

Translation of the report originally issued in Polish

**TELEKOMUNIKACJA POLSKA GROUP
IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2002 AND 2001**

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**TELEKOMUNIKACJA POLSKA GROUP
CONSOLIDATED BALANCE SHEETS
AS AT 31 MARCH 2002 AND 31 DECEMBER 2001**

	<u>Note</u>	<u>31 March 2002</u>	<u>31 December 2001</u>
		<u>(in PLN millions)</u>	
ASSETS			
Current assets			
Cash and cash equivalents		530	551
Deferred costs	7		
Financial assets	8	84	34
Receivables	9	93	141
Current income taxes	10	2,508	2,873
		168	
			14
Inventories	11	218	275
Current assets		3,601	4,015
Non-current assets			
Cash and cash equivalents	7	19	64
Deferred costs	8	25	8
Financial assets	9	148	130
Property, plant and equipment	12	26,496	26,885
Intangible assets	13	2,797	2,756
Investments accounted for under the equity method		9	11
Deferred tax asset	18	38	-
Non-current assets		29,532	29,854
Non-current receivables			
		2	3
Total assets		33,135	33,872
		=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans and other borrowings	14	1,727	1,545
Accrued expenses and other payables	15	2,676	4,166
Current income taxes		1	3
Provisions	16	670	716
Deferred income	17	135	125
Current liabilities		5,209	6,555
Non-current liabilities			
Loans and other borrowings	14	13,392	12,693
Accrued expenses and other payables	15	1,400	1,400
Provisions	16	206	330
Deferred income	17	257	254
Deferred income taxes	18	-	124
Non-current liabilities		15,255	14,801
Minority interest			
	19	585	621
Shareholders' equity			
Common stock	20	4,200	4,200
Share premium		832	832
Revaluation reserve		2,312	2,334
Other reserves		(195)	(221)
Retained earnings		4,937	4,750
Shareholders' equity		12,086	11,895
Total liabilities and shareholders' equity		33,135	33,872
		=====	=====

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 THREE MONTHS ENDED 31 MARCH 2002 AND 2001**

	<u>Note</u>	<u>3 months ended 31 March</u>	
		<u>2002</u>	<u>2001</u>
<u>(in PLN millions)</u>			
Revenues	21	4,384	4,199
Operating expenses:			
Employee related expenses		(923)	(916)
Depreciation and amortisation		(1,030)	(902)
Payments to other operators		(446)	(420)
Purchased services		(535)	(520)
Raw materials and consumables		(130)	(152)
Goods purchased for resale		(307)	(219)
Other operating expenses, net		(173)	(140)
Work performed by the enterprise and capitalised		49	15
Total operating expenses		(3,495)	(3,254)
Operating profit		889	945
Interest revenues and other financial income	22	177	85
Interest expense and other charges	22	(523)	(421)
Foreign exchange gains and losses, net	22	(335)	355
Profit before income tax		208	964
Income tax	18	(107)	(288)
Minority interest	19	53	(9)
(Profit)/Loss of investments accounted for under equity method		(1)	-
Net profit		153	667
Net profit per share (in PLN)		0.11	0.48
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 THREE MONTHS ENDED
31 MARCH 2002 AND 2001**

	3 months ended 31 March	
	2002	2001
	(in PLN millions)	
Cash flows from operating activities		
Net profit	153	667
Adjustments for:		
Minority interest	(53)	9
Depreciation and amortisation	1,030	902
Foreign exchange (gains)/losses, net	346	(324)
Interest and dividend (income)/charges, net	328	337
(Gain)/loss on investment activities	12	3
Income tax on current year profit	107	288
Net income tax recovered/(paid)	(211)	(269)
Other cash flows (applied in)/generated from operations, net	(13)	14
	-----	-----
Net cash flows from operating activities before changes in working capital	1,699	1,627
Changes in working capital:		
Decrease/(increase) in receivables, net of allowance	332	239
Decrease/(increase) in inventories	51	(123)
(Decrease)/increase in provisions	127	(26)
(Decrease)/increase in payables and other short-term liabilities	(605)	209
Decrease/(increase) in prepaid costs	67	(33)
(Decrease)/increase in deferred income	(25)	(4)
	-----	-----
Net cash flows generated from operating activities	1,646	1,889
	=====	=====
Cash flows from investing activities		
Proceeds from sale of fixed assets and intangibles	2	1
Proceeds from sale of non-current financial assets	-	23
Dividends received	-	6
Interest received	2	1
Purchase of fixed assets and intangibles	(1,749)	(2,410)
Payments for DCS, GSM and UMTS concessions	(17)	(314)
Other cash flows (applied in)/generated from investing activities, net	(1)	(17)
	-----	-----
Net cash flows applied in investing activities	(1,763)	(2,710)
	=====	=====

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 THREE MONTHS ENDED
31 MARCH 2002 AND 2001**

	3 months ended 31 March	
	2002	2001
	(in PLN millions)	
Cash flows from financing activities		
Proceeds from loans and borrowings	900	140
Proceeds from issuance of bonds	-	1,814
Proceeds from increase in share capital of subsidiaries	-	156
Issuance of short-term commercial papers	594	-
Interest received	44	-
Repayment of loans and borrowings	(721)	(361)
Redemption of short-term commercial papers	(350)	-
Interest paid	(406)	(286)
Other cash flows (applied in)/generated from financing activities, net	(3)	18
	-----	-----
Net cash flows generated from financing activities	58	1,481
	-----	-----
Effects of exchange rate changes on cash and cash equivalents	(7)	(13)
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(59)	647
	-----	-----
Cash and cash equivalents at the beginning of period	615	1,016
	-----	-----
Cash and cash equivalents at the end of period	549	1,663
	=====	=====

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 THREE MONTHS ENDED 31 MARCH 2002 AND 2001**

	Common stock (Note 20)	Share Premium (Note 20)	Revaluation reserve (Note 20)	Other reserves	Retained earnings	Total shareholder s' equity
	(in PLN millions)					
1 January 2001	4,200	832	2,334	-	4,206	11,572
Net profit for 3 months ended 31 March 2001	-	-	-	-	667	667
31 March 2001	4,200	832	2,334	-	4,873	12,239
31 December 2001	4,200	832	2,334	(221)	4,750	11,895
Effect of application of IFRS 39*	-	-	-	-	34	34
1 January 2002	4,200	832	2,334	(221)	4,784	11,929
Net profit for 3 months ended 31 March 2002	-	-	-	-	153	153
Impairment of fixed assets	-	-	(22)	-	-	(22)
Effect of cash flow hedge accounting**	-	-	-	26	-	26
31 March 2002	4,200	832	2,312	(195)	4,937	12,086

* Effect of application of IFRS 39 in respect of accounting for embedded derivatives in PTK Centertel Sp. z o.o. since 1 January 2002.

