

**LSE - Current Report (62/2002), Telekomunikacja Polska S.A., (TPSA) - Warsaw, Poland**  
**12 August 2002**

Pursuant to art. 81 section 1, point 2 of the act - Law on Public Trading in securities of August 21, 1997 (dz. u. no. 118, item 754, as amended), on the type, form and scope of the current and periodic information and the time-scale of such information disclosure by the issuers of securities admitted to public trading, the Management Board of Telekomunikacja Polska S.A.(hereinafter referred to as TPSA) is hereby announcing consolidated financial report for six months ended on 30 June 2002 ( including comparative data for six months 2001) prepared according to IFRS, International Financial Reporting Standards.

**TELEKOMUNIKACJA POLSKA GROUP**  
**IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2002 AND 2001**

## **INDEPENDENT REVIEW REPORT**

To the shareholders of Telekomunikacja Polska S.A.

We have reviewed the accompanying consolidated balance sheet of Telekomunikacja Polska Group ("Group") in which the parent company is Telekomunikacja Polska S.A. ("the Company", "TPSA") as of 30 June 2002 and the related consolidated profit and loss accounts for the three months and six months periods ended 30 June 2002 and consolidated cash flow statement and statement of changes in equity for the six months period then ended. These financial statements are the responsibility of TPSA's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, do not express an audit opinion.

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 re-valued 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 re-value its fixed assets as of 31 December 1996. As a result, the cumulative balances of property, plant and equipment as of 30 June 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.

Based on our review, except for the matter referred to in above paragraph, nothing came to our attention that causes us to believe that the consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as of 30 June 2002 and the results of its operations for the three months and six months periods ended 30 June 2002 and its cash flows for the six months period then ended in accordance with International Financial Reporting Standards issued by International Accounting Standards Board.

Ernst & Young Audit Sp. z o.o.

RSM Salustro Reydel Polska Sp. z o.o.

Warsaw, August 12, 2002

Translation of the report originally issued in Polish

**TELEKOMUNIKACJA POLSKA GROUP  
CONSOLIDATED BALANCE SHEETS  
AS AT 30 JUNE 2002 AND 31 DECEMBER 2001**

	<u>Note</u>	<u>30 June 2002</u>	<u>31 December 2001</u>
		unaudited	audited
		<u>(in PLN millions)</u>	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	444	551
Deferred costs	8	63	34
Financial assets	9	201	240
Receivables	10	2,885	2,873
Current income taxes		78	141
Inventories	11	335	275
		-----	-----
Current assets		4,006	4,114
		-----	-----
<b>Non-current assets</b>			
Cash and cash equivalents	7	25	64
Deferred costs	8	8	8
Financial assets	9	257	143
Property, plant and equipment	12	26,589	27,058
Intangible assets	13	2,836	2,770
Investments accounted for under the equity method		2	11
Non-current receivables		2	3
		-----	-----
Non-current assets		29,719	30,057
		-----	-----
<b>Total assets</b>		<b>33,725</b>	<b>34,171</b>
		=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Loans and other borrowings	14	1,854	1,545
Accrued expenses and other payables	15	2,574	4,181
Current income taxes		4	3
Provisions	16	750	716
Deferred income	17	141	125
		-----	-----
Current liabilities		5,323	6,570
		-----	-----
<b>Non-current liabilities</b>			
Loans and other borrowings	14	14,012	12,693
Accrued expenses and other payables	15	1,176	1,400
Provisions	16	248	330
Deferred income	17	259	254
Deferred income taxes	18	44	182
		-----	-----
Non-current liabilities		15,739	14,859
		-----	-----
<b>Minority interest</b>	19	519	627
		-----	-----
<b>Shareholders' equity</b>			
Common stock	20	4,200	4,200
Share premium		832	832
Revaluation reserve		2,311	2,334
Other reserves		(227)	(221)
Retained earnings		5,028	4,970
		-----	-----
Shareholders' equity		12,144	12,115
		-----	-----
<b>Total liabilities and shareholders' equity</b>		<b>33,725</b>	<b>34,171</b>
		=====	=====

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

Translation of the report originally issued in Polish

**TELEKOMUNIKACJA POLSKA GROUP  
CONSOLIDATED PROFIT AND LOSS ACCOUNTS  
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2002 AND 2001**

	<u>Note</u>	<b>3 months ended 30 June 2002</b>	<b>6 months ended 30 June 2002</b>	<b>3 months ended 30 June 2001</b>	<b>6 months ended 30 June 2001</b>
		unaudited	unaudited	unaudited	unaudited
		(in PLN millions)			
<b>Revenues</b>	21	<b>4,419</b>	<b>8,803</b>	<b>4,295</b>	<b>8,495</b>
Operating expenses:					
Employee related expenses		(867)	(1,790)	(1,013)	(1,929)
Depreciation and amortisation		(1,025)	(2,064)	(937)	(1,839)
Payments to other operators		(441)	(887)	(372)	(792)
Purchased services		(597)	(1,134)	(584)	(1,106)
Raw materials and consumables		(117)	(247)	(149)	(301)
Goods purchased for resale		(292)	(599)	(218)	(437)
Work performed by the enterprise and capitalised		28	77	24	39
Other operating expenses, net		(425)	(598)	(390)	(530)
<b>Total operating expenses</b>		<b>(3,736)</b>	<b>(7,242)</b>	<b>(3,639)</b>	<b>(6,895)</b>
<b>Operating profit</b>		<b>683</b>	<b>1,561</b>	<b>656</b>	<b>1,600</b>
Interest revenues and other financial income	22	79	256	56	141
Interest expense and other charges	22	(281)	(804)	(540)	(961)
Foreign exchange gains and losses, net	22	(525)	(870)	538	987
<b>Profit / (loss) before income tax</b>		<b>(44)</b>	<b>143</b>	<b>710</b>	<b>1,767</b>
Income tax	18	(88)	(190)	(322)	(630)
Minority interest	19	80	133	45	36
(Profit) / loss of investments accounted for under equity method		1	-	-	-
<b>Net profit / (loss)</b>		<b>(51)</b>	<b>86</b>	<b>433</b>	<b>1,173</b>
Net profit / (loss) per share (in PLN)		(0.04)	0.06	0.31	0.84
Weighted average common stock outstanding (millions)		1,400	1,400	1,400	1,400

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

Translation of the report originally issued in Polish

**TELEKOMUNIKACJA POLSKA GROUP**  
**CONSOLIDATED CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED**  
**30 JUNE 2002 AND 2001**

	6 months ended 30 June	
	2002	2001
	unaudited	unaudited
	(in PLN millions)	
<b>Cash flows from operating activities</b>		
Net profit	86	1,173
Adjustments for:		
Minority interest	(133)	(36)
Depreciation and amortisation	2,064	1,839
Foreign exchange (gains)/losses, net	872	(640)
Interest and dividend (income)/charges, net	534	610
(Gain)/loss on investment activities	16	20
Income tax on current year profit	190	630
Net income tax recovered/(paid)	(289)	(366)
Other cash flows (applied in)/generated from operations, net	(18)	(7)
	-----	-----
<b>Net cash flows from operating activities before changes in working capital</b>	<b>3,322</b>	<b>3,223</b>
Changes in working capital:		
Decrease/(increase) in receivables, net of allowance	182	226
Decrease/(increase) in inventories	(65)	(68)
(Decrease)/increase in provisions	330	96
(Decrease)/increase in payables and other short-term liabilities	(760)	78
Decrease/(increase) in deferred costs	(29)	(63)
(Decrease)/increase in deferred income	21	(20)
	-----	-----
<b>Net cash flows generated from operating activities</b>	<b>3,001</b>	<b>3,472</b>
	=====	=====
<b>Cash flows from investing activities</b>		
Proceeds from sale of fixed assets and intangibles	11	2
Proceeds from sale of non-current financial assets	-	45
Dividends received	-	6
Interest received	6	5
Purchase of fixed assets and intangibles	(2,545)	(3,664)
Purchase of investment	-	(10)
Payments for DCS, GSM and UMTS concessions	(17)	(595)
Other cash flows (applied in)/generated from investing activities, net	17	(30)
	-----	-----
<b>Net cash flows applied in investing activities</b>	<b>(2,528)</b>	<b>(4,241)</b>
	=====	=====

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

**TELEKOMUNIKACJA POLSKA GROUP**  
**CONSOLIDATED CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED**  
**30 JUNE 2002 AND 2001**

