LSE – Current Report (87/2010)
Telekomunikacja Polska S.A., (TPSA) – Warsaw, Poland
July 28th, 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 for the 2Q and 1H 2010.

TP Group reports significant performance upturn in 2Q 2010 and raises its full year free cash flow guidance

2Q 2010 highlights

- **Revenue up by 2.9% quarter-on-quarter and down 4.7% year-on-year, a marked improvement compared to -10.2% year-on-year in 1Q**
- **Cost savings of PLN 150mn delivered in 2Q, totalling PLN 280mn in 1H**
- **EBITDA margin at 36.9%, second consecutive quarter of recovery**
- **Strong mobile performance: EBITDA up by 22% quarter-on-quarter (31.3% margin), value market share at 31.9% (up by 1.1p.p. year-on-year)**
- **Net income up 14% versus Q1**
- **Broadband action plan expected to deliver tangible turnaround in 2H**
- **Full-year 2010 Net Free Cash Flow objective raised to at least PLN 2.3bn[1]**

Key figures (PLN million) IFRS	2Q 2010	2Q 2009	Change	1H 2010	1H 2009	Change
Revenue	3,987	4,185	-4.7%	7,860	8,497	-7.5%
Fixed Line Segment	2,288	2,505	-8.7%	4,599	5,087	-9.6%
Mobile Segment	1,950	1,954	-0.2%	3,766	3,952	-4.7%
EBITDA	1,472	1,556	-5.4%	2,892	3,213	-10.0%
EBITDA (as a % of revenue)	36.9%	37.2%	-0.3 pp	36.8%	37.8%	-1.0 pp
Net free cash flow	711	955	-25.6%	1,175	1,482	-20.7%
Net debt after hedging	2,999	4,046	-1,047	2,999	4,046	-1,047

Commenting on TP Group's performance in 2Q 2010, Mr. Maciej Witucki, President of the Board and Chief Executive Officer, said:

"Results for the second quarter mark a significant upturn in our performance and our achievements in the first half of the year, both commercial and financial, confirm that implementation of our medium term action plan is well on track. We have made progress in our product and service offering, dialogue with the regulatory authority if fruitful our financial results are benefiting from our robust cost transformation program. They confirm that TP Group is well on its way to a turnaround. When we presented our medium term action plan earlier in February, we had identified 4 major challenges ahead of us: accelerating revenue decline, falling market share in mobile, deteriorating EBITDA margin and we acknowledged that we were facing a big challenge in Broadband. During 1H we have addressed the first three items and we will definitively leverage on the progress achieved so far. Now, our key focus for the 2nd half of the year will be to bring Broadband back to growth. At TP Group, we are fully committed to make that happen."

[1] excluding exceptional items and unpredicted regulatory impact

Financial Review

Revenue up by 2.9% quarter-on-quarter and down 4.7% year-on-year, material improvement in trend

According to the Group's estimates, the value of the Polish telecom market had decreased in 2Q by 4.0% year-on-year after -6.8% in 1Q 2010. This smaller decline is attributed to the timing of the MTR cuts made in 2009; as a reminder, the first reduction was implemented in March 2009, implying that it was less impactful on Q2 than on previous quarters.

Mobile segment revenue was up by 7.4% quarter-on-quarter and stable year-on-year. Excluding regulatory impact, mobile segment revenue was up by 4.2% in 2Q as compared to a moderate decline in 1Q. Record high net additions (254 thousand in 2Q) contributed to the 1.9% year-on-year growth of the total customer base. Post-paid subscribers were up by 5.3% year-on-year, reflecting the Group's ongoing focus on value. Growing usage (AUPU[2] +19.6% year-on-year), has limited the effects of price competition; 2Q ARPU was down by less than 3% year-on-year as compared to -8.0% in 1Q.

Fixed segment revenues have reached an inflection point, with 2Q revenue evolution (-8.7% year-on-year) slightly improving as compared to 1Q (-10.5% year-on-year). This significant upturn was led by a smaller regulatory impact[3] and improvement in fixed line subscriber trends. The retail fixed line base declined by 143,000 in 2Q as compared to a 183,000 decrease in 1Q. Retail broadband customer base was stabilised since 1Q and was down by 7,000 year-on-year. TV subscriber base continued to grow, reaching 453,000 users, which represents 20% of the retail broadband base, twice the level of 1Q 2009.

Second consecutive quarter of EBITDA margin recovery

TP Group EBITDA was up by 3.7% since 1Q, mainly due to a strong performance in the mobile segment (EBITDA up by 22% quarter-on-quarter, with EBITDA margin at 31.3%) and a solid contribution from the cost savings program (PLN 150mn savings achieved in 2Q). At 36.9%, 2Q represents the second consecutive quarter of EBITDA margin improvement.

