Telekomunikacja Polska S.A.

IAS Consolidated Financial Statements

For the nine months ended 30 September 2000 and 1999

December 2000

Translation of the report originally issued in Polish

CONSOLIDATED BALANCE SHEETS AS AT 30 SEPTEMBER 2000 AND 31 DECEMBER 1999

	Note	30 September 2000	31 December 1999
		(in PLN millions)	
ASSETS			
Current assets			
Cash and cash equivalents	6	1,768	783
Marketable securities	4(c)	26	16
Receivables	7	2,890	2,651
Current income taxes		-	313
Inventories	8	239	150
		-----	-----
Current assets		4,923	3,913
		-----	-----
Fixed assets			
Property, plant and equipment	9	22,870	21,555
Intangible assets	10	902	950
Investments	11	196	152
		-----	-----
Fixed assets		23,968	22,657
		-----	-----
Non-current receivables		1	2
		-----	-----
Assets		**28,892**	**26,572**
		=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans and other borrowings	12	1,144	721
Accrued expenses and other payables	13	2,559	3,801
Current income taxes		49	-
Provisions	14	133	90
Deferred income	15	156	195
		-----	-----
Current liabilities		4,041	4,807
		-----	-----
Non-current liabilities			
Loans and other borrowings	12	12,604	10,337
Accrued expenses and other payables	13	413	490
Deferred income	15	260	271
Deferred income taxes	16	100	288
		-----	-----
Non-current liabilities		13,377	11,386
		-----	-----
Minority interest	17	310	270
		-----	-----
Shareholders' equity	18		
Common stock		4,200	4,200
Share premium		832	832
Revaluation reserve		2,332	2,332
Retained earnings		3,800	2,745
		-----	-----
Shareholders' equity		11,164	10,109
		-----	-----
Liabilities and shareholders' equity		**28,892**	**26,572**
		=====	=====

CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2000 AND 1999

	Note	3 months ended 30 September 2000	9 months ended 30 September 2000	3 months ended 30 September 1999	9 months ended 30 September 1999
		(in PLN millions)			
Revenues	19	**3,989**	**11,557**	**3,327**	**9,489**
Employee related expenses		(791)	(2,500)	(704)	(2,200)
Depreciation and amortisation		(786)	(2,274)	(610)	(1,702)
Payments to other operators		(407)	(1,163)	(409)	(1,027)
Purchased services		(566)	(1,612)	(465)	(1,300)
Raw materials and consumables		(136)	(439)	(140)	(402)
Goods purchased for resale		(190)	(500)	(94)	(288)
Other operating expenses, net		(165)	(478)	(117)	(371)
Operating expenses		**(3,041)**	**(8,966)**	**(2,539)**	**(7,290)**
		-----	-----	-----	-----
Operating profit		**948**	**2,591**	**788**	**2,199**
Interest and other charges, net	20	(241)	(924)	(337)	(1,134)
		-----	-----	-----	-----
Profit before income tax		**707**	**1,667**	**451**	**1,065**
Income tax	16	(262)	(688)	(230)	(553)
Minority interest	17	32	146	29	79
		-----	-----	-----	-----
Net income before extraordinary items		**477**	**1,125**	**250**	**591**
Extraordinary items		-	-	(5)	-
Retained income		**477**	**1,125**	**245**	**591**
		=====	=====	=====	=====
Retained income per share (in PLN):					
Net income before extraordinary items		0.34	0.80	0.18	0.42
Extraordinary items		-	-	(0.01)	-
Retained income		0.34	0.80	0.17	0.42
		-----	-----	-----	-----
Weighted average common stock outstanding (millions)		1,400	1,400	1,400	1,400
		=====	=====	=====	=====

CONSOLIDATED CASH FLOW STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2000 AND 1999

	9 months ended 30 September 2000	9 months ended 30 September 1999
	(in PLN millions)	
Cash flows from operating activities		
Retained income	1,125	591
Adjustments for:		
Minority interest	(146)	(79)
Depreciation and amortisation	2,274	1,702
Foreign exchange (gains)/losses, net	312	830
Interest and dividend (income)/charges, net	778	522
Result on investment activity	(8)	(12)
Income tax on current year profit	688	553
Net income tax paid	(615)	(546)
Decrease/(increase) in receivables, net of allowance	(239)	(254)
Decrease/(increase) in inventories	(89)	11
(Decrease)/increase in provisions	43	-
(Decrease)/increase in payables and other short-term liabilities	245	306
(Decrease)/increase in deferred income	(128)	(189)
Other cash flows applied in/generated from operations, net	(39)	79
Net cash flows from operating activities	**4,201**	**3,514**
Cash flows from investing activities		
Proceeds from sale of investments	9	-
Dividends received	8	14
Interest received	3	27
Purchase and sale of marketable securities, net	1	23
Capital expenditures	(4,658)	(4,014)
Purchase of investments	(58)	(6)
Payments for DCS and GSM concessions	(81)	(215)
Other cash flows applied in/generated from investing activities,	(4)	4
Net cash flows applied in investing activities	**(4,780)**	**(4,167)**
Cash flows from financing activities		
Proceeds from non-current loans and borrowings	629	1,440
Proceeds from current loans and borrowings	48	70
Proceeds from issuance of bonds	1,873	-
Proceeds from increase in share capital of PTK-Centertel Sp. z	143	102
Interest received	29	-
Issuance and redemption of short-term commercial papers, net	(104)	(587)
Repayment of non-current loans and borrowings	(282)	(811)
Repayment of current loans and borrowings	(44)	(1,269)
Dividends paid to minority shareholders	(70)	(56)
Interest paid	(670)	(578)
Other cash flows applied in financing activities, net	(9)	(41)
Net cash flows generated from/applied in financing activities	**1,543**	**(1,730)**
Effects of exchange rate changes on cash and cash equivalents	**21**	**143**
Net (decrease)/increase in cash and cash equivalents	**985**	**(2,240)**
Cash and cash equivalents at the beginning of period	**783**	**3,642**
Cash and cash equivalents at the end of period	**1,768**	**1,402**

Supplementary cash flow disclosures:

Non-cash investing transactions:		
Telecom infrastructure received free of charge (Note 4(l))	99	157

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2000 AND 1999

	Common stock	Share premium	Revaluatio n reserve	Retained earnings	Total shareholders' equity
			(in PLN millions)		
1 January 1999	**4,200**	**832**	**2,332**	**1,772**	**9,136**
Dividends paid out of 1998 profit	-	-	-	(56)	(56)
Net income for 9 months ended 30 September 1999	-	-	-	591	591
	----	----	----	----	----
30 September 1999	**4,200**	**832**	**2,332**	**2,307**	**9,671**
	====	====	====	====	====
1 January 2000	**4,200**	**832**	**2,332**	**2,745**	**10,109**
Dividends paid out of 1999 profit	-	-	-	(70)	(70)
Net income for 9 months ended 30 September 2000	-	-	-	1,125	1,125
	----	----	----	----	----
30 September 2000	**4,200**	**832**	**2,332**	**3,800**	**11,164**
	=====	=====	=====	=====	=====

