

□ - adjusted

## POLISH FINANCIAL SUPERVISION AUTHORITY

## Consolidated half-year report PSr 2019

(year)

(according to par. 60 s. 2 and par. 62 s. 3 of the Decree of Minister of Finance dated 29 March 2018)  
for the issuers in sectors of production, construction, trade or services  
(type of issuer)

for the half-year of 2019, i.e. from 1 January 2019 to 30 June 2019

including condensed consolidated financial statements prepared under: International Financial Reporting Standards  
in currency: PLN

and condensed separate financial statements prepared under: International Financial Reporting Standards  
in currency: PLN

date of issuance: 24 July 2019

<b>ORANGE POLSKA SA</b>	
(full name of issuer)	
<b>ORANGEPL</b>	<b>Telecommunication (tel)</b>
(abbreviated name of the issuer)	(classification according to WSE / sector)
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(post code)	(location)
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Ernst & Young Audyt Polska Sp. z o.o. Sp. komandytowa  
(auditor)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	half-year 2019	half-year 2018	half-year 2019	half-year 2018
<b>condensed consolidated financial statements data</b>				
I. Revenue	5 537 000	5 416 000	1 291 278	1 277 509
II. Operating income	209 000	106 000	48 741	25 003
III. Profit/(loss) before income tax	67 000	(67 000)	15 625	(15 804)
IV. Net income/(loss)	53 000	(66 000)	12 360	(15 568)
V. Net income/(loss) attributable to owners of Orange Polska S.A.	53 000	(66 000)	12 360	(15 568)
VI. Earnings/(loss) per share (in PLN/EUR)	0.04	(0.05)	0.01	(0.01)
VII. Weighted average number of shares (in millions)	1 312	1 312	1 312	1 312
VIII. Total comprehensive income/(loss)	30 000	(62 000)	6 996	(14 624)
IX. Total comprehensive income/(loss) attributable to owners of Orange Polska S.A.	30 000	(62 000)	6 996	(14 624)
X. Net cash provided by operating activities	1 196 000	850 000	278 918	200 495
XI. Net cash used in investing activities	(1 228 000)	(1 037 000)	(286 380)	(244 604)
XII. Net cash provided by/(used in) financing activities	(156 000)	89 000	(36 381)	20 993
XIII. Net change in cash and cash equivalents	(188 000)	(98 000)	(43 843)	(23 116)
	<b>balance as at</b>	<b>balance as at</b>	<b>balance as at</b>	<b>balance as at</b>
	<b>30/06/2019</b>	<b>31/12/2018</b>	<b>30/06/2019</b>	<b>31/12/2018</b>
XIV. Total current assets	3 752 000	3 969 000	882 408	923 023
XV. Total non-current assets	20 723 000	19 326 000	4 873 707	4 494 419
XVI. Total assets	24 475 000	23 295 000	5 756 115	5 417 442
XVII. Total current liabilities	4 298 000	5 946 000	1 010 818	1 382 791
XVIII. Total non-current liabilities	9 642 000	6 846 000	2 267 639	1 592 093
XIX. Total equity	10 535 000	10 503 000	2 477 658	2 442 558
XX. Equity attributable to owners of Orange Polska S.A.	10 533 000	10 501 000	2 477 187	2 442 093
XXI. Share capital	3 937 000	3 937 000	925 917	915 581
<b>condensed separate financial statements data</b>				
	<b>half-year 2019</b>	<b>half-year 2018</b>	<b>half-year 2019</b>	<b>half-year 2018</b>
I. Revenue	5 244 000	5 202 000	1 222 948	1 227 031
II. Operating income	188 000	103 000	43 843	24 295
III. Profit/(loss) before income tax	67 000	(47 000)	15 625	(11 086)
IV. Net income/(loss)	60 000	(45 000)	13 993	(10 614)
V. Earnings/(loss) per share (in PLN/EUR)	0.05	(0.03)	0.01	(0.01)
VI. Weighted average number of shares (in millions)	1 312	1 312	1 312	1 312
VII. Total comprehensive income/(loss)	37 000	(41 000)	8 629	(9 671)
VIII. Net cash provided by operating activities	1 275 000	901 000	297 341	212 525
IX. Net cash used in investing activities	(1 228 000)	(1 040 000)	(286 381)	(245 312)
X. Net cash provided by/(used in) financing activities	(208 000)	61 000	(48 507)	14 389
XI. Net change in cash and cash equivalents	(161 000)	(78 000)	(37 547)	(18 398)
	<b>balance as at</b>	<b>balance as at</b>	<b>balance as at</b>	<b>balance as at</b>
	<b>30/06/2019</b>	<b>31/12/2018</b>	<b>30/06/2019</b>	<b>31/12/2018</b>
XII. Total current assets	3 472 000	3 758 000	816 557	873 953
XIII. Total non-current assets	20 762 000	19 333 000	4 882 879	4 496 047
XIV. Total assets	24 234 000	23 091 000	5 699 436	5 370 000
XV. Total current liabilities	4 171 000	5 856 000	980 950	1 361 860
XVI. Total non-current liabilities	9 585 000	6 796 000	2 254 234	1 580 465
XVII. Total equity	10 478 000	10 439 000	2 464 252	2 427 675
XVIII. Share capital	3 937 000	3 937 000	925 917	915 581



The Polish original should be referred to in matters of interpretation.

Translation of auditor's report originally issued in Polish.

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## INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Supervisory Board of Orange Polska S.A

### Introduction

We have reviewed the condensed IFRS interim consolidated financial statements of Orange Polska Group (the 'Group'), for which the parent company is Orange Polska S.A. (the 'Parent Company') located in Warsaw at Aleje Jerozolimskie 160, containing: the consolidated statement of financial position as at 30 June 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2019 to 30 June 2019 and notes to the condensed IFRS interim consolidated financial statements (the 'interim condensed consolidated financial statements').

The Parent Company's Management is responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review.

### Scope of review

We conducted our review in accordance with National Review Standard 2410 in the wording of the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ('standard'), adopted by the resolution no. 3436/52e/2019 of the National Council of Statutory Auditors of 8 April 2019. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 3436/52e/2019 of the National Council of Statutory Auditors of 8 April 2019 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Warsaw, 24 July 2019

Key certified auditor

Partner

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Łukasz Piotrowski  
certified auditor  
no in the register: 12390

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Mikołaj Rytel

on behalf of  
Ernst & Young Audyt Polska  
spółka z ograniczoną  
odpowiedzialnością sp. k.  
Rondo ONZ 1, 00-124 Warsaw  
no on audit firms list: 130

## **ORANGE POLSKA GROUP**

### **CONDENSED IFRS INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2019**

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**July 24, 2019**

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## CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings/loss per share)

	<i>Note</i>	<b>3 months ended 30 June 2019 IFRS 16 basis</b>	<b>6 months ended 30 June 2019 IFRS 16 basis</b>	<b>3 months ended 30 June 2018 IAS 17 basis (see Note 3.2)</b>	<b>6 months ended 30 June 2018 IAS 17 basis (see Note 3.2)</b>
<b>Revenue</b>	<b>5</b>	<b>2,759</b>	<b>5,537</b>	<b>2,706</b>	<b>5,416</b>
External purchases		(1,555)	(3,125)	(1,529)	(3,078)
Labour expense		(377)	(778)	(397)	(829)
Other operating expense		(119)	(226)	(109)	(224)
Other operating income		55	108	76	140
Impairment of receivables and contract assets		(27)	(59)	(41)	(64)
Gains on disposal of assets	8	44	48	3	22
Amortisation and impairment of right-of-use assets		(67)	(138)	-	-
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets, including: - depreciation of property, plant and equipment financed by finance lease	8	(575)	(1,158)	(636)	(1,277)
		-	-	(9)	(18)
<b>Operating income</b>		<b>138</b>	<b>209</b>	<b>73</b>	<b>106</b>
Interest income		11	21	8	16
Interest expense on lease liabilities		(12)	(22)	(1)	(2)
Other interest expense and financial charges		(56)	(116)	(61)	(130)
Discounting expense		(11)	(25)	(33)	(57)
<b>Finance costs, net</b>		<b>(68)</b>	<b>(142)</b>	<b>(87)</b>	<b>(173)</b>
Income tax		(15)	(14)	(2)	1
<b>Net income/(loss)</b>		<b>55</b>	<b>53</b>	<b>(16)</b>	<b>(66)</b>
Net income/(loss) attributable to owners of Orange Polska S.A.		55	53	(16)	(66)
Net income/(loss) attributable to non-controlling interests		-	-	-	-
<b>Earnings/(loss) per share (in PLN)</b>		<b>0.04</b>	<b>0.04</b>	<b>(0.01)</b>	<b>(0.05)</b>
Weighted average number of shares (in millions)		1,312	1,312	1,312	1,312

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	<i>Note</i>	<b>3 months ended 30 June 2019 IFRS 16 basis</b>	<b>6 months ended 30 June 2019 IFRS 16 basis</b>	<b>3 months ended 30 June 2018 IAS 17 basis</b>	<b>6 months ended 30 June 2018 IAS 17 basis</b>
<b>Net income/(loss)</b>		<b>55</b>	<b>53</b>	<b>(16)</b>	<b>(66)</b>
<b>Items that may be reclassified subsequently to profit or loss</b>					
Gains/(losses) on cash flow hedges		(19)	(28)	17	5
Income tax relating to items that may be reclassified		3	5	(3)	(1)
<b>Other comprehensive income/(loss), net of tax</b>		<b>(16)</b>	<b>(23)</b>	<b>14</b>	<b>4</b>
<b>Total comprehensive income/(loss)</b>		<b>39</b>	<b>30</b>	<b>(2)</b>	<b>(62)</b>
Total comprehensive income/(loss) attributable to owners of Orange Polska S.A.		39	30	(2)	(62)
Total comprehensive income/(loss) attributable to non-controlling interests		-	-	-	-

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)

		<i>At 30 June 2019</i>	<i>At 31 December 2018</i>
		<i>IFRS 16 basis</i>	<i>IAS 17 basis</i>
	<i>Note</i>		<i>(see Note 3.2)</i>
<b>ASSETS</b>			
Goodwill	8	2,258	2,147
Other intangible assets	8	4,739	4,871
Property, plant and equipment		10,329	10,738
Right-of-use assets	3,8	1,917	-
Trade receivables	8	477	552
Contract assets		46	27
Contract costs		65	56
Derivatives	9	41	48
Other assets		49	53
Deferred tax assets		802	834
<b>Total non-current assets</b>		<b>20,723</b>	<b>19,326</b>
Inventories		280	240
Trade receivables	8	2,367	2,371
Contract assets		110	138
Contract costs		297	297
Derivatives	9	-	52
Other assets		174	214
Prepaid expenses		101	46
Cash and cash equivalents	9	423	611
<b>Total current assets</b>		<b>3,752</b>	<b>3,969</b>
<b>TOTAL ASSETS</b>		<b>24,475</b>	<b>23,295</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital		3,937	3,937
Share premium		832	832
Other reserves		(81)	(58)
Retained earnings		5,845	5,790
<b>Equity attributable to owners of Orange Polska S.A.</b>		<b>10,533</b>	<b>10,501</b>
Non-controlling interests		2	2
<b>Total equity</b>		<b>10,535</b>	<b>10,503</b>
Trade payables	10	466	473
Lease liabilities	3,8	1,358	112
Loans from related party	9	6,769	5,258
Other financial liabilities at amortised cost	9	8	11
Derivatives	9	56	31
Provisions		486	468
Contract liabilities		335	331
Employee benefits		137	136
Other liabilities		27	26
<b>Total non-current liabilities</b>		<b>9,642</b>	<b>6,846</b>
Trade payables	8,10	2,292	2,469
Lease liabilities	3	294	66
Loans from related party	9	490	2,074
Other financial liabilities at amortised cost	9	13	10
Derivatives	9	10	19
Provisions	12	169	217
Contract liabilities		483	460
Employee benefits		205	201
Income tax liabilities		21	54
Other liabilities		321	376
<b>Total current liabilities</b>		<b>4,298</b>	<b>5,946</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>24,475</b>	<b>23,295</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Other reserves			Retained earnings	Equity attributable to owners of OPL S.A.	Non-controlling interests	Total equity
			Cash flow hedge reserve	Actuarial losses on post-employment benefits	Deferred tax				
<b>Balance at 1 January 2019</b>	<b>3,937</b>	<b>832</b>	<b>(20)</b>	<b>(51)</b>	<b>13</b>	<b>5,790</b>	<b>10,501</b>	<b>2</b>	<b>10,503</b>
Total comprehensive income for the 6 months ended 30 June 2019	-	-	(28)	-	5	53	30	-	30
Share-based payments	-	-	-	-	-	2	2	-	2
<b>Balance at 30 June 2019</b>	<b>3,937</b>	<b>832</b>	<b>(48)</b>	<b>(51)</b>	<b>18</b>	<b>5,845</b>	<b>10,533</b>	<b>2</b>	<b>10,535</b>
<b>Balance at 1 January 2018</b>	<b>3,937</b>	<b>832</b>	<b>(2)</b>	<b>(47)</b>	<b>9</b>	<b>5,779</b>	<b>10,508</b>	<b>2</b>	<b>10,510</b>
Total comprehensive loss for the 6 months ended 30 June 2018	-	-	5	-	(1)	(66)	(62)	-	(62)
<b>Balance at 30 June 2018</b>	<b>3,937</b>	<b>832</b>	<b>3</b>	<b>(47)</b>	<b>8</b>	<b>5,713</b>	<b>10,446</b>	<b>2</b>	<b>10,448</b>



**CONSOLIDATED STATEMENT OF CASH FLOWS**

(in PLN millions)

		<b>3 months ended 30 June 2019 IFRS 16 basis</b>	<b>6 months ended 30 June 2019 IFRS 16 basis</b>	<b>3 months ended 30 June 2018 IAS 17 basis (see Note 3.2)</b>	<b>6 months ended 30 June 2018 IAS 17 basis (see Note 3.2)</b>
	<b>Note</b>				
<b>OPERATING ACTIVITIES</b>					
Net income/(loss)		55	53	(16)	(66)
<i>Adjustments to reconcile net income/loss to cash from operating activities</i>					
Gains on disposal of assets		(44)	(48)	(3)	(22)
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets		642	1,296	636	1,277
Finance costs, net		68	142	87	173
Income tax		15	14	2	(1)
Change in provisions and allowances		(70)	(97)	(43)	(53)
Operational foreign exchange and derivatives gains, net		(2)	(3)	(3)	(5)
<i>Change in working capital</i>					
Increase in inventories, gross		(41)	(38)	(20)	(28)
(Increase)/decrease in trade receivables, gross	8	112	139	(101)	(130)
(Increase)/decrease in contract assets, gross		(1)	9	54	107
(Increase)/decrease in contract costs		(4)	(9)	21	44
Increase/(decrease) in trade payables		70	(69)	(7)	(195)
Increase/(decrease) in contract liabilities		18	27	(22)	(39)
Increase in prepaid expenses and other receivables		(38)	(51)	(12)	(59)
Decrease in other payables		(19)	(12)	(22)	(13)
Interest received		11	21	8	16
Interest paid and interest rate effect paid on derivatives, net		(104)	(156)	(99)	(146)
Exchange rate effect received/(paid) on derivatives, net		-	-	12	(5)
Income tax paid		(1)	(22)	(4)	(5)
<b>Net cash provided by operating activities</b>		<b>667</b>	<b>1,196</b>	<b>468</b>	<b>850</b>
<b>INVESTING ACTIVITIES</b>					
Payments for purchases of property, plant and equipment and intangible assets		(540)	(1,204)	(503)	(1,068)
Investment grants received		27	27	-	-
Investment grants paid to property, plant and equipment and intangible assets suppliers		(26)	(52)	(3)	(6)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		-	-	1	-
Proceeds from sale of property, plant and equipment and intangible assets		30	133	5	37
Cash paid for subsidiaries, net of cash acquired	8	(132)	(132)	-	-
Receipts from other financial instruments		-	-	1	-
<b>Net cash used in investing activities</b>		<b>(641)</b>	<b>(1,228)</b>	<b>(499)</b>	<b>(1,037)</b>
<b>FINANCING ACTIVITIES</b>					
Repayment of long-term loans from related party	9	(17)	(17)	-	-
Repayment of lease liabilities		(77)	(144)	(6)	(13)
Increase/(decrease) in revolving credit line and other debt	9	80	(53)	39	103
Exchange rate effect received/(paid) on derivatives hedging debt, net		58	58	-	(1)
<b>Net cash provided by/(used in) financing activities</b>		<b>44</b>	<b>(156)</b>	<b>33</b>	<b>89</b>
<b>Net change in cash and cash equivalents</b>		<b>70</b>	<b>(188)</b>	<b>2</b>	<b>(98)</b>
Cash and cash equivalents at the beginning of the period		353	611	546	646
<b>Cash and cash equivalents at the end of the period</b>		<b>423</b>	<b>423</b>	<b>548</b>	<b>548</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 1. The Orange Polska Group

Orange Polska S.A. (“Orange Polska” or “the Company” or “OPL S.A.”), a joint stock company, was incorporated and commenced its operations on 4 December 1991. The Orange Polska Group (“the Group”) comprises Orange Polska and its subsidiaries. The Group is a part of Orange Group based in France. Orange Polska shares are listed on the Warsaw Stock Exchange.

