

3Q IAS consolidated results for 2001
01.02.2002

LSE - Current Report (8/2002), Telekomunikacja Polska S.A., (TPSA) - Warsaw, Poland
1 st February 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 nine months 2001 ended 30 September 2001 (including comparative data for 9 months 2000) prepared in accordance with International Accounting Standards (IAS). It should be noted that the financial statement prepared in accordance with the International Accounting Standard (IAS) includes reconciliation between the net consolidated financial result under IAS and the net consolidated financial result as per Polish Accounting Standard. The net profit for 9 months of 2001, shown in this report under Polish Accounting Standard (PAS), is lower by PLN 56 million as compared to the respective figure for the same period as disclosed in the consolidated financial statement for the third quarter 2001 published on 14 November 2001. The main reason for the aforementioned differences is the adjustment to be made in respect of the amount of sales revenue. The net profit for the third quarter 2001 as per International Accounting Standard amounted to minus PLN 215 million and this resulted from the net foreign exchange losses amounted to PLN 809 for the period in question. To meet the expectation of the investor's community regarding earlier publication of the IAS Financial Statements, the Management Board informs that the subsequent IAS Financial Statements will be announced by TPSA within the period not exceeding three months after the end of a given quarter.

TELEKOMUNIKACJA POLSKA
IAS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2001 AND 2000

Translation of the report originally issued in Polish

TELEKOMUNIKACJA POLSKA
CONSOLIDATED BALANCE SHEETS
AS AT 30 SEPTEMBER 2001 AND 31 DECEMBER 2000

	<u>Note</u>	30 September 2001	31 December 2000
<u>(in PLN millions)</u>			
ASSETS			
Current assets			
Cash and cash equivalents	7	1,259	1,016
Financial assets	12	103	62
Receivables	8	2,946	3,180
Current income taxes		-	268
Inventories	9	253	200
		-----	-----
Current assets		4,561	4,726
		-----	-----
Non-current assets			
Property, plant and equipment	10	25,618	24,601
Intangible assets	11	2,701	2,608
Financial assets	12	230	137
Investments accounted for under equity method		10	7
		-----	-----
Non-current assets		28,559	27,353
		-----	-----
Non-current receivables		3	2
		-----	-----
Total assets		33,123	32,081
		=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans and other borrowings	13	1,421	1,075
Accrued expenses and other payables	14	2,969	4,930
Current income taxes		9	2
Provisions	15	430	269
Deferred income	16	155	160
		-----	-----
Current liabilities		4,984	6,436
		-----	-----
Non-current liabilities			
Loans and other borrowings	13	13,723	12,160
Accrued expenses and other payables	14	1,051	1,045
Provisions	15	-	122
Deferred income	16	264	263
Deferred income taxes	17	93	184
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The notes to the financial statements are an integral part of these Consolidated Balance Sheets

Translation of the report originally issued in Polish

Non-current liabilities		15,131	13,774
		----	----
Minority interest	18	618	287
		----	----
Shareholders' equity	19		
Common stock		4,200	4,200
Share premium		832	832
Revaluation reserve		2,334	2,334
Other reserves		(3)	-
Retained earnings		5,027	4,218
		----	----
Shareholders' equity		12,390	11,584
		----	----
Total liabilities and shareholders' equity		33,123	32,081
		=====	=====

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

TELEKOMUNIKACJA POLSKA
CONSOLIDATED PROFIT AND LOSS ACCOUNTS
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2001 AND 2000

	<u>Not</u> <u>€</u>	3 months ended 30 Septem ber 2001	9 months ended 30 Septem ber 2001	3 months ended 30 Septem ber 2000	9 months ended 30 Septem ber 2000
(in PLN millions)					
Revenues	20	4,356	12,850	3,989	11,557
Operating expenses:					
Employee related expenses		(920)	(2,849)	(791)	(2,500)
Depreciation and amortisation		(992)	(2,828)	(786)	(2,274)
Payments to other operators		(487)	(1,279)	(407)	(1,163)
Purchased services		(714)	(1,815)	(563)	(1,595)
Raw materials and consumables		(159)	(460)	(139)	(456)
Goods purchased for resale		(228)	(665)	(190)	(500)
Other operating expenses, net		(223)	(714)	(165)	(478)
Total operating expenses		(3,723)	(10,610)	(3,041)	(8,966)
Operating profit		633	2,240	948	2,591
Interest revenues and other financial income	21	190	331	95	232
Interest expense and other charges	21	(266)	(1,227)	(310)	(896)
Foreign exchange gains and losses, net	21	(809)	(5)	(26)	(260)
Profit / loss before income tax		(252)	1,339	707	1,667
Income tax	17	(53)	(645)	(262)	(688)
Minority interest	18	90	127	32	146
Net profit / loss		(215)	821	477	1,125
Net profit / loss per share (in PLN)		(0.15)	0.59	0.34	0.80
Weighted average common stock outstanding (millions)		1,400	1,400	1,400	1,400

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

TELEKOMUNIKACJA POLSKA
CONSOLIDATED CASH FLOW STATEMENTS FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2001 AND 2000

	9 months ended 30 September 2001	9 months ended 30 September 2000
	(in PLN millions)	
Cash flows from operating activities		
Net profit	821	1,125
Adjustments for:		
Minority interest	(127)	(146)
Depreciation and amortisation	2,828	2,274
Foreign exchange (gains)/losses, net	(14)	312
Interest and dividend (income)/charges, net	839	778
(Gain)/loss on investment activities	13	(7)
Income tax on current year profit	645	688
Net income tax recovered/(paid)	(591)	(615)
Other cash flows applied in/generated from operations, net	5	(39)
	-----	-----
Net cash flows from operating activities before changes in working capital	4,419	4,370
Changes in working capital:		
Decrease/(increase) in receivables, net of allowance	233	(239)
Decrease/(increase) in inventories	(53)	(89)
(Decrease)/increase in provisions	39	43
(Decrease)/increase in payables and other short-term	577	245
(Decrease)/increase in deferred income	(26)	(128)
	-----	-----
Net cash flows from operating activities	5,189	4,202
	=====	=====
Cash flows from investing activities		
Proceeds from sale of fixed assets	2	-
Proceeds from sale of non-current financial assets	45	9
Dividends received	6	8
Interest received	5	3
Purchase of property, plant and equipment	(4,724)	(4,561)
Purchase of intangible fixed assets	(326)	(97)
Purchase of non-current financial assets	-	(58)
Payments for DCS, GSM and UMTS concessions	(984)	(81)
Other cash flows applied in investing activities, net	(21)	(4)
	-----	-----
Net cash flows applied in investing activities	(5,997)	(4,781)
	=====	=====

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

TELEKOMUNIKACJA POLSKA
CONSOLIDATED CASH FLOW STATEMENTS FOR THE NINE MONTHS
ENDED 30 SEPTEMBER 2001 AND 2000

Cash flows from financing activities		
Proceeds from non-current loans and borrowings	1	629
Proceeds from current loans and borrowings	383	48
Proceeds from issuance of bonds	1,814	1,873
Proceeds from increase in share capital of subsidiaries	447	143
Issuance of short-term commercial papers	-	590
Interest received	27	29
Repayment of non-current loans and borrowings	(429)	(282)
Repayment of current loans and borrowings	(395)	(44)
Redemption of short-term commercial papers	-	(694)
Interest paid	(892)	(670)
Dividends paid to minority shareholders	-	(70)
Other cash flows applied in/generated from financing activities,	61	(9)
Net cash flows generated from/applied in financing activities	1,017	1,543
Effects of exchange rate changes on cash and cash	34	21
Net (decrease)/increase in cash and cash equivalents	243	985
Cash and cash equivalents at the beginning of period	1,016	783
Cash and cash equivalents at the end of period	1,259	1,768

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

TELEKOMUNIKACJA POLSKA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TELEKOMUNIKACJA POLSKA
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2001 AND 2000