1. Principal activities

Telekomunikacja Polska S.A. ("TPSA", "the Company"), a joint stock company incorporated in Poland, with its subsidiaries form the "Group". The Group is the principal supplier of telecommunications services in Poland. TPSA has exclusive rights to provide international public telephony services throughout Poland, which are expected to expire in December 2002. Until the end of June 2000 TPSA retained its exclusive rights to provide domestic long distance public telephony services in Poland, as in May 2000 three other telecommunications operators were granted long distance services licences, which have become effective from 1 July 2000. TPSA also has non-exclusive rights for an unspecified period to provide local public fixed line voice telephony services throughout Poland. Through its subsidiary, Polska Telefonia Komórkowa-Centertel Sp. z o.o. ("Centertel", "PTK-Centertel Sp. z o.o."), the Group was until August 1999 Poland's only NMT 450 and DCS 1800 mobile telecommunications provider. In August and September 1999 two other Polish mobile telephony operators were granted DCS 1800 licences. In July 1999 PTK-Centertel Sp. z o.o. was granted GSM 900 concession, which makes it one of the three Polish GSM 900 mobile telecommunications providers. Under this concession on 1 March 2000 PTK-Centertel Sp. z o.o. started providing GSM 900 mobile telecommunications services. The NMT, DCS and GSM concessions expire in 2016, 2012 and 2014, respectively. In addition, TPSA provides leased lines, radiocommunication and other telecommunications value added services, sells telecommunications equipment and produces fibre optic cables and magnetic cards. TP Internet Sp. z o.o. is TPSA subsidiary established in 1999 to provide services in the area of internet, data transmission and multimedia. TPSA Finance B.V. and TPSA Eurofinance B.V. are special purpose companies incorporated in the Netherlands established in connection with issue of bonds (see Note 12(b)). The Group average employment in the nine months ended 30 September 2000 and 1999 amounted to 70,980 and 73,405 employees, respectively. Since March 1999 the registered office of Telekomunikacja Polska S.A. has been located in Warsaw, ul. Nowy Świat 6/12.

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

2. Basis of presentation

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

The Group maintains its books of accounts in accordance with accounting principles and practices employed by enterprises in Poland as required by Polish Accounting Standards (“PAS”). These financial statements include certain adjustments not reflected in TPSA's books to present these statements in accordance with Standards issued by the International Accounting Standards Committee, except in respect of accounting for hyperinflation referred to in Note 3. These adjustments are presented in Note 28.

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

The accounting polices applied for the preparation of these financial statements are consistent with those applied for the preparation of financial statements for the year ended 31 December 1999.

In order to ensure comparability of financial statements the following reclassifications have been made to the financial statements for the periods of three and nine months ended 30 September 1999:

- reclassification between certain items of sales of services,
- reclassification of accrued employee bonuses from other operating expenses to employee related expenses.

Additionally, reclassification of VAT to be settled in subsequent periods from other receivables and other payables into tax receivables and tax payables, respectively, has been made as at 31 December 1999.

3. Reporting currency

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

International Accounting Standard No. 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”) requires that the carrying amounts of assets and liabilities reported in a period of hyperinflation should be expressed in the measuring unit current at the end of the hyperinflationary period and constitute the basis for the carrying amounts in the subsequent financial statements. The Polish economy was hyperinflationary until the end of 1996 and ceased to be hyperinflationary in 1997. The Group last revalued its fixed assets as of 1 January 1995 to reflect the effects of inflation by applying price indices determined by the Central Statistical Office for individual groups of assets. This revaluation was not performed in accordance with the provisions of IAS 29 since the Group did not use a general price index and did not subsequently revalue its fixed assets as of 31 December 1996. As a result, the cumulative balances of property, plant and equipment as of 30 September 2000 and 31 December 1999 which existed prior to 31 December 1996, have not been expressed in the measuring unit current at the end of 1996. The Group is unable to quantify the impact of non-compliance with IAS 29 on these financial statements. In all other respects the financial statements are prepared under the historical cost convention.

4. Statement of accounting policies

(a) Principles of consolidation

The consolidated financial statements include the financial statements of TPSA, its majority owned subsidiary PTK-Centertel Sp. z o.o. (66%) and its wholly owned subsidiaries TPSA Finance B.V., TPSA Eurofinance B.V. and TP Internet Sp. z o.o.. All significant intercompany balances and transactions have been eliminated in the consolidation. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Unconsolidated subsidiaries and affiliated companies presented in Note 11 (those with TPSA shareholding over 20% and for which TPSA is able to demonstrate significant influence) have not been subject to consolidation due to their insignificance as compared to the financial position and results of the Group.

(b) Cash and cash equivalents

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

(c) Marketable securities

Short-term securities are stated at the lower of acquisition cost and net realisable value. The securities held as at 30 September 2000 and 31 December 1999 were not quoted.

(d) Receivables

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

(e) Inventories

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

(f) Property, plant and equipment

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

The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and 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 where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Revaluations of property, plant and equipment were performed in Poland as mandated by the Minister of Finance and were designed to reflect the level of inflation. Revaluations were performed using the indices determined by the Central Statistical Office for individual groups of fixed assets. This is a departure from IAS 29, which requires application of a general price index. The last revaluation took place on 1 January 1995 and was designed to reflect the specific price level as of September 1994. As a result of this revaluation both carrying amount and tax base of the assets subject to revaluation have been increased. The Group has not revalued its property, plant and equipment as of 31 December 1996 which is a departure from IAS 29 which requires that assets are restated to a measurement unit current as of the end of hyperinflationary period. Since inception of the Group the revaluations increased net book value of property, plant and equipment by a total of PLN 2,347 million. The Group's share in the revaluations amounts to PLN 2,332 million. Construction-in-progress is not subject to revaluations. Depreciation is based on the revalued amounts. Unless Poland is subject to a period of further hyperinflation, the Group does not intend to include effects of any further revaluations in its financial statements prepared under IAS.

As further described in Note 24(d), the Group receives certain assets from local authorities or municipalities. These assets are stated at their fair value at the date of transfer to the Group.

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

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

The following depreciation methods for fixed assets are used:

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

Annual base depreciation rates are as follows:

Buildings	2.5%
Duct, cable and other outside plant	4.0%
Telephone exchanges and other plant and equipment	5.0-12.5%
Computer equipment	30.0%
Vehicles	7.0-20.0%
Other	12.5-20.0%

Construction-in-progress represents plant and properties under construction and is stated at cost. This comprises cost of construction, plant and equipment and other direct costs, including borrowing costs as described in Note 4(o). Construction-in-progress is not depreciated until the relevant assets are completed and put into operational use.