The Group is the principal provider of telecommunications services in Poland. The Group provides mobile and fixed telecommunications services, including calls, messaging, content, access to the Internet and TV. In addition, the Group provides ICT (Information and Communications Technology) services, leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, constructs telecommunications infrastructure and sells electrical energy.

Orange Polska’s registered office is located in Warsaw at 160 Aleje Jerozolimskie St.

The list of entities included in the Condensed IFRS Interim Consolidated Financial Statements of the Group (the “Condensed Interim Consolidated Financial Statements”) as at and for the 6 months ended 30 June 2019 is presented in Note 1.2 to the Orange Polska Group IFRS Consolidated Financial Statements and the notes thereto (“IFRS Consolidated Financial Statements”) for the year ended 31 December 2018. Additionally, in June 2019, the Group purchased 100% of the shares in BlueSoft Sp. z o.o. (“BlueSoft”) and Essembli Sp. z o.o. (“Essembli”) – a subsidiary of BlueSoft (see Note 8).

### 2. Segment information

The Group reports a single operating segment as decisions about resources to be allocated and assessment of performance are made on a consolidated basis. Starting from 2019, following the adoption of IFRS 16 “Leases” (see Note 3.2), the Group redefined the performance measures used. Group performance is currently evaluated by the Management Board based on consolidated revenue, consolidated EBITDAaL, consolidated net income/loss, consolidated organic cash flows, consolidated capital expenditures, consolidated net financial debt and consolidated net financial debt to EBITDAaL ratio based on cumulative EBITDAaL for the last four quarters. Comparative amounts were adjusted accordingly.

Since the calculation of EBITDAaL, organic cash flows, capital expenditures and net financial debt is not defined by IFRS, these performance measures may not be comparable to similar indicators used by other entities. The methodology adopted by the Group is presented below.

Starting from 2019, EBITDAaL is the key measure of operating profitability used by the Management Board. The Group decided to replace EBITDA with EBITDAaL (EBITDA after leases) as EBITDA is no longer a relevant measure of operating profitability after the adoption of IFRS 16 because it excludes expenses related to leases. EBITDAaL corresponds to operating income before depreciation, amortisation and impairment of property, plant and equipment and intangible assets, decreased by interest expense on lease liabilities and adjusted for the impact of deconsolidation of subsidiaries, costs related to acquisition and integration of new businesses, employment termination programs, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items. Calculation of EBITDAaL for the 6 months ended 30 June 2019 is presented in the table below.

Organic cash flows are the key measure of cash flow generation used by the Management Board. Starting from 2019, organic cash flows include repayment of capital of lease liabilities. Organic cash flows correspond to net cash provided by operating activities decreased by payments for purchases of property, plant and equipment and intangible assets and repayment of lease liabilities, increased by impact of net exchange rate effect

received/paid on derivatives economically hedging capital expenditures and proceeds from sale of property, plant and equipment and intangible assets and adjusted for the payments for acquisition of telecommunications licences, payments for costs related to acquisition and integration of new businesses not included in purchase price and payments relating to significant claims, litigation and other risks. Calculation of organic cash flows for the 6 months ended 30 June 2019 and 2018 is presented in the table below.

Capital expenditures are the key measure of resources allocation used by the Management Board and represent acquisitions of property, plant and equipment and intangible assets. Starting from 2019, this measure excludes capital expenditures financed by leases and acquisition of telecommunications licences.

Net financial debt and net financial debt to EBITDAaL ratio are the key measures of indebtedness and liquidity used by the Management Board. The calculation of net financial debt is presented in Note 9.

Additionally, to give a better representation of underlying performance, revenue from the Group's activities for the comparative period is adjusted for the impact of deconsolidation of subsidiaries.

Basic financial data of the operating segment is presented below:

(in PLN millions)

	<i>6 months ended</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>
Revenue	5,537	5,412 <sup>(1)</sup>
EBITDAaL <sup>(2)</sup>	1,353	Not applicable
EBITDA <sup>(2)</sup>	Not applicable	1,383
Net income/(loss)	53	(66)
Organic cash flows	(16)	(194)
Capital expenditures	1,019	879 <sup>(3)</sup>

<sup>(1)</sup> Includes PLN (4) million of adjustment for the impact of deconsolidation of subsidiaries for H1 2018.

<sup>(2)</sup> Starting from 2019, EBITDAaL is the key measure of operating profitability used by the Management Board. Calculation of EBITDAaL in comparative period is not applicable for the purpose of segment reporting due to the modified retrospective adoption of IFRS 16 by the Group (see Note 3.2).

<sup>(3)</sup> Excludes PLN 60 million of capital expenditures financed by finance leases in H1 2018.

	<i>At 30 June</i>	<i>At 31 December</i>
	<i>2019</i>	<i>2018</i>
Net financial debt (in PLN millions, see Note 9)	6,834	6,672
Net financial debt/EBITDAaL ratio	2.4	Not applicable
Net financial debt/EBITDA ratio	Not applicable	2.4

Calculation of performance measures of the operating segment is presented below:

(in PLN millions)

	<i>6 months ended</i>
	<i>30 June 2019</i>
Operating income	209
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	1,158
Interest expense on lease liabilities	(22)
Adjustment for the impact of employment termination programs	4
Adjustment for the costs related to acquisition and integration of new subsidiaries (see Note 8)	3
Adjustment for the impact of deconsolidation of subsidiaries	1
<b>EBITDAaL</b>	<b>1,353</b>

(in PLN millions)	6 months ended	
	30 June 2019	30 June 2018
Net cash provided by operating activities <sup>(1)</sup>	1,196	850
Payments for purchases of property, plant and equipment and intangible assets	(1,204)	(1,068)
Proceeds from sale of property, plant and equipment and intangible assets	133	37
Repayment of lease liabilities <sup>(1)</sup>	(144)	(13)
Adjustment for payment for costs related to acquisition and integration of new subsidiaries	3	-
<b>Organic cash flows</b>	<b>(16)</b>	<b>(194)</b>

<sup>(1)</sup> Amounts for 2019 and 2018 are not comparable due to the modified retrospective adoption of IFRS 16 by the Group (see Note 3.2).

### 3. Statement of compliance and basis of preparation

#### 3.1. Basis of preparation

These unaudited Condensed Interim Consolidated Financial Statements are prepared in accordance with International Accounting Standard (“IAS”) 34 - Interim Financial Reporting (“IAS 34”) and with all accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective as at the time of preparing the Condensed Interim Consolidated Financial Statements (see also Note 4).

These Condensed Interim Consolidated Financial Statements should be read in conjunction with the audited IFRS Consolidated Financial Statements for the year ended 31 December 2018.

The Condensed Interim Consolidated Financial Statements include the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and selected explanatory notes.

Costs that arise unevenly during the year are anticipated or deferred in the interim financial statements only if it would also be appropriate to anticipate or defer such costs at the end of the year.

These Condensed Interim Consolidated Financial Statements are prepared in millions of Polish zloty (“PLN”) and were authorised for issuance by the Management Board on 24 July 2019.

#### Adoption of standards and interpretations in 2019

The following standards and interpretations endorsed by the European Union were adopted by the Group as at 1 January 2019:

- IFRS 16 “Leases”. This standard has been endorsed by the European Union on 31 October 2017 and it is applicable for financial years beginning on or after 1 January 2019.
- IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”. This interpretation has been endorsed by the European Union on 23 October 2018 and is effective for annual periods beginning on or after 1 January 2019. There is no impact of the interpretation on the Group’s financial statements.

#### 3.2. Adoption of IFRS 16 “Leases”

IFRS 16 “Leases” establishes new accounting principles for reporting of lease contracts.

As at 1 January 2019 the Group has defined four major categories of lease contracts:

- real estate: points of sale, offices, perpetual usufruct of land;
- mobile network: land, technical premises, space on towers, chimneys, rooftops;
- fixed network: technical premises, limited property rights, access to the local loop, collocation, dark fiber contracts;
- other rentals: vehicles, technical equipment, data center.

The accounting presentation of lease contracts in the statement of financial position depends mainly on:

- the scope of contracts qualified as leases,
- the duration adopted for certain types of contracts,

which require significant judgment from the Company's Management Board. The Management Board reviews these estimates if the circumstances on which they were based evolve or in the light of new information or established market practice.

The lease duration corresponds to the non-cancellable period of the lease, periods covered by extension options that the Group is reasonably certain to exercise and termination options that the Group is reasonably certain not to exercise. The definition of the contract duration takes also into account the laws and practices specific to the Polish jurisdiction and specificity of Group's contracts. In particular, in case of indefinite period leases the Group adopts the notice period as the non-cancellable period of the lease. In case of indefinite period leases, most of notice periods in the Group are below 12 months and the Group adopted the short term leases exemption for these contracts. As a result, such contracts are treated as short term contracts and are not measured and presented on the balance sheet. For easements in buildings, where the Group located its telecommunication infrastructure, a lease duration is assessed as an average useful life of buildings in the Group.

None of the early termination options were assessed as at 1 January 2019 to be reasonably certain to be exercised. Contracts, for which the execution of extension options was assessed as probable, have immaterial impact on the measurement of the lease liability.

In June 2019, the IFRS Interpretations Committee (the "Committee") issued a summary of decisions reached in its public meetings to clarify interpretations in respect to IFRS 16 on the following topics:

- Subsurface rights:

The Committee concluded that the arrangement, presented in its decision, where a pipeline operator obtains the right to place a pipeline in an underground space constitutes a lease and therefore this arrangement as presented in this decision should be in scope of IFRS 16.

- Lessee's Incremental Borrowing Rate:

The Committee issued a tentative decision that the lessee's incremental borrowing rate should be established as a lease-specific rate that takes into account the underlying asset and the terms and conditions of the lease.

- Lease Term and Useful Life of Leasehold Improvements:

The Committee issued a tentative decision that in assessing the notion of no more than an insignificant penalty, when establishing the lease term, the analysis should not only capture the termination penalty payment specified in the contract, but use a broader economic consideration of penalty and thus include all kinds of possible economic outflows related to termination of the contract.

The Committee's final positions on the tentative decisions are expected to be published in the second half of 2019.

The Group's accounting policies in respect of these matters are as follows:

- Subsurface rights:

The Group does not consider subsurface rights as lease arrangements.

- Lessee's Incremental Borrowing Rate:

The Group considers the underlying asset and the terms and conditions of the lease when establishing the lessee's incremental borrowing rate.

– Lease Term and Useful Life of Leasehold Improvements:

The Group considers the enforceable period to be no longer than the notice period in the determination of the lease term of the arrangements existing in the Group. As far as leasehold improvements are concerned, a definition of their useful life does not have a significant impact on the Group.

Due to the timing of the Committee's decisions, the Group is currently analysing the potential implications, if any, of the above mentioned decisions on the Group's accounting policies and systems, which may result in an increase in the right-of-use assets and lease liabilities presented in the statement of financial position. At 30 June 2019, the potential impact of the Committee's decisions is not reasonably estimable.

The impact of IFRS 16 adoption on the Group's accounts primarily relates to changes in lessee accounting and results in:

- a) the accounting for all of lease contracts according to a single model in which an asset is recognised in the statement of financial position as an asset for the right to use the leased assets in correspondence with the liability related to the lease obligations;
- b) recognising depreciation of the rights of use assets and interest charges related to the lease liability, instead of operating lease expenses;
- c) the accelerated recognition of the expense related to leases, resulting in particular from the interest component.

The Group applied IFRS 16 as of 1 January 2019 using the modified retrospective method without restatement of comparative periods. As the Group decided to measure the right-of-use asset in the amount equal to the lease liability (effect of prepaid or accrued lease payments was negligible), there was no impact on equity as of 1 January 2019.

The Group decided to use the practical expedient as described in IFRS 16 C.10 (c) allowing not to apply the requirements defined in points (a) – (c) above to leases for which the lease term ends within 12 months of the date of the initial application.

The new accounting policy relating to leases applied by the Group from 1 January 2019 is presented in Note 4.1.

**Orange Polska Group**  
**Condensed IFRS Interim Consolidated Financial Statements – 30 June 2019**  
*Translation of the financial statements originally issued in Polish*

Adoption of IFRS 16 affected the consolidated statement of financial position as at 1 January 2019 as follows:

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*(in PLN millions)*

	<i>At 1 January 2019</i>		
	<i>Before IFRS 16</i>	<i>Impact of IFRS 16 adoption</i>	<i>After IFRS 16</i>
<b>ASSETS</b>			
Property, plant and equipment	10,738	(448)	10,290
Right-of-use assets	-	1,742	1,742
<b>Total non-current assets</b>	<b>19,326</b>	<b>1,294</b>	<b>20,620</b>
<b>Total current assets</b>	<b>3,969</b>	<b>-</b>	<b>3,969</b>
<b>TOTAL ASSETS</b>	<b>23,295</b>	<b>1,294</b>	<b>24,589</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>10,503</b>	<b>-</b>	<b>10,503</b>
Lease liabilities	112	1,058	1,170
<b>Total non-current liabilities</b>	<b>6,846</b>	<b>1,058</b>	<b>7,904</b>
Lease liabilities	66	236	302
<b>Total current liabilities</b>	<b>5,946</b>	<b>236</b>	<b>6,182</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>23,295</b>	<b>1,294</b>	<b>24,589</b>

Additionally, as a consequence of IFRS 16 implementation, certain changes were made to the presentation in the consolidated financial statements, which had impact on the comparative data.

In the consolidated income statement and consolidated statement of cash flows two separate lines for depreciation and amortisation and impairment/reversal of impairment of fixed assets were consolidated into one line. Additionally, the Group presents currently interest expense on lease liabilities as a separate line item in the consolidated income statement. Previously, the Group presented these costs together with other interest expense and financial charges. The comparative amounts for the 6 months ended 30 June 2018 were changed accordingly, with no impact on operating or net income/loss.