** 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

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 Komórkowa-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 14(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 the three months ended 31 March 2002 and 2001 amounted to 61,949 and 70,775 employees, respectively. The registered office of TPSA is located in Warsaw, ul. Nowy Świat 6/12.

The Telecommunications Act, which became effective from 1 January 2001, introduced 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 established 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. Starting 1 May 2002 URT has been replaced by the URTiP. Supervisory, control and decision-making powers of URTiP are similar to those of URT. 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.

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.

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

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TELEKOMUNIKACJA POLSKA GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 27 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.

The Group 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 or are subject to change by inflation index. Under IFRS 39 these embedded derivatives constitute a forward sale of foreign currencies or a forward change of fixed payments in PLN to variable payments in PLN and should be accounted for separately from the host contract. Apart from PTK-Centertel Sp. z o.o., the Group's entities were not able to account separately for embedded derivatives. Therefore the Group has decided not to apply IFRS 39 in this respect until appropriate system solutions have been implemented in the parent company and other entities constituting the Group, apart from PTK-Centertel Sp. z o.o.. Application of IFRS 39 in accounting for embedded derivatives by PTK-Centertel Sp. z o.o. since 1 January 2002 required increase in the opening balance of retained earnings by PLN 34 million and the opening balance of minority interest by PLN 17 million. The Group has estimated that the application of accounting for embedded derivatives in the parent company and other entities of the Group would decrease the net profit for the three months ended 31 March 2002 by approximately PLN 9 million.

In order to ensure comparability of financial statements certain reclassifications have been made to the financial statements for the three months ended 31 March 2001 in order for them to conform with 2002 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 March 2002 and 31 December 2001 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 12 June 2002.

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Significant changes in the Management Board took place during the three months ended on 31 March 2002. On 25 January 2002 the Member of TPSA Management Board responsible for finance function was dismissed and a new Member responsible for Human Resources Management was appointed. As of the date of the issuance of these financial statements a new Member responsible for finance function has not been appointed.

5. Statement of accounting policies

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</u> <u>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%
Parkiet Media S.A.	71%
Magellan Net S.A.	68%
Enerkom Sp. z o.o.	100%
Netbud 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 Edukacja i Wypoczynek Sp. z o.o.*	100%
TP TelTech Sp. z o.o.	100%
TP DITEL S.A.	100%
Wirtualna Polska S.A.	50%

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

The voting power held by the Group is equal to the Group's interest in capital in all subsidiaries 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

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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.

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.

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:

loans and receivables originated by the Group's entities and not held for trading,
financial assets held to maturity,
financial assets held for trading,
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.

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 March 2002 the Group's affiliates accounted for under the equity method were as follows:

Centrum Badawczo – Wdrożeniowe 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 voting power held by the Group is equal to the Group's interest in capital in the above affiliates.

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.

Inventories

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

Property, plant and equipment

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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 26(d), the Group receives certain assets from local authorities or municipalities. These assets are stated at their fair value at the date of transfer to the Group.

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

Property, plant and equipment are depreciated over their useful lives. Upon 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.

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%

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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 12).

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.

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 March 2002 and 31 December 2001 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.

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.

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.

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

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obligation. When discounting is used, the increase in the carrying amount of a provision reflecting the passage of time is recognised as a financial expense.

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.

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.

Revenue recognition

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

the amount of revenue can be measured reliably,

it is probable that the economic benefits associated with the transaction will flow to the enterprise,

the stage of completion of the transaction at the balance sheet date can be measured reliably, and

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.

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.

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 the financial statements prepared under IFRS such distributions are recognised as operating expense of the year to which the profit distribution related.

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.

Jubilee awards and retirement bonuses

According to the remuneration policies of the Group certain employees are entitled to jubilee awards and retirement bonuses. 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.

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The jubilee awards and retirement benefits are not funded. 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 up 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 at 31 December 2001, estimated by an independent actuary, amounted to PLN 525 million. In order to account for planned restructuring of employment the value of jubilee awards and retirement bonuses as at 31 December 2001 was adjusted by the Company to PLN 316 million. The value of the jubilee awards and retirement bonuses adjusted for planned restructuring of employment as at 31 March 2002 amounted to PLN 304 million.

In the three months ended 31 March 2002 and 2001 the Group paid PLN 17 million and PLN 11 million of jubilee awards and retirement bonuses, respectively.

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 16).

The net present value of restructuring provision is calculated at the balance sheet date as future discounted payments of termination indemnities described above. Valuation of the obligations as at 31 March 2002 was performed using a discount rate equal to average borrowing cost of similar maturity indebtedness denominated in Polish zloty.

Foreign exchange transactions

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

bid or offer rates used by the bank where transaction is conducted – to record transactions of buying or selling foreign currencies and payments of liabilities or receivables;
the average exchange rates as quoted by the National Bank of Poland (NBP) on the day of the transaction, unless a different rate has been decided on the customs or other compelling documents – to record all other transactions.

Cash and receivables denominated in foreign currencies are translated at the balance sheet date using the average bid exchange rate of the entity's primary bank, provided it is not higher than the average rate of NBP. Liabilities denominated in foreign currencies are translated at the balance sheet date using the average offer exchange rate of the entity's primary bank, provided it is not lower than the average rate of NBP. Any gains or losses 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.

Derivative financial instruments

Financial assets and liabilities are recognised at a cost, which is the fair value of the consideration given or received for acquiring a financial asset or taking over a financial liability (after adjustments for gains or losses on hedging instruments).

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The carrying amount of financial assets is adjusted to represent their fair value, except for financial assets which are recognised at amortised cost less permanent diminution in value. The amortised cost is the amount at which the financial asset or liability are measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any differences between that initial value and the value at maturity, and minus any write-down for impairment or uncollectability. Financial assets measured at amortised cost are 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 (purchase price).

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 financial liabilities. Except when contracts qualify as hedges, changes in the fair value of financial instruments are recognised as other financial expense/income in the profit and loss account in the period of the change. When contracts qualify as fair value hedges, related gains and losses offset symmetrically the effects on 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.

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 26(b)) 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.

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.

Seasonality and cyclicity of operations

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

6. Changes in Group's organisation

In the three months ended 31 March 2002 there were no significant changes in the Group's organization.

