LSE - Current report 126/2012
Telekomunikacja Polska S.A., (TPSA) – Warsaw, Poland
16 October 2012

Pursuant to art. 5, clause 1, item 25 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2009 No. 33, item 259, with amendments) the Management Board of Telekomunikacja Polska S.A. ("TP S.A.") announces preliminary estimated results[1] of the Telekomunikacja Group ("Group", "Orange Polska") for third quarter 2012.

Orange Polska maintains its EBITDA margin at 38.1% in 3Q 2012 in spite of rapidly deteriorating macroeconomic conditions and mobile market environment

- **revenue down by 5.5%, due to steep Average Revenue Per User (ARPU) dilution in mobile and cuts in the Mobile Termination Rates (MTR)**
- **immediate sales and marketing action plan launched to minimise impact of unlimited tariff plans**
- **mobile value market share maintained at 30% thanks to proactive launch of convergent products and dedicated marketing actions**
- **Group EBITDA margin maintained at 38.1%, stable year-on-year, reflecting ongoing cost optimisation program**
- **net income up by 14% year-on-year on comparable basis (excl. tax relief in 2011)**
- **year-to-date net free cash flow at PLN 1,033 million, compared to PLN 1,488 million a year ago, reflecting pressure on top-line and growing working capital requirement**
- **full year 2012 objectives updated to reflect more challenging environment**
- **Management will propose to reallocate the outstanding amount (PLN 400mn) of the share buy back program to spectrum acquisition**
- **an ordinary cash dividend (DPS) of PLN 1 per share for 2012 will be proposed by Management to the AGM to be held in April 2013**
- **preserving leadership position in mobile value market share to remain a priority in the future**

key figures (PLN million) IFRS	**3Q 2012**	**3Q 2011 proforma[2]**	**change**
Group revenue	3,473	3,677	-5.5%
fixed line segment[3]	1,917	1,997	-4.0%
mobile segment[3]	1,853	1,947	-4.8%
Group EBITDA	1,323	1,403	-5.7%
fixed line segment[3]	732	739	+0.4%
mobile segment[3]	591	663	-10.7%
Group EBITDA (as a % of revenue)	38.1%	38.2%	-0.1 pp
Group net free cash flow (reported)	324	579	-44.0%
Group net income	307	377	-18.6%
Excluding tax relief	*307*	269	*+14.1%*

Commenting on the preliminary results in 3Q 2012, Mr. Maciej Witucki, President of the Board and Chief Executive Officer, said:

"The combination of adverse macroeconomic factors and intensification of price competition in the mobile market showed that it is impossible for us to meet our objectives for 2012.

[1] final condensed IFRS quarterly consolidated financial statements for the 3 months ended 30 September 2012 will be published on October 24, 2012
[2] adjusted for deconsolidation of Emitel and Paytel
[3] segments as defined in Group's Consolidated Financial Statement

Therefore we decided to disclose today our preliminary results, ahead of the scheduled date of October 24, and update our outlook and guidance for the current year.

Following the launch of unlimited mobile voice and SMS offers in Q2 by all mobile operators in Poland, the Average Revenue Per User of our business segment has come down quite dramatically. The measures we immediately took in reaction will not be sufficient to fully mitigate the negative impact of this new price war on the value of the entire market.

We are determined to act responsibly for all our customers, employees and shareholders by overcoming the current difficulties and continuing to seize growth opportunities as they arise. A perfect example for mobile is the sale of spectrum for 4G services that the Regulator has recently initiated. We will participate in these tenders and auctions, as we believe that 4G would allow us to move away from pure price competition and have all operators focus more on value creation through new services and usage.

We are finalizing our new mid-term action plan for the next three years, where we will address both current and upcoming challenges, and show how the Group will evolve into a leaner and more agile organisation, one that is adjusted to the tough times ahead of us. We will announce this plan in February 2013 in conjunction with our full year 2012 earnings".

Financial Review

(Unless otherwise stated, all references to 2011 hereafter are stated in pro-forma 2011 financial statements)

Group's revenue evolution reflects very challenging mobile market

Group revenue for the 3Q 2012 amounted to PLN 3,473 million and was down by 5.5% year-on-year, as compared to a 2.3% year-on-year decline in H1. This contraction is attributed to a new cut of the Mobile Termination Rate, as well as to intensification of price competition in the mobile market.