In the consolidated statement of financial position as at 31 December 2018, certain figures were reclassified to conform with the presentation as at 30 June 2019. Non-current and current lease liabilities were separated from other financial liabilities at amortised cost to new line items.

In the consolidated statement of cash flows two separate lines within cash flows from investing activities for purchases of property, plant and equipment and intangible assets and increase/decrease in amounts due to fixed assets suppliers were consolidated into one line presenting payments for purchases of property, plant and equipment and intangible assets. Additionally, repayment of lease liabilities was reclassified from repayment of long-term debt to a separate line item within cash flows from financing activities. Repayment of other long-term debt is now presented together with increase/decrease in revolving credit line and short-term debt. The comparative amounts were adjusted accordingly for the 6 months ended 30 June 2018, with no impact on net cash used in investing and financing activities.

## 4. Statement of accounting policies

Except for the changes described in Note 3 and presented below, the accounting policies and methods of computation used in the preparation of the Condensed Interim Consolidated Financial Statements are materially consistent with those described in Notes 2 and 31 to the audited IFRS Consolidated Financial Statements for the year ended 31 December 2018.

### 4.1. Leases

IFRS 16 “Leases” establishes the principles for recognition, measurement, presentation and disclosure of lease contracts. A single lease accounting model was adopted if the Group acts as a lessee. If the Group acts as a lessor then it continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

The Group qualifies a contract as a lease as long as it gives the lessee the right to control the use of a particular asset. In order to qualify a contract as a lease, three main conditions shall be met:

- the contract shall convey the right to use an identified asset;
- the lessee shall obtain the economic benefits from use of this asset;
- the lessee obtains the right to direct the use of this asset throughout the period of the contract.

#### Group as a lessee

On the lessee’s side the Group uses a single accounting model, in which the lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Group has chosen to apply two exemptions proposed by the standard and expense the following contracts:

- all contracts, except for contracts for vehicles, whose duration is less than 12 months;
- contracts where the value of the underlying asset is less than USD 5,000.

IFRS 16 lease term is determined in a range between the non-cancellable period and the end of the enforceable period. The non-cancellable period is the period during which neither the lessee nor the lessor have the ability to terminate the contract without paying any significant penalty fees. The enforceable period is the period taking into account all the options available for the Group to extend but not the options to terminate.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability.

The right-of-use asset is measured at cost which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

At the date of initial application of IFRS 16, 1 January 2019, no significant lease prepayments and initial direct costs were identified.

After the commencement date, the Group measures the right-of-use asset applying a cost model, less any accumulated depreciation and any accumulated impairment losses, as well as any adjustments resulting from remeasurement of the lease liability.



The lease liability is measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the Group incremental borrowing rates as the rates implicit in the lease are not easily determinable. Discount rates adopted are based on Polish state bond yield, adjusted by credit spread observable for entities with similar credit rating. Discount rates are differentiated by duration and by currency, and not by class of assets.

The lease liability comprises the following payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

At the moment of initial application fixed and variable payments were identified in the lease contracts.

After the commencement date, the lease liability is increased to reflect interest on the lease liability and reduced to reflect the lease payments made, as well remeasured to reflect any reassessment or lease modification.

Only the lease component is taken into account in the measurement of the right-of-use asset and of the lease liability. Other non-lease components, like payments for utilities, are accounted for separately in accordance with other applicable accounting standards.

#### **Group as a lessor**

The Group continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Examples of situations that individually or in combination would lead to a lease being classified as a finance lease are as follows:

- the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the underlying asset at a price significantly lower than the fair value;
- the lease term is for the major part of the economic life of the underlying asset;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

## 5. Revenue

<i>(in PLN millions)</i>	<i>3 months ended 30 June 2019</i>	<i>6 months ended 30 June 2019</i>	<i>3 months ended 30 June 2018</i>	<i>6 months ended 30 June 2018</i>
<b>Mobile only services</b>	<b>646</b>	<b>1,286</b>	<b>680</b>	<b>1,366</b>
<b>Fixed only services</b>	<b>552</b>	<b>1,121</b>	<b>620</b>	<b>1,249</b>
Narrowband	233	477	274	559
Broadband	213	432	232	464
Network solutions (business market)	106	212	114	226
<b>Convergent services (consumer market)</b>	<b>384</b>	<b>753</b>	<b>316</b>	<b>607</b>
<b>Equipment sales</b>	<b>352</b>	<b>719</b>	<b>307</b>	<b>658</b>
<b>IT and integration services</b>	<b>163</b>	<b>310</b>	<b>144</b>	<b>256</b>
<b>Wholesale</b>	<b>568</b>	<b>1,128</b>	<b>571</b>	<b>1,150</b>
Mobile wholesale	324	634	329	641
Fixed wholesale	169	346	176	364
Other	75	148	66	145
<b>Other revenue</b>	<b>94</b>	<b>220</b>	<b>68</b>	<b>130</b>
<b>Total revenue</b>	<b>2,759</b>	<b>5,537</b>	<b>2,706</b>	<b>5,416</b>

Wholesale and other revenue for the 6 months ended 30 June 2019 include PLN 45 million of lease revenue that is outside the scope of IFRS 15 “Revenue from Contracts with Customers”.

## 6. Impairment test

Vast majority of the Group’s individual assets do not generate cash flows independently from other assets due to the nature of the Group’s activities, therefore the Group identifies all telecom operations as a single telecom operator Cash Generating Unit (“CGU”).

As at 30 June 2019 and 2018 the Group performed impairment tests of the CGU (including goodwill). No impairment loss was recognised in the years 2019 and 2018.

The following key assumptions were used to determine the value in use of the telecom operator CGU:

- value of the market, penetration rate, market share and the level of the competition, level of prices and decisions of the regulator in terms of pricing, customer base, the level of commercial expenses required to replace products and keep up with existing competitors or new market entrants, the impact of changes in revenue on direct costs;
- the level of capital expenditures which may be affected by the roll-out of necessary new technologies or regulatory decisions concerning telecommunications licences allocation;
- discount rate which is based on weighted average cost of capital and reflects current market assessment of the time value of money and the risks specific to activities of the CGU; and
- perpetuity growth rate which reflects Management’s assessment of cash flows evolution after the last year covered by the cash flow projections.

The amounts assigned to each of these parameters reflect past experience adjusted for expected changes over the timeframe of the long-term financial projections, but may also be affected by unforeseeable changes in the political, economic or legal framework.

*Telecom operator CGU*

	<i>At 30 June 2019</i>	<i>At 30 June 2018</i>
Basis of recoverable amount	Value in use	Value in use
Sources used	Long-term financial projections 5 years cash flow projections	Business plan 5 years cash flow projections
Perpetuity growth rate	1%	1%
Post-tax discount rate	7.50%	8.00%
Pre-tax discount rate <sup>(1)</sup>	8.68%	9.32%

<sup>(1)</sup> Pre-tax discount rate is calculated as a post-tax discount rate adjusted to reflect the specific amount and timing of the future tax cash flows.

**Sensitivity of recoverable amount**

The value in use of the telecom operator CGU as at 30 June 2019 exceeds its carrying value by PLN 3.4 billion. Any of the following changes in key assumptions:

- a 20% fall in projected cash flows after fifth year or
- a 1.3 p.p. decrease in growth rate to perpetuity or
- a 1.4 p.p. increase in post-tax discount rate

would bring the value in use of the telecom operator CGU to the level of its carrying value.

**7. Explanatory comments about the seasonality or cyclicity of interim Group operations**

The Group's activities are subject to some seasonality. The fourth quarter is typically a peak sales season with high commercial spending and with increased capital expenditures resulting from investment cycle management applied by the Group. Seasonally high capital expenditures in the fourth quarter are followed by higher payments to fixed assets suppliers in the first quarter of the subsequent year resulting in higher cash used in investing activities.

**8. Items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence**

From 2019, the Group extended the estimated useful lives for certain network assets and items of software which decreased the depreciation and amortisation expense by PLN 97 million in the 6 months ended 30 June 2019. Depreciation and amortisation expense in 2019 relating to these assets is expected to be lower by approximately PLN 192 million in comparison to 2018.

In 2018, the Company and T-Mobile Polska signed a long term contract on telecommunications access to Orange Polska's fiber network in the form of Bitstream Access. OPL S.A. started providing services in December 2018. The fees under the contract comprise mainly a fixed upfront fee of PLN 275 million, a fixed fee for infrastructure set-up, IT systems integration and monthly fees for each customer. The revenue from the contract will be recognised during 15 years which currently is the estimated period of the contract. The Group applies input method to measure revenue for the period with the application of constraint in respect to recognition of revenue to the level that is highly probable not to be reversed in the future. In result, the fixed fee elements will be evenly accounted as revenue over 15 years, while the variable fees dependent on the number of end-customers will be recognised as revenue based on the actual number of customers in the period.

On 20 June 2019, Orange Polska and BNP Paribas S.A. concluded an agreement under which OPL S.A. sells selected receivables arising from sales of mobile handsets in instalments, based on which sold receivables are derecognised from the consolidated statement of financial position. The impact on cash flows from operating activities for the 6 months ended 30 June 2019 amounts to PLN 133 million and loss on derecognition recognised

in other operating expense for the same period amounts to PLN 1 million. As a result of the agreement, PLN 223 million of trade receivables held as at 30 June 2019 were classified in the measured at fair value through other comprehensive income category, as the business model for those receivables is to collect contractual cash flows and sell them.

In the 6 months ended 30 June 2019, the Group amended terms of the lease of its headquarters. As a result, the lease liability and right-of-use assets increased by PLN 211 million.

Gains on disposal of assets for the 6 months ended 30 June 2019 included PLN 38 million of gains on disposal of real estate.

The amount of trade payables subject to reverse factoring decreased from PLN 232 million as at 31 December 2018 to PLN 167 million as at 30 June 2019. These payables are presented together with the remaining balance of trade payables, as analysis conducted by the Group indicates they have retained their trade nature.

#### Acquisition of BlueSoft Sp. z o.o.

On 12 June 2019, the Group purchased 100% of shares in BlueSoft and Essembli – a subsidiary of BlueSoft. Both companies are providing a variety of IT services in the areas of application development and integration, system customization, analytics and cloud services. The acquisition is consistent with the Group's strategy that focuses on expanding competencies to more value added ICT services in order to meet growing demand of business customers on enterprise market in the areas of digital transformation including cloud, microservices and dedicated portals as well as cybersecurity.

According to the agreement, the total transaction value amounts to PLN 204 million and includes acquisition price of PLN 182 million and remuneration for post-transaction services currently estimated at PLN 22 million. Out of the acquisition price, PLN 147 million was paid upon signing of the agreement. The remaining part, currently estimated at PLN 35 million, is a contingent consideration that will be settled before the end of 2022 and will be based on achieving certain financial targets of BlueSoft and Essembli in 2019 and 2020 as well as on meeting certain other legal conditions. Remuneration for post-transaction services will be accounted for as a cost related to integration of new subsidiaries and will be recognised in the consolidated income statement in years 2019-2021 as labour expense. In the 6 months ended 30 June 2019, the Group recognised PLN 3 million of costs related to acquisition and integration of new subsidiaries.

Due to a short period of time between the purchase and the date when these Interim Consolidated Financial Statements were authorised for issuance, provisional accounting for a business combination was made. As a result of the transaction, the Group recognised the following assets and liabilities:

*(in PLN millions)*

<b>Assets:</b>	
Goodwill	111
Other intangible assets <sup>(1)</sup>	47
Deferred tax assets	(9)
Trade receivables	29
Cash and cash equivalents	15
Other	19
<b>Total assets</b>	<b>212</b>
<b>Liabilities:</b>	
Trade payables	11
Other	19
<b>Total liabilities</b>	<b>30</b>
<b>Net assets acquired</b>	<b>182</b>

<sup>(1)</sup> Includes PLN 47 million of customer contracts and the related customer relationships recognised at fair value.

## 9. Net financial debt

Net financial debt is a measure of indebtedness used by the Management Board. Since the calculation of this aggregate is not defined by IFRS, the methodology adopted by the Group is presented below. Starting from 2019, following the adoption of IFRS 16 (see Note 3.2), the Group redefined net financial debt and currently the measure excludes lease liabilities. As a result, comparative amounts in this note were adjusted.

*(in PLN millions)*

	<i>At 30 June</i>	<i>At 31 December</i>
	<i>2019</i>	<i>2018</i>
Loans from related party	7,259	7,332
Other financial liabilities at amortised cost	21	21 <sup>(1)</sup>
Derivatives – net (liabilities less assets)	25	(50)
<b>Gross financial debt after derivatives</b>	<b>7,305</b>	<b>7,303 <sup>(1)</sup></b>
Cash and cash equivalents	(423)	(611)
Cash flow hedge reserve	(48)	(20)
<b>Net financial debt</b>	<b>6,834</b>	<b>6,672 <sup>(1)</sup></b>

<sup>(1)</sup> Excludes PLN 178 million of finance lease liabilities at 31 December 2018.

On 11 February 2019, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 1,500 million with repayment date in May 2024. The new Loan Agreement, together with the Revolving Credit Facility, provided non-cash-refinancing of EUR 480 million loan granted by Atlas Services Belgium S.A., which expired in May 2019.

In the 6 months ended 30 June 2019, the net cash flows from issuance and repayments of the Revolving Credit Facility from Atlas Services Belgium S.A. amounted to PLN (50) million.

As at 30 June 2019, the total outstanding balance of loans from the related party amounted to PLN 7,259 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 2.45% before swaps and 3.02% after swaps as at 30 June 2019.

In the 6 months ended 30 June 2019, the Group entered into new derivative transactions under the agreement with Orange S.A. hedging interest rate risk on the related party financing provided in PLN. As at 30 June 2019,

the total nominal amount of cross currency interest rate swaps and interest rate swaps, outstanding under the agreement with Orange S.A., was EUR 190 million and PLN 5,450 million, respectively, with a total negative fair value amounting to PLN 21 million.

## 10. Fair value of financial instruments

Derivative instruments are measured subsequent to their initial recognition at fair value. The fair value of derivatives is determined as described in Note 21 to the IFRS Consolidated Financial Statements for the year ended 31 December 2018. Significant inputs to the valuation technique used by the Group to measure the fair value of derivatives are classified to Level 2 of the fair value hierarchy described in Note 22.1.

The carrying amount of the Group's financial instruments excluding lease liabilities approximates their fair value, except for telecommunications licence payables for which as at 30 June 2019 and 31 December 2018 the estimated fair value exceeded the carrying amount by PLN 79 million and PLN 84 million, respectively, due to significant change between the original effective interest rates at the date of the initial recognition and current market rates.

## 11. Dividend

The General Meeting of Orange Polska S.A. held on 24 April 2019 did not adopt a resolution on a dividend payment in 2019, in accordance with the recommendation of the Management Board of the Company.

## 12. Changes in major litigation and claims, contingent liabilities and contingent assets since the end of the last annual reporting period

The information hereunder refers to the matters presented in Note 28 to the IFRS Consolidated Financial Statements for the year ended 31 December 2018 or describes major matters that occurred after 31 December 2018.

### a. Proceedings by UOKiK

#### *Proceedings by UOKiK related to pre-paid offers*

UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 31 December 2019.

#### *Proceedings by UOKiK related to retail prices of calls to Play*

P4 Sp. z o.o. appealed the verdict of 27 December 2018 dismissing P4's claim for PLN 316 million in its entirety to the Appeal Court.

#### *Magna Polonia S.A. claim towards Orange Polska, T-Mobile Polska, Polkomtel and P4*

On 9 February 2018, the court, which examines Magna Polonia S.A.'s claim, decided to stay the proceedings until the Supreme Court issues its verdict in the competition proceedings. The hearing of the Supreme Court in those proceedings will be held on 22 October 2019.

