

**Translation of the report originally issued in Polish**

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**TELEKOMUNIKACJA POLSKA GROUP  
IFRS CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2001 AND 2000**

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**TELEKOMUNIKACJA POLSKA GROUP  
CONSOLIDATED BALANCE SHEETS  
AS AT 31 DECEMBER 2001 AND 31 DECEMBER 2000**

	<u>Note</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
<u>(in PLN millions)</u>			
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	551	1,016
Financial assets	12	141	62
Receivables	8	2,915	3,180
Current income taxes		141	268
Inventories	9	275	200
		-----	-----
Current assets		4,023	4,726
		-----	-----
<b>Non-current assets</b>			
Cash and cash equivalents	7	64	-
Property, plant and equipment	10	26,885	24,601
Intangible assets	11	2,756	2,608
Financial assets	12	130	137
Investments accounted for under the equity method		11	7
		-----	-----
Non-current assets		29,846	27,353
		-----	-----
<b>Non-current receivables</b>		3	2
		-----	-----
<b>Total assets</b>		<b>33,872</b>	<b>32,081</b>
		=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Loans and other borrowings	13	1,545	1,075
Accrued expenses and other payables	14	4,128	4,930
Current income taxes		3	2
Provisions	15	716	269
Deferred income	16	163	160
		-----	-----
Current liabilities		6,555	6,436
		-----	-----
<b>Non-current liabilities</b>			
Loans and other borrowings	13	12,693	12,160
Accrued expenses and other payables	14	1,400	1,045
Provisions	15	330	122
Deferred income	16	254	263
Deferred income taxes	17	124	184
		-----	-----
Non-current liabilities		14,801	13,774
		-----	-----
<b>Minority interest</b>	18	621	287
		-----	-----
<b>Shareholders' equity</b>			
Common stock	19	4,200	4,200
Share premium		832	832
Revaluation reserve		2,334	2,334
Other reserves		(221)	-
Retained earnings		4,750	4,218
		-----	-----
Shareholders' equity		11,895	11,584
		-----	-----
<b>Total liabilities and shareholders' equity</b>		<b>33,872</b>	<b>32,081</b>
		=====	=====

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

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**TELEKOMUNIKACJA POLSKA GROUP  
CONSOLIDATED PROFIT AND LOSS ACCOUNTS  
FOR THE YEARS ENDED 31 DECEMBER 2001 AND 2000**

	<u>Note</u>	<u>12 months ended 31 December</u>	
		<u>2001</u>	<u>2000</u>
<u>(in PLN millions)</u>			
<b>Revenues</b>	20	<b>17,324</b>	<b>15,879</b>
Operating expenses:			
Employee related expenses		(3,886)	(3,558)
Depreciation and amortisation		(3,827)	(3,133)
Payments to other operators		(1,738)	(1,549)
Purchased services		(2,588)	(2,304)
Raw materials and consumables		(692)	(675)
Goods purchased for resale		(1,051)	(766)
Other operating expenses, net		(1,878)	(1,088)
Work performed by the enterprise and capitalised		238	133
<b>Total operating expenses</b>		<b>(15,422)</b>	<b>(12,940)</b>
<b>Operating profit</b>		<b>1,902</b>	<b>2,939</b>
Interest revenues and other financial income	21	672	335
Interest expense and other charges	21	(2,075)	(1,225)
Foreign exchange gains and losses, net	21	588	184
<b>Profit before income tax</b>		<b>1,087</b>	<b>2,233</b>
Income tax	17	(707)	(914)
Minority interest	18	164	204
<b>Net profit</b>		<b>544</b>	<b>1,523</b>
Net profit per share (in PLN)		0.39	1.09
Weighted average common stock outstanding (millions)		1,400	1,400

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

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**TELEKOMUNIKACJA POLSKA GROUP**  
**CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED**  
**31 DECEMBER 2001 AND 2000**

	<b>12 months ended 31 December</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in PLN millions)</b>	
<b>Cash flows from operating activities</b>		
Net profit	544	1,523
Adjustments for:		
Minority interest	(164)	(204)
Depreciation and amortisation	3,827	3,133
Foreign exchange (gains)/losses, net	(531)	(176)
Interest and dividend (income)/charges, net	1,331	1,072
(Gain)/loss on investment activities	47	7
Income tax on current year profit	707	914
Net income tax recovered/(paid)	(766)	(1,071)
Other cash flows (applied in)/generated from operations, net	(12)	17
	-----	-----
<b>Net cash flows from operating activities before changes in working capital</b>	<b>4,983</b>	<b>5,215</b>
Changes in working capital:		
Decrease/(increase) in receivables, net of allowance	265	(529)
Decrease/(increase) in inventories	(75)	(50)
(Decrease)/increase in provisions	655	301
(Decrease)/increase in payables and other short-term liabilities	359	330
(Decrease)/increase in deferred income	(6)	(43)
	-----	-----
<b>Net cash flows generated from operating activities</b>	<b>6,181</b>	<b>5,224</b>
	=====	=====
<b>Cash flows from investing activities</b>		
Proceeds from sale of fixed assets	4	4
Proceeds from sale of non-current financial assets	46	10
Dividends received	6	8
Interest received	5	3
Purchase of property, plant and equipment	(5,941)	(5,953)
Purchase of intangible fixed assets	(436)	(230)
Purchase of non-current financial assets	(73)	(10)
Payments for DCS, GSM and UMTS concessions	(984)	(120)
Other cash flows (applied in)/generated from investing activities, net	(9)	11
	-----	-----
<b>Net cash flows applied in investing activities</b>	<b>(7,382)</b>	<b>(6,277)</b>
	=====	=====

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

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**TELEKOMUNIKACJA POLSKA GROUP**  
**CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED**  
**31 DECEMBER 2001 AND 2000**

	<b>12 months ended 31 December</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in PLN millions)</b>	
<b>Cash flows from financing activities</b>		
Proceeds from non-current loans and borrowings	353	1,014
Proceeds from current loans and borrowings	810	213
Proceeds from issuance of bonds	1,814	1,873
Proceeds from increase in share capital of subsidiaries	463	167
Issuance of short-term commercial papers	-	590
Interest received	236	49
Repayment of non-current loans and borrowings	(713)	(589)
Repayment of current loans and borrowings	(523)	(46)
Redemption of short-term commercial papers	-	(694)
Interest paid	(1,701)	(1,216)
Dividends paid to minority shareholders	-	(70)
Other cash flows (applied in)/generated from financing activities, net	58	(23)
	-----	-----
<b>Net cash flows generated from financing activities</b>	<b>797</b>	<b>1,268</b>
	-----	-----
<b>Effects of exchange rate changes on cash and cash equivalents</b>	<b>3</b>	<b>18</b>
	-----	-----
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(401)</b>	<b>233</b>
	-----	-----
<b>Cash and cash equivalents at the beginning of period</b>	<b>1,016</b>	<b>783</b>
	-----	-----
<b>Cash and cash equivalents at the end of period</b>	<b>615</b>	<b>1,016</b>
	=====	=====

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

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**TELEKOMUNIKACJA POLSKA GROUP**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2001 AND 2000**

	Common stock (Note 19)	Share Premium (Note 19)	Revaluation reserve (Note 19)	Other reserves	Retained earnings	Total shareholders' equity
	(in PLN millions)					
<b>1 January 2000</b>	<b>4,200</b>	<b>832</b>	<b>2,332</b>	-	<b>2,745</b>	<b>10,109</b>
Dividends paid out of 1999 profit	-	-	-	-	(70)	(70)
Net profit for 2000	-	-	-	-	1,523	1,523
Consolidation of new entities	-	-	2	-	20	22
<b>31 December 2000</b>	<b>4,200</b>	<b>832</b>	<b>2,334</b>	-	<b>4,218</b>	<b>11,584</b>
Effect of application of IFRS 39	-	-	-	-	(12)	(12)
<b>1 January 2001</b>	<b>4,200</b>	<b>832</b>	<b>2,334</b>	-	<b>4,206</b>	<b>11,572</b>
Net profit for 2001	-	-	-	-	544	544
Effect of cash flow hedge accounting*	-	-	-	(221)	-	(221)
<b>31 December 2001</b>	<b>4,200</b>	<b>832</b>	<b>2,334</b>	<b>(221)</b>	<b>4,750</b>	<b>11,895</b>

\* See Note 5(t).

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

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

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**1. Principal activities**

Telekomunikacja Polska S.A. ("TPSA", "the Company"), a joint stock company incorporated in Poland, together with its subsidiaries form the Telekomunikacja Polska Group ("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 became effective from 1 July 2000. TPSA has also non-exclusive rights for the period of 25 years (until 2026) to provide local public fixed line voice telephony services throughout Poland. Through its subsidiary, Polska Telefonia Komorkowa-Centertel Sp. z o.o. ("Centertel", "PTK-Centertel Sp. z o.o."), the Group is Poland's only NMT 450 mobile telecommunications provider and one of the three Polish DCS 1800 and GSM 900 mobile telecommunications providers. On 20 December 2000 PTK-Centertel was granted a 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 together with its subsidiaries, 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 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 the issue of bonds (see Note 13(b)). Wirtualna Polska S.A., TP Internet's subsidiary, manages one of the leading internet portals in Poland and renders a wide range of internet services.

The Group's average employment in 2001 and 2000 amounted to 68,437 and 71,443 employees, respectively. The registered office of TPSA is located in Warsaw, ul. Nowy Swiat 6/12.

The Telecommunications Act, which became effective from 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 regulations, which may increase the liberalisation of the telecom market. Furthermore, the President of the Office for the Protection of Competition and Customers has the right to influence TPSA tariffs through its regulation of competitive practices by entities holding significant market positions.

On 3 September 2001 and 31 December 2001 the President of the URT issued two decisions stating that TPSA holds a dominant position on the domestic market of public telecommunication services and on the domestic leased lines market. On 17 September 2001 and 16 January 2002 TPSA appealed these decisions to the District Anti-Monopoly Court in Warsaw. As of the date of the preparation of these financial statements the appeals have yet to be considered.

**2. Basis of presentation**

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

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

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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 consolidated financial statements include certain adjustments not reflected in TPSA's books in order to present these consolidated statements in accordance with Standards issued by the International Accounting Standards Board, except in respect of accounting for hyperinflation referred to in Note 3 and accounting for embedded derivatives referred to below. These adjustments are presented in Note 31.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") 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.

As presented in Note 5(t) since 1 January 2001 the Group has applied International Financial Reporting Standard No. 39 "Financial Instruments: Recognition and Measurement" ("IFRS 39") except for accounting for embedded derivatives.

