



Telekomunikacja Polska S.A.

IAS Consolidated Financial Statements

For the years ended 31 December 2000 and 1999

3 JULY 2001

TELEKOMUNIKACJA POLSKA
CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2000 AND 31 DECEMBER 1999

	<u>Note</u>	<u>31 December</u>	
		<u>2000</u>	<u>1999</u>
		<u>(in PLN millions)</u>	
ASSETS			
Current assets			
Cash and cash equivalents	7	1,016	783
Marketable securities	5(c)	62	16
Receivables	8	3,180	2,651
Current income taxes		268	313
Inventories	9	200	150
		-----	-----
Current assets		4,726	3,913
		-----	-----
Fixed assets			
Property, plant and equipment	10	24,601	21,555
Intangible assets	11	2,608	950
Investments	12	144	152
		-----	-----
Fixed assets		27,353	22,657
		-----	-----
Non-current receivables		2	2
		-----	-----
Total assets		32,081	26,572
		=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans and other borrowings	13	1,075	721
Accrued expenses and other payables	14	4,930	3,801
Current income taxes		2	-
Provisions	15	269	90
Deferred income	16	160	195
		-----	-----
Current liabilities		6,436	4,807
		-----	-----
Non-current liabilities			
Loans and other borrowings	13	12,160	10,337
Accrued expenses and other payables	14	1,045	490
Provisions	15	122	-
Deferred income	16	263	271
Deferred income taxes	17	184	288
		-----	-----
Non-current liabilities		13,774	11,386
		-----	-----
Minority interest	18	287	270
		-----	-----
Shareholders' equity			
Common stock	19	4,200	4,200
Share premium		832	832

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

Revaluation reserve	2,334	2,332
Retained earnings	4,218	2,745
	-----	-----
Shareholders' equity	11,584	10,109
	-----	-----
Liabilities and shareholders' equity	32,081	26,572
	=====	=====

TELEKOMUNIKACJA POLSKA
CONSOLIDATED PROFIT AND LOSS ACCOUNTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999

	<u>Note</u>	<u>12 months ended 31 December</u>	
		<u>2000</u>	<u>1999</u>
		<u>(in PLN millions)</u>	
Revenues	20	15,879	13,160
Operating expenses:			
Employee related expenses		(3,558)	(3,048)
Depreciation and amortisation		(3,133)	(2,357)
Payments to other operators		(1,549)	(1,383)
Purchased services		(2,304)	(2,021)
Raw materials and consumables		(675)	(615)
Goods purchased for resale		(766)	(382)
Other operating expenses, net		(955)	(514)
Total operating expenses		(12,940)	(10,320)
		-----	-----
Operating profit		2,939	2,840
Interest revenues and other financial income	21	624	736
Interest expense and other charges	21	(1,330)	(2,081)
		-----	-----
Profit before income tax		2,233	1,495
Income tax	17	(914)	(572)
Minority interest	18	204	106
		-----	-----
Net profit		1,523	1,029
		=====	=====
Net profit per share (in PLN)		1.09	0.74
		-----	-----
Weighted average common stock outstanding (millions)		1,400	1,400
		=====	=====

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

TELEKOMUNIKACJA POLSKA
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED
31 DECEMBER 2000 AND 1999

	12 months ended 31	
	2000	1999
	(in PLN millions)	
Cash flows from operating activities		
Net profit	1,523	1,029
Adjustments for:		
Minority interest	(204)	(106)
Depreciation and amortisation	3,133	2,357
Foreign exchange (gains)/losses, net	(176)	878
Interest and dividend (income)/charges, net	1,072	781
Result on investment activity	7	(8)
Income tax on current year profit	914	572
Net income tax recovered/(paid)	(1,071)	(913)
Other cash flows applied in/generated from operations, net	58	44
	-----	-----
Net cash flows from operating activities before changes in working capital	5,256	4,634
Changes in working capital:		
Decrease/(increase) in receivables, net of allowance	(529)	(489)
Decrease/(increase) in inventories	(50)	55
(Decrease)/increase in provisions	301	90
(Decrease)/increase in payables and other short-term liabilities	442	266
(Decrease)/increase in deferred income	(155)	(127)
	-----	-----
Net cash flows from operating activities	5,265	4,429
	=====	=====
Cash flows from investing activities		
Proceeds from sale of fixed assets	4	6
Proceeds from sale of investments	10	51
Dividends received	8	14
Interest received	3	41
Other cash flows generated from investing activities, net	11	3
Purchase and sale of marketable securities, net	(41)	22
Purchase of property, plant and equipment	(5,953)	(5,526)
Purchase of intangible fixed assets	(230)	(189)
Purchase of investments	(10)	(16)
Payments for DCS, GSM and UMTS concessions	(120)	(215)
	-----	-----
Net cash flows applied in investing activities	(6,318)	(5,809)
	=====	=====

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

TELEKOMUNIKACJA POLSKA
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED
31 DECEMBER 2000 AND 1999

Cash flows from financing activities		
Proceeds from non-current loans and borrowings	1,014	1,436
Proceeds from current loans and borrowings	213	5
Proceeds from issuance of bonds	1,873	2,166
Proceeds from increase in share capital of subsidiaries	167	102
Issuance and redemption of short-term commercial papers, net	(104)	(755)
Repayment of non-current loans and borrowings	(589)	(1,124)
Repayment of current loans and borrowings	(46)	(2,145)
Dividends paid to minority shareholders	(70)	(56)
Interest paid	(1,216)	(923)
Other cash flows applied in/generated from financing activities, net	26	(168)
	-----	-----
Net cash flows generated from/applied in financing activities	1,268	(1,462)
	-----	-----
Effects of exchange rate changes on cash and cash equivalents	18	(17)
	-----	-----
Net (decrease)/increase in cash and cash equivalents	233	(2,859)
	=====	=====
Cash and cash equivalents at the beginning of period	783	3,642
	=====	=====
Cash and cash equivalents at the end of period	1,016	783
	=====	=====

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

TELEKOMUNIKACJA POLSKA
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999

	<u>Common stock</u>	<u>Share premium</u>	<u>Revaluation reserve</u>	<u>Retained earnings</u>	<u>Total shareholders' equity</u>
	(in PLN millions)				
1 January 1999	4,200	832	2,332	1,772	9,136
Dividends paid out of 1998 profit	-	-	-	(56)	(56)
Net profit for 1999	-	-	-	1,029	1,029
31 December 1999	4,200	832	2,332	2,745	10,109
Dividends paid out of 1999 profit	-	-	-	(70)	(70)
Net profit for 2000	-	-	-	1,523	1,523
Consolidation of new entities	-	-	2	20	22
31 December 2000	4,200	832	2,334	4,218	11,584

1. Principal activities

Telekomunikacja Polska S.A. ("TPSA", "the Company"), a joint stock company incorporated in Poland, with its subsidiaries form the "Group". The Group is the principal supplier of telecommunication services in Poland. TPSA has exclusive rights to provide international public telephony services throughout Poland, which are expected to expire in December 2002. Until the end of June 2000 TPSA retained its exclusive rights to provide domestic long distance public telephony services in Poland, as in May 2000 three other telecommunications operators were granted long distance services licences, which have become effective from 1 July 2000. TPSA also has non-exclusive rights for an unspecified period to provide local public fixed line voice telephony services throughout Poland. Through its subsidiary, Polska Telefonia Komórkowa-Centertel Sp. z o.o. ("Centertel", "PTK-Centertel Sp. z o.o."), the Group was until August 1999 Poland's only NMT 450 and DCS 1800 mobile telecommunications provider. In August and September 1999 two other Polish mobile telephony operators were granted DCS 1800 licences. In July 1999 PTK-Centertel Sp. z o.o. was granted GSM 900 concession, which makes it one of the three Polish GSM 900 mobile telecommunications providers. Under this concession on 1 March 2000 PTK-Centertel Sp. z o.o. started providing GSM 900 mobile telecommunications services. On 20 December 2000 PTK-Centertel was granted concession for the third generation UMTS services which expires in 2023. The NMT, DCS and GSM concessions expire in 2016, 2012 and 2014, respectively. In addition, TPSA provides leased lines, radiocommunication and other telecommunications value added services, sells telecommunications equipment and produces fibre optic cables and chip cards. TP Internet Sp. z o.o. is a TPSA subsidiary established in 1999 to provide services in the area of internet, data transmission and multimedia. TP Invest Sp. z o.o. is a TPSA subsidiary established in January 2000 to conduct consultancy and investment activities relating to the financing of its subsidiaries and affiliates. TPSA Finance B.V. and TPSA Eurofinance B.V. are special purpose companies incorporated in the Netherlands established in connection with issue of bonds (see Note 13(b)).

The Group average employment in 2000 and 1999 amounted to 71,443 and 73,370 employees, respectively. The registered office of TPSA is located in Warsaw, ul. Nowy Świat 6/12.

The Communications Act provides that the Minister of Communications may introduce maximum tariff levels for local and long distance telephony and that international telephony tariff levels must be set in agreement with the Minister of Communications. Furthermore, the President of the Office for Protection of Competition and Customers has the right to challenge tariffs proposed by TPSA if he considers them to be anti-competitive or abusing a dominant market position.