### b. Other contingent liabilities and provisions

Apart from the above-mentioned, operational activities of the Group are subject to legal, tax, social and administrative regulations and the Group is a party to a number of legal and tax proceedings and commercial contracts related to its operational activities. Some regulatory decisions can be detrimental to the Group and court verdicts within appeal proceedings against such decisions can have negative consequences for the Group.

The Group monitors the risks on a regular basis and the Management believes that adequate provisions have been recorded for known and quantifiable risks.

### 13. Related party transactions

As at 30 June 2019, Orange S.A. owned 50.67% of shares of the Company. Orange S.A. has majority of the total number of votes at the General Meeting of OPL S.A. which appoints OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board. According to the Company's Articles of Association at least 4 Members of the Supervisory Board must be independent. The majority of Members of the Audit Committee of the Supervisory Board are independent.

The Group's income earned from the Orange Group comprises mainly data transmission, research and development services and interconnect. The purchases from the Orange Group comprise mainly brand fees, costs of interconnect and data transmission.

Financial receivables, liabilities, finance costs, net and other comprehensive income/loss concerning transactions with the Orange Group relate mainly to loan agreements concluded with Atlas Services Belgium S.A. and agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk related to the above-mentioned loan agreements. Cash and cash equivalents deposited with Orange S.A. relate to the Cash Management Treasury Agreement.

(in PLN millions)

	3 months ended 30 June 2019	6 months ended 30 June 2019	3 months ended 30 June 2018	6 months ended 30 June 2018
<b>Sales of goods and services and other income:</b>	<b>55</b>	<b>104</b>	<b>63</b>	<b>110</b>
Orange S.A. (parent)	37	69	39	67
Orange Group (excluding parent)	18	35	24	43
<b>Purchases of goods (including inventories, tangible and intangible assets) and services:</b>	<b>(59)</b>	<b>(109)</b>	<b>(58)</b>	<b>(116)</b>
Orange S.A. (parent)	(16)	(25)	(15)	(32)
Orange Group (excluding parent)	(43)	(84)	(43)	(84)
- including Orange Brand Services Limited (brand licence agreement)	(28)	(55)	(29)	(57)
<b>Finance costs, net:</b>	<b>(55)</b>	<b>(112)</b>	<b>(55)</b>	<b>(115)</b>
Orange S.A. (parent)	(22)	(43)	82	80
Orange Group (excluding parent)	(33)	(69)	(137)	(195)
<b>Other comprehensive income/(loss):</b>	<b>(15)</b>	<b>(25)</b>	<b>5</b>	<b>(12)</b>
Orange S.A. (parent)	(15)	(25)	5	(12)

(in PLN millions)

	At 30 June 2019	At 31 December 2018
<b>Receivables:</b>	<b>102</b>	<b>86</b>
Orange S.A. (parent)	73	47
Orange Group (excluding parent)	29	39
<b>Liabilities:</b>	<b>97</b>	<b>96</b>
Orange S.A. (parent)	38	47
Orange Group (excluding parent)	59	49
<b>Financial receivables:</b>	<b>35</b>	<b>98</b>
Orange S.A. (parent)	35	98
<b>Cash and cash equivalents deposited with:</b>	<b>91</b>	<b>203</b>
Orange S.A. (parent)	91	203
<b>Financial liabilities:</b>	<b>7,315</b>	<b>7,380</b>
Orange S.A. (parent)	56	48
Orange Group (excluding parent)	7,259	7,332

Compensation (remuneration, bonuses, post-employment and other long-term benefits, termination indemnities and share-based payment plans - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board Members for the 6 months ended 30 June 2019 and 2018 amounted to PLN 11.1 million and PLN 7.7 million, respectively. The increase in compensation results from an increase in a number of the Members of the Management Board of OPL S.A.

#### 14. Subsequent events

There was no significant event after the end of the reporting period.



Pursuant to Art. 69 of the Decree of the Minister of Finance of 29 March 2018 on current and periodic information to be 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 2018, item 757 (“the Decree of the Minister of Finance of 29 March 2018”), the Management Board of Orange Polska S.A. (“OPL S.A.”, “the Company”) discloses the following information:

**I. Shareholders entitled to exercise at least 5% of total voting rights at the General Meeting of OPL S.A., either directly or through subsidiaries, as at the date of publication of the interim report and changes in the ownership structure in the period since the submission of the previous quarterly report**

The ownership structure of the Company’s share capital, based on the information available to the Company as at 24 July 2019, i.e. the date of submission of the interim report for the 6 months ended 30 June 2019 was the same as at 29 April 2019, i.e. the date of submission of the quarterly report for the first quarter of 2019:

Shareholder	Number of shares held	Number of votes at the General Meeting of OPL S.A.	Percentage of the total number of votes at the General Meeting of OPL S.A.	Nominal value of shares held (in PLN)	Share in the capital
Orange S.A.	664,999,999	664,999,999	50.67%	1,994,999,997	50.67%
Other shareholders	647,357,480	647,357,480	49.33%	1,942,072,440	49.33%
<b>TOTAL</b>	<b>1,312,357,479</b>	<b>1,312,357,479</b>	<b>100.00%</b>	<b>3,937,072,437</b>	<b>100.00%</b>

**II. Statement of changes in ownership of OPL S.A.’s shares or rights to them (options) held by Members of the Management Board and the Supervisory Board of OPL S.A., according to information obtained by OPL S.A., in the period since the submission of the previous quarterly report**

Mr Jean-François Fallacher, the President of the Management Board of OPL S.A., held 40,000 Orange Polska S.A. shares as at 24 July 2019 and 29 April 2019.

Mr Maciej Nowohoński, the Member of the Management Board of OPL S.A., held 25,000 Orange Polska S.A. shares as at 24 July 2019 and 29 April 2019.

Ms Jolanta Dudek, the Member of the Management Board of OPL S.A., held 8,474 Orange Polska S.A. shares as at 24 July 2019 and 29 April 2019.

Mr Piotr Jaworski, the Member of the Management Board of OPL S.A., held 673 Orange Polska S.A. shares as at 24 July 2019 and 29 April 2019.

Mr Maciej Witucki, the Chairman of the Supervisory Board of OPL S.A., held 4,000 Orange Polska S.A. shares as at 24 July 2019 and 29 April 2019.

There was no OPL S.A. share held by other members of the Management Board or the Supervisory Board of the Company.

**III. Information on guarantees or collaterals of loans or borrowings granted by the Company or its subsidiaries to other entities or their subsidiaries, where the total amount of guarantees or collaterals is significant**

In the 6 months ended 30 June 2019, neither the Company nor its subsidiaries granted guarantees or collateral of loans or borrowings to any entity or its subsidiary, a total value of which would be significant.

#### **IV. Management Board's Position as to the achievement of the previously published financial projections for the given period**

As announced on 20 February 2019 in the current report 3/2019, the Group forecasts EBITDAaL (EBITDA after Leases) in 2019 to be higher than PLN 2.8 billion (the Group's estimate for 2018). The Management Board of Orange Polska S.A. confirms the above-mentioned forecast based on analysis of financial results for the 6 months ended 30 June 2019.

#### **V. Factors which, in the opinion of the Group, may affect its results over at least the next quarter**

Factors that, in the Management Board's opinion, have influence on the Group's operations or may have such influence in the near future are presented in Section 4 of the Chapter II of Management Board's Report on the Activity of Orange Polska Group in the first half of 2019. Additionally, key risk factors that may impact the Group's operational and financial performance are reviewed in detail in the Chapter IV of the above-mentioned Report.

#### **VI. Foreign exchange rates**

The statement of financial position data as at 30 June 2019 and 31 December 2018 presented in the table "Selected financial data" was translated into EUR at the average exchange rates of the National Bank of Poland ("NBP") at the end of the reporting period. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the 6 months ended 30 June 2019 and 2018, were translated into EUR at an exchange rates which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of the 6-month periods ended 30 June 2019 and 2018.

The exchange rates used in the translation of the statement of financial position, income statement, statement of comprehensive income and statement of cash flows data are presented below:

	<b>30 June 2019</b>	<b>31 December 2018</b>	<b>30 June 2018</b>
Statement of financial position	4.2520 PLN	4.3000 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.2880 PLN	Not applicable	4.2395 PLN



The Polish original should be referred to in matters of interpretation.

Translation of auditor's report originally issued in Polish.

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## INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

To the Shareholders and Supervisory Board of Orange Polska S.A.

### Introduction

We have reviewed the condensed IFRS interim separate financial statements of Orange Polska S.A (the 'Company') located in Warsaw at Aleje Jerozolimskie 160, containing: the statement of financial position as at 30 June 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the period from 1 January 2019 to 30 June 2019 and notes to the condensed interim separate financial statements (the 'interim condensed financial statements').

The Company's Management is responsible for the preparation and presentation of the interim condensed financial statements in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility is to express a conclusion on the interim condensed financial statements based on our review.

### Scope of review

We conducted our review in accordance with National Review Standard 2410 in the wording of the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ('standard'), adopted by the resolution no. 3436/52e/2019 of the National Council of Statutory Auditors of 8 April 2019. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 3436/52e/2019 of the National Council of Statutory Auditors of 8 April 2019 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Warsaw, 24 July 2019

Key certified auditor

Partner

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Łukasz Piotrowski  
certified auditor  
no in the register: 12390

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Mikołaj Rytel

on behalf of  
Ernst & Young Audyt Polska  
spółka z ograniczoną  
odpowiedzialnością sp. k.  
Rondo ONZ 1, 00-124 Warsaw  
no on audit firms list: 130

**ORANGE POLSKA S.A.**

**CONDENSED IFRS INTERIM SEPARATE FINANCIAL  
STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2019**

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July 24, 2019

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## INCOME STATEMENT

(in PLN millions, except for earnings/loss per share)

		<b>3 months ended 30 June 2019</b>	<b>6 months ended 30 June 2019</b>	<b>3 months ended 30 June 2018</b>	<b>6 months ended 30 June 2018</b>
		<i>IFRS 16 basis</i>		<i>IAS 17 basis</i>	
	<b>Note</b>				
<b>Revenue</b>	<b>4</b>	<b>2,601</b>	<b>5,244</b>	<b>2,586</b>	<b>5,202</b>
External purchases		(1,429)	(2,890)	(1,438)	(2,916)
Labour expense		(359)	(740)	(379)	(790)
Other operating expense		(117)	(225)	(109)	(223)
Other operating income		56	110	81	147
Impairment of receivables and contract assets		(26)	(57)	(40)	(61)
Gains on disposal of assets	7	33	38	3	22
Amortisation and impairment of right-of-use assets		(64)	(134)	-	-
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets, including:	7	(575)	(1,158)	(636)	(1,278)
- depreciation of property, plant and equipment financed by finance lease		-	-	(9)	(17)
<b>Operating income</b>		<b>120</b>	<b>188</b>	<b>68</b>	<b>103</b>
Dividend income		20	21	22	23
Interest income		11	21	9	16
Interest expense on lease liabilities		(12)	(22)	(1)	(2)
Other interest expense and financial charges		(56)	(116)	(61)	(130)
Discounting expense		(11)	(25)	(33)	(57)
<b>Finance costs, net</b>		<b>(48)</b>	<b>(121)</b>	<b>(64)</b>	<b>(150)</b>
Income tax		(9)	(7)	-	2
<b>Net income/(loss)</b>		<b>63</b>	<b>60</b>	<b>4</b>	<b>(45)</b>
<b>Earnings/(loss) per share (in PLN)</b>		<b>0.05</b>	<b>0.05</b>	<b>-</b>	<b>(0.03)</b>
Weighted average number of shares (in millions)		1,312	1,312	1,312	1,312

## STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

		<b>3 months ended 30 June 2019</b>	<b>6 months ended 30 June 2019</b>	<b>3 months ended 30 June 2018</b>	<b>6 months ended 30 June 2018</b>
		<i>IFRS 16 basis</i>		<i>IAS 17 basis</i>	
<b>Net income/(loss)</b>		<b>63</b>	<b>60</b>	<b>4</b>	<b>(45)</b>
<b>Items that may be reclassified subsequently to profit or loss</b>					
Gains/(losses) on cash flow hedges		(19)	(28)	17	5
Income tax relating to items that may be reclassified		3	5	(3)	(1)
<b>Other comprehensive income/(loss), net of tax</b>		<b>(16)</b>	<b>(23)</b>	<b>14</b>	<b>4</b>
<b>Total comprehensive income/(loss)</b>		<b>47</b>	<b>37</b>	<b>18</b>	<b>(41)</b>

## STATEMENT OF FINANCIAL POSITION

(in PLN millions)

		<i>At 30 June 2019</i>	<i>At 31 December 2018</i>
		<i>IFRS 16 basis</i>	<i>IAS 17 basis</i>
	<i>Note</i>		<i>(see Note 2.2)</i>
<b>ASSETS</b>			
Goodwill		2,014	2,014
Other intangible assets		4,660	4,837
Property, plant and equipment		10,438	10,838
Right-of-use assets	2,7	1,897	-
Investments in subsidiaries	7	334	171
Trade receivables		447	522
Contract assets		46	27
Contract costs		61	54
Derivatives	8	41	48
Other assets		63	53
Deferred tax asset		761	769
<b>Total non-current assets</b>		<b>20,762</b>	<b>19,333</b>
Inventories		231	194
Trade receivables	7	2,227	2,239
Contract assets		110	138
Contract costs		301	311
Loan to related party		70	100
Derivatives	8	-	52
Other assets		95	162
Prepaid expenses		61	24
Cash and cash equivalents	8	377	538
<b>Total current assets</b>		<b>3,472</b>	<b>3,758</b>
<b>TOTAL ASSETS</b>		<b>24,234</b>	<b>23,091</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital		3,937	3,937
Share premium		832	832
Other reserves		(80)	(57)
Retained earnings		5,789	5,727
<b>Total equity</b>		<b>10,478</b>	<b>10,439</b>
Trade payables	9	466	473
Lease liabilities	2,7	1,353	111
Financial liabilities at amortised cost excluding trade payables and lease liabilities	8	6,777	5,270
Derivatives	8	56	31
Provisions		469	450
Contract liabilities		317	317
Employee benefits		135	133
Other liabilities		12	11
<b>Total non-current liabilities</b>		<b>9,585</b>	<b>6,796</b>
Trade payables	7,9	2,197	2,326
Lease liabilities	2	280	66
Financial liabilities at amortised cost excluding trade payables and lease liabilities	8	555	2,195
Derivatives	8	10	19
Provisions	11	163	210
Contract liabilities		452	443
Employee benefits		193	190
Income tax liabilities		19	40
Other liabilities		302	367
<b>Total current liabilities</b>		<b>4,171</b>	<b>5,856</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>24,234</b>	<b>23,091</b>



## STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Other reserves			Retained earnings	Total equity
			Cash flow hedge reserve	Actuarial losses on post-employment benefits	Deferred tax		
<b>Balance at 1 January 2019</b>	<b>3,937</b>	<b>832</b>	<b>(20)</b>	<b>(51)</b>	<b>14</b>	<b>5,727</b>	<b>10,439</b>
Total comprehensive income for the 6 months ended 30 June 2019	-	-	(28)	-	5	60	37
Share-based payments	-	-	-	-	-	2	2
<b>Balance at 30 June 2019</b>	<b>3,937</b>	<b>832</b>	<b>(48)</b>	<b>(51)</b>	<b>19</b>	<b>5,789</b>	<b>10,478</b>
<b>Balance at 1 January 2018</b>	<b>3,937</b>	<b>832</b>	<b>(2)</b>	<b>(46)</b>	<b>10</b>	<b>5,725</b>	<b>10,456</b>
Total comprehensive loss for the 6 months ended 30 June 2018	-	-	5	-	(1)	(45)	(41)
<b>Balance at 30 June 2018</b>	<b>3,937</b>	<b>832</b>	<b>3</b>	<b>(46)</b>	<b>9</b>	<b>5,680</b>	<b>10,415</b>