IFRS 39 establishes principles for recognising, measuring and disclosing information about financial assets and financial liabilities.

Under IFRS 39, all financial assets and financial liabilities should be recognised in the balance sheet, including all derivatives. They should initially be measured at cost, which is the fair value of the consideration given or received to acquire the financial asset or liability (plus certain hedging gains and losses). Subsequent to initial recognition, all financial assets should be remeasured to fair value, except for certain financial assets, which should be carried at amortised cost subject to a test for impairment. Amortised cost is the amount at which the financial asset or liability was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write-down (directly or through the use of an allowance account) for impairment or uncollectability. After acquisition most financial liabilities should be measured at the original recorded amount less principal repayments and amortisation. Only derivatives and liabilities held for trading should be remeasured to fair value.

IFRS 39 also describes hedging issues. Hedging, for accounting purposes, means designating a derivative or (in limited circumstances) a non-derivative financial instrument as an offset, in whole or in part, to the change in fair value or cash flows of a hedged item. A hedged item can be an asset, liability, firm commitment, or forecasted future transaction that is exposed to a risk of change in value or changes in future cash flows. Hedge accounting recognises the offsetting effects on net profit or loss symmetrically. Hedge accounting is permitted under IFRS 39 in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and actually effective.

As at 1 January 2001 the Group has recognised all derivatives in the balance sheet and measured them at their fair value, except for embedded derivatives. As a result, the opening balance of retained earnings decreased by PLN 12 million.

The Company has a number of derivative instruments, which are part of hybrid financial instruments ("embedded derivatives"). These embedded derivatives are primarily related to the purchase contracts for the delivery of equipment and services, which are denominated in foreign currencies. Under IFRS 39 these embedded derivatives constitute a forward sale of euro or US dollar and should be accounted for separately from the host contract. The Company was not able to separately measure the embedded derivatives and host contracts and has decided not to adopt IFRS 39 in this respect until adequate system solutions will be in place. The Group has estimated that the application of accounting for embedded derivatives would increase the net profit for 2001 by approximately PLN 102 million.

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

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In order to ensure comparability of financial statements certain reclassifications have been made to the financial statements for the year ended 31 December 2000 in order for them to conform with 2001 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 Financial Reporting Standard No. 29 "Financial Reporting in Hyperinflationary Economies".

International Financial Reporting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("IFRS 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 IFRS 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 2001 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 IFRS 29 on these financial statements.

**4. Financial statements authorisation. Changes in the Management Board.**

These financial statements were authorised for issuance by the Management Board on 26 March 2002.

During 2001 and prior to the authorisation of these financial statements there have been significant changes in the Management Board of TPSA. On 24 October 2001 the President of the Company and two members of the Management Board (including Chief Financial Officer) were dismissed and the Supervisory Board nominated a new President and new CFO. On 25 January 2002 the new CFO was dismissed. A new member of the Management Board responsible for Human Resources was appointed.

**5. Statement of accounting policies**

*(a) Principles of consolidation*

The consolidated financial statements include the financial statements of TPSA and the following subsidiaries:

<u>Group entity</u>	<u>Percentage of share capital owned by TPSA</u>
PTK – Centertel Sp. z o.o.	66%
TPSA Finance B.V.	100%
TPSA Eurofinance B.V.	100%
TP Internet Sp. z o.o.	100%
TP Invest Sp. z o.o.	100%
OTO Lublin Sp. z o.o.	100%
Otwarty Rynek Elektroniczny S.A.	100%

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<u>Group entity</u>	<u>Percentage of share capital owned by TPSA</u>
Parkiet Media S.A.	71%
Astech Polska S.A. *	29%
Magellan Net S.A.	68%
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.	95%
Telefony Podlaskie S.A.	55%
Incenti S.A.	51%
TP Sircom Szkolenia i Rekreacja Sp. z o.o.	100%
TP Wypoczynek Południe Sp. z o.o.	100%
TP TelTech Sp. z o.o.	100%
Wirtualna Polska S.A.	50%

\* The financial statements of Astech Polska S.A. have been consolidated till 31 May 2001 when the Group ceased to control this company.

\*\* The financial statements of PeBeTel Piła Sp. z o.o. have been consolidated till 30 September 2001 when the Group ceased to control this company. As a result of a sale transaction, the Group owns 23% of PeBeTel Piła's share capital as at 31 December 2001 (see Note 5(d) and Note 6(c)).

The voting power held by the Group is equal to the Group's interest in capital in all subsidiaries except for Magellan Net S.A., where the Group holds voting power of 71%.

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

The Company has 66% shareholding in PTK-Centertel Sp. z o.o.. The other 34% is owned by the minority shareholder France Telecom. Prior to 2001 the Company had the right to nominate four candidates out of six members of the Management Board of PTK-Centertel Sp. z o.o.. In 2001 the articles of association of PTK-Centertel Sp. z o.o. were changed and the Management Board is nominated by the Supervisory Board whose membership is split equally between the two shareholders. Under both the new and old articles of association the minority shareholder had a blocking right in various governing bodies. The Company takes the view that these blocking rights were not intended to deprive TPSA of its rights to unilaterally control PTK-Centertel Sp. z o.o. in the context of IFRS and were not utilized in the past in such a manner by the minority shareholder. This intention and the lack of usage of these blocking rights has been confirmed by the minority shareholder. Taking into account these circumstances the Company has continued to adopt the full consolidation method. The Company has confirmed this approach by obtaining independent accounting advice.

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.

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*(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) Financial assets*

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

The Company classifies financial assets in the following categories:

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

The purchases of financial assets are accounted for at settlement date.

Changes in the fair value of available for sale financial assets are included in net profit or loss for the period.

All financial assets are subject to review for impairment.

*(d) Investments accounted for under the equity method*

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

As at 31 December 2001 the Group's affiliates accounted for under the equity method were as follows:

Centrum Badawczo – Wdrozeniowe Optotrakt Sp. z o.o.	45%
Telefony Opalenickie S.A	25%
RWT Telefony Polskie S.A.	25%
Erada S.A.	24%
PeBeTel Piła Sp. z o.o.*	23%

\*The financial statements of PeBeTel Piła Sp. z o.o. have been consolidated until 30 September 2001 when the Group ceased to control this company. As a result of a sale transaction, the Group owns 23% of PeBeTel Piła's share capital as at 31 December 2001 (see Note 5(a) and Note 6(c)). Since 1 October 2001 PeBeTel Piła has been accounted for under equity method.

The voting power held by the Group is equal to the Group's interest in capital in the above affiliates.

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*(e) Receivables*

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

*(f) Inventories*

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

*(g) 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 IFRS 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 the carrying amount and the tax base of the assets subject to revaluation have been increased. The Group has not revalued its property, plant and equipment as of 31 December 1996, which is a departure from IFRS 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 revaluation. Depreciation is based on the revalued amounts. Unless Poland is subject to a period of further hyperinflation, the Group does not intend to include the effects of any further revaluations in its financial statements prepared under IFRS.

As further described in Note 25(e), 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 (Spółeczne 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 a regular basis. 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 books of account and any resulting gain or loss is taken to the profit and loss account.

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The following depreciation methods for fixed assets are used:

Part of equipment subject to fast technology development	-	Straight-line method
Part of telecommunications and other equipment	-	Reducing balance method
Other property, plant and equipment	-	Straight-line method

Annual base depreciation rates are as follows:

Buildings	2.5%
Duct, cable and other outside plant	4.5%
Telephone exchanges and other plant and equipment	4.5-18.0%
Computer equipment	30.0%
Vehicles and other	14.0-20.0%

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(p). 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 (see Note 10).

*(h) Leased assets*

Assets leased under agreements, which transfer to the Group substantially all 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.

The Group leases lines to its customers. Lease income is recognised in revenue on a straight-line basis over the lease term.

*(i) Intangible assets*

Except for telecommunication concessions, goodwill and negative goodwill, intangible assets are stated at cost, less amortisation on a straight-line basis using the annual amortisation rate of 50%.

Telecommunication concessions are valued at the present value of payments due plus the cost of interest and foreign exchange differences capitalised during the development period, less amortisation. The present value of concessions as at 31 December 2001 and 2000 was calculated using the discount rate of 6% p.a.. The development period terminates together with the start of operational validity. The concessions are amortised over the period reflecting concession rights starting from the beginning of their operational validity.

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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.

*(j) Goodwill and negative 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 its useful life. The amortisation period reflects the Group's best estimate of the period during which future economic benefits are expected to flow to the Group.

Negative goodwill is recognised in the income statement as follows:

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

*(k) Provisions*

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate 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. When discounting is used, the increase in the carrying amount of a provision reflecting the passage of time is recognised as a borrowing cost.

*(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 telecommunications services to be delivered subsequent to the connection (further referred to as "prepayments") are deferred and recognised as revenues when the services are provided to the customers.

*(m) Minority interest*

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

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*(n) Revenue recognition*

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

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

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 except for the situation where the amounts due to and receivable from the same operators are shown net in cases where a legally enforceable right of set-off exists and the Company intends to settle on a net basis. Revenues earned from connecting subscribers to the network are recognised upon service activation.

PTK-Centertel Sp. z o.o., a subsidiary of TPSA, sells prepaid mobile telephony services. An activation fee for prepaid services is recognised upon service activation. Revenues from prepaid connections are deferred and recognised when earned.

*(o) 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 the criteria specified by IFRS 38, which are recognised as assets and amortised over a period of 3 years. Research and development costs incurred by the Group in 2001 and 2000 amounted to PLN 19 million and PLN 10 million, respectively.

TPSA's subsidiary, PTK-Centertel Sp. z o.o., sells mobile handsets on promotional terms. Any discounts on handsets are recognised at the moment of sale.

In line with Polish business practice, shareholders are allowed to distribute profits 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.

*(p) Borrowing costs*

Borrowing costs are written off to the profit and loss account as incurred net of an amount capitalised calculated using the weighted average capitalisation rate. Borrowing costs are capitalised as part of the costs of the 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, foreign exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs and the effects of hedging instruments.

*(q) 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.

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An independent actuary estimates the net present value of jubilee award and retirement bonus 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 historical data. Valuation of obligations as at 31 December 2001 was performed using a discount rate of 7% p.a. and a wage inflation rate of 5% p.a..

The present value of jubilee awards and retirement bonuses as of 31 December 2001 and 2000, estimated by an independent actuary, amounts to PLN 525 million and PLN 431 million, respectively. In order to account for planned restructuring of employment the present value of jubilee awards and retirement bonuses as at 31 December 2001 and 2000 was adjusted by the Company to PLN 316 million and PLN 351 million, respectively.