Net Income up by 14% quarter-on-quarter, despite a one-off depreciation charge

At PLN 325 million, net income rose by PLN 40mn (or 14.0%) versus 1Q. While down 13.3% versus 2Q 2009, quarter-on-quarter growth was achieved due to higher EBITDA, partially offset by a one-off driven increase of depreciation (up by PLN 24mn in comparison to 1Q). Net margin stands at 8.1% of revenue, down only 0.5p.p. year-on-year.

1H Net Free Cash Flow run rate is above the annual objective of at least PLN 2bn

The PLN 307mn decline in Net Free Cash Flow, to PLN 1,175mn, compared to 1H 2009 can be explained by lower cash from operating activities, including a -PLN 251mn difference on hedging derivatives[4] used to hedge TP Group's foreign denominated liabilities. Nevertheless, due to a resilient EBITDA and a low capital expenditure level (9% of revenues, affected mainly by difficult weather conditions), the 1H 2010 net free cash flow run-rate exceeds the full year guidance of at least PLN 2bn (excluding exceptional items and unpredicted regulatory impact)

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[2] AUPU: average usage per user

[3] Smaller regulatory result from timing of the 1st fixed-to-mobile price cut, in March 2009 and November 2009

[4] -PLN 251mn consists of PLN 197mn gains in 2009 (as the PLN weakened) and PLN 54mn losses in 2010 (as the currency gained)

2Q 2010: Mobile Segment review

- **Revenue up by 7.4% quarter-on-quarter: significant improvement in trend, down by 0.2% year-on-year in 2Q compared 9.1% in 1Q**
- **EBITDA up by 22% quarter-on-quarter, with EBITDA margin (31.3%) up 4p.p. versus 1Q**
- **Customer base up quarter-on-quarter by a record 254 000, leading to 1.9% growth year-on-year**
- **Value market share at 31.9% versus 30.8% in 2Q 2009**
- **Mobile post-paid customer base up by 5.3% year-on-year, reaching 48.4% of total**
- **Dedicated mobile broadband subscriptions up by +14.5% year-on-year**

Key figures

Mobile line indicators	**2Q 2010**	**2Q 2009**	**Change**	**1H 2010**	**1H 2009**	**Change**
Revenues (PLN million)	1,950	1,954	-0.2%	3,766	3,952	-4.7%
Number of total customers (000's)	14,029	13,768	+1.9%			
Number of post-paid customers (000's)	6,791	6,450	+5.3%			
Number of prepaid customers (000's)	7,238	7,318	-1.1%			
Number of mobile broadband access (000's)	433	378	+14.5%			
EBITDA margin	31.3%	27.3%	+4.0 pp	29.5%	27.7%	+1.8 pp

With 7.4% quarter-on-quarter rise in revenue, the trend has improved significantly, top-line has been stable year-on-year, which is a substantial improvement compared to 9.1% year-on-year decline observed in 1Q. The improvement mainly reflects the lower impact of the 2009 MTR reductions, (1st cut implemented in March 2009) as well as due to very good 2Q customer base growth combined with ARPU upward change

- Net additions were at a record 254 thousand in 2Q, driving a 1.9% year-on-year in customer base
- Overal 2Q ARPU was down by 2.9% year-on-year, as compared to -8.0% observed in 1Q.

EBITDA was up by 22% quarter-on-quarter, with the EBITDA margin back above the 30% mark, at 31.3% in 2Q. This was achieved due to good control over costs, which grew by only PLN 24mn quarter-on-quarter, much less than the PLN 134mn growth of the top-line.

Fixed Line Segment review

- **Initial signs of upturn in revenue trends, with 2Q down by -8.7% year-on-year in comparison to -10.5% in 1Q**
- **Improved retail fixed lines evolution: decline by 143 000 in 2Q as compared to -183 000 in 1Q**
- **Retail broadband customer base is stabilised,**
    - **Action plan launched for 2H, to restore growth in Broadband**
- **20% of retail broadband customers have the 2P[5] bundle; which is a key retention tool**
- **EBITDA margin at 37.6% affected by one-offs**

Key figures

Fixed line indicators	2Q 2010	2Q 2009	Change	1H 2010	1H 2009	Change
Revenue (PLN million)	2,288	2,505	-8.7%	4,599	5,087	-9.6%
Broadband revenue	385	398	-3.3%	777	788	+1.4%
Number of fixed lines (000's)	8,029	8,605	-6.7%			
Number of total broadband accesses (000's)	2,707	2,571	+5.3%			
Number of TV customers (000's)	453	239	+89%			
EBITDA margin	37.6%	40.8%	-3.2 pp	38.7%	41.6%	-2.9 pp

