

LSE – Current Report 79/2013
Telekomunikacja Polska S.A., (TPSA) – Warsaw, Poland
July 24, 2013

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. hereby provides selected financial and operating data related to the activities of Telekomunikacja Polska Group (“Group”, “Orange Polska”) for 2Q 2013.

Orange Polska reports satisfactory results for 2Q 2013, underscoring a successful launch of the Group’s medium term strategy

2Q 2013 highlights

- **-5.5% year-on-year revenue decrease in 2Q, excluding regulatory impact, primarily reflects high basis of comparison, as 2Q 2012 included additional non-recurring revenues from the UEFA EURO 2012**
- **adverse regulatory impact of PLN -164 million stemming mostly from voice MTR cut to PLN 0.0826**
- **demand for convergence confirmed by sustained growth in client take-up of Orange Open: 125,000 clients at June 30, 2013**
- **successful launch of the nju.mobile brand for price-sensitive clients is evidenced by over 80,000 customers acquired in 2Q**
- **mobile customer base grew by 190,000 or 1.3% year-on-year, despite fierce competition**
- **dynamic rise of the 3P¹ customer base (+163,000 or +108% year-on-year) driving further improvement in fixed line KPIs**
 - **revenues from broadband, TV and VoIP are up 6.6% year-on-year, driven by ARPU growth**
 - **substantial decrease in quarterly churn of fixed voice connections: -96,000 in 2Q 2013 versus -159,000 in 2Q 2012**
- **EBITDA margin maintained above 30% of revenues due to PLN 50 million cost savings**
- **2Q organic cash flow of PLN 189 million brings the total for 1H to PLN 399 million, in line with full-year guidance**
- **Net debt limited to 1x EBITDA, thus preserving Orange Polska’s financial strength for future capital requirements**

key figures (PLN million) IFRS	2Q 2013	2Q 2012	Change	1H2013	1H2012	Change
Group revenue	3,303	3,667	-9.9%	6,570	7,187	-8.6%
EBITDA	1,004	1,298	-22.7%	2,037	2,525	-19.3%
EBITDA (as % of revenue)	30.4%	35.4%	-5.0 ppts	31.0%	35.1%	-4.1 ppts
net income	76	255	-70.2%	157	497	-68.4%
organic cash flow	189	486	-61.1%	399	739 ²	-46.0%

commenting on Group’s performance in 2Q 2013, Mr Maciej Witucki, President of the Board and Chief Executive Officer, said:

“The commercial strategy, which we launched a few months ago is beginning to bear fruit: in particular, both the convergent Orange Open and the nju.mobile offers show encouraging take-up. As expected, these levers do not yet translate into improved revenue evolution and profitability, but our cost discipline and focus on free cash flow generation allows us to deliver results in the first half of the year that are in line with our objectives for the full year. I want to take this opportunity to

¹ Fixed broadband, television and Voice over Internet Protocol

² Adjusted for the payment to DPTG of total of €550mn (PLN 2,449mn o/w change in provisions PLN -2,167mn and change in working capital PLN -282mn)

emphasize that I am proud of how the teams of Orange Polska that I have been leading for the last seven years, are demonstrating their ability to effectively adjust to what remains a very challenging environment, with an innovative and attractive product offering. This will be critical for the Company's evolution and we are all determined to win the battles for market leadership. I remain entirely committed to the success of the Company while I will progressively move away from day-to-day operations to focus on projects that will be pivotal for our future."

Financial Review

-5.5% year-on-year revenue decrease (excluding regulatory impact) in 2Q primarily reflects high basis of comparison - 2Q 2012 included additional revenues from the EURO 2012

Group's revenue totalled PLN 3,303 million for the second quarter of 2013, as compared to PLN 3,667 million a year ago. The year-on-year decrease of -9.9% predominantly reflected a PLN -164 million impact of regulatory decisions (mostly MTR cuts³). Excluding the regulatory impact, the top-line declined by PLN 200 million or -5.5% year-on-year versus -3.1% in 1Q. The steeper fall in revenues, excluding regulatory impact, was mainly due to an unfavourable comparison with 2Q 2012, as it included non-recurring revenues attributable to the UEFA EURO 2012, which was held in Poland and Ukraine.

The fixed line KPIs continued to be positively impacted by a dynamic growth in the number of 3P customers, which were up by +163,000 or +108% year-on-year. Thanks to the growth in the number of these bundles, churn of the fixed voice customers was limited to 96,000 in 2Q 2013, as compared to -159,000 in 2Q 2012. Additionally, growth in the number of customers having purchased Orange's 3P offer has given a boost to 'broadband, TV and VoIP' revenues; they rose by PLN 26 million year-on-year, and represent 12.7% of the Group's top-line in the second quarter of the year.