Mobile segment revenue amounted to PLN 1,853 million in 3Q, with a decrease of 4.8% year-over-year. The decline was predominately caused by the regulatory impact of PLN 80 million. Adjusted for the regulatory impact, Q3 sales were down by 0.7% year-on-year, as compared to 1.5% year-on-year growth in 2Q. The decline was mainly a result of ARPU dilution caused by the introduction of voice and SMS unlimited offers by all market players.

Fixed segment revenue for 3Q 2012 amounted to PLN 1,917 million and was down by 4.0% year-on-year, as compared to -0.4% in 2Q and -5.4% in 1Q. Structural decline of revenues from voice services was the main factor behind fixed segment's sales decrease, driven by migration of traffic and lines to mobile services. This was only partially offset by higher revenue from wholesale and data services.

EBITDA margin under control, despite pressure on top-line

EBITDA amounted to PLN 1,323 million in Q3 2012. Despite pressure on the top-line, strict cost control and continued optimisation of commercial spend helped to maintain the 3Q EBITDA margin at 38.1% vs. 38.2% a year ago.

3Q net income up 14% year-on-year on comparable basis, excl. one-off tax relief in 2011

Group net income amounted to PLN 307 million for Q3 2012 and rose by 14.1% as compared to PLN 269 million of last year's net income adjusted for PLN 108 million of technology tax relief (tax relief obtained in 3Q 2011 in relation to prior years).

3Q cash flow reflecting pressure on top-line and deteriorating macro environment

Consolidated net free cash flow for Q3 2012 amounted to PLN 324 million versus PLN 579 million in 3Q 2011.

Year-to-date net free cash flow amounted to PLN 1,033 million, down by PLN 455 million year-on-year. The decline is mainly a combination of two effects: firstly, cash generated by operating activities dropped by PLN 293 million as a result of pressure from the top-line. Secondly, worsening macroeconomic conditions negatively impacted working capital requirement (up by PLN 300 million in 9 months of 2012 vs. a decrease of PLN 106 million the year before), which includes longer collection of receivables and more pressure from suppliers for shorter payment schedules.

based on preliminary financial and operating results for 3Q 2012, the Group is adjusting its outlook and guidance (fully described in current report 127/2012) for the full year 2012 as follows:

FY2012 outlook on operational trends and guidance	previous outlook and guidance (current report No. 20/2012 dated February 14th, 2012)	New outlook and guidance
market value and revenue	▪ market value affected by MTR cuts, nearing stabilisation ▪ revenue is anticipated to decline by not more than 3%*	revenue is anticipated to decline by between -4%* and -5%*
costs and EBITDA	▪ cost optimisation continued, costs base expected to decrease yoy ▪ EBITDA margin anticipated between 35%* and 37%*	EBITDA margin anticipated between 34%* and 36%*
capex to sales	▪ capex anticipated between 15% and 17% of revenue*, broadband investment program continued	capex anticipated between 15% and 17% of revenue*

FY 2012 guidance	previous	updated
net free cash flow	net free cash flow expected of at least PLN 2bn*	net free cash flow expected between PLN 1.5bn* and PLN 1.6bn*

* excluding EUR 550mn payment to DPTG, exceptional items, spectrum acquisition and changes in consolidation scope

Commenting on the preliminary 3Q 2012 results and upcoming capital needs, Mr Jacques de Galzain, Chief Financial Officer said:

"Our financial flexibility and strength are critical assets that not only allow us to overcome the current turbulence, but also to look to the future with confidence, By striking the right balance in cash flow allocation and by terminating the share buy-back program underway, we want to be able to participate in the upcoming tenders and auctions for 4G licenses, and also to ensure shareholder remuneration. In this respect, we will propose a PLN 1 per share dividend to be paid in 2013. As our large scale investment program in broadband is about to be completed early next year, we expect our balance sheet to remain healthy, with the net gearing ratio to be comprised between 35% and 40%, and our net debt to EBITDA ratio not to exceed 1.5x. Taking into account the turbulent times ahead, we believe these measures are in the interest of all our stakeholders."

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.

