

**LSE – Current Report (48/2010)**  
**Telekomunikacja Polska S.A., (TPSA) – Warsaw, Poland**  
**April 22<sup>nd</sup>, 2010**

Pursuant to art. 56, clause 1, item 1 of the Law of July 29, 2005 on public offering and the conditions for introducing financial instruments to the organised trading system and on public companies (Journal of Laws of 2005, No. 184, item 1539 with amendments), the Management Board of Telekomunikacja Polska S.A. (“TP S.A”, “TP”) hereby provides selected financial and operating data related to the activities of TP Group in the first quarter of 2010, ended on 31<sup>st</sup> of March 2010.

**TP Group reports progressive results improvement in 1Q 2010 compared to 4Q 2009 and announces launch of key mobile and broadband offers**

**Q1 2010: Overview**

- **Revenue: -10.2% year-on-year, a marked improvement compared to Q3 and Q4 2009.**
- **Cost base<sup>1</sup> down by 7.6% year-on-year benefiting from PLN 130mn cost savings**
- **Mobile post-paid customer base up by 6.4% year-on-year**
- **Fixed lines evolution significantly improved, to ca -183 thousand in a quarter**
- **TV customer base exceeding 417 thousand, up by 111% year-on-year**
- **TP Group’s competitiveness enhanced with new mobile post-paid and broadband offers.**

Key figures	Quarter ended March 31		
	Q1 2010	Q1 2009	Change
(PLN million) IFRS			
Revenue	3,873	4,312	-10.2%
Fixed Line Segment	2,311	2,582	-10.5%
Mobile Segment	1,816	1,998	-9.1%
EBITDA	1,420	1,657	-14.3%
EBITDA (as a % of revenue)	36.7%	38.4%	-1.7 pp
Net free cash flow	464	526	-11.8%
Net debt after hedging	3,959	4,838	-PLN 879 m

**Commenting on TP Group’s performance in 1Q 2010, Mr. Maciej Witucki, President of the Board and Chief Executive Officer, said:**

*“Our results are still not up to our ambitions, but we are working hard to turnaround the key trends, all within the framework of the medium term action plan. Quarter 1 has shown a slight improvement in the revenue trend, especially in the mobile segment. I am happy to see growth of our post-paid customer base. We are convinced that the new post-paid offering will change price perception on the market and boost mobile data growth; as promised, the low-cost smartphones have arrived in Poland. We have accelerated our actions in broadband, strongly decreasing fees for the top-speeds. We are now back in the market in terms of pricing and considering our broadband investment program, I can say that TP is on its way back to driving this market. The cost transformation is as expected, delivering a strong contribution towards EBITDA in Q1, and enabling us to report a strong (7.6%) year-on-year opex decrease. It will continue to offset pressure on our margin. As mentioned before, we have to wait until H2 for a material change in our performance, however Q1 is a good start in this turnaround year of 2010.”*

<sup>1</sup> Total costs up to the EBITDA level

## **Q1 2010: Financial Review**

### **Q1 2010 revenue evolution (-10.2% year-on-year) better than in Q3 and Q4 of 2009**

According to the Group's estimates, the value of the Polish telecom market had decreased -5.9% year-on-year versus -7.8% in Q4 2009. The smaller decline is predominantly attributed to the timing of the MTR cuts made in 2009; the 1<sup>st</sup> reduction was implemented in March 2009, so its impact on Q1 2010 has been smaller than on the previous quarters. The total regulatory impact<sup>2</sup> on 1Q TP Group revenue is estimated at -5.7% year-on-year.

Growing customer base in mobile post-paid (+6.4% year-on-year) and increasing usage (blended AUPU<sup>3</sup> up +16.5%) have limited the impact of the fierce price competition in mobile; the pre-regulatory contribution of this segment towards TP Group revenue was nearly flat year-on-year.

