

POLKOMTEL S.A. GROUP

Consolidated Financial Statements

as at December 31, 2010 and December 31, 2009
for the years ended December 31, 2010 and December 31, 2009

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the years ended December 31, 2010 and December 31, 2009

		for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	Notes	in PLN million	in PLN million
Continuing operations			
Revenue	5	7,673.1	7,773.2
Other operating income	7	252.0	222.6
		7,925.1	7,995.8
Operating expenses			
Costs of goods sold		(1,145.6)	(1,295.1)
Amortisation and depreciation	6	(1,369.7)	(1,308.4)
Materials and energy	6	(100.6)	(91.2)
Interconnect charges	6	(1,490.1)	(1,551.4)
External services	6	(1,207.0)	(1,270.7)
Employee benefits	6	(490.6)	(445.0)
Taxes and charges	6	(100.3)	(105.7)
Marketing costs and other overheads	6	(276.2)	(280.3)
Other operating expenses	8	(240.1)	(271.6)
		(6,420.2)	(6,619.4)
Operating profit		1,504.9	1,376.4
Financial income	9	48.2	111.9
Financial expense	10	(157.4)	(263.4)
Share of profits of associates	18	2.1	2.8
Profit before taxation		1,397.8	1,227.7
Income tax expenses	11	(278.9)	(248.4)
Net profit for the period		1,118.9	979.3
Other comprehensive income		-	-
Total comprehensive income for the period		1,118.9	979.3
EARNINGS PER SHARE			
Basic	12	54.6	47.8
Diluted	12	54.6	47.8

See notes to the Statement of Comprehensive Income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2010 and December 31, 2009

ASSETS	Notes	as at December 31, 2010 <i>in PLN million</i>	as at December 31, 2009 <i>in PLN million</i>
<i>Non-current assets</i>			
Property, plant and equipment	13,14	4,392.7	4,880.8
Goodwill	15	15.5	15.5
Intangible assets	16	2,125.7	2,148.4
Investments in associates	18	30.1	17.2
		6,564.0	7,061.9
<i>Current assets</i>			
Inventories	21	140.6	131.9
Trade and other receivables	22	1,174.3	1,192.3
Cash and cash equivalents	23	29.2	23.9
Financial assets and derivative instruments	19,20	9.8	14.5
		1,353.9	1,362.6
TOTAL ASSETS		7,917.9	8,424.5

See notes to the Statement of Financial Position.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont.)

as at December 31, 2010 and December 31, 2009

		as at December 31, 2010	as at December 31, 2009
EQUITY AND LIABILITIES	Notes	<i>in PLN million</i>	<i>in PLN million</i>
<i>Shareholders' equity</i>			
Share capital	25	2,050.0	2,050.0
Retained earnings	26	1,667.9	1,150.3
		3,717.9	3,200.3
<i>Non-current liabilities</i>			
Long-term financial liabilities	27, 28, 29	1,812.7	855.2
Retirement benefit obligation	32	6.1	5.3
Deferred tax liability	11	18.3	38.5
Provisions for liabilities	32	60.3	41.4
		1,897.4	940.4
<i>Current liabilities</i>			
Trade and other payables	31	668.9	589.4
Current portion of long-term payable	27	57.3	59.4
Corporate income tax liabilities	31	7.6	8.7
Financial liabilities	28, 29, 30	120.2	2,197.6
Derivative instrument liabilities	19, 20	38.4	38.2
Retirement benefit obligation	32	0.5	0.2
Provisions for liabilities	32	273.0	227.0
Accrued expenses	33	559.7	610.3
Deferred revenues	34	577.0	553.0
		2,302.6	4,283.8
TOTAL EQUITY AND LIABILITIES		7,917.9	8,424.5

See notes to the Statement of Financial Position.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 2010 and December 31, 2009

	<i>in PLN million</i>		
	Share Capital	Retained earnings	TOTAL
Balance as at December 31, 2008	2,050.0	1,885.6	3,935.6
Total comprehensive income for the period	-	979.3	979.3
Dividends paid in 2009	-	(1,250.3)	(1,250.3)
Balance as at December 31, 2009	2,050.0	1,614.6	3,664.6
Balance as at December 31, 2009	2,050.0	1,150.3	3,200.3
Total comprehensive income for the period	-	1,118.9	1,118.9
Dividends paid in 2010	-	(98.6)	(98.6)
Advance dividend payment	-	(502.7)	(502.7)
Balance as at December 31, 2010	2,050.0	1,667.9	3,717.9

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CONSOLIDATED STATEMENT OF CASH FLOW

for the years ended December 31, 2010 and December 31, 2009

		for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	Notes	in PLN million	in PLN million
Operating activities			
Profit before taxation:		1,397.8	1,227.7
Adjustments for items:			
Share in profits of associates		(2.1)	(2.8)
Financial revenue and costs	24	107.9	111.3
Income tax paid		(327.7)	(402.7)
Depreciation and amortisation	24	1,328.7	1,295.6
Impairment loss	24	44.5	12.8
Profit / loss on sale of fixed assets		(4.8)	(0.6)
Investments loss	24	11.7	77.7
Cash flows from operating activities before movements in working capital		2,556.0	2,319.0
Increase / decrease in:			
Inventories		(8.7)	61.3
Accounts receivable	24	18.6	98.0
Accounts payable	24	42.2	(100.4)
Accrued expenses	24	(43.7)	(31.7)
Deferred revenues		23.9	124.7
Provisions	24	49.6	55.3
Net cash flows from operating activities		2,637.9	2,526.2

CONSOLIDATED STATEMENT OF CASH FLOW (cont.)

for the years ended December 31, 2010 and December 31, 2009

	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Investing activities		
Proceeds on disposal of property, plant and equipment	6.3	8.3
Purchase of property, plant and equipment and intangibles	(858.3)	(1,348.0)
Dividends and shares in profits	2.0	2.2
Other investing activities	(22.6)	2.8
Net cash outflow on acquisition of subsidiaries	-	(10.6)
Net cash flows used in investing activities	(872.6)	(1,345.3)
Financing activities		
Dividends paid	(608.6)	(1,702.3)
Repayments of borrowings:		
bank loans and overdrafts	(2,562.5)	(1,347.8)
bonds and commercial papers	(571.0)	(20.0)
interest	(45.3)	(59.6)
financial lease	(1.1)	-
Proceeds from:		
bank loans and overdrafts	540.0	1,857.5
bonds and commercial papers	1,488.5	90.7
interest	-	0.6
Net cash flows from financing activities	(1,760.0)	(1,180.9)
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	5.3	(0.0)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	23.9	23.9
including effect of foreign exchange rate changes	0.0	(0.0)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	29.2	23.9
<i>Restricted cash</i>	<i>13.5</i>	<i>11.9</i>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. General information

Polkomtel S.A. (the "parent company") is located in Warsaw, operates as a joint stock company and was incorporated by Notarial Deed dated 19 December 1995. The parent company is registered in the National Court Register kept by District Court in Warsaw, XIII Business Department of Notional Court Register, Entry No. KRS 0000020908.

As of the balance sheet date, the Capital Group of Polkomtel („Capital Group”) includes: Polkomtel SA as the Parent Company, Nordisk Polska Sp z o.o. and Polkomtel Finance AB (publ) as subsidiaries.

Additional information about the subordinated entities covered by the consolidated financial statements were included in the explanatory notes to the consolidated financial statements.

The scope of business activities of the Group includes:

- designing, installing, operating and managing telecommunication systems and networks in Poland, as well as any required infrastructure, with particular consideration of wireless technologies;
- developing and selling products and services in Poland, directly or indirectly using the aforementioned systems, networks and infrastructure;
- conducting any other activities with regard to the provision of telecommunication and related services in Poland (value added services, accompanying information services as well as services aimed at promoting the systems used, networks and provided services), personal insurance and property insurance, reinsurance, activities of insurance agents and brokers, other activities auxiliary to insurance.

As at the date of preparation of consolidated financial statements, the composition of the parent company's Management Board is as follows:

- Jarosław Bauc, President of the Management Board, General Director of Polkomtel S.A.;
- Krzysztof Kilian, I Vice President of the Management Board, Marketing and CRM Director;
- Bogusława Matuszewska, Vice President of the Management Board, Sales and IT Director;
- Wojciech Dylewski, Management Board Member, Operation Director;
- Martin Moorhouse, Management Board Member, Finance Director.

Consolidated financial statements currency

The Polish Zloty (PLN) is the reporting and functional currency of the Group.

The consolidated financial statements have been prepared in accordance with all International Financial Reporting Standards ("IFRS") as adopted by the EU.

The Group maintains its accounting records in accordance with accounting principles and practices employed by enterprises in Poland as required by Polish Accounting Standards ("PAS").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. Adoption of new and revised International Financial Reporting Standards

The financial information was presented and drawn based on the standards and accounting principles applicable to annual periods beginning on 1 January 2010.

Standards and Interpretations issued and adopted by the EU but not yet effective:

Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),

Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),

Amendments to IFRS 1 “First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010).

Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010).

Standards and Interpretations issued by IASB but not adopted by the EU:

IFRS 9 “Financial Instruments” effective for annual periods beginning on or after 1 January 2013,

Amendments to IFRS 1 “First-time Adoption of IFRS”- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),

Amendments to IFRS 7 “Financial Instruments: Disclosures”- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),

Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),

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Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011).

Parent Company's Management Board is analyzing the expected impact of these standards and interpretations, however currently does not believe the adoption of these regulations will have a significant impact on the Group's financial statements.

2a. Summary of adjustments in the consolidated financial statements

The consolidated financial statements for the financial year ended on 31 December 2010 was originally approved by the Parent Company's Management Board on 22 February 2011. In connection with the delivery to the Parent Company on 15 March 2011 of UOKiK President's decision on imposing a fine of PLN 130.7 million the Parent Company's Management Board decided to include in note 42 "Events after the end of the reporting period" to the consolidated financial statements the disclosure concerning the decision received. In connection with the adjustment, the new consolidated financial statements was approved with the date of 17 March 2011.

3. Significant accounting policies**Basis of consolidated financial statements preparation**

The consolidated financial statements have been prepared on the assumption of continuation of operations in foreseeable future.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

Consolidated rules**Investments in subsidiaries**

Financial results of the subsidiary acquired during the year is included in the consolidated financial statements since the moments of its purchase.

Any transactions, balances, revenues and costs between affiliated entities covered by the consolidation are subject to the full consolidation elimination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Investments in associated entities

The financial results, assets and liabilities of the associated entity are included in the financial statements based on the equity method. According to this method, investments into associate entity are recognized in the

consolidated financial statements at the historical costs, with a relevant correction by the changes which occurred after the take-over date related to the share of the Capital Group in the net assets of the associated entity minus any loss of value of this investment.