In 2001 and 2000 the Group paid PLN 75 million and PLN 57 million of jubilee awards and retirement bonuses, respectively.

*(r) Termination indemnities*

The Group's entities pay termination indemnities in case of termination of employment without defined just cause within the framework of a reorganisation. The Group's entities are also obliged by law to pay termination indemnities in case of group reduction in the labour force (group reductions are those reductions which in one time or in the period not longer than three months result in lay-offs 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 Boards of the Group's entities, 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 companies will carry out the restructuring (see Note 15).

*(s) 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(p).

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. Non-monetary items are translated using the exchange rate at the date of the transaction. Revenues and expenses from foreign operations are translated using average rates during the period.

*(t) Derivative financial instruments*

The Group uses forward contracts and currency swaps to mitigate exposure against foreign currency fluctuations on liabilities denominated in foreign currencies. The Group uses interest rate swaps to mitigate exposure against interest rate fluctuations on liabilities based on fixed interest rates. These contracts are valued in the balance sheet at their fair value. The fair value is calculated using the net present value of future cash flows related to these contracts, quoted market forward interest rates, quoted market forward foreign exchange rates or if quoted forward foreign exchange rates are not available calculated based on spot foreign exchange rates using the interest rate parity method.

These contracts are presented in the balance sheet as financial assets or accrued expenses. Except when contracts qualify as hedges, changes in the fair value of financial instruments are recognised as other

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financial expense/income in the profit and loss account in the period of the change. When contracts qualify as fair value hedges under IFRS 39, related gains and losses offset symmetrically the effects on net profit or loss of the change in fair value of the hedged items. When contracts qualify as cash flow hedges the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity. The ineffective portion is reported immediately in the profit and loss account. The amounts that have been recognised directly in equity are included in the profit and loss account in the same period during which the hedged firm commitment or forecasted transactions affect the profit and loss account or enter into the initial measurement of the acquisition cost or other carrying amount of the asset or liability as appropriate.

*(u) 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 unused investment tax allowance bonus (see Note 25(c)) is considered a temporary difference and is recognised as a deferred tax asset in the year the investment tax allowance deduction, which gives rise to investment tax allowance bonus, 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 their occurrence is probable.

*(v) Profit / loss per share*

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

**6. Changes in Group's organisation**

*(a) Establishment of new entities*

In March 2001 TPSA established a wholly owned subsidiary Osrodek Techniki Optotelekomunikacyjnej Lublin Sp. z o.o. with its registered office in Lublin, Poland, and registered share capital amounting to PLN 17 million. The principal activities of OTO Lublin Sp. z o.o. include telecommunications-related activities, in particular the production of fibre optic cables and chip cards.

In April 2001 TPSA established a wholly owned subsidiary Otwarty Rynek Elektroniczny S.A. with its registered office in Warsaw, Poland and registered share capital amounting to PLN 20 million. The principal activities of ORE S.A. include electronic trade for business clients.

In May 2001 TPSA and Prokom Software S.A. established a company Incenti S.A. with its registered office in Warsaw, Poland and registered share capital amounting to PLN 50 million. TPSA owns 51% of the share capital of and voting power in Incenti S.A.. The principal activities of Incenti S.A. include rendering Data Centers services and application provision services, i.e. making software available by internet.

In June 2001 TPSA established two wholly owned companies TP Wypoczynek Połnoc Sp. z o.o. and TP Wypoczynek Południe Sp. z o.o. with registered share capital amounting to PLN 50 thousand each. The registered offices of these companies are in Gdansk and Cracow (both Poland), respectively. The

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principal activities of these companies include leisure, recreation and training. TP Wypoczynek Połnoc Sp. z o.o. was subsequently renamed TP SIRCOM – Szkolenia i Rekreacja Sp. z o.o..

In September 2001 TPSA established a wholly owned subsidiary TP TelTech Sp. z o.o. with its registered office in Łódź, Poland and registered share capital amounting to PLN 50 thousand. The principal activities of TP TelTech Sp. z o.o. include trading of telecommunication equipment and other telecommunication services.

*(b) Acquisitions*

In October 2001 the subsidiary company TP Internet Sp. z o.o. entered into a conditional share purchase agreement with Centrum Nowych Technologii under liquidation Sp. z o.o., Prokom Internet S.A., Intel Atlantic Inc. and Dom Maklerski Penetrator S.A. (see also Note 22 (d)). Under this agreement TP Internet purchased shares of Wirtualna Polska S.A. (“WP”) constituting 25% of WP share capital as of the date of signing the agreement. As a result of the share capital increase in December 2001 and the transaction described above, as of 31 December 2001 TP Internet Sp. z o.o. owned 50% of the share capital plus one share of WP. WP is one of the leading internet companies in Poland.

The acquisition of WP shares has been accounted for by use of the purchase method. The effective date of the combination for accounting purposes is 31 December 2001.

*(c) Disposals*

In June 2001 TP Internet Sp. z o.o., a subsidiary of TPSA, signed an agreement with another shareholder of Astech Polska S.A. under which TP Internet Sp. z o.o. sold 29% shares of Astech Polska S.A.. As a result of this transaction the Group disposed of all shares owned in Astech Polska S.A. and ceased to control this company.

In November 2001 TP Invest Sp. z o.o., a subsidiary of TPSA, and Zespół Przedsiębiorstw Łącznościowych K-TEL Sp. z o.o. signed an agreement under which TP Invest Sp. z o.o. sold 77% shares in its wholly owned subsidiary PeBeTel Piła Sp. z o.o.. As a result the Group ceased to control this company. As of 31 December 2001 TP Invest holds 23% of the shares of PeBeTel Piła Sp. z o.o..

**7. Cash and cash equivalents**

	<b>31 December 2001</b>	<b>31 December 2000</b>
	<b>(in PLN millions)</b>	
Cash in hand	14	17
Current bank accounts	180	106
Overnight deposits	139	239
Deposits up to 3 months	233	602
Other	49	52
	-----	-----
<b>Total</b>	<b>615</b>	<b>1,016</b>
Less: short – term portion	(551)	(1,016)
	-----	-----
Long - term portion	64	-
	=====	=====

As at 31 December 2001 non-current cash and cash equivalents represent restricted cash related to the deposit placed by TPSA as a result of a swap transaction.

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

	<b>31 December 2001</b>	<b>31 December 2000</b>
	<b>(in PLN millions)</b>	
Polish zloty	508	871
Euro	20	118
U.S. dollar	87	22
Other currencies	-	5
	-----	-----
<b>Total</b>	<b>615</b>	<b>1,016</b>
	=====	=====

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

**8. Receivables**

	<b>31 December 2001</b>	<b>31 December 2000</b>
	<b>(in PLN millions)</b>	
Trade receivables	3,353	3,173
Tax receivables	132	199
Other receivables	274	250
	-----	-----
<b>Subtotal</b>	<b>3,759</b>	<b>3,622</b>
Less allowance for doubtful accounts	(844)	(442)
	-----	-----
<b>Total</b>	<b>2,915</b>	<b>3,180</b>
	=====	=====

Total receivables include amounts of PLN 283 million and PLN 287 million of receivables denominated in foreign currencies as at 31 December 2001 and 31 December 2000, respectively. Trade receivables relate primarily to the billing of telecommunications services.

Tax receivable balances comprise recoverable VAT on capital purchases and other overpaid taxes.

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

The allowance for doubtful accounts and changes therein for 2001 and 2000 are as follows:

	<b>12 months ended 31 December</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in PLN millions)</b>	
Allowance, beginning of period	442	287
Charged to expense	435	167
Utilised	(33)	(12)
	-----	-----
<b>Allowance, end of period</b>	<b>844</b>	<b>442</b>
	=====	=====

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**9. Inventories**

	<b>31 December 2001</b>	<b>31 December 2000</b>
	<b>(in PLN millions)</b>	
Cables, wires, engineering inventory and other materials	103	105
Goods for resale	194	117
	-----	-----
<b>Subtotal</b>	<b>297</b>	<b>222</b>
Less allowance for obsolete inventory	(22)	(22)
	-----	-----
<b>Total</b>	<b>275</b>	<b>200</b>
	=====	=====

**10. Property, plant and equipment**

	<b>Land</b>	<b>Buildings, duct, cable and other outside plant</b>	<b>Telephone exchanges and other plant and equipment</b>	<b>Vehicles and other</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>(in PLN millions)</b>					
<b>Cost or revalued amount</b>						
1 January 2000	11	14,620	15,335	645	1,637	32,248
Additions	4	2,206	3,417	130	622	6,379
Transfers	1	(1)	11	(22)	(236)	(247)
Disposals	-	(69)	(348)	(13)	(5)	(435)
	-----	-----	-----	-----	-----	-----
<b>31 December 2000</b>	<b>16</b>	<b>16,756</b>	<b>18,415</b>	<b>740</b>	<b>2,018</b>	<b>37,945</b>
	=====	=====	=====	=====	=====	=====
Additions	-	1,697	3,802	125	555	6,179
Transfers	1	20	(30)	13	(368)	(364)
Disposals	-	(91)	(599)	(19)	(4)	(713)
	-----	-----	-----	-----	-----	-----
<b>31 December 2001</b>	<b>17</b>	<b>18,382</b>	<b>21,588</b>	<b>859</b>	<b>2,201</b>	<b>43,047</b>
	=====	=====	=====	=====	=====	=====
<b>Accumulated depreciation</b>						
1 January 2000	-	3,211	7,052	430	-	10,693
Charge for the period	-	573	2,238	114	-	2,925
Impairment loss	-	-	103	-	-	103
Transfers	-	(1)	10	(10)	-	(1)
Disposals	-	(54)	(309)	(13)	-	(376)
	-----	-----	-----	-----	-----	-----
<b>31 December 2000</b>	<b>-</b>	<b>3,729</b>	<b>9,094</b>	<b>521</b>	<b>-</b>	<b>13,344</b>
	=====	=====	=====	=====	=====	=====
Charge for the period	-	717	2,628	122	-	3,467
Impairment loss	-	23	16	-	-	39
Transfers	-	20	(17)	-	-	3
Disposals	-	(77)	(595)	(19)	-	(691)
	-----	-----	-----	-----	-----	-----
<b>31 December 2001</b>	<b>-</b>	<b>4,412</b>	<b>11,126</b>	<b>624</b>	<b>-</b>	<b>16,162</b>
	=====	=====	=====	=====	=====	=====
<b>Net book value</b>						
<b>31 December 2000</b>	<b>16</b>	<b>13,027</b>	<b>9,321</b>	<b>219</b>	<b>2,018</b>	<b>24,601</b>
	=====	=====	=====	=====	=====	=====
<b>Net book value</b>						
<b>31 December 2001</b>	<b>17</b>	<b>13,970</b>	<b>10,462</b>	<b>235</b>	<b>2,201</b>	<b>26,885</b>
	=====	=====	=====	=====	=====	=====

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

The line "transfers" includes transfers between tangible and intangible assets and transfers between categories of fixed assets.