The Group reviews the net carrying value of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

(g) Leased assets

Assets leased under agreements, which transfer to the Group substantially all of the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The Group recognises finance leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Depreciation on the relevant assets is calculated over their useful lives. The capital element of lease payments is applied to reduce the outstanding obligation and the interest element is charged to the profit and loss account. Finance leases of the Group are not material.

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

(h) Intangible assets

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

Concessions	reflecting period of concession rights
Software	50%
Goodwill	20%

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

(i) Goodwill

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

(j) Investments

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

(k) Provisions

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

(l) Deferred income

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

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

(m) Revenue recognition

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

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

(n) Operating expenses

Operating costs are charged in the period to which they relate. Research and development costs are expensed when incurred except for certain development costs meeting criteria specified by IAS 38, which are recognised as assets and amortised over a period of 3 years. Capitalised development costs are not material. External and internal costs specifically associated with modifying internal-use computer software for the year 2000 were charged to expense as incurred.

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

(o) Borrowing costs

Borrowing costs are written off to the profit and loss account as incurred net of an amount capitalised calculated using weighted average capitalisation rate. Borrowing costs are capitalised as part of the costs of the relevant fixed asset up to the date of commissioning and written off to the profit and loss account over the period in which the asset is depreciated.

Borrowing costs include interest, amortisation of discount on bonds and commercial papers issued, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and foreign exchange differences.

(p) Jubilee awards and retirement bonuses

TPSA provides defined jubilee awards and retirement benefit plans for its employees. Jubilee awards are paid to employees upon completion of a certain number of years in service whereas retirement allowances are one-off payments paid on retirement, both depending on employee's average remuneration and length of service. The jubilee awards and retirement benefits are not funded. An independent actuary has estimated the net present value of jubilee awards and retirement bonuses obligations. Accrued obligations are those future discounted payments, adjusted by employee attrition rates, which were earned by the employees prior to the balance sheet dates. Demographic and attrition profiles are based on the historical data. Valuation of obligations was made using discount rate of 3% p.a.. The present value of jubilee awards and retirement bonuses as at 31 December 1999 was estimated by independent actuary at PLN 382 million. No adjustment was made to this estimate in the nine months ended 30 September 2000. In the nine months ended 30 September 2000 and 1999 TPSA paid PLN 42 million and PLN 41 million of jubilee awards and retirement bonuses, respectively.

(q) Termination indemnities

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

(r) Foreign exchange transactions

Transactions denominated in foreign currencies are recorded in the local currency (Polish złoty) at current exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account except if capitalised as described in Note 4(o).

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

(s) Derivative financial instruments

The Group uses forward contracts, interest rate and currency swaps to mitigate exposure to interest rate and foreign exchange risks. Except when contracts qualify as hedges, changes in the fair value of financial instruments are recognised in the profit and loss account in the period of the change. When contracts qualify as hedges, related gains and losses are included in the measurement of existing assets and liabilities.

(t) Income tax

The corporate income tax charge is based on profit for the year and takes into account deferred taxation. Deferred taxation is calculated using the liability method. Under the liability method the expected tax effects of emporary differences are determined using enacted tax rates and reported either as liabilities for taxes payable or assets representing advance payment of future taxes. Temporary differences are the differences between the carrying amount of an asset or liability in the balance sheet and its taxable base. For the purpose of deferred tax calculation the investment tax allowance bonus (see Note 24(b)) is considered a temporary difference and is recognised as deferred tax asset in the year the investment tax allowance deduction is taken. The net deferred tax liability or asset is included in non-current liabilities or non-current assets, respectively.

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

(u) Earnings per share

Earnings per share for each period are calculated by dividing the income for the period, before and after extraordinary items, by the weighted average number of shares outstanding during that period.

(v) Segments

The Group is organised into two major business segments being fixed line telecommunications and mobile telecommunications. The Group operates in one geographical segment being the territory of Poland.

Transactions between the segments are on arms-length basis. Those transfers are eliminated in consolidation.

(w) Seasonality and cyclicality of operations

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

5. Changes in Group's organisation

(a) Acquisitions

There were no changes in Group's organisation in the nine months ended 30 September 2000.

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

In October 1999 TPSA established a special purpose company TPSA Eurofinance B.V. with registered office in Amsterdam, the Netherlands. TPSA Eurofinance B.V. is wholly owned by the Company's subsidiary TPSA Finance B.V. and its registered share capital is EUR 90 thousand. The company has been established for the purpose of the issuance of bonds (see Note 12(b)).

(b) Discontinued operations

The Company intends to discontinue activities relating to fibre optic cable, magnetic and chip cards production as well as certification services for optic cables purchased by the Company from third parties. The total assets, revenues, expenses, results of operations and cash flows related to the discontinuing operations are not material to the financial statements of the Group.

6. Cash and cash equivalents

	30 September 2000	31 December 1999
	(in PLN millions)	
Cash in hand	20	15
Current bank accounts	134	191
Overnight deposits	272	320
Deposits up to 3 months	1,301	211
Other	41	46
Total	**1,768**	**783**

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

	30 September 2000	31 December 1999
	(in PLN millions)	
Polish złoty	1,350	450
Euro	401	304
U.S. dollar	13	25
Other currencies	4	4
Total	**1,768**	**783**

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

7. Receivables

	30 September 2000	31 December 1999
	(in PLN millions)	
Trade receivables	2,921	2,450
Tax receivables	41	248
Other receivables	272	188
Prepayments	49	52
Subtotal	**3,283**	**2,938**
Less allowance for doubtful accounts	(393)	(287)
Total	**2,890**	**2,651**

Total receivables include amounts of PLN 286 million and PLN 293 million of receivables denominated in foreign currencies as at 30 September 2000 and 31 December 1999, respectively. Trade receivables relate primarily to the billing of telecommunications services. Tax receivables balances comprise recoverable VAT on capital purchases and other overpaid taxes. Concentrations of credit risk relating to trade receivables are limited due to the large number of customers comprising the Group's customer base and their dispersion across many different industries, principally in Poland.

The allowance for doubtful accounts and changes therein for the period of the nine months ended 30 September 2000 and 1999 are as follows:

	9 months ended 30 September 2000	9 months ended 30 September 1999
	(in PLN millions)	
Allowance, beginning of period	287	215
Charged to expense	115	82
Utilised	(9)	(39)
	-----	-----
Allowance, end of period	**393**	**258**
	=====	=====

8. Inventories

	30 September 2000	31 December 1999
	(in PLN millions)	
Cables, wires, engineering inventory and other materials	124	98
Goods for resale	148	68
	-----	-----
Subtotal	**272**	**166**
Less allowance for obsolete inventory	(33)	(16)
	-----	-----
Total	**239**	**150**
	=====	=====