Goodwill

The goodwill is recognized initially as the asset components at the cost, and then is valued according to the cost deducted by an accumulated loss on account of the loss of value.

At each balance sheet day, the Group evaluates whether there are premises indicating that there might be a loss of the goodwill.

The loss of value is determined by the evaluation of the recoverable amount of an entity generating cash flows, to which this goodwill is allocated. If the recoverable amount is smaller than its balance sheet value, the impairment on account of the loss of value is recognized.

Accounting policy and changes in accounting policy

The accounting principles have been consistently applied by the Group and they are consistent with those used in the previous years except for the changes described below:

Changes in presentation – changes in comparative information.

The Group reclassified the comparative period in the statement of cash flows as follows:

- the value of change in impairment allowance for accounts receivable and impairment allowance for stock was reclassified from change in provisions to change in accounts receivable and change in stock respectively
- the value of change in provisions for liabilities was reclassified from change in accrued expenses to change in provisions.

The parent company has changed the method of presentation of the cost of the written off and sold principal and incidental receivables by reducing the value of prior allowances related to these receivables. As a result of these changes other operating income and other operating cost items were adjusted accordingly.

The Group changed the opening balance of fixed assets and fixed assets under construction and reclassified the amount PLN 21.2 million from fixed assets under construction to network systems and equipment.

The Group's summary of significant accounting policies is described below.

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Foreign currencies

In preparing the consolidated financial statements, transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions.

At each end of the reporting period, monetary items denominated in foreign currencies are translated into PLN using the average National Bank of Poland exchange rates prevailing on the end of the reporting period. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, in accordance with IAS 21, are included in consolidated statement of comprehensive income for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options.

Revenue recognition

Revenue is recognized when revenue value has been determined reliably and there is a probability that the Group will achieve economic benefits in the reporting period.

Revenue is recognized at the fair value of the consideration received or receivable after deducting any discounts, buyers' returns and taxes.

Revenues from multiple-elements arrangements

The Group allocates revenues in multi-element agreements to each component based on their estimated fair values.

Sale of goods

Revenues from the sale of goods are recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and not effective control over the goods sold.

Sale of services

Revenues from the sale of telecommunication services, including in particular airtime charges, monthly access charges, messaging, data transmission services and information provision are determined in proportion to the completion stage of the contract or recognized at the moment of performance of a service.

Revenues from fees for activation are recognized in consolidated statement of comprehensive income at the moment of service activation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Revenue from the sale of prepaid credits is deferred until the customer uses the airtime, or credit expires. The revenue is recognized in its gross value, that is while recognizing in parallel with the revenues also the cost of scratch card distribution.

Revenue from sale of premium rate services, which are inseparably associated with additional benefits (content), is recognized at its gross value if it is the Group who bears the main risk associated with delivery of the content. The revenue is recognized at net value, that is upon deducting the amounts due to the provider, if the main risk associated with delivery of the content is on the provider's side.

Loyalty program – the Group maintains a loyalty program for its customers. Revenue related to points granted as a part of sales transaction is deferred until redemption by the customer. The expenses related to discretionary points within the loyalty program are expensed when the points are granted.

Taxation

The Group accounts for income taxes under IAS 12. Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from gross profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items which, as a rule, are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statement and the corresponding tax bases used in the calculation of taxable profit/loss, and is accounted for using the balance sheet method. Deferred tax provision is recognised for all taxable temporary differences and deferred tax assets are recognised up to the amount of deductible temporary negative differences, expected to be realised, while taking into consideration tax losses or tax credit that the Group could use.

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced to the extent in which it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or a provision is terminated.

Deferred tax is charged or credited to consolidated statement of comprehensive income.

In consolidated statement of financial position the Group presents the income tax after offsetting the respective amounts against the liabilities payable to the same tax office.

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Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are measured in the consolidated statement of financial position at historical cost, increased by extension or modernisation costs, when it is expected that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group, less accumulated depreciation and any accumulated impairment losses. Cost also includes the estimated costs of dismantling and removing the assets and restoring the site.

Spares are accounted for as property, plant and equipment.

Fixed assets are split into components based on their estimated useful life.

Depreciation of property, plant and equipment, commences when the assets are ready for use. All property, plant and equipment, other than land and property under construction are depreciated on a straight-line basis over the assets' estimated useful life as follows:

	in years
Buildings & Constructions	20 – 40
Network systems & equipment	3.3 – 14.3
Motor vehicles	5 – 7.1
Other fixed assets	3.3 – 10

Property, plant and equipment under construction are carried at cost, less any recognised impairment loss.

Assets used under lease agreements that transfer substantially all risks and rewards of ownership to the Capital Group are recorded as assets and an obligation in the same amount is recorded in liabilities at the inception of the lease. Assets acquired under finance leases are fully depreciated within the period of duration of the lease contract.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds and the carrying amount of the asset and is recognised in consolidated statement of comprehensive income in operating profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Intangibles

Intangible fixed assets include telecommunication licences (GSM 900, DCS 1800, UMTS and CDMA), other licences and software.

The telecommunication licences are measured at cost less accumulated amortisation and any accumulated impairment losses. As the payments are deferred beyond normal credit terms the cost of licence is the cash price equivalent (present value of licences' payments discounted by borrower's marginal interest rate at the date of inception of license payments). The difference between this amount and total nominal payments is recognised as an interest expense. The costs of the licenses are amortised using the straight-line method over their estimated useful lives, from the commercial commencement of the telecommunication services stipulated by the license until the end of the license. The following economic life periods are adopted for licenses:

	in years
GSM 900	14.5
DCS 1800	14.5
UMTS	18
CDMA	12.5

Other intangible assets are measured in the consolidated statement of financial position at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of other intangible assets commences when the assets are ready for their use. Other intangible assets are amortised over their expected useful economic life on a straight line basis.

Amortisation of intangible assets is charged to the consolidated statement of comprehensive income.

The gain or loss arising on the disposal or retirement of an item of intangible assets is determined as the difference between the proceeds and the carrying amount of the asset and is recognised in consolidated statement of comprehensive income in operating profit.

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Impairment of tangible and intangible assets

At each end of the reporting period, the Group reviews, according to IAS 36, the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in operating profit in consolidated statement of comprehensive income. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in operating profit in consolidated statement of comprehensive income.

Inventories

Inventories of materials and goods are stated at the lower of cost and net realisable value. Purchase price comprises direct materials and, where applicable, direct labour costs and those charges (i.e. custom duties and border fees) that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The Group carries out periodic analyses of the stock levels and creates impairments for any product to net realizable value. The impairment is created for product that has partly or completely lost its qualitative features due to damage or slow stock turnover. The impairment loss is recognised immediately in operating profit in consolidated statement of comprehensive income.

The cost of inventories is determined using the weighted average method.

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Leasing

Leases are classified as finance leases when the lease transfers substantially all the risks and rewards of ownership of the asset to the lessee. Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases.

Financial assets and financial liabilities.

Financial assets include assets valued at fair value through profit and loss, loans granted and own receivables, cash and cash equivalents.

Financial assets valued at fair value through profit and loss include the financial assets intended for trading. A component of financial assets is qualified as intended for trading if it has been purchased for the purpose of resale in a short period of time or if it is a derivative instrument.

Loans and receivables are financial assets which are not derivatives. They involve set or potential payments and they are not subject to turnover on an active market. Following their original recognition, they are then recognized according to the cost amortized with the use of effective interest rate. Short-term receivables with undefined interest rate are valued at their due amount. In the case of emergence of objective reasons to believe that loss of value has occurred, the balance sheet value of a financial assets' component is reduced by an impairment. Trade receivables, which are homogenous and which are characterized by similar credit risk, are examined from the point of view of loss of total value. While estimating the value of the write off (impairment), the Group relies on its experience from the collections area.

Cash and equivalent assets include cash in bank, cash at hand and short-term deposits with due dates not exceeding three months.

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Financial liabilities include liabilities valued at fair value through profit and loss as well as other liabilities.

Liabilities valued at their fair value through profit and loss include liabilities intended for sale. A liability is classified as intended for sale if it was incurred mainly in order to be bought back in a short term or if it is a derivative.

Other liabilities include bonds, loans and other financial liabilities and are originally valued at their fair value less transaction cost. Subsequently they are valued at amortized cost.

Derivatives are recognized in the financial statements at their fair value on the date of concluding the contract and are then revaluated to the fair value as of each balance sheet date. Changes of fair value are directly recognized in the consolidated profit and loss account.

Share capital

Share capital is shown in nominal value of the registered shares of the parent company. As at 31 December 2010 the share capital of the parent company, according to the entry in the Court Register, included 20,500,000.00 ordinary shares of nominal value of PLN 100.00 per each share.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation (outflow of resources will be required). Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Provision for pension benefits and similar

In accordance with the Labour Code, the Group is obligated to pay additional benefits to the employees such as death benefits, retirement and disability benefits. The basis for calculating a one-off retirement or disability benefit is the amount of the monthly salary which depends on the work tenure in the Group. The value of the provision is determined using the Projected Unit Method, with actuarial valuations being carried out at each end of the reporting period. Actuarial gains and losses are recognized in consolidated statement of comprehensive income in the period in which they arise.

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4. Estimates and assumptions of Management Board of the parent company

The preparation of the consolidated financial statement in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statement and reported amounts of revenue and expenses during the reporting period.

The following are the main areas in which the estimates made on the balance sheet date have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Economic life and methods of depreciation and amortization of tangibles and intangibles

On the day of accepting a fixed asset for use, the Group determines the period of its use or the rate and method of its depreciation.

While determining the method and the annual depreciation rate, the Group takes into account the economic life of a fixed asset.

The economic life of fixed assets is periodically reviewed and appropriate changes in the depreciation charges made in the following business years are applied.

Change in estimates relating to economic life of fixed assets has resulted in a decrease of depreciation costs in 2010 by PLN 3.2 million.

The cost of restoring an asset to its original condition (cost of fixed asset's liquidation)

On the date of entering an asset into use the Group determines the estimated cost of dismantling and removing an asset as well as restoring the site where a given asset was located to its original condition, when the Group is obligated to incur. The relevant amount of assets and provisions related to the above costs is based on the estimated cost of services associated with liquidation of a given component, the number of fixed assets, the period after which they will be liquidated as well as the adopted discount rate.

Fair value of derivatives and other financial instruments

The portfolio of the Group's derivatives consists of financial instruments for which an active market does not exist. The Group performs the valuation while relying on generally applied models, using the published market data, such as exchange rates, interest rates, fluctuations of option prices, etc.