Property, plant and equipment include borrowing costs incurred in connection with the construction of these assets. In 2001 and 2000, the Group capitalised PLN 147 million and PLN 108 million of borrowing costs, respectively. Annual capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation were 6% and 7% in 2001 and 2000, respectively.

International Financial Reporting Standard 36 „Impairment of assets” requires that the recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired and impairment loss should be recognized whenever the carrying amount of an asset exceeds its recoverable amount. As of 31 December 2001 the Group has identified certain indications, including liberalisation and other regulatory and economic changes in the Polish telecommunication market, as a triggering event for a potential impairment of assets. Where possible, the recoverable amount was estimated for the individual assets. The recoverable amount of such assets was determined at their net selling price. If it was not possible to estimate the recoverable amount of the individual asset, the Group identified the cash-generating unit (“CGU”) to which the asset belongs. The recoverable amount of a CGU was determined as its value in use being the present value of estimated future cash flows expected to arise from the continuing use of a CGU and from its disposal at the end of its useful life. For the purpose of impairment test the entire fixed network was regarded as one cash-generating unit.

The impairment loss for fixed assets intended for liquidation or sale recognised by the Group as of 31 December 2001 and 2000 amounted to PLN 152 million and PLN 143 million, respectively, and related primarily to its fixed line operations.

In 2001 and 2000 the impairment loss charged to the profit and loss account amounted to PLN 39 million and PLN 103 million, respectively, and was recognised as other operating expense.

The gross carrying amounts of certain property, plant and equipment items of PLN 2,934 million and PLN 2,727 million are fully depreciated as of 31 December 2001 and 2000, respectively, however these items are still in active use.

The carrying value of property, plant and equipment pledged as a security for loans or bank guarantees was not material as at 31 December 2001. As at 31 December 2000 property, plant and equipment pledged as a security for loans or bank guarantees had carrying value of PLN 203 million.

In respect of a 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.

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**11. Intangible assets**

	DCS 1800 concession	GSM 900 concession	UMTS concession	Software and other intangibles	Goodwill	Negative goodwill	Total
<b>Cost</b>							
1 January 2000	331	410	-	386	41	-	1,168
Additions	29	-	1,634	232	8	-	1,903
Disposals	(10)	(26)	-	(8)	-	-	(44)
<b>31 December 2000</b>	<b>350</b>	<b>384</b>	<b>1,634</b>	<b>610</b>	<b>49</b>	<b>-</b>	<b>3,027</b>
Additions	1	-	-	456	90	(4)	543
Foreign exchange differences and other financial cost capitalised	-	-	(35)	-	-	-	(35)
Disposals	(2)	-	-	(4)	-	4	(2)
<b>31 December 2001</b>	<b>349</b>	<b>384</b>	<b>1,599</b>	<b>1,062</b>	<b>139</b>	<b>-</b>	<b>3,533</b>
<b>Accumulated amortisation</b>							
1 January 2000	33	-	-	161	24	-	218
Charge for the period	28	23	-	147	10	-	208
Disposals	-	-	-	(7)	-	-	(7)
<b>31 December 2000</b>	<b>61</b>	<b>23</b>	<b>-</b>	<b>301</b>	<b>34</b>	<b>-</b>	<b>419</b>
Charge for the period	28	26	-	285	21	-	360
Disposals	-	-	-	(2)	-	-	(2)
<b>31 December 2001</b>	<b>89</b>	<b>49</b>	<b>-</b>	<b>584</b>	<b>55</b>	<b>-</b>	<b>777</b>
<b>Net book value</b>							
<b>31 December 2000</b>	<b>289</b>	<b>361</b>	<b>1,634</b>	<b>309</b>	<b>15</b>	<b>-</b>	<b>2,608</b>
<b>31 December 2001</b>	<b>260</b>	<b>335</b>	<b>1,599</b>	<b>478</b>	<b>84</b>	<b>-</b>	<b>2,756</b>

The DCS 1800 and GSM 900 concessions are 15-year concessions acquired by PTK - Centertel Sp. z o.o. in 1997 and 1999, respectively. The UMTS concession, which expires in 2023, was acquired by PTK-Centertel Sp. z o.o. in 2000. Another concession owned by PTK - Centertel Sp. z o.o. (NMT 450) has been obtained free of charge. The TPSA rights to provide telecommunications services are based on a 25-year permit granted on the basis of the Telecommunications Act, which became effective 1 January 2001.

Increase in goodwill in 2001 amounting to PLN 84 million relates to acquisition of shares in Wirtualna Polska S.A. by TPSA's subsidiary, TP Internet Sp. z o.o..

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**12. Financial assets**

	<b>31 December 2001</b>	<b>31 December 2000</b>
	<b>(in PLN millions)</b>	
<b>Short-term financial assets</b>		
Financial assets available for sale	6	16
Financial assets held to maturity	90	46
Financial assets held for trading	45	-
	-----	-----
<b>Total short-term financial assets</b>	<b>141</b>	<b>62</b>
	=====	=====
<b>Long-term financial assets</b>		
Financial assets available for sale	130	137
	-----	-----
<b>Total long-term financial assets</b>	<b>130</b>	<b>137</b>
	=====	=====

As at 31 December 2001 long-term financial assets available for sale contain fair value of hedging derivative financial instruments in the amount of PLN 1 million (nil as at 31 December 2000).

As at 31 December 2001 and 2000 all financial assets available for sale were measured at amortised cost (due to lack of an active markets for these assets) or fair value. As at 31 December 2001 all financial assets held for trading were measured at fair value.

**13. Loans and other borrowings**

	<b>Note</b>	<b>31 December 2001</b>	<b>31 December 2000</b>
		<b>(in PLN millions)</b>	
Bank loans	(a)	5,011	5,261
Bonds	(b)	9,216	7,937
Other borrowings and credits	(c)	11	37
		-----	-----
<b>Total</b>		<b>14,238</b>	<b>13,235</b>
Less: short-term portion		(1,545)	(1,075)
		-----	-----
Long-term portion		12,693	12,160
		=====	=====

As at 31 December 2001 repayments of loans, bonds and other borrowings fall due in:

	<b>(in PLN millions)</b>
12 months ended 31 December 2002	1,545
12 months ended 31 December 2003	1,759
12 months ended 31 December 2004	2,723
12 months ended 31 December 2005	575
12 months ended 31 December 2006	2,023
Thereafter	5,613
	-----
<b>Total</b>	<b>14,238</b>
	=====

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(a) *Bank loans*

Bank loans analysed by currency are as follows:

	<b>31 December 2001</b>	<b>31 December 2000</b>
	<b>(in PLN millions)</b>	
Polish zloty	1,906	1,963
U.S. dollar	1,292	1,711
Euro	1,677	1,392
German mark	95	120
French franc	41	75
	-----	-----
<b>Total</b>	<b>5,011</b>	<b>5,261</b>
	=====	=====

Bank loans denominated in Polish zloty are primarily subject to floating interest rates linked to WIBOR. The weighted average annual interest rate on Polish zloty denominated loans were 16.1% p.a. and 19.5% p.a. in 2001 and 2000, respectively. Bank loans denominated in Polish zloty have maturities ranging from 2002 to 2006.

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

	<b>31 December 2001</b>	<b>31 December 2000</b>
Fixed rates	27.0%	21.1%
Floating rates	73.0%	78.9%
	-----	-----
	100.0%	100.0%
	=====	=====

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

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

	<b>31 December 2001</b>	<b>31 December 2000</b>
Less than 4% p.a.	87.5%	13.2%
Between 4% and 8% p.a.	11.3%	84.6%
Over 8% p.a.	1.2%	2.2%
	-----	-----
	100.0%	100.0%
	=====	=====

Bank loans denominated in foreign currencies have maturities ranging from 2002 to 2021.

As at 31 December 2001 and 2000 loans amounting to PLN 468 million and PLN 553 million, respectively, were subject to government guarantee. Loans secured on specific assets of the Group as of 31 December 2001 and 2000 were not material.

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*(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, fixed interest rate of 7.125% p.a. and maturity date on 10 December 2003 and ten-year bonds of USD 800 million nominal value, fixed 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 27 October 1999 TPSA Eurofinance B.V. issued bonds of EUR 400 million total nominal value, EUR 395 million total issue price, fixed interest rate of 6.125% p.a. and maturity date on 27 October 2004.

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

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

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.

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

The issue 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.

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Bonds analysed by currency are as follows:

	<b>31 December 2001</b>	<b>31 December 2000</b>
	(in PLN millions)	
U.S. dollar*	3,853	2,889
Euro*	5,363	2,446
Polish zloty	-	2,602
	-----	-----
<b>Total</b>	<b>9,216</b>	<b>7,937</b>
	=====	=====

\* As at 31 December 2001 the Group was a party to a number of currency and interest rate swaps which were designated as a cash flow hedge (total amount EUR 675 million) and fair value hedge (total amount USD 550 million) of foreign currency bonds.

(c) *Other borrowings and credits*

Other borrowings and credits analysed by currency are as follows:

	<b>31 December 2001</b>	<b>31 December 2000</b>
	(in PLN millions)	
German mark	11	36
U.S. dollar	-	1
	-----	-----
	11	37
	=====	=====

Other borrowings and credits represent primarily vendor financing. These borrowings and credits are subject to fixed interest rates ranging from 3.9% to 5.9% p.a. and they mature in 2006.

As at 31 December 2000 other borrowings and credits amounting to PLN 36 million were secured on specific assets of the Group. As at 31 December 2001 the Group did not report other borrowings and credits secured on assets.

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

- In order to mitigate the currency risk of its debt the Group enters into currency swap transactions in respect of part of foreign currency indebtedness to effectively convert it into Polish zloty indebtedness.
- In order to mitigate the interest rate and currency risk of its debt the Group enters into interest rate and currency swap transactions in respect of part of its fixed interest rate indebtedness to effectively convert it into floating interest rate indebtedness.
- 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 banks the Group has unused loan facilities amounting to PLN 1,525 million as at 31 December 2001. Unused loan facilities amounting to PLN 1,066 million as at 31 December 2001 are designated to finance defined projects.