	<b>6 months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	unaudited	unaudited
	<b>(in PLN millions)</b>	
<b>Cash flows from financing activities</b>		
Proceeds from loans and borrowings	1,380	169
Proceeds from issuance of bonds	-	1,814
Proceeds from increase in share capital of subsidiaries	25	309
Issuance of short-term commercial papers	1,086	-
Interest received	135	19
Repayment of loans and borrowings	(1,479)	(709)
Redemption of short-term commercial papers	(850)	-
Interest paid	(896)	(721)
Other cash flows (applied in)/generated from financing activities, net	(19)	(13)
	-----	-----
<b>Net cash flows generated from financing activities</b>	<b>(618)</b>	<b>868</b>
	-----	-----
<b>Effects of exchange rate changes on cash and cash equivalents</b>	<b>(1)</b>	<b>(47)</b>
	-----	-----
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(146)</b>	<b>52</b>
	=====	=====
<b>Cash and cash equivalents at the beginning of period</b>	<b>615</b>	<b>1,016</b>
	=====	=====
<b>Cash and cash equivalents at the end of period</b>	<b>469</b>	<b>1,068</b>
	=====	=====

Translation of the report originally issued in Polish

**TELEKOMUNIKACJA POLSKA GROUP**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2002 AND 2001**

		Common stock (Note 20)	Share Premium (Note 20)	Revaluation reserve (Note 20)	Other reserves	Retained earnings	Total shareholders' equity
(in PLN millions)							
<b>1 January 2001</b>	audited	<b>4,200</b>	<b>832</b>	<b>2,334</b>	-	<b>4,206</b>	<b>11,572</b>
Effect of application of IFRS 39*		-	-	-	-	80	80
<b>1 January 2001 adjusted</b>		<b>4,200</b>	<b>832</b>	<b>2,334</b>	-	<b>4,286</b>	<b>11,652</b>
Net profit for 6 months ended 30 June 2001		-	-	-	-	1,173	1,173
<b>30 June 2001</b>	unaudited	<b>4,200</b>	<b>832</b>	<b>2,334</b>	-	<b>5,459</b>	<b>12,825</b>
<b>31 December 2001</b>	audited	<b>4,200</b>	<b>832</b>	<b>2,334</b>	(221)	<b>4,750</b>	<b>11,895</b>
Effect of application of IFRS 39*		-	-	-	-	220	220
<b>1 January 2002</b>	unaudited	<b>4,200</b>	<b>832</b>	<b>2,334</b>	(221)	<b>4,970</b>	<b>12,115</b>
Net profit for 6 months ended 30 June 2002		-	-	-	-	86	86
Impairment of fixed assets		-	-	(23)	-	-	(23)
Effect of cash flow hedge accounting**		-	-	-	(6)	-	(6)
Distribution of profit for the year 2001		-	-	-	-	(28)	(28)
<b>30 June 2002</b>	unaudited	<b>4,200</b>	<b>832</b>	<b>2,311</b>	(227)	<b>5,028</b>	<b>12,144</b>

\* Effect of application of IFRS 39 in respect of accounting for embedded derivatives since 1 January 2001.

\*\* See Note 5(t).

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

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

**1. Principal activities**

Telekomunikacja Polska S.A. ("TPSA", "the Company", "the parent 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. 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 six months ended 30 June 2002 and 2001 amounted to 60,800 and 70,034 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. As a result the President of URT is above others, entitled to reject the proposed by TPSA tariffs or tariffs changes. Tariffs or tariffs changes rejected by the President of URT are not legally binding.

**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.

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

The Group maintains its books of accounts in accordance with accounting principles and practices employed by enterprises in Poland as required by Polish Accounting Standards ("PAS"). These consolidated financial statements include certain adjustments not reflected in TPSA's books in order to present these consolidated statements in accordance with Standards issued by the International Accounting Standards Board, except in respect of accounting for hyperinflation referred to in Note 3. These adjustments are presented in Note 32.

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.

In these financial statements the Group has applied IFRS 39 in accounting for embedded derivatives for the first time. Previously they were not recognised. The application was made retrospectively and appropriate changes were made to opening balances of retained earnings and minority interest as of 1 January 2001. The financial data for the periods after this date was restated.

The application of IFRS 39 in accounting for embedded derivatives resulted in the increase of:

- retained earnings as of 1 January 2001, 31 March 2001, 30 June 2001 and 31 December 2001 by PLN 80 million, PLN 153 million, PLN 217 million and PLN 220 million, respectively;
- minority interest as of 1 January 2001, 31 March 2001, 30 June 2001 and 31 December 2001 by PLN 5 million, PLN 5 million, PLN 6 million and 6 million, respectively,
- net profit for the period of 3 months and 6 months ended 30 June 2001 by PLN 64 million and PLN 137 million, respectively.

To ensure comparability of financial statements certain reclassifications have been made to the financial statements for the three and six months ended 30 June 2001 in order for them to conform with 2002 presentation.

**3. Reporting currency, hyperinflation and effect on property, plant and equipment**

These financial statements are reported in million of Polish zloty ("PLN"). They have not been adjusted for the effects of inflation as 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 30 June 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.

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

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

These financial statements were authorised for issuance by the Management Board on 12 August 2002.

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

Significant changes in the Management Board took place during the six months ended 30 June 2002. On 25 January 2002 the Member of TPSA Management Board responsible for finance function, George Storóżyński, was dismissed and a new Member responsible for Human Resources Management, Wojciech Roman, was appointed. On 14 June 2002 the Supervisory Board appointed a new Member, Roger de Bazelaire, who will be responsible for the finance function starting September 2002.

**5. Statement of accounting policies**

*(a) Principles of consolidation*

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

<u>Group entity</u>	Percentage of share capital owned by TPSA	
	30 June 2002	31 December 2001
	unaudited	audited
PTK– Centertel Sp. z o.o.	66%	66%
TPSA Finance B.V.	100%	100%
TPSA Eurofinance B.V.	100%	100%
TP EmiTel Sp. z o.o.	100%	100%
TP Internet Sp. z o.o.	100%	100%
TP Invest Sp. z o.o.	100%	100%
OTO Lublin Sp. z o.o.	100%	100%
Otwarty Rynek Elektroniczny S.A.	100%	100%
Parkiet Media S.A.	83%	71%
Magellan Net S.A.	68%	68%
Enerkom Sp. z o.o.	100%	100%
Netbud Sp. z o.o.	100%	100%
Postinfo Sp. z o.o.	60%	60%
Prywatne Sieci Telekomunikacyjne S.A.	100%	100%
Tel – Arp Sp. z o.o.	100%	100%
Telefon 2000 Sp. z o.o.	95%	95%
Telefony Podlaskie S.A.	55%	55%
Incenti S.A.	51%	51%
TP Sircom Szkolenia i Rekreacja Sp. z o.o.	100%	100%
TP Edukacja i Wypoczynek Sp. z o.o.*	100%	100%
TP TelTech Sp. z o.o.	100%	100%
TP DITEL S.A.	100%	100%
Wirtualna Polska S.A.	50%	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.

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

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 out of six members of the Management Board of PTK-Centertel Sp. z o.o.. In 2001 PTK-Centertel Sp. z o.o. articles of association were changed and the Management Board is nominated by the Supervisory Board whose membership is split equally between the two shareholders. Under both the new and old articles of association the minority shareholder had a blocking right in various governing bodies. The Company takes the view that these blocking rights were not intended to deprive TPSA of its rights to unilaterally control PTK-Centertel Sp. z o.o. in the context of IFRS and were not utilized in the past in such a manner by the minority shareholder. This intention and the lack of usage of these blocking rights has been confirmed by the minority shareholder. Taking into account these circumstances the Company has continued to adopt the full consolidation method. On 27 June 2002 shareholders of PTK-Centertel Sp. z o.o. passed a resolution to change the agreement of the company. According to the new agreement the president of the Supervisory Board of PTK-Centertela Sp. z o.o. who is elected by TPSA has a casting vote.

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.

*(b) Cash and cash equivalents*

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

*(c) Financial assets*

The Company classifies financial assets in the following categories:

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

Financial assets are measured on initial recognition at cost, which is the fair value of the consideration given to acquire these investments. Transaction costs are included in the initial measurement of all financial assets. The purchases of financial assets are accounted for at settlement date. After initial recognition the Group's entities measure financial assets, including derivatives, at their fair values, without any deduction for transaction costs that they 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 assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. The above financial assets are measured at amortised cost using the effective interest rate method if they have a fixed maturity. Those that do not have a fixed maturity are measured at cost.