Assets and provisions for deferred income tax

Deferred income tax is determined by means of the balance sheet method and it is recognized in the consolidated financial statements for all temporary differences between the balance sheet value of assets and liabilities and their taxable values. Assets on account of corporate income tax are recognized based on these temporary differences whose probability of materialization is justified.

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as at December 31, 2010 and December 31, 2009
and for the twelve month periods ended December 31, 2010 and December 31, 2009

Revenues

The Group uses various techniques for estimating the revenues for the given period, especially in the area of deferred income. The methods of estimation were described above under accounting policy section referring to revenue recognition.

Allowance for loans and receivables

In the case of emergence of objective reasons to believe that loss of value has occurred, the balance sheet value of a financial assets' component is reduced by an impairment. Trade receivables, which are homogenous and which are characterized by similar credit risk, are examined from the point of view of loss of total value. While estimating the value of the write off (impairment), the Group relies on its experience from the collections area.

Provisions:

For retirement benefits and other benefits after the employment period

The provision for retirement benefits is calculated by means of actuarial methods.

For access deficit payment for the parent company designated to provide universal service

The Group sets up a provision on account of the duty that may obligate the Group to cover part of the cost of universal service which have to be provided by the designated company as long as provision of universal service is unprofitable for such a designated company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the years ended December 31, 2010 and December 31, 2009

5 . Revenue

The Group's revenues for the reporting periods are as follows:

	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Billing charges	3,428.9	3,435.1
Monthly fee	2,463.3	2,438.8
Interconnect and roaming revenues	1,517.2	1,700.8
Other	131.5	59.4
Total sales of services	7,540.9	7,634.1
Sale of cellular handsets and accessories	132.2	139.1
Total sales of goods	132.2	139.1
Total operating revenues	7,673.1	7,773.2

In the opinion of the Management Board, there are no components of the Group which can be defined as a separate operational segment, except for the operational segment understood as the whole Company.

The Group operates in one segment (providing telecommunication services and the ancillary sale of cellular handsets and accessories) in one market in Poland. The main sources of the Group's revenue are airtime charges, consisting primarily of monthly service fees and charges for voice calls and non-voice services that originate or terminate in the Group's network and calls placed by the Group's subscribers on foreign networks ("roaming fee").

Revenue is above all generated on the territory of Poland. Ca. 1.1% of total operating revenue came from companies registered outside Poland. None of individual customers with whom the Group concludes transactions has a share of 10% or more in the Group's revenues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the years ended December 31, 2010 and December 31, 2009

6 . Operating expenses

	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Materials and energy	100.6	91.2
Interconnect and roaming charges	1,490.1	1,551.4
External services including dealer commission and lease of land	1,207.0	1,270.7
Taxes and charges	100.3	105.7
Wages and salaries	415.1	377.2
Social security costs and other personal costs	75.5	67.8
Amortisation and depreciation	1,328.6	1,295.6
Disposal and impairment	41.1	12.8
Marketing costs and other overheads	276.2	280.3
Total operating expenses	5,034.5	5,052.7

7 . Other operating income

	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Profit on sale of fixed assets	4.8	0.6
Grants	0.4	-
Contract cancellation charges and similar	116.3	144.1
Reversal of trade receivables allowances	47.8	23.0
Reversal of provisions	26.4	12.5
Sales of bad debt	15.5	8.3
Rental income	16.4	14.9
Other	24.4	19.2
Total other operating revenues	252.0	222.6

8 . Other operating expenses

	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Donations	23.2	15.4
Provisions for liabilities	77.8	56.8
Trade receivables allowances	110.0	178.3
Written off debt, penalties and sold receivables	14.3	9.2
Other	14.8	11.9
Total other operating expenses	240.1	271.6

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9 . Financial income

	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	in PLN million	in PLN million
Interest received	21.2	29.8
Profit on disposal of derivatives	6.2	44.8
Impairment of investments	6.3	-
Exchange rate gains, losses net	10.0	34.3
Other	4.5	3.0
Total financial income	48.2	111.9

10 . Financial expense

	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	in PLN million	in PLN million
Discount of amounts representing interest on purchase of UMTS license	41.2	42.0
Interest on bank overdraft, loans and bonds	50.5	58.8
Interest on bonds and commercial papers	18.0	-
Other interest and impairment on interest receivables	18.5	26.9
Loss on disposal of derivatives	17.8	30.6
Loss on valuation of derivatives	8.8	92.0
Impairment of investments	0.0	4.1
Other	2.6	9.0
Total financial expense	157.4	263.4

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11. Income tax expense

	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Current income tax expense	(331.6)	(351.1)
Final settlement of income tax for previous year	32.5	38.9
Change in deferred tax	20.2	63.8
Income tax expense for the period	(278.9)	(248.4)

Effective tax rate

	periods ended December 31, 2010	periods ended December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Profit before taxation	1,397.8	1,227.7
Tax at the domestic income tax rate of 19%	265.6	233.3
Difference in tax rates between Poland and Sweden	0.0	-
Tax impact of non-taxable revenues and tax non-deductible costs	13.3	15.1
Corporate income tax expenses recognised in the income statement	278.9	248.4
Effective tax rate	20%	20%

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for the years ended December 31, 2010 and December 31, 2009

Deferred tax

	as at December 31, 2010	as at December 31, 2009
Deductible temporary differences		
Valuation allowance for shares in affiliated company	13.1	14.3
Valuation allowance for inventory	19.1	22.1
Valuation allowance for receivables	16.3	37.5
Valuation of derivatives (net)	28.6	23.7
Valuation of bonds	-	3.2
Valuation of loan from affiliated company	15.8	-
Accrued interest on short term loans received	0.4	4.4
Lease liabilities	9.3	-
Estimated cost of rebates for roaming services granted	28.8	54.4
Provision for retirement and other benefits	6.7	5.5
Other provisions for liabilities	239.6	179.4
Accruals	669.0	725.8
Deferred income - monthly fees	246.8	234.7
Deferred income SPlus Program	42.7	41.3
Deferred income- telecards	257.5	266.9
Deferred income - marketing support	12.4	9.9
Other deductible temporary differences	0.0	0.0
Deferred income from domestic roaming	18.3	-
Other prepayments	1.7	-
Total deductible temporary differences	1,626.1	1,623.1
Tax rate	19%	19%
Deferred tax assets	309.0	308.4

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Taxable temporary differences		
Valuation of telecommunication licenses	588.7	735.5
Other intangibles	252.5	210.4
Fixed assets	682.5	656.6
Fixed assets leased	10.3	-
Accrued interest on loan granted to affiliated company	3.3	0.8
Accrued interest revenue and other prepayments	1.3	3.3
Estimated billing revenues	38.8	37.8
Estimated revenues from prepaid	1.2	-
Estimated value of rebates referring to roaming services performed	56.3	86.1
Estimated rebates for prepaid	20.0	23.2
Estimated revenues for marketing support	39.9	62.5
Estimated revenues Splus Program and mobile advertising	0.4	0.5
Trade liabilities - estimated rebates for phones	27.2	9.3
Total taxable temporary differences	1,722.4	1,826.0
Tax rate	19%	19%
Deferred tax liabilities	327.3	346.9
Net deferred tax liabilities in the statement of financial position	(18.3)	(38.5)

Deferred tax provision at as December 31, 2010	(18.3)	(38.5)
Deferred tax provision as at December 31, 2009	(38.5)	(102.3)
Change – for the twelve month period ended December 31, 2010	20.2	63.8

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for the years ended December 31, 2010 and December 31, 2009

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN</i>
Unrecognised deferred tax assets		
Valuation of loan from affiliated company	1.1	2.1
Accruals	0.6	0.1
Valuation allowance for fixed assets	-	3.7
Tax losses	9.3	2.4
Total unrecognised deferred tax assets	11.0	8.3

12. Earnings per share

Basic earnings per share is calculated by dividing the net profit for period attributable to ordinary shareholders by number of ordinary shares.

Diluted earnings per share (if applicable) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the number of ordinary shares (adjusted for the effects of dilutive options).

The section below presents the data related to the profit and shares which is used for calculating the basic and the diluted profit:

	December 31, 2010	December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Net profit	1,118.9	979.3
Net profit attributable to ordinary shareholders for basic and diluted EPS	1,118.9	979.3
Weighted average number of ordinary shares for the purposes of basic earnings per share	20.5	20.5
Adjusted weighted average number of ordinary shares applicable to diluted EPS	20.5	20.5
Basis EPS	54.6	47.8
Diluted EPS	54.6	47.8

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as at December 31, 2010 and December 31, 2009

13. Property, plant and equipment

	in PLN million						Total
	Land	Buildings & Constructions	Network system & equipment	Motor vehicles	Other fixed assets		
Gross book value:							
Balance as at December 31, 2008	30.8	133.0	9,017.1	44.1	187.2		9,412.2
Additions	1.1	6.2	1,267.3	8.0	4.6		1,287.2
Acquisitions through business combinations	-	0.0	19.4	-	0.0		19.4
Disposals	-	(1.9)	(254.4)	(9.8)	(4.0)		(270.1)
Other adjustments	-	-	(0.8)	-	0.0		(0.8)
Balance as at December 31, 2009	31.9	137.3	10,048.6	42.3	187.8		10,447.9
Accumulated depreciation:							
Balance as at December 31, 2008	-	21.5	5,135.0	26.5	134.0		5,317.0
Depreciation charge for period	-	27.1	966.5	6.9	17.5		1,018.0
Acquisitions through business combinations	-	0.0	2.8	-	0.0		2.8
Disposals	-	(1.9)	(234.2)	(9.3)	(4.0)		(249.4)
Other adjustments	-	-	(0.0)	-	0.0		(0.0)
Balance as at December 31, 2009	-	46.7	5,870.1	24.1	147.5		6,088.4
Impairments:							
Balance as at December 31, 2008	-	-	-	-	-		-
Additions	-	-	3.6	-	-		3.6
Disposals	-	-	(0.5)	-	-		(0.5)
Use	-	-	(3.1)	-	-		(3.1)
Balance as at December 31, 2009	-	-	-	-	-		-
Net book value as at December 31, 2009	31.9	90.6	4,178.5	18.2	40.3		4,359.5
Net book value as at December 31, 2008	30.8	111.5	3,882.1	17.6	53.2		4,095.2

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as at December 31, 2010 and December 31, 2009