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**14. Accrued expenses and other payables**

	<b>31 December 2001</b>	<b>31 December 2000</b>
	<b>(in PLN millions)</b>	
Trade and capital expenditure payables	2,634	2,743
Social security and taxes	378	371
Accrued expenses	436	339
Jubilee awards and retirement bonuses	316	351
Salaries and wages	312	303
Concessions payable	719	1,747
Fair value of derivative financial instruments	636	-
Other payables	97	121
	-----	-----
<b>Total</b>	<b>5,528</b>	<b>5,975</b>
Less: short-term portion	(4,128)	(4,930)
	-----	-----
Long-term portion	1,400	1,045
	=====	=====

Accrued expenses and other payables include PLN 1,589 million and PLN 1,912 million of amounts denominated in foreign currencies as at 31 December 2001 and 2000, respectively. The primary foreign currency payable as of 31 December 2001 is related to UMTS concession acquisition and amounts to EUR 183 million. Additionally, as of 31 December 2001 accrued expenses and other payables denominated in foreign currencies include the amount of PLN 636 million, which represents the fair value of derivative financial instruments.

**15. Provisions**

	<b>31 December 2001</b>	<b>31 December 2000</b>
	<b>(in PLN millions)</b>	
Restructuring provision	781	327
Provision for real estate tax	1	61
Provision for tax dispute (see Note 25(a))	264	-
Other provisions (see Note 25(e))	-	3
	-----	-----
<b>Total</b>	<b>1,046</b>	<b>391</b>
Less: short – term portion	(716)	(269)
	-----	-----
Long – term portion	330	122
	=====	=====

As of 31 December 2001 the restructuring provision represents the amount of compensations and other benefits for employees scheduled to terminate employment as a result of an employment restructuring programme approved by the Management of the Company for the period 2002–2004. Under this programme 24,270 employees are scheduled to terminate employment in TPSA and its certain subsidiaries.

Due to the expiration of potential claims the amount of provision for real estate tax as of 31 December 2001 was reduced to PLN 1 million, i.e. the amounts questioned in proceedings in progress, initiated before 1 January 2002.

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Changes in provisions in 2001 and 2000 were as follows:

	<u>Restructuring provision</u>	<u>Provision for real estate tax</u>	<u>Provision for tax dispute</u> (in PLN millions)	<u>Other provisions</u>	<u>Total</u>
1 January 2000	-	90	-	-	90
Charged to expense	327	37	-	9	373
Released	-	(66)	-	(6)	(72)
	-----	-----	-----	-----	-----
<b>31 December 2000</b>	<b>327</b>	<b>61</b>	<b>-</b>	<b>3</b>	<b>391</b>
	=====	=====	=====	=====	=====
Charged to expense	757	7	341	-	1,105
Utilised	(303)	-	(77)	-	(380)
Released	-	(67)	-	(3)	(70)
	-----	-----	-----	-----	-----
<b>31 December 2001</b>	<b>781</b>	<b>1</b>	<b>264</b>	<b>-</b>	<b>1,046</b>
	=====	=====	=====	=====	=====

**16. Deferred income**

	<u>31 December 2001</u> (in PLN millions)	<u>31 December 2000</u> (in PLN millions)
Grants (see Note 5(l))	275	292
Prepayments (see Note 5(l))	38	71
Prepaid services	97	50
Other	7	10
	-----	-----
Total	<b>417</b>	<b>423</b>
Less: short-term portion	(163)	(160)
	-----	-----
Long-term portion	254	263
	=====	=====

Changes in grants and prepayments were as follows:

	<u>Grants</u> (in PLN millions)	<u>Prepayments</u> (in PLN millions)
At 1 January 2000	305	127
Net amounts received in 2000	15	122
Amortisation	(28)	(178)
	-----	-----
<b>At 31 December 2000</b>	<b>292</b>	<b>71</b>
	=====	=====
Net amounts received in 2001	3	34
Amortisation	(20)	(67)
	-----	-----
<b>At 31 December 2001</b>	<b>275</b>	<b>38</b>
	=====	=====

Amortisation of prepayments is recognised as revenues from telephone traffic.

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**17. Income tax**

	<b>12 months ended 31 December</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in PLN millions)</b>	
Current income tax charge for the period	759	1,018
Deferred tax expense (benefit)	(52)	(104)
	-----	-----
	<b>707</b>	<b>914</b>
	=====	=====

The opening balance of the deferred tax liability in 2001 was decreased by PLN 8 million as a result of application of IFRS 39.

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

	<b>12 months ended 31 December</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in PLN millions)</b>	
Profit before income tax	1,087	2,233
	-----	-----
Tax rate	28%	30%
Income tax calculated at statutory rate	304	670
Effect of income/expenses not subject to income tax	176	60
Change in valuation allowance	218	173
Effect of investment tax allowance bonus	(3)	(13)
Tax rate changes	-	(13)
Other	12	37
	-----	-----
<b>Income tax expense for the period</b>	<b>707</b>	<b>914</b>
	=====	=====

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.

The valuation allowance relates mainly to the tax losses and temporary differences reported by certain consolidated subsidiaries, as no reasonable expectation of their realisation exists. Unused tax losses of consolidated subsidiaries, for which no tax asset is recognised, amount to PLN 69 million, PLN 446 million and PLN 248 million and expire in 2002, 2005 and 2006, respectively.

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The net deferred tax liability consists of the following:

	<b>31 December 2001</b>	<b>31 December 2000</b>
	<b>(in PLN millions)</b>	
Deferred tax liabilities:		
Accelerated tax depreciation	496	526
Accrued income	316	232
Unrealised foreign exchange gains	248	91
	-----	-----
	1,060	849
Deferred tax assets:		
Unrealised foreign exchange losses	(299)	(288)
Accrued expenses	(376)	(218)
Unused tax losses of subsidiaries carried forward	(214)	(184)
Jubilee awards and retirement bonuses	(88)	(98)
Excess of book over tax depreciation	(174)	(105)
Unused investment tax bonus	(3)	(12)
Bad debt provision	(229)	(118)
Restructuring provision	(219)	(92)
Other	(40)	(38)
	-----	-----
	(1,642)	(1,153)
Valuation allowance	706	488
	-----	-----
Deferred tax assets after valuation allowance	(936)	(665)
	-----	-----
<b>Net deferred tax liability</b>	<b>124</b>	<b>184</b>
	=====	=====

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

Both the initial deduction and the additional deduction applied in one year are limited to 10% of taxable income in 2001 and 2000 according to the Corporate Income Tax Law. The opportunity to claim a deduction, which is not used in a given year due to lower pre-tax profit, is forfeited and cannot be carried over into the next year.

TPSA took advantage of the above described investment tax allowance scheme in 1994 – 2001. TPSA has deducted PLN 2,560 million from taxable income over the period and took additional deduction (investment tax bonus) of PLN 1,272 million (see also Note 25(c)).

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**18. Minority interest**

	<b>12 months ended 31 December</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in PLN millions)</b>	
<b>Beginning of period</b>	287	270
The effect of application of IFRS 39	5	-
	-----	-----
<b>Beginning of period as adjusted</b>	292	270
Share capital contributed by minority shareholder	467	212
Share of results for the period	(164)	(204)
Consolidation of new entities	26	9
	-----	-----
<b>End of period</b>	<b>621</b>	<b>287</b>
	=====	=====

**19. Shareholders' equity**

As at 31 December 2001 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 2001.

The ownership structure of the share capital as at 31 December 2001 was as follows (the ownership structure includes effects of the transaction described below):

	<b>% of votes</b>	<b>Nominal value (in PLN millions)</b>
France Telecom S.A. (Cogecom S.A.)	33.9	1,424
State Treasury	22.6	949
Kulczyk Holding S.A. (Tele-Invest S.A. and Tele-Invest II S.A.*)	13.6	571
Other shareholders	29.9	1,256
	-----	-----
<b>Total</b>	<b>100.0</b>	<b>4,200</b>
	=====	=====

\*formerly Autopolska S.A.

On 5 September 2001 the Minister of State Treasury, France Telecom S.A. together with Cogecom S.A. and Kulczyk Holding S.A. together with Bengodi Finance B.V. entered into a sale agreement of 12.5% of TPSA shares. The transaction was concluded on 12 October 2001. Under the agreement, annexed on 5 October 2001, Cogecom S.A., a subsidiary of France Telecom S.A., acquired 125,000,000 shares representing 8.93% of TPSA share capital and Autopolska S.A. (subsequently the name was changed to Tele-Invest II S.A.), a subsidiary of Kulczyk Holding S.A., acquired 50,000,000 shares representing 3.57% of TPSA share capital. Total consideration paid by the France Telecom – Kulczyk Holding consortium amounted to PLN 3,657 million. Additionally, the agreement includes an irrevocable sale offer under which Cogecom S.A. and Autopolska S.A. (Tele-Invest II S.A.) or any of them may purchase 2.5% TPSA shares plus one share. The sale transaction may be executed between 30 January and 31 December 2002.

Profit of TPSA available for distribution under Polish law for the year ended 31 December 2001 and 2000 amounted to PLN 515 million and PLN 1,830 million, respectively.

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Share premium includes the amount of PLN 713 million, according to the 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, the division of certain rights and obligations may be considered ineffective. As a result, the share premium balance may be subject to change.

Revaluation reserve represents the Group's share in the revaluation reserve resulting from revaluations performed by Group entities (see Note 5 (g)).

**20. Revenues**

	<b>12 months ended 31 December</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in PLN millions)</b>	
Fixed line telephony services:	14,183	13,462
Subscriptions, connections and similar charges	3,717	2,861
Traffic revenues	8,577	8,816
Interconnect revenues:	1,277	1,243
LTOs and other licensed domestic operators	307	192
Mobile telephony operators	393	318
International incoming traffic	577	733
Payphone revenues	362	360
Other	250	182
Mobile telephony services	1,657	1,117
Leased lines	492	552
Radiocommunications	317	290
Data transmission	279	187
Telex and telegraphy	13	18
Manufacturing, equipment sales and other	383	253
<b>Total</b>	<b>17,324</b>	<b>15,879</b>

Revenues are generated on the territory of Poland. 3.7% and 5.0% of the total revenues in 2001 and 2000, respectively, were received from foreign parties, mostly in respect of interconnect arrangements.