The number of mobile customers has continued to expand by roughly 1.3% year-on-year (+190,000 SIMs). Growth was visible in the pre-paid segment (+157,000 SIM cards year-on-year), as well as in post-paid (+33,000 subscribers year-on-year). This was significantly helped by the successful launch of nju.mobile, with no less than 80,000 customers taking up the offer in the first two months since its launch. However, the price war initiated by the competition in post-paid in 2012 continued to have an adverse impact on the ARPU. The retail average revenues per user contracted by 6.9% in 2Q 2013 versus the year-ago period. This translated into a further decline in revenues from mobile services and sale of equipment, which, were down -2.8%, excluding regulatory impact, versus 2Q 2012.

key performance indicators ('000)	2Q 2013	2Q 2012	Change
Orange Open customers	125	2	n/a
3P customers (BB, TV and VoIP)	314	151	+107.9%
number of mobile customers	14,947	14,757	+1.3%
post-paid	6,970	6,937	+0.5%
pre-paid	7,977	7,820	+2.0%
fixed voice lines (retail)	4,899	5,326	-8.0%
fixed broadband accesses (retail)	2,317	2,344	-1.2%
mobile broadband accesses	1,079	848	+27.2%
number of TV customers	699	677	+3.2%

³ voice mobile termination rate (MTR) was cut from PLN 0.1223 a minute to PLN 0.0826 a minute on January 1, 2013. In 1H 2012 MTR amounted to PLN 0.1520 a minute. SMS MTR was decreased from PLN 0.06 to PLN 0.05 on July 1, 2012.

EBITDA margin maintained above 30% of revenues due to PLN 50 million cost savings

Group's EBITDA for the second quarter of 2013 amounted to PLN 1,004 million, as compared to PLN 1,298 million in 2Q 2012. It stood at a 30.4% margin, as compared to 35.4% the year before.

The PLN 294 million decline of the EBITDA was predominantly driven by the PLN 200 million drop of the retail revenues, while the adverse impact of regulatory decisions amounted to PLN 11 million⁴. Simultaneously, costs of ICT equipment sold increased by PLN 25 million since last year, in line with the revenues, while growing popularity of post-paid tariff plans with unlimited voice and SMS inflated the Group's interoperator costs by PLN 43 million year-on-year, due to a dynamic growth in traffic. Brand fees grew by PLN 13 million year-on-year, as fixed products are now sold under the Orange brand. In addition, the year-on-year comparison also reflects the PLN -15 million reimbursement of certain rebranding expenses by the Orange Group in 2Q 2012 and PLN -25 million corresponding to the difference in costs relating to provisions in both years (both risk assessment and for bad debts). These were partly offset by PLN 50 million savings stemming from the on-going Group's cost optimisation program.

net income amounted to PLN 76 million in 2Q 2013

Orange Polska's net income for the 2Q 2013 amounted to PLN 76 million and was PLN 179 million lower than in 2Q 2012. The difference is predominantly driven by the PLN 294 million decline in EBITDA, which was partly offset by lower depreciation (down by PLN 51 million year-on-year), less net financial costs (PLN 19 million lower than last year) and lower income tax (PLN 42 million down since 2Q 2012).

2Q organic cash flow of PLN 189 million brings the total for 1H to PLN 399 million, in line with full-year guidance

The organic cash flow amounted to PLN 189 million in 2Q 2013, as compared to PLN 486 million in 2Q 2012. Lower cash generation resulted mainly from a PLN 370 million decrease in cash from operating activities (before change in working capital and income tax paid), mainly due to lower EBITDA. Furthermore, this was coupled with a PLN 17 million adverse variance in working capital requirement⁵, but partly offset by PLN 61 million less cash outflows for capital expenditures than in 2Q 2012. Finally, the difference in income tax was PLN +29 million year-on-year.

commenting on the 2Q 2013 results, Mr. Jacques de Galzain, Group Chief Financial Officer said:

"Our financial performance in Q2 reflects the very challenging operating environment that severely hampered our revenue generation. We continue to demonstrate our commitment to bringing our cost base down and to preserve the healthy financial structure that we need to fund our strategy. This allowed us to keep the EBITDA margin above the 30% mark and to generate organic cash flow levels that are in line with the objectives for the full year."