	<u>Common stock</u>	<u>Share premium</u>	<u>Revaluatio n reserve</u>	<u>Other reserves</u>	<u>Ret ear</u>
	(in PLN millions)				
1 January 2000	4,200	832	2,332	-	2,7
Dividends paid out of 1999 profit	-	-	-	-	(
Net profit for 9 months ended 30 September 2000	-	-	-	-	1,1
30 September 2000	<u>4,200</u>	<u>832</u>	<u>2,332</u>	<u>-</u>	<u>3,8</u>
1 January 2001	4,200	832	2,334	-	4,2
Effect of application of IAS 39	-	-	-	-	(
1 January 2001 adjusted	4,200	832	2,334	-	4,2
Net profit for 9 months ended 30 September 2001	-	-	-	-	8
Cash flow hedge adjustment	-	-	-	(3)	-
30 September 2001	<u>4,200</u>	<u>832</u>	<u>2,334</u>	<u>(3)</u>	<u>5,0</u>

1. Principal activities

Telekomunikacja Polska S.A. ("TPSA", "the Company"), a joint stock company incorporated in Poland, with its subsidiaries form Telekomunikacja Polska Group ("Group"). The Group is the principal supplier of telecommunication services in Poland. TPSA has exclusive rights to provide international public telephony services throughout Poland, which are expected to expire in December 2002. Until the end of June 2000 TPSA retained its exclusive rights to provide domestic long distance public telephony services in Poland, as in May 2000 three other telecommunications operators were granted long distance services licences, which have become effective from 1 July 2000. TPSA has also non-exclusive rights for the period of 25 years (until 2026) to provide local public fixed line voice telephony services throughout Poland. Through its

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subsidiary, Polska Telefonii Komorkowa-Centertel Sp. z o.o. ("Centertel", "PTK-Centertel Sp. z o.o."), the Group is Poland's only NMT 450 mobile telecommunications provider and one of the three Polish DCS 1800 and GSM 900 mobile telecommunications providers. On 20 December 2000 PTK-Centertel was granted concession for the third generation UMTS services which expires in 2023. The NMT, DCS and GSM concessions expire in 2016, 2012 and 2014, respectively. In addition, TPSA provides leased lines, radiocommunication and other telecommunications value added services, sells telecommunications equipment and produces fibre optic cables and chip cards. TP Internet Sp. z o.o. is a TPSA subsidiary established in 1999 to provide services in the area of internet, data transmission and multimedia. TP Invest Sp. z o.o. is a TPSA subsidiary established in 2000 to conduct consultancy and investment activities relating to the financing of its subsidiaries and affiliates. TPSA Finance B.V. and TPSA Eurofinance B.V. are special purpose companies incorporated in the Netherlands established in connection with the issue of bonds (see Note 13(b)).

The Group's average employment in the nine months ended 30 September 2001 and 2000 amounted to 68,962 and 70,980 employees, respectively. The registered office of TPSA is located in Warsaw, ul. Nowy Swiat 6/12.

The Telecommunications Act, which has become effective 1 January 2001, introduces a broad liberalisation of the telecom market in Poland, restricting the areas of activities that require a permit from regulatory authorities and authorising the provision of telecommunications services in specified forms on the basis of notification alone. The Telecommunications Act establishes a new regulatory agency, the URT, equipping it with broad supervisory, control and decision-making powers in relation to the telecom market, including the power to determine the prices of services and the terms of cooperation between operators. The Telecommunications Act also grants powers to the Council of Ministers to issue implementing regulations, which may increase the liberalisation of the telecom market. Furthermore, the President of the Office for Protection of Competition and Customers has the right to influence TPSA tariffs through its regulation of competitive practices by entities holding significant market positions.

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 and accounting for embedded derivatives referred to below. These adjustments are presented in Note 30.

The preparation of financial statements in conformity with International Accounting Standards ("IAS") requires management to make estimates and assumptions that affect the amounts

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reported in the financial statements and notes thereto. Actual results could differ from those estimates.

The accounting policies applied for the preparation of these financial statements are consistent with those applied for the preparation of the financial statements for the year ended 31 December 2000, except for change in accounting for financial instruments described below.

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

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

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

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

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

The Company has a number of derivative instruments, which are part of hybrid financial instruments ("embedded derivatives"). These embedded derivatives are primarily related to the purchase contracts for the delivery of equipment and services, which are denominated in foreign currencies. Under IAS 39 these embedded derivatives constitute forward sale of euro or US dollar and should be accounted for separately from the host contract. The Company was not able to separately measure the embedded derivatives and host contracts and has decided not to adopt IAS 39 in this respect until adequate system solutions will be in place. The Company has estimated that the application of accounting for embedded derivatives would increase the net profit for the six month period ended 30 June 2001 by approximately PLN 90 million. The

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Company has not estimated the impact of embedded derivatives for the net profit in the period of nine months ended 30 September 2001.

In order to ensure comparability of financial statements certain reclassifications have been made to the financial statements for the three and nine months ended 30 September 2000 in order for them to conform with 2001 presentation.

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

These financial statements are reported in million of Polish zloty ("PLN"). They have not been adjusted for the effects of inflation as is required by International 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 2001 and 31 December 2000 which existed prior to 31 December 1996, have not been expressed in the measuring unit current at the end of 1996. The Group is unable to quantify the impact of non-compliance with IAS 29 on these financial statements.

4. Financial statements authorisation

These financial statements were authorised for issuance by the Management Board on 21 December 2001.

5. Statement of accounting policies

(a) Principles of consolidation

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

PTK – Centertel Sp. z o.o.	66%
TPSA Finance B.V.	100%
TPSA Eurofinance B.V.	100%
TP Internet Sp. z o.o.	100%
TP Invest Sp. z o.o.	100%
OTO Lublin Sp. z o.o.	100%
Otwarty Rynek Elektroniczny S.A.	100%
Parkiet Media S.A.	50%

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Astech Polska S.A.*	29%
Magellan Net S.A.	55%
Enerkom Sp. z o.o.	100%
Netbud Sp. z o.o.	100%
PeBeTel Pila Sp. z o.o.	100%
Postinfo Sp. z o.o.	60%
Prywatne Sieci Telekomunikacyjne S.A.	100%
Tel – Arp Sp. z o.o.	100%
Telefon 2000 Sp. z o.o.	95%
Telefony Podlaskie S.A.	55%
Incenti S.A.	51%

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

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 57%

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.

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

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

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the effective interest rate method if they have a fixed maturity. Those that do not have a fixed maturity are measured at cost.

The Company classifies financial assets in the following categories:

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

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

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

All financial assets are subject to review for impairment.

(d) Investments accounted for under equity method

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

As at 30 September 2001 the Group's affiliates accounted for under equity method were as follows:

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

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 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.

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

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

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

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

Property, plant and equipment are depreciated over their useful lives. Upon retirement or sale, the cost (or revalued amount) of assets disposed and the related accumulated depreciation are removed from the books of accounts 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	- Reducing balance method with doubled base depreciation rate
Other property, plant and equipment	- Straight-line method with base depreciation rate

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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.

(h) Leased assets

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

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

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

(i) Intangible assets

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

Software	50%
Goodwill and negative goodwill	20%

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 September 2001 and 31 December 2000 was calculated using the discount rate of 6% p.a.. The development period terminates together with a start of operational validity. The concessions are amortised over the period reflecting concession rights starting from the beginning of their operational validity.

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

(j) Goodwill and negative goodwill

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

Negative goodwill is recognised in the income statement as follows:

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

(k) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of 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 telecommunications services to be delivered subsequent to the connection (further referred to as "prepayments") are deferred and recognised as revenues when the services are provided to the customers.

(m) Minority interest

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

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interest is recognised at the 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,
- 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.

(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 criteria specified by IAS 38, which are recognised as assets and amortised over a period of 3 years. Research and development costs incurred by the Group in the nine months ended 30 September 2001 and 2000 amounted to PLN 13 million and PLN 7 million, respectively.