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**21. Financial income and charges**

Financial income and charges comprise the following:

	<b>12 months ended 31 December</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in PLN millions)</b>	
Interest income	221	232
Other financial income	451	103
	-----	-----
<b>Interest revenues and other financial income</b>	<b>672</b>	<b>335</b>
Interest expense	(1,428)	(1,148)
Commissions and other charges	(976)	(277)
	-----	-----
Total interest expense and other charges	(2,404)	(1,425)
Interest and similar charges capitalised	329	200
	-----	-----
<b>Interest expense and other charges</b>	<b>(2,075)</b>	<b>(1,225)</b>
	=====	=====
Total foreign exchange gains and losses, net	805	276
Foreign exchange gains and losses capitalised	(217)	(92)
	-----	-----
<b>Foreign exchange gains and losses, net</b>	<b>588</b>	<b>184</b>
	=====	=====

**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 amounted to PLN 372 million and PLN 345 million in 2001 and 2000, respectively. Certain of these leases include escalation clauses, which are primarily based on the Polish consumer price index or foreign exchange rate changes. Future minimum lease payments under non-cancellable operating leases with a term of more than one year as at 31 December 2001 were as follows:

	<b>(in PLN millions)</b>
12 months ended 31 December:	
2002	123
2003	77
2004	50
2005	35
2006	31
Thereafter	102
	-----
<b>Total minimum lease payments</b>	<b>418</b>
	=====

(b) *Purchase commitments*

As of 31 December 2001 and 2000 capital expenditures amounting to PLN 857 million and PLN 1,584 million, respectively, principally relating to the telecommunications network, were committed under contractual arrangements, with PLN 6 million and PLN 77 million due after one year, respectively.

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*(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. The total cost of the investment was estimated at DKK 210 million and was shared between the parties. The share of PPTiT was DKK 84 million 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 Special Drawing Rights (SDR). The Company was obliged to maximise data flow through the cable.

DPTG’s share in cable net profit for 2001 and 2000 was PLN 33 million and PLN 54 million, respectively, and was recognised as an expense.

*(d) Conditional increase in share price for Wirtualna Polska S.A.*

On 26 October 2001 TP Internet Sp. z o.o., a wholly owned subsidiary of TPSA, signed a purchase agreement for 745,001 shares in Wirtualna Polska S.A. (“WP”). The agreement includes an option to increase the purchase price by a maximum amount of PLN 13.87 for each share under the condition that in the financial year ended 31 December 2001 WP would meet the conditions prescribed in the agreement, i.e. revenues measured on a cash basis and EBITDA measured on a cash basis. The purchase price of WP shares may be increased if both ratios reach the base amounts. The base amounts for cash revenues and cash EBITDA are defined as 90% of PLN 13 million and PLN (41) million, respectively. The purchase price of each share will be increased by PLN 1.39 for each per cent by which both ratios at the same time exceed base amounts. Achievements of results mentioned in this paragraph will be stated on the basis of financial statements of WP prepared in accordance with IFRS audited by certified auditor. According to the preliminary unaudited financial data of WP for 2001 the conditions triggering the increase in the share price described above have not been met.

Additionally, the purchase price per share may be increased by PLN 6.94 under the condition that the financial results of WP for 2002 would meet the financial forecast approved in accordance with the statute of WP. As of the date of the preparation of these financial statements no such forecast has been approved.

**23. Related party transactions**

As at 31 December 2001 the Polish State Treasury owned 22.6% of shares of the parent company (see Note 19). Principally, the Group provides services to government organisations on normal commercial terms.

As at 31 December 2001 France Telecom, via its subsidiary company Cogecom S.A., owned 33.9% of shares of the parent company (see Note 19). Additionally France Telecom, as the minority shareholder, owns 34% of PTK-Centertel Sp. z o.o. shares. The Group provides and receives interconnect services

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from France Telecom on normal commercial terms. In 2001 and 2000 the Group purchased services from France Telecom amounting to PLN 38 million and PLN 19 million, respectively, and sold services amounting to PLN 21 million and PLN 35 million, respectively. Additionally, in 2001 France Telecom rendered free of charge services worth PLN 17 million for TPSA. In 2001 and 2000 the Group did not purchase or sell products or services of a significant amount to Cogecom S.A..

As at 31 December 2001 Tele-Invest S.A. together with Tele-Invest II S.A. (formerly Autopolska S.A.), subsidiaries of Kulczyk Holding S.A., owned 13.6% of shares of the parent company (see Note 19). In 2001 and 2000 the Group did not purchase or sell products or services of a significant amount to Tele-Invest S.A. and Tele-Invest II S.A..

As at 31 December 2001 and 2000 the Group did not report any significant receivables and payables to the above-mentioned related parties.

Total remuneration and bonuses (cash and benefits in kind) paid or owed by Telekomunikacja Polska S.A. for the year ended 31 December 2001 to the TPSA Management Board Members amounted to PLN 7 million (remuneration) and PLN 4 million (bonuses). Total remuneration and bonuses paid in the year 2000 amounted to PLN 2 million and PLN 1 million, respectively. Compensations, termination indemnities and compensations resulting from competition clause paid or owed to TPSA Management Board Members by TPSA for the year ended 31 December 2001 totalled to PLN 2 million (compensations and indemnities) and PLN 2 million (compensations resulting from competition clause). In the year 2000 the Company did not pay any significant amounts resulting from compensations, termination indemnities and competition clause compensations.

Total remuneration and bonuses (cash and benefits in kind) paid or owed by Telekomunikacja Polska S.A. for the year ended 31 December 2001 to the TPSA Supervisory Board amounted to PLN 1 million (PLN 1 million in the year 2000). Members of the Supervisory Board of TPSA received in or will receive for the year ended 31 December 2001 remuneration and bonuses (cash and benefits in kind) amounting to PLN 0.4 million from TPSA subsidiary and affiliated companies (in the year ended 31 December 2000 PLN 0.1 million). Members of the Management Board of TPSA received in or will receive for the year ended 31 December 2001 remuneration and bonuses (cash and benefits in kind) amounting to PLN 2 million from TPSA subsidiary and affiliated companies for performing various functions in their authorities. In the year ended 31 December 2000 Members of the Management Board of TPSA did not receive any remuneration or bonuses (cash and benefits in kind) from the Company's subsidiary and affiliated companies.

#### **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. TPSA's subsidiaries TP TelTech Sp. z o.o. and OTO Lublin Sp. z o.o. sell telecommunications equipment and produce 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.

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Other operations involve businesses of other companies constituting the Group. Other operations do not fulfil the conditions for reportable segments under International Financial Reporting 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.

Segment assets and liabilities do not include investments accounted for under equity method and deferred income taxes.

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Basic financial information about business segments is presented below:

	Fixed line telecommunications	Mobile telecommunications	Other	Eliminations	Consolidated
31 December 2001					
Segment assets	31,898	5,958	647	(4,642)	33,861
Investments accounted for under equity method	-	-	11	-	11
Total assets	31,898	5,958	658	(4,642)	33,872
Segment liabilities	19,193	5,076	238	(2,654)	21,853
Deferred income tax	124	-	-	-	124
Total liabilities	19,317	5,076	238	(2,654)	21,977
31 December 2000					
Segment assets	29,868	4,971	230	(2,995)	32,074
Investments accounted for under equity method	-	-	7	-	7
Total assets	29,868	4,971	237	(2,995)	32,081
Segment liabilities	17,674	4,162	109	(1,632)	20,313
Deferred income tax	184	-	-	-	184
Total liabilities	17,858	4,162	109	(1,632)	20,497
12 months ended 31 December 2001					
Sales:	15,448	2,367	192	(683)	17,324
intersegment	148	401	134	(683)	-
external	15,300	1,966	58	-	17,324
Depreciation and amortisation	3,267	501	49	10	3,827
Operating result	2,366	(336)	(117)	(11)	1,902
Impairment loss	38	-	1	-	39
Net profit	820	(473)	(104)	301	544
Capital expenditures	4,929	1,244	150	-	6,323
Net cash flows from:					
operating activities	5,995	352	(164)	(2)	6,181
investing activities	(6,877)	(2,090)	(108)	1,693	(7,382)
financing activities	372	1,755	360	(1,690)	797
12 months ended 31 December 2000					
Sales:	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
Impairment loss	113	(10)	-	-	103
Net profit	1,989	(601)	(62)	197	1,523
Capital expenditures	5,354	2,557	124	-	8,035
Net cash flows from:					
operating activities	5,563	(225)	(103)	(11)	5,224
investing activities	(6,184)	(1,108)	(69)	1,084	(6,277)
financing activities	980	1,182	168	(1,062)	1,268

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**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 radically changed in comparison with tax regulations existing before economic and political transformation in Poland. Lack of reference to the well-established regulations and the short practice of the new tax regulations results in a 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, which 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 the 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 as to the interpretation of the law than companies constituting the Group, which could have significant influence on their tax liabilities.

As a result of a review conducted by the Warsaw Tax Control Office at the parent company, TPSA received two decisions dated 27 September 2001, stating the amount of PLN 78 million tax underpayments related to Corporate Income Tax ("CIT") and VAT settlements for 1996, together with penalty interest. On 12 October 2001 TPSA appealed against the decisions of Warsaw Tax Control Office to the Tax Chamber in Warsaw. On 22 January 2002 the Tax Chamber repealed the Warsaw Tax Control Office decision concerning the results of the CIT settlements and ordered re-investigation. As of the date of the preparation of these financial statements the TPSA appeal concerning VAT settlements has yet to be investigated. The results of the 1996 inspection may give rise to questioning of other tax liabilities of the Company.

On 13 July 2000 the Warsaw Tax Control Office initiated in the subsidiary PTK-Centertel Sp. z o.o. a review concerning VAT settlements for 1997. On 12 February 2001 the scope of the inspection was extended by CIT settlements for 1997. On 29 October 2001 PTK-Centertel Sp. z o.o. received a decision dated 25 October 2001 stating VAT underpayment for 1997 together with penalty interest amounting to PLN 65 million. The Tax Control Office agreed to suspend collection of this amount until the Tax Chamber has investigated the appeal submitted by PTK-Centertel Sp. z o.o. on 12 November 2001.

Furthermore, PTK-Centertel Sp. z o.o. received a decision dated 4 February 2002 on the review of CIT settlements for 1997 stating a CIT underpayment of PLN 9 million. On 18 February 2002 the company appealed against this decision to the Tax Chamber. The Tax Control Office agreed to suspend execution of this decision until 15 April 2002.

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

Taking into account the stage of the disputes, as of 31 December 2001 the Group entities set up a provision amounting to PLN 264 million reflecting the best estimate of amounts that are more likely than not to be claimed.

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*(b) 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 a 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 a 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 over 100 km.

In February 2001 TPSA appealed the decision imposing the penalty to the District Anti-Monopoly Court in Warsaw and petitioned to the OPCC to deem the decision DDI 36/98 invalid. In June 2001 the OPCC decided to discontinue legal proceedings concerning the TPSA petition to deem the decision DDI 36/98 invalid. TPSA appealed this decision to the District Anti-Monopoly Court in Warsaw. The 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 2001.