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7. Cash and cash equivalents

	<u>31 March</u> <u>2002</u>	<u>31 December</u> <u>2001</u>
	<u>(in PLN millions)</u>	
Cash in hand	13	14
Current bank accounts	40	180
Overnight deposits	85	139
Deposits up to 3 months	291	233
Other	120	49
	-----	-----
Total	549	615
Less: short – term portion	(530)	(551)
	-----	-----
Long - term portion	19	64
	=====	=====

As at 31 March 2002 and 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.

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

	<u>31 March</u> <u>2002</u>	<u>31 December</u> <u>2001</u>
	<u>(in PLN millions)</u>	
Polish zloty	440	508
Euro	25	20
U.S. dollar	84	87
	-----	-----
Total	549	615
	=====	=====

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

Deferred costs

	<u>31 March</u> <u>2002</u>	<u>31 December</u> <u>2001</u>
	<u>(in PLN millions)</u>	
Social Fund	31	-
Comissions on loans	20	-
IT services	12	6
Purchased PKP allowances	11	15
Start-up costs of Wirtualna Polska	7	-
Public advertising	4	-
Insurance	4	3
Other	20	18
	-----	-----
Total	109	42
Less: Short-term portion	(84)	(34)
	-----	-----
Long-term portion	25	8

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Financial assets

	=====	=====
	<u>31 March 2002</u>	<u>31 December 2001</u>
	<u>(in PLN millions)</u>	<u></u>
Short-term financial assets		
Financial assets available for sale	16	6
Financial assets held to maturity	45	90
Financial assets held for trading	32	45
	-----	-----
Total short-term financial assets	93	141
	=====	=====
Long-term financial assets		
Financial assets available for sale	148	130
	-----	-----
Total long-term financial assets	148	130
	=====	=====

As at 31 March 2002 and 31 December 2001 long-term financial assets available for sale contain fair value of hedging derivative financial instruments in the amount of PLN 18 million and PLN 1 million, respectively.

As at 31 March 2002 and 31 December 2001 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 March 2002 and 31 December 2001 all financial assets held for trading were measured at fair value.

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Receivables

	<u>31 March 2002</u>	<u>31 December 2001</u>
	<u>(in PLN millions)</u>	
Trade receivables	3,189	3,353
Tax receivables	49	132
Other receivables	215	232
	-----	-----
Subtotal	3,453	3,717
Less allowance for doubtful accounts	(945)	(844)
	-----	-----
Total	2,508	2,873
	=====	=====

Total receivables include amounts of PLN 222 million and PLN 283 million of receivables denominated in foreign currencies as at 31 March 2002 and 31 December 2001, 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 the period of the three months ended 31 March 2002 and 2001 are as follows:

	<u>3 months ended 31 March</u>	
	<u>2002</u>	<u>2001</u>
	<u>(in PLN millions)</u>	
Allowance, beginning of period	844	442
Charged to expense	109	86
Utilised	(8)	(5)
	-----	-----
Allowance, end of period	945	523
	=====	=====

Inventories

	<u>31 March 2002</u>	<u>31 December 2001</u>
	<u>(in PLN millions)</u>	
Cables, wires, engineering inventory and other materials	107	103
Goods for resale	127	194
	-----	-----
Subtotal	234	297
Less allowance for obsolete inventory	(16)	(22)
	-----	-----
Total	218	275
	=====	=====

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Property, plant and equipment

	<u>Land</u>	<u>Buildings, duct, cable and other outside plant</u>	<u>Telephone exchanges and other plant and equipment</u>	<u>Vehicles and other</u>	<u>Construction in progress</u>	<u>Total</u>
	(in PLN millions)					
Cost or revalued amount						
1 January 2001	16	16,756	18,415	740	2,018	37,945
Additions	-	109	624	11	297	1,041
Transfers	-	(10)	10	(3)	(107)	(110)
Disposals	-	(9)	(91)	(1)	-	(101)
	-----	-----	-----	-----	-----	-----
31 March 2001	16	16,846	18,958	747	2,208	38,775
	=====	=====	=====	=====	=====	=====
1 January 2002	17	18,382	21,588	859	2,201	43,047
Additions	-	148	565	14	(154)*	573
Transfers	19	6	23	19	(82)	(15)
Disposals	-	(25)	(177)	(6)	-	(208)
	-----	-----	-----	-----	-----	-----
31 March 2002	36	18,511	21,999	886	1,965	43,397
	=====	=====	=====	=====	=====	=====
Accumulated depreciation						
1 January 2001	-	3,729	9,094	521	-	13,344
Charge for the period	-	177	622	34	-	833
Transfers	-	2	1	(7)	-	(4)
Disposals	-	(8)	(87)	(1)	-	(96)
	-----	-----	-----	-----	-----	-----
31 March 2001	-	3,900	9,630	547	-	14,077
	=====	=====	=====	=====	=====	=====
1 January 2002	-	4,412	11,126	624	-	16,162
Charge for the period	-	193	699	38	-	930
Transfers	4	55	(59)	11	-	11
Disposals	-	(22)	(174)	(6)	-	(202)
	-----	-----	-----	-----	-----	-----
31 March 2002	4	4,638	11,592	667	-	16,901
	=====	=====	=====	=====	=====	=====
Net book value						
31 March 2001	16	12,946	9,328	200	2,208	24,698
	=====	=====	=====	=====	=====	=====
Net book value						
31 March 2002	32	13,873	10,407	219	1,965	26,496
	=====	=====	=====	=====	=====	=====

* In the three months ended 31 March 2002 the value of fixed assets transferred from construction in progress exceeded capital expenditures incurred.

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 the three months ended 31 March 2002 and 31 March 2001, the Group capitalised PLN 62 million and PLN (7) million of borrowing costs, respectively. Capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation were 12% and (1%) in the three months ended 31 March 2002 and 31 March 2001, respectively.

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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 market 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 March 2002 and 31 December 2001 amounted to PLN 131 million and PLN 152 million, respectively, and related primarily to its fixed line operations.

In the three months ended 31 March 2002 and 2001 the impairment loss charged to the profit and loss was immaterial.

The gross carrying amounts of certain property, plant and equipment items of PLN 3,080 million and PLN 2,934 million are fully depreciated as of 31 March 2002 and 31 December 2001, 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 as at 31 March 2002 had carrying value of PLN 517 million. Property, plant and equipment pledged as a security for loans or bank guarantees was not material as at 31 December 2001.