9. Property, plant and equipment

	Land	Buildings, duct, cable and other outside plant	Telephone exchanges and other plant and equipment	Vehicles and other	Construction in progress	Total
			(in PLN millions)			
Cost or revalued amount						
1 January 1999	9	12,205	12,066	533	1,250	26,063
Additions	1	954	1,654	51	1,078	3,738
Disposals	-	(63)	(268)	(9)	(1)	(341)
30 September 1999	**10**	**13,096**	**13,452**	**575**	**2,327**	**29,460**
1 January 2000	11	14,620	15,335	645	1,637	32,248
Additions	3	749	1,571	28	1,088	3,439
Disposals	-	(48)	(256)	(10)	(3)	(317)
30 September 2000	**14**	**15,321**	**16,650**	**663**	**2,722**	**35,370**
Accumulated depreciation						
1 January 1999	-	2,786	5,699	348	-	8,833
Charge for the period	-	357	1,203	68	-	1,628
Disposals	-	(38)	(157)	(7)	-	(202)
30 September 1999	**-**	**3,105**	**6,745**	**409**	**-**	**10,259**
1 January 2000	-	3,211	7,052	430	-	10,693
Charge for the period	-	420	1,620	84	-	2,124
Disposals	-	(40)	(252)	(25)	-	(317)
30 September 2000	**-**	**3,591**	**8,420**	**489**	**-**	**12,500**
Net book value 30 September 1999	**10**	**9,991**	**6,707**	**166**	**2,327**	**19,201**
Net book value 30 September 2000	**14**	**11,730**	**8,230**	**174**	**2,722**	**22,870**

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

Property, plant and equipment include borrowing costs incurred in connection with the construction of these assets. In the nine months ended 30 September 2000 and 1999 the Group capitalised PLN 158 million and PLN 285 million of borrowing costs, respectively.

The gross carrying amounts of certain property, plant and equipment items of PLN 2,690 million and PLN 2,149 million are fully depreciated as of 30 September 2000 and 31 December 1999, respectively, however these items are still in active use.

Property, plant and equipment pledged as a security for loans or bank guarantees have carrying value of PLN 390 million and PLN 816 million as at 30 September 2000 and 31 December 1999, respectively.

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

10. Intangible assets

	DCS 1800 Concession	GSM 900 Concession	Software and other intangibles	Goodwill	Total
			(in PLN millions)		
Cost					
1 January 1999	331	-	213	41	585
Additions	-	420	97	-	517
Disposals	-	-	(4)	-	(4)
30 September 1999	**331**	**420**	**306**	**41**	**1,098**
1 January 2000	331	410	386	41	1,168
Additions	-	-	105	-	105
Disposals	-	(2)	(8)	-	(10)
30 September 2000	**331**	**408**	**483**	**41**	**1,263**
Accumulated amortisation					
1 January 1999	6	-	88	16	110
Charge for the period	15	-	53	6	74
Disposals	-	-	(4)	-	(4)
30 September 1999	**21**	**-**	**137**	**22**	**180**
1 January 2000	33	-	161	24	218
Charge for the period	18	17	108	7	150
Disposals	-	-	(7)	-	(7)
30 September 2000	**51**	**17**	**262**	**31**	**361**
Net book value 30 September 1999	**310**	**420**	**169**	**19**	**918**
Net book value 30 September 2000	**280**	**391**	**221**	**10**	**902**

The DCS 1800 and GSM 900 concessions are 15-year concessions acquired by PTK - Centertel Sp. z o.o. in 1997 and 1999, respectively. Another concession owned by PTK - Centertel Sp. z o.o. (NMT 450) has been obtained free of charge. The TPSA rights to provide telecommunication services are based on the Polish Communications Act.

11. Investments

	30 September 2000	31 December 1999
	(in PLN millions)	
Unconsolidated subsidiaries	71	18
Affiliated companies	1	4
Other investments	124	130
Total	**196**	**152**

As at 30 September 2000 the Group's unconsolidated subsidiaries and affiliated companies, which are all incorporated in Poland, were as follows:

Subsidiaries	Group interest in capital	Scope of activity
PeBeTel Piła Sp. z o.o.	100%	design and network construction
NETBUD Sp. z o.o.	100%	design and network construction
TEL-ARP Sp. z o.o.	100%	publishing and advertising
Prywatne Sieci Telekomunikacyjne S.A.	100%	design and construction of satellite telecommunications networks
TP MED Sp. z o.o.	100%	medical services
TP Invest Sp. z o.o.	100%	investing activity
TELEFON 2000 Sp. z o.o.	95%	design and network construction
POSTINFO Sp. z o.o.	60%	information technology services
Telefony Podlaskie S.A.	55%	local telecommunications operator
Magellan Net S.A.	55%	internet services
Parkiet Sp. z o.o.*	33%	publishing

Affiliated companies	Group interest in capital	Scope of activity
OPTOTRAKT Sp. z o.o.	45%	fibre optic network production
ENERKOM Sp. z o.o.	40%	telecommunications and power equipment provider
Telefony Opalenickie S.A.	25%	local telecommunications operator
RWT – Telefony Polskie S.A.	25%	telecommunications equipment manufacturer
Astech S.A.	29%	software design and installation

* The parent company appoints the majority of Supervisory Board members.

The voting power held by the Group is equal to the Group interest in capital in all subsidiaries and affiliates except for Magellan Net S.A., where the Group holds voting power of 57%.

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

12. Loans and other borrowings

	Note	30 September 2000	31 December 1999
		(in PLN millions)	
Bank loans	(a)	5,203	4,700
Bonds	(b)	8,459	6,164
Commercial papers		-	93
Other borrowings and credits	(c)	86	101
		------	------
Total		**13,748**	**11,058**
Less: short-term portion		1,144	721
		------	------
Long-term portion		12,604	10,337
		======	======

As at 30 September 2000 repayments of loans, bonds and other borrowings fall due in:

	(in PLN millions)
12 months ended 30 September 2001	1,144
12 months ended 30 September 2002	859
12 months ended 30 September 2003	1,040
12 months ended 30 September 2004	1,902
12 months ended 30 September 2005	2,753
After 30 September 2005	6,050

Total	**13,748**
	======

(a) Bank loans

Bank loans analysed by currency are as follows:

	30 September 2000	31 December 1999
	(in PLN millions)	
Polish złoty	2,006	1,921
U.S. dollar	2,054	1,956
Euro	913	563
German mark	135	147
French franc	95	113
	------	------
Total	**5,203**	**4,700**
	======	======

Bank loans denominated in Polish złoty are primarily subject to floating interest rates linked to WIBOR. Weighted average interest rate on Polish złoty denominated loans were 19.6% p.a. and 17.4% p.a. in the nine months ended 30 September 2000 and 1999, respectively. Bank loans denominated in Polish złoty have maturities ranging from 2001 to 2006.

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

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

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

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

	30 September 2000	**31 December 1999**
Fixed rates	23.9%	36.7%
Floating rates	76.1%	63.3%
	------	------
	100.0%	100.0%
	======	======

Floating interest rates on foreign currency bank loans are primarily based on LIBOR rates, except for loan granted by International Bank for Reconstruction and Development and one of the loans granted by European Investment Bank, where interest rates are regulated by these financial institutions.
Bank loans denominated in foreign currencies are subject to the following effective interest rates:

	30 September 2000	**31 December 1999**
Less than 4% p.a.	14.3%	24.1%
Between 4% and 8% p.a.	82.8%	71.1%
Over 8% p.a.	2.9%	4.8%
	------	------
	100.0%	100.0%
	======	======

Bank loans denominated in foreign currencies have maturities ranging from 2000 to 2021.

