

LSE – Current Report (89/2011)
Telekomunikacja Polska S.A., (TPSA) – Warsaw, Poland
July 27th, 2011

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 2011.

TP Group reports good financial results and successful strategic developments in 2Q 2011

2Q 2011 highlights

- revenue up by 1.6% quarter-on-quarter, limiting 1H decline to 4.3% year-on-year, a marked improvement compared to -7.5% in 1H 2010
- restated EBITDA¹ up by 5.1% quarter-on-quarter and at 37.3% margin, as compared to 36.9% a year ago, supported by ongoing cost discipline
- strong mobile performance: revenue +6% since 1Q, EBITDA 13% up quarter-on-quarter (30.1% margin), and stable 30.8% value market share
- PLN 1bn net income in 2Q drives 1H total to ca. PLN 1.2bn, up by 94% year-on-year
 - restated net income¹ at PLN 265mn in 2Q, up by 40% since 1Q
- PLN 458mn risk provisions for the fine from EC will not impact the dividend policy
- effective strategy execution reflected in completion of Emitel disposal (PLN 1.2bn cap. gains) and network sharing agreement with PTC (ca. PLN 1bn NCF benefit till 2015)
- The Management Board of TPSA will propose to allocate about half of the proceeds from disposal of TP Emitel to a share buy back, amounting to PLN 800mn
- full-year 2011 outlook and NCF guidance reaffirmed

key figures (PLN million) IFRS	2Q 2011	2Q 2010	Change	1H 2011	1H 2010	Change
revenue	3,790	3,987	-4.9%	7,519	7,860	-4.3%
fixed line segment ²	2,098	2,288	-8.3%	4,229	4,599	-8.0%
mobile segment ²	1,967	1,950	0.9%	3,823	3,766	1.5%
restated EBITDA ¹	1,414	1,472	-3.9%	2,759	2,892	-4.6%
restated EBITDA ¹ (as a % of revenue)	37.3%	36.9%	0.4 pp	36.7%	36.8%	-0.1 pp
EBITDA	2,144	1,472	45.7%	3,489	2,892	20.6%
net free cash flow	507	711	-28.7%	905	1,175	-23.0%
net income	995	325	206.2%	1,184	610	94.1%

commenting on TP Group's performance in 2Q 2011, Mr. Maciej Witucki, President of the Board and Chief Executive Officer, said:

"The second quarter marks another milestone in the effective execution of our mid-term plan. From a financial standpoint, our revenue, EBITDA margin and net free cash flow continue to be in line with the outlook and guidance for 2011. On the commercial front, we see robust growth in mobile and TV customer bases. Furthermore, the revamping of our broadband offer is confirmed, as we gained 50,000 new broadband customers within the past 12 months, which further underscores our strong confidence in our ability to make the most of this market's opportunities. In parallel, we have

¹ adjusted for gain on disposal of Emitel and provision for European Commission fine, amounting to +PLN 1.2bn and -PLN 0.46bn respectively

² Segments as defined in TP Group's Consolidated Financial Statement

signed two transactions of far-reaching consequences for TP: with the disposal of Emitel, we not only are generating a substantial capital gain, but are also demonstrating our determination to optimise our asset portfolio. I would also like to highlight the win-win network sharing agreement that we have signed with T-Mobile: it will allow our customers to enjoy wider coverage and higher throughput, while it will generate significant savings for TP Group over the long run. We are well aware of the many challenges ahead of us and eager to improve our performance again in the next quarters. Nevertheless, looking back at the last semester, but also at the last 18 months, we are confident that half-way through our plan, TP Group is on track to achieve all its mid-term objectives.”

financial review

revenue up by 1.6% quarter-on-quarter limiting 1H revenues decline to 4.3%; a marked improvement vs -7.5% in 1H 2010

According to TP Group estimates, value of the Polish telecom market increased by 0.5% in 2Q after rising 0.2% year-on-year in 1Q 2011. The slow growth dynamic reflects the SMS MTR cuts made in January 2011 (from PLN 0.15 to PLN 0.08). The mobile segment was again a major contributor to market growth in 2Q, rising 3% since last year, while the fixed line remained the negative factor and declined by 3.8% year-on-year.