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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Intangible assets

	<u>DCS 1800 concession</u>	<u>GSM 900 concession</u>	<u>UMTS concession</u>	<u>Software and other intangibles</u>	<u>Goodwill</u>	<u>Total</u>
	<u>(in PLN millions)</u>					
Cost						
1 January 2001	350	384	1,634	610	49	3,027
Additions	-	-	-	127	-	127
Financial costs capitalised	-	-	23	-	-	23
Disposals	(7)	(3)	-	(4)	-	(14)
	-----	-----	-----	-----	-----	-----
31 March 2001	343	381	1,657	733	49	3,163
	=====	=====	=====	=====	=====	=====
1 January 2002	349	384	1,599	1,062	139	3,533
Additions	2	-	-	79	-	81
Financial costs capitalised	-	-	31	-	-	31
Transfers	-	-	-	66	-	66
Disposals	-	-	-	(8)	-	(8)
	-----	-----	-----	-----	-----	-----
31 March 2002	351	384	1,630	1,199	139	3,703
	=====	=====	=====	=====	=====	=====
Accumulated amortisation						
1 January 2001	61	23	-	301	34	419
Charge for the period	6	7	-	53	3	69
Disposals	-	-	-	(1)	-	(1)
	-----	-----	-----	-----	-----	-----
31 March 2001	67	30	-	353	37	487
	=====	=====	=====	=====	=====	=====
1 January 2002	89	49	-	584	55	777
Charge for the period	6	7	-	85	2	100
Transfers	-	-	-	35	-	35
Disposals	-	-	-	(6)	-	(6)
	-----	-----	-----	-----	-----	-----
31 March 2002	95	56	-	698	57	906
	=====	=====	=====	=====	=====	=====
Net book value						
31 March 2001	276	351	1,657	380	12	2,676
	=====	=====	=====	=====	=====	=====
Net book value						
31 March 2002	256	328	1,630	501	82	2,797
	=====	=====	=====	=====	=====	=====

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.

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Loans and other borrowings

	Note	31 March 2002	31 December 2001
		<u>(in PLN millions)</u>	
Bank loans	(a)	5,330	5,011
Bonds	(b)	9,530	9,216
Short-term securities	(c)	247	-
Other borrowings and credits	(d)	12	11
		-----	-----
Total		15,119	14,238
Less: short-term portion		(1,727)	(1,545)
		-----	-----
Long-term portion		13,392	12,693
		=====	=====

As at 31 March 2002 repayments of loans, bonds and other borrowings fall due in:

	<u>(in PLN millions)</u>
12 months ended 31 March 2003	1,727
12 months ended 31 March 2004	1,888
12 months ended 31 March 2005	2,865
12 months ended 31 March 2006	2,388
12 months ended 31 March 2007	2,039
Thereafter	4,212

Total	15,119
	=====

(a) *Bank loans*

Bank loans analysed by currency are as follows:

	31 March 2002	31 December 2001
	<u>(in PLN millions)</u>	
Polish zloty	1,652	1,906
U.S. dollar	1,396	1,292
Euro*	2,282	1,813
	-----	-----
Total	5,330	5,011
	=====	=====

*Due to the introduction of the Euro currency loans denominated in German Marks and French Francs have been reclassified into Euro as of 31 December 2001 to ensure comparability.

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 12.2% p.a. and 18.9% p.a. in the three months ended 31 March 2002 and 2001, respectively. Bank loans denominated in Polish zloty have maturities ranging from 2002 to 2006.

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

	<u>31 March 2002</u>	<u>31 December 2001</u>
Fixed rates	23.5%	27.0%
Floating rates	76.5%	73.0%
	-----	-----
	100.0%	100.0%
	=====	=====

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

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

	<u>31 March 2002</u>	<u>31 December 2001</u>
Less than 4% p.a.	78.3%	87.5%
Between 4% and 8% p.a.	20.5%	11.3%
Over 8% p.a.	1.2%	1.2%
	-----	-----
	100.0%	100.0%
	=====	=====

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

As at 31 March 2002 and 31 December 2001 bank loans amounting to PLN 471 million and PLN 468 million, respectively, were subject to government guarantee. Loans secured on specific assets of the Group as of 31 March 2002 amounted to PLN 412 million. Loans secured on specific assets of the Group as of 31 December 2001 were not material.

(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.

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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:

	<u>31 March 2002</u>	<u>31 December 2001</u>
	<u>(in PLN millions)</u>	
U.S. dollar*	4,115	3,853
Euro*	5,415	5,363
	-----	-----
Total	9,530	9,216
	=====	=====

* As at 31 March 2002 and 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 725 million and EUR 675 million, respectively) and fair value hedge (total amount USD 550 million and EUR 50 million as at 31 March 2002 and USD 550 million as at 31 December 2001). The data presented in the above table accounts for the effect of the described hedging transactions.

(c) *Short-term securities*

Short-term securities are denominated in Polish zloty. They are subject to floating interest rates linked to WIBOR and they mature in 2002.

(d) *Other borrowings and credits*

Other borrowings and credits as at 31 March 2002 and 31 December 2001 were denominated in Euro.

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 March 2002 and 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 1,818 million as at 31 March 2002. Unused loan facilities amounting to PLN 1,513 million as at 31 March 2002 are designated to finance defined projects.

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Accrued expenses and other payables

	31 March 2002	31 December 2001
	(in PLN millions)	
Trade and capital expenditure payables	1,125	2,634
Social security and taxes	387	378
Accrued expenses	481	436
Jubilee awards and retirement bonuses	304	316
Salaries and wages	391	312
Concessions payable	734	719
Fair value of derivative financial instruments	553	636
Other payables	101	135
	-----	-----
Total	4,076	5,566
Less: short-term portion	(2,676)	(4,166)
	-----	-----
Long-term portion	1,400	1,400
	=====	=====

Accrued expenses and other payables include PLN 1,485 million and PLN 1,589 million of amounts denominated in foreign currencies as at 31 March 2002 and 31 December 2001, respectively. The primary foreign currency payable as of 31 March 2002 and 31 December 2001 is related to UMTS concession acquisition and amounts to EUR 186 million and EUR 183 million, respectively. Additionally, as of 31 March 2002 and 31 December 2001 accrued expenses and other payables denominated in foreign currencies include the amount of PLN 553 million and PLN 636 million, respectively, which represent the fair value of derivative financial instruments.

Provisions

	31 March 2002	31 December 2001
	(in PLN millions)	
Restructuring provision	521	781
Provision for real estate tax	1	1
Provision for tax dispute (see Note 26(a))	354	264
	-----	-----
Total	876	1,046
Less: short – term portion	(670)	(716)
	-----	-----
Long – term portion	206	330
	=====	=====

As of 31 March 2002 the restructuring provision represented 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 within this period.