Conference call on Orange Polska Q3'2012 Preliminary Results
Wednesday 17th October 2012

Time:
9:00 (Warsaw)
8:00 (London)
03:00 (New York)

Conference title:
Orange Polska (TP S.A)

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Selected preliminary financial results for Q3 2012

amounts in PLN millions	2011 3Q as reported	2011 3Q pro forma*	2012 3Q preliminary
Total revenue,net	**3,679**	**3,677**	**3,473**
EBITDA	**1,402**	**1,404**	**1,323**
% of revenues	*38.1%*	*38.2%*	*38.1%*
depreciation & amortisation	(900)	(900)	(801)
impairment of fixed assets	(2)	(2)	(1)
share of profit of investments accounted for using the equity method			2
EBIT	**500**	**502**	**523**
% of revenues	*13.6%*	*13.7%*	*15.1%*
financial result	**(111)**	**(111)**	**(146)**
- o/w foreign exchanges gains (losses)	(8)	(8)	8
income tax	(13)	(13)	(70)
consolidated net income after tax	**376**	**378**	**307**

* pro forma accounts adjusted for de-consolidation of Emitel and Paytel, disposed on 22/06/2011 and 27/01/2012, respectively.

amounts in PLN millions	2011 3Q as reported	2012 3Q preliminary
net cash flow from operating activities before income tax paid and change in working capital	**1,278**	**1,228**
o/w exchange rate effect on derivatives paid, net	*28*	-
change in working capital	56	(119)
Income tax paid	(123)	(13)
Net cash provided by operating activities	**1,211**	**1,096**
Purchases of property, plant and equipment and intangible assets	(432)	(427)
Increase/(decrease) in amounts due to fixed assets suppliers	(205)	(348)
Decrease/(increase) in receivables related to leased fixed assets	2	2
Exchange rate effect on derivatives economically hedging capital expenditures, net	3	1
NET FREE CASH FLOW	**579**	**324**
Proceeds from sale of property, plant and equipment and intangible assets	19	6
Decrease/(increase) in receivables related to leased fixed assets	(2)	(2)
ORGANIC CASH FLOW	**596**	**328**

*** According to the settlement signed Jan. 12, 2012, TP S.A. paid DPTG a total of €550mn (PLN 2,449mn)**

Selected preliminary key operational performance indicators

Key operational performance indicators for Group

Fixed Voice	2011				2012		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
customer base							
Main lines (thousands)							
POTS	*5,163*	*5,007*	*4,849*	*4,638*	*4,365*	*4,158*	*3,990*
ISDN	*856*	*840*	*821*	*807*	*780*	*762*	*740*
WLR PTK	*111*	*117*	*120*	*124*	*127*	*128*	*124*
WLL PTK	34	*40*	*47*	*54*	61	*69*	*76*
VoIP first line	30	*34*	*39*	*71*	152	*209*	*264*
Total retail main lines	***6,194***	***6,038***	***5,875***	***5,694***	***5,484***	***5,326***	***5,195***
WLR (external to Group)	*1,373*	*1,396*	*1,419*	*1,470*	*1,512*	*1,539*	*1,518*
ARPU per month							
Retail fixed voice ARPU from POTS/ISDN (in PLN)	48.8	47.3	47.3	47.5	46.8	46.6	46.0

Fixed Broadband and TV	2011				2012		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
customer base							
Broadband access lines (thousands)							
ADSL[1] & SDI	2,143	2,148	2,157	2,157	2,151	2,146	2,134
VDSL			1	6	11	16	23
CDMA	154	163	174	183	186	182	181
Group retail broadband - total	**2,297**	**2,311**	**2,332**	**2,346**	**2,348**	**2,344**	**2,338**
Bitstream access (external to TP Group)	*375*	*373*	*366*	*366*	*367*	*367*	*356*
LLU	*149*	*162*	*178*	*186*	*186*	*184*	*187*
TV client base							
IPTV	113	111	109	110	113	114	116
DTH (TV over Satellite)	464	482	506	527	550	562	578
TV client base (thousands)	**577**	**592**	**615**	**636**	**663**	**677**	**695**
o/w customers with pay TV packages[2]	153	154	143	139	142	144	146
-o/w 'n' packages			7	24	43	57	69
3P services (TV+BB+VoIP, thousands)	**27**	**29**	**32**	**55**	**112**	**151**	**191**
ARPU per month							
Group ARPU - Broadband, TV & VoIP (in PLN)	56.3	55.1	54.1	53.4	53.3	54.5	54.9