TP Group 2Q revenue grew by 1.6% quarter-on-quarter, but decreased by 4.9%, since 2Q 2010 as the year-on-year comparison reflected the SMS MTR cut³ and *force majeure*⁴ events that had impacted revenue in 2Q 2010. In effect, 1H revenue decline was contained to 4.3% - in line with the 2011 outlook – which is a major improvement vs -7.5% reported in 1H 2010. Mobile segment continued to be the main positive factor behind Group's revenue evolution and was up by 1.5% year-on-year. Fixed line segment continued to adversely impact the Group's top line and fell by 8% year-on-year during the 1st semester.

PLN 46mn cost savings bring 2Q restated EBITDA⁵ up by 5.1% quarter-on-quarter and to a 37.3% margin, as compared to 36.9% a year ago

TP Group restated EBITDA margin stood at 37.3% and was up in comparison to Q1 2011 (+1.2p.p.) as well as year-on-year (+0.4p.p.). It was driven down by the pre-regulatory revenue contraction, but strongly benefited from solid results of the cost optimisation program - which drove Group's cost base down by 5.5% since last year.

1H net income at PLN 1.2bn, up by 94.1% year-on-year

TP Group net income stood at PLN 1,184mn for 1H, up by 94.1% year-on-year. This strong performance was influenced by PLN 1,188mn capital gain on disposal of Emitel, as well as by an adverse impact of a PLN 458mn increase of provision for a fine imposed by the European Commission. Net margin amounted to 15.7% in H1 2011, as compared to 7.8% a year ago and EPS stood at 0.89.

1H Net Free Cash Flow at PLN 0.9bn in line with the full year guidance

TP Group's Net Free Cash Flow for 1H stood at PLN 905mn, compared to 1,175mn in 1H 2010. Despite lower revenues, net cash from operating activities (before income tax paid and change in working capital) was roughly at the same level as in the previous year and amounted to PLN 2,539mn. TP Group's cash capital expenditure⁶ amounted to PLN 1,601mn and was PLN 587mn higher year-on-year. This is related mainly to payments for last year's capital expenditures, but also to faster capex execution in 2011. Higher cash outflows relating to capital expenditures were however partially offset by a PLN 292mn impact of lower working capital requirement.

³ decrease of the SMS interworking rate, from 15gr to 8gr, implemented as of January 2011

⁴ Polish President's plane crash, air traffic disturbance after Eyjafjallajökull volcano eruption and May floods in Poland

⁵ adjusted for gain on disposal of Emitel and increase in provision for European Commission fine, amounting to +PLN 1.2bn and -PLN 0.46bn respectively

⁶ the total of capital expenditures and of the difference in capex payables

2Q 2011: mobile segment review

- revenue up 6.0% quarter-on-quarter, and +0.9% year-on-year, compared to -0.2% in 2Q 2010
 - excluding regulatory impact mobile up by 3.2% since last year
- EBITDA up by 13.0% quarter-on-quarter, with margin at 30.1% (+1.9 p.p. versus 1Q 2011)
- 116 000 net additions bring the customer base above 14.5mn (+3.6% year-on-year)
- leadership in value confirmed: Orange market share stable at 30.8%
- dedicated mobile broadband subscriptions up by +49.1% year-on-year
- 28% share of smartphones in post-paid sales drives their number to 1.8mn, visibly reflected in a 29% growth of data arpu⁷

key figures

mobile line indicators	2Q 2011	2Q 2010	Change	1H 2011	1H 2010	Change
revenue (PLN million)	1,967	1,950	0.9%	3,823	3,766	1.5%
number of total customers (000's)	14,535	14,029	3.6%			
number of post-paid customers (000's)	6,967	6,792	2.6%			
number of prepaid customers (000's)	7,568	7,238	4.6%			
number of mobile broadband access (000's)	645	433	49.1%			
EBITDA margin (as a % of revenue)	30.1%	31.3%	-1.2 pp	29.5%	29.2%	-0.3 pp