Q1 2010 broadband revenue was up by 0.3% year-on-year, with a slowdown in the development of the retail customer base (up by 1% year-on-year), supported by the TV offer (up to 417k customers). Fixed voice has continued to decline, driven by the fixed-to-mobile substitution, however the fixed line evolution has improved significantly, with the net lines decline limited to 183 thousand. Altogether, the pre-regulatory fixed segment contribution towards TP Group top-line evolution was at -4.3%

### **EBITDA margin at 36.7%, as PLN 130mn cost savings limits the pressure on profitability**

TP Group EBITDA margin was at 36.7%, down -1.7 percentage points year-on-year and at comparable level vs. Q4'09. The margin continues to be affected by margin squeeze on the market; decreasing ARPU coupled with growing customer volumes and usage. However, the cost transformation programme, has continued to deliver solid results, with 1Q 2010 savings of PLN 130mn minimising the margin erosion.

### **Net Income helped by lower depreciation and smaller financial costs**

At PLN 285 million, net income is down by 13.1% year-on-year. The decline in EBITDA has been partially offset by lower depreciation (down by PLN119mn year-on-year), lower financial cost, (down by PLN84mn year-on-year) thanks to lower debt, as well as lower income taxes (-10.8%).

### **Net Free Cash Flow down by -11.8% to PLN 464m**

At PLN 464 million, TP Group's Net Free Cash Flow (NFCF) is 11.8% down compared to Q1 2009 and reached 12% of revenue. Regulatory and competitive pressures reflected in the EBITDA decline have been partially offset by lower capex payments, down due to weather conditions affecting civil works.

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<sup>2</sup> Mobile Termination rate cuts, fixed-to-mobile price reductions and LLU/other impacts

<sup>3</sup> AUPU: average usage per user

## Q1 2010: Fixed Line Segment review

- Revenue (-10.5% year-on-year) reflecting:
  - -3.6% impact of the regulatory decisions (mostly fixed-to-mobile price cuts)
  - -6.7% impact (to segment revenue) of the fixed voice revenue decrease
  - Moderate growth in broadband revenue (+0.3% year-on-year)
  - Total broadband base up by 6.2%, with retail broadband ARPU<sup>4</sup> up to PLN 57.7
    - TP launched new promotion for top-speeds, bringing its pricing down to market levels.
  - 18.4% of TP Group's retail broadband customers have the 2P<sup>5</sup> bundle; which is a key retention tool
- EBITDA margin at 39.8% mostly thanks to the cost transformation savings.

### Key figures

Fixed Line Key Indicators	Quarter ended 31 March 2010	Quarter ended 31 March 2009	YoY Change
Revenue (PLN million)	2,311	2,582	-10.5%
Broadband revenue	392	391	+0.3%
Number of fixed lines (000's)	8,140	8,747	-6.9%
Number of total broadband accesses (000's)	2,680	2,524	+6.2%
Number of TV customers (000's)	417	198	x 2.1
EBITDA margin	39.8%	42.4%	-2.6 pp

TP Group's fixed business remains under strong regulatory and competitive pressure. With the estimated value of the fixed-market down by -6.6% in 2010, TP Group fixed segment revenue has declined by 10.5% year-on-year. Top-line decrease was primarily driven by the regulated fixed-to-mobile price reduction, implemented in November 2009, with the total year-on-year impact of regulations estimated at -3.6%. Pre-regulatory evolution of the fixed segment revenue is ca -6.5% year-on-year, with the continuous erosion of the fixed voice revenue partially mitigated by stable stream of broadband, data and wholesale revenue. In an effort to restore growth in the broadband revenue stream, TP has significantly decreased its pricing for 6Mb/s, 10Mb/s and 20Mb/s in April 2010, bringing it to more competitive levels. Coupled with the broadband investment program (1.2mn lines over 3 years), this should restore positive dynamics into this vital revenue stream. TV subscriber base, another key measure of the TP attractiveness on the broadband, has grown by more than 100% versus Q1 2009. Over 18% of TP Group's retail broadband customers also have the broadband and TV bundle offer from TP; as a key retention tool.