13. Property, plant and equipment (cont.)

	<i>in PLN million</i>	Land	Buildings & Constructions	Network system & equipment	Motor vehicles	Other fixed assets	Total
Gross book value:							
Balance as at December 31, 2009		31.9	137.3	10,048.6	42.3	187.8	10,447.9
Reclassification from fixed assets under construction		-	-	21.2	-	-	21.2
Balance as at December 31, 2009		31.9	137.3	10,069.8	42.3	187.8	10,469.1
Additions		-	4.4	617.3	18.3	10.4	650.4
Disposals		-	(0.3)	(139.4)	(9.3)	(31.1)	(180.1)
Other adjustments		-	-	16.9	-	(0.0)	16.9
Balance as at December 31, 2010		31.9	141.4	10,564.6	51.3	167.1	10,956.3
Accumulated depreciation:							
Balance as at December 31, 2009		-	46.7	5,870.1	24.1	147.5	6,088.4
Depreciation charge for period		-	5.0	1,045.3	7.3	16.5	1,074.1
Disposals		-	(0.3)	(121.3)	(8.3)	(30.9)	(160.8)
Other adjustments		-	-	(0.0)	-	0.0	(0.0)
Balance as at December 31, 2010		-	51.4	6,794.1	23.1	133.1	7,001.7
Impairments:							
Balance as at December 31, 2009		-	-	-	-	-	-
Additions		-	-	16.8	-	-	16.8
Disposals		-	-	(0.5)	-	-	(0.5)
Use		-	-	(3.5)	-	-	(3.5)
Other adjustments		-	-	0.2	-	-	0.2
Balance as at December 31, 2010		-	-	13.0	-	-	13.0
Net book value as at December 31, 2010		31.9	90.0	3,770.5	28.2	34.0	3,941.6
Net book value as at December 31, 2009		31.9	90.6	4,178.5	18.2	40.3	4,359.5

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14 . Fixed assets under construction

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Fixed assets under construction - Gross book value:		
Opening balance	534.2	766.8
Reclassification to fixed assets	(21.2)	-
Opening balance after reclassification	513.0	766.8
Additions	655.2	1,054.9
Acquisitions through business combinations	-	23.6
Transfer to property, plant and equipment or disposal	(693.3)	(1,311.1)
Closing balance	474.9	534.2
Fixed assets under construction - Impairment:		
Opening balance	13.1	6.9
Additions	11.1	6.0
Disposals and reclassifications to fixed assets	(0.2)	0.2
Closing balance	24.0	13.1
Fixed assets under construction prepayments-opening balance	0.2	0.2
Fixed assets under construction prepayments-closing balance	0.2	0.2
Total property, plant and equipment	4,392.7	4,880.8

Impairment loss is recognized when changes which are noticeable and unfavourable for the Group have occurred or will occur in near future as regards the scope or the way in which a component of assets is used or is expected to be used. The changes include in particular: discontinuation of use of an assets element, plan for its divestiture ahead of the originally planned date or change of the expected period of use of a given element of assets.

The Group performed the analysis on impairment of tangibles and intangibles. Based on intention to withdraw from usage certain fixed assets and intangibles, the Group created an impairment allowance for elements of telecommunications network amounting to PLN 33.9 million and intangibles amounting to PLN 2.8 million which will not be used by the Group.

Based on the analysis performed, the Group has not identified any implications indicating an impairment of fixed assets and intangibles.

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15 . Goodwill

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Gross value	15.5	15.5
Impairment losses	-	-
Total goodwill	15.5	15.5
	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Cost		
Balance at beginning of year	15.5	-
Balance at end of year	15.5	-
Accumulated impairment losses		
Balance at beginning of year	-	-
Impairment losses recognised in the year	-	-
Balance at end of year	-	-

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16. Intangible assets

	in PLN million		Cost of licence	Cost of organisation and advising	Software and other intangibles	Intangibles under development	Total
Gross book value:							
Balance as at December 31, 2008			2,782.4	19.7	1,150.0	75.8	4,027.9
Additions			-	-	98.7	88.3	187.0
Acquisitions through business combinations			16.1	3.4	0.0	-	19.5
Disposals			-	-	(9.7)	-	(9.7)
Balance as at December 31, 2009			2,798.5	23.1	1,239.0	164.1	4,224.7
Accumulated amortisation:							
Balance as at December 31, 2008			981.1	9.5	814.9	-	1,805.5
Amortisation charge for period			186.2	1.6	89.8	-	277.6
Acquisitions through business combinations			2.0	0.2	0.0	-	2.2
Disposals			-	-	(9.6)	-	(9.6)
Other adjustments			-	-	0.0	-	0.0
Balance as at December 31, 2009			1,169.3	11.3	895.1	-	2,075.7
Impairments:							
Balance as at December 31, 2008			-	0.0	0.9	-	0.9
Additions			-	0.0	0.1	-	0.1
Disposals			-	-	(0.3)	-	(0.3)
Use			-	(0.0)	(0.1)	-	(0.1)
Balance as at December 31, 2009			-	0.0	0.6	-	0.6
Net book value as at December 31, 2009			1,629.2	11.8	343.3	164.1	2,148.4
Net book value as at December 31, 2008			1,801.3	10.2	334.2	75.8	2,221.5

In 2010 the cost of license for Nordisk was reclassified from "Cost of organisation and advising" to "Cost of license". The gross book value of the licence in 2009, amounted to PLN 16.1 million, accumulated depreciation amounted to PLN 2.0 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 2010 and December 31, 2009

16. Intangible assets (cont.)

	in PLN million				Total
	Cost of license	Cost of organisation and advising	Software and other intangibles	Intangibles under development	
Gross book value:					
Balance as at December 31, 2009	2,798.5	23.1	1,239.0	164.1	4,224.7
Additions	-	-	158.9	202.2	361.1
Disposals	-	-	(31.8)	(158.9)	(190.7)
Other adjustments	-	-	0.2	31.1	31.3
Balance as at December 31, 2010	2,798.5	23.1	1,366.3	238.5	4,426.4
Accumulated amortisation:					
Balance as at December 31, 2009	1,169.3	11.3	895.1	-	2,075.7
Amortisation charge for period	187.5	1.6	65.5	-	254.6
Disposals	-	-	(31.7)	-	(31.7)
Other adjustments	(8.8)	-	8.9	-	0.1
Balance as at December 31, 2010	1,348.0	12.9	937.8	-	2,298.7
Impairments:					
Balance as at December 31, 2009	-	0.0	0.6	-	0.6
Additions	-	0.1	0.1	2.5	2.7
Disposals	-	-	(0.4)	(0.1)	(0.5)
Use	-	-	(0.1)	(0.7)	(0.8)
Balance as at December 31, 2010	-	0.1	0.2	1.7	2.0
Net book value as at December 31, 2010	1,450.5	10.1	428.3	236.8	2,125.7
Net book value as at December 31, 2009	1,629.2	11.8	343.3	164.1	2,148.4

As at the balance sheet date the licences comprised mainly the following telecommunication licences:

	Gross book value	Carrying amount	Termination date
Licence GSM 900	846.2	9.8	23/02/2011
Licence DCS 1800	194.5	49.2	13/09/2014
Licence UMTS	1,741.7	1,378.7	01/01/2023
Licence CDMA	16.1	12.8	31/12/2020
Total:	2,798.5	1,450.5	

* In January 2011, the parent company received a decision of the President Office of Electronic Communication granting frequencies of 900 MHz till 24 February 2026.

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17. Subsidiaries

Name of the entity	Headquarters	Activities	Percentage share of parent company in capital	
			as at December 31, 2010	as at December 31, 2009
Nordisk Polska Sp. z o.o.	02-676 Warszawa ul. Postępu 3	1. wireline telecommunications; 2. wireless (mobile) telecommunications; 3. other communications operations.	100%	100%
Polkomtel Finance AB (publ)	Norlandsгатan 18, 111 43 Stockholm, Sweden	1. management of financial instruments, 2. other financial activities, including lending.	100%	100%

"LTE 5" Sp. z o.o. and "LTE 6" Sp. z o.o. were established on 16 September 2010. The scope of operations of the two companies covers, among others, operations in the field of wireline and wireless telecommunications, excluding satellite telecommunications, as well as operations in the field of other types of telecommunications. POLKOMTEL S.A. is the sole shareholder of both of these companies. Until the balance sheet date the companies had not been registered in the National Court Register.

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18 . Investments in associates

An agreement was concluded by and between Polkomtel S.A. and Telera Holding B.V. on 6 March 2008 by virtue of which POLKOMTEL S.A. holds the right to acquire 38.42% shares of Liberty Poland S.A. Implementation of the agreement took place on 16 July 2008. Under the agreement of May 20, 2010 Polkomtel S.A. has acquired a further 11% stake in Liberty Poland S.A. and agreed to purchase 50.58% shares on April 1, 2011.

Summarised financial information in respect of the Group's significant associates is set out below:

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Total assets	85.9	96.1
Total liabilities	55.2	65.0
Net assets	30.6	31.1
Group's share of net assets of associates	15.1	11.9
Total revenue	639.5	588.4
Total profit for the period	4.7	5.2
Group's share of profits of associates*	2.1	2.0

*The share in profits of associates in the amount of PLN 2.8 mln disclosed in the consolidated statement of comprehensive income for 2009 includes a share of profits in Liberty Poland S.A. for the year 2009 of PLN 2.0 mln and for the period from 1 July 2008 to 31 December 2008 of PLN 0.8 mln.

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18. Investments in associates and other entities

	Investments in associates and other entities 31.12.2010		Total
	shares in associates valued using equity method	shares in other related entities	
Investments in associates and other entities at the beginning of the period (opening balance)	17.1	0.1	17.2
increase	16.8	0.1	16.9
impairment reversal	-	-	-
acquisition	10.4	0.1	10.5
consolidation adjustments	6.4	-	6.4
decrease	(4.0)	-	(4.0)
impairment *	-	-	-
Investments in associates and other entities at the end of the period (closing balance)	29.2	0.2	29.1

* The amount PLN 3.4 million was recognised in the income statement of comprehensive income in the previous years as a result of valuation of options for shares.

Name of the entity and its legal form	Headquarters	Activities	Nature of the association	Date of obtaining a significant influence or control	Acquisition price	Carrying amount of shares as of 31.12.2010	Stake in share capital	Net profit (loss) for the current year
Liberty Poland S.A.	41-902 Bytom, Wrachowska 58	1. sales activities - wholesale and retail in the field of sale of telecommunication equipment (handsets and accessories in particular); 2. provision of services in the following areas: telecommunications and IT as well as marketing and advertising 3. activities of agents specializing in selling of specified goods or specific group of goods not classified elsewhere; 4. other telecommunication operations.	associated	2008	41.8	29.91	49.42%	4.7
AMNO Spółka z o.o. ⁽¹⁾	01-431 Warszawa Al. Jana Pawła II 61C nr lok.304	provision of mobile TV services	associated	2008	0.1	0.11	25%	0.0
LTE 5 Sp. z o.o. (in the process of formation) ⁽¹⁾	02-676 Warszawa ul. Postępu 3	1. wireline and wireless telecommunications, excluding satellite telecommunications 2. operations in the field of other types of telecommunications	subsidiary	2010	0.0	0.05	100%	n/a
LTE 6 Sp. z o.o. (in the process of formation) ⁽¹⁾	02-676 Warszawa ul. Postępu 3	1. wireline and wireless telecommunications, excluding satellite telecommunications 2. operations in the field of other types of telecommunications	subsidiary	2010	0.0	0.05	100%	n/a
Total						30.1		

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19. Financial assets and liabilities

The following tables present valuation and profits/losses together with financial incomes/expenses achieved on each category of financial assets and liabilities.

