board of the Company the probability of a ruling favourable for the Company and upholding the adopted resolution ruling against a dividend pay-out is high.

(l) Options

Contingent liabilities related to options are described in Notes 28 (a) and 28 (b).

28. Financial instruments

The fair value of cash and cash equivalents, receivables, short-term financial assets and current loans, borrowings and other payables approximates the carrying amounts reported in the balance sheet due to the relatively short-term maturity of these financial instruments. The fair value of non-current financial assets as well as loans, borrowings and other payables with variable interest rates approximates their carrying amounts. The carrying amount of telecommunication concessions payables approximates their fair value. As at 31 March 2003 and 31 December 2002 the fair value of non-current loans, borrowings and other payables with fixed interest rates, including telecommunication concessions payables, amounted to PLN 13,327 million and PLN 12,233 million, respectively (carrying amount: PLN 12,994 million and PLN 12,152 million, respectively).

The fair values of the financial instruments represent the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group uses forward contracts and currency and interest rate swaps to mitigate its exposure against foreign currency fluctuations on debt denominated in foreign currencies or to mitigate its exposure against interest rates fluctuations on debt based on fixed interest rates. These instruments as at 31 March 2003 and 31 December 2002 are presented in the table below.

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FORWARD CONTRACTS AND CURRENCY AND INTEREST RATE SWAPS

Type of instrument	Designation	Hedged item	Notional value		Interest		Maturity	Fair value ⁽⁸⁾	
			receive	pay	receive	pay		31 March 2003	31 December 2002
			(millions)					(PLN millions)	
CCIRS ⁽¹⁾	Cash flow hedge	Series B Bonds	EUR 100	PLN 388	6.125%	15.25%	2004	16	(23)
CCIRS ⁽¹⁾	Cash flow hedge	Series B Bonds	EUR 200	PLN 796	6.125%	13.77%	2004	29	(49)
CCIRS ⁽¹⁾	Cash flow hedge	Series B Bonds	EUR 100	PLN 392	6.125%	13.83%	2004	20	(19)
CCIRS ⁽¹⁾	Cash flow hedge	Series C Bonds	EUR 100	PLN 400	6.125%	13.8%	2004	14	(25)
CCIRS ⁽¹⁾	Cash flow hedge	Series E Bonds	EUR 100	PLN 338	6.625%	14.78%	2006	67	28
CCIRS ⁽¹⁾	Cash flow hedge	Series E Bonds	EUR 50	PLN 172	6.625%	14.75%	2006	31	11
CCIRS ⁽¹⁾	Cash flow hedge	Series D Bonds	EUR 25	PLN 85	6.5%	14.27%	2007	14	4
CCIRS ⁽¹⁾⁽⁴⁾	Cash flow hedge	Series E Bonds	EUR 50	PLN 182	6.6875%	11.36%	2006	-	8
CCIRS ⁽¹⁾	Fair value hedge	5-year Series A Bonds	USD 200	PLN 852	7.125%	6M WIBOR+1.87%	2003	(7)	(44)
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 100	PLN 423	7.75%	6M WIBOR+2.98%	2008	20	(5)
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 100	PLN 410	7.75%	6M WIBOR+2.65%	2008	42	17
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 50	PLN 205	7.75%	6M WIBOR+1.95%	2008	28	16
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 50	PLN 206	7.75%	6M WIBOR+1.9%	2008	29	16
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 50	PLN 204	7.75%	6M WIBOR+1.75%	2008	32	19
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 25	PLN 102	USD 1 million paid semi-annually	6M WIBOR+3.9%	2008	6	(0)
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 25	PLN 102	USD 1 million paid semi-annually	6M WIBOR+3.9%	2008	6	(0)
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 50	PLN 191	7.86436%	6M WIBOR+4.3%	2008	22	-
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 50	PLN 191	USD 2 million paid semi-annually	6M WIBOR+4.33%	2008	22	-
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 50	PLN 190	7.86436%	6M WIBOR+4.415%	2008	22	-
CCIRS ⁽¹⁾	Fair value hedge	10-year Series A Bonds	USD 25	PLN 95	USD 1 million paid semi-annually	6M WIBOR+4.52%	2008	20	-

