



LSE – Current Report (118/2013)
Telekomunikacja Polska S.A., Warsaw, Poland
October 22, 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 3Q 2013.

Good commercial results and cash flow growth in 3Q lead Orange Polska to raise its guidance for 2013

3Q 2013 highlights:

- revenue 2.5% down year-on-year, excluding regulatory impact, as compared to -5.5% in 2Q 2012 and -3.1% in 1Q 2013
- PLN -190 million regulatory impact mostly due to voice MTR cut to PLN 0.0429 (ca €0.01)
- commercial strategy is underscored by good commercial performance:
 - number of convergent Orange Open customers +69% vs. 2Q, reaching 211,000
 - mobile customer base grew by 179,000 in 3Q, up by 2.5% year-on-year
 - low-cost brand, nju.mobile, reached 203,000 clients, with 123,000 added in 3Q
 - sequential slowdown in erosion of the Group’s fixed line clients: 3Q net subscriber loss -78,000, versus -96,000 in 2Q and -132,000 a year ago
- EBITDA margin at 36.5% in 3Q due to slower top-line erosion and PLN 64 million cost savings
- Organic Cash Flow guidance raised to ‘at least PLN 1bn¹’
 - initial guidance reached in advance, as year-to-date OCF stands at PLN 833mn

key figures (PLN million) IFRS	3Q 2013	3Q 2012	change	9M 2013	9M 2012	change
Group revenue	3,196	3,472	-7.9%	9,766	10,659	-8.4%
EBITDA	1,165	1,325	-12.1%	3,202	3,850	-16.8%
EBITDA (as % of revenue)	36.5%	38.2%	-1.7 ppts	32.8%	36.1%	-3.3 ppts
net income	239	307	-22.1%	396	804	-50.7%
organic cash flow	434	321	+35.2%	833	1,060 ²	-21.4%

commenting 3Q performance, Mr Bruno Duthoit, Chief Executive Officer, said:

“It has only been few weeks since I have returned to Poland, but already I can see that we have the resources needed to recover our performance. These include over 22 million customers of our different services, a full range of services, good networks and well skilled and motivated staff. We have a great sense of urgency to recover our performance, starting with the revenues dynamics, where bolder and stronger actions are needed. Convergence is the centrepiece of our strategy, but simultaneously we must launch new products and features, to address the needs of various customer segments. We must be more agile, faster to the market and excellent in delivery, in order to loyalise clients and create value. It is a great privilege for me to lead the teams of Orange Polska, and we will work very hard to execute our strategy, as we are absolutely determined to deliver the sustainable cash generation that is needed to support our investments and remunerate our shareholders.”

¹ excluding spectrum acquisition made in 2013, change in consolidation scope and impact of risk and litigation

² adjusted for payment of €550mn to DPTG as part of the final settlement in 2012

Financial Review

3Q revenue down by -2.5% year-on-year excluding regulatory impact, as compared to -5.5% in 2Q and -3.1% in 1Q

Group's revenue totalled PLN 3,196 million for the third quarter of 2013, as compared to PLN 3,472 million a year ago. The -7.9% year-on-year decrease reflected a PLN -190 million impact of regulatory decisions (mostly MTR cuts³). Excluding the regulatory impact, the top-line declined by -2.5% year-on-year versus -5.5% in 2Q and -3.1% in 1Q. The improvement in revenues trends, was mainly driven by a slowdown in the annual decline of revenues from fixed services, down by -4.6% excluding regulatory impact versus -10% in 2Q and -6.4% in 1Q. This reflected better base of year-on-year comparison since 2Q (as 2Q 2012 included non-recurring ICT revenues linked to the EURO 2012), as well as an underlying slowdown of fixed voice revenues erosion. Evolution of revenues from mobile services improved as well, as in 3Q they were down by -2.1% year-on-year (excluding regulatory impact), versus -2.8% in 2Q, helped by accelerated growth of the customer base.

The number of customers of the Orange Open solution reached 211,000 in 3Q. The Group's flagship convergent offer gains momentum, as its customer base grew by +39,000 (net) in 1Q, which accelerated to +53,000 in 2Q and +86,000 in 3Q. The offer's upselling potential is evidenced by the fact that ca. 67% of its subscribers bought additional fixed or mobile services and benefitting the overall customer ARPU.