## STATEMENT OF CASH FLOWS

(in PLN millions)

		<b>3 months</b> <b>ended 30 June 2019</b> <i>IFRS 16 basis</i>	<b>6 months</b> <b>ended 30 June 2019</b> <i>IFRS 16 basis</i>	<b>3 months</b> <b>ended 30 June 2018</b> <i>IAS 17 basis</i> <i>(see Note 2.2)</i>	<b>6 months</b> <b>ended 30 June 2018</b> <i>IAS 17 basis</i> <i>(see Note 2.2)</i>
<b>OPERATING ACTIVITIES</b>	<b>Note</b>				
Net income/(loss)		63	60	4	(45)
<i>Adjustments to reconcile net income/loss to cash from operating activities</i>					
Gains on disposal of assets		(33)	(38)	(3)	(22)
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets		639	1,292	636	1,278
Finance costs, net		48	121	64	150
Income tax		9	7	-	(2)
Change in provisions and allowances		(71)	(95)	(44)	(55)
Operational foreign exchange and derivatives gains, net		(2)	(3)	(3)	(5)
<i>Change in working capital</i>					
Increase in inventories, gross		(36)	(35)	(20)	(39)
(Increase)/decrease in trade receivables, gross	7	150	127	(89)	(143)
(Increase)/decrease in contract assets, gross		(1)	9	54	107
Decrease in contract costs		-	3	21	45
Increase/(decrease) in trade payables		53	(16)	(44)	(170)
Increase/(decrease) in contract liabilities		5	9	(29)	(49)
(Increase)/decrease in prepaid expenses and other receivables		10	(7)	20	(24)
Decrease in other payables		(4)	(11)	(18)	(11)
Dividends received		8	8	22	22
Interest received		11	21	8	16
Interest paid and interest rate effect paid on derivatives, net		(104)	(156)	(99)	(146)
Exchange rate effect received/(paid) on derivatives, net		-	-	12	(5)
Income tax paid		(1)	(21)	-	(1)
<b>Net cash provided by operating activities</b>		<b>744</b>	<b>1,275</b>	<b>492</b>	<b>901</b>
<b>INVESTING ACTIVITIES</b>					
Payments for purchases of property, plant and equipment and intangible assets		(546)	(1,208)	(507)	(1,071)
Investment grants received		27	27		
Investment grants paid to property, plant and equipment and intangible assets suppliers		(26)	(52)	(3)	(6)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		-	-	1	-
Proceeds from sale of property, plant and equipment and intangible assets		15	118	5	37
Proceeds from sale of investments in subsidiaries, net of transaction costs		-	2	-	-
Cash paid for investments in subsidiaries	7	(133)	(133)	-	-
Receipts from/(payments on) loans made to related parties and other financial instruments, net		(12)	18	1	-
<b>Net cash used in investing activities</b>		<b>(675)</b>	<b>(1,228)</b>	<b>(503)</b>	<b>(1,040)</b>
<b>FINANCING ACTIVITIES</b>					
Repayment of long-term loans from related party	8	(17)	(17)	-	-
Repayment of lease liabilities		(75)	(140)	(6)	(12)
Increase/(decrease) in revolving credit line and other debt	8	52	(109)	10	74
Exchange rate effect received/(paid) on derivatives hedging debt, net		58	58	-	(1)
<b>Net cash provided by/(used in) financing activities</b>		<b>18</b>	<b>(208)</b>	<b>4</b>	<b>61</b>
<b>Net change in cash and cash equivalents</b>		<b>87</b>	<b>(161)</b>	<b>(7)</b>	<b>(78)</b>
Cash and cash equivalents at the beginning of the period		290	538	497	568
<b>Cash and cash equivalents at the end of the period</b>		<b>377</b>	<b>377</b>	<b>490</b>	<b>490</b>

## Notes to the Condensed Interim Separate Financial Statements

### 1. Orange Polska S.A.

Orange Polska S.A. (“Orange Polska” or “the Company” or “OPL S.A.”), a joint stock company, was incorporated and commenced its operations on 4 December 1991. Orange Polska shares are listed on the Warsaw Stock Exchange.

Orange Polska is the principal provider of telecommunications services in Poland. The Company provides mobile and fixed telecommunications services, including calls, messaging, content, access to the Internet and TV. In addition, Orange Polska provides ICT (Information and Communications Technology) services, leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission and sells electrical energy.

Orange Polska’s registered office is located in Warsaw at 160 Aleje Jerozolimskie St.

### 2. Statement of compliance and basis of preparation

#### 2.1. Basis of preparation

These unaudited Condensed IFRS Interim Separate Financial Statements for the 6 months ended 30 June 2019 (the “Condensed Interim Separate Financial Statements”) are prepared in accordance with International Accounting Standard (“IAS”) 34 - Interim Financial Reporting (“IAS 34”) and with all accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective as at the time of preparing the Condensed Interim Separate Financial Statements (see also Note 3).

These Condensed Interim Separate Financial Statements should be read in conjunction with the audited Orange Polska S.A. IFRS Separate Financial Statements and the notes thereto (“IFRS Separate Financial Statements”) for the year ended 31 December 2018.

The Condensed Interim Separate Financial Statements include the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and selected explanatory notes.

Costs that arise unevenly during the year are anticipated or deferred in the interim financial statements only if it would also be appropriate to anticipate or defer such costs at the end of the year.

Orange Polska S.A. is the parent company of the Orange Polska Group (“the Group”, “OPL Group”) and prepares interim consolidated financial statements for the 6 months ended 30 June 2019. The Group is a part of Orange Group, based in France.

These Condensed Interim Separate Financial Statements are prepared in millions of Polish zloty (“PLN”) and were authorised for issuance by the Management Board on 24 July 2019.

#### Adoption of standards and interpretations in 2019

The following standards and interpretations endorsed by the European Union were adopted by the Company as at 1 January 2019:

- IFRS 16 “Leases”. This standard has been endorsed by the European Union on 31 October 2017 and it is applicable for financial years beginning on or after 1 January 2019.

- IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”. This interpretation has been endorsed by the European Union on 23 October 2018 and is effective for annual periods beginning on or after 1 January 2019. There is no impact of the interpretation on the Company’s financial statements.

## 2.2. Adoption of IFRS 16 “Leases”

IFRS 16 “Leases” establishes new accounting principles for reporting of lease contracts.

As at 1 January 2019 the Company has defined four major categories of lease contracts:

- real estate: points of sale, offices, perpetual usufruct of land;
- mobile network: land, technical premises, space on towers, chimneys, rooftops;
- fixed network: technical premises, limited property rights, access to the local loop, collocation, dark fiber contracts;
- other rentals: vehicles, technical equipment, data center.

The accounting presentation of lease contracts in the statement of financial position depends mainly on:

- the scope of contracts qualified as leases,
- the duration adopted for certain types of contracts,

which require significant judgment from the Company’s Management Board. The Management Board reviews these estimates if the circumstances on which they were based evolve or in the light of new information or established market practice.

The lease duration corresponds to the non-cancellable period of the lease, periods covered by extension options that the Company is reasonably certain to exercise and termination options that the Company is reasonably certain not to exercise. The definition of the contract duration takes also into account the laws and practices specific to the Polish jurisdiction and specificity of Company’s contracts. In particular, in case of indefinite period leases the Company adopts the notice period as the non-cancellable period of the lease. In case of indefinite period leases, most of notice periods in the Company are below 12 months and the Company adopted the short term leases exemption for these contracts. As a result, such contracts are treated as short term contracts and are not measured and presented on the balance sheet. For easements in buildings, where the Company located its telecommunication infrastructure, a lease duration is assessed as an average useful life of buildings in the Company.

None of the early termination options were assessed as at 1 January 2019 to be reasonably certain to be exercised. Contracts, for which the execution of extension options was assessed as probable, have immaterial impact on the measurement of the lease liability.

In June 2019, the IFRS Interpretations Committee (the “Committee”) issued a summary of decisions reached in its public meetings to clarify interpretations in respect to IFRS 16 on the following topics:

- Subsurface rights:

The Committee concluded that the arrangement, presented in its decision, where a pipeline operator obtains the right to place a pipeline in an underground space constitutes a lease and therefore this arrangement as presented in this decision should be in scope of IFRS 16.

- Lessee’s Incremental Borrowing Rate:

The Committee issued a tentative decision that the lessee’s incremental borrowing rate should be established as a lease-specific rate that takes into account the underlying asset and the terms and conditions of the lease.

- Lease Term and Useful Life of Leasehold Improvements:

The Committee issued a tentative decision that in assessing the notion of no more than an insignificant penalty, when establishing the lease term, the analysis should not only capture the termination penalty payment specified in the contract, but use a broader economic consideration of penalty and thus include all kinds of possible economic outflows related to termination of the contract.

The Committee's final positions on the tentative decisions are expected to be published in the second half of 2019.

The Company's accounting policies in respect of these matters are as follows:

– Subsurface rights:

The Company does not consider subsurface rights as lease arrangements.

– Lessee's Incremental Borrowing Rate:

The Company considers the underlying asset and the terms and conditions of the lease when establishing the lessee's incremental borrowing rate.

– Lease Term and Useful Life of Leasehold Improvements:

The Company considers the enforceable period to be no longer than the notice period in the determination of the lease term of the arrangements existing in the Company. As far as leasehold improvements are concerned, a definition of their useful life does not have a significant impact on the Company.

Due to the timing of the Committee's decisions, the Company is currently analyzing the potential implications, if any, of the above mentioned decisions on the Group's accounting policies and systems, which may result in an increase in the right-of-use assets and lease liabilities presented in the statement of financial position. At 30 June 2019, the potential impact of the Committee's decisions is not reasonably estimable.

The impact of IFRS 16 adoption on the Company's accounts primarily relates to changes in lessee accounting and results in:

- a) the accounting for all of lease contracts according to a single model in which an asset is recognised in the statement of financial position as an asset for the right to use the leased assets in correspondence with the liability related to the lease obligations;
- b) recognising depreciation of the rights of use assets and interest charges related to the lease liability, instead of operating lease expenses;
- c) the accelerated recognition of the expense related to leases, resulting in particular from the interest component.

The Company applied IFRS 16 as of 1 January 2019 using the modified retrospective method without restatement of comparative periods. As the Company decided to measure the right-of-use asset in the amount equal to the lease liability (effect of prepaid or accrued lease payments was negligible), there was no impact on equity as of 1 January 2019.

The Company decided to use the practical expedient as described in IFRS 16 C.10 (c) allowing not to apply the requirements defined in points (a) – (c) above to leases for which the lease term ends within 12 months of the date of the initial application.

The new accounting policy relating to leases applied by the Company from 1 January 2019 is presented in Note 3.1.

Adoption of IFRS 16 affected the statement of financial position as at 1 January 2019 as follows:

## STATEMENT OF FINANCIAL POSITION

<i>(in PLN millions)</i>	<i>At 1 January 2019</i>		
	<i>Before IFRS 16</i>	<i>Impact of IFRS 16 adoption</i>	<i>After IFRS 16</i>
<b>ASSETS</b>			
Property, plant and equipment	10,838	(447)	10,391
Right-of-use assets	-	1,722	1,722
<b>Total non-current assets</b>	<b>19,333</b>	<b>1,275</b>	<b>20,608</b>
<b>Total current assets</b>	<b>3,758</b>	<b>-</b>	<b>3,758</b>
<b>TOTAL ASSETS</b>	<b>23,091</b>	<b>1,275</b>	<b>24,366</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>10,439</b>	<b>-</b>	<b>10,439</b>
Lease liabilities	111	1,047	1,158
<b>Total non-current liabilities</b>	<b>6,796</b>	<b>1,047</b>	<b>7,843</b>
Lease liabilities	66	228	294
<b>Total current liabilities</b>	<b>5,856</b>	<b>228</b>	<b>6,084</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>23,091</b>	<b>1,275</b>	<b>24,366</b>

Additionally, as a consequence of IFRS 16 implementation, certain changes were made to the presentation in the financial statements, which had impact on the comparative data.

In the income statement and statement of cash flows two separate lines for depreciation and amortisation and impairment/reversal of impairment of fixed assets were consolidated into one line. Additionally, the Company presents currently interest expense on lease liabilities as a separate line item in the income statement. Previously, the Company presented these costs together with other interest expense and financial charges. The comparative amounts for the 6 months ended 30 June 2018 were changed accordingly, with no impact on operating or net income/loss.

In the statement of financial position as at 31 December 2018, certain figures were reclassified to conform with the presentation as at 30 June 2019. Non-current and current lease liabilities were separated from financial liabilities at amortised cost excluding trade payables to new line items.

In the statement of cash flows two separate lines within cash flows from investing activities for purchases of property, plant and equipment and intangible assets and increase/decrease in amounts due to fixed assets suppliers were consolidated into one line presenting payments for purchases of property, plant and equipment and intangible assets. Additionally, repayment of lease liabilities was reclassified from repayment of long-term debt to a separate line item within cash flows from financing activities. Repayment of other long-term debt is now presented together with increase/decrease in revolving credit line and short-term debt. The comparative amounts were adjusted accordingly for the 6 months ended 30 June 2018, with no impact on net cash used in investing and financing activities.

### 3. Statement of accounting policies

Except for the changes described in Note 2 and presented below, the accounting policies and methods of computation used in the preparation of the Condensed Interim Separate Financial Statements are materially consistent with those described in Notes 2 and 30 to the audited IFRS Separate Financial Statements for the year ended 31 December 2018.

#### 3.1. Leases

IFRS 16 “Leases” establishes the principles for recognition, measurement, presentation and disclosure of lease contracts. A single lease accounting model was adopted if the Company acts as a lessee. If the Company acts as a lessor than it continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

The Company qualifies a contract as a lease as long as it gives the lessee the right to control the use of a particular asset. In order to qualify a contract as a lease, three main conditions shall be met:

- the contract shall convey the right to use an identified asset;
- the lessee shall obtain the economic benefits from use of this asset;
- the lessee obtains the right to direct the use of this asset throughout the period of the contract.

#### Company as a lessee

On the lessee’s side the Company uses a single accounting model, in which the lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Company has chosen to apply two exemptions proposed by the standard and expense the following contracts:

- all contracts, except for contracts for vehicles, whose duration is less than 12 months;
- contracts where the value of the underlying asset is less than USD 5,000.

IFRS 16 lease term is determined in a range between the non-cancellable period and the end of the enforceable period. The non-cancellable period is the period during which neither the lessee nor the lessor have the ability to terminate the contract without paying any significant penalty fees. The enforceable period is the period taking into account all the options available for the Company to extend but not the options to terminate.

At the lease commencement date, the Company recognises a right-of-use asset and a lease liability.

The right-of-use asset is measured at cost which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

At the date of initial application of IFRS 16, 1 January 2019, no significant lease prepayments and initial direct costs were identified.

After the commencement date, the Company measures the right-of-use asset applying a cost model, less any accumulated depreciation and any accumulated impairment losses, as well as any adjustments resulting from remeasurement of the lease liability.

The lease liability is measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the Company incremental borrowing rates as the rates implicit in the lease are not easily determinable. Discount rates adopted are based on Polish state bond yield, adjusted by credit spread observable for entities with similar credit rating. Discount rates are differentiated by duration and by currency, and not by class of assets.