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

All financial assets are subject to review for impairment.

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

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

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

As at 30 June 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%
PeBeTel Piła Sp. z o.o.	19%*

\* The Group did not participate in the increase in share capital of PeBeTel Piła Sp. z o.o. which took place on 9 April 2002. As a result the share of the Group in PeBeTel Piła fell from 23% to 19%. Up till 9 April 2002 PeBeTel Piła was accounted for using the equity method. As of 9 April 2002 the company is no longer equity accounted.

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

*(e) Receivables*

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

*(f) Inventories*

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

*(g) Property, plant and equipment*

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

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

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

As further described in Note 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.

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

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%

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).

*(h) Leased assets*

Assets leased under agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The Group’s finance leases are recognised as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Depreciation on the relevant assets is calculated over their useful lives. The capital element 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. Activation fee is recognized when the client service is activated.

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

(i) *Intangible assets*

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

Telecommunication concessions are valued at the present value of payments due plus the cost of interest and foreign exchange differences capitalised during the development period, less amortisation. The present value of concessions as at 30 June 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.

(j) *Goodwill and negative goodwill*

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

Negative goodwill is recognised in the income statement as follows:

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

(k) *Provisions*

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

(l) *Deferred income*

Investment contributions received in cash as contributions to the cost of network construction or constructed telephone infrastructure from local authorities (further referred to as "grants") are deferred and amortised to other operating income over the life of the assets to which the investment contributions relate.

(m) *Minority interest*

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the parent company. Minority interest is

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

recognised at acquisition as the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets of the subsidiary.

*(n) Revenue recognition*

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

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

Revenues are received from the Group's customers and other network operators, both domestic and foreign, for the use of its network and for completing connections. A proportion of the revenue received is paid to other operators for the use of their networks, where appropriate. These revenues and costs are stated gross in these consolidated financial statements except for the situation where the amounts due to and receivable from the same operators are shown net in cases where a legally enforceable right of set-off exists and the Company intends to settle on a net basis. Revenues earned from connecting subscribers to the network are recognised upon service activation.

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

*(o) Operating expenses*

Operating costs are charged in the period to which they relate. Research and development costs are expensed when incurred except for certain development costs meeting the criteria specified by IFRS 38, which are recognised as assets and amortised over a period of 3 years.

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.

*(p) Borrowing costs*

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

*(q) Jubilee awards and retirement bonuses*

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.

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

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 value of the jubilee awards and retirement bonuses adjusted for planned restructuring of employment as at 30 June 2002 and 31 December 2001 amounted to PLN 288 million and PLN 316 million, respectively.

In the six months ended 30 June 2002 and 2001 the Group paid PLN 31 million and PLN 32 million of jubilee awards and retirement bonuses, respectively.

*(r) Termination indemnities*

The Group's entities pay termination indemnities in case of termination of employment without defined just cause within the framework of a reorganisation. The Group's entities are also obliged by law to pay termination indemnities in case of group reduction in the labour force (group reductions are those reductions which in one time or in the period not longer than three months result in lay-offs of at least 10% of employees in companies employing up to 1000 employees or at least 100 employees in companies employing more than 1000 employees). Expenses related to termination indemnities are accrued when Management Boards of the Group's entities, having taken a firm decision which would result in future payments of indemnities, started to implement the restructuring plan or communicated the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the companies will carry out the restructuring (see Note 16).

The net present value of restructuring provision is calculated at the balance sheet date as future discounted payments of termination indemnities described above. Calculation of the restructuring provision amount as at 30 June 2002 was performed using a discount rate equal to average borrowing cost of similar maturity indebtedness denominated in Polish zloty.

*(s) Foreign exchange transactions*

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

- 1) 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;
- 2) the average exchange rates as quoted by the National Bank of Poland (NBP) on the day of the transaction, unless a different rate has been 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 NBP exchange rates prevailing at the balance sheet date. Non-monetary items are translated using the exchange rate at the date of the transaction. Revenues and expenses from foreign operations are translated using average rates during the period.

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

(t) *Derivative financial instruments*

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

These contracts are presented in the balance sheet as financial assets or 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.

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

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

Embedded derivatives are measured at fair value.

(u) *Income tax*

The corporate income tax charge is based on profit for the year and takes into account deferred taxation. Deferred taxation is calculated using the liability method. Under the liability method the expected tax effects of temporary differences are determined using enacted tax rates and reported either as liabilities for taxes payable or assets representing advance payment of future taxes. Temporary differences are the differences between the carrying amount of an asset or liability in the balance sheet and its taxable base. For the purpose of deferred tax calculation the unused investment tax allowance bonus (see Note 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.

(v) *Profit / loss per share*

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

(w) *Seasonality and cyclicity of operations*

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

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

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

The Group did not participate in the increase in share capital of PeBeTel Pila Sp. z o.o. which took place on 9 April 2002. As a result the share of the Group in PeBeTel Pila fell from 23% to 19%. Up till 9 April 2002 PeBeTel Pila was accounted for using the equity method. As of 9 April 2002 the company is no longer equity accounted.

**7. Cash and cash equivalents**

	<b>30 June 2002</b>	<b>31 December 2001</b>
	unaudited	audited
	(in PLN millions)	
Cash in hand	27	14
Current bank accounts	199	180
Overnight deposits	89	139
Deposits up to 3 months	87	233
Other	67	49
	-----	-----
<b>Total</b>	<b>469</b>	<b>615</b>
	-----	-----
Less: short – term portion	(444)	(551)
	-----	-----
Long - term portion	25	64
	=====	=====

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

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

	<b>30 June 2002</b>	<b>31 December 2001</b>
	unaudited	audited
	(in PLN millions)	
Polish zloty	424	508
Euro	14	20
U.S. dollar	31	87
	-----	-----
<b>Total</b>	<b>469</b>	<b>615</b>
	=====	=====

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

TELEKOMUNIKACJA POLSKA GROUP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Deferred costs

	<u>30 June</u>	<u>31 December</u>
	<u>2002</u>	<u>2001</u>
	unaudited	audited
	(in PLN millions)	
Social Fund	21	-
IT services	10	6
Purchased PKP allowances	7	15
Public advertising	3	-
Insurance	4	3
Other	26	18
	-----	-----
<b>Total</b>	<b>71</b>	<b>42</b>
Less: Short-term portion	(63)	(34)
	-----	-----
Long-term portion	8	8
	=====	=====

9. Financial assets

	<u>30 June</u>	<u>31 December</u>
	<u>2002</u>	<u>2001</u>
	unaudited	audited
	(in PLN millions)	
<b>Short-term financial assets</b>		
Financial assets available for sale	94	105
Financial assets held to maturity	72	90
Financial assets held for trading	35	45
	-----	-----
<b>Total short-term financial assets</b>	<b>201</b>	<b>240</b>
	=====	=====
<b>Long-term financial assets</b>		
Financial assets available for sale	257	143
	-----	-----
<b>Total long-term financial assets</b>	<b>257</b>	<b>143</b>
	=====	=====

As at 30 June 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 117 million and PLN 1 million, respectively.

Financial assets available for sale are measured at amortised cost (due to lack of an active markets for these assets) or fair value. As at 30 June 2002 financial assets available for sale amounting to PLN 10 million were measured at amortised cost. As at 31 December 2001 there were no significant financial assets available for sale measured at amortised cost.

As at 30 June 2002 and 31 December 2001 all financial assets held for trading were measured at fair value.

Translation of the report originally issued in Polish

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

**10. Receivables**

	<b>30 June 2002</b>	<b>31 December 2001</b>
	unaudited	audited
	(in PLN millions)	
Trade receivables	3,510	3,353
Tax receivables	81	132
Other receivables	217	232
	-----	-----
<b>Subtotal</b>	<b>3,808</b>	<b>3,717</b>
Less allowance for doubtful accounts	(923)	(844)
	-----	-----
<b>Total</b>	<b>2,885</b>	<b>2,873</b>
	=====	=====

Total receivables include amounts of PLN 224 million and PLN 283 million of receivables denominated in foreign currencies as at 30 June 2002 and 31 December 2001, respectively. Trade receivables relate primarily to the billing of telecommunications services. Credit terms of typical sales are up to 1 month.