The growth rate in the number of mobile customers accelerated to +2.5% year-on-year in the third quarter, versus +1.3% in 2Q. The upturn was possible due to 179,000 net customer additions since 2Q, achieved both in the prepaid segment (+97,000 SIMs) as well as in post-paid (+82,000 SIM cards). This was significantly helped by the dynamic uptake of the Group's sub-brand 'nju.mobile', as its client base grew by +123,000 (net) since 2Q, reaching 203,000 customers. Mobile ARPU was still adversely affected by the price war initiated by competition in 2012, albeit at a slower pace: retail (outgoing) ARPU declined by -5.2% year-on-year in 3Q, versus -6.9% in 2Q and -5.9% in 1Q.

The fixed line KPIs continued to benefit from the strategy of product bundling and convergence. The net loss of fixed voice customers was limited to 78,000 in 3Q, which is a visible improvement versus -96,000 customers lost in 2Q and -109,000 in 1Q. In addition, high growth rate of the number of customers with Orange's 3P offer (+74% year-on-year) benefitted the ARPU from 'broadband, TV and VoIP' and drove its revenues up by PLN 24 million or +6% year-on-year. Following 3Q, revenues from broadband, TV and VoIP represent 13.2% of the Group's turnover.

key performance indicators ('000)	3Q 2013	3Q 2012	change
Orange Open customers	211	6	n/a
3P customers (BB, TV and VoIP)	333	191	+74.3%
number of mobile customers	15,126	14,758	+2.5%
post-paid	7,052	6,894	+2.3%
pre-paid	8,074	7,865	+2.7%
fixed voice lines (retail)	4,821	5,194	-7.2%
fixed broadband accesses (retail)	2,305	2,338	-1.4%
mobile broadband accesses	1,120	907	+23.5%
number of TV customers	702	695	+1.0%

³ voice mobile termination rate (MTR) was cut from PLN 0.0826 a minute to PLN 0.0429 a minute on July 1, 2013. In 3Q 2012 the MTR amounted to PLN 0.1223 a minute.

EBITDA margin at 36.5% in 3Q due to slower top-line erosion and PLN 64 million cost savings

Group's EBITDA for the third quarter of 2013 amounted to PLN 1,165 million and it stood at 36.5% of revenues. In comparison to last year, the fall in EBITDA has slowed down: it fell by PLN -160 million in 3Q, as compared to PLN -294 million year-on-year in 2Q and PLN -194 million in 1Q. This was possible mainly due to slower revenue erosion, excluding regulatory impact, in 3Q they fell by PLN -86 million year-on-year. Impact of regulatory decisions, mainly the decrease of the fixed-to-mobile tariff, affected Group's EBITDA in 3Q by PLN -28 million. Simultaneously, direct costs were under pressure, as post-paid tariff plans with unlimited voice and SMS inflated the Group's interoperator costs by PLN 30 million year-on-year, while growing popularity of smartphones drove commercial expenses up by PLN 22 million. In addition, costs of the Group's ICT activity rose in 3Q by PLN 40 million year-on-year, albeit this corresponded to a PLN 48 million increase in ICT revenues. Other costs' evolution was helped by certain non-recurring items, which limited their growth in 3Q to only PLN 18 million year-on-year. Finally, the EBITDA was positively impacted by PLN 64 million savings in 3Q, stemming from the Group's on-going cost optimisation program.

net income at PLN 239 million in 3Q 2013

Orange Polska's net income for 3Q 2013 amounted to PLN 239 million. Net income decreased by PLN 68 million since 3Q of last year, as compared to a PLN -179 million year-on-year decline in 2Q and PLN -161 million fall in 1Q. The year-on-year decline is predominantly driven by the evolution of the EBITDA, partly offset by lower depreciation (down by PLN 26 million year-on-year), less net financial costs (PLN 28 million below last year) and decline in income tax (PLN 37 million down since 3Q 2012).

Organic Cash Flow guidance for 2013 raised to 'at least PLN 1bn'⁴

The organic cash flow amounted to PLN 434 million in the third quarter, up by 35% year-on-year. Higher cash generation was achieved as the decline of the EBITDA was offset by a PLN +53 million positive variance in working capital requirement⁵ and PLN 218 million lower cash outflows for capital expenditures than in 3Q 2012.