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

(p) Borrowing costs

Borrowing costs are written off to the profit and loss account as incurred net of an amount capitalised calculated using 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 effects of hedging instruments.

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(q) Jubilee awards and retirement bonuses

TPSA provides defined jubilee awards and retirement benefit plans for its employees. Jubilee awards are paid to employees upon completion of a certain number of years in service whereas retirement allowances are one-off payments paid on retirement, both depending on employee's average remuneration and length of service. The jubilee awards and retirement benefits are not funded. An independent actuary estimates 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 as at 31 December 2000 was made using discount rate of 8% p.a. and inflation rate of 5% p.a..

The present value of jubilee awards and retirement bonuses as of 31 December 2000 was estimated by independent actuary in the amount of PLN 431 million. In order to account for planned restructuring of employment the present value of jubilee awards and retirement bonuses as at 31 December 2000 was adjusted to PLN 351 million. As at 30 September 2001 those obligations were estimated by the Company in the amount of PLN 389 million, based on the changes in the salary level and number of employees in the nine months ended 30 September 2001 (see Note 14).

In the nine months ended 30 September 2001 and 2000, the Group paid PLN 62 million and PLN 42 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 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 Boards of the Group's entities, having taken a firm decision which would result in future payments of indemnities, started to implement the restructuring plan or communicated the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the companies will carry out the restructuring (see Note 15).

(s) Foreign exchange transactions

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

The Company translates its share of foreign monetary assets and liabilities for the purpose of incorporation of the financial statements of foreign subsidiaries in its financial statements at current exchange rates prevailing at the balance sheet date. Non-monetary items are translated

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

(t) Derivative financial instruments

The Group uses forward contracts and currency swaps to mitigate exposure against foreign currencies fluctuations on liabilities denominated in foreign currencies. The Group uses interest rate swaps to mitigate exposure against interest rates 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 interest rates parity method. These contracts are presented in the balance sheet as financial assets or accrued expenses. Except when contracts qualify as hedges, changes in the fair value of financial instruments are recognised as other financial expense in the profit and loss account in the period of the change. When contracts qualify as fair value hedges under IAS 39, related gains and losses offset symmetrically the effects on net profit or loss of the change in fair value of the hedged items. When contracts qualify as cash flow hedges the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity. The ineffective portion is reported immediately in the profit and loss account. The amounts that have been recognised directly in equity are included in the profit and loss account in the same period during which the hedged firm commitment or forecasted transactions affect the profit and loss account or enter into the initial measurement of the acquisition cost or other carrying amount of the asset or liability as appropriate.

(u) Income tax

The corporate income tax charge is based on profit for the year and takes into account deferred taxation. Deferred taxation is calculated using the liability method. Under the liability method the expected tax effects of temporary differences are determined using enacted tax rates and reported either as liabilities for taxes payable or assets representing advance payment of future taxes. Temporary differences are the differences between the carrying amount of an asset or liability in the balance sheet and its taxable base. For the purpose of deferred tax calculation the unused investment tax allowance bonus (see Note 25(c)) is considered a temporary difference and is recognised as 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 realisability 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.

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(w) *Seasonality and cyclicity of operations*

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

6. Changes in Group's organisation

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

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

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

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

7. Cash and cash equivalents

	30 September 2001	31 December 2000
	(in PLN millions)	
Cash in hand	22	17
Current bank accounts	96	106
Overnight deposits	285	239
Deposits up to 3 months	805	602
Other	51	52
	----	----
Total	1,259	1,016

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

	30 September	31 December
--	-------------------------	------------------------

TELEKOMUNIKACJA POLSKA
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	2001	2000
	(in PLN millions)	
Polish zloty	598	871
Euro	583	118
U.S. dollar	78	22
Other currencies	-	5
	----	----
Total	1,259	1,016

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

8. Receivables

	30 September 2001	31 December 2000
	(in PLN millions)	
Trade receivables	3,227	3,122
Tax receivables	63	199
Other receivables	353	301
	----	----
Subtotal	3,643	3,622
Less allowance for doubtful accounts	(697)	(442)
	----	----
Total	2,946	3,180

Total receivables include amounts of PLN 267 million and PLN 287 million of receivables denominated in foreign currencies as at 30 September 2001 and 31 December 2000, respectively. Trade receivables relate primarily to the billing of telecommunications services.

Tax receivables 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 nine months ended 30 September 2001 and 2000 are as follows:

**9 months ended 30
September**

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	<u>2001</u>	<u>2000</u>
	<u>(in PLN millions)</u>	
Allowance, beginning of period	442	287
Charged to expense	269	115
Utilised	(14)	(9)
	-----	-----
Allowance, end of period	697	393
	=====	=====

9. Inventories

	<u>30</u>	<u>31</u>
	<u>September</u>	<u>December</u>
	<u>2001</u>	
	<u>(in PLN millions)</u>	
Cables, wires, engineering inventory and other materials	125	105
Goods for resale	156	117
	-----	-----
Subtotal	281	222
Less allowance for obsolete inventory	(28)	(22)
	-----	-----
Total	253	200
	=====	=====

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10. Property, plant and equipment

	Land	Buildings, duct, cable and other outside plant	Telephones exchange and other plant and equipment	Vehicles and other	Construction in progress	Total
	(in PLN millions)					
Cost or revalued amount						
1 January 2000	11	14,620	15,335	645	1,637	32,248
Additions	2	752	1,558	54	1,215	3,581
Transfers	1	(3)	13	(25)	(127)	(141)
Disposals	-	(48)	(256)	(11)	(3)	(318)
	-----	-----	-----	-----	-----	-----
30 September 2000	14	15,321	16,650	663	2,722	35,370
	=====	=====	=====	=====	=====	=====
1 January 2001	16	16,756	18,415	740	2,018	37,945
Additions	-	734	2,066	40	1,124	3,964
Transfers	-	-	-	(8)	(330)	(338)
Disposals	-	(48)	(362)	(11)	(1)	(422)
	-----	-----	-----	-----	-----	-----
30 September 2001	16	17,442	20,119	761	2,811	41,149
	=====	=====	=====	=====	=====	=====
Accumulated depreciation						
1 January 2000	-	3,211	7,052	430	-	10,693
Charge for the period	-	420	1,620	84	-	2,124
Transfers	-	-	6	(14)	-	(8)
Disposals	-	(40)	(258)	(11)	-	(309)
	-----	-----	-----	-----	-----	-----
30 September 2000	-	3,591	8,420	489	-	12,500
	=====	=====	=====	=====	=====	=====
1 January 2001	-	3,729	9,094	521	-	13,344
Charge for the period	-	540	1,947	86	-	2,573
Impairment loss	-	-	30	-	-	30
Transfers	-	-	-	(6)	-	(6)
Disposals	-	(39)	(360)	(11)	-	(410)
	-----	-----	-----	-----	-----	-----
30 September 2001	-	4,230	10,711	590	-	15,531
	=====	=====	=====	=====	=====	=====
Net book value						
30 September 2000	14	11,730	8,230	174	2,722	22,870

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	=====	=====	=====	=====	=====	=====
Net book value						
30 September 2001	16	13,212	9,408	171	2,811	25,618
	=====	=====	=====	=====	=====	=====

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

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

Property, plant and equipment include borrowing costs incurred in connection with the construction of these assets. In the nine months ended 30 September 2001 and 2000, the Group capitalised PLN 194 million and PLN 158 million of borrowing costs, respectively. Capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation were 10.6% and 12.4% in the nine months ended 30 September 2001 and 2000, respectively.

The impairment loss for fixed assets intended for liquidation or sale recognised by the Group as of 30 September 2001 and 31 December 2000 amounted to PLN 154 million and PLN 143 million, respectively, and related primarily to its fixed line operations. The recoverable amount of these assets has been determined at their net selling price.

In the nine months ended 30 September 2001 the impairment loss charged to the profit and loss account amounted to PLN 30 million. In the nine months ended 30 September 2000 there was no impairment loss charged to the profit and loss account.