Fixed line EBITDA margin was down -2.6 pp, still at a high range of 39.8%. The year-on-year pressure is a combination of lower revenue, which was partially offset by the cost transformation savings. The latter ones include both continuation of the initiatives started in 2009 (car fleet reduction and downgrade, office space management) but also new initiatives, such as IT vendor consolidation, where the plan is to come down from ~50 IT vendors to 7 key suppliers. Three of those agreements have already been signed in Q1.

<sup>4</sup> ARPU: average revenue per user

<sup>5</sup> 2P: broadband and television bundle

## Q1 2010: Mobile Segment review

- Significant improvement in revenue evolution (down 9.1% Y-o-Y versus -14.5% in Q4'09)
  - -8.6% impact of the mobile termination rate decrease, yet lower vs. past quarters
  - Almost flat pre-regulatory revenue evolution, as healthy customer base growth and rise in blended AUPU (+16.5%) development offset price pressure
- Mobile post-paid customer base up by 6.4%, reaching 48.7% of total Orange customers.
- Dedicated mobile broadband subscriptions up by +8.7%
- EBITDA margin flat year-on-year, as cost savings offset the effect of the 2009 price war

### Key figures

Mobile Key Indicators	Quarter ended 31 March 2010	Quarter ended 31 March 2009	YoY Change
Revenues (PLN million)	1,816	1,998	-9.1%
Number of total customers (000's)	13,774	13,681	+0.7%
Number of post-paid customers (000's)	6,713	6,311	+6.3%
Number of mobile broadband access (000's)	400	368	+8.7%
EBITDA margin	27.6%	28.2%	-0.6 pp

Mobile segment year-on-year revenue evolution has improved significantly versus past trends, with the pace of the decline slowed down to single digit in Q1, versus 14.5% in Q4 2009. It was predominantly thanks to a lower impact of the 2009 MTR reductions, (1<sup>st</sup> cut implemented in March 2009). 1Q pre-regulatory revenue evolution was almost flat (down by 0.6%) and was helped by strong growth of the post-paid customer base (up by 6.4% year-on-year). Orange customers have continued to increase the take-up of services, with usage growing by 16.5% year-on-year. This helped to offset the price pressure and keep ARPU almost flat year-on-year. In order to further stimulate growth, Orange has launched an entirely new post-paid offer. Based on a customer-profile segmentation, it is tailored to provide each segment with unique flagship components, while preserving ARPU through migration to higher usage patterns. The offer has also introduced new, low-cost smartphones onto the Polish market, which will now be affordable to the mass consumer.

In spite of the price pressure, the mobile segment EBITDA margin has been almost flat, with the year-on-year decrease limited to 0.6p.p. This was possible thanks to a strong contribution of the cost transformation programme, which has brought group-wide savings of PLN 130mn.

## **New offers launched on the market to re-engage TP with the markets**

TP Group has made 1<sup>st</sup> progress in its aim to re-engage with the core markets, by launching an entirely new post-paid offer and lowering prices for top speed broadband options.

The mobile post-paid offer, launched on April 21<sup>st</sup>, is based on a completely new philosophy of customer segmentation. Instead of clustering subscribers by their spending size, the new segmentation is based on different customer needs and usage profiles. This is the anchor of the new post-paid approach. It allows TP group meet different customer expectations, by tailoring key offer components to the needs of the three segments identified:

1. Dolphin; customer concentrating on voice services
2. Pelican; client focused on text and community web-services
3. Panther; intensive user of the web, text, data and voice

TP Group has included new smartphone handsets as part of the offer, available for 1PLN in tariff plans as low as PLN 59.

In the broadband segment, TP Group has significantly (by as much as 43%<sup>6</sup>) reduced its pricing for the top speeds (6Mb/s, 10Mb/s and 20Mb/s). Effectively, this brings TP to more competitive pricing. Coupled by the country-wide broadband investment program (investment into 1.2mn lines over the next 3 years, including 1mn lines with the speed of min. 6Mb/s), this has effectively brought TP back to the market driver position.