The Telecommunications Act, which becomes effective 1 January 2001, introduces a broad liberalisation of the telecom market in Poland, restricting the areas of activities that require a permit from regulatory authorities and authorising the provision of

telecommunications services in specified forms on the basis of notification alone. The Telecommunications Act establishes a new regulatory agency, the URT, equipping it with 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 grants powers to the Council of Ministers to issue implementing regulations, which may increase the liberalisation of the telecom market.

2. Basis of presentation

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

The Group maintains its books of accounts in accordance with accounting principles and practices employed by enterprises in Poland as required by Polish Accounting Standards ("PAS"). These financial statements include certain adjustments not reflected in TPSA's books to present these statements in accordance with Standards issued by the International Accounting Standards Committee, except in respect of accounting for hyperinflation referred to in Note 3. These adjustments are presented in Note 30.

The preparation of financial statements in conformity with International Accounting Standards ("IAS") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

In order to ensure comparability of financial statements certain reclassifications have been made to the financial statements for the year ended 31 December 1999 in order for them to conform with 2000 presentation.

3. Reporting currency 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 is 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 of 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 of 31 December 1996. As a result, the cumulative balances of property, plant and equipment as of 31 December 2000 and 1999 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 of non-compliance with IAS 29 on these financial statements. In all other respects the financial statements are prepared under the historical cost convention.

4. Financial statements authorisation

These financial statements were authorised for issuance by the Management Board on 26 June 2001 in Warsaw.

5. Statement of accounting policies

(a) Principles of consolidation

The consolidated financial statements include the financial statements of TPSA and the following subsidiaries: PTK – Centertel Sp. z o.o. (66%), TPSA Finance B.V. (100%), TPSA Eurofinance B.V. (100%), TP Internet Sp. z o.o. (100%), Parkiet Sp. z o.o. (32%), TP Invest Sp. z o.o. (100%), Astech Polska S.A. (29%), Magellan Net S.A. (55%), Enerkom Sp. z o.o. (100%), Netbud Sp. z o.o. (100%), PeBeTel Piła Sp. z o.o. (100%), Postinfo Sp. z o.o. (60%), Prywatne Sieci Telekomunikacyjne S.A. (100%), Tel – Arp Sp. z o.o. (100%), Telefon 2000 Sp. z o.o. (96%) and Telefony Podlaskie S.A. (55%). The consolidated financial statements include all enterprises that are controlled by the parent company. All subsidiaries are incorporated in Poland, except for TPSA Finance B.V. and TPSA Eurofinance B.V. which are incorporated in the Netherlands. All significant intercompany balances and

transactions have been eliminated in the consolidation. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Unconsolidated subsidiaries and affiliated companies presented in Note 12 (those with TPSA shareholding over 20% and for which TPSA is able to demonstrate significant influence) have not been subject to consolidation due to their insignificance as compared to the financial position and results of the Group.

(b) Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at banks and all highly liquid deposits with original maturities of three months or less.

(c) Marketable securities

Short-term securities are stated at the lower of acquisition cost and net realisable value. The securities held as at 31 December 2000 amounting to PLN 53 million were not quoted. Market value (equal to the carrying amount) of quoted short-term securities as at 31 December 2000 was equal to PLN 9 million. The securities held as at 31 December 1999 were not quoted.

(d) Receivables

Receivables are stated at face value, after provision for doubtful accounts.

(e) Inventories

Inventories are stated at the lower of acquisition cost (on a weighted average basis) and net realisable value, after provision for obsolete items.

(f) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation, except where stated at revalued amounts.

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 the costs are incurred. In situations when it can 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 application of a general price index. The last revaluation took place on 1 January 1995 and was designed to reflect the specific price level as of September 1994. As a result of this revaluation both carrying amount and tax base of the assets subject to revaluation have been increased. The Group has not revalued its property, plant and equipment as of 31 December 1996 which is a departure from IAS 29 which requires that assets are restated to a measurement unit current as of the end of hyperinflationary period. Since inception of the Group the revaluations increased 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 is not subject to revaluations. Depreciation is based on the revalued amounts. Unless Poland is subject to a period of further hyperinflation, the Group does not intend to include effects of any further revaluations in its financial statements prepared under IAS.

As further described in Note 25(d), the Group receives certain assets from local authorities or municipalities. These assets are stated at their fair value at the date of transfer to the Group.

The parent company received certain fixed assets from Public Telephonisation Committees (Spoleczne Komitety Telefonizacji – “SKT”). This infrastructure is recorded in the books as fixed assets with a corresponding entry in deferred income. These assets are depreciated on the same basis as similar fixed assets. Sales of services to SKT members are recorded as revenues and corresponding amounts are deducted from deferred income.

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

The following depreciation methods for fixed assets are used:

Part of equipment subject to fast technology development	-	Straight-line method with doubled base depreciation rate
Part of telecommunications and other equipment issued to use after 1 January 1991	-	Reducing balance method with doubled base depreciation rate
Other property, plant and equipment	-	Straight-line method with base depreciation rate

Annual base depreciation rates are as follows:

Buildings	2.5%
Duct, cable and other outside plant	4.0%
Telephone exchanges and other plant and equipment	5.0-12.5%
Computer equipment	30.0%
Vehicles	14.0-20.0%
Other	12.5-20.0%

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 5(o). Construction-in-progress is not depreciated until the relevant assets are completed and put 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.

(g) Leased assets

Assets leased under agreements, which transfer to the Group substantially all of the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The Group recognises finance leases 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 of lease payments is applied to reduce the outstanding obligation and the interest element is charged to the profit and loss account. Finance leases of the Group are not material.

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

(h) Intangible assets

Except for concessions, intangible assets are stated at cost, less amortisation on a straight-line basis using the following annual amortisation rates:

Software	50%
Goodwill	20%

Concessions are valued at the present value of payments due plus the cost of interest and foreign exchange losses capitalised during the development period, less amortisation. The development period terminates together with a 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.

(i) Goodwill

Goodwill is stated as an excess of the purchase consideration over the Group's interest in the fair value of the net identifiable assets acquired. Goodwill on consolidation is being capitalised and amortised on a straight-line basis over 5 years.

(j) Investments

All investments held on a long-term basis are stated at cost less provision for any impairment in value.

(k) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of 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 can 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 a provision is the present value of the expenditures expected to be required to settle the obligation.

(l) 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 income over the life of the assets to which the investment contributions relate.

Investment contributions received from customers to be connected to the fixed line network in exchange for free telecommunications services (further referred to as "prepayments") are deferred and recognised as revenues when the services are provided to the customers.

(m) Revenue recognition

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

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 gross in these consolidated financial statements. Amounts due to and receivable from the same operators are shown net where a right of set-off exists. Revenues earned from connecting subscribers to the network are recognised upon service activation.

(n) Operating expenses

Operating costs are charged in the period to which they relate. Research and development costs are expensed when incurred except for certain development costs meeting criteria specified by IAS 38, which are recognised as assets and amortised over a period of 3 years. External and internal costs specifically associated with modifying internal-use computer software for the year 2000 were charged to expense as incurred.

In line with Polish business practice, shareholders are allowed to distribute profits for the benefit of employees to increase the social fund designed for the welfare of employees. In these financial statements such distributions were recharacterised and recognised as operating expense of the year to which the profit distribution related.

(o) Borrowing costs

Borrowing costs are written off to the profit and loss account as incurred net of an amount capitalised calculated using weighted average capitalisation rate. Borrowing costs are capitalised as part of the costs of the relevant 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 include interest, amortisation of discount on bonds and commercial papers issued, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and foreign exchange differences.

(p) Jubilee awards and retirement bonuses

TPSA provides defined jubilee awards and retirement benefit plans for its employees. Jubilee awards are paid to employees upon completion of a certain number of years in service whereas retirement allowances are one-off payments paid on retirement, both depending on employee's average remuneration and length of service. The jubilee awards and retirement benefits are not funded. An independent actuary has estimated the net present value of jubilee awards and retirement bonuses obligations. Accrued obligations are those future discounted payments, adjusted by employee attrition rates, which were earned by the employees prior to the balance sheet dates.

Demographic and attrition profiles are based on the historical data. Valuation of obligations was made using discount rate of 8% p.a. and inflation rate of 5% p.a.. The present value of jubilee awards and retirement bonuses was estimated by independent actuary at PLN 431 million and PLN 382 million as at 31 December 2000 and 1999, respectively. In order to account for planned restructuring of employment, jubilee awards and retirement bonuses provision as at 31 December 2000 has been adjusted to PLN 351 million (see Note 14). In 2000 and 1999, the Group paid PLN 57 million and PLN 53 million of jubilee awards and retirement bonuses, respectively.

(q) Termination indemnities

TPSA pays termination indemnities in case of termination of employment without defined just cause within the framework of a reorganisation. TPSA is also obliged by law to pay termination indemnities in case of group reduction in labour force (group reductions are those reductions which in one time or in the period not longer than three months result in lay-off of at least 10% of employees in companies employing up to 1000 employees or at least 100 employees in companies employing more than 1000 employees). Expenses related to termination indemnities are accrued when management, having taken a firm decision which would result in future payments of indemnities, started to implement the restructuring plan or communicated the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the company will carry out the restructuring.