The gross carrying amounts of certain property, plant and equipment items of PLN 3,165 million and PLN 2,727 million are fully depreciated as of 30 September 2001 and 31 December 2000, respectively, however these items are still in active use.

Carrying value of property, plant and equipment pledged as a security for loans or bank guarantees was not material as at 30 September 2001. As at 31 December 2000 property, plant and equipment pledged as a security for loans or bank guarantees had carrying value of PLN 203 million.

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

11. Intangible assets

	DCS 1800 concessio n	GSM 900 concessi on	UMTS concessi on	Softwar e and other intangib les	Goodwi ll	Negative goodwill	Total
	(in PLN millions)						
Cost							

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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
	=====	=====	=====	=====	=====	=====	=====
1 January 2001							
	350	384	1,634	610	49	-	3,027
Additions	-	-	-	327	6	(4)	329
Foreign exchange differences and other financial cost capitalised	-	-	17	-	-	-	17
Disposals	(2)	-	-	(1)	-	4	1
	-----	-----	-----	-----	-----	-----	-----
30 September 2001	348	384	1,651	936	55	-	3,374
	=====	=====	=====	=====	=====	=====	=====
Accumulated amortisation							
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
	=====	=====	=====	=====	=====	=====	=====
1 January 2001							
	61	23	-	301	34	-	419
Charge for the period	22	20	-	194	19	-	255
Disposals	-	-	-	(1)	-	-	(1)
	-----	-----	-----	-----	-----	-----	-----
30 September 2001	83	43	-	494	53	-	673
	=====	=====	=====	=====	=====	=====	=====
Net book value							
30 September 2000	280	391	-	221	10	-	902
	=====	=====	=====	=====	=====	=====	=====

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Net book value							
30 September 2001	265	341	1,651	442	2	-	2,701
	=====	=====	=====	=====	=====	=====	=====

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.

12. Financial assets

	30 September 2001	31 December 2000
	(in PLN millions)	
Short-term financial assets		
Financial assets available for sale	15	16
Financial assets held to maturity	44	46
Financial assets held for trading	44	-
	----	----
Total short-term financial assets	103	62
	=====	=====
Long-term financial assets		
Financial assets available for sale	230	137
	----	----
Total long-term financial assets	230	137
	=====	=====

As at 30 September 2001 long-term financial assets available for sale contain fair value of hedging derivative financial instruments in the amount of PLN 124 million (nil as at 31 December 2000). Short-term financial assets held for trading contain fair value of non-hedging derivative financial instruments in the amount of PLN 20 million as at 30 September 2001 (nil as at 31 December 2000).

As at 30 September 2001 and 31 December 2000 all financial assets available for sale were measured at amortised cost (due to lack of active markets for these assets) or fair value. As at 30 September 2001 all financial assets held for trading were measured at fair value.

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13. Loans and other borrowings

	Note	30 September 2001	31 December r 2000
<u>(in PLN millions)</u>			
Bank loans	(a)	4,873	5,261
Bonds	(b)	10,248	7,937
Other borrowings and credits	(c)	23	37
		-----	-----
Total		15,144	13,235
Less: short-term portion		(1,421)	(1,075)
		-----	-----
Long-term portion		13,723	12,160
		=====	=====

As at 30 September 2001 repayments of loans, bonds and other borrowings fall due in:

	<u>(in PLN millions)</u>
12 months ended 30 September 2002	1,421
12 months ended 30 September 2003	1,000
12 months ended 30 September 2004	1,837
12 months ended 30 September 2005	2,696
12 months ended 30 September 2006	2,212
Thereafter	5,978

Total	15,144
	=====

(a) *Bank loans*

Bank loans analysed by currency are as follows:

	30 September 2001	31 December r 2000
<u>(in PLN millions)</u>		
Polish zloty	1,678	1,963
U.S. dollar	1,539	1,711
Euro	1,479	1,392
German mark	115	120
French franc	62	75
	-----	-----

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Total	4,873	5,261
	<u>=====</u>	<u>=====</u>

Bank loans denominated in Polish zloty are primarily subject to floating interest rates linked to WIBOR. Weighted average interest rate on Polish zloty denominated loans were 17.6% p.a. and 19.6% p.a. in the nine months ended 30 September 2001 and 2000, respectively. Bank loans denominated in Polish zloty have maturities ranging from 2001 to 2006.

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

	30 September 2001	31 December 2000
	<u>-----</u>	<u>-----</u>
Fixed rates	29.5%	21.1%
Floating rates	70.5%	78.9%
	-----	-----
	100.0%	100.0%
	<u>=====</u>	<u>=====</u>

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

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

	30 September 2001	31 December 2000
	<u>-----</u>	<u>-----</u>
Less than 4% p.a.	58.1%	13.2%
Between 4% and 8% p.a.	40.0%	84.6%
Over 8% p.a.	1.9%	2.2%
	-----	-----
	100.0%	100.0%
	<u>=====</u>	<u>=====</u>

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

As at 30 September 2001 and 31 December 2000 loans amounting to PLN 514 million and PLN 553 million, respectively, were subject to government guarantee. Loans secured on specific assets of the Group as of 30 September 2001 and 31 December 2000 were not material.

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(b) Bonds

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

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

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

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

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

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

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

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

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

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

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

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Bonds analysed by currency are as follows:

	30 September 2001	31 December 2000
	(in PLN millions)	
U.S. dollar*	4,316	2,889
Euro*	5,932	2,446
Polish zloty	-	2,602
	-----	-----
Total	10,248	7,937
	=====	=====

* As at 30 September 2001 the Group was a party to a number of currency and interest rate swaps which were designated as a cash flow hedge and fair value hedge of foreign currency bonds amounting to EUR 675 million and USD 200 million, respectively.

(c) Other borrowings and credits

Other borrowings and credits analysed by currency are as follows:

	30 September 2001	31 December 2000
	(in PLN millions)	
German mark	23	36
U.S. dollar	-	1
	-----	-----
	23	37
	=====	=====

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

As at 31 December 2000 other borrowings and credits amounting to PLN 36 million, were secured on specific assets of the Group. As at 30 September 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.

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- 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 the banks the Group has unused loan facilities in the amount of PLN 1,794 million as at 30 September 2001. Unused loan facilities in the amount of PLN 1,610 million as at 30 September 2000 are designated to finance defined projects.

14. Accrued expenses and other payables

	30 September 2001	31 December 2000
	(in PLN millions)	
Trade and capital expenditure payables	1,424	2,743
Social security and taxes	478	371
Accrued expenses	379	339
Jubilee awards and retirement bonuses	389	351
Salaries and wages	434	303
Concessions payable	778	1,747
Fair value of derivative financial instruments	75	-
Other payables	63	121
	-----	-----
Total	4,020	5,975
Less: short-term portion	(2,969)	(4,930)
	-----	-----
Long-term portion	1,051	1,045
	=====	=====

Accrued expenses and other payables include PLN 1,039 million and PLN 1,912 million of amounts denominated in foreign currencies as at 30 September 2001 and 31 December 2000, respectively. The primary foreign currency payable as of 30 September 2001 is related to UMTS concession acquisition and amounts to EUR 180 million. Additionally, as of 30 September 2001 accrued expenses and other payables denominated in foreign currencies include the amount of PLN 75 million which represents fair value of derivative financial instruments.