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Type of instrument	Designation	Hedged item	Notional value		Interest		Maturity	Fair value ⁽⁸⁾	
			receive	pay	receive	pay		31 March 2003	31 December 2002
			(millions)					(PLN millions)	
CCIRS ⁽¹⁾	Fair value hedge	Series E Bonds	EUR 50	PLN 183	6.6875%	6M WIBOR+2%	2006	56	36
CCIRS ⁽¹⁾	Trading	-	USD 100	PLN 351	3M USD LIBOR+0.3%	20.95%	2004	(2)	(17)
CCIRS ⁽¹⁾	Trading	-	EUR 100	PLN 359	3M EURIBOR	3M WIBOR	2012	75	35
CCIRS ⁽¹⁾	Fair value hedge	Series D Bonds	EUR 50	PLN 204	6.5625%	6M WIBOR+1.79%	2007	35	15
CCIRS ⁽¹⁾	Fair value hedge	Series E Bonds	EUR 25	PLN 100	6.6875%	6M WIBOR+2%	2006	18	9
CCIRS ⁽¹⁾	Fair value hedge	Series E Bonds	EUR 25	PLN 100	6.6875%	6M WIBOR+1.75%	2006	19	10
CCIRS ⁽¹⁾	Fair value hedge	Series D Bonds	EUR 25	PLN 101	6.5625%	6M WIBOR+1.59%	2007	20	10
CCIRS ⁽¹⁾	Fair value hedge	Series D Bonds	EUR 25	PLN 102	6.5625%	6M WIBOR+1.6%	2007	19	9
CCIRS ⁽¹⁾	Fair value hedge	Series D Bonds	EUR 25	PLN 100	6.5625%	6M WIBOR+2.59%	2007	17	4
CCIRS ⁽¹⁾	Fair value hedge	Series D Bonds	EUR 25	PLN 100	6.5625%	6M WIBOR+2.52%	2007	17	4
CCIRS ⁽¹⁾⁽⁶⁾	Fair value hedge	European Investment Bank loan	EUR 31	PLN 121	3M EURIBOR	6M WIBOR-0.6%	2008	17	3
CCIRS ⁽¹⁾	Fair value hedge	Bankers Trust Company loan	USD 20	PLN 82	3M USD LIBOR +0.5%	3M WIBOR - 0.25%	2003	1	(3)
CCIRS ⁽¹⁾	Fair value hedge	Bankers Trust Company loan	USD 20	PLN 82	3M USD LIBOR+0.5%	3M WIBOR+0.02%	2003	1	(3)
CCIRS ⁽¹⁾	Fair value hedge	Bankers Trust Company loan	USD 20	PLN 81	3M USD LIBOR+0.5%	3M WIBOR+0.15%	2004	2	(3)
CCIRS ⁽¹⁾	Fair value hedge	Bankers Trust Company loan	USD 20	PLN 82	3M USD LIBOR+0.5%	3M WIBOR+0.21%	2004	1	(4)
CCIRS ⁽¹⁾	Fair value hedge	Bankers Trust Company loan	USD 30	PLN 115	3M USD LIBOR+0.5%	3M WIBOR -0.27%	2004	8	-
CCIRS ⁽¹⁾	Trading	-	EUR 50	PLN 197	6.30%	14.78% - 14.96%	2004	(2)	(15)
CCIRS ⁽¹⁾	Trading	-	EUR 50	PLN 198	4.70%	12.10% - 12.95%	2004-2005	1	(21)
CCS ⁽²⁾	Trading	-	EUR 15	PLN 59	-	6.37% - 6.69%	2007	(4)	(11)
CCIRS ⁽¹⁾	Fair value hedge	West LB/CAI loan	EUR 10	PLN 38	6M EURIBOR+1.3%	6M WIBOR+2.1%	2003	7	2
CCIRS ⁽¹⁾	Fair value hedge	West LB/CAI loan	EUR 10	PLN 38	6M EURIBOR+1.3%	6M WIBOR+1.87%	2004	6	1
CCIRS ⁽¹⁾	Fair value hedge	West LB/CAI loan	EUR 5	PLN 19	6M EURIBOR+1.95%	6M WIBOR+2.38%	2004	3	1
CCIRS ⁽¹⁾	Fair value hedge	West LB/CAI loan	EUR 10	PLN 38	6M EURIBOR+1.3%	6M WIBOR+1.89%	2003	6	3
CCIRS ⁽¹⁾	Fair value hedge	West LB/CAI loan	EUR 10	PLN 38	6M EURIBOR+1.3%	6M WIBOR+1.88%	2004	6	2