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 six months ended 30 June 2002 and 2001 are as follows:

	<b>6 months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	unaudited	unaudited
	(in PLN millions)	
Allowance, beginning of period	844	442
Charged to expense	194	435
Utilised	(115)	(33)
	-----	-----
<b>Allowance, end of period</b>	<b>923</b>	<b>844</b>
	=====	=====

**11. Inventories**

	<b>30 June 2002</b>	<b>31 December 2001</b>
	unaudited	audited
	(in PLN millions)	
Cables, wires, engineering inventory and other materials	121	103
Goods for resale	234	194
	-----	-----
<b>Subtotal</b>	<b>355</b>	<b>297</b>
Less allowance for obsolete inventory	(20)	(22)
	-----	-----
<b>Total</b>	<b>335</b>	<b>275</b>
	=====	=====

Translation of the report originally issued in Polish

TELEKOMUNIKACJA POLSKA GROUP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Property, plant and equipment

	Land	Buildings, duct, cable and other outside plant	Telephone exchanges and other plant and equipment (in PLN millions)	Vehicles and other	Construction in progress	Total
<b>Cost or revalued amount</b>						
<b>1 January 2001 before adjustments</b> audited	16	16,756	18,415	740	2,018	37,945
Effect of application of IFRS 39	-	-	-	-	-	-
<b>1 January 2001 adjusted</b>	16	16,756	18,415	740	2,018	37,945
Additions	-	404	1,417	22	490	2,333
Transfers	-	1	-	-	(140)	(139)
Disposals	-	(29)	(188)	(12)	(1)	(230)
<b>30 June 2001</b> unaudited	16	17,132	19,644	750	2,367	39,909
<b>1 January 2002 before adjustments</b> unaudited	17	18,382	21,588	859	2,201	43,047
Effect of application of IFRS 39	-	-	187	-	-	187
<b>1 January 2002 adjusted</b>	17	18,382	21,775	859	2,201	43,234
Additions	-	383	1,253	20	(159)*	1,497
Transfers	17	6	75	29	(159)	(32)
Disposals	-	(49)	(331)	(12)	(1)	(393)
<b>30 June 2002</b> unaudited	34	18,722	22,772	896	1,882	44,306
<b>Accumulated depreciation</b>						
<b>1 January 2001 before adjustments</b> audited	-	3,729	9,094	521	-	13,344
Effect of application of IFRS 39	-	-	-	-	-	-
<b>1 January 2001 adjusted</b>	-	3,729	9,094	521	-	13,344
Charge for the period	-	356	1,273	58	-	1,687
Transfers	-	4	(9)	-	-	(5)
Disposals	-	(27)	(163)	(12)	-	(202)
<b>30 June 2001</b> unaudited	-	4,062	10,195	567	-	14,824
<b>1 January 2002</b> unaudited	-	4,412	11,126	624	-	16,162
Effect of application of IFRS 39	-	-	14	-	-	14
<b>1 January 2002 adjusted</b>	-	4,412	11,140	624	-	16,176
Charge for the period	-	390	1,420	64	-	1,874
Transfers	4	14	(50)	13	-	(19)
Disposals	-	-	(303)	(11)	-	(314)
<b>30 June 2002</b> unaudited	4	4,816	12,207	690	-	17,717
<b>Net book value</b>						
<b>30 June 2001</b> unaudited	16	13,070	9,449	183	2,367	25,085
<b>30 June 2002</b> unaudited	30	13,906	10,565	206	1,882	26,589

\* In the six months ended 30 June 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.

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

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 six months ended 30 June 2002 and 30 June 2001, the Group capitalized PLN 114 million and PLN (21) million of borrowing costs, respectively. Capitalization rates used to determine the amount of borrowing costs eligible for capitalization were 11% and (2%) in the six months ended 30 June 2002 and 30 June 2001, respectively.

International Financial Reporting Standard 36 „Impairment of assets” requires that the recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired and impairment loss should be recognised 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 30 June 2002 and 31 December 2001 amounted to PLN 153 million and PLN 152 million, respectively, and related primarily to its fixed line operations.

In the six months ended 30 June 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 3,389 million and PLN 2,934 million are fully depreciated as of 30 June 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 30 June 2002 had carrying value of PLN 572 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.

Translation of the report originally issued in Polish

TELEKOMUNIKACJA POLSKA GROUP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Intangible assets

	DCS 1800 concession	GSM 900 concession	UMTS concession	Software and other intangibles	Goodwill	Total
	(in PLN millions)					
<b>Cost</b>						
<b>1 January 2001 before adjustments</b> audited	<b>350</b>	<b>384</b>	<b>1,634</b>	<b>610</b>	<b>49</b>	<b>3,027</b>
Effect of application of IFRS 39	-	-	-	-	-	-
<b>1 January 2001 adjusted</b>	<b>350</b>	<b>384</b>	<b>1,634</b>	<b>610</b>	<b>49</b>	<b>3,027</b>
Additions	-	-	4	240	6	250
Financial costs capitalised	-	-	(132)	-	-	(132)
Disposals	(2)	-	-	(1)	-	(3)
<b>30 June 2001</b> unaudited	<b>348</b>	<b>384</b>	<b>1,506</b>	<b>849</b>	<b>55</b>	<b>3,142</b>
	=====	=====	=====	=====	=====	=====
<b>1 January 2002 before adjustments</b> unaudited	<b>349</b>	<b>384</b>	<b>1,599</b>	<b>1,062</b>	<b>139</b>	<b>3,533</b>
Effect of application of IFRS 39	-	-	-	18	-	18
<b>1 January 2002 adjusted</b>	<b>349</b>	<b>384</b>	<b>1,599</b>	<b>1,080</b>	<b>139</b>	<b>3,551</b>
Additions	2	1	-	125	-	128
Financial costs capitalised	-	-	116	-	-	116
Transfers	-	-	-	32	-	32
Disposals	-	-	-	(10)	-	(10)
<b>30 June 2002</b> unaudited	<b>351</b>	<b>385</b>	<b>1,715</b>	<b>1,227</b>	<b>139</b>	<b>3,817</b>
	=====	=====	=====	=====	=====	=====
<b>Accumulated depreciation</b>						
<b>1 January 2001 before adjustments</b> audited	<b>61</b>	<b>23</b>	<b>-</b>	<b>301</b>	<b>34</b>	<b>419</b>
Effect of application of IFRS 39	-	-	-	-	-	-
<b>1 January 2001 adjusted</b>	<b>61</b>	<b>23</b>	<b>-</b>	<b>301</b>	<b>34</b>	<b>419</b>
Charge for the period	15	13	-	119	5	152
Disposals	-	-	-	-	-	-
<b>30 June 2001</b> unaudited	<b>76</b>	<b>36</b>	<b>-</b>	<b>420</b>	<b>39</b>	<b>571</b>
	=====	=====	=====	=====	=====	=====
<b>1 January 2002 before adjustments</b> unaudited	<b>89</b>	<b>49</b>	<b>-</b>	<b>584</b>	<b>55</b>	<b>777</b>
Effect of application of IFRS 39	-	-	-	4	-	4
<b>1 January 2002 adjusted</b>	<b>89</b>	<b>49</b>	<b>-</b>	<b>588</b>	<b>55</b>	<b>781</b>
Charge for the period	13	14	-	159	4	190
Transfers	-	-	-	19	-	19
Disposals	-	-	-	(9)	-	(9)
<b>30 June 2002</b> unaudited	<b>102</b>	<b>63</b>	<b>-</b>	<b>757</b>	<b>59</b>	<b>981</b>
	=====	=====	=====	=====	=====	=====
<b>Net book value</b>						
<b>30 June 2001</b> unaudited	<b>272</b>	<b>348</b>	<b>1,506</b>	<b>429</b>	<b>16</b>	<b>2,571</b>
	=====	=====	=====	=====	=====	=====
<b>Net book value</b>						
<b>30 June 2002</b> unaudited	<b>249</b>	<b>322</b>	<b>1,715</b>	<b>470</b>	<b>80</b>	<b>2,836</b>
	=====	=====	=====	=====	=====	=====

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

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.