Profits and losses are generated from disposals of investments (including realized results on the derivatives), interest income accrued on trade receivables and interest expenses on short and long-term loans and bonds and exchange differences.

Categories of financial assets and financial liabilities

	as at 31 December 2010		as at 31 December 2009	
	in PLN million		in PLN million	
Financial assets	book value	fair value	book value	fair value
Financial assets at fair value through profit or loss	9.8	9.8	14.5	14.5
Held-to-maturity investments	-	-	-	-
Loans and receivables	1,367.7	1,367.7	1,551.2	1,551.2
Available-for-sale financial assets	0.0	0.0	0.0	0.0
Cash	29.2	29.2	23.9	23.9
Total	1,406.7	1,406.7	1,589.6	1,589.6

Carrying amount of trade receivables approximates their fair value due to their short-term maturity, values shown do not include write-downs.

	as at 31 December 2010		as at 31 December 2009	
	in PLN million		in PLN million	
Long term financial liabilities	book value	fair value	book value	fair value
Financial liabilities at fair value through profit or loss				
Financial liabilities at amortized cost:	1,812.7	1,915.4	855.2	945.2
Trade liabilities	-	-	-	-
Lease	7.8	7.8	-	-
Loans received	997.3	997.3	-	-
License	807.6	910.3	855.2	945.2
Total	1,812.7	1,915.4	855.2	945.2

	as at 31 December 2010		as at 31 December 2009	
	in PLN million		in PLN million	
Current financial liabilities	book value	fair value	book value	fair value
Financial liabilities at fair value through profit or loss	38.4	38.4	38.2	38.2
Financial liabilities at amortized cost:	724.2	728.3	2,725.0	2,726.7
Trade liabilities	546.7	546.7	468.0	468.0
Lease	1.5	1.5	-	-
Loans received	118.7	118.7	2,197.6	2,197.6
License	57.3	61.4	59.4	61.1
Total	762.6	766.7	2,763.2	2,764.9

Book value and fair value of trade liabilities due to a close maturity date.

Item of income, expense, gains or losses

	for the twelve month period ended 31 December 2010		for the twelve month period ended 31 December 2009	
	in PLN million	in PLN million	in PLN million	in PLN million
	financial gains/revenue	financial loss/costs	financial gains/revenue	financial loss/costs
Financial assets and liabilities at fair value through profit or loss	6.2	26.6	44.8	122.6
Loans and receivables	21.2	-	29.8	-
Financial liabilities measured at amortised cost	-	128.2	-	127.7
Total	27.4	154.8	74.6	250.3

	for the twelve month period ended 31 December 2010		for the twelve month period ended 31 December 2009	
	in PLN million	in PLN million	in PLN million	in PLN million
Foreign currency gains (net)		10.0		34.3
Foreign currency losses (net)				

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19. Financial instruments (cont.)

Trade receivables - age structure

	TOTAL in PLN million	up to 1 month	over 1 month to 2 months	over 2 months to 3 months	over 3 months to 6 months	over 6 months to 12 months	over 12 months
Current financial assets as at 31 December 2010							
Trade receivables	1,367.7	1,013.6	15.9	10.5	29.7	72.9	225.0
Total	1,367.7	1,013.6	15.9	10.5	29.7	72.9	225.0

	TOTAL in PLN million	up to 1 month	over 1 month to 2 months	over 2 months to 3 months	over 3 months to 6 months	over 6 months to 12 months	over 12 months
Current financial assets as at 31 December 2009							
Trade receivables	1,551.2	1,134.4	21.1	12.9	39.5	73.5	269.8
Total	1,551.2	1,134.4	21.1	12.9	39.5	73.5	269.8

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20. Financial instruments

Market Risk

Exposure to market risk

The Group is exposed to currency and interest rate risk.

The currency exposure made up to 12.6% of balance sheet as at the end of fourth quarter of 2010. As at the end of 2009 the ratio was 12.4%. Among currency risks the most important risk factor is the volatility of EUR/PLN exchange rate. Moreover, there are exposures to other currencies. However, they are small and are not considered as factors, which generate significant risk. The main sources of currency risk are UMTS license agreement, agreements with the suppliers of goods (mainly handsets), agreements with the suppliers of equipments for telecommunication network, lease agreements of areas where the elements of telecommunication network are installed, office lease agreements, roaming and interconnect agreements.

Due to the relatively small financial leverage and low level of cash investments, the impact of changes in interest rates is limited. Among risk factors from the group of interest rates the most important are Polish Zloty short-term rates. The interest rate risk is identified in the long-term loan agreement, other loan agreements, the bond-issue programme, bank deposits and investments on money and capital markets.

The risk level is perceived as the unexpected changes in cash flows during the financial year as a result of the price changes on the financial markets. For the purpose of the presentation in this report we assume that the measure of the risk is represented by the sensitivity of the currency and interest rate balance sheet positions to the specific risk factors. Total sensitivity is defined as the change of the balance sheet value resulting from the negative change of all most important risk factors in amount of:

- relating to currency factors – +/- 1% in relation to current foreign exchange rate
- relating to interest rate factors – +/- 1 base points (strictly) on the whole yield curve

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20. Financial instruments (cont.)

Currency exposure

December 31, 2010	Value (in PLN million)	The value exposed to currency risk expressed in functional currency (in PLN million)	The part of balance sheet sum that is exposed to currency risk	The impact of currency risk on the financial result (in PLN million)	
				+1%	-1%
Financial assets at fair value through profit or loss	9,8	9,8	0,12%	2,5	(2,5)
Held-to-maturity investments	-	-	0,00%	-	-
Loans and receivables	1.367,6	14,7	0,19%	0,1	(0,1)
Available-for-sale financial assets	-	-	0,00%	-	-
Cash	29,2	-	0,00%	-	-
Financial liabilities at fair value through profit or loss	38,4	18,2	0,23%	4,6	(4,6)
Financial liabilities measured at amortized cost, including:	2.536,9	1.009,0	12,74%	(10,1)	10,1
Trade liabilities	546,7	40,0	0,50%	(0,4)	0,4
Loans received	1.116,1	-	0,00%	-	-
Leasing	9,3	-	0,00%	-	-
License	864,8	969,1	12,24%	(9,7)	9,7
Balance sheet total			7.917,9		
Currency exposure without hedging				(9,9)	9,9
Currency exposure with the effect of the hedging				(2,8)	2,8

December 31, 2009	Value (in PLN million)	The value exposed to currency risk expressed in functional currency (in PLN million)	The part of balance sheet sum that is exposed to currency risk	The impact of currency risk on the financial result (in PLN million)	
				+1%	-1%
Financial assets at fair value through profit or loss	14,5	14,5	0,17%	1,3	(1,3)
Held-to-maturity investments	-	-	0,00%	-	-
Loans and receivables	1.551,2	4,1	0,05%	0,0	(0,0)
Available-for-sale financial assets	-	-	0,00%	-	-
Cash	23,9	-	0,00%	-	-
Financial liabilities at fair value through profit or loss	38,2	38,2	0,45%	3,3	(3,3)
Financial liabilities measured at amortized cost, including:	3.580,2	1.050,9	12,47%	(10,7)	10,7
Trade liabilities	468,0	44,6	0,53%	(0,6)	0,6
Loans received	2.197,6	-	0,00%	-	-
License	914,6	1.006,3	11,94%	(10,1)	10,1
Balance sheet total			8.424,5		
Currency exposure without hedging				(10,5)	10,5
Currency exposure with the effect of the hedging				(5,9)	5,9

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20. Financial instruments (cont.)

Interest rate exposure

December 31, 2010	Value (in PLN million)	The value exposed to interest rate risk expressed in functional currency (in PLN million)	The part of balance sheet sum that is exposed to interest rate risk	The impact of interest rate risk on the financial result (in PLN million)	
				+1 pb	-1 pb
Financial assets at fair value through profit or loss	9,8	9,8	0,12%	0,0	(0,0)
Held-to-maturity investments	-	-	0,00%	-	-
Loans and receivables	1.367,6	-	0,00%	-	-
Available-for-sale financial assets	-	-	0,00%	-	-
Cash	29,2	29,2	0,37%	0,0	(0,0)
Financial liabilities at fair value through profit or loss	38,4	18,2	0,23%	0,1	(0,1)
Financial liabilities measured at amortized cost, including:	2.536,9	1.125,4	14,21%	(0,1)	0,1
Trade liabilities	546,7	-	0,00%	-	-
Loans received	1.116,1	1.116,1	14,10%	(0,1)	0,1
Leasing	9,3	9,3	0,12%	(0,0)	0,0
License	864,9	-	0,00%	-	-
Balance sheet total			7.917,9		
Interest rate exposure without hedging				(0,1)	0,1
Interest rate exposure with the effect of the hedging				0,0	(0,0)

December 31, 2009	Value (in PLN million)	The value exposed to interest rate risk expressed in functional currency (in PLN million)	The part of balance sheet sum that is exposed to interest rate risk	The impact of interest rate risk on the financial result (in PLN million)	
				+1 pb	-1 pb
Financial assets at fair value through profit or loss	14,5	14,5	0,17%	0,0	(0,0)
Held-to-maturity investments	-	-	0,00%	-	-
Loans and receivables	1.551,2	-	0,00%	-	-
Available-for-sale financial assets	-	-	0,00%	-	-
Cash	23,9	23,9	0,28%	0,0	(0,0)
Financial liabilities at fair value through profit or loss	38,2	38,2	0,45%	0,0	(0,0)
Financial liabilities measured at amortized cost, including:	3.580,2	2.197,6	26,09%	(0,2)	0,2
Trade liabilities	468,0	-	0,00%	-	-
Loans received	2.197,6	2.197,6	26,09%	(0,2)	0,2
License	914,6	-	0,00%	-	-
Balance sheet total			8,424,5		
Currency exposure without hedging				(0,2)	0,2
Currency exposure with the effect of the hedging				(0,2)	0,2

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20. Financial instruments (cont.)**Financial risk management**

Financial risk management is defined as process that is aimed at minimizing of the probability of financial crash understood in terms of parent company credibility, cash flow volatility, volatility of the parent company value.