(r) Foreign exchange transactions

Transactions denominated in foreign currencies are recorded in the local currency (Polish zloty) at current exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account except if capitalised as described in Note 5(o).

The Company translates its share of foreign monetary assets and liabilities for the purpose of incorporation of the financial statements of foreign subsidiaries in its financial statements at current exchange rates prevailing at the balance sheet date. Revenues and expenses from foreign operations are translated using average rates during the period. The ensuing foreign currency translation adjustment is included in the profit and loss account.

(s) Derivative financial instruments

The Group uses forward contracts, interest rate and currency swaps to mitigate exposure to interest rate and foreign exchange risks. Except when contracts qualify as hedges, changes in the fair value of financial instruments are recognised in the profit and loss account in the period of the change. When contracts qualify as hedges, related gains and losses are included in the measurement of existing assets and liabilities. Until 31 December 2000 the Group has not applied the criteria and provisions of International Accounting Standard No. 39 "Financial Instruments: Recognition and Measurement" for hedge accounting.

(t) Income tax

The corporate income tax charge is based on profit for the year and takes into account deferred taxation. Deferred taxation 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 advance payment of future taxes. Temporary differences are the differences between the carrying amount of an asset or liability in the balance sheet and its taxable base. For the purpose of deferred tax calculation the investment tax allowance bonus (see Note 25(b)) is considered a temporary difference and is recognised as deferred tax asset in the year the investment tax allowance deduction is taken. The net deferred tax liability or asset is included in non-current liabilities or non-current assets, respectively.

Deferred taxation assets are only recognised on temporary differences when there is a reasonable expectation of realisation.

(u) Profit per share

Profit per share for each period are calculated by dividing the profit 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 per share as there are no dilutive potential ordinary shares.

6. Changes in Group's organisation

(a) Acquisitions

In January 2000, TPSA established a wholly owned subsidiary TP Invest Sp. z o.o. with registered office in Warsaw, Poland and registered share capital amounting to PLN 5 million. TP Invest Sp. z o.o. scope of activity is consultancy and investment activities.

In September 1999, TPSA established a wholly owned subsidiary TP Internet Sp. z o.o. with registered office in Warsaw, Poland and registered share capital amounting to PLN 1 million. TP Internet Sp. z o.o. scope of activity is internet, data transmission and multimedia.

In October 1999, TPSA established a special purpose company TPSA Eurofinance B.V. with registered office in Amsterdam, the Netherlands. TPSA Eurofinance B.V. is wholly owned by the Company's subsidiary TPSA Finance B.V. and its registered share capital is EUR 90 thousand. The company has been established for the purpose of the issuance of bonds (see Note 13(b)).

(b) Discontinued operations

The Group did not discontinue significant part of its activities in 2000.

In 2001, the parent company intends to discontinue activities relating to fibre optic cable and chip cards production as well as radiocommunication and radio access by transferring the above activities to newly established subsidiaries. Therefore, these services will still be provided by the Group.

7. Cash and cash equivalents

	31 December	
	2000	1999
	(in PLN millions)	
Cash in hand	17	15
Current bank accounts	106	191
Overnight deposits	239	320
Deposits up to 3 months	602	211
Other	52	46
	-----	-----
Total	1,016	783
	=====	=====

Breakdown of cash and cash equivalents by currency was as follows:

	31 December	
	2000	1999
	(in PLN millions)	
Polish zloty	871	450
Euro	118	304
U.S. dollar	22	25
Other currencies	5	4
	-----	-----
Total	1,016	783
	=====	=====

Concentrations of credit risk relating to cash and cash equivalents are limited because the Group places its cash with high credit quality institutions.

8. Receivables

	31 December	
	2000	1999
	(in PLN millions)	
Trade receivables	3,122	2,450
Tax receivables	199	248
Other receivables	259	188
Prepayments	42	52
	-----	-----
Subtotal	3,622	2,938
Less allowance for doubtful accounts	(442)	(287)
	-----	-----
Total	3,180	2,651
	=====	=====

Total receivables include amounts of PLN 287 million and PLN 293 million of receivables denominated in foreign currencies as at 31 December 2000 and 31 December 1999, respectively. Trade receivables relate primarily to the billing of telecommunications services.

Tax receivables balances comprise recoverable VAT on capital purchases and other overpaid taxes. Concentrations of credit risk relating to trade receivables are 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 2000 and 1999 are as follows:

	12 months ended 31 December	
	2000	1999
	(in PLN millions)	
Allowance, beginning of period	287	215
Charged to expense	167	86
Utilised	(12)	(14)
	-----	-----
Allowance, end of period	442	287
	=====	=====

9. Inventories

	31 December	
	2000	1999
	(in PLN millions)	
Cables, wires, engineering inventory and other materials	105	98
Goods for resale	117	68
	-----	-----
Subtotal	222	166
Less allowance for obsolete inventory	(22)	(16)
	-----	-----
Total	200	150
	=====	=====

10. 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)					
<i>Cost or revalued amount</i>						
1 January 1999	9	12,205	12,066	533	1,250	26,063
Additions	2	2,517	3,760	135	404	6,818
Disposals	-	(102)	(491)	(23)	(17)	(633)
	-----	-----	-----	-----	-----	-----
31 December 1999	11	14,620	15,335	645	1,637	32,248
	=====	=====	=====	=====	=====	=====
Additions	5	2,204	3,424	108	385	6,126
Disposals	-	(68)	(344)	(13)	(4)	(429)
	-----	-----	-----	-----	-----	-----
31 December 2000	16	16,756	18,415	740	2,018	37,945
	=====	=====	=====	=====	=====	=====
Accumulated depreciation						
1 January 1999	-	2,786	5,699	348	-	8,833
Charge for the period	-	484	1,703	99	-	2,286
Disposals	-	(59)	(350)	(17)	-	(426)
	-----	-----	-----	-----	-----	-----
31 December 1999	-	3,211	7,052	430	-	10,693
	-----	-----	-----	-----	-----	-----
Charge for the period	-	573	2,238	114	-	2,925
Disposals	-	(55)	(196)	(23)	-	(274)
	-----	-----	-----	-----	-----	-----
31 December 2000	-	3,729	9,094	521	-	13,344
	=====	=====	=====	=====	=====	=====
Net book value						
31 December 1999	11	11,409	8,283	215	1,637	21,555
	=====	=====	=====	=====	=====	=====
Net book value						
31 December 2000	16	13,027	9,321	219	2,018	24,601
	=====	=====	=====	=====	=====	=====

Transfers between construction-in-progress and other categories are eliminated.

Property, plant and equipment include borrowing costs incurred in connection with the construction of these assets. In 2000 and 1999, the Group capitalised PLN 108 million and PLN 324 million of borrowing costs, respectively.

Capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation were 7% and 19% in 2000 and 1999, respectively.

The gross carrying amounts of certain property, plant and equipment items of PLN 2,727 million and PLN 2,149 million are fully depreciated as of 31 December 2000 and 1999, respectively, however these items are still in active use.

Property, plant and equipment pledged as a security for loans or bank guarantees have carrying value of PLN 203 million and PLN 816 million as at 31 December 2000 and 1999, respectively.

In respect of significant portion of its assets the Group does not maintain insurance coverage with regard to, for example, property damage, natural catastrophes, environment contamination and loss of profits. Accordingly, the Group would not receive compensation in the event of loss of or damage to any such assets or interruptions in operations resulting therefrom.

11. Intangible assets

	<u>DCS 1800 Concession</u>	<u>GSM 900 Concession</u>	<u>UMTS Concession</u>	<u>Software and other intangibles</u>	<u>Goodwill</u>	<u>Total</u>
	(in PLN millions)					
Cost						
1 January 1999	331	-	-	213	41	585
Additions	-	410	-	178	-	588
Disposals	-	-	-	(5)	-	(5)
	-----	-----	-----	-----	-----	-----
31 December 1999	331	410	-	386	41	1,168
			1,63			
Additions	29	-	4	232	8	1,903
Disposals	(10)	(26)	-	(8)	-	(44)
	-----	-----	-----	-----	-----	-----
31 December 2000	350	384	1,634	610	49	3,027
	=====	=====	=====	=====	=====	=====
Accumulated amortisation						
1 January 1999	6	-	-	88	16	110
Charge for the period	27	-	-	78	8	113
Disposals	-	-	-	(5)	-	(5)
	-----	-----	-----	-----	-----	-----
31 December 1999	33	-	-	161	24	218
Charge for the period	28	23	-	147	10	208
Disposals	-	-	-	(7)	-	(7)
	-----	-----	-----	-----	-----	-----
31 December 2000	61	23	-	301	34	419
	=====	=====	=====	=====	=====	=====
Net book value						
31 December 1999	298	410	-	225	17	950
	=====	=====	=====	=====	=====	=====
Net book value						
31 December 2000	289	361	1,634	309	15	2,608
	=====	=====	=====	=====	=====	=====

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 is a 20-year concession 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. The TPSA rights to provide telecommunication services are based on the Polish Communications Act.