**14. Loans and other borrowings**

	Note	30 June 2002 unaudited	31 December 2001 audited
(in PLN millions)			
Bank loans	(a)	5,431	5,011
Bonds	(b)	10,183	9,216
Short-term securities	(c)	250	-
Other borrowings and credits	(d)	2	11
		-----	-----
<b>Total</b>		<b>15,866</b>	<b>14,238</b>
Less: short-term portion		(1,854)	(1,545)
		-----	-----
Long-term portion		14,012	12,693
		=====	=====

As at 30 June 2002 repayments of loans, bonds and other borrowings fall due in:

	(in PLN millions)
12 months ended 30 June 2003	1,854
12 months ended 30 June 2004	1,878
12 months ended 30 June 2005	2,901
12 months ended 30 June 2006	2,607
12 months ended 30 June 2007	2,269
Thereafter	4,357
	-----
<b>Total</b>	<b>15,866</b>
	=====

(a) *Bank loans*

Bank loans analysed by currency are as follows:

	30 June 2002 unaudited	31 December 2001 audited
(in PLN millions)		
Polish zloty	1,694	1,906
U.S. dollar	1,151	1,292
Euro*	2,586	1,813
	-----	-----
<b>Total</b>	<b>5,431</b>	<b>5,011</b>
	=====	=====

\*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 11.4% p.a. and

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

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

18.3% p.a. in the six months ended 30 June 2002 and 2001, respectively. Bank loans denominated in Polish zloty have maturities ranging from 2002 to 2006.

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

	<b>30 June 2002</b>	<b>31 December 2001</b>
	<u>unaudited</u>	<u>audited</u>
Fixed rates	24.4%	27.0%
Floating rates	75.6%	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:

	<b>30 June 2002</b>	<b>31 December 2001</b>
	<u>unaudited</u>	<u>audited</u>
Less than 4% p.a.	90.0%	87.5%
Between 4% and 8% p.a.	9.1%	11.3%
Over 8% p.a.	0.9%	1.2%
	-----	-----
	100.0%	100.0%
	=====	=====

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

As at 30 June 2002 and 31 December 2001 bank loans amounting to PLN 464 million and PLN 468 million, respectively, were subject to government guarantee. Loans secured on specific assets of the Group as of 30 June 2002 amounted to PLN 557 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.

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

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

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

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

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

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

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

The issue constitutes the fourth tranche within the scope of the extended Euro Medium-Term Note Programme signed on 22 October 1999. The arrangers of the Programme were Deutsche Bank and Schroder Salomon Smith Barney.

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

Bonds analysed by currency are as follows:

	<b>30 June 2002</b>	<b>31 December 2001</b>
	unaudited	audited
	<b>(in PLN millions)</b>	
U.S. dollar*	4,037	3,853
Euro*	6,146	5,363
	-----	-----
<b>Total</b>	<b>10,183</b>	<b>9,216</b>
	=====	=====

\* As at 30 June 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 30 June 2002 and USD 550 million as at 31 December 2001). The data presented in the above table includes the fair value adjustment of the bonds being hedged.

*(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 30 June 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.

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

As at 30 June 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 1,820 million as at 30 June 2002. Unused loan facilities amounting to PLN 452 million as at 30 June 2002 are designated to finance defined projects.

**15. Accrued expenses and other payables**

	<b>30 June 2002</b>	<b>31 December 2001</b>
	unaudited	audited
	(in PLN millions)	
Trade and capital expenditure payables	1,275	2,634
Social security and taxes	339	378
Accrued expenses	557	436
Jubilee awards and retirement bonuses	288	316
Salaries and wages	118	312
Concessions payable	828	719
Fair value of derivative financial instruments	236	651
Other payables	109	135
	-----	-----
<b>Total</b>	<b>3,750</b>	<b>5,581</b>
Less: short-term portion	(2,574)	(4,181)
	-----	-----
Long-term portion	1,176	1,400
	=====	=====

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

Accrued expenses and other payables include PLN 1,057 million and PLN 1,589 million of amounts denominated in foreign currencies as at 30 June 2002 and 31 December 2001, respectively. The primary foreign currency payable as of 30 June 2002 and 31 December 2001 is related to UMTS concession acquisition and amounts to EUR 188 million and EUR 183 million, respectively. Additionally, as of 30 June 2002 and 31 December 2001 accrued expenses and other payables denominated in foreign currencies include the amount of PLN 236 million and PLN 651 million, respectively, which represent the fair value of derivative financial instruments and embedded instruments.

TELEKOMUNIKACJA POLSKA GROUP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Provisions

	30 June	31 December
	2002	2001
	unaudited	audited
	(in PLN millions)	
Restructuring provision	646	781
Provision for real estate tax	-	1
Provision for tax dispute (see Note 26(a))	352	264
<b>Total</b>	<b>998</b>	<b>1,046</b>
Less: short – term portion	(750)	(716)
Long – term portion	248	330

As of 30 June 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.

The Company changed its estimates as regards restructuring provision. Due to a higher than anticipated number of voluntary leaves and the impact of regulatory changes in provisions related to termination indemnities for employees allowed to pre-retirement benefits, TP S.A. increased the restructuring provision in the second quarter of 2002 by PLN 239 million.

Changes in provisions in the period of six months ended 30 June 2002 and 2001 were as follows:

		Restructuring	Provision for	Provision for tax	Other provisions	Total
		provision	real estate tax	dispute		
(in PLN millions)						
1 January 2001	audited	327	61	-	3	391
Additions		-	5	200	-	205
Utilised		(106)	-	-	-	(106)
Released		-	-	-	(3)	(3)
<b>30 June 2001</b>	<b>unaudited</b>	<b>221</b>	<b>66</b>	<b>200</b>	<b>-</b>	<b>487</b>
1 January 2002	audited	781	1	264	-	1,046
Discount		(16)	-	-	-	(16)
Additions		239	-	14	-	253
Transfer from liabilities		-	-	83	-	83
Utilised		(358)	(1)	(9)	-	(368)
<b>30 June 2002</b>	<b>unaudited</b>	<b>646</b>	<b>-</b>	<b>352</b>	<b>-</b>	<b>998</b>

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.

TELEKOMUNIKACJA POLSKA GROUP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Deferred income

	<b>30 June 2002</b>	<b>31 December 2001</b>
	unaudited	audited
	(in PLN millions)	
Grants (see Note 5(l))	268	275
Prepaid services	129	97
Other	3	7
	-----	-----
Total	<b>400</b>	<b>379</b>
Less: short-term portion	(141)	(125)
	-----	-----
Long-term portion	259	254
	=====	=====

Changes in grants were as follows:

	<b>6 months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	unaudited	unaudited
	(in PLN millions)	
Beginning of period	275	292
Net amounts received	64	1
Amortisation	(71)	(10)
	-----	-----
<b>End of period</b>	<b>268</b>	<b>283</b>
	=====	=====

18. Income tax

	<b>6 months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	unaudited	unaudited
	(in PLN millions)	
Current income tax charge for the period	255	455
Deferred tax expense (benefit)*	(65)	175
	-----	-----
	<b>190</b>	<b>630</b>
	=====	=====

\*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:

	<b>6 months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	unaudited	unaudited
	(in PLN millions)	
Profit before income tax	143	1,767
	-----	-----
Tax rate	28%	28%
Income tax calculated at statutory rate	40	495
Effect of income/expenses not subject to income tax	20	63
Change in valuation allowance	179	70
Other*	(49)	2
	-----	-----
<b>Income tax expense for the period</b>	<b>190</b>	<b>630</b>
	=====	=====

\* This caption includes the effect of changes in tax rates in the future.

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

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

Enacted Corporate Income Tax rates are as follows:

Year	Enacted tax rate
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 59 million, PLN 446 million and PLN 248 million and expire in 2002, 2005 and 2006, respectively. Tax losses of consolidated subsidiaries incurred in the six months ended 30 June 2002 amounted to PLN 132 million.