It is recognized that the hedging in a long-term perspective results in increasing the parent company's value. It is assumed also that the hedging level has an impact on the parent company's competitiveness.

In order to manage the market risk the parent company uses inter alia derivative instruments. The following classes of instruments were used in the described period: currency forwards, currency option strategy called "risk reversal", interest rate swaps and cross currency interest rate swaps.

All currency forward transactions mature within next 12 months, while swaps mature also in following years. The interest rate swaps settle on a semi-annually, quarterly and monthly basis. The floating rate on the interest rate swaps is the local interbank rate of Poland (WIBOR). The parent company will settle the difference between the fixed and floating interest rate on a net basis.

The table below presents the summary of all hedging transactions.

in PLN million	as at	December 31, 2010		December 31, 2009	
		Principal	Fair value	Principal	Fair value
Total			(8,4)		6.8
Forward		673,2	(16,9)	322.5	(5.3)
Risk reversal		0,0	0,0	82.2	(1.6)
Swap CIRS		39,9	5,7	82.2	13.7
Swap IRS		450,0	2,8	0.0	0.0

All instruments were valued according to financial market standards Fair values that are recognized or disclosed in financial statements are fixed directly in relation to the prices on the active market. Fair values are determined using a pricing technique that assumes that observed market data regarding current market transactions concern the transactions where the economic characteristics are identical to the transition that are in the Group's portfolio. The currency forward transactions, interest rate swaps and cross currency interest rate swaps are priced in respect of the changes in currency spot rate and changes in the interest rate differential. Currency options are valued using Black-Scholes model– in the portfolio only European options were present. All methods and assumptions to the valuation of financial instruments rely on commonly used models and techniques. According to the hierarchy of fair value presented in IFRS.7.27A the methods established in the parent company regarding the measurement of fair value are classified to the level 2 of this hierarchy.

The risk level is described by the sensitivity to the individual risk factors of the fair value of transactions. Taking into consideration the fact that the share of options in the portfolio is nil, hence the asymmetry of the risk characteristic of the portfolio doesn't exist.

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20. Financial instruments (cont.)

The sensitivity of the fair value of the derivatives (in PLN million)

as at	December 31, 2010		December 31, 2009	
	Rates increase*	Rates decrease*	Rates increase*	Rates decrease*
Risk factor				
EUR/PLN	6,80	(6,80)	4.58	(4.61)
USD/PLN	0,30	(0,30)	0.00	0.00
CHF/PLN	0,00	0,00	0.00	0.00
WIBOR	0,12	(0,12)	0.01	(0.01)
EURIBOR	(0,02)	0,02	(0.01)	0.01
USLIBOR	(0,00)	0,00	0.00	0.00

* this relates to 1% change of exchange and change of 100 basis points of interest rates

Liquidity risk

Liquidity risk is assessed using the budgeted cash flow and current liabilities structure. The liquidity risk management consists in carrying an optimal portfolio of loan commitments and accessible uncommitted bond program.

The summary on available financing jointly with the level of the usage of counterparty limits is presented in Note "Loans and borrowings".

The method of measuring the liquidity risk consists of the analysis of the cover of short-term liabilities with available financing including loans and bonds.

in PLN million	as at	December 31, 2010	December 31, 2009
Trade liabilities		546,7	468,0
Liabilities from financial instruments		38,4	38,2
UMTS license liability*		57,3	59,5
Total short-term liabilities		642,4	565,7
Total committed and uncommitted financing		3.340,0	3.290,0
The usage of debt		1.116,5	2.197,6
Available debt lines		2.223,5	1.092,4
The cover of liabilities with debt		346%	193%

* Owing to the long-term character of the license liability only the short-term part (to 12 months) of this agreement is presented. There are no known circumstances where the long-term liabilities included in the UMTS license agreement could be due – entirely or partially – earlier than scheduled (till 2022).

Unexpected business circumstances that may deteriorate the liquidity situation were balanced with the satisfactory demand for parent company's debt, reflected in credit margin offered by the banks. This margin is not higher than the margins offered to the other Polish companies with similar finance situation.

In all reporting periods the parent company has paid all the capital and interest rates related to parent company's liabilities.

No loan covenant that could cause the demand of immediate repayment of the facility was broken in the reported period.

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20. Financial instruments (cont.)**Credit risk**

Credit risk affecting the parent company's operations can be divided into the following areas:

- credit risk within treasury operations,
- credit risk referring to trade receivables and other receivables.

Credit risk within treasury operations

The maximum credit risk exposure within treasury operations of the parent company and the method of its calculation was summarized in the table below:

Credit risk related to financial counterparties

in PLN million	as at	31 Dec 2010	31 Dec 2009
Deposits and other cash investments		29,1	23,7
Derivative instruments valuation*		7,2	7,9
Total exposure		36,3	31,6
Max exposure to one financial institution		7,6	12,4
Percent of balance sheet		0,10%	0,15%

In order to control credit risk the parent company operates strict restrictions of limits that are defined in the internal procedures. The limits depend on the credibility of the financial institution measured by official credit ratings. No limit was broken in the reported period.

Moreover, the parent company has signed general agreements with all counterparties on derivatives transactions with the purpose to limit the credit risk.

Credit risk – trade receivables and other receivables

The maximum credit risk exposure within trade receivables and other receivables equals their carrying amount.

The fair value of collaterals received (bank guarantees and cash deposits) as at 31 December 2010 amounted to:

- bank guarantees 61.7 million PLN,
- cash deposits 10.3 million PLN.

Credit risk management procedures applied by the parent company comprise:

- credit risk analysis of customers,
- application and monitoring of credit risk limits,
- current monitoring of business and financial situations of clients,
- receivables and bad debt management.

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21 . Inventories

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Materials	2.3	2.6
Trade goods	138.3	129.3
Total inventories	140.6	131.9

Allowances for inventories

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Opening balance	22.2	20.9
- increase	5.3	5.1
- decrease - use	(6.2)	(3.7)
- decrease - release	(2.0)	(0.1)
Closing balance	19.3	22.2

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22 . Trade and other current receivables

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Trade accounts receivable from other entities	1,322.2	1,507.0
Receivables from related parties	45.5	44.2
Taxes receivables	111.8	59.7
Other receivables	21.6	14.9
Prepaid expenses	50.0	42.3
Allowance for doubtful accounts (negative value)	(376.8)	(475.8)
Total trade and other current receivables	1,174.3	1,192.3

The value of trade receivables includes the estimated value of income of PLN 287.4 million on 31 December 2010 and PLN 310.4 million on 31 December 2009.

Trade accounts receivable allowances

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Opening balance	475.8	355.4
- increase	119.6	144.0
- decrease - use	(170.8)	-
- decrease - release	(47.8)	(23.6)
Total trade accounts receivables allowances	376.8	475.8

Trade accounts receivable allowances are presented as other operating costs / income or financial costs / income (accrued interests) in the statement of comprehensive income.

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23 . Cash and cash equivalents

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Cash in hand	0.1	0.2
Cash in bank	10.1	3.9
Short term bank deposits	19.0	19.8
Total cash and cash equivalents	29.2	23.9

The carrying amount of these assets approximates to their fair value.

24 . Cash and cash equivalents structure for the statement of cash flow

a) Financial revenues and costs

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Interest expenses on bonds	23.4	3.8
Discount on telecommunication license	41.2	42.0
Interest expenses on loans and overdrafts	40.9	61.5
Net interest expenses on SWAP	2.4	4.0
Total	107.9	111.3

b) Depreciation and amortisation

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Amortisation of intangible fixed assets	254.6	277.9
Depreciation of tangible fixed assets	1,074.1	1,017.7
Total	1,328.7	1,295.6

c) Impairment loss

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Valuation allowance for intangible fixed assets	2.5	(0.2)
Impairment loss on tangible assets and net loss on disposal of fixed assets	42.0	13.0
Total	44.5	12.8

d) Investments income/loss

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Dividends received	(2.0)	(2.2)
Valuation of shares in related party	(0.4)	6.1
Net loss on derivatives	14.1	73.8
Total	11.7	77.7

e) Change in accounts receivable

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Total change in receivables	18.1	98.0
VAT and maintenance costs unpaid invoice	(0.0)	-
Commission on loans paid upfront reclassified to financing activities	0.5	-
Total	18.6	98.0

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f) Change in accounts payable

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Change in trade and other payables	83.1	(140.3)
Change in telecommunication license liability	(49.8)	(31.3)
Compensation of VAT payables with CIT receivables	23.9	-
Advance payment for dividends approved but not paid	(4.9)	-
Dividends for prior year paid in the current year	12.3	(12.3)
Discount on telecommunication license	(41.2)	(42.0)
Telecommunication license liability paid reclassified to investing activities	59.8	63.3
Change in lease liabilities (VAT & insurance invoiced and not paid)	0.0	-
Change in investment liabilities	(41.0)	62.2
Total	42.2	(100.4)

g) Change in accrued expenses

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Total change in accrued expenses	(48.2)	(27.5)
Civil tax on shares purchase paid upfront reclassified to investing activities	0.5	-
Change in accruals for interest expenses	4.0	(4.2)
Total	(43.7)	(31.7)

h) Change in provisions

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Total change in provisions for liabilities and provision for pension benefits and similar	63.6	43.4
Total change in provision for costs of dismantling and removing assets and restoring sites	(17.1)	9.3
Discount on provision for costs of dismantling and removing assets and restoring sites	3.1	2.6
Total	49.6	55.3

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25 . Share capital

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Authorised:		
20.5 million ordinary shares of par value PLN 100	2,050.00	2,050.00
at the end of the reporting period	2,050.00	2,050.00

The Parent Company has one class of ordinary shares.

Ownership structure

	as at December 31, 2010	as at December 31, 2009
	<i>number of shares</i>	<i>number of shares</i>
Shareholders:		
Polski Koncern Naftowy ORLEN S.A.	5,000,266	5,000,266
KGHM Polska Miedz S.A.	5,000,266	5,000,266
PGE Polska Grupa Energetyczna S.A.	4,479,191	4,479,191
Vodafone Americas, Inc.	4,019,780	4,019,780
Węglokoks S.A.	1,020,011	1,020,011
Vodafone International Holdings B.V.	980,486	980,486
Total number of shares	20,500,000	20,500,000

26 . Retained earnings and dividends

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Net profit	1,118.9	979.3
Deductions from net profit during the accounting year	(502.7)	(464.3)
Supplementary capital	683.4	642.2
Reserve capital	368.3	(6.9)
Retained earnings	1,667.9	1,150.3

In accordance with the Commercial Companies Code the Parent Company establishes a supplementary capital in the amount of 8% of the profit for a given financial year, until this capital reaches at least one third of the share capital. Net profit, generated by the Parent Company for a given financial year, less the allowance for reserve capital as per Commercial Companies Code, is allocated for payment of dividend to shareholders.