12. Investments

	31 December	
	2000	1999
	(in PLN millions)	
Unconsolidated subsidiaries	3	18
Affiliated companies	7	4
Other investments	134	130
<i>Total</i>	144	152
	=====	=====

As at 31 December 2000 the Group's unconsolidated subsidiaries and affiliated companies, which are all incorporated in Poland, were as follows:

<u>Subsidiaries</u>	<u>Group interest in capital</u>	<u>Scope of activity</u>
TP MED Sp. z o.o.	100%	medical and healthcare services
<u>Affiliated companies</u>	<u>Group interest in capital</u>	<u>Scope of activity</u>
RWT – Telefony Polskie S.A.	25%	telecommunications equipment manufacturer
TPIP S.A.	40%	teleinformatics services and data transmission
Analizy Finansowe Sp. z o.o.	32%	publishing of periodicals
ENERKOM Invest Sp. z o.o.	24%	telecommunications installations
ENERKOM Groel Sp. z o.o.	50%	production of electrotechnical devices
Inte-Nerkom Sp. z o.o.	49%	audiotex services
Elektro-Pulsar Sp. z o.o.	34%	installation of telecommunication power devices

The voting power held by the Group is equal to the Group interest in capital in all subsidiaries and affiliates.

The Group owns shares in ICO Global Communications Ltd. ("ICO"). On 27 August 1999 ICO filed a voluntary petition for reorganisation under Chapter 11 of the United States Bankruptcy Code. On 16 December 1999 ICO shares were delisted from the Nasdaq stock exchange. On 3 May 2000 the U.S. Bankruptcy Court approved reorganisation plan for ICO. The reorganisation process was completed in May 2000 and the business was renamed New ICO. Following permanent loss in the market value of ICO Global Communications Ltd. shares the Group wrote off the investment in ICO amounting to PLN 89 million during 1999.

13. Loans and other borrowings

	<u>Note</u>	31 December	
		2000	1999
		(in PLN millions)	
Bank loans	(a)	5,261	4,700

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

Bonds	(b)	7,937	6,164
Commercial papers		-	93
Other borrowings and credits	(c)	37	101
		-----	-----
Total		13,235	11,058
Less: short-term portion		1,075	721
		-----	-----
Long-term portion		12,160	10,337
		=====	=====

As at 31 December 2000 repayments of loans, bonds and other borrowings fall due in:

	(in PLN millions)

2001	1,075
2002	834
2003	1,823
2004	2,937
2005	568
Thereafter	5,998

Total	13,235
	=====

(a) *Bank loans*

Bank loans analysed by currency are as follows:

	31 December	
	2000	1999
	(in PLN millions)	
	-----	-----
Polish zloty	1,963	1,921
U.S. dollar	1,711	1,956
Euro	1,392	563
German mark	120	147
French franc	75	113
	-----	-----
Total	5,261	4,700
	=====	=====

Bank loans denominated in Polish zloty are primarily subject to floating interest rates linked to WIBOR. Weighted average interest rate on Polish zloty denominated loans were 19.5% p.a. and 18.9% p.a. in the years 2000 and 1999, respectively. Bank loans denominated in Polish zloty have maturities ranging from 2001 to 2006.

On 29 December 1997, TPSA entered into currency and interest rate swap transaction effectively converting seven-year U.S. dollar 100 million loan with a floating interest rate into Polish zloty denominated loan with a fixed rate of 20.95% p.a.. On 10 June 1999 TPSA entered into currency and interest rate swap transaction that reversed effects of the transaction described above.

On 19 May 1999 the Group entered into currency swap transaction effectively converting EUR 20 million portion of seven-year bank loan with a fixed interest rate of 3.81% p.a. into Polish zloty denominated loan with a fixed rate of 11.7% p.a..

In March 2000 the Group entered into currency swap transactions, which effectively converted EUR 50 million portion of seven-year bank loan with a fixed interest rate of 3.81% p.a. into Polish zloty denominated loan with the fixed interest rates ranging from 12.10% to 12.95% p.a..

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

	31 December	
	2000	1999
Fixed rates	21.1%	36.7%
Floating rates	78.9%	63.3%
	-----	-----
	100.0%	100.0%
	=====	=====

Floating interest rates on foreign currency bank loans are primarily based on LIBOR rates, except for loan granted by International Bank for Reconstruction and Development and two loans granted by 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 December	
	2000	1999
Less than 4% p.a.	13.2%	24.1%
Between 4% and 8% p.a.	84.6%	71.1%
Over 8% p.a.	2.2%	4.8%
	-----	-----
	100.0%	100.0%
	=====	=====

Bank loans denominated in foreign currencies have maturities ranging from 2001 to 2021.

As at 31 December 2000 and 1999 loans amounting to PLN 553 million and PLN 622 million, respectively, were subject to government guarantee and loans amounting to PLN 3 million and PLN 752 million, respectively, were secured on specific assets of the Group.

(b) Bonds

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

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

On 10 June 1999 TPSA entered into currency swap transaction effectively converting USD 300 million portion of ten-year bonds into Polish zloty denominated bonds (see Note 26).

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

In March 2000 the Group entered into four currency swap transactions effectively converting EUR 50 million portion of five-year bonds with interest rate of 6.125% p.a. into Polish zloty denominated bonds with interest rates ranging from 14.78% to 14.96% p.a. (see Note 26).

In July and September 2000 TPSA entered into three currency swap transactions effectively converting EUR 200 million portion of five-year bonds into Polish zloty denominated bonds (see Note 26).

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

On 13 April 2000 and 9 May 2000 TPSA entered into two currency swap transactions effectively converting EUR 100 million five-year bonds into Polish zloty denominated bonds (see Note 26).

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

In December 2000 the Group entered into two currency swap transactions effectively converting EUR 15 million portion of seven – year bonds into Polish zloty denominated bonds.

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

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 within the scope of Euro Medium-Term Note Programme signed on 22 October 1999. The program authorised TPSA Eurofinance B.V. to issue bonds of the total value up to the equivalent of USD 1 billion and maturity date at least one month and no more than 30 years after the date of issuance. In March 2001 the Programme was extended to USD 2 billion (see Note 29 (a)).

On 27 June 2000 the General Shareholders' Meeting of the Company authorised issue of bonds series E to J, total nominal value up to the equivalent of USD 1 billion and maturity up to 30 years.

(c) *Other borrowings and credits*

Other borrowings and credits analysed by currency are as follows:

	31 December	
	2000	1999
	(in PLN millions)	
German mark	36	63
U.S. dollar	1	38
	-----	-----
	37	101
	=====	=====

Other borrowings and credits represent primarily vendor financing and are subject to fixed interest rates ranging from 0% p.a. to 18.5% p.a.. Their maturities range from 2001 to 2006.

As at 31 December 2000 and 1999 other borrowings and credits amounting to PLN 36 million and PLN 63 million, respectively, were secured on specific assets of the Group.

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

- In order to mitigate the currency risk of its debt the Group entered into currency swap transactions in respect of part of foreign currency indebtedness to effectively convert it into Polish zloty indebtedness.
- 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 the interest rates are expected by management 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 arrangements made with the banks the Group has unused loan facilities in the amount of PLN 1,739 million as at 31 December 2000, which are designated to finance defined projects.

14. Accrued expenses and other payables

	31 December	
	2000	1999
	(in PLN millions)	
Trade and capital investment payables	2,743	2,651

Social security and taxes	371	283
Accrued expenses	339	255
Jubilee awards and retirement bonuses	351	382
Salaries and wages	303	285
Concessions payable	1,747	257
Other payables	121	178
	-----	-----
Total	5,975	4,291
Less: short-term portion	4,930	3,801
	-----	-----
Long-term portion	1,045	490
	=====	=====

Accrued expenses and other payables include PLN 1,912 million and PLN 523 million of amounts denominated in foreign currencies as at 31 December 2000 and 1999, respectively. The primary foreign currency payable as of 31 December 2000 is related to UMTS concession acquisition and amounts to EUR 415 million.

15. Provisions

	31 December	
	2000	1999
	(in PLN millions)	
Restructuring provision	327	-
Provision for real estate tax (see Note 25(e))	61	90
Other provisions (see Note 25(d))	3	-
	-----	-----
Total	391	90
Less: short – term portion	269	90
	-----	-----
Long – term portion	122	-
	=====	=====

The restructuring provision represents the amount of compensations and other benefits for employees scheduled to terminate employment as a result of employment restructuring programme during 2001 and 2002.