TP Group's fixed line revenue seems to has reached an inflection point, they declined by 8.7% year-on-year in comparison to -10.5% in 1Q. The decrease was primarily driven by the regulated fixed-to-mobile price reduction, implemented in November 2009, as well as by the structural[6] decrease in the number of fixed lines. However, the net loss of lines has been limited to 143 thousand in Q2'10 in comparison to 183 thousand in Q1 and more than 220 thousand lines lost in Q2 2009. This improvement is largely attributable to TP's ongoing strategy of promoting fixed-term loyalty contracts for the traditional voice services.

The Broadband customer base has been stabilised in comparison to 1Q and was slightly lower than a year ago. Price promotions for the top speeds[7] have proved a successful, doubling the share of these speed options in total sales since 1Q, but TP Group's retail pricing for the most popular options (1Mb/s and 2Mb/s) was still not competitive enough. This is set to change, as full implementation of the cost plus price method will allow TP to lower its prices to the market levels. Furthermore, TP Group has launched an action plan to be executed in 2H: a set of measures will be taken to, amongst other things will leverage on the new regulatory environment, with the goal to bring Broadband back to growth.

Fixed line EBITDA margin was down by -3.2 pp year-on-year, mostly driven by the revenue decline, which was only partially offset by the cost savings program.

[5] 2P: broadband and television bundle

[6] Mostly caused by the migratin of customers from fixed telephony to mobile

[7] 6Mb/s, 10Mb/s and 20Mb/s

TP confirms the full-year outlook on trends and increases its free cash flow guidance for 2010

- TP Group confirms that progressive improvement in revenue trends, as observed in 1H, is likely to continue in 2H. The Group now anticipates year-on-year revenue erosion to fall below 4% in 2H.

- TP Group expects 2H EBITDA margin (excluding exceptional items and unpredicted regulatory impact) in the 36% to 37% range, including high commercial costs impacting 4Q, thus confirming full-year outlook.

- Taking into account the delay in the roll out of capital expenditure program caused by bad weather conditions earlier in the year, capital expenditure are being pushed back to 2H, and more particularly to 4Q. The outlook for capital expenditure representing 16% to 18% of revenue is, however, unchanged.

- TP Group increases its guidance for 2010 Net Free Cash Flow from at least PLN 2bn to at least PLN 2.3bn (excluding exceptional items and unpredicted regulatory impact).

Commenting on the 2Q results, Mr Roland Dubois, TP Group Chief Financial Officer said:
"Since it was launched, in April 2009, our cost savings program has generated substantial savings. In the first half of 2010 alone, they total PLN 280mn. Although the comparison basis will be less easy for savings as we enter the second half the year, we nonetheless anticipate a strong EBITDA for 2H. The upturn in operating performance, coupled with the delay in capital expenditure roll-out, where we expect a ramp-up in 4Q, leads us to increase our net cash flow target for the full year. On the other hand, our strong balance sheet and low net gearing provide us with adequate resources and flexibility to finance our activities and provide security to our shareholders."

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: 11.30am
Start: 12.00am
Wednesday 28th July 2010

Warsaw Stock Exchange
Trading Floor (1st floor)
Książęca 4, 00-498 Warsaw

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

Time:
12:00 (Warsaw), 11:00 (London), 06:00 (New York)

Conference title: TP Group H1 Results

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TP Group Consolidated - Revenue, net

(Amount in PLN millions)	2Q2010	2Q2009	1H2010	1H2009
Fixed line telephony services	**1,315**	**1,490**	**2,665**	**3,091**
Retail revenue (subscriptions and traffic)	1,029	1,203	2,106	2,509
Wholesale revenue incl. interconnection	283	278	552	567
Payphone revenue	3	8	7	14
Other	0	1	0	1
Mobile telephony services	**1,787**	**1,815**	**3,465**	**3,659**
Voice traffic revenue	1,079	1,080	2,077	2,128
Interconnection revenue	349	364	661	789
Messaging services and content[8]	345	358	703	709
Other	14	13	24	33
Data Services	**636**	**656**	**1,275**	**1,301**
Leased lines	74	76	147	160
Data transmission	176	179	348	344
Dial – up	1	3	3	8
Broadband revenue	385	398	777	789
Radio communications	**52**	**53**	**104**	**107**
Sales of goods and other	**197**	**171**	**351**	**339**
Total revenue, net	**3,987**	**4,185**	**7,860**	**8,497**