Reserve capital is the difference between the profit reported in financial statements prepared according to International Accounting Standards and the profit resulting from the company's statutory reports drafted according to Polish Accounting Standards which is subject to distribution to shareholders.

Dividends paid as at December 31, 2010:

On 29 December 2009 the amount of PLN 464.3 million as the advance was paid to shareholders for the year 2009.

On 30 June 2010 the amount of PLN 98.6 million (PLN 4.81 per share) was paid to shareholders for the year 2009.

On 4 November 2010 the amount of PLN 317.6 million as the advance was paid to shareholders for the year 2010.

On 28 December 2010 the amount of PLN 185.1 million was paid to shareholders for the year 2010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the years ended December 31, 2010 and December 31, 2009

27 . Long-term and short-term liabilities on account of licenses

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
September 30, 2010	-	61.6
September 30, 2011	59.4	61.6
September 30, 2012	59.4	61.6
September 30, 2013	59.4	61.6
September 30, 2014	110.9	115.0
September 30, 2015	110.9	115.0
thereafter	788.1	817.6
Total payments	1,188.1	1,294.0
Amounts representing discount	(652.1)	(699.4)
Present value of minimum net payments	536.0	594.6
Accrued discount	328.9	320.0
Total	864.9	914.6
Short-term portion	57.3	59.4
Long term portion	807.6	855.2

More information about UMTS license can be found in the descriptive part to the financial statements.

The fair value of the UMTS liability is presented in note 'Financial assets and liabilities', the fair value does not account for the exchange rate risk.

28 . Long-term liabilities

Other financial liabilities - leasing

Total nominal value of minimum lease payments

	as at December 31, 2010	as at December 31 2009
	<i>in PLN million</i>	<i>in PLN million</i>
a) payable within 1 year	2.0	-
b) payable from 1 year up to 3 years	8.7	-
c) payable from 3 year up to 5 years	-	-
d) payable over 5 years	-	-
Total:	10.7	-
Future discount value (negative value)	(1.4)	-
Total current value of minimum lease payments including:	9.3	-
Short term liabilities	1.5	-
Long term liabilities	7.8	-

Total current value of minimum lease payments

	as at December 31, 2010	as at December 31 2009
	<i>in PLN million</i>	<i>in PLN million</i>
a) payable within 1 year	1.5	-
b) payable from 1 year up to 3 years	7.8	-
c) payable from 3 year up to 5 years	-	-
d) payable over 5 years	-	-
Total:	9.3	-
Future discount value (negative value)	n/a	n/a
including:	9.3	0.0
Short term liabilities	1.5	-
Long term liabilities	7.8	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29 . Other debt instruments

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Other debt instruments	1,015.4	74.4
Short-term portion	18.1	74.4
Long term portion	997.3	-

	Carrying amount <i>in PLN million</i>	Contractual undiscounted cash-flows <i>in PLN million</i>		
		up to 1 year	from 1 year to 3 years	from 3 years to 5 years
Maturity analysis				
Bonds	1,015.4	57.0	114.2	1,095.9
Total bonds	1,015.4	57.0	114.2	1,095.9

30 . Loans and borrowings

Short-term interest bearing loans and borrowings:

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Overdraft facilities	100.6	283.2
Short-term portion of loans	-	1,840.0
Lease liabilities	1.5	-
Bonds or commercial paper program	18.1	74.4
Total short term interest bearing loans and borrowings	120.2	2,197.6

The carrying amounts of these financial instruments approximate to their fair value.

Indebtness as of 31 December 2010 (in PLN million)					
Instrument	Expiry	Currency	Limit/nominal value	Utilization	Interest rate
Loan	July 6, 2011	PLN	1,600.0	0.0	WIBOR + margin
Loan	July 16, 2012	PLN	140.0	0.0	WIBOR + margin
Over-draft	April 22, 2011	PLN	100.0	60.9	WIBOR + margin
Over-draft	November 4, 2011	PLN	50.0	19.7	WIBOR + margin
Over-draft	February 21, 2011	PLN	100.0	5.7	WIBOR + margin
Over-draft	February 28, 2011	PLN	100.0	14.3	WIBOR + margin
Over-draft	April 20, 2011	PLN	100.0	0.0	WIBOR + margin
Over-draft	February 19, 2011	PLN	50.0	0.0	WIBOR + margin
Over-draft	March 30, 2011	PLN	100.0	0.0	WIBOR + margin
Bonds		EUR	1,000.0	1,000.0	
Bonds (CP)	May 25, 2015	PLN	1,000.0	0.0	
Total			4,340.0	1,100.6	

Indebtness as of 31 December 2009 (in PLN million)					
Instrument	Expiry	Currency	Limit/nominal value	Utilization	Interest rate
Loan	July 06, 2011	PLN	1,600.0	1,600.0	WIBOR + margin
Loan	August 20, 2010	PLN	100.0	100.0	WIBOR + margin
Loan	July 16, 2012	PLN	140.0	140.0	WIBOR + margin
Over-draft	April 23, 2010	PLN	50.0	29.8	WIBOR + margin
Over-draft	November 5, 2010	PLN	100.0	99.6	WIBOR + margin
Over-draft	December 23, 2010	PLN	200.0	55.8	WIBOR + margin
Over-draft	February 28, 2010	PLN	100.0	98.0	WIBOR + margin
Bonds (CP)	June 1, 2010	PLN	1,000.0	74.4	
Total			3,290.0	2,197.6	

On January 26, 2011 POLKOMTEL S.A. concluded a 5-year revolving loan agreement with a consortium of banks for the total amount of PLN 1,200.0 million. The purpose of the Agreement is, among others, to refinance the existing facility which was provided on the basis of the facility agreement concluded on 6 July 2006. The interest rate is based on WIBOR rate plus a bank's margin. The facility is not secured by the Company's assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 - Trade and other payables (current)

	as at December 31, 2010 <i>in PLN million</i>	as at December 31, 2009 <i>in PLN million</i>
Trade accounts payable to other entities	233.7	232.8
Payables due to related parties	1.2	0.6
Investment liabilities	311.8	234.6
Corporate income tax liabilities	7.6	8.7
Other account payable	122.2	121.4
Total accounts payables	676.5	598.1

The carrying amounts of these financial instruments approximate to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 . Provisions for liabilities

Provisions for pension benefits and similar

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Provision for pension benefits and similar – OB	5.5	4.3
- increase (during the period)	1.1	1.2
- decrease (used during the period)	0.0	0.0
- decrease (released during the period)	-	-
Provision for pension benefits and similar – CB	6.6	5.5
Long term	6.1	5.3
Short term	0.5	0.2

Other provisions

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Provision for loyalty program – points granted for clients – OB	18.3	7.1
- increase (during the period)	4.1	34.4
- decrease (used during the period)	4.9	1.8
- decrease (released during the period)	1.1	21.4
Provision for loyalty program – points granted for clients – CB	16.4	18.3
Provision for costs of dismantling and removing assets and restoring sites – OB	41.4	50.7
- increase (during the period)	23.9	5.4
- decrease (used during the period)	-	-
- decrease (released during the period)	6.9	14.7
Provision for costs of dismantling and removing assets and restoring sites – CB	58.4	41.4
Provision for Universal Services Fund – OB	162.0	118.0
- increase (during the period)	49.2	48.0
- decrease (used during the period)	-	-
- decrease (released during the period)	-	4.0
Provision for Universal Services Fund – CB	211.2	162.0
Other provisions for liabilities – OB	46.7	50.3
- increase (during the period)	33.7	8.2
- decrease (used during the period)	2.3	0.1
- decrease (released during the period)	30.8	12.1
Other provisions for liabilities – CB	47.3	46.7
Total other provisions for liabilities – OB	268.4	226.1
- increase (during the period)	110.9	96.4
- decrease (used during the period)	7.2	1.9
- decrease (released during the period)	38.8	52.2
Total other provisions for liabilities – CB	333.3	268.4
Long term	60.3	41.4
Short term	273.0	227.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 . Provisions for liabilities (cont.)

A provision for the point-based loyalty program is established for liabilities towards customers resulting from the points granted to customers in 5 PLUS program. These points will be in the future exchanged by customers for prizes.

The provision for pension benefits and other similar benefits is calculated while assuming a discount rate of 2%, which has been calculated based on the market profitability of 10-year treasury bonds, assumptions related to inflation and the forecasted growth of salaries. Due to the long-term nature of the liability, the estimates are highly uncertain.

The provision for costs of restoring assets to their original state has been calculated while assuming a discount rate which was estimated for the cost of restoring to original condition and de-installation at the following levels: for December 2010 6.46% and for 2009 - respectively 6.62% and 6.94%.

Calculation of the provision of universal services fund (FUP) is based on the historical data related to amounts of subsidies requested by the company designated to provide universal services. The value that might be paid by the Group depends on:

- the amount of the access deficit payment subject to payment as accepted by the Regulator
- the amount of the revenue from telecommunication operations generated by telecommunication companies obligated to contribute to the access deficit payment in the year for which the access deficit payment is due,
- a given telecommunication company's share in the access deficit payment determined by the Regulator,
- unsettled amounts on account of access deficit payment from earlier periods.

The item 'Other' contains a provision for disputable cases (incl. cases related to taxes) as well as interest on liabilities

33 . Accrued expenses

	as at December 31, 2010	as at December 31, 2009
	in PLN million	in PLN million
Interconnect and roaming	178.4	182.4
Dealers' commissions	133.9	179.4
Other external services	75.6	55.5
Accrued wages, salaries and vacations pay	103.4	112.0
SMS Premium costs of sales	28.9	44.3
Other	39.5	36.7
Total accrued expenses	559.7	610.3

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34 . Deferred revenues

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Monthly access fee billed in advance	246.8	234.7
Prepaid income	257.2	266.9
Other	73.0	51.4
Total deferred revenues	577.0	553.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the years ended December 31, 2010 and December 31, 2009

35 . Commitments and contingencies

The Group is committed under operating leases to make future rental payments for land used for its network locations and office rentals. The amounts are as follows:

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
< 1 year	242.6	238.6
1 – 5 years	779.4	695.5
> 5 years	505.4	498.6
	1,527.4	1,432.7

Lease agreements are concluded for undefined or defined periods of time, for various periods. Most of the agreements contain an automatic extension clause. Individual agreements are not material items for the Group.