Changes in provisions in 2000 and 1999 were as follows:

	Restructuring provision	Provision for real estate tax	Other provisions	Total
	(in PLN million)			
1 January 1999	-	-	-	-
Charged to expense	-	90	-	90
Released	-	-	-	-
	-----	-----	-----	-----
31 December 1999	-	90	-	90
	=====	=====	=====	=====
Charged to expense	327	37	9	373
Released	-	(66)	(6)	(72)
	-----	-----	-----	-----
31 December 2000	327	61	3	391
	=====	=====	=====	=====

16. Deferred income

	31 December	
	2000	1999
	(in PLN millions)	
Grants	292	305
Prepayments	71	127
Other	60	34
	-----	-----
Total	423	466
Less: short-term portion	160	195
	-----	-----
Long-term portion	263	271
	=====	=====

Changes in grants and prepayments were as follows:

	Grants	<i>Prepayments</i>
	(in PLN millions)	
At 1 January 1999	293	165
Net amounts received in 1999	46	251
Amortisation	(34)	(289)
	-----	-----
At 31 December 1999	305	127
	=====	=====
Net amounts received in 2000	15	122
Amortisation	(28)	(178)
	-----	-----
At 31 December 2000	292	71
	=====	=====

Amortisation of prepayments is recognised as revenues from telephone traffic.

17. Income tax

	12 months ended	
	31 December	
	2000	1999
	(in PLN millions)	
Income tax charge on the profit for the period	1,018	860
Deferred tax liability change	(104)	(288)
	-----	-----
	914	572
	=====	=====

Reconciliation between the reported income tax expense and the theoretical amount arising by applying the statutory income tax rates is as follows:

	12 months ended	
	31 December	
	2000	1999
	(in PLN millions)	
Profit before income tax	2,233	1,495
	-----	-----
Income tax calculated at statutory rate	670	508
Effect of investment tax allowance bonus	(13)	(50)

Effect of income/expenses not subject to income tax	60	47
Change in valuation allowance	173	115
Tax rate changes	(13)	(38)
Other	37	(10)
	-----	-----
Income tax expense for the period	914	572
	=====	=====

Enacted Corporate Income Tax rates are as follows:

<u>Year</u>	<u>Enacted tax rate</u>
2000	30%
2001	28%
2002	28%
2003	24%
From 2004	22%

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 is not material.

Valuation allowance relates mainly to the tax losses incurred by the consolidated subsidiaries, as no reasonable expectation of their realisation exists.

The net deferred tax liability consists of the following:

	<u>31 December</u>	
	<u>2000</u>	<u>1999</u>
	<u>(in PLN millions)</u>	
	-----	-----
Deferred tax liabilities:		
Accelerated tax depreciation	526	572
Accrued income	232	270
Other	91	23
	-----	-----
	849	865
Deferred tax assets:		
Unrealised foreign exchange losses	(288)	(297)
Accrued expenses	(340)	(191)
Tax losses of subsidiaries carried forward	(184)	(63)
Jubilee awards and retirement bonuses	(98)	(115)
Excess of book over tax depreciation	(105)	(103)
Investment tax bonus	(12)	(44)
Other	(126)	(79)
	-----	-----
	(1,153)	(892)
<i>Valuation allowance</i>	488	315
	-----	-----
<i>Deferred tax assets after valuation allowance</i>	(665)	(577)
	-----	-----
Net deferred tax liability	184	288
	=====	=====

Under the 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 subject to limits prescribed in the Corporate Income Tax Law (see table below). 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.

General limits applicable to investment deductions (percentage of taxable income) are as follows:

	<u>2000</u>	<u>1999</u>
Investment tax allowance	10%	10%
Investment tax bonus	10%	15%

TPSA took advantage of the above described investment tax allowance scheme in 1994 – 2000. TPSA has deducted PLN 2,543 million from taxable income over the period and took additional deduction (investment tax bonus) of PLN 1,227 million (see also Note 25(b)).

18. Minority interest

	<u>12 months ended 31 December</u>	
	<u>2000</u>	<u>1999</u>
	<u>(in PLN millions)</u>	
Beginning of period	270	274
Share capital contributed by minority shareholder	212	102
Share of results for the period	(204)	(106)
Consolidation of new entities	9	-
	-----	-----
End of period	287	270
	=====	=====

19. Shareholders' equity

As at 31 December 2000 the share capital 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 2000.

The ownership structure of the share capital as at 12 October 2000, i.e. after finalisation of sale agreement of 35% TPSA shares concluded between State Treasury and the consortium of France Telecom – Kulczyk Holding, was as follows:

	<u>% of</u>	<u>Nominal value</u>
	<u>votes</u>	<u>(in PLN</u>
		<u>millions)</u>
State Treasury	35.11	1,475
France Telecom S.A. (Cogecom S.A.)	25.00	1,050
Kulczyk Holding S.A. (Tele-Invest S.A.)	10.00	420
Other shareholders	29.89	1,255
	-----	-----
Total	100.00	4,200
	=====	=====

The strategic investor, France Telecom, is entitled to buy additional 10% of shares. The option expires on 31 July 2001. Additionally, the investor was granted the right to buy further 6% of the Company's shares in a public offering of 14% to 30% of TPSA shares. The offer should take place within the third phase of privatisation not later than 30 September 2001.

Profit of TPSA available for distribution under Polish law for the year ended 31 December 2000 and 1999 amounted to PLN 1,830 and PLN 1,079 million, respectively.

Share premium includes the amount of PLN 713 million, according to Notary Deed of 4 December 1991, relating to contribution of telecommunications business of PPTiT on the formation of TPSA. As regulations concerning the transformation of PPTiT are unclear, division of certain rights and obligations may be considered ineffective. As a result, share premium balance may be subject to change.

20. Revenues

	12 months ended 31 December	
	2000	1999
	(in PLN millions)	
Fixed line telephony services:		
Subscriptions, connections and similar charges	2,861	1,984
Traffic revenues	8,816	7,652
Interconnect revenues:		
LTOs and other licensed domestic operators	192	124
Mobile telephony operators	318	277
International incoming traffic	733	765
Payphone revenues	360	401
Other	182	67
Mobile telephony services	1,117	789
Leased lines	552	463
Radiocommunications	290	289
Data transmission	187	139
Telex and telegraphy	18	24
Manufacturing, equipment sales and other	253	186
	-----	-----
Total	15,879	13,160
	=====	=====

Revenues are generated on the territory of Poland. 5.0% and 6.3% of the total revenues for 2000 and 1999, respectively, were received from foreign parties, mostly in respect of interconnect arrangements.

21. Financial income and charges

	12 months ended 31 December	
	2000	1999
	(in PLN millions)	
Interest expense	1,148	884
Foreign exchange losses	105	1,169
Commissions and other charges	277	352
	-----	-----
Total interest expense and other charges	1,530	2,405
Foreign exchange losses, interest and similar charges capitalised	(200)	(324)
	-----	-----
Interest expense and other charges	1,330	2,081
Foreign exchange gains	(381)	(436)
Interest income	(232)	(160)
Other financial income	(103)	(140)
	-----	-----
Total interest revenues and other financial income	(716)	(736)
Foreign exchange gains capitalised	92	-
	-----	-----
Interest revenues and other financial income	(624)	(736)
	=====	=====

22. Commitments

(a) Lease commitments

Lease commitments are mainly in respect of the lease of buildings, computer equipment and vehicles. Lease payments recognised in the profit and loss account were PLN 80 million and PLN 64 million in 2000 and 1999, respectively. Future minimum lease payments under non-cancellable operating leases with a term of more than one year as at 31 December 2000 were as follows:

	<u>(in PLN millions)</u>
12 months ended 31 December:	
2001	72
2002	55
2003	20
2004	6
2005	1
Thereafter	2

Total minimum lease payments	156
	=====

(b) Purchase commitments

As of 31 December 2000 and 1999 capital expenditures amounting to PLN 1,584 million and PLN 1,112 million, respectively, principally relating to the telecommunications network, were committed under contractual arrangements, with PLN 77 million and PLN 244 million due after one year, respectively.

(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 Danish Great Northern Telegraph Company (“GN”) and the final agreement dated 17 April 1991 between PPTiT and Danish-Polish Telecommunication Group (“DPTG”), the legal successor of GN, a fibre optical link called North-South Link (“NSL”) connecting north and south Polish borders of total length of 1,500 km was constructed and commissioned. 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 and DPTG accounted for DKK 126 million. Ownership rights to this investment were transferred to the Company on commissioning and DPTG was granted 14.8% of net profit on the cable during 15 years starting from the day when 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 maintenance of the cable. For the purpose of net profit calculation the parties agreed that annual maintenance costs would be 7% of the cable cost as adjusted for inflation index limited to 5% denominated in SDR. The Company was obliged to maximise data flow through the cable.

DPTG’s share in cable net profit for 2000 and 1999 was PLN 54 million and PLN 63 million, respectively, and was recognised as an expense.

23. Related party transactions

As at 12 October 2000, i.e. as at the day of the sale of 35% of shares of Telekomunikacja Polska S.A. by the State Treasury to the consortium France Telecom - Kulczyk Holding, Polish State Treasury owned 35.11% of shares of the parent company (see Note 19). Principally, the Group provides services to government organisations on normal commercial terms.