Commenting on the 1Q results, Mr Roland Dubois, TP Group Chief Financial Officer said:

“I am reassured about our 2010 performance. TP Group is in a good financial condition and the revenue trends have begun to slowly improve. Since the MTR cuts of 2009 will progressively have a smaller impact on the top-line evolution, we expect it to further improve in the subsequent quarters. I am happy about the launch of new commercial offers and I await their contribution towards the top-line by 2<sup>nd</sup> half of 2010. On the other hand, our cost savings programme has delivered satisfactory results, helping 1Q EBITDA by roughly PLN 130mn. We continue to launch and implement new initiatives to offset the pressure on our EBITDA. Our turnaround will take longer than one quarter, but I am confident that we shall be able to deliver gradual performance improvement within the next few quarters”.

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<sup>6</sup> Reduction on the effective monthly fee in a 24month contract for 20Mb/s speed option

## Forward-looking statement

*This press release contains forward-looking statements, including, but not limited to, statements regarding anticipated future events and financial performance with respect to our operations. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like 'believe', 'expect', 'anticipate', 'estimated', 'project', 'plan', 'pro forma' and 'intend' or future or conditional verbs such as 'will,' 'would,' or 'may.' Factors that could cause actual results to differ materially from expected results include, but are not limited to, those set forth in our Registration Statement, as filed with the Polish securities and exchange commission, the competitive environment in which we operate, changes in general economic conditions and changes in the Polish and/or global financial and/or capital markets. Forward-looking statements represent management's views as of the date they are made, and we assume no obligation to update any forward-looking statements for actual events occurring after that date. You are cautioned not to place undue reliance on our forward-looking statements.*

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TP S.A. Presentation

Registration: 10.30am

Start: 11.00am

Thursday 22<sup>nd</sup> April 2010

Warsaw Stock Exchange

Trading Floor (1<sup>st</sup> floor)

Książęca 4, 00-498 Warsaw

The presentation will also be available via a live webcast on our website at [www.tp-ir.pl](http://www.tp-ir.pl) and via a live conference call:

### **Time:**

11:00 (Warsaw), 10:00 (London), 05:00 (New York)

### **Conference title:**

TP Group Q1 Results

### **Dial in numbers:**

UK/Europe: +44 208 515 2302

US: +1 480 629 9725

### **Toll free umbers:**

UK: 0800 358 0857

US: 1 877 941 2927

## TP Group Consolidated - Revenue, net

<i>(Amount in PLN millions)</i>	<b>3 months ended 31 March 2010</b>	<b>3 months ended 31 March 2009</b>
<b>Fixed line telephony services</b>	<b>1,350</b>	<b>1,601</b>
Retail revenue (subscriptions and traffic)	1,077	1,306
Wholesale revenue incl. interconnection	269	289
Payphone revenue	4	6
Other	0	0
<b>Mobile telephony services</b>	<b>1,678</b>	<b>1,844</b>
Voice traffic revenue	998	1,048
Interconnection revenue	312	425
Messaging services and content	358	351
Other	10	20
<b>Data Services</b>	<b>639</b>	<b>645</b>
Leased lines	73	84
Data transmission	172	165
Dial – up	2	5
Broadband revenue	392	391
<b>Radio communications</b>	<b>52</b>	<b>54</b>
<b>Sales of goods and other</b>	<b>154</b>	<b>168</b>
<b>Total revenue, net</b>	<b>3,873</b>	<b>4,312</b>

## TP Group operating expenses breakdown

<i>(Amounts in PLN millions)</i>	<b>3 months ended 31 March 2010</b>	<b>3 months ended 31 March 2009</b>
Labour expenses	592	611
Purchase and payment to other operators	506	647
Commercial expenses	602	614
Costs relating to network and IT expenses	231	244
Content services	25	43
Other external purchases	374	400
Other operating expenses, net	126	115
Provisions for claims and litigation, risks and other charges	4	0
Operating forex gains/(losses), net	2	-5
restructuring costs	0	-1
Disposals	-9	-13
<b>Total costs</b>	<b>2,453</b>	<b>2,655</b>