As at 30 September 2000 and 31 December 1999 loans amounting to PLN 611 million and PLN 622 million, respectively, are subject to government guarantee and loans amounting to PLN 95 million and PLN 752 million, respectively, are secured on specific assets of the Group.

The Company's subsidiary PTK-Centertel Sp. z o.o. did not comply with certain loan covenants related to the loan granted by European Investment Bank (EIB) and amounting to PLN 639 million as at 31 December 1999. PTK-Centertel Sp. z o.o. was released from the covenant requirements from 30 September 1999 until 31 December 1999. On 13 January 2000 TPSA concluded Financing Agreement, according to which PTK-Centertel Sp. z o.o. was obliged to repay the loan to TPSA. At the same time TPSA concluded EUR 150 million loan agreement with EIB. The loan was used for the purchase of rights and obligations arising form the loan agreement between PTK-Centertel Sp. z o.o. and EIB. As a result of the above described arrangements, TPSA became the actual borrower of the EIB loan. As of 30 September 2000 TPSA meets all covenant requirements in respect of the EIB loan.

(b) Bonds

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

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

On 10 June 1999 TPSA entered into currency swap transaction effectively converting USD 300 million portion of ten-year bonds into Polish złoty denominated bonds (see Note 25).

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

In March 2000 the Group entered into four currency swap transactions effectively converting EUR 50 million portion of five-year bonds with interest rate of 6.125% p.a. into Polish złoty denominated bonds with interest rates ranging from 14.78% to 14.96% p.a. (see Note 25).

On 5 July 2000 TPSA entered into currency swap transaction effectively converting EUR 100 million portion of five-year bonds into Polish złoty denominated bonds (see Note 25).

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

On 13 April 2000 and 9 May 2000 TPSA entered into two currency swap transactions effectively converting EUR 100 million five-year bonds into Polish złoty denominated bonds (see Note 25).

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

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 Program 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.

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

(c) Other borrowings and credits

Other borrowings and credits analysed by currency are as follows:

	30 September 2000	31 December 1999
	(in PLN millions)	
U.S. dollar	37	38
German mark	49	63
	------	------
	86	101
	======	======

Other borrowings and credits represent primarily vendor financing and are subject to fixed interest rates ranging from 0% p.a. to 7% p.a.. Their maturities range from 2001 to 2006.
As at 30 September 2000 and 31 December 1999 other borrowings and credits amounting to PLN 49 million and PLN 63 million, respectively, were secured on specific assets of the Group.
The Group uses various methodologies to assess and manage financial risk.

- In order to mitigate the currency risk of its debt the Group entered into currency swap transactions in respect of part of foreign currency indebtedness to effectively convert it into Polish złoty 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 złoty loans have floating interest rates.

- The Group continuously monitors the achievable interest rates and attempts to replace its loans with more favourable ones in response to market conditions.

Based on arrangements made with the banks the Group has unused loan facilities in the amount of PLN 752 million as at 30 September 2000.

13. Accrued expenses and other payables

	30 September 2000	31 December 1999
	(in PLN millions)	
Trade and capital investment payables	1,301	2,651
Social security and taxes	397	283
Accrued expenses	302	255
Jubilee awards and retirement bonuses	382	382
Salaries and wages	311	285
Concessions payable	168	257
Other payables	111	178
	------	------
Total	**2,972**	**4,291**
Less: short-term portion	2,559	3,801
	------	------
Long-term portion	413	490
	======	======

Accrued expenses and other payables include PLN 325 million and PLN 523 million of amounts denominated in foreign currencies as at 30 September 2000 and 31 December 1999, respectively.

14. Provisions

Changes in provisions in the nine months ended 30 September 2000 were as follows:

	Provision for real estate tax (Note 24(e))	Other provisions (Note 24(d))	Total
		(in PLN millions)	
1 January 2000	90	-	90
Charged to expense	37	9	46
Released	-	(3)	(3)
	------	------	------
30 September 2000	**127**	**6**	**133**
	======	======	======

In the nine months ended 30 September 1999 the Group did not report any provisions.

15. Deferred income

	30 September 2000	31 December 1999
	(in PLN millions)	
Grants	292	305
Prepayments	76	127
Other	48	34
	------	------
Total	**416**	**466**
Less: short-term portion	156	195
	------	------
Long-term portion	260	271
	======	======

Changes in grants and prepayments were as follows:

	Grants	Prepayments
	(in PLN millions)	
At 1 January 1999	293	165
Net amounts received in 9 months ended 30 September 1999	17	140
Amortisation	(18)	(199)
	------	------
At 30 September 1999	**292**	**106**
	======	======
At 1 January 2000	305	127
Net amounts received in 9 months ended 30 September 2000	10	89
Amortisation	(23)	(140)
	------	------
At 30 September 2000	**292**	**76**
	======	======

Amortisation of prepayments is recognised as revenues from telephone traffic.

16. Income tax

	9 months ended 30 September 2000	**9 months ended 30 September 1999**
	(in PLN millions)	
Income tax charge on the profit for the period	876	860
Deferred tax liability change	(188)	(307)
	------	------
	688	**553**
	======	======

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

	9 months ended 30 September 2000	9 months ended 30 September 1999
	(in PLN millions)	
Profit before income tax	1,667	1,065
	------	------
Income tax calculated at statutory rate	500	362
Effect of income/expenses not subject to income tax	42	108
Valuation allowance	147	94
Prior year tax adjustments	(3)	(12)
Other	2	1
	------	------
Income tax expense for the period	**688**	**553**
	======	======

The Polish government enacted changes in the Corporate Income Tax rate from 34% in 1999 to 30% in 2000. Expenses not subject to income tax consist of certain expense items, which under Polish tax law are specifically determined as non-tax deductible. Income not subject to income tax is not material.
Valuation allowance relates mainly to the tax losses incurred by the consolidated subsidiaries, as no reasonable expectation of their realisation exists.

The net deferred tax liability consists of the following:

	30 September 2000	31 December 1999
	(in PLN millions)	
Deferred tax liabilities:		
Accelerated tax depreciation	546	572
Accrued income	252	270
Other	49	18
	------	------
	847	860
Deferred tax assets:		
Investment tax bonus	-	(44)
Unrealised foreign exchange losses	(385)	(260)
Accrued expenses	(247)	(153)
Jubilee awards and retirement bonuses	(115)	(115)
	------	------
	(747)	(572)
	------	------
Net deferred tax liability	**100**	**288**
	======	======

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

Both the initial deduction and the additional deduction applied in one year are subject to limits prescribed in the Corporate Income Tax Law (see table below). The opportunity to claim a deduction, which is not used in a given year due to lower pre-tax profit, is forfeited and cannot be carried over into the next year.