Mobile segment's revenue grew by 0.9% year-on-year, reflecting impact of the MTR SMS reduction (introduced in January 2011- from PLN 0.15 to PLN 0.08). Excluding regulatory impact, 2Q mobile revenue increased by 3.2% year-on-year. It is mainly attributable to strong increase in mobile subscriber base, which rose by 116,000 in 2Q 2011. In turn, this drove the customer base above 14.5mn, maintaining Orange's status as the largest mobile network in Poland. Positive customer base development was coupled with rising usage and resilient retail ARPU.

2Q EBITDA was up by 13.0% quarter-on-quarter, with the margin back above the 30% mark. This solid performance was achieved through a combination of growing revenue and non-commercial cost optimisation.

⁷ data arpu in post-paid

2Q 2011: fixed line segment review

- revenues down by 8.3% year-on-year, compared to -8.7% in 2Q 2010
- restated EBITDA⁸ margin at 39.2%, benefiting from cost optimisation program
- retail fixed lines decline limited to 160,000 as compared to -182,000 in 1Q 2011
- 14,000 net adds confirm broadband rebound, driving the base up by 50,000 since 2Q 2010
 - positive trend in net adds market share: 21% in 2Q 2011 compared to 10% in 1Q 2011
- TV customer base up by 30.8% year-one-year, approaching 600k subscribers
- launch of 40Mb and 80Mb broadband speed options and “n” based pay-TV packages marks TP Group’s expansion back into big cities

Key figures

Fixed line indicators	2Q 2011	2Q 2010	Change	1H 2011	1H 2010	Change
Revenue (PLN million)	2,098	2,288	-8.3%	4,229	4,599	-8.0%
Number of retail fixed lines (000's) ⁹	6,004	6,750	-11.0%			
Number of retail broadband accesses (000's)	2,311	2,261	+2.2%			
Number of TV customers (000's)	592	453	+30,8%			
restated EBITDA ⁸ margin (as a % of revenue)	39.2%	37.6%	+1.6 pp	38.9%	38.7%	+0.2 pp

Fixed segment’s trends were comparable with previous quarters, with top line falling by 8.3% year-on-year. The fall in revenue is predominantly attributable to structural decline of fixed retail lines, driven mostly by fixed-to-mobile substitution. Nevertheless, fixed line erosion was limited to 160,000 in 2Q, compared to 182,000 in 1Q 2011 and 207,000 in 4Q 2010. Progressive development has been maintained in broadband, as it reported a 4th consecutive quarter of customer base growth, with net additions totalling to 50,000 during the last 12 months. The share of high speeds (6Mb/s and more) in Neostrada sales continued to rise and reached 48% in 2Q 2011 – a meaningful improvement vs. 12% in 2Q 2010. TP Group’s TV offering performed well, with customer base up by 30.8% year-on-year, reaching over 25% penetration in retail broadband.

Fixed line restated EBITDA margin⁸ stood at 39.2%, benefitting from solid results of cost transformation program.

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

“TP group has delivered strong financial results in the first half of the year. Evolution of our revenue is in line with the outlook and our cost optimisation program delivered over 100 million zloty savings year-to-date, enabling us to report a solid underlying EBITDA margin. Despite increased risk provisions, Group’s net income for 1st semester is at record PLN 1.2 billion – boosted by the disposal of TP Emitel. Finally, we delivered net free cash flows of PLN 900 million in H1, which is a solid performance in light of high payments in relation to last year’s capex. We stay firm in our commitment towards cost optimisation and cash generation, and Group’s performance to-date, as well as our expectations for the second part of the year, allow us to reaffirm our full-year cash flow commitments for 2011.”

⁸ adjusted for gain on disposal of Emitel and increase in provision for European Commission fine, amounting to +PLN 1.2bn and -PLN 0.46bn respectively

⁹ including Orange WLR and Orange WLL

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.