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Changes in provisions in the period of three months ended 31 March 2002 and 2001 were as follows:

	<u>Restructuring provision</u>	<u>Provision for real estate tax</u>	<u>Provision for tax dispute</u>	<u>Other provisions</u>	<u>Total</u>
	<u>(in PLN millions)</u>				
1 January 2001	327	61	-	3	391
Charged to expense	-	3	-	-	3
Utilized	(29)	-	-	-	(29)
	-----	-----	-----	-----	-----
31 March 2001	298	64	-	3	365
	=====	=====	=====	=====	=====
1 January 2002	781	1	264	-	1,046
Discount	(37)	-	-	-	(37)
Charged to expense	-	-	90	-	90
Utilised	(223)	-	-	-	(223)
	-----	-----	-----	-----	-----
31 March 2002	521	1	354	-	876
	=====	=====	=====	=====	=====

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.

Deferred income

	<u>31 March 2002</u>	<u>31 December 2001</u>
	<u>(in PLN millions)</u>	
Grants (see Note 5(l))	271	275
Prepaid services	116	97
Other	5	7
	-----	-----
Total	392	379
Less: short-term portion	(135)	(125)
	-----	-----
Long-term portion	257	254
	=====	=====

Changes in grants were as follows:

	<u>3 months ended 31 March</u>	
	<u>2002</u>	<u>2001</u>
	<u>(in PLN millions)</u>	
Beginning of period	275	292
Net amounts received	-	1
Amortisation	(4)	(6)
	-----	-----
End of period	271	287
	=====	=====

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Income tax

	3 months ended 31 March	
	2002	2001
	(in PLN millions)	
Current income tax charge for the period	211	326
Deferred tax expense (benefit)*	(104)	(38)
	-----	-----
	107	288
	=====	=====

*The deferred tax included in net profit or loss of the period. The remaining part of the deferred tax expense has been included in the revaluation reserve and other reserves.

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

	3 months ended 31 March	
	2002	2001
	(in PLN millions)	
Profit before income tax	208	964
	-----	-----
Tax rate	28%	28%
Income tax calculated at statutory rate	58	270
Effect of income/expenses not subject to income tax	18	(11)
Change in valuation allowance*	33	28
Other	(2)	1
	-----	-----
Income tax expense for the period	107	288
	=====	=====

*Change in valuation allowance included in income tax charge to profit and loss account. The remaining part of change in valuation allowance has been included in revaluation reserve and other reserves.

Enacted Corporate Income Tax rates are as follows:

<u>Year</u>	<u>Enacted tax rate</u>
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 incurred in the previous years, 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. Tax losses of consolidated subsidiaries incurred in the three months ended 31 March 2002 amounted to PLN 71 million.

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The net deferred tax liability consists of the following:

	31 March 2002	31 December 2001
	(in PLN millions)	
Deferred tax liabilities:		
Accelerated tax depreciation	392	496
Accrued income	299	316
Unrealised foreign exchange gains	178	248
	-----	-----
	869	1,060
Deferred tax assets:		
Unrealised foreign exchange losses	(352)	(299)
Accrued expenses	(460)	(376)
Unused tax losses of subsidiaries carried forward	(234)	(214)
Jubilee awards and retirement bonuses	(70)	(88)
Excess of book over tax depreciation	(169)	(174)
Unused investment tax bonus	(3)	(3)
Bad debt provision	(260)	(229)
Restructuring provision	(143)	(219)
Other	(36)	(40)
	-----	-----
	(1,727)	(1,642)
Valuation allowance	820	706
	-----	-----
Deferred tax assets after valuation allowance	(907)	(936)
	-----	-----
Net deferred tax liability/(asset)	(38)	124
	=====	=====

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

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

TPSA took advantage of the above described investment tax allowance scheme in 1994 – 2001. TPSA 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 26(b)). In three months ended 31 March 2002 TPSA did not take advantage of the investment tax allowance described above.

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Minority interest

	3 months ended 31 March	
	2002	2001
	(in PLN millions)	
Beginning of period	621	292
Effect of application of IFRS 39*	17	-
Beginning of period, adjusted	638	292
Share of results for the period	(53)	9
	-----	-----
End of period	585	301
	=====	=====

* Effect of application of IFRS 39 in respect of accounting for embedded derivatives in PTK Centertel Sp. z o.o. since 1 January 2002.

Shareholders' equity

As at 31 March 2002 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 the three months ended 31 March 2002.

The ownership structure of the share capital as registered at the General Shareholders' Meeting of 26 April 2002 was as follows:

	% of votes	Nominal value (in PLN millions)
France Telecom S.A. (Cogecom S.A.)	33.93	1,425
State Treasury	22.50	945
Kulczyk Holding S.A. (Tele-Invest S.A. and Tele-Invest II S.A.)	13.57	570
Other shareholders	30.00	1,260
	-----	-----
Total	100.00	4,200
	=====	=====

Due to the changes in the Supervisory Board of TPSA carried out during the General Shareholders' Meeting on 26 April 2002, Cogecom S.A. has become a dominant company in relation to TPSA with the right to dismiss and appoint the majority of TPSA Management Board.

On 5 September 2001 The State Treasury signed an agreement concerning the sale of TPSA shares to entities of the France Telecom and Kulczyk Holding groups. This sale agreement includes an irrevocable sale offer by which Cegecom S.A. and Autopolska S.A. (Tele-Invest II S.A.) or any of them may purchase 2.5% of TP S.A. shares plus one share. The sale transaction may be executed till 31 December 2002.

Profit of TPSA available for distribution under Polish law for the year ended 31 December 2001 amounted to PLN 515 million. According to the Polish law the profit available for distribution is the annual profit approved by the General Shareholders' Meeting.

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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)).

Revenues

	3 months ended 31 March	
	2002	2001
	(in PLN millions)	
Fixed line telephony services:		
Subscriptions, connections and similar charges	992	781
Traffic revenues	2,011	2,279
Interconnect revenues:		
LTOs and other licensed domestic operators	78	54
Mobile telephony operators	66	79
International incoming traffic	128	115
Payphone revenues	78	80
Other	72	55
Mobile telephony services	561	412
Leased lines	119	121
Radiocommunications	87	75
Data transmission	81	60
Telex and telegraphy	3	3
Manufacturing, equipment sales and other	108	85
Total	4,384	4,199
	=====	=====

Revenues are generated on the territory of Poland. 3.6% and 3.3% of the total revenues for the three months ended 31 March 2002 and 2001, respectively, were received from foreign parties, mostly in respect of interconnect arrangements.