TP Group operating expenses breakdown

(Amounts in PLN millions)	2Q2010	2Q2009	1H2010	1H2009
Labour expenses	566	593	1,158	1,204
Purchase and payment to other operators	538	576	1,044	1,223
Commercial expenses	615	639	1,217	1,253
Costs relating to network and IT expenses	232	251	463	495
Content services	31	41	56	84
Other external purchases	370	379	744	779
Other operating expenses, net	142	114	268	229
Provisions for claims and litigation, risks and other charges	23	36	27	36
Operating forex gains/(losses), net	4	0	6	-5
restructuring costs	0	1	0	0
Disposals	-5	-1	-14	-14
Total costs	2,515	2,629	4,968	5,284

8 SMS-MMS outgoing, data traffic & access services, content services (branded & third party content mobile)

Fixed Voice customer base	2009				2010	
	1Q	2Q	3Q	4Q	1Q	2Q
Main lines (thousands)						
POTS	*6,691*	*6,481*	*6,274*	*6,068*	*5,895*	*5,742*
ISDN 2B+D	*754*	*734*	*712*	*701*	682	*665*
ISDN 30B+D	*276*	*271*	*269*	*264*	264	*265*
WLR PTK	*3,3*	*16,7*	*30*	*44*	*50*	*67*
WLL PTK					2	*12*
Total retail main lines	***7,724***	***7,503***	***7,285***	***7,076***	***6,893***	***6,750***
WLR	*1,023*	*1,102*	*1,167*	*1,211*	*1,246*	*1,279*
Total number of main lines	**8,747**	**8,605**	**8,452**	**8,288**	**8,140**	**8,029**
ARPU per month						
Fixed voice ARPU (in PLN)	55.2	52.5	52.6	52.0	50.9	49.9
fixed voice market						
Fixed vioce penetration (in households)	59.4%	58.8%	57.9%	57.3%	56.7%	56.2%
Local access market in Poland-estimated (in million)	10.6	10.5	10.3	10.3	10.3	10.2
Fixed voice market share (%)						
Volume						
DLD:*	*74.1%*	*72.8%*	*72.9%*	*72.7%*	*72.5%*	*71.1%*
F2M:*	*78.3%*	*77.3%*	*77.1%*	*77.2%*	*77.5%*	*77.2%*
ILD:*	*67.1%*	*65.5%*	*65.5%*	*64.7%*	*64.4%*	*64.2%*
LC:*	*78.5%*	*77.8%*	*77.4%*	*76.5%*	*76.1%*	*75.5%*
Overall Traffic M/S*:	*77.4%*	*76.4%*	*76.1%*	*75.6%*	*75.3%*	*74.6%*
TPG Retail local access**	*73.2%*	*71.4%*	*70.0%*	*68.4%*	*67.2%*	*66.2%*
Total local access	*82.9%*	*81.9%*	*82.2%*	*80.6%*	*79.6%*	*79.1%*
Value market share	*73.1%*	*71.8%*	*71.5%*	*70.9%*	*70.5%*	*70.1%*

* 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 customer base	2009				2010	
	1Q	2Q	3Q	4Q	1Q	2Q
Broadband access lines (thousands)						
ADSL	*2,115*	*2,116*	*2,102*	*2,071*	*2,039*	*2,021*
CDMA	*16*	*34*	*53*	*72*	*88*	*101*
SDI	*1*	*1*	*1*	*1*	*1*	*1*
Bitstream access	*388*	*412*	*431*	*456*	*490*	*508*
LLU	*3.8*	*7.9*	*23.7*	*51.6*	*62.1*	*75.8*
Total	**2,524**	**2,571**	**2,611**	**2,652**	**2,680**	**2,707**
Retail broadband access lines (thousands)						
of which TP fixed	*2,116*	*2,118*	*2,103*	*2,072*	*2,040*	*2,022*
*of which Orange fixed**	*127*	*151*	*176*	*201*	*222*	*239*
Retail - total	**2,243**	**2,268**	**2,278**	**2,273**	**2,262**	**2,261**
ARPU per month						
TPG Broadband ARPU (in PLN)	58.7	58.8	58.0	57.7	57.7	56.6
internet features						
TV client base (thousands)	**198**	**239**	**283**	**372**	**417**	**453**
of which IPTV	86	95	107	109	111	113
of which TV over Satellite (TVoSAT)	112	144	176	263	306	340
VoIP client base (thousands)	162	156	150	140	123	143
Livebox client base (thousands)	582	614	645	702	727	741
broadband market						
B2C Broadband penetration (in households)	39.7%	40.2%	40.7%	41.5%	42.1%	42.5%
Total broadband market customers - estimated (in '000)	5,717	5,821	5,922	6,079	6,190	6,281
TP Group gross adds market share	36.8%	35.4%	34.2%	30.5%	33.5%	30.3%
TP Group net adds market share	32.1%	25.0%	9.8%	-3.4%	-9.9%	-0.6%
TP Group volume market share (in %)	39.2%	39.0%	38.5%	37.4%	36.5%	36.0%
TP Group value market share (in %)	49.5%	49.5%	48.8%	47.5%	46.6%	45.3%