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Type of instrument	Designation	Hedged item	Notional value		Interest		Maturity	Fair value ⁽⁸⁾	
			receive	pay	receive	pay		31 March 2003	31 December 2002
			(millions)					(PLN millions)	
CCIRS ⁽¹⁾	Fair value hedge	West LB/CAI loan	EUR 5	PLN 20	6M EURIBOR+1.95%	6M WIBOR+2.23%	2005	2	(0)
CCIRS ⁽¹⁾	Fair value hedge	West LB/CAI loan	EUR 10	PLN 41	6M EURIBOR+1.3%	3M WIBOR+1.58%	2005	4	(0)
CCIRS ⁽¹⁾	Fair value hedge	West LB/CAI loan	EUR 5	PLN 20	6M EURIBOR+1.95%	3M WIBOR+2.3%	2005	2	(0)
CCIRS ⁽¹⁾	Fair value hedge	West LB/CAI loan	EUR 25	PLN 104	3M EURIBOR + 1.30%	3M WIBOR + 1.43%	2005	9	-
CCIRS ⁽¹⁾	Fair value hedge	European Investment Bank loan	EUR 10	PLN 42	4.645%	6M WIBOR+1.06%	2004	3	(0)
CCIRS ⁽¹⁾⁽⁴⁾	Fair value hedge	European Investment Bank loan	EUR 20	PLN 84	4.645%	3M WIBOR+1.48%	2003	-	(1)
CCIRS ⁽¹⁾	Fair value hedge	European Investment Bank loan	EUR 10	PLN 41	4.645%	3M WIBOR+1.24%	2004	5	1
CCIRS ⁽¹⁾	Fair value hedge	European Investment Bank loan	EUR 10	PLN 41	4.645%	6M WIBOR+1.58%	2003	4	(0)
IRS ⁽⁵⁾	Fair value hedge	Series 1 Bonds	PLN 200	PLN 200	7.25%	6M WIBOR+1.71%	2005	1	(0)
IRS ⁽⁵⁾⁽⁷⁾	Cash flow hedge	Payments due to the bank guarantee commission	EUR 150	PLN 596	0.8%	PLN 1 million paid quarterly	2008	2	0
FWD ⁽³⁾	Trading	-	EUR 3	PLN 13	-	-	2003	0	-

⁽¹⁾ CCIRS – cross currency interest rate swap/swaps

⁽²⁾ CCS – cross currency swap/swaps

⁽³⁾ FWD – currency forward/forwards

⁽⁴⁾ As at 31 March 2003 the transactions were closed

⁽⁵⁾ IRS – Interest rate swap/swaps – only interest payments exchanged

⁽⁶⁾ Interest is calculated based on notional amounts of EUR 50 million and PLN 199 million as modified by payment schedule

⁽⁷⁾ This transaction will result in the exchange of total payments amounting to EUR 5,433 thousand and PLN 21,595 thousand calculated on the nominal amount.

⁽⁸⁾ The positive value stands for financial assets, the negative value – financial liability. Value 0 or (0) stands for an asset or a liability below PLN 500 thousand, respectively.

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The Company has a number of derivative instruments, which are part of hybrid financial instruments ("embedded derivatives"). These embedded derivatives primarily relate to purchase contracts for the delivery of equipment and services, which are denominated in foreign currency.

In addition, as at 31 March 2003 and 31 December 2002 the Group was a party to the following put and call option arrangements:

(a) *Put option issued to the shareholders of Parkiet Media S.A.*

As at 24 December 2001 TP Internet Sp. z o.o. issued a put option to the other shareholders of Parkiet Media S.A. ("PM Shareholders") to buy the remaining 319,564 shares held by PM Shareholders. The option may be exercised in 2004 with respect to 50% of the shares held by PM Shareholders and in 2005 with respect to the remaining shares held by PM Shareholders. The strike price for the shares is indexed to the revenues and the net profit of Parkiet Media S.A. in the year prior to the exercise date.

As at 31 March 2003 and 31 December 2002 the put option described above was not recognised in the Group's financial statements as it was not possible to reliably measure its fair value.