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

	2000	1999
Investment tax allowance	10%	10%
Investment tax bonus	10%	15%

TPSA took advantage of the above described investment tax allowance scheme in 1994 – 1999 and in the nine months ended 30 September 2000. TPSA has deducted PLN 2,454 million from taxable income over the period and took additional deduction (investment tax bonus) of PLN 1,227 million (see also Note 24(b)).

17. Minority interest

	9 months ended 30 September 2000	9 months ended 30 September 1999
	(in PLN millions)	
Beginning of period	270	274
Share capital contributed by minority shareholder	186	101
Share of results for the period	(146)	(79)
	------	------
End of period	**310**	**296**
	======	======

18. Shareholders' equity

As at 30 September 2000 the share capital represented by the parent company's share capital amounted to PLN 4,200 million and was divided into 1,400 million fully paid ordinary bearer shares of PLN 3 each.

No changes were made in the number of shares in the period of nine months ended 30 September 2000.

The ownership structure of the share capital as at 29 August 2000, i.e. as at the date of General Shareholders' Meeting, was as follows:

	% of votes	Nominal value (in PLN millions)
State Treasury	85.00	3,570
Publicly traded	15.00	630
	------	------
Total	100.00	4,200
	======	======

On 13 September 1999 the Custody Department of Bank Polska Kasa Opieki S.A. on behalf of its client informed that number of shares and voting rights of GDR holders represented by Bank of New York amounted to 139,256,678, i.e. 9.95% of share capital and voting rights.

On 29 August 2000, during the General Shareholders' Meeting, Bank of New York registered 100 million shares of TPSA, i.e. 7.14% of the share capital and voting rights.

According to the law 15% of TPSA shares (i.e. 210 million shares) were designated to be distributed free of charge to eligible persons. In 1999 these shares were allocated to present and former employees of TPSA and Poczta Polska. As of 30 September 2000 the agreements for the transfer of 208,499,620 shares have been concluded.

On 25 July 2000 the agreement regarding purchase of 35% TPSA shares was signed between the Minister of State Treasury and the consortium of France Telecom and Kulczyk Holding. France Telecom, through its subsidiary Cogecom, was to acquire 25% of the Company's shares and Kulczyk Holding, through its subsidiary Tele-Invest – 10% of shares. The agreement was finalised on 12 October 2000.

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

Profit of TPSA available for distribution under Polish law for the year ended 31 December 1999 amounted to PLN 1,079 million. There are no interim dividends in Poland.

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

19. Revenues

	3 months ended 30 September 2000	9 months ended 30 September 2000	3 months ended 30 September 1999	9 months ended 30 September 1999
	(in PLN millions)			
Fixed line telephony services:	3,348	9,835	2,825	8,093
Subscriptions, connections and similar charges	770	2,045	521	1,386
Traffic revenues	2,189	6,484	1,921	5,539
Interconnect revenues:	290	913	281	842
LTOs and other licensed domestic operators	50	137	30	82
Mobile telephony operators	88	238	75	203
International incoming traffic	152	538	176	557
Payphone revenues	79	267	85	279
Other	20	126	17	47
Mobile telephony services	330	802	209	581
Leased lines	136	412	106	336
Radiocommunications	74	218	74	213
Data transmission	47	131	63	114
Telex and telegraphy	5	13	6	18
Manufacturing, equipment sales and other	49	146	44	134
Total	**3,989**	**11,557**	**3,327**	**9,489**

Revenues are generated on the territory of Poland. 5.3% and 6.3% of the total revenues for the nine months ended 30 September 2000 and 1999, respectively, were received from foreign parties, mostly in respect of interconnect arrangements.

20. Interest and other charges, net

	3 months ended 30 September 2000	9 months ended 30 September 2000	3 months ended 30 September 1999	9 months ended 30 September 1999
	(in PLN millions)			
Interest expense	290	836	144	634
Foreign exchange losses	126	515	369	1,173
Commissions and other charges	73	191	151	259
Total interest payable and other charges	**489**	**1,542**	**664**	**2,066**
Foreign exchange changes, interest and similar charges capitalised	(35)	(158)	(132)	(285)
Foreign exchange gains	(118)	(228)	(61)	(386)
Interest received	(76)	(155)	(34)	(129)
Other financial income	(19)	(77)	(100)	(132)
Net interest and other charges	**241**	**924**	**337**	**1,134**

21. Commitments

(a) Lease commitments

Lease commitments are mainly in respect of the lease of buildings, computer equipment and vehicles. Lease payments recognised in the profit and loss account were PLN 64 million and PLN 38 million in the nine months ended 30 September 2000 and 1999, respectively. Future minimum lease payments under non-cancellable operating leases with a term of more than one year as at 30 September 2000 were as follows:

	(in PLN millions)
12 months ended 30 September:	
2001	59
2002	46
2003	24
2004	6
2005	2
Thereafter	1

Total minimum lease payments	**138**
	=====

(b) Purchase commitments

As of 30 September 2000 and 31 December 1999 capital expenditures amounting to PLN 1,914 million and PLN 1,112 million, respectively, principally relating to the telecommunications network, were committed under contractual arrangements, with PLN 103 million and PLN 244 million due after one year, respectively.

(c) North-South Link

On the basis of the initial agreement dated 18 January 1991 signed between the legal predecessor of Telekomunikacja Polska S.A. – 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 ("DPGT"), the legal successor of GN, a fibre optical link called North-South Link ("NSL") connecting north and south Polish borders of total length of 1,500 km was constructed and commissioned. Total cost of the investment was estimated at DKK 210 million and was shared between the parties. The share of PPTiT was DKK 84 million and DPTG accounted for DKK 126 million. Ownership rights to this investment were transferred to the Company on commissioning and DPTG was granted 14.8% of net profit on the cable during 15 years starting from the day when the first part of the cable was commissioned, i.e. from 16 November 1993. Net profit is calculated as income from long-distance and international traffic transmitted via this link based on agreed usage fees per minute less maintenance costs, depreciation and income tax. The Company is responsible for maintenance of the cable. For the purpose of net profit calculation the parties agreed that annual maintenance costs would be 7% of the cable cost as adjusted for inflation index limited to 5% denominated in SDR. The Company was obliged to maximise data flow through the cable.
DPTG's share in cable net profit for the nine months ended 30 September 2000 and 1999 was approximately PLN 40 million and PLN 49 million, respectively, and was recognised as an expense.

22. Related party transactions

As at 30 September 2000 Polish State Treasury owned majority of shares of the parent company (for details see Note 18). Principally, the Group provides services to government organisations on normal commercial terms. The minority shareholder, France Telecom, owns 34% of Centertel's shares. The Group provides and receives interconnect services from France Telecom on normal commercial terms. The Group purchased services in an amount of PLN 13 million and PLN 15 million in the nine months ended 30 September 2000 and 1999, respectively and sold services in an amount of PLN 23 million in each of the periods of nine months ended 30 September 2000 and 30 September 1999.