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Financial income and charges, net

Financial income and charges comprise the following:

	<u>3 months ended 31 March</u>	
	<u>2002</u>	<u>2001</u>
	<u>(in PLN millions)</u>	
Interest income	51	59
Other financial income	126	26
	-----	-----
Interest revenues and other financial income	177	85
Interest expense	(389)	(297)
Commissions and other charges	(207)	(190)
	-----	-----
Total interest expense and other charges	(596)	(487)
Interest and similar charges capitalised	73	66
	-----	-----
Interest expense and other charges	(523)	(421)
	=====	=====
Total foreign exchange gains and losses, net	(355)	405
Foreign exchange gains and losses capitalised	20	(50)
	-----	-----
Foreign exchange gains and losses, net	(335)	355
	=====	=====

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 55 million and PLN 22 million in three months ended 31 March 2002 and 2001, 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 March 2002 were as follows:

	<u>(in PLN millions)</u>
12 months ended 31 March:	
2003	175
2004	129
2005	109
2006	99
2007	70
Thereafter	226

Total minimum lease payments	808
	=====

(b) *Purchase commitments*

As of 31 March 2002 and 31 December 2001 capital expenditures amounting to PLN 853 million and PLN 857 million, respectively, principally relating to the telecommunications network, were committed under contractual arrangements, with PLN 299 million and PLN 6 million due after one year, respectively.

(c) *North-South Link*

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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 the three months ended 31 March 2002 and 2001 was approximately PLN 7 million and PLN 12 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 included 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 could have been increased if both ratios reached the base amounts which were defined as 90% of cash revenues and cash EBITDA. The base amounts for cash revenues and cash EBITDA accounted for PLN 13 million and PLN (41) million, respectively. The purchase price of each share would be increased by PLN 1.39 for each per cent by which both ratios at the same time exceeded base amounts. Achievements of results mentioned in this paragraph were to be stated on the basis of financial statements of WP prepared in accordance with IFRS audited by certified auditor. According to the audited 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 the year 2002 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.

Related party transactions

As at 31 March 2002 France Telecom, via its subsidiary company Cogecom S.A., owned 33.9% of shares of the parent company. Additionally France Telecom, as the minority shareholder, indirectly owns 34% of PTK-Centertel Sp. z o.o. shares. The Group provides and receives interconnect services from France Telecom on normal commercial terms. In the three months ended 31 March 2002 and 2001 the Group purchased services from France Telecom amounting to PLN 18 million and PLN 1 million, respectively, and sold services amounting to PLN 6 million and PLN 3 million, respectively. Additionally, in the three months ended 31 March 2002 agreements were signed with France Telecom for rendering free of charge services for TPSA worth PLN 6 million. In the three months ended 31 March 2002 and 2001 the Group did not purchase or sell products or services of a significant amount from Cogecom S.A..

As at 31 March 2002 the Polish State Treasury owned 22.6% of shares of the parent company. Principally, the Group provides services to government organisations on normal commercial terms.

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As at 31 March 2002 Tele-Invest S.A. together with Tele-Invest II S.A, subsidiaries of Kulczyk Holding S.A., owned 13.6% of shares of the parent company. In the three months ended 31 March 2002 and 2001 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 March 2002 the Group's receivables from France Telecom amounted to PLN 3 million, the Group's payables to France Telecom amounted to PLN 4 million and the Group did not report any significant receivables and payables to the others of the above-mentioned related parties. As at 31 December 2001 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 three months ended 31 March 2002 to the TPSA Management Board Members amounted to PLN 2 million.

Members of the Management Board of TPSA received in or will receive for the three months ended 31 March 2002 remuneration and bonuses (cash and benefits in kind) amounting to PLN 1 million from TPSA subsidiary and affiliated companies for performing various functions in their authorities.

In the three months ended 31 March 2002 TPSA did not incurred any material costs related to remuneration of the Company's Supervisory Board.

Total remuneration and bonuses paid to the Company's Management and Supervisory Board in the three months ended 31 March 2001 amounted to PLN 1 million.

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 and subsequent amendments to its conditions, PTK-Centertel Sp. z o. o. will be allowed to provide the third generation services from 1 January 2004.

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:

	<u>Fixed line telecommunications</u>	<u>Mobile telecommunications</u>	<u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
31 March 2002					
Segment assets	31,271	6,048	615	(4,846)	33,088
Deferred tax asset	38	-	-	-	38
Investments accounted for under equity method	-	-	9	-	9
Total assets	31,309	6,048	624	(4,846)	33,135
Segment liabilities	18,407	4,492	89	(1,939)	21,049
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
3 months ended 31 March 2002					
Sales:	3,779	732	30	(157)	4,384
intersegment	39	114	4	(157)	-
external	3,740	618	26	-	4,384
Depreciation and amortisation	873	139	16	2	1,030
Operating result	977	(18)	(70)	-	889
Net profit	341	(165)	(74)	51	153
Capital expenditures	401	289	46	-	736
Net cash flows from:					
operating activities	1,433	21	34	158	1,646
investing activities	(1,286)	(407)	(13)	(57)	(1,763)
financing activities	(244)	403	-	(101)	58
3 months ended 31 March 2001					
Sales:	3,755	543	17	(116)	4,199
intersegment	30	86	-	(116)	-
external	3,725	457	17	-	4,199
Depreciation and amortisation	762	131	7	2	902
Operating result	1,078	(105)	(26)	(2)	945
Net profit	677	25	(24)	(11)	667
Capital expenditures	758	320	3	-	1,081
Net cash flows from:					
operating activities	1,789	87	21	(8)	1,889
investing activities	(2,648)	(631)	(7)	576	(2,710)
financing activities	1,492	558	(1)	(568)	1,481

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Contingent liabilities and uncertainties

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 the Company's tax liabilities related to other reporting periods.

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 15 April 2002 PTK-Centertel Sp. z o.o. paid the sum in question together with accumulated interest amounting to PLN 9 million. On 27 May 2002 PTK-Centertel Sp. z o.o. received the decision of Tax Chamber sustaining the decision of the Tax Control Office dated 4 February 2002. Currently, PTK-Centertel Sp. z o.o. is in the process of preparation of an appeal to the Supreme Administrative Court.

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.

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Taking into account the stage of the disputes, as of 31 March 2002 the Group entities set up a provision amounting to PLN 354 million reflecting the best estimate of amounts that are more likely than not to be claimed.