[1] includes PTK based on BSA
[2] includes TP's M-, L – packages, Orange Sport and HBO

Mobile Segment	2011				2012		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
customer base							
Mobile customer base (thousands)							
Post-paid	6,962	6,967	6,972	6,977	6,927	6,937	6,894
Pre-paid	7,457	7,568	7,641	7,681	7,685	7,820	7,865
Total[1]	**14,419**	**14,535**	**14,613**	**14,658**	**14,612**	**14,757**	**14,758**
MVNOs customers	73	78	83	87	88	87	78
Dedicated mobile broadband subscription client base (thousands)[2]	599	645	691	741	800	848	907
ARPU							
Monthly mobile customer ARPU in quarter (PLN)							
post-paid	62.7	66.1	65.3	64.5	62.0	64.8	61.7
pre-paid	17.5	18.0	18.1	18.0	16.8	17.9	17.0
Blended	39.4	41.1	40.7	40.1	38.3	40.0	38.0
Retail ARPU (PLN)	31.8	33.2	33.3	32.6	31.1	32.2	31.4
Wholesale ARPU (PLN)	7.5	8.0	7.3	7.5	7.2	7.8	6.6
Voice ARPU (PLN)							
post-paid	47.5	50.4	49.5	47.7	45.2	47.9	44.9
pre-paid	12.1	13.1	13.0	12.7	12.4	13.7	12.8
Blended	29.2	31.0	30.4	29.4	27.7	29.5	27.5
Data ARPU (PLN)							
post-paid	5.5	5.7	6.1	6.3	6.6	6.3	6.6
pre-paid	0.4	0.4	0.4	0.5	0.6	0.5	0.6
Blended	2.9	2.9	3.2	3.2	3.4	3.2	3.4
SMS&MMS and other ARPU (PLN)							
post-paid	9.7	10.0	9.7	10.5	10.2	10.6	10.2
pre-paid	5.0	4.6	4.7	4.8	3.8	3.7	3.6
Blended	7.3	7.2	7.1	7.5	7.2	7.4	7.1
volumes & churn							
AUPU (in minutes)							
post-paid	229.0	236.3	236.6	235.9	236.5	239.6	243.4
pre-paid	92.6	96.7	97.5	93.7	92.3	95.8	91.3
Blended	158.6	163.9	164.0	161.4	160.8	163.7	162.6
Quarterly mobile customer churn rate (%)							
post-paid	3.8	3.4	3.5	4.0	3.9	3.4	3.5
pre-paid	14.3	15.8	17.2	16.1	16.7	16.8	17.2
subsidies							
SAC (PLN)							
post-paid	562.1	559.3	577.2	565.4	627.2	544.0	563.4
pre-paid	8.5	9.2	8.5	10.4	9.0	7.6	8.2
Blended	140.2	124.9	114.4	134.1	132.5	107.3	113.3
SRC (PLN)	563.7	542.1	555.6	591.4	628.8	651.2	599.9

[1] excluding NMT
[2] includes Business Everywhere and Orange Free

Employment structure of Group as reported *Full time positions (end of period)*	2011				2012		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
TP SA	15,210	15,020	14,886	14,854	14,885	14,698	14,424
Other (incl Orange Customer Service)	7,732	6 741*	6 628	6,673	6,540	6,405	6,204
Total fixed line	**22,941**	**21,761**	**21,514**	**21,527**	**21,425**	**21,103**	**20,628**
PTK Centertel	2,157	2,122	1 743**	1,743	1,750	1,745	1,732
Other	420	456	477	534	542	563	524
Total mobile segment	**2,577**	**2,578**	**2,220**	**2,278**	**2,292**	**2,308**	**2,256**
Group	**25,519**	**24,339**	**23,734**	**23,805**	**23,716**	**23,411**	**22,884**

*excluding Emitel's headcount amounting to 941 employees

** excluding 344 employees transferred to NetWorkS! JV