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15. Provisions

	30 September 2001	31 December 2000
	(in PLN millions)	
Restructuring provision	145	327
Provision for real estate tax (see Note 25(f))	68	61
Provision for tax dispute (see Note 25(a))	217	-
Other provisions (see Note 25(e))	-	3
	-----	-----
Total	430	391
Less: short – term portion	(430)	(269)
	-----	-----
Long – term portion	-	122
	=====	=====

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

Changes in provisions in the nine months ended 30 September 2001 and 2000 were as follows:

	Restructu ring provision	Provision for real estate tax	Provision for tax dispute	Other provisions	Total
	(in PLN million)				
1 January 2000	-	90	-	-	90
Charged to expense	-	37	-	9	46
Released	-	-	-	(3)	(3)
	-----	-----	-----	-----	-----
30 September 2000	-	127	-	6	133
	=====	=====	=====	=====	=====
1 January 2001	327	61	-	3	391
Charged to expense	-	7	295	-	302
Utilised	(182)	-	(78)	-	(260)
Released	-	-	-	(3)	(3)
	-----	-----	-----	-----	-----
30 September 2001	145	68	217	-	430
	=====	=====	=====	=====	=====

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16. Deferred income

	30 September 2001	31 December 2000
	(in PLN millions)	
Grants (see Note 5(l))	278	292
Prepayments (see Note 5(l))	41	71
Prepaid services	92	50
Other	8	10
	-----	-----
Total	419	423
Less: short-term portion	(155)	(160)
	-----	-----
Long-term portion	264	263
	=====	=====

Changes in grants and prepayments were as follows:

	Grants	Prepayme nts
	(in PLN millions)	
At 1 January 2000	305	127
Net amounts received in the nine months ended 30 September 2000	10	89
Amortisation	(23)	(140)
	-----	-----
At 30 September 2000	292	76
	=====	=====
At 1 January 2001	292	71
Net amounts received in the nine months ended 30 September 2001	1	28
Amortisation	(15)	(58)
	-----	-----
At 30 September 2001	278	41
	=====	=====

Amortisation of prepayments is recognised as revenues from telephone traffic.

17. Income tax

	9 months ended 30 September	
	2001	2000
	(in PLN millions)	
Current income tax charge for the period	728	876

TELEKOMUNIKACJA POLSKA
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Deferred tax expense (benefit)	(83)	(188)
	-----	-----
	645	688
	=====	=====

The deferred tax expense change in the nine months ended 30 September 2001 includes opening balance adjustment in the amount of PLN 8 million reflecting the effect of application of IAS 39.

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	
	2001	2000
	(in PLN millions)	
Profit before income tax	1,339	1,667
	-----	-----
Tax rate	28%	30%
Income tax calculated at statutory rate	375	500
Effect of income/expenses not subject to income tax	106	42
Change in valuation allowance	161	147
Other	3	(1)
	-----	-----
Income tax expense for the period	645	688
	=====	=====

Enacted Corporate Income Tax rates are as follows:

Year	Enacted tax rate
-----	-----
2000	30%
2001	28%
2002	28%
2003	24%
From 2004	22%

Expenses not subject to income tax consist of certain expense items, which under Polish tax law are specifically determined as non-tax deductible. Income not subject to income tax is not material.

Valuation allowance relates mainly to the tax losses and temporary differences reported by certain consolidated subsidiaries, as no reasonable expectation of their realisation exists.

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The net deferred tax liability consists of the following:

	30 September 2001	31 December 2000
	(in PLN millions)	
Deferred tax liabilities:		
Accelerated tax depreciation	500	526
Accrued income	232	232
Unrealised foreign exchange gains	127	91
	-----	-----
	859	849
Deferred tax assets:		
Unrealised foreign exchange losses	(304)	(288)
Accrued expenses	(438)	(310)
Unused tax losses of subsidiaries carried forward	(206)	(184)
Jubilee awards and retirement bonuses	(109)	(98)
Excess of book over tax depreciation	(123)	(105)
Unused investment tax bonus	-	(12)
Bad debt provision	(192)	(118)
Other	(43)	(38)
	-----	-----
	(1,415)	(1,153)
Valuation allowance	649	488
	-----	-----
Deferred tax assets after valuation allowance	(766)	(665)
	-----	-----
Net deferred tax liability	93	184
	=====	=====

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

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

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TPSA took advantage of the above described investment tax allowance scheme in 1994 – 2000 and in the nine months ended 30 September 2001. TPSA has deducted PLN 2,543 million from taxable income over the period and took additional deduction (investment tax bonus) of PLN 1,271 million (see also Note 25(c)).

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18. Minority interest

	9 months ended 30	
	September	
	2001	2000
	(in PLN millions)	
Beginning of period	287	270
The effect of application of IAS 39	5	-
Beginning of period - adjusted	292	270
Share capital contributed by minority shareholder	453	186
Share of results for the period	(127)	(146)
	-----	-----
End of period	618	310

Within share capital contributed by minority shareholder there is the amount of PLN 258 million paid by the minority shareholder in relation to the capital increase which was not registered as of the date of the issuance of these financial statements.

19. Shareholders' equity

As at 30 September 2001 the share capital represented by the parent company's share capital amounted to PLN 4,200 million and was divided into 1,400 million fully paid ordinary bearer shares of PLN 3 each.

No changes were made in the number of shares in the period of nine months ended 30 September 2001.

The ownership structure of the share capital as at 30 September 2001 was as follows *:

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

* The equity ownership as at 30 September 2001 is presented taking into account the effect of the transaction described below.

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

Profit of TPSA available for distribution under Polish law for the year ended 31 December 2000 amounted to PLN 1,830 million. There are no interim dividends in Poland.

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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.

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

20. Revenues

	3 months ended 30 Septem ber2001	9 months ended 30 Septem ber 2001	3 months ended 30 Septemb er 2000	9 months ended 30 Septem ber 2000
	(in PLN millions)			
Fixed line telephony services:	3,514	10,528	3,348	9,835
Subscriptions, connections and similar charges	1,007	2,718	770	2,045
Traffic revenues	2,030	6,512	2,161	6,484
Interconnect revenues:	333	838	290	913
LTOs and other licensed domestic operators	92	200	50	137
Mobile telephony operators	96	261	88	238
International incoming traffic	145	377	152	538
Payphone revenues	82	281	79	267
Other	62	179	48	126
Mobile telephony services	473	1,253	330	802
Leased lines	125	371	136	412
Radiocommunications	80	236	74	218
Data transmission	74	203	47	131
Telex and telegraphy	4	10	5	13
Manufacturing, equipment sales and other	86	249	49	146
Total	4,356	12,850	3,989	11,557

Revenues are generated on the territory of Poland. 3.6% and 5.3% of the total revenues for the nine months ended 30 September 2001 and 2000, respectively, were received from foreign parties, mostly in respect of interconnect arrangements.

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21. Financial income and charges

	3 months ended 30 Septem ber 2001	9 months ended 30 Septemb er 2001	3 months ended 30 Septem ber 2000	9 months ended 30 Septemb er 2000
	(in PLN millions)			
Interest income	46	162	76	155
Other financial income	144	169	19	77
	-----	-----	-----	-----
Interest revenues and other financial income	190	331	95	232
Interest expense	(268)	(1,003)	(290)	(836)
Commissions and other charges	(123)	(477)	(73)	(191)
	-----	-----	-----	-----
Total interest expense and other charges	(391)	(1,480)	(363)	(1,027)
Interest and similar charges capitalised	125	253	53	131
	-----	-----	-----	-----
Interest expense and other charges	(266)	(1,227)	(310)	(896)
	=====	=====	=====	=====
Total foreign exchange gains and losses, net	(1,048)	37	(8)	(287)
Foreign exchange gains and losses capitalised	239	(42)	(18)	27
	-----	-----	-----	-----
Foreign exchange gains and losses, net	(809)	(5)	(26)	(260)
	=====	=====	=====	=====

22. Commitments

(a) Lease commitments

Lease commitments are mainly in respect of the lease of buildings, computer equipment and vehicles. Lease payments recognised in the profit and loss account amounted to PLN 267 million and PLN 215 million in the nine months ended 30 September 2001 and 2000, respectively. Certain of these leases include escalation clauses which are primarily based on consumer price index or foreign exchange rate changes. Future minimum lease payments under non-cancellable operating leases with a term of more than one year as at 30 September 2001 were as follows:

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	(in PLN millions)
12 months ended 30 September:	
2002	113
2003	76
2004	51
2005	38
2006	30
Thereafter	99

Total minimum lease payments	407
	=====

(b) Purchase commitments

As of 30 September 2001 and 31 December 2000 capital expenditures amounting to PLN 1,781 million and PLN 1,584 million, respectively, principally relating to the telecommunications network, were committed under contractual arrangements, with PLN 15 million and PLN 77 million due after one year, respectively.