Fixed Voice	2009				2010
	1Q	2Q	3Q	4Q	1Q
<b>customer base</b>					
<b>Main lines (thousands)</b>					
POTS	6,691	6,481	6,274	6,068	5,895
ISDN 2B+D	754	734	712	701	682
ISDN 30B+D	276	271	269	264	264
WLR PTK	3.3	16.7	30	44	50
WLL PTK					2
<b>Total retail main lines</b>	<b>7,724</b>	<b>7,503</b>	<b>7,285</b>	<b>7,076</b>	<b>6,893</b>
WLR	1,023	1,102	1,167	1,211	1,246
<b>Total number of main lines</b>	<b>8,747</b>	<b>8,605</b>	<b>8,452</b>	<b>8,288</b>	<b>8,140</b>
<b>ARPU per month</b>					
Fixed voice ARPU (in PLN)	55.2	52.5	52.6	52.0	50.9
<b>fixed voice market</b>					
Fixed voice penetration (in households)	59.4%	58.8%	57.9%	57.3%	56.6%
<b>Local access market in Poland-estimated (in million)</b>	10.6	10.5	10.3	10.3	10.3
<b>Fixed voice market share (%)</b>					
Volume					
DLD*:	74.1%	72.8%	72.9%	72.7%	73.5%
F2M*:	78.3%	77.3%	77.1%	77.2%	78.2%
ILD*:	67.1%	65.5%	65.5%	64.7%	64.6%
LC*:	78.5%	77.8%	77.4%	76.5%	76.1%
Overall Traffic M/S*:	77.4%	76.4%	76.1%	75.6%	75.1%
TPG Retail local access**	73.2%	71.4%	70.0%	68.4%	67.2%
Total local access	82.9%	81.9%	82.2%	80.6%	79.7%
Value market share	73.1%	71.8%	71.5%	70.9%	70.5%

\*Traffic market share measured at the end of each quarter based on TP network in Mass and Business Segment

\*\* Local access without Wholesale Line Rental but with Orange WLR part

Fixed Broadband	2009				2010
	1Q	2Q	3Q	4Q	1Q
<b>customer base</b>					
<b>Broadband access lines (thousands)</b>					
ADSL	2,115	2,116	2,102	2,071	2,039
CDMA	16	34	53	72	88
SDI	1	1	1	1	1
Bitstream access	388	412	431	456	490
LLU	3.8	7.9	23.7	51.6	62.1
<b>Total</b>	<b>2,524</b>	<b>2,571</b>	<b>2,611</b>	<b>2,652</b>	<b>2,680</b>
<b>Retail broadband access lines (thousands)</b>					
of which TP fixed	2,116	2,118	2,103	2,072	2,040
of which Orange fixed*	127	151	176	201	222
<b>Retail - total</b>	<b>2,243</b>	<b>2,268</b>	<b>2,278</b>	<b>2,273</b>	<b>2,262</b>
<b>ARPU per month</b>					
TPG Broadband ARPU (in PLN)	58.7	58.8	58.0	57.7	57.7
<b>internet features</b>					
<b>TV client base (thousands)</b>	<b>198</b>	<b>239</b>	<b>283</b>	<b>372</b>	<b>417</b>
of which IPTV	86	95	107	109	111
of which TV over Satellite (TVoSAT)	112	144	176	263	306
VoIP client base (thousands)	162	156	150	140	123
Livebox client base (thousands)	582	614	645	702	727
<b>broadband market</b>					
B2C Broadband penetration (in households)	39.7%	40.2%	40.7%	41.5%	42.3%
Total broadband market customers - estimated (in '000)	5,717	5,821	5,922	6,079	6,216
TP Group gross adds market share	36.8%	35.4%	34.2%	30.5%	29.7%
TP Group net adds market share	32.1%	25.0%	9.8%	-3.4%	-8.0%
TP Group volume market share (in %)	39.2%	39.0%	38.5%	37.4%	36.4%
TP Group value market share (in %)	49.5%	49.5%	48.8%	47.5%	46.1%