As at 12 October 2000 France Telecom, via its subsidiary company Cogecom S.A., owned 25% of shares of the parent company. Additionally France Telecom, as the minority shareholder, owns 34% of PTK-Centertel Sp. z o.o. shares. The Group provides and receives interconnect services from France Telecom on normal commercial terms. In 2000 and 1999 the Group purchased services from France Telecom in the amount of PLN 19 million and PLN 31 million, respectively, and sold services in the amount of PLN 35 million and PLN 34 million, respectively.

Short-term employee benefits paid to the Company’s Management and Supervisory Board in 2000 and 1999 amounted to PLN 4 million for each of the years.

24. Segment reporting

The Group operates in two major reportable segments comprising fixed line telecommunications and mobile telecommunications. The two segments are strategic business units that offer different services.

The parent company TPSA 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, radiocommunication and other telecommunications value added services, sells telecommunications equipment and produces fibre optic cables and chip cards.

The mobile telecommunications services are provided by the subsidiary PTK-Centertel Sp. z o.o., which is NMT 450, DCS 1800 and GSM 900 mobile telecommunications provider in Poland. According to the UMTS concession granted in December 2000 PTK – Centertel Sp. z o. o. will be allowed to provide the third generation services from 1 January 2003.

Other operations involve businesses of other companies constituting 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 being the territory of Poland

The accounting policies are uniform for all segments. Transactions between segments are on arms – length basis. Those transactions are eliminated in consolidation.

Basic financial information about business segments is presented below:

	<u>Fixed line telecommunications</u>	<u>Mobile telecommunications</u>	<u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>31 December 2000</u>					
Assets	29,868	4,971	237	(2,995)	32,081
Liabilities	17,858	4,162	109	(1,632)	20,497
<u>31 December 1999</u>					
Assets	24,934	2,899	14	(1,275)	26,572
Liabilities	14,843	2,115	1	(496)	16,463
<u>12 months ended 31 December 2000</u>					
<i>Sales:</i>	14,678	1,553	122	(474)	15,879
intersegment	108	287	79	(474)	-
external	14,570	1,266	43	-	15,879
Depreciation and amortisation	2,735	377	11	10	3,133
Operating result	3,570	(555)	(66)	(10)	2,939
Net profit	1,989	(601)	(62)	197	1,523
Capital expenditures	5,383	2,567	79	-	8,029
Net cash flows from:					
operating activities	5,563	(225)	(62)	(11)	5,265
investing activities	(6,184)	(1,108)	(110)	1,084	(6,318)
financing activities	980	1,182	168	(1,062)	1,268

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

	12 months ended 31 December 1999				
<i>Sales:</i>	12,384	1,066	-	(290)	13,160
intersegment	84	206	-	(290)	-
external	12,300	860	-	-	13,160
Depreciation and amortisation	2,123	252	-	8	2,383
Operating result	3,104	(254)	(2)	(8)	2,840
Net profit	1,248	(321)	(2)	104	1,029
Capital expenditures	6,160	1,246	-	-	7,406
Net cash flows from:					
operating activities	4,365	75	(2)	(9)	4,429
investing activities	(5,709)	(998)	-	898	(5,809)
financing activities	(1,623)	1,035	15	(889)	(1,462)

25. Contingent liabilities and uncertainties

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

Regulations related to the value-added tax, corporate income tax, and payroll (social) taxes have been recently radically changed in comparison with tax regulations existing before economic and political transformation in Poland. Lack of reference to the well-established regulations and short practice of the new tax regulations results in lack of clarity and integrity of 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 legal compliance areas (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, who are entitled to impose severe fines, penalties and interest charges. These facts create tax risks in Poland substantially more significant than typically found in countries with more developed tax systems.

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

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

Tax settlements of the parent company for 1996 are currently subject to review by Warsaw Tax Control Office, which commenced on 29 June 1999. Investigation procedures are in process and on 5 April 2001 an inspection protocol on the initial findings has been submitted to the Company. As of the date of the preparation of the financial statements TPSA has not received any decision on the inspection.

On 13 July 2000 Warsaw Tax Control Office initiated in the subsidiary PTK-Centertel Sp. z o.o. review concerning VAT settlements for 1997 and CIT settlements for 1999. Until the date of the preparation of these consolidated financial statements the review has not been completed.

On 8 September 2000 Warsaw Tax Control Office initiated in the subsidiary PTK-Centertel Sp. z o.o. two reviews concerning VAT settlements for 1998 and VAT settlements for 1999, respectively. Until the date of the preparation of these consolidated financial statements the reviews have not been completed.

(b) Investment tax allowances

In 1994 – 2000 TPSA took advantage of investment tax allowance scheme. Under this scheme in arriving at its taxable income TPSA has deducted PLN 2,543 million in respect of investment in qualifying fixed assets in the period. Additionally, in 1995 – 2000 the Company has taken additional investment tax bonus amounting to PLN 1,227 million. These deductions have reduced the tax charges of TPSA by PLN 1,420 million in 1994-2000 as follows:

	<u>(in PLN millions)</u>
1994	138
1995	252
1996	311
1997	282
1998	207
1999	159
2000	71

Total	1,420
	=====

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

- 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 transformation of the legal status, merger or division of economic entities),
- leasing contract in respect of assets subject to investment tax allowances is no longer deemed a finance lease contract,
- taxpayer is put into liquidation or declared bankrupt,
- taxpayer receives reimbursement of investment outlays in any form.

Furthermore, the Company can utilise the deduction only when certain conditions are fulfilled prior to taking the deduction, including lack of tax arrears. If those conditions had not been fulfilled at the moment of utilising 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 the 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 to retain the right to investment tax allowances despite having tax arrears provided that the taxpayer either adjusts its tax return and pays the arrears plus accrued interest due or within 14 days following receipt of tax authorities' decision establishing existence of tax arrears the taxpayer pays the overdue amount plus accrued interest due. However, these modifications do not relate 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 to provide NMT 450 services on the whole territory of Poland, the concession to provide DCS 1800 services in certain regions of Poland, the concession to provide GSM 900 services on the whole territory of Poland and the concession to provide services according to the European telecommunication standard UMTS on the whole territory of Poland. These mobile concessions are for set periods of time and require that PTK-Centertel Sp. z o.o. fulfils certain concession objectives, including obligations to reach by DCS 1800 network a pre-determined number of subscribers, to reach by GSM 900 and UMTS networks a pre-determined coverage of the territory of Poland by specified deadline. Additionally, UMTS network should guarantee subscribers a specific pre-determined capacity to facilitate data transmission. The UMTS operator is obliged to commence services not later than 1 January 2004. If PTK-Centertel Sp. z o.o. fails to meet these objectives, the Ministry of Communications has the right to withdraw the concessions.

(d) Rights to assets and division of liabilities

Issues related to incorporation of TPSA

The parent company TPSA was established as a result of a transformation of the state owned organisation PPTiT into two entities – Polish Post 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 to certain items of property. According to the above, TPSA's rights to certain properties may be questioned.

In addition, as regulations concerning the transformation of PPTiT are unclear, a division of certain responsibilities of PPTiT may be considered 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

On 3 June 1998 following the petition of Association of Polish Rural Communities, Community of Rogóžno, Community Authorities of Dąbrowice and Association of Mazowieckie Communities addressed to the Office for Protection of Competition and Customers (OPCC), administrative proceedings were instituted against TPSA based on art. 5 par. 1 items 3 and 5 of Act on Preventing Monopolistic Practices and Customer Protection. The proceedings referred to the Company's monopolistic practices involving abuse of the dominant market position through imposition on the Communities unfavourable conditions concerning mutual capital expenditures on the development of telecommunications infrastructure on the territory of the above Communities. According to the Communities TPSA gained unjustified benefits as a result of monopolistic practices.

In June and July 1999 OPCC issued three decisions regarding this matter unfavourable for TPSA stating that TPSA was using monopolistic practices and ordering abandonment of these practices by means of settlements of relevant amounts regarding the telecommunications infrastructure received by the Company free of charge. Amounts to be settled in favour of Community of Dąbrowice and Community of Rogóžno are PLN 904 thousand and PLN 55 thousand, respectively. In respect of Association of Polish Rural Communities the amount was not stated in the decision of OPCC. The Association of Polish Rural Communities represents approximately 140 communities. In October 1999 OPCC decided to discontinue administrative proceedings regarding the case of Association of Mazowieckie Communities. TPSA appealed against the first three decisions to District Anti-Monopoly Court in Warsaw (AMC).

On 20 September 2000 AMC repealed the three decisions of OPCC issued in June and July 1999. In October and November 2000 the Communities of Dąbrowice and Rogóžno as well as the Association of Polish Rural Communities appealed against the AMC decisions to the Supreme Court.

Furthermore, in 1999 and 2000 other communities petitioned to OPCC to start administrative proceedings against Telekomunikacja Polska S.A. regarding its monopolistic practices. As of the date of preparation of these financial statements administrative proceedings have been instituted based on petitions of the following communities: Brudzeń Duży, Pińczów, Boguty Pianki, Ożarowice, Brody, Błaszki, Bobrowniki, Jedlińsk and Association of Communities of "Ziemia Ostrowska". The total amount of these claims is PLN 5,853 thousand.