*(c) Investment tax allowances*

In 1994 – 2001 TPSA took advantage of investment tax allowance scheme. Under this scheme in arriving at its taxable income TPSA has deducted PLN 2,560 million in respect of investment in qualifying fixed assets in the period. Additionally, in 1995 – 2001 the Company has taken an additional investment tax bonus amounting to PLN 1,272 million. These deductions have reduced the tax charges of TPSA by PLN 1,437 million in 1994-2001 as follows:

	<u>(in PLN millions)</u>
1994	138
1995	252
1996	311
1997	282
1998	207
1999	159
2000	71
2001	17
	-----
<b>Total</b>	<b>1,437</b>
	=====

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:

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

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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 for the right of retention of investment tax allowances despite having tax arrears provided that the taxpayer either adjusts its tax return and pays the arrears plus penalty interest or within 14 days following receipt of tax authorities' decision establishing the existence of tax arrears, the taxpayer pays the overdue amount plus penalty interest. 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.

*(d) 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 the DCS 1800 network a pre-determined number of subscribers, to reach by the GSM 900 and UMTS networks a pre-determined coverage of the territory of Poland by a specified deadline. Additionally, the 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 concessions may be withdrawn. On 18 September 2001 PTK-Centertel Sp. z o.o. petitioned to the URT to postpone the deadline for commencement of UMTS services by twelve months. As of the date of the preparation of these financial statements the petition has yet to be investigated by URT.

As at 31 December 2001 all requirements related to the concessions were met by PTK-Centertel Sp. z o.o..

*(e) 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*

Since June 1998 following the petitions of several communities and associations of 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

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monopolistic practices involving abuse of the dominant market position through the imposition on the communities unfavourable conditions concerning mutual capital expenditures on the development of telecommunications infrastructure on the territory of these communities. According to the communities TPSA gained unjustified benefits as a result of monopolistic practices.

In 1999 – 2001 the OPCC issued twelve decisions unfavourable for TPSA stating that the Company had used monopolistic practices and ordering abandonment of these practices. In eleven cases OPCC considered the Communities' financial claims of a total amount of PLN 6,703 thousand (in two of these cases the Communities did not state the amount of the claim) and, additionally, in five cases OPCC imposed on TPSA fines of a total amount of PLN 700 thousand. In one case OPCC decided to discontinue administrative proceedings without issuing a verdict.

TPSA appealed against all unfavourable decisions of OPCC to the District Anti-Monopoly Court in Warsaw ("AMC"). Following TPSA's appeal OPCC, without directing the cases to AMC, withdrew its decisions and cancelled administrative proceedings in five cases (in three of these cases the Communities appealed the OPCC verdict to AMC, in two of them the AMC dismissed the Communities' appeals). Following TPSA's appeal in three other cases AMC repealed the unfavourable decisions of OPCC (in these cases the President of OPCC and the Communities appealed AMC decisions to the Supreme Court) and in three other cases changed the decisions appealed by TPSA. As of the date of the preparation of these financial statements the one remaining appeal of TPSA has yet to be investigated by AMC.

The unfavourable decisions for TPSA of OPCC 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 the 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.

As of the date of the preparation of these financial statements administrative proceedings were in process regarding seven cases with the total amount of PLN 5,279 thousand of potential claims (in one of these cases the amount of the claim was not stated).

The Management Board of the parent company believes there is a high probability of favourable verdicts in all the cases and therefore no provision was recorded in this respect as of 31 December 2001.

(f) *Settlements with domestic fixed-line operators*

*Compensation requested by Niezalezny Operator Miedzystrefowy Sp. z o.o.*

On 14 May 2001 following the petition of one of the three Polish fixed line operators, which were granted domestic long-distance ("DLD") licenses in May 2000, Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM"), the President of URT issued a decision on conditions of connection of telecommunication networks and interconnect settlements. The decision has established a general framework of technical and formal aspects of the co-operation between NOM and TPSA including billing and invoicing for services provided by NOM. On 29 May 2001 TPSA has appealed the decision to the District Anti-Monopoly Court in Warsaw. On 10 December 2001 AMC repealed the decision of URT due to incorrect procedures applied by URT while issuing the decision. On 22 January 2002 NOM appealed the AMC decision to the Supreme Court.

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On 18 July 2001 TPSA was requested by NOM to pay PLN 81 million as compensation for losses arising from a delay in setting up detailed conditions of co-operation between NOM and TPSA and, as a result, a delay in commencement of rendering DLD services by NOM. Following the TPSA rejection of the request, on 17 August 2001 NOM petitioned to the Warsaw District Court demanding from TPSA the amount of PLN 81 million together with penalty interest. On 7 November 2001 TPSA filed at the court a demand for NOM to withdraw its claim. The court session is scheduled for 23 April 2002.

The Management Board of the Company is convinced of a favourable verdict in this case and therefore no provision was recorded in this respect as of 31 December 2001.

*Invoicing for DLD services*

Since the commencement of rendering DLD services by new telecommunications operators TPSA subscribers may choose another DLD operator by dialling a specific prefix number. According to the decision issued by the Minister of Communications on 15 December 2000 TPSA would be obliged to invoice its subscribers for services rendered by NOM. The decision was appealed to the Supreme Administrative Court on 5 February 2001. In the decision dated 14 May 2001, the President of the URT sustained the decision of the Minister of Communications. TPSA is obliged by law to implement the URT decision immediately. By Polish law in case of failure to implement the decision, URT may impose on the Company penalty equivalent to 3% revenues for the prior year.

TPSA has opposed to implement the above decision taking the position that this would lead to a breach of Polish tax regulations and on 29 May 2001 appealed this decision to the District Anti-Monopoly Court in Warsaw. On 10 December 2001 AMC repealed the decision of URT due to incorrect procedures applied by URT while issuing the decision. On 22 January 2002 NOM appealed the AMC decision to the Supreme Court.

On 3 January 2002 NOM petitioned to the President of the URT to issue a decision on conditions of connection of telecommunication networks and interconnect settlements between NOM and TPSA. On 10 January 2002 the President of the URT initiated administrative proceedings in this case. On 23 January 2002 TPSA appealed the proceedings. On 25 March 2002 the President of the URT issued a decision imposing on TPSA a penalty amounting to PLN 300 million for not executing the decision of the Minister of Communications dated 15 December 2000 on the conditions of co-operation and settlements between TPSA and NOM. Pursuant to the Telecommunications Act a decision imposing a penalty may not include the clause of immediate execution. TPSA has the right to appeal the above decision to AMC within 14 days. The Management Board of the Company intends to appeal the decision.

Currently TPSA is negotiating with NOM Sp. z o.o. an agreement on the conditions of connection and interconnect settlements.

The Management Board of the Company is convinced of a favourable verdict in this case and therefore no provision was recorded in this respect as of 31 December 2001.

*(g) Dispute with DPTG*

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

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statements no resolution has been reached and the Company was not able to estimate the potential amount of the claim.

*(h) Investigations by URT and OPCC*

Currently, several investigation proceedings concerning TPSA are being performed by URT and OPCC. Since as of the date of the preparation of these financial statements they were at the explanatory stage, the Company was not able to estimate the results and potential impact on the Company's financial results of these administrative proceedings. In certain cases URT may impose on the Company a penalty equivalent to 3% of revenues for the prior year. In relation to investigations, which are conducted by OPCC, in certain cases OPCC may impose on the Company a penalty up to EUR 5 million.

As a result of one of the administrative proceedings, on 25 March 2002 the President of the URT imposed on TPSA a penalty amounting to PLN 50 million for provision of incorrect financial data concerning leased line revenues. Pursuant to the Telecommunications Act a decision imposing a penalty may not include the clause of immediate execution. TPSA has the right to appeal the above decision to AMC within 14 days. The Management Board of the Company intends to appeal the decision.

The Management Board of the Company is convinced of a favourable verdict in this case and therefore no provision was recorded in this respect as of 31 December 2001.

*(i) Contract withdrawal*

The Company has decided to withdraw from a contract with one of its suppliers related to the project undertaken by the Company. Under this contract such withdrawal requires the Company to prove that the project is not financially viable. The outstanding value of the contract amounts to PLN 32 million. The inability to prove financial inviability of the contract may result in losses suffered by the Company. These financial statements do not include any provision in relation to such losses since the Management Board of the Company believes that such losses are remote.

*(j) Claims against Wirtualna Polska S.A.*

Wirtualna Polska S.A., TP Internet's subsidiary, was requested to pay USD 10 million with respect to the claim related to the Wirtualna Polska directory and name rights. The Management Board of the Company concluded that the probability of losses is remote and therefore no provision in relation to the above request was accounted for in these financial statements.

**26. Financial instruments**

The fair value of cash and cash equivalents, receivables, short-term financial assets and current loans, borrowings and other payables approximates the carrying amounts reported in the balance sheet due to the relatively short-term maturity of these financial instruments. The fair value of non-current financial assets as well as loans, borrowings and other payables with variable interest rates approximates their carrying amounts. The payables related to the acquisition of telecommunication concessions are stated at their fair value. As of 31 December 2001 and 2000 the fair value of non-current loans, borrowings and other payables with fixed interest rates amounted to PLN 10,829 million and PLN 10,328 million, respectively (carrying amount: PLN 10,778 million and PLN 10,667 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.

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The Group uses forward contracts and currency and interest rate swaps to mitigate its exposure against foreign currency fluctuations on debt denominated in foreign currencies or to mitigate its exposure against interest rates fluctuations on debt based on fixed interest rates. These instruments as at 31 December 2001 and 2000 are presented in the table below.