The Organic Cash Flow for nine months of 2013 amounted to PLN 833 million, allowing the Group to already deliver on its initial full-year cash flow guidance. The full-year guidance for Organic Cash Flow was raised to 'at least PLN 1 billion'⁴ in 2013.

commenting on 3Q results, Mr. Jacques de Galzain, Chief Financial Officer said:

"Our financial results in the third quarter show early signs of stabilisation, helped by good commercial progress in most areas, and by benefits stemming from our cost optimisation program. Despite a very challenging environment, we have been able to grow cash generation and, in consequence, already deliver on our 2013 floor cash guidance. We raise the full-year guidance for the Organic Cash Flow in 2013 to at least 1 billion zloty, excluding any spectrum acquisition or impact of claims and litigation. Not only does the stronger cash generation underscore the actions taken so far, but it motivates us even more to find additional efficiency gains, as we must take advantage of new levers to increase the sustainable cash generation in the future"

⁴ excluding spectrum acquisition made in 2013, change in consolidation scope and impact of risk and litigation

⁵ WCR increase in 3Q 2013 of PLN -72 million versus a PLN -125 million increase in 3Q 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 3Q 2013 Results Presentation Tuesday 22nd October, 2013

Venue address:

Orange Polska
Conference Centre, Ground Floor
Al. Jerozlimskie 160
Warsaw
Poland

Start: 11.00 CET

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

Time:

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

Conference title:

Orange Polska 3Q 2013 Results

Dial in numbers:

UK/Europe: +44-20-8515-2301
US: +1-480-629-9835

Toll free numbers:

UK: 0800-358-5256
US: +1-877-941-0844

Orange Polska Group Consolidated

amounts in PLN millions	2012*				2013		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
profit & loss statement							
revenues							
Mobile services	1,697	1,784	1,706	1,660	1,533	1,590	1,514
voice traffic revenue	971	1,036	1,000	940	887	917	906
data, messaging, content and M2M	416	412	418	431	433	443	448
wholesale	310	336	288	289	213	230	160
Mobile equipment sales	35	35	32	39	33	40	35
Fixed services	1,676	1,712	1,611	1,594	1,554	1,515	1,500
fixed narrowband	739	701	665	642	614	582	559
fixed broadband, TV and VoIP	385	395	398	408	421	421	422
enterprise solutions & networks	263	320	256	254	251	250	258
wholesale	289	296	292	290	268	262	261
Other revenue	112	136	123	189	147	158	147
Total revenues	3,520	3,667	3,472	3,482	3,267	3,303	3,196
Y-o-Y growth**	-3.5%	-1.2%	-5.6%	-6.4%	-7.2%	-9.9%	-7.9%
labour expenses	(560)	(527)	(489)	(489)	(545)	(516)	(453)
external purchases	(1,731)	(1,830)	(1,557)	(1,785)	(1,596)	(1,649)	(1,501)
- interconnection costs	(447)	(470)	(413)	(441)	(314)	(358)	(284)
- network and IT	(208)	(215)	(201)	(211)	(188)	(209)	(208)
- commercial expenses	(641)	(691)	(547)	(671)	(642)	(620)	(562)
- content costs	(34)	(38)	(33)	(33)	(37)	(43)	(34)
- other external purchases	(401)	(416)	(363)	(429)	(415)	(419)	(413)
other operating incomes & expenses	(10)	(24)	(104)	(221)	(85)	(144)	(92)
employment termination expenses	0	0	0	8	(18)	(1)	0
gain/loss on disposals of assets	8	12	3	12	10	11	15
EBITDA	1,227	1,298	1,325	1,007	1,033	1,004	1,165
<i>% of revenues</i>	<i>34.9%</i>	<i>35.4%</i>	<i>38.2%</i>	<i>28.9%</i>	<i>31.6%</i>	<i>30.4%</i>	<i>36.5%</i>
depreciation & amortisation	(819)	(834)	(801)	(813)	(791)	(783)	(775)
impairment of fixed assets	(4)	(6)	(1)	(5)	(1)	(3)	0
EBIT	404	458	523	189	241	218	390
<i>% of revenues</i>	<i>11.5%</i>	<i>12.5%</i>	<i>15.1%</i>	<i>5.4%</i>	<i>7.4%</i>	<i>6.6%</i>	<i>12.2%</i>
financial result	(108)	(127)	(146)	(175)	(134)	(108)	(118)
income tax	(54)	(76)	(70)	37	(26)	(34)	(33)
Consolidated net income after tax	242	255	307	51	81	76	239

*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 Emitel and Paytel)