(c) North-South Link

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

DPTG’s share in cable net profit for the nine months ended 30 September 2001 and 2000 was PLN 25 million and PLN 40 million, respectively, and was recognised as an expense.

23. Related party transactions

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As at 30 September 2001 Polish State Treasury owned 22.6% of shares of the parent company (see Note 19). Principally, the Group provides services to government organisations on normal commercial terms.

As at 30 September 2001 France Telecom, via its subsidiary company Cogecom S.A., owned 33.9% of shares of the parent company (see Note 19). Additionally France Telecom, as the minority shareholder, owns 34% of PTK-Centertel Sp. z o.o. shares. The Group provides and receives interconnect services from France Telecom on normal commercial terms. In the nine months ended 30 September 2001 and 2000 the Group purchased services from France Telecom in the amount of PLN 14 million and PLN 13 million, respectively, and sold services in the amount of PLN 13 million and PLN 23 million, respectively. In the nine months ended 30 September 2001 and 2000 the Group did not purchase or sell products or services of a significant amount to Cogecom S.A..

As at 30 September 2001 Tele-Invest S.A. together with Autopolska S.A. (subsidiaries of Kulczyk Holding S.A.) owned 13.6% of shares of the parent company (see Note 19). In the nine months ended 30 September 2001 and 2000 the Group did not purchase or sell products or services of a significant amount to Tele-Invest S.A. and Autopolska S.A..

The Group did not report any significant receivables and payables to the above mentioned related parties as at 30 September 2001 and 31 December 2000.

Short-term employee benefits paid to the members of the Company's Management and Supervisory Board in the nine months ended 30 September 2001 and 2000 amounted to PLN 8 million and PLN 3 million, respectively.

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24. Segment reporting

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

The parent company TPSA operates in the fixed line telecommunications sector where it provides local, domestic long distance and international public telephony services. In addition, TPSA provides leased lines, radiocommunication and other telecommunications value added services, sells telecommunications equipment and produces fibre optic cables and chip cards.

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

Other operations involve businesses of other companies constituting the Group. Other operations do not fulfil the conditions for reportable segments under International Accounting Standard No. 14 “Segment Reporting”.

The Group operates in one geographical segment being the territory of Poland.

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

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Basic financial information about business segments is presented below:

	Fixed line telecommunica tions	Mobile telecommunica tions	Other	Eliminati ons	Consolid ated
30 September 2001					
Assets	31,728	5,595	319	(4,519)	33,123
Liabilities	18,604	4,670	83	(2,624)	20,733
31 December 2000					
Assets	29,868	4,971	237	(2,995)	32,081
Liabilities	17,858	4,162	109	(1,632)	20,497
9 months ended 30 September 2001					
Sales:	11,531	1,674	117	(472)	12,850
intersegment	108	291	73	(472)	-
external	11,423	1,383	44	-	12,850
Depreciation and amortisation	2,395	393	33	7	2,828
Operating result	2,522	(187)	(88)	(7)	2,240
Impairment loss	30	-	-	-	30
Net profit	1,143	(360)	(82)	120	821
Capital expenditures	3,114	839	19	-	3,972
Net cash flows from:					
operating activities	5,018	248	(66)	(11)	5,189
investing activities	(5,593)	(1,749)	(30)	1,375	(5,997)
financing activities	668	1,585	161	(1,397)	1,017
9 months ended 30 September 2000					
Sales:	10,764	1,069	-	(276)	11,557
intersegment	77	199	-	(276)	-
external	10,687	870	-	-	11,557
Depreciation and amortisation	2,000	267	-	7	2,274
Operating result	3,034	(401)	(35)	(7)	2,591

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Impairment loss	-	-	-	-	-
Net profit	1,448	(429)	(33)	139	1,125
Capital expenditures	2,868	634	43	-	3,545
Net cash flows from:					
operating activities	4,432	(177)	(39)	(14)	4,202
investing activities	(4,824)	(848)	(43)	934	(4,781)
financing activities	1,425	967	70	(919)	1,543

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25. Contingent liabilities and uncertainties

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

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

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

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

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 CIT and VAT settlements for 1996, together with penalty interest. As at 30 September 2001 TPSA recognised liability in this respect amounting to PLN 78 million. The Company settled this amount on 1 October 2001. On 12 October 2001 TPSA appealed against this decision to the Tax Chamber in Warsaw. The results of 1996 inspection may give rise to questioning of other tax liabilities of the Company.

On 13 July 2000 the Warsaw Tax Control Office initiated in the subsidiary PTK-Centertel Sp. z o.o. 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 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, on 17 December 2001 PTK-Centertel Sp. z o.o. received an inspection protocol on the review of CIT settlements for 1997. The amount of tax underpayment is PLN 3 million.

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

As of 30 September 2001 the provision created by the Group entities for the best estimate of amounts that are more likely than not to be claimed as a result of the matters described above amounted to PLN 217 million.

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

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

In February 2001 TPSA appealed the decision imposing the penalty to the District Anti-Monopoly Court in Warsaw and petitioned to the OPCC to deem the decision DDI 36/98 invalid. In June 2001 the OPCC decided to discontinue legal proceedings concerning TPSA petition to deem the decision DDI 36/98 invalid. TPSA appealed this decision to the District Anti-Monopoly Court in Warsaw. Management Board of the parent company believes there is high probability of repealing the penalty and therefore no provision was created in this respect as of 30 September 2001.

(c) Investment tax allowances

In 1994 – 2000 TPSA took advantage of investment tax allowance scheme. Under this scheme in arriving at its taxable income TPSA has deducted PLN 2,543 million in respect of investment in qualifying fixed assets in the period. Additionally, in 1995 – 2000 and in the nine months ended 30 September 2001 the Company has taken additional investment tax bonus amounting to PLN 1,271 million. These deductions have reduced the tax charges of TPSA by PLN 1,432 million in 1994-2000 and in the nine months ended 30 September 2001 as follows:

	(in PLN millions)
1994	138
1995	252
1996	311
1997	282
1998	207
1999	159
2000	71
9 months ended 30 September 2001	12

Total	1,432
	=====

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,

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- 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 penalty interest or within 14 days following receipt of tax authorities' decision establishing existence of tax arrears the taxpayer pays the overdue amount plus penalty interest. However, these modifications do not relate to the right to investment allowances utilised before 1 January 1997 as well as arrears resulting from unpaid social security charges.

(d) Concessions for mobile telecommunications

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

(e) Rights to assets and division of liabilities

Issues related to incorporation of TPSA

The parent company TPSA was established as a result of a transformation of the state owned organisation PPTiT into two entities – Polish Post and TPSA. During the transformation process and transfer of the ownership rights to the new entities certain items of property and other assets that are currently under the Company's control were omitted and the

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documentation relating to the transformation process is incomplete in respect to certain items of property. According to the above, TPSA's rights to certain properties may be questioned.

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

Assets received free of charge

Since June 1998 following the petitions of several communities and associations of communities addressed to the Office for Protection of Competition and Customers ("OPCC"), administrative proceedings were instituted against TPSA based on art. 5 par. 1 items 3 and 5 of Act on Preventing Monopolistic Practices and Customer Protection. The proceedings referred to the Company's 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 these communities. According to the communities TPSA gained unjustified benefits as a result of monopolistic practices.

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

TPSA appealed against all unfavourable decisions of OPCC to the District Anti-Monopoly Court in Warsaw ("AMC"). Following TPSA appellations OPCC, without directing the cases to AMC, withdrew decisions and cancelled administrative proceedings in five cases (in three of these cases the Communities appealed the OPCC verdict to AMC). Following TPSA appellations in six other cases AMC repealed the unfavourable decisions of OPCC (in three of these cases the President of OPCC and the Communities repealed AMC decisions to the Supreme Court). As of the date of the issuance of these financial statements the one remaining appellation of TPSA has not been investigated by AMC, yet.