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**FORWARD CONTRACTS AND CURRENCY AND INTEREST RATE SWAPS**

Type of instrument	Designation	Notional amount		Interest		Maturity	Fair value	
		Receive	Pay	Receive	Pay		31 December 2001	31 December 2000
		(millions)					(PLN millions)	
Interest rate and currency swap	trading	USD 100	PLN 351	LIBOR+0.3%	20.95%	2004	(9)	22
Interest rate and currency swap*	trading	PLN 351	USD 100	20.95%	LIBOR+0.3%	2004	-	(22)
Interest rate and currency swap	fair value hedge	USD 200	PLN 852	7.125%	WIBOR+1.87%	2003	(41)	-
Currency swap*	trading	USD 300	PLN 1,170	-	62.95%xWIBOR	2008	-	(13)
Currency swap*	trading	EUR 50	PLN 198	-	6.5 %	2004	-	3
Currency swap*	trading	EUR 50	PLN 202	-	8.2%	2004	-	(10)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 400	6.125%	13.8%	2004	(73)	-
Currency swap*	trading	EUR 100	PLN 409	-	8%	2004	-	(21)
Interest rate and currency swap	cash flow hedge	EUR 200	PLN 796	6.125%	13.77%	2004	(150)	-
Currency swaps*	trading	EUR 100	PLN 388	EURIBOR	WIBOR+0.1%	2004	-	(11)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 388	6.125%	15.25%	2004	(76)	-
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 392	6.125%	13.83%	2004	(69)	-
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 338	6.625%	14.78%	2006	(17)	-
Interest rate and currency swap	cash flow hedge	EUR 50	PLN 172	6.625%	14.75%	2006	(11)	-
Interest rate and currency swap	cash flow hedge	EUR 25	PLN 85	6.5%	14.27%	2007	(5)	-
Interest rate and currency swap	fair value hedge	USD 100	PLN 423	7.75%	WIBOR+2.98%	2008	(39)	-
Interest rate and currency swap	fair value hedge	USD 100	PLN 410	7.75%	WIBOR+2.65%	2008	(18)	-
Interest rate and currency swap	fair value hedge	USD 50	PLN 205	7.75%	WIBOR+1.95%	2008	(2)	-
Interest rate and currency swap	fair value hedge	USD 50	PLN 206	7.75%	WIBOR+1.9%	2008	(2)	-
Interest rate and currency swap	fair value hedge	USD 50	PLN 204	7.75%	WIBOR+1.75%	2008	1	-
Interest rate and currency swap	trading	EUR 100	PLN 359	EURIBOR	WIBOR	2012	(9)	-
Interest rate and currency swaps	trading	EUR 70	PLN 282	3.81%-4.7%	11.7%-12.95%	2002-2005	(59)	(9)
Interest rate and currency swaps	trading	EUR 50	PLN 197	6.3%	14.78%-14.96%	2004	(41)	(2)
Currency swaps	trading	EUR 15	PLN 59	-	6.37%-6.69%	2007	(14)	(4)
Currency forwards	trading	EUR 9	PLN 33	-	-	2002	(1)	-

\* As of 31 December 2001 the transaction was closed.

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As more fully explained in Note 2 as at 1 January 2001 the Group has recognised these instruments in the balance sheet and measured them at their fair value, except for embedded derivatives. As a result the opening balance of retained earnings decreased by PLN 12 million.

The Company has a number of derivative instruments, which are part of hybrid financial instruments ("embedded derivatives"). These embedded derivatives are primarily related to the purchase contracts for the delivery of equipment and services, which are denominated in foreign currencies. Under IFRS 39 these embedded derivatives constitute a forward sale of euro or US dollar and should be accounted for separately from the host contract. The Company was not able to separately measure the embedded derivatives and host contracts and has decided not to adopt IFRS 39 in this respect until adequate system solutions will be in place. The Group has estimated that the application of accounting for embedded derivatives would increase the net profit for 2001 by approximately PLN 102 million.

Additionally, as of 31 December 2001 the Group was a party to the following put and call option arrangements:

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

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

As of 31 December 2001 the put option described above was not recognised in the Group's financial statements due to inability to reliably measure its fair value.

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

On 26 October 2001 TP Internet Sp. z o.o. issued a put option to other shareholders of Wirtualna Polska S.A. ("WP Shareholders") to buy the remaining 2,235,002 shares held by WP Shareholders. The option may be exercised during the period from 1 June 2005 to 1 June 2006 under the condition that the monthly average number of unique users of the WP internet portal in the 12 months prior to the exercise date would exceed 3,000,000. The strike price for this put option is indexed to the number of unique users of the WP portal in the period preceding the exercise date. The minimum strike price is USD 16.78 per share and the maximum strike price is USD 66.40. TP Internet Sp. z o.o. may be obliged to buy the shares immediately in case TPSA or any of its subsidiaries launch a competitive internet portal to the WP's portal. In such a case for the purpose of the strike price calculation the exercise date is assumed to be 1 June 2006 and the index for the calendar year prior to the year in which such competitive activities start is used.

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

As of 31 December 2001 the fair value of both options described above was negative and amounted to PLN 5 million.

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**27. Supplementary cash flow information**

Significant non-cash transactions in 2001 and 2000 are presented below:

	<b>12 months ended 31 December</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in PLN millions)</b>	
Telecommunications concessions with deferred payments	-	1,595
Telecommunications infrastructure received free of charge	22	137
	=====	=====

**28. Prior period events**

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

**29. Subsequent Events**

*(a) Issuance of short-term bonds*

On 19 December 2001 TPSA and Bank Handlowy w Warszawie S.A. signed an agreement establishing the Short-Term Bonds Issuance Programme with a limit of indebtedness amounting to PLN 350 million. According to the TPSA Management Board resolution the limit of the indebtedness under this Programme may be increased to PLN 1 billion. On 28 February 2002 the Management Board of TPSA decided to increase this limit to PLN 500 million.

Within the scope of this Programme until the date of the preparation of these financial statements TPSA issued short-term bonds of nominal value amounting to PLN 600 million. As of the date of the preparation of these financial statements short-term bonds of nominal value amounting to PLN 250 million were not redeemed. These issuances included bonds with nominal value of PLN 150 million and maturity date on 2 April 2002 and bonds with nominal value of PLN 100 million and maturity date on 2 May 2002.

The cost of bonds is based on the current quotations of the interbank money market primarily on one-month WIBOR rate.

*(b) PTK-Centertel Sp. z o.o. bank loan*

On 13 March 2002 PTK-Centertel Sp. z o.o. signed a loan agreement with a consortium organised by Credit Agricole Indosuez S.A. and Westdeutsche Landesbank Girozentrale ("WLG"). According to the agreement PTK-Centertel Sp. z o.o. is granted a loan facility up to EUR 250 million in two tranches to be used for financing equipment purchases, GSM and GPRS software purchases and services purchases. The final maturity date of the loan is 31 December 2007. Interest is based on EURIBOR plus a spread ranging from 1.3% to 1.95% depending on the tranche. The loan is secured among others by a court registered pledge on the assets of PTK-Centertel Sp. z o.o., cession of insurance policy rights for the assets pledged and guaranteed by Finnvera Plc and TPSA. Additionally, TPSA, PTK-Centertel Sp. z o.o. and WLG signed an agreement under which loans granted by TPSA to PTK Centertel Sp. z o.o. have been agreed to be subordinated in relation to the above loan facility.

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**30. Loan covenants**

The parent company is a party to certain loan and guarantee agreements, which require the Company to maintain certain financial ratios. Additionally, the terms of the bonds issued by the Company and certain loan agreements include the cross-default provision under which the debt incurred under these financing arrangements is in default if TPSA or its subsidiaries are in default under other financing arrangements. As a result of non-compliance with these covenants TPSA may be required to immediately repay its debt amounting as of 31 December 2001 to PLN 12,845 million (out of which PLN 12,068 million is reported as long-term debt). As at 31 December 2001 the Company was close to the threshold permitted by the covenant that limits total borrowed money to a multiple of EBITDA. In addition the Company believes that there is a risk that this ratio will be exceeded at the next measurement date which is 30 June 2002. The management of the Company is confident that it will be able to negotiate with banks appropriate waivers in order to avoid such non-compliance.

**31. Transformation for IFRS 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 include certain adjustments not reflected in TPSA's consolidated financial statements prepared under Polish Accounting Standards to present these financial statements in accordance with IFRS, except for non-compliance with IFRS 29 and IFRS 39 in respect of accounting for embedded derivatives.

The adjustments to the consolidated financial statements prepared under Polish Accounting Standards (PAS) are set out below:

	Net profit for 2001	Net profit for 2000	Net assets as at 31 December 2001	Net assets as at 31 December 2000	Total assets as at 31 December 2001	Total assets as at 31 December 2000
	(in PLN millions)					
<b>Consolidated PAS</b>	<b>183</b>	<b>1,331</b>	<b>11,489</b>	<b>11,363</b>	<b>34,819</b>	<b>32,914</b>
(a) Foreign exchange gains net effect	378	228	679	301	-	-
(b) Assets received free of charge	9	8	(160)	(169)	-	-
(c) Capitalisation of borrowing costs	88	84	373	285	380	293
(d) Telecommunications concessions	(11)	(7)	(18)	(7)	(758)	(892)
(e) Hedging instruments	-	-	(221)	-	(221)	-
(f) Deferred tax effects	(103)	(67)	(245)	(142)	(121)	-
(g) Distribution from profit for the benefit of employees and for special funds	-	(47)	-	(47)	-	-
(h) Discount on bonds and commercial papers issued	-	-	-	-	(69)	(73)
(i) Provisions for fixed assets intended for liquidation or sale	-	-	-	-	(159)	(143)
(j) Other	-	(7)	(2)	-	1	(18)
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<b>Consolidated IFRS</b>	<b>544</b>	<b>1,523</b>	<b>11,895</b>	<b>11,584</b>	<b>33,872</b>	<b>32,081</b>
	=====	=====	=====	=====	=====	=====

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*(a) Foreign exchange gains*

In accordance with PAS unrealised foreign exchange gains are deferred until realised. In the financial statements compliant with IFRS 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 construction of the network 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 IFRS 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 Financial Reporting Standards a 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) Telecommunications concessions*

According to PAS telecommunication concessions are reported in the financial statements at cost less accumulated amortisation, while long-term liabilities resulting from future payments for these concessions are at nominal value. In the financial statements prepared in accordance with International Financial Reporting 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. After that moment any increase in fair value is credited directly to equity except when recognised as income to the extent that it reverses a revaluation decrease of the same asset which was previously recognised as an expense. The decrease in fair value is charged directly against any related revaluation surplus and the excess is recognised as an expense.

*(e) Hedging instruments*

In the financial statements prepared under PAS the effective portion of the gain or loss on the hedging instrument, designated as a cash flow hedge, is presented as prepaid or accrued expenses. In accordance with IFRS this item is recognised directly in equity.

*(f) Deferred tax effects*

As a consequence of adjusting financial statements prepared in accordance with PAS by items (a), (b), (c), (d) and (e) the deferred tax position has changed. Additionally, a deferred tax asset recognised in the financial statements prepared in accordance with PAS has been offset against the deferred tax liability arising from these adjusting items.

*(g) 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

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specific purposes. In IFRS financial statements such distributions are recognised as operating expense of the year to which the profit distribution relates.

*(h) 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 IFRS bonds and commercial papers issued are stated at nominal value net of unamortised discount.

*(i) 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 Financial Reporting Standards such provisions are treated as impairment loss and they net off fixed assets balance presented in the balance sheet.

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