Orange Polska Group key performance indicators

Key operational performance indicators for Group

customer base (in thousands)	2012				2013		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Orange Open¹		2	6	33	72	125	211
Fixed telephony accesses							
POTS & ISDN	5,272	5,048	4,854	4,687	4,521	4,392	4,292
WLL	61	69	76	81	84	84	84
VoIP first line	152	209	264	336	390	423	445
Total retail main lines	5,485	5,326	5,194	5,104	4,995	4,899	4,821
Fixed broadband access							
ADSL	2,151	2,146	2,134	2,139	2,130	2,112	2,096
VDSL	11	16	23	26	28	36	49
CDMA	186	182	181	180	175	169	160
Group retail broadband - total	2,348	2,344	2,338	2,345	2,333	2,317	2,305
TV client base							
IPTV	113	114	116	119	117	117	119
DTH (TV over Satellite)	550	562	578	588	582	582	583
TV client base - total	663	677	695	706	699	699	702
-o/w 'n' packages	43	57	69	83	98	101	115
3P services (TV+BB+VoIP)	112	151	191	248	286	314	333
Mobile accesses							
Post-paid	6,927	6,937	6,894	6,911	6,906	6,970	7,052
-o/w B2B	2,446	2,436	2,420	2,428	2,407	2,399	2,402
Pre-paid	7,685	7,820	7,865	7,984	7,980	7,977	8,074
Total	14,612	14,757	14,758	14,895	14,886	14,947	15,126
- of which dedicated mobile broadband subscription client base	800	848	907	985	1,043	1,079	1,120
Group wholesale customers (thousands)							
WLR (external to Group)	1,512	1,539	1,518	1,472	1,443	1,397	1,356
Bitstream access (external to Group)	367	367	356	347	342	343	340
LLU	186	184	187	185	181	178	175

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	3Q
Orange Polska retail fixed voice ARPU	46.5	46.2	45.5	45.6	45.1	44.2	43.5
Orange Polska broadband ARPU (Broadband, TV & VoIP)	54.5	55.9	56.5	57.8	59.7	60.1	60.5
Mobile ARPU (outside the Group)							
post-paid	65.1	68.5	65.5	64.5	60.4	62.7	59.2
-o/w B2B	84.0	88.2	81.9	79.9	75.6	77.5	72.2
pre-paid	16.6	17.7	16.8	16.2	14.2	14.6	13.8
Blended	39.1	40.9	38.8	37.9	34.9	36.2	34.2
retail ARPU (PLN)	32.1	33.4	32.5	31.4	30.2	31.1	30.8
wholesale ARPU (PLN)	6.9	7.5	6.4	6.4	4.7	5.1	3.4
voice ARPU (PLN)							
post-paid	48.2	51.4	48.5	46.5	41.9	43.4	39.5
pre-paid	12.2	13.4	12.6	11.9	9.6	10.2	9.6
blended	28.5	30.5	28.5	27.2	24.0	25.1	23.0
data ARPU (PLN)							
post-paid	6.8	6.5	6.9	7.0	7.8	8.4	9.1
pre-paid	0.6	0.5	0.6	0.6	0.6	0.5	0.6
blended	3.4	3.2	3.4	3.4	3.8	4.1	4.4
SMS&MMS and other ARPU (PLN)							
post-paid	10.1	10.5	10.1	10.9	10.7	10.9	10.6
pre-paid	3.8	3.8	3.6	3.7	3.9	3.8	3.7
blended	7.1	7.3	7.0	7.4	7.0	7.0	6.8

other mobile operating statistics	2012				2013		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
MVNOs customers (thousands)	88	87	78	69	66	67	69
Number of smartphones (thousands)	2,256	2,574	2,887	3,262	3,384	3,526	3,613
volumes & churn							
AUPU (in minutes)							
post-paid	236.5	239.6	243.4	251.7	253.1	264.6	266.8
pre-paid	92.3	95.8	91.3	90.6	90.2	94.5	91.3
Blended	160.8	163.7	162.6	165.6	165.7	173.7	173.2
Quarterly mobile customer churn rate (%)							
post-paid	3.9	3.4	3.5	3.4	3.7	3.6	3.3
pre-paid	16.7	16.8	17.2	15.0	15.5	15.1	14.6
subsidies							
SAC post-paid (PLN)	576.7	499.8	506.6	583.8	556.8	502.3	484.8
SRC post-paid (PLN)	438.9	427.1	361.1	388.9	446.8	381.9	358.4
network coverage							
Group 3G coverage in % of population:	62.6%	62.7%	64.8%	69.0%	69.9%	73.7%	76.4%
Employment structure of Group as reported active full time equivalents (end of period)							
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Orange Polska	23,181	22,899	22,356	21,920	21,617	21,024	20,143
50% of Networks	397	397	397	397	395	392	398
Total	23,578	23,296	22,753	22,317	22,012	21,416	20,541

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