The lease liability comprises the following payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

At the moment of initial application fixed and variable payments were identified in the lease contracts.

After the commencement date, the lease liability is increased to reflect interest on the lease liability and reduced to reflect the lease payments made, as well remeasured to reflect any reassessment or lease modification.

Only the lease component is taken into account in the measurement of the right-of-use asset and of the lease liability. Other non-lease components, like payments for utilities, are accounted for separately in accordance with other applicable accounting standards.

#### **Company as a lessor**

The Company continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Examples of situations that individually or in combination would lead to a lease being classified as a finance lease are as follows:

- the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the underlying asset at a price significantly lower than the fair value;
- the lease term is for the major part of the economic life of the underlying asset;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.



## 4. Revenue

<i>(in PLN millions)</i>	<i>3 months ended 30 June 2019</i>	<i>6 months ended 30 June 2019</i>	<i>3 months ended 30 June 2018</i>	<i>6 months ended 30 June 2018</i>
<b>Mobile only services</b>	<b>645</b>	<b>1,284</b>	<b>679</b>	<b>1,361</b>
<b>Fixed only services</b>	<b>552</b>	<b>1,121</b>	<b>620</b>	<b>1,249</b>
Narrowband	233	477	274	559
Broadband	213	432	232	464
Network solutions (business market)	106	212	114	226
<b>Convergent services (consumer market)</b>	<b>384</b>	<b>753</b>	<b>316</b>	<b>607</b>
<b>Equipment sales</b>	<b>352</b>	<b>719</b>	<b>307</b>	<b>658</b>
<b>IT and integration services</b>	<b>38</b>	<b>83</b>	<b>44</b>	<b>86</b>
<b>Wholesale</b>	<b>568</b>	<b>1,128</b>	<b>571</b>	<b>1,150</b>
Mobile wholesale	324	634	329	641
Fixed wholesale	169	346	176	364
Other	75	148	66	145
<b>Other revenue</b>	<b>62</b>	<b>156</b>	<b>49</b>	<b>91</b>
<b>Total revenue</b>	<b>2,601</b>	<b>5,244</b>	<b>2,586</b>	<b>5,202</b>

Wholesale and other revenue for the 6 months ended 30 June 2019 include PLN 44 million of lease revenue that is outside the scope of IFRS 15 “Revenue from Contracts with Customers”.

## 5. Impairment test

Vast majority of the Company’s individual assets do not generate cash flows independently from other assets due to the nature of the Company’s activities, therefore the Company identifies all telecom operations as a single telecom operator Cash Generating Unit (“CGU”).

As at 30 June 2019 and 2018 the Company performed impairment tests of the CGU (including goodwill).

No impairment loss was recognised in the years 2019 and 2018.

The following key assumptions were used to determine the value in use of the telecom operator CGU:

- value of the market, penetration rate, market share and the level of the competition, level of prices and decisions of the regulator in terms of pricing, customer base, the level of commercial expenses required to replace products and keep up with existing competitors or new market entrants, the impact of changes in revenue on direct costs;
- the level of capital expenditures which may be affected by the roll-out of necessary new technologies or regulatory decisions concerning telecommunications licences allocation;
- discount rate which is based on weighted average cost of capital and reflects current market assessment of the time value of money and the risks specific to activities of the CGU; and
- perpetuity growth rate which reflects Management’s assessment of cash flows evolution after the last year covered by the cash flow projections.

The amounts assigned to each of these parameters reflect past experience adjusted for expected changes over the timeframe of the long-term financial projections, but may also be affected by unforeseeable changes in the political, economic or legal framework.

*Telecom operator CGU*

	<i>At 30 June 2019</i>	<i>At 30 June 2018</i>
Basis of recoverable amount	Value in use	Value in use
Sources used	Long-term financial projections 5 years cash flow projections	Business plan 5 years cash flow projections
Perpetuity growth rate	1%	1%
Post-tax discount rate	7.50%	8.00%
Pre-tax discount rate <sup>(1)</sup>	8.68%	9.32%

<sup>(1)</sup> Pre-tax discount rate is calculated as a post-tax discount rate adjusted to reflect the specific amount and timing of the future tax cash flows.

**Sensitivity of recoverable amount**

The value in use of the telecom operator CGU as at 30 June 2019 exceeds its carrying value by PLN 3.4 billion.

Any of the following changes in key assumptions:

- a 20% fall in projected cash flows after fifth year or
- a 1.3 p.p. decrease in growth rate to perpetuity or
- a 1.3 p.p. increase in post-tax discount rate

would bring the value in use of the telecom operator CGU to the level of its carrying value.

**6. Explanatory comments about the seasonality or cyclicity of interim Company operations**

The Company's activities are subject to some seasonality. The fourth quarter is typically a peak sales season with high commercial spending and with increased capital expenditures resulting from investment cycle management applied by the Company. Seasonally high capital expenditures in the fourth quarter are followed by higher payments to fixed assets suppliers in the first quarter of the subsequent year resulting in higher cash used in investing activities.

**7. Items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence**

From 2019, the Company extended the estimated useful lives for certain network assets and items of software which decreased the depreciation and amortisation expense by PLN 97 million in the 6 months ended 30 June 2019. Depreciation and amortisation expense in 2019 relating to these assets is expected to be lower by approximately PLN 192 million in comparison to 2018.

In 2018, the Company and T-Mobile Polska signed a long term contract on telecommunications access to Orange Polska's fiber network in the form of Bitstream Access. OPL S.A. started providing services in December 2018. The fees under the contract comprise mainly a fixed upfront fee of PLN 275 million, a fixed fee for infrastructure set-up, IT systems integration and monthly fees for each customer. The revenue from the contract will be recognised during 15 years which currently is the estimated period of the contract. The Company applies input method to measure revenue for the period with the application of constraint in respect to recognition of revenue to the level that is highly probable not to be reversed in the future. In result, the fixed fee elements will be evenly accounted as revenue over 15 years, while the variable fees dependent on the number of end-customers will be recognised as revenue based on the actual number of customers in the period.

On 20 June 2019, Orange Polska and BNP Paribas S.A. concluded an agreement under which OPL S.A. sells selected receivables arising from sales of mobile handsets in instalments, based on which sold receivables are derecognised from the statement of financial position. The impact on cash flows from operating activities for the 6 months ended 30 June 2019 amounts to PLN 133 million and loss on derecognition recognised in other operating expense for the same period amounts to PLN 1 million. As a result of the agreement, PLN 223 million of trade

receivables held as at 30 June 2019 were classified in the measured at fair value through other comprehensive income category, as the business model for those receivables is to collect contractual cash flows and sell them.

In the 6 months ended 30 June 2019, the Company amended terms of the lease of its headquarters. As a result, the lease liability and right-of-use assets increased by PLN 211 million.

Gains on disposal of assets for the 6 months ended 30 June 2019 included PLN 25 million of gains on disposal of real estate.

The amount of trade payables subject to reverse factoring decreased from PLN 220 million as at 31 December 2018 to PLN 157 million as at 30 June 2019. These payables are presented together with the remaining balance of trade payables, as analysis conducted by the Company indicates they have retained their trade nature.

On 12 June 2019, the Company purchased 100% of shares in BlueSoft Sp. z o.o. ("BlueSoft"). BlueSoft is providing a variety of IT services in the areas of application development and integration, system customization, analytics and cloud services. According to the agreement, the total transaction value amounts to PLN 183 million and includes acquisition price of PLN 168 million and remuneration for post-transaction services currently estimated at PLN 15 million. Out of the acquisition price, PLN 133 million was paid upon signing of the agreement. The remaining part, currently estimated at PLN 35 million, is a contingent consideration that will be settled before the end of 2022 and will be based on achieving certain financial targets of BlueSoft in 2019 and 2020 as well as on meeting certain other legal conditions. Remuneration for post-transaction services will be accounted for as a cost related to integration of new subsidiary and will be recognised in the income statement in years 2019-2021.

## **8. Changes in financial liabilities at amortised cost excluding trade payables and lease liabilities**

On 11 February 2019, the Company and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 1,500 million with repayment date in May 2024. The new Loan Agreement, together with the Revolving Credit Facility, provided non-cash-refinancing of EUR 480 million loan granted by Atlas Services Belgium S.A., which expired in May 2019.

In the 6 months ended 30 June 2019, the net cash flows from issuance and repayments of the Revolving Credit Facility from Atlas Services Belgium S.A. amounted to PLN (50) million.

As at 30 June 2019, the total outstanding balance of loans from the related party amounted to PLN 7,259 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 2.45% before swaps and 3.02% after swaps as at 30 June 2019.

In the 6 months ended 30 June 2019, the Company entered into new derivative transactions under the agreement with Orange S.A. hedging interest rate risk on the related party financing provided in PLN. As at 30 June 2019, the total nominal amount of cross currency interest rate swaps and interest rate swaps, outstanding under the agreement with Orange S.A., was EUR 190 million and PLN 5,450 million, respectively, with a total negative fair value amounting to PLN 21 million.

In the 6 months ended 30 June 2019, the Company issued and redeemed short-term bonds under the Orange Polska S.A. Bond Issuance Programme. In the 6 months ended 30 June 2019, the net cash flows on the bonds amounted to PLN (56) million. As at 30 June 2019 and 31 December 2018, the aggregate par value of the outstanding bonds issued under the programme amounted to PLN 57 million and PLN 112 million, respectively.

## 9. Fair value of financial instruments

Derivative instruments are measured subsequent to their initial recognition at fair value. The fair value of derivatives is determined as described in Note 20 to the IFRS Separate Financial Statements for the year ended 31 December 2018. Significant inputs to the valuation technique used by the Company to measure the fair value of derivatives are classified to Level 2 of the fair value hierarchy described in Note 21.1.

The carrying amount of the Company's financial instruments excluding lease liabilities approximates their fair value, except for telecommunications licence payables for which as at 30 June 2019 and 31 December 2018 the estimated fair value exceeded the carrying amount by PLN 79 million and PLN 84 million, respectively, due to significant change between the original effective interest rates at the date of the initial recognition and current market rates.

## 10. Dividend

The General Meeting of Orange Polska S.A. held on 24 April 2019 did not adopt a resolution on a dividend payment in 2019, in accordance with the recommendation of the Management Board of the Company.

## 11. Changes in major litigation and claims, contingent liabilities and contingent assets since the end of the last annual reporting period

The information hereunder refers to the matters presented in Note 27 to the IFRS Separate Financial Statements for the year ended 31 December 2018 or describes major matters that occurred after 31 December 2018.

### a. Proceedings by UOKiK

#### *Proceedings by UOKiK related to pre-paid offers*

UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 31 December 2019.

#### *Proceedings by UOKiK related to retail prices of calls to Play*

P4 Sp. z o.o. appealed the verdict of 27 December 2018 dismissing P4's claim for PLN 316 million in its entirety to the Appeal Court.

#### *Magna Polonia S.A. claim towards Orange Polska, T-Mobile Polska, Polkomtel and P4*

On 9 February 2018, the court, which examines Magna Polonia S.A.'s claim, decided to stay the proceedings until the Supreme Court issues its verdict in the competition proceedings. The hearing of the Supreme Court in those proceedings will be held on 22 October 2019.

### b. Other contingent liabilities and provisions

Apart from the above-mentioned, operational activities of the Company are subject to legal, tax, social and administrative regulations and the Company is a party to a number of legal and tax proceedings and commercial contracts related to its operational activities. Some regulatory decisions can be detrimental to the Company and court verdicts within appeal proceedings against such decisions can have negative consequences for the Company. The Company monitors the risks on a regular basis and the Management believes that adequate provisions have been recorded for known and quantifiable risks.

## 12. Related party transactions

As at 30 June 2019, Orange S.A. owned 50.67% of shares of the Company. Orange S.A. has majority of the total number of votes at the General Meeting of OPL S.A. which appoints OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board. According to the Company's Articles of Association at least 4 Members of the Supervisory Board must be independent. The majority of Members of the Audit Committee of the Supervisory Board are independent.

OPL S.A.'s income earned from its subsidiaries comprises mainly telecommunications equipment sales and IT services. The purchases from the subsidiaries comprise mainly network development and maintenance and selling fees. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

Income earned from the Orange Group comprises mainly data transmission, research and development services and interconnect. The purchases from the Orange Group comprise mainly brand fees, costs of interconnect and data transmission.

OPL S.A.'s financial income earned from its subsidiaries comprises dividends and interest on the loans granted to the subsidiaries. Financial costs incurred by OPL S.A. in transactions with the subsidiaries comprise mainly interest on bonds issued to the subsidiaries. Financial receivables from the subsidiaries relate to the loans granted to the subsidiaries and dividend receivables. Financial liabilities to the subsidiaries comprise mainly bonds issued to the subsidiaries.

Financial receivables, liabilities, financial expense, net and other comprehensive income/loss concerning transactions with the Orange Group relate to loan agreements concluded with Atlas Services Belgium S.A. and agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk related to the above-mentioned loan agreements. Financial income from Orange S.A. and cash and cash equivalents deposited with Orange S.A. relate to the Cash Management Treasury Agreement.

(in PLN millions)

	3 months ended 30 June 2019	6 months ended 30 June 2019	3 months ended 30 June 2018	6 months ended 30 June 2018
<b>Sales of goods and services and other income:</b>	<b>72</b>	<b>148</b>	<b>90</b>	<b>190</b>
Orange Polska Group (subsidiaries)	17	45	29	82
Orange Group	55	103	61	108
- Orange S.A. (parent)	37	69	39	67
- Orange Group (excluding parent)	18	34	22	41
<b>Purchases of goods (including inventories, tangible and intangible assets) and services:</b>	<b>(178)</b>	<b>(315)</b>	<b>(218)</b>	<b>(403)</b>
Orange Polska Group (subsidiaries)	(119)	(206)	(160)	(287)
Orange Group	(59)	(109)	(58)	(116)
- Orange S.A. (parent)	(16)	(25)	(15)	(32)
- Orange Group (excluding parent)	(43)	(84)	(43)	(84)
- including Orange Brand Services Limited (brand licence agreement)	(28)	(55)	(29)	(57)
<b>Financial income:</b>	<b>21</b>	<b>22</b>	<b>22</b>	<b>24</b>
Orange Polska Group (subsidiaries)	21	22	22	23
Orange S.A. (parent)	-	-	-	1
<b>Financial expense, net:</b>	<b>(56)</b>	<b>(113)</b>	<b>(56)</b>	<b>(117)</b>
Orange Polska Group (subsidiaries)	(1)	(1)	(1)	(1)
Orange Group	(55)	(112)	(55)	(116)
- Orange S.A. (parent)	(22)	(43)	82	79
- Orange Group (excluding parent)	(33)	(69)	(137)	(195)
<b>Other comprehensive income/(loss):</b>	<b>(15)</b>	<b>(25)</b>	<b>5</b>	<b>(12)</b>
Orange S.A. (parent)	(15)	(25)	5	(12)

<i>(in PLN millions)</i>	<i>At 30 June 2019</i>	<i>At 31 December 2018</i>
<b>Receivables and contract costs:</b>	<b>130</b>	<b>158</b>
Orange Polska Group (subsidiaries)	29	72
Orange Group	101	86
- Orange S.A. (parent)	73	47
- Orange Group (excluding parent)	28	39
<b>Liabilities:</b>	<b>200</b>	<b>250</b>
Orange Polska Group (subsidiaries)	103	154
Orange Group	97	96
- Orange S.A. (parent)	38	47
- Orange Group (excluding parent)	59	49
<b>Financial receivables:</b>	<b>133</b>	<b>202</b>
Orange Polska Group (subsidiaries)	98	104
Orange S.A. (parent)	35	98
<b>Cash and cash equivalents deposited with:</b>	<b>91</b>	<b>203</b>
Orange S.A. (parent)	91	203
<b>Financial liabilities:</b>	<b>7,374</b>	<b>7,495</b>
Orange Polska Group (subsidiaries)	59	115
Orange Group	7,315	7,380
- Orange S.A. (parent)	56	48
- Orange Group (excluding parent)	7,259	7,332
<b>Guarantees granted:</b>	<b>71</b>	<b>75</b>
Orange Polska Group (subsidiaries)	71	75

Compensation (remuneration, bonuses, post-employment and other long-term benefits, termination indemnities and share-based payment plans - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board Members for the 6 months ended 30 June 2019 and 2018 amounted to PLN 11.1 million and PLN 7.7 million, respectively. The increase in compensation results from an increase in a number of the Members of the Management Board of OPL S.A.