The unfavourable for TPSA decisions 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 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.

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According to the Company's best knowledge as of the date of the issuance of these financial statements administrative proceedings were in process regarding eight cases with the total amount of PLN 4,812 thousand of potential claims (in one of these cases the amount of the claim was not stated).

Management Board of the parent company believes there is high probability of favourable verdicts in all the cases and therefore no provision was recorded in this respect as of 30 September 2001.

(f) 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. The Company recognised a provision for the best estimate of real estate tax that is more likely than not to be claimed. The respective provision recorded in the Company's books as of 30 September 2001 amounts to PLN 68 million.

(g) Settlements with domestic fixed-line operators

Compensation requested by Niezalezny Operator Miedzysieciowy Sp. z o.o.

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

On 18 July 2001 TPSA was requested by NOM to pay PLN 81 million as a compensation for losses arising from a delay in setting up detailed conditions of co-operation between NOM and TPSA and, as a result, a delay in commencement of rendering DLD services by NOM. Following the TPSA rejection of the request, on 17 August 2001 NOM petitioned to the

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Warsaw District Court that TPSA pays to NOM the amount of PLN 81 million with penalty interest. On 7 November 2001 TPSA submitted to the Court the official negative response to the NOM petition.

Invoicing for DLD services

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

TPSA has opposed to implement the above decision taking the position that this would lead to a breach of Polish tax regulations and on 29 May 2001 appealed this decision to the District Anti-Monopoly Court in Warsaw. Currently, the issue is under discussion between the operators and regulatory bodies. As of the date of the issuance of these financial statements no final resolution has been reached.

(h) Dispute with DPTG

As more fully explained in Note 22(c) the Company has a revenue sharing agreement with DPTG. There is a dispute between DPTG and the Company related to the basis of calculation of revenues to be shared between the parties and resulting settlements between both parties. On 22 March 2001 DPTG requested termination or re-negotiation of the contract as the traffic accounted for by TPSA has been decreasing since 1999. As the Company did not accept the suggested terms of termination or re-negotiation of the agreement, DPTG claimed arbitration in June 2001. As of the date of the issuance of the financial statements no resolution has been reached and the Company was not able to estimate the potential amount of the claim.

(i) Investigations by URT and OPCC

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

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26. Financial instruments

The fair value of cash and cash equivalents, receivables, short-term financial assets and current loans, borrowings and other payables approximates the carrying amounts reported in the balance sheet due to the relatively short-term maturity of these financial instruments. The fair value of non-current financial assets as well as loans, borrowings and other payables with variable interest rates approximates their carrying amounts. As of 30 September 2001 and 31 December 2000 the fair value of non-current loans, borrowings and other payables with fixed interest rates amounted to PLN 11,857 million and PLN 10,328 million, respectively (carrying amount: PLN 11,974 million and PLN 10,667 million, respectively).

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

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The Group uses forward contracts and currency and interest rate swaps to mitigate its exposure against foreign currency fluctuations on debt denominated in foreign currencies or to mitigate its exposure against interest rates fluctuations on debt based on fixed interest rates. As at 30 September 2001 and 31 December 2000 these instruments were as follows:

Type of instrument	Designation	Notional amount		Interest		Maturity	Fair value	
		receive	pay	receive	pay		30 September 2001	31 December 2000
		(million)					(PLN million)	
Interest rate and currency swap	trading	USD 100	PLN 351	LIBOR+0.3%	20.95%	2004	20	22
Interest rate and currency swap*	trading	PLN 351	USD 100	20.95%	LIBOR+0.3%	2004	-	(22)
Interest rate and currency swap	fair value hedge	USD 200	PLN 852	7.125%	WIBOR+1.87% 62.95%xWIBO	2003	1	-
Currency swap*	trading	USD 300	PLN 1,170	-	R	2008	-	(13)
Currency swap*	trading	EUR 50	PLN 198	-	6.5 %	2004	-	3
Currency swap*	trading	EUR 50	PLN 202	-	8.2%	2004	-	(10)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 400	6.125%	13.8%	2004	(27)	-
Currency swap*	trading	EUR 100	PLN 409	-	8%	2004	-	(21)
Interest rate and currency swap	cash flow hedge	EUR 200	PLN 796	6.125%	13.77%	2004	6	-
Currency swaps*	trading	EUR 100	PLN 388	EURIBOR	WIBOR+0.1%	2004	-	(11)
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 388	6.125%	15.25%	2004	(18)	-
Interest rate and currency swap	cash flow	EUR 100	PLN 392	6.125%	13.83%	2004	4	-

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Type of instrument	Designation	Notional amount		Interest		Maturity	Fair value	
swap	hedge							
Interest rate and currency swap	cash flow hedge	EUR 100	PLN 338	6.625%	14.78%	2006	66	-
Interest rate and currency swap	cash flow hedge	EUR 50	PLN 172	6.625%	14.75%	2006	30	-
Interest rate and currency swap	cash flow hedge	EUR 25	PLN 85	6.5%	14.27%	2007	17	-
Interest rate and currency swaps	trading	EUR 70	PLN 282	3.81%-4.7%	11.7%-12.95%	2002-2005	(10)	(9)
Interest rate and currency swaps	trading	EUR 50	PLN 197	6.3%	14.78%-14.96%	2004	(18)	(2)
Currency swaps	trading	EUR 15	PLN 59	-	6.37%-6.69%	2007	(2)	(4)

* As of 30 September 2001 the transaction was closed.

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27. Supplementary cash flow information

Significant non-cash transactions in the nine months ended 30 September 2001 and 2000 are presented below:

	9 months ended 30	
	September	
	2001	2000
	(in PLN millions)	
Telecommunications infrastructure received free of charge	24	99
	=====	=====

28. Prior period events

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

29. Subsequent Events

(a) *Increase in the share capital of TP Internet Sp. z o.o.*

On 25 October 2001, the shareholders of TP Internet Sp. z o.o. adopted a resolution on additional increase in the company share capital amounting to PLN 132 million by means of issue of new shares. All newly issued shares will be taken up by TPSA.

(b) *Conditional purchase of Wirtualna Polska S.A. shares by TP Internet Sp. z o.o.*

On 26 October 2001, the subsidiary company TP Internet Sp. z o.o. entered into a conditional share purchase agreement with Centrum Nowych Technologii under liquidation Sp. z o.o., Prokom Internet S.A., Intel Atlantic Inc. and Dom Maklerski Penetrator S.A.. Under this agreement TP Internet will purchase shares of Wirtualna Polska S.A. ("WP") constituting 25% of WP share capital as of the date of signing the agreement. The final consideration paid by TP Internet Sp. z o.o. will depend on WP financial results for 2001 and 2002. The agreement includes certain other conditions, e.g. relating to the control over WP Management and Supervisory Board and increase in WP share capital, as a result of which TP Internet Sp. z o.o. would hold over 50% of WP shares. On 4 December 2001 the increase in the share capital of WP was registered. As of 11 December 2001 the other conditions suspending the final purchase of shares were met. As a result of the share capital increase and the transaction described above, as of the date of preparation of these financial statements TP Internet Sp. z o.o. owns 50% of the share capital plus one share of WP. Wirtualna Polska S.A. is one of the leading internet companies in Poland.

(c) *Changes in conditions of settlements with Polska Telefonia Cyfrowa Sp. z o.o.*

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Following the petition of one of the three Polish mobile telecommunication providers Polska Telefonia Cyfrowa Sp. z o.o. ("PTC"), the President of URT issued on 29 November 2001 a decision changing the agreement signed by TPSA and PTC in 1998 relating to co-operation and interconnection settlements. The decision reduces interconnect charges paid by PTC for network connections initiated in PTC network and directed to TPSA network. TPSA is obliged to implement the decision of the President of URT immediately. In case of a failure to implement the decision URT may impose on the Company penalty up to the equivalent of 3% revenues for prior year. On 13 December 2001 TPSA appealed from the aforementioned decision to Anti-Monopoly Court in Warsaw and petitioned to suspend the execution of the decision.