TP Group 2Q/1H 2011 results presentation

Wednesday 27th July 2011

Venue address:

Telekomunikacja Polska S.A.
ul. Twarda 18
00-105 Warsaw
Poland

Registration: 10.30 CET

Start: 11.00 CET

The presentation will also be available via a live webcast on our website and via a conference call:

Time:

11:00 (Warsaw)

10:00 (London)

05:00 (New York)

Conference title:

TP Group Half Year Results 2011

Dial in numbers:

UK/Europe: + 44 20 8515 2306

US: + 1 480 629 9722

Toll free numbers:

UK: 0800 358 5263

US: + 1 877 941 0843

TP Group Consolidated

amounts in PLN millions	2010				2011	
	1Q	2Q	3Q	4Q	1Q	2Q
profit & loss statement						
revenues						
fixed line telephony services	1 350	1 315	1 251	1 241	1 190	1 141
retail revenue (subscriptions and traffic)	1 077	1 029	979	948	915	858
wholesale revenue incl. interconnection	269	283	267	290	272	280
Payphone revenue	4	3	5	2	3	3
Other	0	0	0	1	0	0
mobile telephony services	1 678	1 787	1 785	1 815	1 691	1 779
voice traffic revenue	998	1 079	1 073	1 043	990	1 054
interconnection revenue	312	349	345	355	301	320
messaging services and content	358	345	356	377	369	376
Other	10	14	11	40	31	29
data services	639	636	623	619	612	597
leased lines	73	74	71	73	71	71
data transmission	172	176	164	165	165	158
dial-up	2	1	1	1	1	0
broadband and TV revenue	392	385	387	380	375	368
radio communications	52	52	54	57	58	55
sales of goods and other	154	197	185	225	178	218
Total revenue, net	3 873	3 987	3 898	3 957	3 729	3 790
labour expenses						
	(592)	(566)	(522)	(538)	(556)	(531)
o/w profit-sharing	(4)	(4)	(4)	(4)	(3)	(3)
o/w share-based compensation	(2)	(2)	(2)	2	0	0
external purchases						
	(1 738)	(1 786)	(1 754)	(1 896)	(1 703)	(1 767)
- interconnection costs	(506)	(538)	(545)	(550)	(475)	(492)
- network and IT	(231)	(232)	(213)	(229)	(215)	(221)
- commercial expenses	(602)	(615)	(600)	(692)	(605)	(608)
- content costs	(25)	(31)	(27)	(42)	(32)	(49)
- Other external purchases	(374)	(370)	(369)	(383)	(376)	(397)
other operating incomes & expenses						
	(132)	(168)	(1 203)	(134)	(130)	(546)
- FX impact	(2)	(4)	(2)	0	(5)	2
- Dispute with DPTG			(1 061)			
- provisions for claims and litigation	(4)	(23)	7	(101)	(3)	(474)
- other operating expenses, net	(126)	(142)	(147)	(33)	(122)	(74)
restructuring costs						
	0	0	0	(34)	0	0
gain/loss on disposals of assets	9	5	20	25	5	10
disposal of shares						1 188
EBITDA	1 420	1 472	439	1 380	1 345	2 144
<i>% of revenues</i>	36,7%	36,9%	11,3%	34,9%	36,1%	56,6%
restated EBITDA*	1 420	1 472	1 500	1 380	1 345	1 414
<i>% of revenues</i>	36,7%	36,9%	38,5%	34,9%	36,1%	37,3%
depreciation & amortisation						
	(941)	(965)	(941)	(945)	(978)	(989)
impairment of fixed assets	(5)	0	(1)	(5)		(4)
EBIT	474	507	(503)	430	367	1 151
<i>% of revenues</i>	12,2%	12,7%	-12,9%	10,9%	9,8%	30,4%
financial result						
	(115)	(98)	(128)	(118)	(131)	(89)
- interest expenses, net	(113)	(66)	(117)	(103)	(116)	(77)
- foreign exchanges gains (losses)	15	(4)	5	7	5	7
- discounting expenses	(17)	(28)	(16)	(22)	(20)	(19)
income tax	(74)	(84)	(89)	(94)	(47)	(67)
consolidated net income after tax	285	325	(720)	218	189	995