The net deferred tax liability/(asset) consists of the following:

	<b>30 June 2002</b>	<b>31 December 2001</b>
	unaudited	audited
	(in PLN millions)	
Deferred tax liabilities:		
Accelerated tax depreciation	430	537
Accrued income	289	316
Unrealised foreign exchange gains	273	265
	992	1,118
Deferred tax assets:		
Unrealised foreign exchange losses	(511)	(299)
Accrued expenses	(392)	(372)
Unused tax losses of subsidiaries carried forward	(248)	(214)
Jubilee awards and retirement bonuses	(66)	(88)
Excess of book over tax depreciation	(167)	(174)
Unused investment tax bonus	-	(3)
Bad debt provision	(264)	(229)
Restructuring provision	(168)	(219)
Other	(13)	(40)
	(1,829)	(1,638)
Valuation allowance	881	702
	(948)	(936)
<b>Net deferred tax liability/(asset)</b>	<b>44</b>	<b>182</b>
	=====	=====

Under Polish tax regulations, until the end of 1999 taxpayers were allowed to reduce the taxable income by the costs of purchasing qualifying fixed assets acquired in a given tax year (investment tax allowance deduction). In addition, the taxable income might have been further reduced in the following year by 50% of the previous year deduction (investment tax bonus). From 1 January 2000 taxpayers are no longer allowed to deduct capital expenditures from the taxable income, except for capital expenditures

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

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 1,281 million (see also Note 26(b)). In six months ended 30 June 2002 TPSA did not take advantage of the investment tax allowance described above.

**19. Minority interest**

	<b>6 months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	unaudited	unaudited
	(in PLN millions)	
<b>Beginning of period</b>	<b>621</b>	<b>287</b>
Effect of application of IFRS 39*	6	5
<b>Beginning of period, adjusted</b>	<b>627</b>	<b>292</b>
Share capital contributed by minority shareholder	25	162
Share of results for the period	(133)	(38)
	-----	-----
<b>End of period</b>	<b>519</b>	<b>416</b>
	=====	=====

\* Effect of application of IFRS 39 in respect of accounting for embedded derivatives by the Group since 1 January 2001.

**20. Shareholders' equity**

As at 30 June 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 six months ended 30 June 2002.

The ownership structure of the share capital as registered at 30 June 2002 was as follows:

	<b>% of votes</b>	<b>Nominal value (in PLN millions)</b>
France Telecom S.A. (Cogecom S.A.)	33,93	1,425
State Treasury	21,61	908
Kulczyk Holding S.A. (Tele-Invest S.A. and Tele-Invest II S.A.)	13,57	570
Bank of New York	9,99	419
Other shareholders	20,90	878
	-----	-----
<b>Total</b>	<b>100,00</b>	<b>4,200</b>
	=====	=====

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.

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

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 Cogecom 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.

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 taking into account impairment loss recognised on revalued assets (see Note 5 (g)).

**21. Revenues**

	<b>3 months</b>	<b>6 months</b>	<b>3 months</b>	<b>6 months</b>
	<b>to 30 June 2002</b>		<b>to 30 June 2001</b>	
	unaudited	unaudited	unaudited	unaudited
	<b>(in PLN millions)</b>			
Fixed line telephony services:				
Subscriptions, connections and similar charges	976	1,968	930	1,711
Traffic revenues	2,009	4,020	2,203	4,482
Interconnect revenues:				
LTOs and other licensed domestic operators	69	147	54	108
Mobile telephony operators	34	100	86	165
International incoming traffic	147	275	117	232
Payphone revenues	101	179	119	199
Other	75	147	62	117
Mobile telephony services	640	1,201	368	780
Leased lines	95	214	125	246
Radiocommunications	75	162	81	156
Data transmission	89	170	69	129
Telex and telegraphy	3	6	3	6
Manufacturing, equipment sales and other	106	214	78	164
	-----	-----	-----	-----
<b>Total</b>	<b>4,419</b>	<b>8,803</b>	<b>4,295</b>	<b>8,495</b>
	=====	=====	=====	=====

Revenues are generated on the territory of Poland. 3.4% and 3.3% of the total revenues for the six months ended 30 June 2002 and 2001, respectively, were received from foreign parties, mostly in respect of interconnect arrangements.

TELEKOMUNIKACJA POLSKA GROUP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Financial income and charges, net

Financial income and charges comprise the following:

	3 months to 30 June 2002	6 months to 30 June 2002	3 months to 30 June 2001	6 months to 30 June 2001
	unaudited	unaudited	unaudited	unaudited
	(in PLN millions)			
Interest income	25	76	56	116
Other financial income	54	180	-	25
	-----	-----	-----	-----
<b>Interest revenues and other financial income</b>	<b>79</b>	<b>256</b>	<b>56</b>	<b>141</b>
Interest expense	(339)	(727)	(438)	(735)
Commissions and other charges	5	(203)	(164)	(354)
	-----	-----	-----	-----
Total interest expense and other charges	(334)	(930)	(602)	(1,089)
Interest and similar charges capitalised	53	126	62	128
	-----	-----	-----	-----
<b>Interest expense and other charges</b>	<b>(281)</b>	<b>(804)</b>	<b>(540)</b>	<b>(961)</b>
Total foreign exchange gains and losses, net	(609)	(974)	769	1,268
Foreign exchange gains and losses capitalised	84	104	(231)	(281)
	-----	-----	-----	-----
<b>Foreign exchange gains and losses, net</b>	<b>(525)</b>	<b>(870)</b>	<b>538</b>	<b>987</b>
	=====	=====	=====	=====

23. Commitments

(a) Operating 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 104 million and PLN 130 million in six months ended 30 June 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-cancelable operating leases with a term of more than one year as at 30 June 2002 were as follows:

	(in PLN millions)
12 months ended 30 June:	
2003	163
2004	143
2005	128
2006	114
2007	85
Thereafter	256
	-----
<b>Total minimum lease payments</b>	<b>889</b>
	=====

(b) Purchase commitments

As of 30 June 2002 and 31 December 2001 capital expenditures amounting to PLN 1,101 million and PLN 857 million, respectively, principally relating to the telecommunications network, were committed under contractual arrangements, with PLN 230 million and PLN 6 million due after one year, respectively.

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

(c) *North-South Link*

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

DPTG’s share in cable net profit for the six months ended 30 June 2002 and 2001 was approximately PLN 18 million and PLN 14 million, respectively and was recognised as an expense.

**24. Related party transactions**

As at 30 June 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 six months ended 30 June 2002 and 2001 the Group purchased services from France Telecom amounting to PLN 42 million and PLN 4 million, respectively, and sold services amounting to PLN 24 million and PLN 8 million, respectively. Additionally, in the six months ended 30 June 2002 France Telecom rendered free of charge services for TPSA worth PLN 6 million. In the six months ended 30 June 2002 and 2001 the Group did not purchase or sell products or services of a significant amount from Cogecom S.A..

As at 30 June 2002 the Polish State Treasury owned 21.6% of shares of the parent company. Principally, the Group provides services to government organisations on normal commercial terms.

As at 30 June 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 six months ended 30 June 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 30 June 2002 the Group’s receivables from France Telecom amounted to PLN 3 million, the Group’s payables to France Telecom amounted to PLN 5 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 six months ended 30 June 2002 to the TPSA Management Board Members amounted to PLN 4 million.

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

Members of the Management Board of TPSA received in or will receive for the six months ended 30 June 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 six months ended 30 June 2002 TPSA did not incur 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 six months ended 30 June 2001 amounted to PLN 5 million.

**25. 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 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 fulfill 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.

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

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

Basic financial information about business segments is presented below:

	Fixed line telecommunications	Mobile telecommunications	Other	Eliminations	Consolidated
	unaudited	unaudited	unaudited	unaudited	unaudited
<b>30 June 2002</b>					
Segment assets	31,763	6,514	620	(5,174)	33,723
Investments accounted for under equity method	-	-	2	-	2
Total assets	31,763	6,514	622	(5,174)	33,725
Segment liabilities	18,567	5,135	120	(2,285)	21,537
Deferred tax liabilities	44	-	-	-	44
Total liabilities	18,611	5,135	120	(2,285)	21,581
<b>31 December 2001</b>					
	audited	audited	audited	audited	audited
Segment assets	32,178	5,977	647	(4,642)	34,160
Investments accounted for under equity method	-	-	11	-	11
Total assets	32,178	5,977	658	(4,642)	34,171
Segment liabilities	19,208	5,076	238	(2,648)	21,874
Deferred tax liabilities	182	-	-	-	182
Total liabilities	19,390	5,076	238	(2,648)	22,056
<b>6 months ended 30 June 2002</b>					
	unaudited	unaudited	unaudited	unaudited	unaudited
Sales:	7,528	1,560	73	(358)	8,803
intra-segment	78	256	24	(358)	-
external	7,450	1,304	49	-	8,803
Depreciation and amortisation	1,747	283	31	3	2,064
Operating result	1,661	11	(110)	(1)	1,561
Net profit / (loss)	443	(385)	(104)	132	86
Capital expenditures	918	762	74	(13)	1,741
Net cash flows from:					
operating activities	3,032	20	(54)	3	3,001
investing activities	(2,009)	(661)	(21)	163	(2,528)
financing activities	(1,119)	622	43	(164)	(618)
<b>6 months ended 30 June 2001</b>					
	unaudited	unaudited	unaudited	unaudited	unaudited
Sales:	7,666	1,054	68	(293)	8,495
intra-segment	69	186	38	(293)	-
external	7,597	868	30	-	8,495
Depreciation and amortisation	1,556	263	15	5	1,839
Operating result	1,795	(140)	(50)	(5)	1,600
Net profit / (loss)	1,292	(102)	(48)	31	1,173
Capital expenditures	1,957	344	11	-	2,312
Net cash flows from:					
operating activities	3,458	50	(26)	(10)	3,472
investing activities	(4,220)	(1,061)	(14)	1,054	(4,241)
financing activities	787	1,054	71	(1,044)	868