(b) *Put and call options issued to/acquired from the shareholders of Wirtualna Polska S.A.*

On 26 October 2001 TP Internet Sp. z o.o. issued a put option to the remaining shareholders of Wirtualna Polska S.A. ("WP Shareholders") to buy the remaining 2,235,002 shares held by WP Shareholders. The option may be exercised during the period from 1 June 2005 to 1 June 2006 under the condition that the monthly average number of unique users of the WP Internet portal in the 12 months prior to the exercise date exceeds 3,000,000. The strike price for this put option is indexed to the number of unique users of the WP portal in the period preceding the exercise date and the maximum strike price may not exceed USD 66.40. TP Internet Sp. z o.o. may be obliged to buy the shares immediately in the event of the launch by TPSA or any of its subsidiaries of a competitive Internet portal to that of WP. In such cases, for the purposes of the strike price calculation, the exercise date is assumed to be 1 June 2006 and the index for the calendar year prior to the year in which such competitive activities begin is used.

In connection with the above arrangements, TP Internet Sp. z o.o. acquired a call option issued by WP's remaining shareholders to purchase all shares in WP during the period from 1 June 2005 to 1 June 2006. The strike price for this call option is indexed to the number of unique users of the WP internet portal in the period preceding the exercise date, similarly to the put option described above. Two WP Shareholders are entitled to keep up to 5% of the WP share capital each.

The Management of TP Internet intends to continue recent talks with WP shareholders to buy WP shares. Management intends to reduce the ultimate cost of the purchase of shares to the level reflecting the approximate fair value of the shares to be purchased. As at the date of these financial statements there are no binding commitments between the parties in this respect. Therefore, the impact of the above on these financial statements could not be quantified.

As at 31 March 2003 and 31 December 2002 the fair value of the options described above was not recognised in the Group's financial statements due to an inability to reliably measure their fair value.

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29. Supplementary cash flow information

In the three month period ended 31 March 2003 and 31 March 2002 the Group reported no significant non-cash transactions.

30. Prior period events

These financial statements do not include any significant events relating to prior periods, except for the introduction of IAS 39 as at 1 January 2002 in respect of accounting for embedded derivatives, a change in the presentation policy regarding penalties for the cancellation of telecommunications services agreements, a change in the accounting policy relating to the recognition of revenues from the sale of telephone cards (see Note 3) and matters described in Notes 27(a) and 27(e).

31. Subsequent Events

(a) Redemption of short-term bonds

On 15 April 2003 TPSA redeemed short-term bonds of the nominal value amounting to PLN 100 million, issued within the scope of the Short Term Bonds Issuance Programme established on 15 July 2002. As at the date of preparation of these financial statements TPSA has redeemed all bonds within the above Programme.

(b) Resolution of TPSA General Shareholders Meeting regarding 2002 profit distribution

On 23 April 2003 General Shareholder Meeting of TPSA approved financial statements for the year ended 31 December 2002 according to Polish Accounting Standards and passed a resolution relating to profit distribution for 2002, which amounted to PLN 957 million:

- for dividends – PLN 140 million,
- for reserve and other reserve capital – PLN 793 million,
- for the benefit of employees and for special funds – PLN 24 million.

(c) Forward transactions of TPSA

During the period from 1 April 2003 until the date of preparation of these consolidated financial statements, TPSA entered into 5 forward transactions. The above transactions terminate in June 2003. The total amount of currency bought in the future in these transactions, amounted to EUR 3 million and USD 5 million, respectively.

(d) Increase in the share capital of TP Internet Sp. z o.o.

On 29 April 2003 Shareholders' Meeting of TP Internet Sp. z o.o., TPSA subsidiary, issued a resolution to increase the share capital of the company by the total amount of PLN 19 million by the issuance of new shares. All new shares will be owned by TPSA.

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32. Loan covenants

The parent company is a party to certain loan and guarantee agreements, which require the Company to maintain certain financial ratios. The last testing period was the 12-month period ended 31 December 2002. The ratios calculated for this period met the conditions set by the banks. The next testing period is the 12-month period ending 30 June 2003. According to the Company there is no risk of TPSA failing to meet the requirements described in the mentioned loan and guarantee agreements in the near future.