* incl. BSA and CDMA

Mobile Segment customer base	2009 1Q	2009 2Q	2009 3Q	2009 4Q	2010 1Q	2010 2Q
Mobile customer base (thousands)						
Post-paid*	6,310	6,449	6,507	6,623	6,712	6,791
Pre-paid	7,370	7,318	7,228	7,090	7,062	7,238
NMT	1	1	1	1	1	1
Total	**13,681**	**13,768**	**13,736**	**13,714**	**13,774**	**14,029**
MVNOs customers	41	48	48	51	54	56
Dedicated mobile broadband subscription client base	368	378	375	388	400	433
Active mobile broadband enable devices (thousands)	4,731	5,370	5,420	5,503	6,572	6,448
ARPU						
Monthly mobile customer ARPU in quarter (PLN)						
post-paid	75.1	72.9	69.4	67.6	64.5	69
pre-paid	20.2	20.5	20.9	19.9	19.2	19.7
Blended	44.8	44.9	43.8	42.7	41.2	43.6
Retail ARPU (PLN)	33.6	35.1	35.4	34.4	33.0	34.2
Wholesale ARPU (PLN)	11.2	9.8	8.4	8.3	8.2	9.0
Voice ARPU (PLN)						
post-paid	58.4	56.4	52.9	51.2	48.8	53.0
pre-paid	14.5	14.1	14.4	13.3	12.8	13.5
Blended	34.2	33.8	32.6	31.4	30.3	32.7
Non-voice ARPU (PLN)						
post-paid	16.6	16.5	16.5	16.4	15.8	16.0
pre-paid	5.7	6.3	6.5	6.6	6.5	6.2
Blended	10.6	11.1	11.2	11.3	11.0	10.9
Non-voice revenue as % of total network revenue:	23.5%	24.4%	25.3%	25.9%	26.0%	23.8%
volumes & churn						
AUPU (in minutes)						
post-paid	206.5	215.2	215.3	220.1	219.2	229.0
pre-paid	60.3	65.6	71.3	70.7	78.0	98.4
Blended	125.8	135.3	139.2	141.9	146.6	161.8
Mobile customer churn rate (%)						
post-paid	2.8	2.6	3.1	3.3	3.1	2.8
pre-paid	20.7	14.2	17.7	16.6	15.1	13.7
subsidies						
SAC (PLN)						
post-paid	512.8	524.9	488.6	489.9	485.2	486.6
pre-paid**	12.07	12.11	7.8	10.6	9.8	10.5
Blended**	136.3	131.9	118.2	138.4	133.5	121.2
SRC (PLN)	605.9	646.9	580.4	594.3	531.0	535.8
network coverage						
PTK Centertel EDGE coverage in % of population:	99.5%	99.5%	99.5%	99.5%	99.5%	99.6%
PTK Centertel UMTS coverage in % of population:	52.9%	54.4%	54.9%	55.3%	55.4%	56.0%
Mobile market						
Market penetration rate for mobile network services	115.2%	116.4%	116.7%	117.8%	118.5%	119.8%
PTK Centertel mobile market share in volume	31.1%	31.0%	30.8%	30.5%	30.5%	30.7%
PTK Centertel mobile market share in value	32.1%	30.8%	31.0%	30.8%	31.5%	31.9%

* excluding Orange WLL presented as retail fixed line.
**data has been changed back from Q1 2009 due to correction on provision expense from SAC to prepay voucher commisions

Employment structure of TP Group *Full time positions*	**2009**				**2010**	
	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**
TP SA	23 152	22 534	22 136	21 089	20 466	19 594
PTK Centertel	3 559	3 645	3 638	3 672	3 652	3 659
Other	2 772	2 777	2 751	2 905	2 970	3 032
TP Group	**29 483**	**28 956**	**28 525**	**27 666**	**27 089**	**26 285**

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