(d) *Increase in the share capital of ORE S.A.*

On 13 December 2001 the Extraordinary Shareholders' Meeting of ORE S.A. issued a resolution to increase ORE S.A. share capital by means of issuance of 15 million shares with nominal and issue price of PLN 1 and PLN 2, respectively. As a result ORE S.A. shareholders' equity will increase by PLN 30 million. All new shares will be taken up by TP S.A..

(e) *Bonds Issuance Programme*

On 18 December 2001 TPSA Management Board adopted a resolution to conduct Bonds Issuance Programme ("the Programme") under which TPSA may issue one or more tranches of bonds. The total value of bonds issued within the scope of the Programme will amount to PLN 350 million with the option to increase to PLN 1 billion. The bonds will be offered exclusively on the territory of Poland as non-public issuance and will mature between seven days and one year. The duration of the Programme is not defined.

(f) *Transactions with Goldman Sachs Capital Markets L.P.*

TPSA and Goldman Sachs Capital Markets L.P. ("GSCM") signed an agreement with the trade date 1 October 2001 which transfers currency risk as to the amount of USD 100 million to GSCM subject to the following conditions:

- GSCM will pay to TPSA the amount of USD 100 million on 10 December 2008. GSCM will pay, semi-annually, interest based on the fixed rate of 7.75% p.a. for the period from 11 June 2001 to 10 December 2008.
- TPSA will pay to GSCM the amount of PLN 422.5 million on 10 December 2008. TPSA will pay, semi-annually, interest based on floating six-month WIBOR with 2.98% spread for the period from 11 June 2001 to 10 December 2008.

TPSA and GSCM signed another agreement with the trade date 15 November 2001 which transfers currency risk as to the amount of USD 100 million to GSCM subject to the following conditions:

- GSCM will pay to TPSA the amount of USD 100 million on 10 December 2008. GSCM will pay, semi-annually, interest based on the fixed rate of 7.75% p.a. for the period from 10 June 2001 to 10 December 2008.
- TPSA will pay to GSCM the amount of PLN 410 million on 10 December 2008. TPSA will pay, semi-annually, interest based on floating six-month WIBOR with 2.65% spread for the period from 10 June 2001 to 10 December 2008.

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(g) *Transaction with Bank Handlowy w Warszawie S.A.*

TPSA and Bank Handlowy w Warszawie S.A. (“BHW”) signed an agreement with the trade date 23 November 2001 which transfers currency risk as to the amount of USD 50 million to BHW subject to the following conditions:

- BHW will pay to TPSA the amount of USD 50 million on 10 December 2008. BHW will pay, semi-annually, interest based on the fixed rate of 7.75% p.a. for the period from 10 June 2001 to 10 December 2008.
- TPSA will pay to BHW the amount of PLN 205.5 million on 10 December 2008. TPSA will pay, semi-annually, interest based on floating six-month WIBOR with 1.9% spread for the period from 10 June 2001 to 10 December 2008

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(h) Transactions with Deutsche Bank AG London

TPSA and Deutsche Bank AG London (“DB”) signed an agreement with the trade date 23 November 2001 which transfers currency risk as to the amount of USD 50 million to DB subject to the following conditions:

- DB will pay to TPSA the amount of USD 50 million on 10 December 2008. DB will pay, semi-annually, interest based on the fixed rate of 7.75% p.a. for the period from 10 June 2001 to 10 December 2008.
- TPSA will pay to DB the amount of PLN 205.3 million on 10 December 2008. TPSA will pay, semi-annually, interest based on the floating six-month WIBOR with 1.95% spread for the period from 10 June 2001 to 10 December 2008.

TPSA and Deutsche Bank AG London (“DB”) signed another agreement with the trade date 19 December 2001 which transfers currency risk as to the amount of EUR 100 million to DB subject to the following conditions:

- On 20 December 2001 DB paid to TPSA the amount of PLN 359.2 million and TPSA paid to DB the amount of EUR 100 million as an initial exchange of notional amount.
- DB will pay to TPSA, semi-annually, the amount of EUR 5.6 million for the period from 15 December 2003 to 15 June 2012. DB will pay, quarterly, interest based on the floating three-month EURIBOR for the period from 17 December 2001 to 15 June 2012.
- TPSA will pay to DB, semi-annually, the amount of PLN 19.9 million for the period from 15 December 2003 to 15 June 2012. TPSA will pay, quarterly, interest based on the floating three-month WIBOR for the period from 17 December 2001 to 15 June 2012

(i) Transaction with Morgan Stanley Capital Services

TPSA and Morgan Stanley Capital Services (“MSCS”) signed an agreement with the trade date 27 November 2001 which transfers currency risk as to the amount of USD 50 million to MSCS subject to the following conditions:

- MSCS will pay to TPSA the amount of USD 50 million on 10 December 2008. MSCS will pay, semi-annually, interest based on the fixed rate of 7.75% p.a. for the period from 10 June 2001 to 10 December 2008.
- TPSA will pay to MSCS the amount of PLN 204.3 million on 10 December 2008. TPSA will pay, semi-annually, interest based on floating six-month WIBOR with 1.75% spread for the period from 10 June 2001 to 10 December 2008.

(j) Provision for severance pay related to the employment restructuring

In connection with the planned restructuring, including a contemplated reduction in employment levels, the Management Board intends to establish provisions in the amount of approximately PLN 750 million. The intended provisions would cover the employment restructuring in the years 2002-2004. The Management Board has prepared the employment restructuring plan and commenced communication of the plan to the representatives of the trade unions that are active at TPSA.

30. Transformation for IAS purposes

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The parent company and its subsidiaries and affiliates, except for TPSA Finance B.V. and TPSA Eurofinance B.V., maintain accounts in accordance with the accounting principles and practices employed by enterprises in Poland as is required by the Accounting Act. The financial statements set out above reflect certain adjustments not reflected in TPSA's consolidated financial statements prepared under Polish Accounting Standards to present these financial statements in accordance with IAS, except for non-compliance with IAS 29 and IAS 39 in respect of accounting for embedded derivatives.

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

	Net profit for 9 months ended 30 Septem ber 2001	Net profit for 9 months ended 30 Septem ber 2000	Net assets as at 30 Septembe r 2001	Net assets as at 31 Decembe r 2000	Total assets as at 30 Septembe r 2001	Total assets as at 31 Decembe r 2000
(in PLN millions)						
Consolidated PAS	807	958	12,113	11,363	33,816	32,914
(a) Foreign exchange gains net effect	(62)	106	239	301	-	-
(b) Assets received free of charge	8	7	(161)	(169)	-	-
(c) Capitalisation of borrowing costs	132	130	417	285	436	293
(d) Deferred tax effects	(17)	(62)	(159)	(142)	(50)	-
(e) Distribution from profit for the benefit of employees and for special funds	(36)	(13)	(36)	(47)	-	-
(f) Discount on bonds and commercial papers issued	-	-	-	-	(79)	(73)
(g) Provisions for fixed assets intended for liquidation or sale	-	-	-	-	(154)	(143)
(h) Telecommunic	(11)	-	(18)	(7)	(846)	(892)

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	ations					
	concessions					
(i)	Hedging instruments	-	-	(3)	-	-
(j)	Other	-	(1)	(2)	-	(18)
		----	----	----	----	----
Consolidated IAS		821	1,125	12,390	11,584	33,123
		====	====	====	====	====
		==	=====	=====	=====	=====

(a) *Foreign exchange gains*

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

(b) *Assets received free of charge*

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

(c) *Capitalisation of borrowing costs*

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

(d) *Deferred tax effects*

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(f) Discount on bonds and commercial papers issued

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

(g) Provision for fixed assets intended for liquidation or sale

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

(h) Telecommunications concessions

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

(i) Hedging instruments

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

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