\* incl. BSA and CDMA

Mobile Segment	2009				2010
	1Q	2Q	3Q	4Q	1Q
<b>customer base</b>					
<b>Mobile customer base (thousands)</b>					
Post-paid	6,310	6,449	6,507	6,623	6,712
Pre-paid	7,370	7,318	7,228	7,090	7,062
NMT	1	1	1	1	1
<b>Total</b>	<b>13,681</b>	<b>13,768</b>	<b>13,736</b>	<b>13,714</b>	<b>13,774</b>
MVNOs customers	41	48	48	51	55
Dedicated mobile broadband subscription client base (thousands)	368	378	375	388	400
Active mobile broadband enable devices (thousands)	4,731	5,370	5,420	5,503	6,572
<b>ARPU</b>					
<b>Monthly mobile customer ARPU in quarter (PLN)</b>					
post-paid	75.1	72.9	69.4	67.6	64.5
pre-paid	20.2	20.5	20.9	19.9	19.2
Blended	44.8	44.9	43.8	42.7	41.2
Retail ARPU (PLN)	33.6	35.1	35.4	34.4	33.0
Wholesale ARPU (PLN)	11.2	9.8	8.4	8.3	8.2
<b>Voice ARPU (PLN)</b>					
post-paid	58.4	56.4	52.9	51.2	48.8
pre-paid	14.5	14.1	14.4	13.3	12.8
Blended	34.2	33.8	32.6	31.4	30.3
<b>Non-voice ARPU (PLN)</b>					
post-paid	16.6	16.5	16.5	16.4	15.8
pre-paid	5.7	6.3	6.5	6.6	6.5
Blended	10.6	11.1	11.2	11.3	11.0
Non-voice revenue as % of total network revenue:	23.5%	24.4%	25.3%	25.9%	26.0%
<b>volumes &amp; churn</b>					
<b>AUPU (in minutes)</b>					
post-paid	206.5	215.2	215.3	220.1	219.2
pre-paid	60.3	65.6	71.3	70.7	78.0
Blended	125.8	135.3	139.2	141.9	146.6
<b>Mobile customer churn rate (%)</b>					
post-paid	2.8	2.6	3.1	3.3	3.1
pre-paid	20.7	14.2	17.7	16.6	15.1
<b>subsidies</b>					
<b>SAC (PLN)</b>					
post-paid	512.8	524.9	488.6	489.9	485.2
pre-paid*	12.1	12.1	7.8	10.6	9.8
Blended*	136.3	131.9	118.2	138.4	133.5
<b>SRC (PLN)</b>					
	605.9	646.9	580.4	594.3	531.0

\*Data has been changed back from Q1 2009 due to correction on provision expense from SAC to prepay voucher commissions.

Mobile Segment	2009				2010
<b>network coverage</b>					
PTK Centertel EDGE coverage in % of population:	99.5%	99.5%	99.5%	99.5%	99.5%
PTK Centertel UMTS coverage in % of population:	52.9%	54.4%	54.9%	55.3%	55.4%
<b>Mobile market</b>					
Market penetration rate for mobile network services	115.2%	116.4%	116.7%	117.8%	118.0%
PTK Centertel mobile market share in volume	31.1%	31.0%	30.8%	30.5%	30.6%
PTK Centertel mobile market share in value	32.1%	30.8%	31.0%	30.8%	31.2%

Employment structure of TP Group <i>Full time positions</i>	2009				2010
	1Q	2Q	3Q	4Q	1Q
TP SA	23,152	22,534	22,136	21,089	20,466
PTK Centertel	3,559	3,645	3,638	3,672	3,652
Other	2,772	2,777	2,751	2,905	2,970
<b>TP Group</b>	<b>29,483</b>	<b>28,955</b>	<b>28,525</b>	<b>27,667</b>	<b>27,089</b>

Terms used:

**Churn rate** – The number of customers who disconnect from a network in a given period, divided by the weighted average number of customers in the same period

**ARPU** – Average revenue per user

**AUPU** – Average minutes of use per user

**SAC** – Subscribers acquisition cost

**SRC** - Subscribers retention cost