Until the date of preparation of these consolidated financial statements OPCC issued nine unfavourable decisions, regarding the cases which had started in 1999 and 2000, stating that TPSA had used monopolistic practices and demanding their abandonment by settlement of amounts received from the communities free of charge for the purpose of development of the Company's telecommunications infrastructure. The amounts to be settled are: for the Community of Brudzeń Duży PLN 59 thousand, Community of Ożarowice PLN 349 thousand, Community of Bobrowniki PLN 545 thousand, Association of Communities of "Ziemia Ostrowska" PLN 1,016 thousand, Community of Jedlińsk PLN 763 thousand. In the cases of Communities of Boguty Pianki, Pińczów, Brody and Błaszki OPCC ordered abandonment of monopolistic practices, but did not consider the Communities' financial claims. Additionally, in the cases of Communities of Ożarowice, Bobrowniki, Pińczów, Brody and Błaszki OPCC imposed on TPSA fines of a total amount PLN 700 thousand.

TPSA appealed to AMC in Warsaw in all cases (apart from the Community of Boguty Pianki case) ended by unfavourable decisions of OPCC. In December 2000 OPCC, without directing the cases to AMC, withdrew decisions and cancelled administrative proceedings in the cases of the Communities of Bobrowniki and Jedlińsk and Association of Communities of "Ziemia Ostrowska". On 30 May 2001 AMC issued the verdict regarding the TPSA appellation of OPCC decision in case of Ożarowice Community stating that TPSA did not use monopolistic practices and repealed obligation of the settlement of amounts received from Ożarowice Community free of charge for the purpose of development of the Company's telecommunications infrastructure. AMC also repealed the fine of PLN 250 thousand imposed on TPSA by OPCC in the above case. The dates of court sessions regarding the remaining cases have not been determined yet.

The decisions of OPCC described above may encourage other communities to claim compensation for the capital expenditures related to the telecommunications infrastructure. Taking the current status of the proceedings the Company is not able to determine the timing of their final settlements and the amount of potential claims. According to the information received from communities' plenipotentiary on 23 September 1998 the amount of potential claims based on the capital expenditures related to the telecommunications infrastructure given to the Company free of charge in 1990-1997 is PLN 650 million excluding penalty interest. However, based on the estimates of the Company's organisational units the amount of the communities' contribution in the above period was lower than half of the amount indicated by the communities' plenipotentiary.

On 26 April 2000 the District Court in Radom dismissed the petition of Community of Błędów against TPSA claiming PLN 874 thousand as a compensation for its capital expenditures on telecommunications infrastructure transferred to TPSA free of charge. Legal proceedings concerning this case may be considered completed as the verdict has already become effective due to lack of appeal from Community of Błędów.

Provisions for the above claims being under legal proceedings recorded in the Company's books as at 31 December 2000 amounted to PLN 3,273 thousand.

(e) Real Estate Taxes

The Company is in dispute with local tax authorities and local Supreme Administrative Court divisions in respect of real estate taxes. Disputes are related to the value of the real estate, which is the basis for the calculation of real estate taxes. TPSA calculated the tax based on:

- Act on Local Taxes and Charges dated 12 January 1991,
- Ministry of Finance letter POM 469/95 directed to tax offices dated 26 September 1995,
- Statement of Constitutional Court dated 15 May 1996 on interpretation of art. 1 par. 4 item 2 of Act on Local Taxes and Charges dated 12 January 1991 in the context of art. 8 and 11 of Act on Privatisation of State-Owned Enterprises dated 13 July 1990.

Based on the Constitutional Court Statement TPSA adjusted previously filed returns of real estate tax. As a result the Company has recorded as receivables certain payments made as tax advances or has paid less real estate tax than amounts calculated in line with the position taken by respective tax offices. Final settlements will depend on the decisions of the Supreme Administrative Court in individual cases. A number of local Supreme Administrative Court divisions already issued decisions unfavourable for TPSA. They stated that tax charges should be calculated based on higher value of the property. In conformity with the prudence concept the Company estimated its potential tax liabilities relating to real estate tax. The respective provision recorded in the Company's books as of 31 December 2000 amounts to PLN 61 million.

26. Financial instruments

The fair value of cash and cash equivalents, receivables, marketable securities 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 loans, borrowings and other payables with variable interest rates approximates their carrying amounts. As of 31 December 2000 and 1999 the fair value of non-current loans, borrowings and other payables with fixed interest rates amounted to PLN 10,328 million and PLN 7,339 million, respectively (carrying amount: PLN 10,667 million and PLN 7,515 million, respectively).

The fair values of the financial instruments are 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, interest rate and currency swaps to manage its exposure to market risks from changes in interest and foreign exchange rates. As at 31 December 2000 and 1999 these instruments were as follows:

	31 December 2000		31 December 1999	
	Notional amount	Fair value*	Notional amount	Fair value*
	(USD million)		(USD million)	
Interest rate and currency swap (hedging) ⁽¹⁾	100	5	100	(0)
Interest rate and currency swap (hedging) ⁽²⁾	(100)	(5)	(100)	0
Currency swap (hedging) ⁽³⁾	300	(3)	300	(16)
	(EUR million)		(EUR million)	
Currency swaps (non-hedging) ⁽⁴⁾	-	-	50	(0)
Currency swap (hedging) ⁽⁵⁾	50	1	-	-
Currency swap (hedging) ⁽⁶⁾	50	(3)	-	-
Currency swap (hedging) ⁽⁷⁾	100	(5)	-	-
Currency swaps (hedging) ⁽⁸⁾	100	(3)	-	-
Currency swaps (hedging) ⁽⁹⁾	70	(2)	20	(0)
Currency swaps (hedging) ⁽¹⁰⁾	50	(1)	-	-
Currency swaps (hedging) ⁽¹¹⁾	15	(1)	-	-

*Fair value was estimated as of the last working day of 2000 by the banks being the parties in the respective transactions

- (1) receive LIBOR + 0.3% variable interest USD amount / pay 20.95% fixed interest PLN amount, maturity date 2004
(2) receive 20.95% fixed interest PLN amount / pay LIBOR + 0.3% variable interest USD amount, maturity date 2004
(3) receive USD amount / pay 6.85% fixed interest PLN amount, maturity date 2008
(4) receive EUR amounts / pay PLN amounts, maturity dates 2000
(5) receive EUR amount / pay 6.5% fixed interest PLN amount, maturity date 2004
(6) receive EUR amount / pay 8.2% fixed interest PLN amount, maturity date 2004
(7) receive EUR amount / pay 8.0% fixed interest PLN amount, maturity date 2004
(8) receive EURIBOR variable interest EUR amounts / pay WIBOR + 0.1% variable interest PLN amounts, maturity dates 2004
(9) receive 3.81% to 4.7% fixed interest EUR amounts / pay 11.7% to 12.95% fixed interest PLN amounts, maturity dates 2003 to 2005
(10) receive 6.3% fixed interest EUR amounts / pay 14.78% to 14.96% fixed interest PLN amounts, maturity dates 2004
(11) receive EUR amounts / pay 6.37% to 6.69% fixed interest PLN amounts, maturity dates 2007

27. Supplementary cash flow information

Significant non-cash transactions in 2000 and 1999 are presented below:

	12 months ended 31 December	
	2000	1999
	(in PLN millions)	
Telecommunications concessions with deferred payments	1,595	201
Telecommunications infrastructure received free of charge	137	297
	=====	=====

28. Prior period events

Except for the matter described in Note 25 (e) of these additional notes, the financial statements do not include significant events relating to prior periods.

29. Subsequent Events

(a) Bond issuance

On 1 March 2001 TPSA Eurofinance B.V. issued bonds of EUR 500 million total nominal value, EUR 495 million total issue price and maturity date on 1 March 2006. The issuance constitutes the fourth tranche within the scope of the extended Euro Medium-Term Note Programme signed on 22 October 1999. The arrangers of the Programme were Deutsche Bank and Schroder Salomon Smith Barney.

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

(b) Transaction with Societe Generale Succursale de Varsovie

On 15 January 2001 TPSA and Societe Generale Succursale de Varsovie (SG) signed an agreement which transfers currency risk as to the amount of EUR 100 million to SG subject to the following conditions:

- SG will pay to TPSA the amount of EUR 100 million on 27 October 2004.
- TPSA will pay the amount of PLN 392 million on 27 October 2004. TPSA will pay, annually, interest based on the fixed rate of 7.7% p.a. for the period from 27 October 2000 to 27 October 2004.

(c) Penalty imposed by the President of the Office for Protection of Competition and Customers

On 26 January 2001 the President of the Office for Protection of Competition and Customers (OPCC) issued decision DDI 2/2001 and based on art. 15 par. 1 of Act on Preventing Monopolistic Practices and Customer Protection dated 24 February 1990 imposed on TPSA penalty amounting to PLN 54 million payable to the Internal Revenue for not executing the decision DDI 36/98 of the President of OPCC dated 22 July 1998 concerning abandonment of TPSA monopolistic practices involving overstated charges for long-distance calls above 100 km.