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

**26. Contingent liabilities and uncertainties**

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

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

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

The Management Board is convinced that the Company in all crucial matters regarding its activities fulfils tax regulation requirements. However, there is a risk that the authorities may have a different opinion as to the interpretation of the law than companies constituting the Group, which could have significant influence on their tax liabilities. As a result of a review conducted by the Warsaw Tax Control Office at the parent company, TPSA received two decisions dated 27 September 2001, stating the amount of PLN 78 million tax underpayments related to Corporate Income Tax ("CIT") and VAT settlements for 1996, together with penalty interest. On 12 October 2001 TPSA appealed against the decisions of Warsaw Tax Control Office to the Tax Chamber in Warsaw. On 22 January 2002 the Tax Chamber repealed the Warsaw Tax Control Office decision concerning the results of the CIT settlements and ordered re-investigation. As a result of a review on 24 June 2002 the Warsaw Tax Control Office issued a decision decreasing the disputed Corporate Income Tax ("CIT") settlements stated in the decision dated 27 September 2001. On 10 July 2002 TPSA appealed the decision dated 24 June 2002 asking for its withdrawal and for the proceedings in this matter to be ended. The time limit for the review of the appeal was extended. 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. On 21 June 2002 PTK-Centertel appealed the decision 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.

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

Taking into account the stage of the disputes, as of 30 June 2002 the Group entities set up a provision amounting to PLN 352 million reflecting the best estimate of amounts that are more likely than not to be claimed.

*(b) 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 and in the six months ended 30 June 2002 the Company had taken an additional investment tax bonus amounting to PLN 1,281 million. These deductions have reduced the tax charges of TPSA by PLN 1,446 million in 1994-2001 and in the six months ended 30 June 2002 as follows:

	(in PLN millions)
1994	138
1995	252
1996	311
1997	282
1998	207
1999	159
2000	71
2001	17
6 months ended 30 June 2002	9
	-----
<b>Total</b>	<b>1,446</b>
	=====

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

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

Furthermore, the Company can utilise the deduction only when certain conditions are fulfilled prior to taking the deduction, including lack of tax arrears. If those conditions had not been fulfilled at the moment of utilising the deductions the tax authorities may question the rights to the investment tax allowances.

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.

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

(c) *Concessions for mobile telecommunications*

The subsidiary company PTK-Centertel Sp. z o.o. has the only concession in Poland to provide NMT 450 services on the whole territory of Poland, the concession to provide DCS 1800 services in certain regions of Poland, the concession to provide GSM 900 services on the whole territory of Poland and the concession to provide services according to the European telecommunication standard UMTS on the whole territory of Poland. These mobile concessions are for set periods of time and require that PTK-Centertel Sp. z o.o. fulfils certain concession objectives, including obligations to reach by the DCS 1800 network a pre-determined number of subscribers, to reach by the GSM 900 and UMTS networks a pre-determined coverage of the territory of Poland by a specified deadline. Additionally, the UMTS network should guarantee subscribers a specific pre-determined capacity to facilitate data transmission. The UMTS operator is obliged to commence services not later than 1 January 2004. If PTK-Centertel Sp. z o.o. fails to meet these objectives, the concessions may be withdrawn. On 18 September 2001 PTK-Centertel applied to the URT for extending the time limit for commencing UMTS services by twelve months. In a decision dated 24 April 2002 the motion was accepted.

As at 30 June 2002 PTK-Centertel Sp. z o.o. met all requirements related to the concessions.

(d) *Rights to assets and division of liabilities*

*Issues related to incorporation of TPSA*

The parent company 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.

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

TPSA appealed against all unfavourable decisions of OPCC to the District Anti-Monopoly Court in Warsaw ("AMC"). Following TPSA's appeal OPCC, without directing the cases to AMC, withdrew its decisions and cancelled administrative proceedings in five cases (in three of these cases the Communities appealed the OPCC verdict to AMC, in two of them the AMC dismissed the Communities' appeals). Following TPSA's appeal in three other cases AMC repealed the unfavourable decisions of OPCC (in these cases the President of OPCC and the Communities appealed AMC decisions to the Supreme Court) and in 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 30 June 2002.

*(e) 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 or 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.

*(f) 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.

*(g) 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.

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

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

Wirtualna Polska S.A. ("WP"), 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 and then called upon to settle. WP and its shareholders rejected the settlement offer, seeing no sufficient grounds for the claims. 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.

*(i) 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.. The agreement included an option to increase the purchase price by a maximum amount of 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.

**27. Financial instruments**

The fair value of cash and cash equivalents, receivables, short-term financial assets and current loans, borrowings and other payables approximates the carrying amounts reported in the balance sheet due to the relatively short-term maturity of these financial instruments. The fair value of non-current financial assets as well as loans, borrowings and other payables with variable interest rates approximates their carrying amounts. The carrying amount of telecommunication concession payables approximates their fair value. As of 30 June 2002 and 31 December 2001 the fair value of non-current loans, borrowings and other payables with fixed interest rates amounted to PLN 11,256 million and PLN 10,829 million, respectively (carrying amount: PLN 11,946 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 30 June 2002 and 31 December 2001 are presented in the table below.

Translation of the report originally issued in Polish

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

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

Type of instrument	Designation	Notional amount		Interest		Maturity	Fair value	
		Receive	Pay	Receive	Pay		30 June 2002	31 December 2001
		(millions)					(PLN millions)	
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 388	6.125%	15.25%	2004	(44)	(76)
Interest rate and currency swap	cash flow hedge	EUR 200	PLN 796	6.125%	13.77%	2004	(30)	(150)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 392	6.125%	13.83%	2004	(9)	(69)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 400	6.125%	13.8%	2004	(41)	(73)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 338	6.625%	14.78%	2006	15	(17)
Interest rate and currency swap	cash flow hedge	EUR 50	PLN 172	6.625%	14.75%	2006	5	(11)
Interest rate and currency swap	cash flow hedge	EUR 25	PLN 85	6.5%	14.27%	2007	2	(5)
Interest rate and currency swap	cash flow hedge	EUR 50	PLN 182	6,6875%	11,36%	2006	15	-
Interest rate and currency swap	fair value hedge	USD 200	PLN 852	7.125%	WIBOR+1.87%	2003	(3)	(41)
Interest rate and currency swap	fair value hedge	USD 100	PLN 423	7.75%	WIBOR+2.98%	2008	(11)	(39)
Interest rate and currency swap	fair value hedge	USD 100	PLN 410	7.75%	WIBOR+2.65%	2008	10	(18)
Interest rate and currency swap	fair value hedge	USD 50	PLN 205	7.75%	WIBOR+1.95%	2008	12	(2)
Interest rate and currency swap	fair value hedge	USD 50	PLN 206	7.75%	WIBOR+1.9%	2008	12	(2)
Interest rate and currency swap	fair value hedge	USD 50	PLN 204	7.75%	WIBOR+1.75%	2008	15	1
Interest rate and currency swap	fair value hedge	EUR 50	PLN 183	6,6875%	WIBOR+2%	2006	22	-
Interest rate and currency swap	Trading	USD 100	PLN 351	LIBOR+0.3%	20.95%	2004	(1)	(9)
Interest rate and currency swap	Trading	EUR 100	PLN 359	EURIBOR	WIBOR	2012	49	(9)
Interest rate and currency swaps	Trading	EUR 70	PLN 282	3.81%-4.7%	11.7%-12.95%	2002-2005	(33)	(59)
Interest rate and currency swaps	Trading	EUR 50	PLN 197	6.3%	14.78%-14.96%	2004	(31)	(41)
Currency swaps	Trading	EUR 15	PLN 59	-	6.37%-6.69%	2007	(9)	(14)
Interest rate and currency swap	fair value hedge	EUR 10	PLN 38	6M EURIBOR +1.3%	6M EURIBOR +2.1%	2003	3	-
Interest rate and currency swap	fair value hedge	EUR 10	PLN 38	6M EURIBOR +1.3%	6M EURIBOR +1.89%	2003	2	-
Interest rate and currency swap	fair value hedge	EUR 10	PLN 38	6M EURIBOR +1.3%	6M WIBOR +1.87%	2004	2	-
Interest rate and currency swaps	fair value hedge	EUR 5	PLN 19	6M EURIBOR +1.95%	6M WIBOR +2.38%	2004	1	-
Interest rate and currency swaps	fair value hedge	EUR 10	PLN 38	6M EURIBOR +1.3%	6M WIBOR +1.88%	2002	2	-
Currency forwards	Trading	EUR 2	PLN 7	-	-	2002	1	-
Currency forwards*	Trading	EUR 7	PLN 26	-	-	2002	-	(1)
Currency forwards	Trading	EUR 7	PLN 27	-	-	2002	1	-
Currency forwards	Trading	EUR 4	PLN 15	-	-	2002	1	-