⁴ Regulatory decisions that affected EBITDA included decrease of the fixed-to-mobile prices and EU roaming. MTR cuts were neutral to EBITDA, as lower interconnect revenues were offset by a decrease in interoperator costs

⁵ WCR increase in 2Q 2013 of PLN -124 million versus a PLN -107 million increase in 2Q 2012

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.

Orange Polska H1 2013 Results Presentation Wednesday July 24, 2013

Venue address:

Warsaw Stock Exchange
Książęca 4
00-498 Warsaw,
Poland

Registration: 13.15 CET

Start: 13.30 CET

The presentation will also be available [via a live webcast](#) on our website and via a live conference call:

Time:

13:30 (Warsaw)

12:30 (London)

07:30 (New York)

Conference title:

Orange Polska (TP S.A) H1 2013 results

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Orange Polska Group Consolidated

amounts in PLN millions	2012*				2013	
	1Q	2Q	3Q	4Q	1Q	2Q
profit & loss statement						
revenues						
Mobile services	1,697	1,784	1,706	1,660	1,533	1,590
voice traffic revenue	971	1,036	1,000	940	887	917
data, messaging, content and M2M	416	412	418	431	433	443
wholesale	310	336	288	289	213	230
Mobile equipment sales	35	35	32	39	33	40
Fixed services	1,676	1,712	1,611	1,594	1,554	1,515
fixed narrowband	739	701	665	642	614	582
fixed broadband, TV and VoIP	385	395	398	408	421	421
enterprise solutions & networks	263	320	256	254	251	250
wholesale	289	296	292	290	268	262
Other revenue	112	136	123	189	147	158
Total revenues	3,520	3,667	3,472	3,482	3,267	3,303
Y-o-Y growth**	-3.5%	-1.2%	-5.6%	-6.4%	-7.2%	-9.9%
labour expenses	(560)	(527)	(489)	(489)	(545)	(516)
external purchases	(1,731)	(1,830)	(1,557)	(1,785)	(1,596)	(1,649)
- interconnection costs	(447)	(470)	(413)	(441)	(314)	(358)
- network and IT	(208)	(215)	(201)	(211)	(188)	(209)
- commercial expenses	(641)	(691)	(547)	(671)	(642)	(620)
- content costs	(34)	(38)	(33)	(33)	(37)	(43)
- other external purchases	(401)	(416)	(363)	(429)	(415)	(419)
other operating incomes & expenses	(10)	(24)	(104)	(221)	(85)	(144)
employment termination expenses	0	0	0	8	(18)	(1)
gain/loss on disposals of assets	8	12	3	12	10	11
EBITDA	1,227	1,298	1,325	1,007	1,033	1,004
% of revenues	34.9%	35.4%	38.2%	28.9%	31.6%	30.4%
depreciation & amortisation	(819)	(834)	(801)	(813)	(791)	(783)
impairment of fixed assets	(4)	(6)	(1)	(5)	(1)	(3)
EBIT	404	458	523	189	241	218
% of revenues	11.5%	12.5%	15.1%	5.4%	7.4%	6.6%
financial result	(108)	(127)	(146)	(175)	(134)	(108)
income tax	(54)	(76)	(70)	37	(26)	(34)
Consolidated net income after tax	242	255	307	51	81	76

*adjusted for IFRS11; a change in accounting treatment of joint ventures

** growth in revenues is calculated based on proforma figures for 2011 (adjusted for deconsolidation of Eritel and Paytel)

Orange Polska Group key performance indicators

customer base (in thousands)	2012				2013	
	1Q	2Q	3Q	4Q	1Q	2Q
Orange Open¹		2	6	33	72	125
Fixed telephony accesses						
POTS & ISDN	5,272	5,048	4,854	4,687	4,521	4,392
WLL	61	69	76	81	84	84
VoIP first line	152	209	264	336	390	423
Total retail main lines	5,485	5,326	5,194	5,104	4,995	4,899
Fixed broadband access						
ADSL	2,151	2,146	2,134	2,139	2,130	2,112
VDSL	11	16	23	26	28	36
CDMA	186	182	181	180	175	169
Group retail broadband - total	2,348	2,344	2,338	2,345	2,333	2,317
TV client base						
IPTV	113	114	116	119	117	117
DTH (TV over Satellite)	550	562	578	588	582	582
TV client base - total	663	677	695	706	699	699
o/w customers with pay TV packages	142	144	146	146	145	134
-o/w 'n' packages	43	57	69	83	98	101
3P services (TV+BB+VoIP)	112	151	191	248	286	314
Mobile accesses						
Post-paid	6,927	6,937	6,894	6,911	6,906	6,970
-o/w B2B	2,446	2,436	2,420	2,428	2,407	2,399
Pre-paid	7,685	7,820	7,865	7,984	7,980	7,977
Total	14,612	14,757	14,758	14,895	14,886	14,947
- of which dedicated mobile broadband subscription client base	800	848	907	985	1,043	1,079
Group wholesale customers (thousands)						
WLR (external to Group)	1,512	1,539	1,518	1,472	1,420	1,355
Bitstream access (external to Group)	367	367	356	347	342	343
LLU	186	184	187	185	181	178