On 7 February 2001 TPSA appealed to the District Anti-Monopoly Court in Warsaw and petitioned to deem the decision DDI 36/98 invalid. Management Board of the parent company believes there is high probability of repealing the penalty and therefore no provision was created in this respect as of 31 December 2000.

(d) Establishing a subsidiary Ośrodek Techniki Optotelekomunikacyjnej Lublin Sp. z o.o.

On 30 March 2001 TPSA signed the Notary Deed founding the company Ośrodek Techniki Optotelekomunikacyjnej Lublin Sp. z o.o. Share capital of OTO Lublin Sp. z o.o. is PLN 17 million and is wholly owned by TPSA. The shares have been paid in cash.

Principal activities of OTO Lublin Sp. z o.o. include telecommunication-related activities, in particular production of fibre optic cables and electronic cards.

(e) Establishing a subsidiary Otwarty Rynek Elektroniczny S.A.

On 17 April 2001 TPSA signed the Notary Deed founding the company Otwarty Rynek Elektroniczny S.A.. Share capital of ORE S.A. is PLN 20 million and is wholly owned by TPSA. The shares have been paid in cash.

Principal activities of ORE S.A. include electronic trade for business clients.

(f) Increase in the share capital of PTK-Centertel Sp. z o.o.

On 5 January 2001, 27 February 2001, 5 April 2001 and 20 June 2001 Shareholders' Meeting of PTK-Centertel Sp. z o.o., TP S.A. subsidiary, issued a resolution on the increase of the share capital of the company by the total amount of PLN 1,290,002 thousand by means of the increase in the nominal value of each share. France Telecom participated in the share capital increase in 34%. No changes have been made in France Telecom share in the share capital of PTK-Centertel Sp. z o.o. as a result of the increase. Regarding above increase in 2001 France Telecom will have to pay in an amount of 438,601 for the benefit of the Group.

(g) Forward transactions concluded by the subsidiary company PTK-Centertel Sp. z o.o.

In 2001 PTK-Centertel Sp. z o.o. entered into forward transactions with Societe Generale and Bank Rozwoju Eksportu S.A.. As of the date of the preparation of these consolidated financial statements PTK-Centertel Sp. z o.o. was party in open forward transactions concluded on the following conditions:

The banks mentioned above will pay PTK-Centertel Sp. z o.o. the total amount of EUR 70 million on closing dates of respective transactions.

PTK-Centertel Sp. z o.o. will pay the above mentioned banks the total amount of PLN 268 million on closing dates of respective transactions.

The maturity dates of the above forward transactions fall in the period from June to September 2001.

(h) Tax Control Office review in PTK-Centertel Sp. z o.o.

On 12 February 2001 Warsaw Tax Control Office extended the scope of the review initiated on 13 July 2000 in PTK-Centertel Sp. z o.o. for CIT settlements for 1997. Until the date of the preparation of these consolidated financial statements this review was not completed.

(i) Establishing a subsidiary Incenti S.A.

On 18 May 2001 TPSA and Prokom Software S.A. signed the Notary Deed founding the company Incenti S.A.. Share capital of Incenti S.A. amounts to PLN 50 million. 51% of the share capital is owned by TP S.A. and will be paid in cash.

Principal activities of Incenti S.A. include provision of Data Centres services and ASP services, i.e. making software available to third parties by internet.

(j) Effect of subsequent changes in foreign exchange rates

As of 31 December 2000 the EUR to PLN foreign exchange rate was 3.8544. Subsequently the foreign exchange rate of EUR has considerably changed and amounted to 3.3969 as at 31 May 2001. Net liabilities denominated in euro as at 31 December 2000 amounted to PLN 5,507 million.

30. Transformation for IAS purposes

The parent company and its subsidiaries and affiliates, except for TPSA Finance B.V. and TPSA Eurofinance B.V., maintain accounts in accordance with the accounting principles and practices employed by enterprises in Poland as is required by the Accounting Act. The financial statements set out above reflect certain adjustments not reflected in TPSA's consolidated financial statements prepared under Polish Accounting Standards to present these financial statements in accordance with IAS, except for non-compliance with IAS 29.

The table below presents the quantitative differences between the main items of the consolidated financial statements prepared under PAS (Polish Accounting Standards) and under IAS:

	Net profit for 2000	Net profit for 1999	Net assets as at 31 December 2000	Net assets as at 31 December 1999	Total assets as at 31 December 2000	Total assets as at 31 December 1999
	in PLN million					
Consolidated PAS	1,331	860	11,363	10,104	32,914	26,466
a. Foreign exchange gains net effect	228	61	301	73	-	-
b. Assets received free of charge	8	(5)	(169)	(177)	-	-
c. Capitalisation of borrowing costs	84	201	285	201	293	206

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

d. Deferred tax effects	(67)	(71)	(142)	(75)	-	-
e. Consolidation translation adjustment	(7)	-	-	-	-	-
f. Distribution from profit for the benefit of employees and for special funds	(47)	(17)	(47)	(17)	-	-
g. Discount on bonds and commercial papers issued	-	-	-	-	(73)	(67)
h. Provisions for fixed assets intended for liquidation or sale	-	-	-	-	(143)	(33)
i. Telecommunications concession	(7)	-	(7)	-	(892)	-
j. Overdrafts	-	-	-	-	(18)	-
Consolidated IAS	1,523	1,029	11,584	10,109	32,081	26,572
	=====	=====	=====	=====	=====	=====

a. Foreign exchange gains

In accordance with PAS unrealised foreign exchange gains are deferred until realised. In the financial statements compliant with IAS unrealised foreign exchange gains are recognised as income.

b. Assets received free of charge

In the statutory financial statements assets received free of charge from local authorities representing contribution to the network construction cost are credited to the profit and loss account when the ownership of these assets is transferred to the parent company. In the financial statements prepared in accordance with IAS such donations are deferred and recognised as income over the useful life of the related assets.

c. Capitalisation of borrowing costs

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

d. Deferred tax effects

As a consequence of adjusting financial statements prepared in accordance with PAS by items a., b. and c. deferred tax position has changed.

e. Consolidation translation adjustment

In the consolidated financial statements prepared in accordance with PAS consolidation translation adjustment is presented in equity. In the IAS financial statements consolidation translation adjustment is charged to profit and loss account.

f. 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 employees to increase the social fund designed for the welfare of employees and funds created for specific purposes. In IAS financial statements such distributions are recognised as operating expense of the year to which the profit distribution relates.

g. Discount on bonds and commercial papers issued

According to PAS bonds and commercial papers issued are stated in the financial statements at nominal value. The difference between nominal value and issue price is recognised as other deferred cost. In the financial statements prepared in accordance with IAS bonds and commercial papers issued are stated at nominal value net of unamortised discount.

h. Provision for fixed assets intended for liquidation or sale

In the financial statements prepared in accordance with PAS provision for fixed assets intended for liquidation or sale is presented on the face of the balance sheet. In the financial statements prepared in accordance with International Accounting Standards such provisions are netted off fixed assets balance presented in the balance sheet.

i. Telecommunications concession

According to PAS telecommunication concessions as well as long-term liabilities resulting from future payments for these concessions are reported in the financial statements at nominal value. In the financial statements prepared in accordance with International Accounting Standards such concession and related liabilities are reported at fair value calculated as the present value of all future cash flows. The changes in fair value are capitalised as part of the cost of concession until the concession is issued to use and charged to profit and loss account after that moment.

j. Overdrafts

According to PAS overdrafts are presented in the financial statements as short-term liabilities. In the IAS financial statements overdrafts are reported as a decrease in the balance of cash and cash equivalents.

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

Report of certified auditors

To the Management Board of Telekomunikacja Polska S.A.:

1. We have audited the accompanying consolidated balance sheet of Telekomunikacja Polska Group ("the Group"), which parent company is Telekomunikacja Polska S.A. (the "Company", "TPSA"), as of 31 December 2000 and the related consolidated profit and loss account, cash flow statement and statement of changes in equity for the year then ended. These financial statements are the responsibility of TPSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. 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 of 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 of 31 December 1996. As a result, the cumulative balances of property, plant and equipment as of 31 December 1999 and 2000 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 of non-compliance with IAS 29 on these financial statements. In all other respects the financial statements are prepared under historical cost convention.

4. In accordance with International Accounting Standard No. 1 "Presentation of Financial Statements" the financial statements include 1999 financial information presented for comparative purposes. We audited the financial statements for the year ended 31 December 1999 and issued a qualified opinion dated 22 May 2000 on these financial statements. Our qualification related to the non-compliance with IAS 29 referred to in paragraph 3 above.
5. In our opinion, except for the matter referred to in paragraph 3 above, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2000 and the consolidated results of its operations and its cash flows for the year then ended in accordance with Statements of International Accounting Standards issued by the International Accounting Standards Committee.
6. Without further qualifying our opinion we draw attention to the following matter:

In 1994-2000 the parent company took advantage of investment allowances and additional investment bonuses deducting PLN 3,770 million from its taxable profit. As more fully explained in Note 25(b), the right to investment allowances is conditional and may be questioned if the parent company has not or will not meet certain conditions prescribed by law.

Arthur Andersen

Warsaw, Poland
26 June 2001

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