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 had 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

Total	1,437
	=====

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.

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.

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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.

As at 31 March 2002 all requirements related to the concessions were met by PTK-Centertel Sp. z o.o..

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 6 of Act dated 24 February 1990 on Preventing Monopolistic Practices and Customer Protection. The proceedings referred to the Company's 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 thirteen 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 six cases OPCC imposed on TPSA fines of a total amount of PLN 750 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

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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 four other cases changed the decisions appealed by TPSA.

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 five cases with the total amount of PLN 3,971 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 March 2002.

Dispute with DPTG

As more fully explained in Note 23(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 of re-negotiation of the agreement, DPTG claimed arbitration in June 2001. As of the date of the preparation of the financial statements no resolution has been reached and the Company was not able to estimate the potential amount of the claim.

Investigations by URTiP and OPCC

Currently, several investigation proceedings concerning TPSA are being performed by URTiP 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 URTiP 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.

Contract withdrawal

In April 2002 the Company withdrew 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.

If the justification for the withdrawal from the contract appears insufficient, the Company may suffer losses. Since the Management Board of the Company believes that such losses are remote, these financial statements do not include any provision in this respect.

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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.

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 March 2002 and 31 December 2001 the fair value of non-current loans, borrowings and other payables with fixed interest rates amounted to PLN 11,032 million and PLN 10,829 million, respectively (carrying amount: PLN 11,156 million and PLN 10,778 million, respectively).

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

The Group uses forward contracts and currency and interest rate swaps to mitigate its exposure against foreign currency fluctuations on debt denominated in foreign currencies or to mitigate its exposure against interest rates fluctuations on debt based on fixed interest rates. These instruments as at 31 March 2002 and 31 December 2001 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 (millions)	Pay	Receive	Pay		31 March 2002 (PLN millions)	31 December 2001
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 388	6.125%	15.25%	2004	(75)	(76)
Interest rate and currency swap	cash flow hedge	EUR 200	PLN 796	6.125%	13.77%	2004	(148)	(150)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 392	6.125%	13.83%	2004	(68)	(69)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 400	6.125%	13.8%	2004	(71)	(73)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 338	6.625%	14.78%	2006	(17)	(17)
Interest rate and currency swap	cash flow hedge	EUR 50	PLN 172	6.625%	14.75%	2006	(11)	(11)
Interest rate and currency swap	cash flow hedge	EUR 25	PLN 85	6.5%	14.27%	2007	(6)	(5)
Interest rate and currency swap	cash flow hedge	EUR 50	PLN 182	6.6875%	11.36%	2006	(1)	-
Interest rate and currency swap	fair value hedge	USD 200	PLN 852	7.125%	WIBOR+1 .87%	2003	(11)	(41)
Interest rate and currency swap	fair value hedge	USD 100	PLN 423	7.75%	WIBOR+2 .98%	2008	(27)	(39)
Interest rate and currency swap	fair value hedge	USD 100	PLN 410	7.75%	WIBOR+2 .65%	2008	(5)	(18)
Interest rate and currency swap	fair value hedge	USD 50	PLN 205	7.75%	WIBOR+1 .95%	2008	5	(2)
Interest rate and currency swap	fair value hedge	USD 50	PLN 206	7.75%	WIBOR+1 .9%	2008	5	(2)
Interest rate and currency swap	fair value hedge	USD 50	PLN 204	7.75%	WIBOR+1 .75%	2008	8	1

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Type of instrument	Designation	Notional amount		Interest		Maturity		Fair value 31 December 2001
		Receive (millions)	Pay	Receive	Pay	31 March 2002 (PLN millions)	31 December 2001	
Interest rate and currency swap	fair value hedge	EUR 50	PLN 183	6.6875% LIBOR+0.	WIBOR+2 %	2006	(1)	-
Interest rate and currency swap	Trading	USD 100	PLN 351	3%	20.95%	2004	9	(9)
Interest rate and currency swap	Trading	EUR 100	PLN 359	EURIBOR 3.81%-	WIBOR	2012	5	(9)
Interest rate and currency swaps	Trading	EUR 70	PLN 282	4.7%	11.7%- 12.95%	2002-2005	(54)	(59)
Interest rate and currency swaps	Trading	EUR 50	PLN 197	6.3%	14.78%- 14.96%	2004	(46)	(41)
Currency swaps	Trading	EUR 15	PLN 59	-	6.37%- 6.69%	2007	(12)	(14)
Currency forwards	Trading	EUR 4	PLN 15	-	-	2002	(0)	(0)
Currency forwards*	Trading	EUR 5	PLN 18	-	-	2002	-	(1)
Currency forwards	Trading	EUR 4	PLN 15	-	-	2002	(0)	-

* As of 31 March 2002 the transaction was closed.

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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 or are subject to change by inflation index. Apart from PTK-Centertel, the Group’s entities were not able to separately measure the embedded derivatives and host contracts and therefore these contracts have not been accounted for. The Group plans to account for embedded instruments as soon as appropriate system solutions are implemented. It has been estimated that the application of accounting for embedded derivatives would decrease the net profit for the three months ended on 31 March 2002 by approximately PLN 9 million.

Additionally, as of 31 March 2002 and 31 December 2001 the Group was a party to the following put and call option arrangements:

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 March 2002 and 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.

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 March 2002 and 31 December 2001 the fair value of both options described above was negative and amounted to PLN 5 million.

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Supplementary cash flow information

Significant non-cash transactions in three months ended 31 March 2002 and 2001 are presented below:

	3 months ended 31 March	
	2002	2001
	(in PLN millions)	
Telecommunications infrastructure received free of charge	2	26
	=====	=====

Prior period events

These financial statements do not include any significant events relating to prior periods, apart from the introduction, by PTK Centertel Sp. z o.o., IFRS 39 in respect of accounting for embedded derivatives (See Note 2).

Subsequent Events

Agreement with NOM

On 11 April 2002 TPSA and NOM signed an agreement on mutual obligations, aimed at clearing the settlements for using the network of TPSA by NOM in the period from 1 July 2001 to 31 March 2002 and stating the conditions of interconnect settlements for these services in the period from 1 April 2002 to 31 July 2002. Thus the dispute on mutual rights and obligations on interconnect co-operation between TPSA and NOM was terminated. As the result of the above agreement, NOM petitioned to discontinue all proceedings against TPSA.