\* As of 30 June 2002 the transaction was closed.

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

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 currency.

Additionally, as of 30 June 2002 and 31 December 2001 the Group was a party to the following put and call option arrangements:

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

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

As of 30 June 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.

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

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

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

As of 30 June 2002 and 31 December 2001 the company reported the negative fair value of both options amounted to PLN 5 million.

**28. Supplementary cash flow information**

Significant non-cash transactions in six months ended 30 June 2002 and 2001 are presented below:

	<b>6 months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	unaudited	unaudited
	<b>(in PLN millions)</b>	
Telecommunications infrastructure received free of charge	4 =====	19 =====

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

**29. Prior period events**

These financial statements do not include any significant events relating to prior periods, apart from the introduction of IFRS 39 as of 1 January 2001 in respect of accounting for embedded derivatives (See Note 2).

**30. Subsequent Events**

*(a) Syndicate Loan Agreement*

On 3 July 2002 TPSA signed a Syndicate Loan Agreement with BRE Bank S.A. and Kredyt Bank S.A. amounting to PLN 350 million.

The purpose of the loan is the refinancing of TPSA's long term debt. The loan is subject to a floating interest rate linked to the WIBOR rate with a 0.7% margin p.a.. The loan matures in 2005.

*(b) Issuance of short-term bonds*

Within the scope of the established on 19 December 2001 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 100 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 9 September 2002, 17 September 2002 and 15 October 2002 were not redeemed. The cost of bonds is based on WIBOR rate.

*(c) New Bonds Issuance Programme*

On 15 and 18 July 2002 TPSA signed agreements with Bank Handlowy w Warszawie S.A., BRE Bank S.A. and ABN Amro Bank (Polska) S.A. establishing a new Bonds Issuance Programme with a limit of indebtedness amounting to PLN 1 000 million, under which the TPSA is entitled to conduct one or more bond issuances. The duration of the programme is not limited in time. The bonds issued within the scope of the programme will take form of electronic copies of bearer bonds denominated in Polish zloty and offered on the Polish private market only. The overall amount of bonds that may be issued under the new programme may be increased.

With the date of the agreements coming into force TPSA is obligated to cease any further issuances under the old programme from 19 December 2001. At the same time all the previously issued and unredeemed bonds will pass onto the new programme decreasing the indebtedness limit. As of the date of the last redemption of Bonds issued within the 19 December 2001 Issuance Programme, the programme will be dissolved.

The conditions of each issuance will depend on the market situation at date of the transaction. The redemption period will last from seven days up to seven years. TPSA does not plan to sell the bonds on the public market.

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

*(d) Hedging transactions for D tranche bonds*

On 5 July 2002 TPSA signed two swap transactions with Morgan Stanley Capital Services („MSCS”) and Deutsche Bank („DB”) based on the following conditions:

- TPSA is obligated to pay PLN 202 million and interest calculated according to a six month floating WIBOR rate and 1.60% and 1.59% margin, respectively;
- MSCS and DB are obligated to pay EUR 50 million and interest calculated according to a fixed annual interest rate equal 6.5625%

*(e) Hedging transactions for E tranche bonds*

On 3 and 4 July 2002 TPSA signed two swap transactions with Deutsche Bank (“DB”) based on the following conditions:

- TPSA is obligated to pay PLN 200 million and interest calculated according to a six month floating WIBOR rate and 1.75% and 2.00% margin;
- DB is obligated to pay EUR 50 million and interest calculated according to a fixed annual interest rate equal 6.6875%.

*(f) Hedging transactions for Bankers Trust Co. loan*

On 23-25 July 2002 TPSA signed four swap transactions with Deutsche Bank (“DB”), Przemysłowo-Handlowym Bank PBK S.A. („BPH PBK”) and Bank Handlowy S.A. („BH”) based on the following conditions:

- TPSA is obligated to pay PLN 327 million and interest calculated according to a three month floating WIBOR rate and a margin ranging from -0.25% to +0.21% ;
- DB, BPH PBK and BH are obligated to pay USD 80 million and interest calculated according to a three month floating LIBOR rate and 0.5% margin.

On 25 July 2002 TPSA signed a forward transaction with BPH PBK dated 25 July 2002, through which it assigns the foreign currency exchange risk connected with USD 20 million based on the following conditions:

- TPSA is obligated to pay PLN 84 million;
- BPH PBK is obligated to pay USD 20 million.

**31. Loan covenants**

The parent company is 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 agreed with the banks to raise for the twelve months ended 30 June 2002 the required threshold related to the covenant included in these agreements defined as the total borrowed money to EBITDA. This threshold was changed from 2.5 to 3.0. The ratio calculated for the twelve months ended 30 June 2002 according to TPSA’s financial results met the banks’ amended conditions. According to the Company the risk of TPSA not meeting the requirements described in certain loan and guarantee agreements in the near future does not exist.

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

**32. 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 as of 30 June 2002 and comparative financial data as of 30 June 2001 and 31 December 2001 prepared under Polish Accounting Standards (PAS) to present these financial statements in accordance with IFRS, except for non-compliance with IFRS 29.

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

	Net profit for 6 months ended 30 June 2002	Net profit for 6 months ended 30 June 2001	Net assets as at 30 June 2002	Net assets as at 31 December 2001	Total assets as at 30 June 2002	Total assets as at 31 December 2001
(in PLN millions)						
<b>Consolidated PAS</b>	<b>19</b>	<b>1,197</b>	<b>11,842</b>	<b>11,911</b>	<b>35,123</b>	<b>35,540</b>
(a) Capitalisation of borrowing costs	57	(1)	430	373	442	380
(b) Telecommunications concessions	(4)	(10)	(22)	(18)	(846)	(758)
(c) Deferred tax effects	11	4	(90)	(101)	(1,002)	(946)
(d) Distribution from profit for the benefit of employees and for special funds	(14)	(24)	(14)	-	-	-
(e) Change in estimates	18	(36)	-	(48)	-	(46)
(f) Provision set up after the date of publication of IFRS consolidated financial statements*	-	43	-	-	-	-
(g) Other	(1)	-	(2)	(2)	8	1
<b>Consolidated IFRS</b>	<b>86</b>	<b>1,173</b>	<b>12,144</b>	<b>12,115</b>	<b>33,725</b>	<b>34,171</b>
	=====	=====	=====	=====	=====	=====

\* On 12 September 2001 the subsidiary PTK-Centertel Sp. z o.o. received a tax inspection protocol on review of VAT settlements for 1997. The event took place after 14 August 2001, i.e. after the date of publication of IFRS consolidated financial statements.

*(a) 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).

*(b) 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

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

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.

*(c) Deferred tax effects*

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

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

In line with Polish business practice, shareholders are allowed to distribute profits for the benefit of 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.

*(e) 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 predominantly relates to changes in foreign exchange rates used for revaluation of assets and liabilities at the balance sheet date. 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