### 13. Subsequent events

There was no significant event after the end of the reporting period.

# ORANGE POLSKA GROUP



## MANAGEMENT BOARD'S REPORT ON THE ACTIVITY IN THE FIRST SIX MONTHS ENDED 30 JUNE 2019

*This report on the activity of the Orange Polska Group ("the Group" or "Orange Polska") in the first half of 2019 has been drawn up in compliance with Article 69 of the Decree of the Minister of Finance of 29 March 2018 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 2018, item 757). For additional information please refer to the full year 2018 report.*

*Disclosures on performance measures, including restatements, are presented in the Note 2 to Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the 6 months ended 30 June 2019.*

*Year-on-year evolution of operating income and net income is not comparable because of the changes in accounting standards. Starting from 2019 Orange Polska applied a new accounting standard IFRS16 without restatement of comparative periods. Data for 1H 2019 were prepared under previous accounting standard IAS17.*

**July 24, 2019**

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**CHAPTER I**  
**HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS**

as of June 30, 2019 and for the six month period ended thereon

## 1 SUMMARISED FINANCIAL STATEMENTS

### SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

	For 6 months ended				
	30 June 2019 (IFRS16) in PLN mln	30 June 2019 (IFRS16) in EUR <sup>1</sup> mln	30 June 2018 (IAS17) in PLN mln	30 June 2018 (IAS17) in EUR <sup>2</sup> mln	Change (%)
<b>Consolidated Income Statement</b>					
Revenue	5,537	1,291	5,416	1,278	2.2%
EBITDAaL*	1,353	316	n/a	n/a	n/a
EBITDAaL margin	24.4%		n/a	n/a	n/a
EBITDA*	n/a	n/a	1,383	326	n/a
EBITDA margin	n/a	n/a	25.5%		n/a
Operating income *	209	49	106	25	n/a
Operating margin	3.8%		2.0%		n/a
Net income (loss) *	53	12	(66)	(16)	n/a
Net income (loss) attributable to owners of Orange Polska S.A.*	53	12	(66)	(16)	n/a
Weighted average number of shares (in millions)**	1,312	1,312	1,312	1,312	
Income (loss) per share (in PLN)	0.04	0.01	(0.05)	(0.01)	n/a
<b>Consolidated Statement of Cash Flows</b>					
Net cash provided by operating activities	1,196	279	850	200	40.7%
Net cash used in investing activities	(1,228)	(286)	(1,037)	(245)	18.4%
Net cash provided by financing activities	(156)	(36)	89	21	-275.3%
Net change in cash and cash equivalents	(188)	(44)	(98)	(23)	91.8%
Capex*	1,019	238	939	221	n/a
Organic cash flow*	(16)	(4)	(187)	(46)	n/a
<b>As of</b>					
	30 June 2019 (IFRS16) in PLN mln	30 June 2019 (IFRS16) in EUR <sup>3</sup> mln	30 June 2018 (IAS17) in PLN mln	30 June 2018 (IAS17) in EUR <sup>4</sup> mln	Change (%)
<b>Consolidated Statement of Financial Position</b>					
Cash and cash equivalents	423	99	611	142	-30.8%
Other intangible assets	4,739	1,115	4,871	1,133	-2.7%
Property, plant and equipment	10,329	2,429	10,738	2,497	-3.8%
Total assets	24,475	5,756	23,295	5,417	5.1%
Financial liabilities at amortised cost***, of which:	8,932	2,101	7,531	1,751	18.6%
Current	797	187	2,150	500	-62.9%
Non-current	8,135	1,913	5,381	1,251	51.2%
Other liabilities, current and non-current	5,008	1,178	5,261	1,223	-4.8%
Total equity	10,535	2,478	10,503	2,443	0.3%
<i>Notes on data conversion:</i>					
1 – PLN/EUR fx rate of 4.2880 applied		3 – PLN/EUR fx rate of 4.2520 applied			
2 – PLN/EUR fx rate of 4.2395 applied		4 – PLN/EUR fx rate of 4.3000 applied			
*For adjustments of basic financial data please see Note 2 to the IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the first six months of 2019					
** Weighted average number of shares in 6 months ended June 30, 2019 and June 30, 2018, respectively					
*** Excluding trade payables					

## 1.1 Comments on the Consolidated Income Statement

Consolidated revenue amounted to PLN 5,537 million in the first half of 2019 and was higher by PLN 121 million compared to the first half of 2018. The main growth driver is convergence revenues (up 24% year-on-year). This was accompanied by a decline in mobile-only and broadband-only services, mainly due to migration to convergence and market competition. However, combined revenues of these three categories were up 1.4% year-on-year. Growth also came from IT&S revenues (as a result of our focus on process digitalisation of business customers), equipment sales (benefitting from our commercial push on handset sales and option to buy smartphones on instalments during lifetime of the contract) and other category (driven by development of energy resale business). Legacy voice services, both retail and wholesale, continued to deteriorate under the influence of structural trends of fixed-to-mobile substitution.

EBITDAaL (please see the definition in Note 2 to the Condensed IFRS Interim Consolidated Financial Statements for the first six months of 2019) amounted to PLN 1,353 million and was higher by PLN 3 million year-on-year. Flat EBITDAaL despite growth in revenues resulted from lower profitability of revenue mix: falling high-margin revenues from fixed telephony and growing lower-margin revenues from equipment, IT&S and energy resale.

Profitability benefitted from focus on value in commercial activity, monetisation of investments in the fibre network and ongoing cost optimisations (indirect costs were down 3% year-on-year).

Operating income (EBIT) was higher by PLN 103 million compared to the first half of 2018, mainly due to extended estimated useful lives for certain network assets and items of software which decreased the depreciation and amortisation expense by PLN 97 in the current period.

Net finance costs decreased by PLN 31 million compared to the first half of 2018, mainly as a result of favourable movements in foreign exchange rates and the impact of interest expense on the provision for the EC fine accrued in 2018. These impacts were partially offset by a PLN 20 million increase in interest expense on lease liabilities, which resulted from the adoption of IFRS 16 in 2019 (please see Note 3.2 to the Condensed IFRS Interim Consolidated Financial Statements for the first six months of 2019).

As a result, consolidated net income in the first half of 2019 amounted to PLN 53 million compared to PLN 66 million of net loss in the first half of 2018.

## 1.2 Comments on the Consolidated Statement of Cash Flows

Net cash from operating activities amounted to PLN 1,196 million in the first half of 2019 and was PLN 346 million higher year-on-year. It mainly resulted from working capital improvement, which was driven by proceeds from disposal of instalment receivables and settlements of roaming discounts.

Net cash used in investing activities amounted to PLN 1,228 million in the first half of 2019 compared to PLN 1,037 million in the first half of 2018. This change results mainly from payment for acquisition of BlueSoft sp. z o.o. and higher payments for purchases of property, plant and equipment and intangible assets. These impacts were partially offset by higher proceeds from the disposal of real estate.

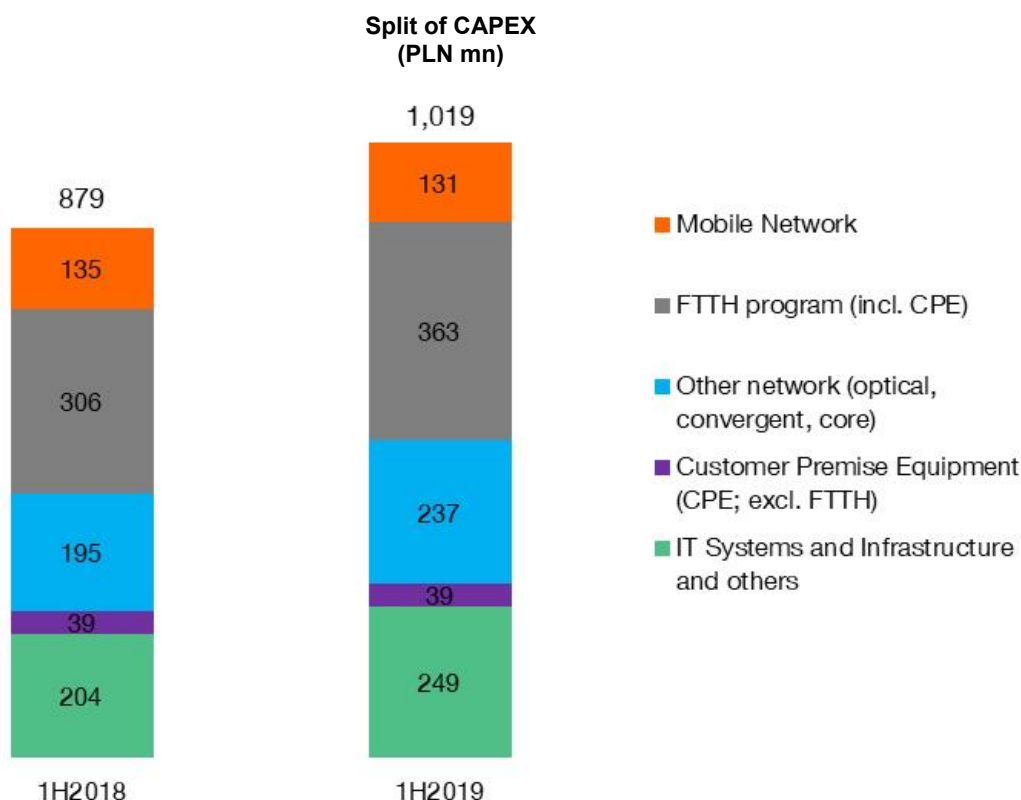
Net cash outflows from financing activities amounted to PLN 156 million compared to PLN 89 million of cash inflows in 2018. This change is mainly attributable to cash flows from related party loans and repayment of lease liabilities recognised following the adoption of IFRS 16.

## 1.3 Capital Expenditures (CAPEX)

Group's capital expenditures in the first half of 2019 (starting from 2019, this measure excludes capital expenditures financed by leases and is adjusted for the impact of acquisition of telecommunications licences) amounted to PLN 1,019 million and were higher by PLN 140 million year-on-year (amounts excluding spectrum licence payments). The increase is a result of a more even distribution of capex throughout the year.

The Group invested mainly in the following areas:

- Roll-out of the fibre access network in the announced investment programme, which covered 0.4 million households in the first half of 2019. Including the lines developed in 2014 to 2018, there are now almost 3.8 million households connectable with the fibre network, available in a total of 130 cities (compared to 117 cities at the end of 2018);
- Investments to enhance the range of LTE services and the quality of the mobile network, expand the capacity and range of GSM/UMTS services, and adapt the mobile access network to the 4G technology requirements, particularly in the areas not covered by the mobile access network consolidation project (i.e. strategic or underinvested regions);
- Expansion of the mobile transport and core network in order to handle the growing volume of data transmission and ensure the service quality expected by customers;
- Implementation of transformation programmes;
- Investment projects related to the portfolio development and sales and customer service processes as well as the modernisation and enhancement of the IT technical infrastructure.



#### 1.4 Comments on the Consolidated Statement of Financial Position

Total assets were higher by PLN 1,180 million and total liabilities by PLN 1,148 million than at December 31, 2018. This change resulted mainly from recognition of additional assets and liabilities resulting from lease contracts of PLN 1,294 million following the adoption of IFRS 16.

#### 1.5 Related Parties Transactions

Please see Note 13 to the Condensed IFRS Interim Consolidated Financial Statements about Group's transactions with related entities.

#### 1.6 Description of Significant Agreements

Please see section 1.10, 1.10.2 and 4.4 below for information on significant agreements concluded by the Group in the first half of 2019.

#### 1.7 Subsequent Events

Please see Note 14 to the Condensed IFRS Interim Consolidated Financial Statements for information on subsequent events.

#### 1.8 Scope of Consolidation within the Group

Please see Note 1.2 to the Consolidated Full-Year Financial Statements for 2018 for information about the scope of consolidation within the Group. Additionally, in June 2019, the Group purchased 100% of the shares in BlueSoft Sp. z o.o. and Essembli Sp. z o.o., a subsidiary of BlueSoft (Please see Note 8 to the Condensed IFRS Interim Consolidated Financial Statements).

#### 1.9 Information about the Loan or Borrowing Collaterals or Guarantees Provided by the Issuer or Its Subsidiaries

In the six months ended June 30, 2019, neither the Company nor its subsidiaries granted guarantees or collateral of loans or borrowings to any entity or its subsidiary with a total value representing the equivalent of at least 10% of Orange Polska S.A.'s shareholders equity. Please see section 1.10.5 below for additional information.

## 1.10 Management of Financial Resources and Liquidity of the Group

In the reported period, the Group financed its activities by cash from operating activities, loans provided by the Orange SA Group, current account overdraft facilities, and sale of receivables in a newly launched securitisation programme.

In the first six months of 2019, the Group repaid long-term bank loans of PLN 3 million and a revolving loan of PLN 360 million provided by the Orange SA Group. In addition, it refinanced, with no cash flow, a long-term loan of PLN 2,010 million, maturing in May 2019, through a revolving loan and a long-term loan agreement signed in February 2019, both provided by the Orange SA Group.

In the reported period, the Group used loans provided by the Orange SA Group, namely PLN 1,500 million out of a long-term loan and PLN 860 million out of a revolving loan.

As of June 30, 2019, Group's interest-bearing liabilities (before derivatives) totalled PLN 7,276 million, which is a decrease of PLN 74 million compared to December 31, 2018. Debt to the Orange SA Group accounted for 99.8% of this amount.

On June 20, 2019, the Group concluded agreements with BNP Paribas SA as the buyer and Eurotitrisation as the settlement agent, which set up a programme of sale of receivables related to handsets instalment sales. In the first six months, the Group raised approximately PLN 130 million from the sale of receivables in the programme. Pursuant to the programme, Orange Polska S.A. established financial and registered pledges in favour of the buyer, BNP Paribas S.A. (Paris, France), on bank accounts collecting payments from customers on the account of the sold receivables. The sold receivables are secured by the aforementioned pledges up to the maximum amount of EUR 165 million.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 423 million at June 30, 2019, and available credit facilities totalling the equivalent of PLN 716 million.

Based on available cash, back-up and revolving credit facilities, as well as external sources of financing, the Group has sufficient funds to carry out its investment projects, including capital investments, scheduled for implementation in 2019.

At June 30, 2019, Group's liquidity ratios increased as compared to the end of 2018. The Group's higher financial liquidity resulted from a decrease of PLN 1,623 million in current liabilities (less provisions and contract liabilities), which was partially offset by a decrease of PLN 217 million in current assets.

The liquidity ratios for the Group at June 30, 2019 and December 31, 2018, respectively, are presented in the table below.

	June 30, 2019	December 31, 2018
Current ratio Current assets / current liabilities*	1.03	0.75
Quick ratio Total current assets – inventories / current liabilities*	0.95	0.71
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.30	0.26

\*Current liabilities less provisions and contract liabilities were used to determine the ratio.