To calculate the liabilities on account of agreements concluded for unlimited period of time, we assumed a 10-year period.

Lease costs, as included in statement of comprehensive income for the twelve month period ended 31 December 2010, amounted to PLN 227.5 million

The fees on account of non-cancellable operating leases agreements:

	as at December 31, 2010	as at December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
< 1 year	88.1	85.3
1 – 5 years	82.2	94.1
> 5 years	7.4	20.2
	177.7	199.6

Non-cancellable operating lease payments were calculated / estimated for majority of lease agreements as payments in a termination period.

The tables above include commitments at nominal value before discounting.

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36 . Conditional liabilities

Promissory notes and bank guarantees issued for parent company for the benefit of other contracting parties and aimed at guaranteeing due performance of contracts by parent company amounted to PLN 8.3 million as of 31 December 2010, with the amount of EUR 1.4 million being the guarantee issued to WAN 11 Limited Liability Company.

Parent company offered a guarantee to the bond holders who acquired the bonds issued under the Euro Medium Note Programme by Polkomtel Finance AB (publ) on 6 September 2010. The guarantee secures the bond holders' interests, especially as regards the issuer's obligations related to payments resulting from the bonds. The maximum value of the bond issue under the above program is EUR 1,000.0 million until 31 December 2010 the Company issued bonds in amount of PLN 1,000,0 million.

Proceedings by UKE and UOKiK

The parent company's operations are regulated by the Telecommunication Law Act of 16 July 2004 ("Telecommunication Law") and by the Competition and Consumer Protection Act of 16 February 2007.

In accordance with the Telecommunication Law, in case of non fulfilment of the requirements determined in the act the President of the Electronic Communication Office ("UKE President") may impose on the entity a penalty in the amount of up to 3% of the revenue reported in the previous calendar year. In accordance with the provisions of the Competition and Consumer Protection Act, the President of the Office for Competition and Consumer Protection ("UOKiK President") may impose on the enterprise a penalty in the amount of up to 10 % of the revenue reported in the financial year preceding the year of imposing the penalty for breach of law or a penalty in the amount up to EUR 50.0 million for non fulfilment of the obligation to provide information.

On 9 June 2010 the President of the Office for Competition and Consumer Protection (UOKiK) commenced the proceedings on imposing a penalty on Polkomtel S.A. on the basis of the alleged lack of cooperation during the official proceedings performed by the President of UOKiK under the explanatory investigation.

On 21 September 2010 the President of UOKiK initiated the antitrust proceedings on imposing a penalty on Polkomtel S.A., Polska Telefonia Cyfrowa Sp. z o.o., Polska Telefonia Komórkowa Centertel Sp. z o.o. and P4 Sp. z o.o. on suspicion of signing a mutual agreement on the domestic retail market for mobile telecommunication services which would be aimed at or result in limitation of competition on the wholesale market of mobile TV services for DVB-H technology and retail market for mobile telecommunication services, which may breach the provisions of § 6 of the Competition and Consumer Protection Act dated 16 February 2007,

On 23 December 2010 the President of UOKiK initiated the proceedings on practices violating collective interests of consumers concerning the advertising campaign of the "Rarka w MixPlusie" (Rarka in MixPlus) promotional offer and "Być może nie zasłużyłeś na prezent, ale go od nas dostaniesz" (Maybe you do not deserve a gift but you will get it from us) and "Profil tanio do wszystkich" (Cheap-to-all profile) promotional offer.

The parent company does not agree with the allegations of the UOKiK President. As of the date of preparation of these financial statements the proceedings are still in progress.

UOKiK President is also conducting explanatory proceedings related to some aspects of carrying out activities by telecommunication enterprises, including explanatory proceeding on establishing whether the activities of mobile operators related to SMS traffic exchange may constitute a breach of the competition and consumer protection act.

Other administrative and legal proceedings

In addition to the issues described above, the parent cCompany is party to other legal and administrative proceedings. The Company believes that adequate provisions were made for all known and identified risks for which a reliable estimate can be made.

Tax contingent liabilities

Tax settlements are subject to review and investigation by tax authorities, which are entitled to impose severe fines, penalties and interest charges. Tax regulations change frequently which often lead to a lack of their clarity and integrity. Furthermore, frequent contradictions in tax interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine accounting records up to five years after the end of the year in which the final tax payments were to be made. Consequently, the parent cCompany may be subject to additional tax liabilities, which may arise as a result of tax audits. The parent cCompany believes that adequate provisions have been recorded for all known and quantifiable risks in this regard.

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37 . Related party transaction

For reporting purposes the Parent Company has assumed, as the affiliated entities, the Shareholder holding a stake exceeding 5% of Polkomtel S.A. share capital as well as the companies which are not subject to consolidation using the full consolidation method or the proportional consolidation method in which Polkomtel holds at least 20% stake.

In the Management Board's opinion all transactions with related entities were conducted at arm's length.

Value of sales and purchases presented in the following tables has been determined based on the invoices recorded in the books of Polkomtel S.A. in the reporting period.

	Purchases	
	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	in PLN million	in PLN million
Polski Koncern Naftowy Orlen S.A.	5.5	7.6
KGHM Polska Miedź S.A.	0.2	0.2
PGE Polska Grupa Energetyczna S.A.	0.0	0.0
Liberty Poland S.A.	286.2	258.0
Total	291.9	265.8

	Amounts payable	
	as at December 31, 2010	as at December 31 2009
	in PLN million	in PLN million
Polski Koncern Naftowy Orlen S.A.	0.4	0.6
KGHM Polska Miedź S.A.	0.0	0.0
PGE Polska Grupa Energetyczna S.A.	-	-
Liberty Poland S.A.	0.8	-
Vodafone Americas, Inc.	-	0.0
Total	1.2	0.6

	Sales	
	for the twelve month periods ended December 31, 2010	for the twelve month periods ended December 31, 2009
	in PLN million	in PLN million
Polski Koncern Naftowy Orlen S.A.	62.5	54.6
KGHM Polska Miedź S.A.	1.3	1.5
PGE Polska Grupa Energetyczna S.A.	0.3	0.4
Liberty Poland S.A.	275.0	269.3
Total	339.1	325.8

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for the years ended December 31, 2010 and December 31, 2009

37 . Related party transaction (cont.)

	Amounts receivable	
	as at	as at
	December 31, 2010	December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Polski Koncern Naftowy Orlen S.A.	12.2	5.1
KGHM Polska Miedź S.A.	0.3	0.3
PGE Polska Grupa Energetyczna S.A.	0.1	0.0
Liberty Poland S.A.	32.9	38.8
Total	45.5	44.2

38 . Salary and benefits of the Key Management Personnel of Polkomtel S.A.:

	as at	as at
	December 31, 2010	December 31, 2009
	<i>in PLN million</i>	<i>in PLN million</i>
Management Board	15.3	14.6
Supervisory Board	1.6	1.6
Post-employment benefits	-	1.5
Termination benefits	-	2.0
Total	16.9	19.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39 . Transactions between Polkomtel S.A. and Shareholders who hold at least 5% stake in Polkomtel S.A. as well as transactions with the companies from Shareholders' capital groups (ORLEN, KGHM, PGE, Vodafone), in which the ultimate controlling entity, in a given group, holds directly or indirectly at least a 5% stake.

	Purchases	Amounts payable
	for the twelve month	as at
	periods ended	December 31
	December 31,	December 31
	2010	2009
	<i>in PLN million</i>	<i>in PLN million</i>
ORLEN	5.7	77.8
KGHM	2.2	77.5
PGE	38.5	69.4
Vodafone	52.6	88.9
Total:	99.0	313.6

	Sales	Amounts receivable
	for the twelve month	as at
	periods ended	December 31
	December 31,	December 31
	2010	2009
	<i>in PLN million</i>	<i>in PLN million</i>
ORLEN	65.9	4.9
KGHM	7.8	0.9
PGE	26.0	3.1
Vodafone	35.6	3.2
Total:	135.3	12.1

40 . Related-party transactions with Liberty Poland S.A. (in '000s PLN).

	Sales in 2010	Purchases in 2010
Legal entities	60.0	322.0
Private persons	-	296.5
Total:	60.0	618.5

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for the years ended December 31, 2010 and December 31, 2009

41 . Headcount

Actual headcount:

	as at December 31, 2010	as at December 31, 2009
Operating Division	1.138,3	1.138,3
Sales Division	947,0	979,9
Marketing Division	288,9	262,5
Other	1.291,6	1.271,1
Total	3.665,8	3.651,8

42 . Events after the end of the reporting period

On 15 March 2011 the Parent Company received a decision of the President of UOKiK imposing a fine in the amount of PLN 130.7 million for the alleged lack of cooperation during an inspection conducted by UOKiK at Polkomtel S.A. The inspection was conducted under explanatory proceedings held to initially determine whether an agreement had been concluded on the national retail mobile telephony market aimed at or resulting in a restriction of competition in the wholesale market of mobile DVB-H television services.

In the Management Board's opinion the Parent Company cooperated with UOKiK, fully and at all times during the inspection in the scope envisaged by law and that the Parent Company was not and is not a party to any prohibited agreement with other entities. Therefore the Parent Company believes that there are no justified grounds for imposing this penalty and accordingly has not created any provision for the imposed fine in the consolidated financial statements for the year ended on 31 December 2010.

The Parent Company will appeal against President's decision to the Competition and Consumer Protection Court.

43 . Approval of financial statements


On March 17, 2011 the Parent Company's Management Board approved these consolidated financial statements.

THE CONSOLIDATED FINANCIAL STATEMENTS


as at December 31, 2010 and December 31, 2009

and for the twelve month periods ended December 31, 2010 and December 31, 2009

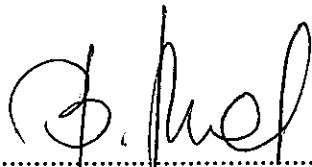
Signatures of Management Board Members



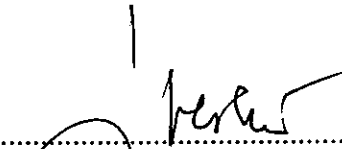
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Jarosław Bauc
President of the Management Board



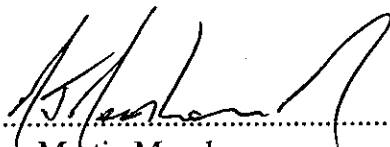
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Krzysztof Kilian
I Vice President of the Management Board



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Bogusława Matuszewska
Vice President of the Management Board



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Wojciech Dylewski
Management Board Member



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Martin Moorhouse
Management Board Member