¹ Orange Open is included in fixed telephony, broadband and mobile

quarterly ARPU in PLN per month	2012				2013	
	1Q	2Q	3Q	4Q	1Q	2Q
Orange Polska retail fixed voice ARPU	46.5	46.2	45.5	45.6	45.1	44.2
Orange Polska broadband ARPU (Broadband, TV & VoIP)	54.5	55.9	56.5	57.8	59.7	60.1
Mobile ARPU (outside the Group)						
post-paid	65.1	68.5	65.5	64.5	60.4	62.7
-o/w B2B	84.0	88.2	81.9	79.9	75.6	77.5
pre-paid	16.6	17.7	16.8	16.2	14.2	14.6
Blended	39.1	40.9	38.8	37.9	34.9	36.2
retail ARPU (PLN)	32.1	33.4	32.5	31.4	30.2	31.1
wholesale ARPU (PLN)	6.9	7.5	6.4	6.4	4.7	5.1
voice ARPU (PLN)						
post-paid	48.2	51.4	48.5	46.5	41.9	43.4
pre-paid	12.2	13.4	12.6	11.9	9.6	10.2
blended	28.5	30.5	28.5	27.2	24.0	25.1
data ARPU (PLN)						
post-paid	6.8	6.5	6.9	7.0	7.8	8.4
pre-paid	0.6	0.5	0.6	0.6	0.6	0.5
blended	3.4	3.2	3.4	3.4	3.8	4.1
SMS&MMS and other ARPU (PLN)						
post-paid	10.1	10.5	10.1	10.9	10.7	10.9
pre-paid	3.8	3.8	3.6	3.7	3.9	3.8
blended	7.1	7.3	7.0	7.4	7.0	7.0

<i>other mobile operating statistics</i>	2012				2013	
	1Q	2Q	3Q	4Q	1Q	2Q
MVNOs customers (thousands)	88	87	78	69	66	67
Number of smartphones (thousands)	2,256	2,574	2,887	3,262	3,384	3,526
volumes & churn						
AUPU (in minutes)						
post-paid	236.5	239.6	243.4	251.7	253.1	264.6
pre-paid	92.3	95.8	91.3	90.6	90.2	94.5
Blended	160.8	163.7	162.6	165.6	165.7	173.7
Quarterly mobile customer churn rate (%)						
post-paid	3.9	3.4	3.5	3.4	3.7	3.6
pre-paid	16.7	16.8	17.2	15.0	15.5	15.1
subsidies						
SAC post-paid (PLN)	576.7	499.8	506.6	583.8	556.8	502.3
SRC post-paid (PLN)	438.9	427.1	361.1	388.9	446.8	381.9
network coverage						
Group 3G coverage in % of population:	62.6%	62.7%	64.8%	69.0%	69.9%	73.7%
Employment structure of Group as reported active full time equivalents (end of period)						
	1Q	2Q	3Q	4Q	1Q	2Q
Orange Polska	23,181	22,899	22,356	21,920	21,617	21,024
50% of Networks	397	397	397	397	395	392
Total	23,578	23,296	22,753	22,317	22,012	21,416

Terms used:

Monthly Mobile ARPU - ARPU are calculated by dividing the Group revenues from mobile customers (outgoing and incoming) voice and non voice services, including one-time connection and termination fee, visitors roaming, excluding "machine to machine", by the average number of customers, excluding "machine to machine".

Monthly Broadband ARPU - (xDSL, FTTH, TV, and VoIP): ARPU of broadband services are calculated by dividing the monthly revenues from customers' broadband services by the average number of accesses.

Subscriber Acquisition Cost (SAC) - Customer acquisition costs divided by the number of gross customers added during the respective period. Customer acquisition costs comprise commissions paid to distributors and net subsidies resulting from the sale of the handset.

Subscriber Retention Cost (SRC) - Customer retention costs divided by the number of customers retained during the respective period. Customer retention costs comprise commissions paid to distributors and net subsidies resulting from the sale of the handset.

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