* excluding the PLN 1.1bn impact of revision of the provision for the DPTG dispute, recorded in 3Q2010; adjusted for gain on disposal of Emitel and increase in provision for European Commission fine imposed, amounting to PLN 1.2 bn and PLN 0.46 bn, respectively in 2Q 2011

Key operational performance indicators for TP Group

Fixed Voice	2010				2011	
	1Q	2Q	3Q	4Q	1Q	2Q
customer base						
Main lines (thousands)						
POTS	5 895	5 742	5 536	5 331	5 163	5 007
ISDN 2B+D	682	665	646	629	601	586
ISDN 30B+D	264	265	266	258	255	254
WLR PTK	50	67	84	100	111	117
WLL PTK	2	12	20	26	34	40
Total retail main lines	6 893	6 750	6 553	6 346	6 164	6 004
WLR	1 246	1 279	1 315	1 351	1 373	1 396
ARPU per month						
Fixed voice ARPU (in PLN)	50,9	49,9	49,0	49,1	48,8	47,3
fixed voice market						
Fixed voice penetration (in households) ¹	56,7%	56,2%	55,5%	54,4%	53,7%	53,1%
Local access market in Poland-estimated (in million)	10,3	10,2	10,1	10,0	9,9	9,8
Fixed voice market share (%)¹						
TP Group retail local access ^{1,2}	67,2%	66,2%	64,8%	63,5%	62,3%	61,2%
Value market share ¹	70,5%	70,1%	69,2%	68,8%	67,9%	67,2%
Fixed Broadband and TV						
customer base						
Broadband access lines (thousands)						
TP (ADSL & SDI)	2 040	2 022	2 004	1 994	1 988	1 991
Orange - based on CDMA	88	101	121	141	154	163
Orange - based on BSA	134	138	144	151	155	157
TP Group retail broadband - total	2 262	2 261	2 269	2 286	2 297	2 311
Bitstream access	356	370	371	376	375	373
LLU	62	76	102	130	149	162
TV client base						
IPTV	111	113	114	115	113	111
DTH (TV over Satellite)	306	340	383	428	464	482
TV client base (thousands)	417	453	497	544	577	592
o/w customers with pay TV packages ³	64	79	97	125	153	154
VoIP client base (thousands)	123	143	140	137	137	134
Livebox client base (thousands)	727	741	760	778	785	782
ARPU per month						
TP Group ARPU - Broadband & TV (in PLN)	57,7	56,6	56,9	55,8	54,6	53,1
broadband market⁴						
B2C Broadband penetration (in households) ⁴	42,1%	42,4%	42,8%	43,7%	44,2%	44,5%
Total broadband market customers - estimated (in '000) ⁴	6 190	6 267	6 356	6 505	6 606	6 674
TP Group gross adds market share ⁴	33,5%	30,2%	31,4%	31,6%	33,0%	30,8%
TP Group net adds market share ⁴	-9,9%	-0,7%	8,7%	11,8%	10,1%	21,0%
TP Group volume market share (in %) ⁴	36,5%	36,1%	35,7%	35,2%	34,8%	34,6%
TP Group value market share (in %) ⁴	46,6%	45,4%	44,8%	43,9%	42,5%	41,4%