Remuneration of the Company's Management and Supervisory Board amounted to PLN 3 million in each of the periods of nine months ended 30 September 2000 and 30 September 1999.

23. Segment reporting

	Fixed line telecommunications	Mobile telecommunications	Eliminations	Consolidated
	30 September 2000			
Assets	28,371	3,224	(2,703)	28,892
Liabilities	16,939	2,313	(1,524)	17,728
	31 December 1999			
Assets	24,934	2,899	(1,261)	26,572
Liabilities	14,845	2,115	(497)	16,463
	9 months ended 30 September 2000			
Sales:	10,764	1,069	(276)	11,557
Intersegment	77	199	(276)	-
External	10,687	870	-	11,577
Depreciation and amortisation	2,000	267	7	2,274
Operating result	2,999	(401)	(7)	2,591
Net profit	1,415	(429)	139	1,125
Capital expenditures	4,460	634	(1,452)	3,642
Net cash flows from:				
Operating activities	4,392	(177)	(14)	4,201
Investing activities	(4,796)	(848)	864	(4,780)
Financing activities	1,425	967	(849)	1,543
	9 months ended 30 September 1999			
Sales:	8,905	786	(202)	9,489
Intersegment	55	147	(202)	-
External	8,850	639	-	9,489
Depreciation and amortisation	1,505	191	6	1,702
Operating result	2,383	(178)	(6)	2,199
Net profit	750	(232)	73	591
Capital expenditures	3,633	832	(198)	4,267
Net cash flows from:				
Operating activities	3,479	35	-	3,514
Investing activities	(3,663)	(702)	198	(4,167)
Financing activities	(2,186)	654	(198)	(1,730)

24. Contingent liabilities and uncertainties

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

Regulations related to the value-added tax, corporate income tax, and payroll (social) taxes have been recently radically changed in comparison with tax regulations existing before economic and political transformation in Poland.

The lack of reference to the well-established regulations and short practice of the new tax regulations results in obscurity and lack of 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 5 subsequent years.

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

Tax settlements of the parent company for 1996 are currently subject to review by the Warsaw Tax Control Office, which commenced on 29 June 1999. As of the date of the preparation of the financial statements investigation procedures have been still in progress.

On 10 July 2000 the Warsaw Tax Control Office initiated review concerning 1997 VAT settlements of PTK-Centertel Sp. z o.o.. Review is expected to be completed by the end of December 2000.

(b) Investment tax allowances

In 1994-1999 TPSA took advantage of investment tax allowance scheme. Under this scheme in arriving at its taxable income TPSA has deducted PLN 2,454 million in respect of investment in qualifying fixed assets in the period. Additionally, in 1995-1999 and in the nine months ended 30 September 2000 the Company has taken additional investment tax bonus amounting to PLN 1,227 million. These deductions have reduced the tax charges of TPSA by PLN 1,393 million in 1994-1999 and in the nine months ended 30 September 2000 as follows:

	(in PLN millions)
1994	138
1995	252
1996	311
1997	282
1998	207
1999	159
9 months ended 30 September 2000	44

Total	**1,393**
	=====

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

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

Furthermore, the Company can utilise the deduction only when certain conditions are fulfilled prior to taking the deduction, including lack of tax arrears. If those conditions had not been fulfilled at the moment of utilising the deductions the tax authorities may question the rights to the investment tax allowances. Tax reviews carried out at the Company identified certain irregularities in historical tax settlements. These reviews did not question the Company's rights to investment allowance.

However, in the future tax reviews may question the Company's rights to the investment tax allowances or decide that the Company has lost its rights to allowances due to non-compliance with related requirements.

In 1999 tax legislation was modified allowing to retain the right to investment tax allowances despite having tax arrears provided that the taxpayer either adjusts its tax return and pays the arrears plus accrued interest due or within 14 days following receipt of tax authorities' decision establishing existence of tax arrears the taxpayer pays the overdue amount plus accrued interest due. However, these modifications do not relate to the right to investment allowances utilised in 1994 as well as arrears resulting from unpaid social security charges.

(c) Concessions for mobile telecommunications

TPSA's subsidiary, 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 and the concession to provide GSM 900 services on the whole territory of Poland. These mobile licences are for set periods of time and require that PTK-Centertel Sp. z o.o. fulfils certain licence objectives, including obligations to reach by DCS 1800 network a pre-determined number of subscribers and to reach by GSM 900 network a pre-determined coverage of the territory of Poland by specific deadline. If PTK-Centertel Sp. z o.o. fails to meet these objectives, the Ministry of Communications has the right to withdraw the concession.

(d) Rights to assets and division of liabilities

Issues related to incorporation of TPSA

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

In addition, as regulations concerning the transformation of PPTiT are unclear, a division of certain responsibilities of PPTiT may be considered ineffective, which may result in joint and several liability in respect of the Company's predecessor's liabilities existing at the moment of transformation.

Assets received free of charge

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

In June and July 1999 OPCC issued three decisions regarding this matter unfavourable for TPSA stating that TPSA was using monopolistic practices and ordering abandonment of these practices by means of settlements of relevant amounts regarding the telecommunications infrastructure received by the Company free of charge. Amounts to be settled in favour of Community of Dąbrowice and Community of Rogóźno are PLN 904 thousand and PLN 55 thousand, respectively. In respect of Association of Polish Rural Communities the amount was not stated in the decision of OPCC. The Association of Polish Rural Communities represents 149 communities. According to the communities' plenipotentiary, claims of 129 communities for 1991-1998, estimated on the basis of information received from the communities, amount to approximately PLN 47,212 thousand. The claims estimated by the Company's organisational units amount to approximately PLN 39,467 thousand. In October 1999 OPCC decided to discontinue administrative proceedings regarding the case of Association of Mazowieckie Communities. Telekomunikacja Polska S.A. appealed against the first three decisions to District Anti-Monopoly Court ("AMC") in Warsaw. On 20 September 2000 AMC repealed the three decisions of OPCC described above. In October and November 2000 the Communities of Dąbrowice and Rogóźno appealed against the AMC decisions to the Supreme Court.

Furthermore, in 1999 and 2000 other communities petitioned to OPCC to start administrative proceedings against Telekomunikacja Polska S.A. regarding its monopolistic practices. As of the date of preparation of these financial statements the following administrative proceedings have been instituted based on petitions of the following communities: Brudzeń Duży, Pińczów, Boguty Pianki, Ożarowice, Brody, Błaszki, Bobrowniki, Jedlińsk and Association of Communities of "Ziemia Ostrowska". The total amount of these claims is PLN 6,652 thousand.