On 11 April 2002 TPSA and NOM signed an agreement on connection of telecommunication networks. The most significant conditions of interconnect co-operation are analogous to those applicable to agreements with other DLD operators. Since 1 August 2002 NOM will render interconnect services to those subscribers who conclude written agreement with NOM. NOM itself is to bill, to invoice and to collect overdue receivables from its customers.

Withdrawal of compensation request

Following the agreement concluded between TPSA and NOM on 11 April 2002, NOM withdrew from the Warsaw District Court request for TPSA to pay PLN 81 million as a compensation for losses arising from a delay in setting up detailed conditions of cooperation between the two companies.

Withdrawal of penalties imposed by URT

On 8 April 2002 TPSA appealed to AMC the decision of the President of the URT of 25 March 2002 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. On 7 May 2002 the President of the URTiP withdrew the decision issued on 25 March 2002.

On 8 April 2002 The Management Board of the Company appealed the decision of the President of URT imposing on TPSA a penalty amounting to PLN 50 million for provision of incorrect

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financial date concerning leased line revenues to the Anti-Monopoly Court. On 7 May 2002 the President of the URTiP withdrew the decision issued on 25 March 2002.

Withdrawal of penalty imposed by the President of the Office for Protection of Competition and Customers

On 8 May 2002 District Anti-Monopoly Court in Warsaw repealed the decision DDI 2/2001 dated 26 January 2001 of the President of OPCC which imposed on TPSA a penalty amounting to PLN 54 million for not executing the decision DDI 36/98 of the President of OPCC dated 22 July 1998 concerning the abandonment of TPSA's monopolistic practices involving overstated charges for long-distance calls over 100 km.

Issuance of short-term bonds

Within the scope of the Short-Term Bonds Issuance Programme since the balance sheet date until the date of the preparation of these financial statements TPSA issued short-term bonds of nominal value amounting to PLN 400 million. As of the date of the preparation of these financial statements short-term bonds of nominal value amounting to PLN 250 million and maturity dates on 17 June 2002, 15 July 2002 and 9 September 2002 were not redeemed.

The cost of bonds is based on WIBOR rate.

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

On 3 June 2002 Shareholders' Meeting of PTK-Centertel Sp. z o.o., TP S.A. subsidiary, issued a resolution on the increase of the share capital of the company by the total amount of PLN 130,001 thousand by the increase in the nominal value of each share. The amount to be paid as share capital increase by France Telecom accounts for PLN 44,200 thousand.

Loan covenants

The parent company is a party to certain loan and guarantee agreements, which require the Company to maintain certain financial ratios. On 11 June 2002, as a result of negotiations, the parent company has agreed with banks to raise for the next reporting period the required threshold related to the covenant included in these agreements, defined as the total borrowed money to EBITDA. For the next reporting period this threshold has been changed from 2.5 to 3.0. The next measurement of the compliance of TPSA's debt with covenants included in these agreements will be performed for the twelve months period ended 30 June 2002.

The above agreement implies that there is no risk, presented in financial statements of TPSA for the year ended 31 December 2001, that TPSA, as of 30 June 2002, will not comply with one of the covenant included in certain loan and guarantee agreements. In particular TPSA will not be required to immediately repay its debt.

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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 (PAS) 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 PAS are set out below:

	Net profit for 3 months ended 31 March 2002	Net profit for 3 months ended 31 March 2001*	Net assets as at 31 March 2002	Net assets as at 31 December 2001*	Total assets as at 31 March 2002	Total assets as at 31 December 2001*
	(in PLN millions)					
Consolidated PAS	121	477	11,819	11,489	34,586	34,819
Foreign exchange gains net effect	-	290	-	679	-	-
Assets received free of charge	-	3	-	(160)	-	-
Capitalisation of borrowing costs	35	(2)	408	373	419	380
Telecommunications concessions	(1)	(42)	(19)	(18)	(772)	(758)
Hedging instruments	-	-	-	(221)	-	(221)
Deferred tax effects	16	(42)	(85)	(245)	(1,109)	(121)
Distribution from profit for the benefit of employees and for special funds	(34)	(12)	(34)	-	-	-
Discount on bonds and commercial papers issued	-	-	-	-	-	(69)
Provisions for fixed assets intended for liquidation or sale	-	-	-	-	-	(159)
Change in estimates	18	-	-	-	-	-
Other	(2)	(5)	(3)	(2)	11	1
	-----	-----	-----	-----	-----	-----
Consolidated IFRS	153	667	12,086	11,895	33,135	33,872
	=====	=====	=====	=====	=====	=====

* According to the accounting standards prevailing during the period covered by the financial statements

Foreign exchange gains

In accordance with PAS unrealised foreign exchange gains were deferred until realised. In the financial statements compliant with IFRS unrealised foreign exchange gains are recognised as income. Due to the change in accounting regulations in Poland PAS in this respect are in accordance with IFRS since 1 January 2002.

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 were credited to the profit and loss account when the ownership of these assets was transferred to the parent company. In the

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financial statements prepared in accordance with IFRS such donations are deferred and recognised as income over the useful life of the related assets. Due to the change in accounting regulations in Poland, PAS in this respect are in accordance with IFRS since 1 January 2002.

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).

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.

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, was presented as prepaid or accrued expenses. In accordance with IFRS this item is recognised directly in equity. Due to the change in accounting regulations in Poland, PAS in this respect are in accordance with IFRS since 1 January 2002.

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. Due to the change in accounting regulations in Poland, PAS in respect of items (a), (b) and (e) are in accordance with IFRS since 1 January 2002. The deferred tax will be modified only due to items (c) and (d). Additionally, deferred tax liability according to IFRS is presented net with deferred tax asset (in the financial statements prepared in accordance with PAS deferred tax asset and deferred tax liability are presented gross).

Distribution from profit for the benefit of employees and for special funds

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

Discount on bonds and commercial papers issued

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According to PAS bonds and commercial papers issued were stated in the financial statements at nominal value. The difference between nominal value and issue price was 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. Due to the change in accounting regulations in Poland, the PAS in this respect are in accordance with IFRS since 1 January 2002.

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 was presented on the face of the balance sheet. In the financial statements prepared in accordance with IFRS such provisions are treated as impairment loss and they net off fixed assets balance presented in the balance sheet. Due to the change in accounting regulations in Poland, since 1 January 2002 the PAS in this respect are in accordance with IFRS.

Change in estimate

According to the Polish Accounting Act, which was amended on 1 January 2002, the changes arising from the amendment related to prior periods are reported by adjusting the opening balance of retained earnings. This provision also relates to the changes in certain estimates required by the amendment. According to IFRS changes in estimate are included in determination of the net profit or loss in the period of the change.

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.

END