³ includes TP's M-, L – packages, Orange Sport and HBO

⁴ company's estimation

Mobile Segment	2010				2011	
	1Q	2Q	3Q	4Q	1Q	2Q
customer base						
Mobile customer base (thousands)						
Post-paid	6 712	6 791	6 828	6 956	6 962	6 967
Pre-paid	7 062	7 238	7 312	7 375	7 457	7 568
Total¹	13 774	14 029	14 140	14 331	14 419	14 535
MVNOs customers	54	56	52	70	73	78
Dedicated mobile broadband subscription client base (thousands) ²	400	433	478	547	599	645
Number of smartphones (thousands)	1 214	1 299	1 408	1 489	1 725	1 804
ARPU						
Monthly mobile customer ARPU in quarter (PLN)						
post-paid	64,5	69,0	66,9	67,2	62,7	66,1
pre-paid	19,2	19,7	20,3	19,4	17,5	18,0
Blended	41,2	43,6	42,8	42,5	39,4	41,1
Retail ARPU (PLN)	33,0	34,2	33,8	33,4	31,6	32,9
Wholesale ARPU (PLN)	8,2	9,0	8,8	8,9	7,5	8,0
Voice ARPU (PLN)						
post-paid	48,8	53,0	51,3	50,3	47,5	50,4
pre-paid	12,8	13,5	14,0	13,1	12,1	13,1
Blended	30,3	32,7	32,0	31,1	29,2	31,0
Data ARPU (PLN)						
post-paid	4,5	4,4	4,7	5,2	5,5	5,7
pre-paid	0,3	0,3	0,3	0,4	0,4	0,4
Blended	2,4	2,3	2,5	2,7	2,9	2,9
SMS&MMS and other ARPU (PLN)						
post-paid	11,3	11,6	10,8	11,8	9,7	10,0
pre-paid	6,1	5,9	5,9	5,9	5,0	4,6
Blended	8,6	8,6	8,3	8,7	7,3	7,2
volumes & churn						
AUPU (in minutes)						
post-paid	219,2	229,0	229,3	235,2	229,0	236,3
pre-paid	78,0	98,4	99,2	99,4	92,6	96,7
Blended	146,6	161,8	162,1	165,1	158,6	163,9
Mobile customer churn rate (%)						
post-paid	3,1	2,8	3,6	3,1	3,8	3,4
pre-paid	15,1	13,7	16,2	16,1	14,3	15,8
subsidiaries						
SAC (PLN)						
post-paid	485,2	486,6	533,7	536,4	562,1	559,3
pre-paid	9,8	10,5	9,4	9,8	8,5	9,2
Blended	133,5	121,2	128,5	143,6	140,2	124,9
SRC (PLN)						
	531,0	535,8	537,7	554,0	563,7	542,1
network coverage						
Orange 2G coverage in % of population:	99,5%	99,6%	99,6%	99,6%	99,6%	99,6%
Orange 3G coverage in % of population:	55,4%	56,0%	56,3%	58,5%	60,9%	61,9%
Mobile market						
Market penetration rate for mobile network services	118,5%	119,8%	121,4%	124,3%	125,8%	127,4%
Orange mobile market share in volume	30,5%	30,7%	30,5%	30,2%	30,1%	29,9%
Orange mobile market share in value ³	31,1%	31,5%	30,6%	31,0%	30,8%	30,8%

¹ excluding NMT

² includes Business Everywhere and Orange Free

³ company's estimation

Employment structure of TP Group Full time positions (end of period)	2010				2011	
	1Q	2Q	3Q	4Q	1Q	2Q*
TP SA	20 466	19 594	19 090	15 286	15 210	15 020
Other (incl Orange Customer Service)	2 582	2 634	2 669	7 783	7 732	6 741
Total fixed line	23 048	22 228	21 759	23 069	22 942	21 761
PTK Centertel	3 652	3 659	3 653	2 161	2 157	2 122
Other	388	398	397	406	420	456
Total mobile segment	4 040	4 057	4 050	2 567	2 577	2 578
TP Group	27 089	26 285	25 809	25 636	25 519	24 339

*excluding Emitel's headcount amounting to 941 employees

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

LLU - Local Loop Unbundling

MTR - Mobile Termination Rates

SAC – Subscribers Acquisition Cost

SRC - Subscribers Retention Cost

WLR – Wholesale Line Rental

WLL - Wireless Local Loop - a term for the use of a wireless communications, the "first mile"