33. Net current liabilities

As at 31 March 2003 the Group reported net current liabilities amounting to PLN 1,211 million. According to the TPSA's Management this situation does not present a threat to current liquidity of the significant entities constituting the Group. In the three months ended 31 March 2003 the net cash inflows from the Group's operating activities amounted to PLN 1,712 million. Additionally, based on the arrangements made with banks the Group has unused bank loan facilities amounting to PLN 1,960 million as at 31 March 2003.

34. Transformation for IFRS purposes

Except for TPSA Finance B.V. and TPSA Eurofinance B.V. the parent company and its subsidiaries and associates maintain accounts in accordance with the accounting principles and practices employed by enterprises in Poland, as required by the Accounting Act. The financial statements set out above include certain adjustments not reflected in TPSA's consolidated financial statements as at 31 March 2003 and comparative financial data as at 31 March 2002 and 31 December 2002, prepared under Polish Accounting Standards (PAS) to present these financial statements in accordance with IFRS, except for non-compliance with IAS 29.

The adjustments to the consolidated financial statements prepared under PAS are set out below:

	Net profit for 3 months ended 31 March 2003	Net profit for 3 months ended 31 March 2002	Net assets as at 31 March 2003	Net assets as at 31 December 2002	Total assets as at 31 March 2003	Total assets as at 31 December 2002
(in PLN millions)						
Consolidated PAS	129	105	12,821	12,661	36,965	36,889
(a) Capitalisation of borrowing costs	11	35	499	488	511	500
(b) Telecommunications concessions	1	(1)	(18)	(21)	(887)	(825)
(c) Deferred tax effects	(3)	16	(133)	(128)	(1,346)	(1,139)
(d) Distribution from profit for the benefit of employees and for special funds	(6)	(34)	(30)	(24)	-	-
(e) Change in estimates	-	18	-	-	-	-
(f) Other	1	(2)	-	(2)	(1)	1
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Consolidated IFRS	133	137	13,139	12,974	35,242	35,426
	=====	=====	=====	=====	=====	=====

TELEKOMUNIKACJA POLSKA GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Capitalisation of borrowing costs

According to PAS, only the costs of borrowings financing the construction of specifically identified assets during their construction period may be capitalised. In the absence of such borrowings or in cases where the construction of specifically identified assets has been completed, borrowing costs are expensed. In the financial statements prepared in accordance with International Financial Reporting Standards a weighted average capitalisation rate for all borrowings, used for obtaining qualifying assets, is applied to the average outstanding balance of construction in progress (capitalised financial costs were calculated as the average investments balance multiplied by the average interest rate for loans, bonds and other borrowings).

(b) Telecommunications concessions

According to PAS, telecommunications concessions are reported in the financial statements at cost less accumulated amortisation, whilst long-term liabilities arising from future payments for these concessions are reported at nominal value. In the financial statements prepared in accordance with International Financial Reporting Standards, such concession and related liabilities are initially recorded at the present value of all future cash flows. Interest and foreign exchange differences related to this liability, as well as financial costs of borrowings used for financing the concession are capitalised into the asset until the concession is ready for use. After the concession has been issued for use, all related financial costs are expensed as incurred.

(c) Deferred tax effects

The deferred tax position has changed as a consequence of adjusting the financial statements prepared in accordance with PAS by items (a) and (b). In addition, under IFRS the deferred tax liabilities and the deferred tax assets are presented in net amount if the entities constituting the Group have a legally enforceable right to set off the recognised amounts. In the financial statements prepared in accordance with PAS, the deferred tax assets and deferred tax liabilities are presented at gross value.

(d) Distribution from profit for the benefit of employees and for special funds

In line with Polish business practice, shareholders are allowed to distribute profits for the benefit of company employees and to increase the social fund set up for the welfare of employees as well as increase funds created for specific purposes. In the IFRS financial statements such distributions are recognised as an operating expense of the period to which the profit distribution relates.

(e) Change in estimates

According to the Polish Accounting Act, which was amended on 1 January 2002, the changes arising from the amendment relating to prior periods are reported by adjusting the opening balance of retained earnings. This provision predominantly relates to changes in the foreign exchange rates used for the revaluation of assets and liabilities at the balance sheet date. According to IFRS, changes in estimate are included in the determination of the net profit or loss in the period of the change.

(f) The scope of disclosures

In addition, the captions of consolidated financial statements prepared according to PAS and IFRS may differ significantly. The scope of disclosures for consolidated financial statements according to PAS differs from the scope of disclosures under IFRS.