Until the date of preparation of these financial statements OPCC issued six unfavourable decisions regarding the cases which had started in 1999 and 2000 and stated that TPSA had used monopolistic practices and demanding their abandonment by settlement of amounts received from the communities free of charge for the purpose of development of telecommunications infrastructure. The amounts to be settled are: for the Community of Brudzeń Duży PLN 59 thousand, Community of Ożarowice PLN 349 thousand, Community of Bobrowniki PLN 545 thousand, Association of Communities of "Ziemia Ostrowska" PLN 1,016 thousand and Community of Jedlińsk PLN 763 thousand. Additionally, in the cases of Community of Ożarowice and Community of Bobrowniki OPCC imposed on TPSA fines of a total amount PLN 550 thousand. In the case of Community of Boguty Pianki OPCC ordered abandonment of monopolistic practices, but did not consider the Community's financial claim.

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

TPSA has appealed to the AMC in all cases ended by unfavourable decisions of OPCC. The dates of court sessions regarding the above cases have not been determined yet.

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

(e) Real Estate Taxes

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

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

Based on the Constitutional Court Statement TPSA adjusted previously filed returns of real estate tax. As a result the Company has recorded as receivables certain payments made as tax advances or has paid less real estate tax than amounts calculated in line with the position taken by respective tax offices. Final settlements will depend on the decisions of the Supreme Administrative Court in individual cases. A number of local Supreme Administrative Court divisions already issued decisions unfavourable for TPSA. They stated that tax charges should be calculated based on higher value of the property. In conformity with the prudence concept the Company provided for its estimated tax liabilities in the amount of PLN 127 million (PLN 90 million charged in 1999 and PLN 37 million in the nine months ended 30 September 2000).

25. Financial instruments

The fair value of cash and cash equivalents, receivables, marketable securities and current loans, borrowings and other payables approximates the carrying amounts reported in the balance sheet due to the relatively short-term maturity of these financial instruments. The fair value of non-current loans, borrowings and other payables with variable interest rates approximates their carrying amounts.

As of 30 September 2000 and 31 December 1999 the fair value of non-current loans, borrowings and other payables with fixed interest rates amounted to PLN 9,312 million and PLN 7,339 million, respectively (carrying amount: PLN 9,674 million and PLN 7,515 million, respectively).

The fair values of the financial instruments are the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
The Group uses forward contracts, interest rate and currency swaps to manage its exposure to market risks from changes in interest and foreign exchange rates. As at 30 September 2000 and 31 December 1999 these instruments were as follows:

	30 September 2000		31 December 1999	
	Notional amount	Fair value*	Notional amount	Fair value*
	(USD million)		(USD million)	
Interest rate and currency swap (hedging)(1)	100	17	100	(0)
Interest rate and currency swap (hedging)(2)	(100)	(15)	(100)	0
Currency swap (hedging)(3)	300	7	300	(16)
	(EUR million)		(EUR million)	
Currency swaps (non-hedging)(4)	-	-	50	(0)
Currency swap (hedging)(5)	50	3	-	-
Currency swap (hedging)(6)	50	(1)	-	-
Currency swap (hedging)(7)	100	1	-	-
Currency swaps (hedging)(8)	70	3	20	(0)
Currency swaps (hedging)(9)	50	1	-	-
Currency forwards (non-hedging)(10)	16	(2)	-	-

*Fair value was estimated by the banks being the parties in the respective transactions

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

26. Prior period events

Except for the matter described in Note 24 (e) of these additional notes, the financial statements do not include significant events relating to prior periods.

27. Subsequent Events

(a) Transaction with Morgan Stanley Capital Services Inc.

On 11 October 2000 Telekomunikacja Polska S.A. signed two agreements with Morgan Stanley Capital Services Inc. (“MSCS”) which transfer the currency risk as to the total amount of EUR 100 million on the following conditions:

- MSCS will pay TPSA the total amount of EUR 100 million on 27 October 2004 together with interest, paid semi-annually in October and April, based on the floating rate of six-month EURIBOR, except for the initial interest period commencing in September 2000 with fixed interest rate of approximately 4.7%.

- TPSA will pay MSCS the total amount of PLN 388 million on 27 October 2004 together with interest, paid semi-annually in October and April, based on the floating rate of six-month WIBOR plus 0.1% spread, except for the initial interest period commencing in September 2000 with fixed interest rate of approximately 19.4%.
- The settlements will be made based on net amounts.

(b) UMTS concession
On 4 October 2000 Minister of Communications announced the tender for concession for provision of UMTS mobile telecommunications services on the territory of Poland. On 2 December 2000 PTK – Centertel Sp. z o.o., the subsidiary of TPSA, and two other mobile telecommunications operators in Poland entered the tender. On 6 December 2000 Minister of Communications invalidated the tender and decided to extend the GSM concessions possessed by the above operators of the UMTS standard.

28. Transformation for IAS purposes

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

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

	Net profit for 9 months ended 30 September 2000	Net profit for 9 months ended 30 September 1999	Net assets as at 30 Septembe r 2000	Net assets as at 31 Decembe r 1999	Assets as at 30 Septembe r 2000	Assets as at 31 Decembe r 1999
	(in PLN millions)					
PAS	**958**	**720**	**10,975**	**10,104**	**28,679**	**26,466**
(a) Foreign exchange gains net effect	106	3	179	73	-	-
(b) Assets received free of charge	7	(2)	(170)	(177)	-	-
(c) Capitalisation of borrowing costs	130	168	331	201	340	206
(d) Deferred tax effects	(62)	(54)	(137)	(75)	-	-
(e) Discount on bonds and commercial papers issued	-	-	-	-	(81)	(67)
(f) Distribution from profit for the benefit of employees	(11)	(246)	(11)	(14)	-	-
(g) Other	(3)	2	(3)	(3)	(46)	(33)
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IAS	1,125	591	11,164	10,109	28,892	26,572
	=====	=====	=====	====	=====	=====

(a) Foreign exchange gains

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

(b) Assets received free of charge

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

(c) Capitalisation of borrowing costs

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

(d) Deferred tax effects

As a consequence of adjusting financial statements prepared in accordance with PAS by items (a) and (c) above, deferred tax position is changing. Item (b) affects deferred tax position only in respect to amounts related to fixed assets received free of charge in 1999 and in the nine months ended 30 September 2000.

(e) Discount on bonds and commercial papers issued

According to the Polish Accounting Standards bonds and commercial papers issued are valued in the financial statements at nominal value. The difference between nominal value and issue price is recognised as deferred cost. In the financial statements prepared in accordance with IAS bonds and commercial papers issued are stated at nominal value less unamortised discount.

(f) Distribution from profit for the benefit of employees

Until the end of 1998 TPSA employees were paid bonuses as part of net profit distribution. In the financial statements compliant with IAS such distributions were recharacterised and recognised as an expense of the year to which the profit distribution related. In the fourth quarter of 1999 the Company has changed its remuneration policy. The new policy doesn't include bonuses to be paid as part of profit distribution. Instead, a new remuneration component – annual bonus – was introduced. The annual bonus is treated as an operating expense.

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

In addition, the scope of disclosures under International Accounting Standards is different from the scope of disclosures required by Polish Accounting Standards.

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