Group's net financial debt (after valuation of derivatives) increased to PLN 6,834 million at June 30, 2019 (from PLN 6,672 million at the end of 2018).

### 1.10.1 Bonds

As part of the Group's liquidity management, in the first six months of 2019 Orange Polska S.A. issued and redeemed short-term bonds, which were acquired by Orange Polska S.A.'s subsidiaries under a programme established in 2002 and totalled PLN 2,500 million. Proceeds from the issue were used to ensure current liquidity in business operations. As of June 30, 2019, Orange Polska's liabilities on the account of outstanding bonds amounted to PLN 57 million.

The Group did not issue or redeem any external long-term debt notes in the reported period.

### 1.10.2 Loan and Borrowings Agreements

On 11 February 2019, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 1,500 million with repayment date in May 2024. This was used to refinance a term loan of EUR 480 million maturing in May 2019.

In the reported period, the Group and the Polish Branch of Societe Generale S.A. concluded an annex to a current account overdraft agreement of PLN 95 million, extending its maturity to May 29, 2020.

On June 25, 2019, the Group and Orange SA concluded an annex to a cash-pool agreement, reducing the backup liquidity financing limit to PLN 500 million.

Furthermore, on May 27, 2019, Orange Energia sp. z o.o., a subsidiary of Orange Polska S.A., and Bank Handlowy w Warszawie S.A. concluded a current account overdraft agreement of PLN 22.5 million, maturing on May 27, 2020.

### 1.10.3 Unused Credit Facilities

As of June 30, 2019, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 216 million.

In addition, the Group had an unused limit of back-up liquidity financing of PLN 500 million, provided by Orange SA.

### 1.10.4 Loan Covenants

Agreements to which the Group is a party do not impose any obligations on the Group to meet any financial ratios. For informational purposes, the ratio of net debt to EBITDAaL (under IFRS16) was 2.4 on June 30, 2019.

### 1.10.5 Guarantees and Collaterals

In the first half of 2019, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of TP Teltech sp. z o.o., an Orange Polska's wholly-owned subsidiary, towards its business partners, while promising to cover any claims related to payments under the guarantee. As of June 30, 2019, these guarantees totalled PLN 4.2 million.

As of the reporting date, collaterals granted in 2018 by Orange Polska S.A. to Bank Handlowy w Warszawie S.A. to secure proper performance bonds issued by the latter in favour of TP Teltech sp. z o.o. with respect to obligations towards its business partners, particularly under contracts with Alcatel Lucent Polska sp. z o.o. related to the implementation of the Operational Programme "Digital Poland 2", were still valid. These collaterals totalled PLN 30.5 million.

In the first half of 2019, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of Orange Retail S.A., an Orange Polska's wholly-owned subsidiary, on the account of lease of premises for Orange sales outlets, while promising to cover any claims related to payments under the guarantee. As of June 30, 2019, these guarantees totalled PLN 0.5 million.

As of June 30, 2019, a collateral of PLN 20 million granted by Orange Polska S.A. in November 2017 to BZ WBK Faktor sp z o.o. to secure a facility provided by the latter to TP Teltech sp. z o.o. under a confirming agreement for payment management was still valid.

As of June 30, 2019, eight bank guarantees, which had been issued upon request of Orange Polska S.A. with respect to liabilities of Orange Energia sp. z o.o. towards its business partners in connection with the acquisition of this company by the Group in 2017, remained in force. These guarantees totalled PLN 15.4 million and Orange Polska S.A. shall indemnify the banks against any claims thereunder.

### 1.10.6 Hedging Transactions

In the first half of 2019, the Group continued to minimise its exposure to foreign exchange volatility by concluding and maintaining cross currency swap, currency option, cross currency interest rate swap and non-deliverable forward contracts, which at June 30, 2019 covered:

- 99.6% of debt denominated in foreign currencies; and,
- 44.3% of licence payable for the 2100 MHz spectrum (UMTS licence)

As a result of hedging, Group's effective currency exposure at June 30, 2019 was as follows:

- EUR 58 million of licence payable for the 2100 MHz spectrum (UMTS licence).

Furthermore, the Group has hedged a portion of the exposure to foreign exchange risk generated by operating expenditures (e.g. handset purchases) and capital expenditures.

The Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As of June 30, 2019, the Group's proportion between fixed/floating rate debt (after hedging) was 87/13% as compared to 93/7% on December 31, 2018.

In addition, the Group has hedged the risk of Orange Polska share price increase with options. As of June 30, 2019, 100% of phantom shares for the incentive programme for managers were hedged (please see section 3.3.1 below for additional information).

**CHAPTER II**  
**MANAGEMENT BOARD'S REPORT ON OPERATING AND FINANCIAL PERFORMANCE**  
**OF THE GROUP**

in the first half of 2019



## 2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

The Group reports a single operating segment as decisions about resources to be allocated and assessment of performance are made on a consolidated basis. Starting from 2019, following the adoption of IFRS 16 "Leases", the Group redefined the performance measures used. Group performance is currently evaluated by the Management Board based on consolidated revenue, consolidated EBITDAaL, consolidated net income/loss, consolidated organic cash flows, consolidated capital expenditures, consolidated net financial debt and consolidated net financial debt to EBITDAaL ratio based on cumulative EBITDAaL for the last four quarters. Comparative amounts were adjusted accordingly.

Since the calculation of EBITDAaL, organic cash flows, capital expenditures and net financial debt is not defined by IFRS, these performance measures may not be comparable to similar indicators used by other entities.

Starting from 2019, EBITDAaL is the key measure of operating profitability used by the Management Board. The Group decided to replace EBITDA with EBITDAaL (EBITDA after leases) as EBITDA is no longer a relevant measure of operating profitability after the adoption of IFRS 16 because it excludes expenses related to leases.

EBITDAaL corresponds to operating income before depreciation, amortisation and impairment of property, plant and equipment and intangible assets, decreased by interest expense on lease liabilities and adjusted for the impact of deconsolidation of subsidiaries, costs related to acquisition and integration of new businesses, employment termination programs, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items.

Organic cash flows are the key measure of cash flow generation used by the Management Board. Starting from 2019, organic cash flows include repayment of capital of lease liabilities. Organic cash flows correspond to net cash provided by operating activities decreased by payments for purchases of property, plant and equipment and intangible assets and repayment of lease liabilities, increased by impact of net exchange rate effect received/paid on derivatives economically hedging capital expenditures and proceeds from sale of property, plant and equipment and intangible assets and adjusted for the payments for acquisition of telecommunications licences, payments for costs related to acquisition and integration of new businesses not included in purchase price and payments relating to significant claims, litigation and other risks.

Capital expenditures are the key measure of resources allocation used by the Management Board and represent acquisitions of property, plant and equipment and intangible assets. Starting from 2019, this measure excludes capital expenditures financed by leases and acquisition of telecommunications licences.

Net financial debt and net financial debt to EBITDAaL ratio are the key measures of indebtedness and liquidity used by the Management Board.

Additionally, to give a better representation of underlying performance, revenue from the Group's activities for the comparative period is adjusted for the impact of deconsolidation of subsidiaries.

### Reconciliation of operating performance measure to financial statements

<i>in PLNm</i>	<b>1H2019 (IFRS16)</b>	<b>1H2018 (IAS17)</b>
<b>Operating income</b>	<b>209</b>	<b>106</b>
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	1 158	1 277
Interest expense on lease liabilities	-22	-2
Estimation of IFRS 16 impact on operating leases for H1 2018	-	-13 *
Depreciation of property, plant and equipment financed by finance lease in H1 2018	-	-18
Adjustment for the impact of employment termination programs	4	-
Adjustment for costs related to acquisition and integration of new subsidiaries	3	-
Adjustment for the impact of deconsolidation of subsidiaries	1	-
<b>EBITDAaL (EBITDA after Leases)</b>	<b>1 353</b>	<b>1 350 *</b>

\* Data constitutes company's best estimate and was provided for comparative purposes

Key figures (PLN million)	1H 2019 (IFRS16)	1H 2018 (IFRS16) <u>Comparable data</u>	1H 2018 (IAS17) <u>Reported data</u>	Change (IFRS16) <u>Comparable data</u>
Revenue	5,537	5,412	5,416	2.3%
EBITDAaL*	1,353	1,350	n/a	0.2%
EBITDAaL margin	24.4%	24.9%	n/a	-0.5 pp
Operating income *	209	n/a**	106	n/a**
Net income (loss) *	53	n/a**	(66)	n/a**
Capex *	1,019	879	939	15.9%
Organic cash flow *	(16)	(194)	(187)	+ 178 million

\* For more information on financial data please see Note 2 to the Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the first six months of 2019. EBITDAaL (EBITDA after Leases) is management's new principal financial indicator of operating performance using IFRS16 figures. Since the adoption of IFRS16, EBITDA is considered less representative of operating performance because it excludes operating expenses due to leases. Operating income is considered less representative of operating performance owing to the impact of changes in asset lives. At the same time, to preserve consistency, certain other alternative performance measures (capex, organic cash flow and net debt) were slightly amended. Unaudited figures were provided for 2018 for comparative purposes including estimation of EBITDAL.

\*\* Year-on-year evolution of operating income and net income is not comparable because of the changes in accounting standards. Starting from 2019 Orange Polska applied a new accounting standard IFRS16 without restatement of comparative periods. Data for 1H 2019 were prepared under previous accounting standard IAS17.

In 2018, we changed the layout of our revenue reporting. The new layout better reflects our commercial strategy, which is focused on convergent offer sales. Consequently, we now report convergent revenues separately from revenues from mobile-only and fixed-only services (i.e. sales to non-convergent customers).

Revenues (under IFRS16 accounting) totalled PLN 5,537 million in the first half of 2019, up PLN 125 million or 2.3% year-on-year.

Convergence is a strategic drive for revenue growth. Convergence revenues increased 24% year-on-year. This was accompanied by a decrease in mobile-only and fixed broadband-only revenues (down 6% year-on-year) as a result of migration to convergent offers, value focus reflected in service pricing, and market competition. It is important to underline that the growth of convergent service revenues offsets the decline of mobile-only and fixed broadband-only revenues. Combined revenues from these categories were up 1.4% year-on-year in the first half of 2018.

Revenues from IT and integration services maintained a very high growth rate (21% year-on-year). This is consistent with the adopted strategy, which sees strong growth potential in this area. The key growth engines are projects involving provision of professional services to the financial sector and an increase in public procurement.

The revenue evolution in the first six months was also influenced by the following factors:

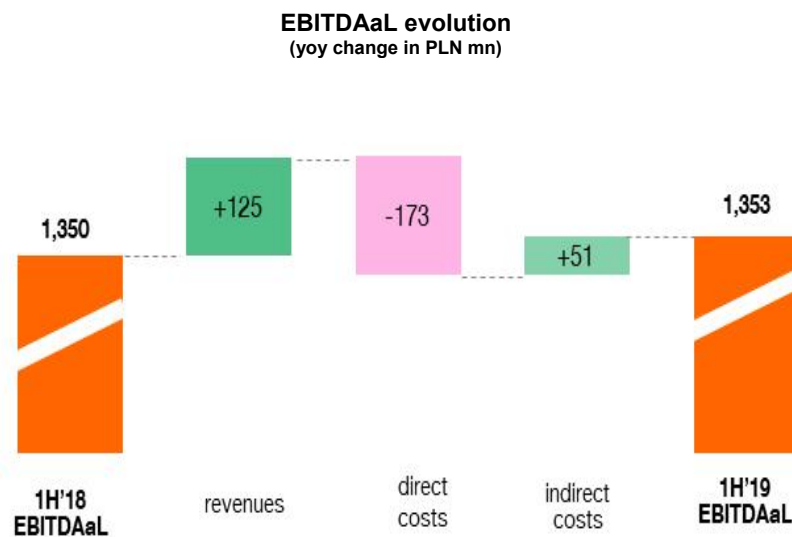
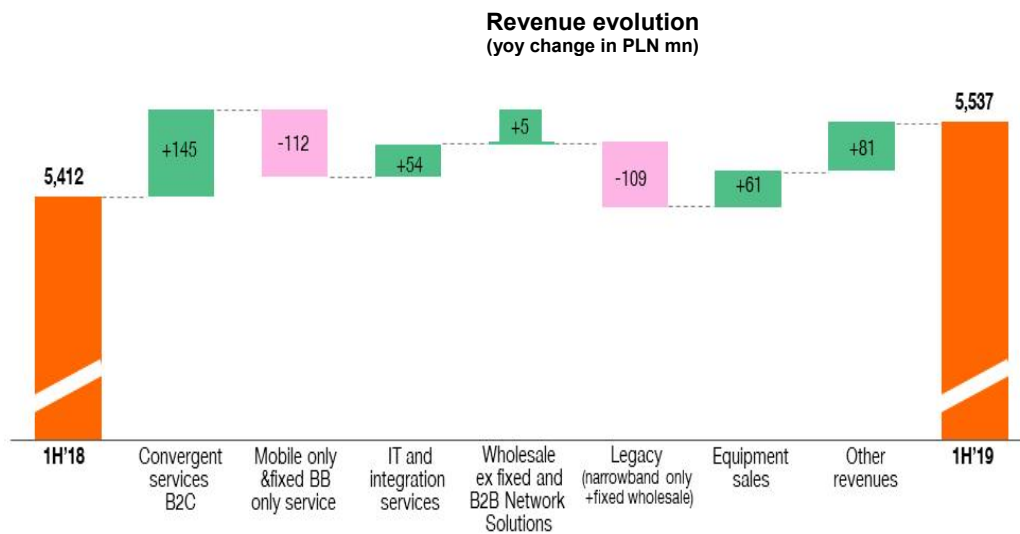
- A further structural decline in fixed voice telephony legacy revenues (by 15% year-on-year);
- 9% growth of mobile equipment sales, mainly as a result of introducing an option of instalment sales at any point during the lifetime of the service contract;
- Very strong growth (over 70% year-on-year) in other revenues, boosted by successful development of energy resale business;
- A 2% decrease in wholesale revenues due to lower revenues from national roaming (under the agreement with Play) and structural decline in revenues from traffic termination on the fixed network.

In the first six months of 2019, total operating costs (defined as EBITDAaL less revenues) increased nearly as much as revenues. As a result, EBITDAaL was almost flat year-on-year. Operating profit margin (ratio of EBITDAaL to revenues) fell by 0.5 pp to 24.4%. The decrease was attributable mainly to a lower margin of revenue mix, reflecting falling high-margin revenues from fixed line services and growing revenues from equipment sales, IT and integration services, and energy resale. However, profitability benefits from value-oriented commercial activity, monetisation of fibre investments and continued significant optimisation of indirect costs. We forecast full-year EBITDAaL growth year-on-year, and we confirm this guidance after the results for the first six months.

Cost evolution can be attributed mainly to the following factors:

- An increase of 3% in commercial expenses, driven mainly by a higher volume of handset sales as a result of introducing an option to purchase handsets in an instalment scheme at any time during the lifetime of the service contract as well as our strategy of attracting customers by offers with handsets;
- A decrease of 6% (year-on-year) in labour costs, mainly owing to workforce optimisation related to the implementation of the Social Agreement; and
- An increase of 24% in other external purchases, driven by purchase costs of energy for further resale (related to higher revenues in this segment), content costs (resulting from TV customer base expansion), and implementation costs of IT/IS projects (related also to revenues).

The results for the first six months were also influenced by an increase of PLN 27 million in gains on sale of real estate.



## 2.1 Convergent Services

One of the key strategic objectives of Orange Polska is to be the leader in telecommunication services sales to households. Convergence, or sales of mobile and fixed-line service bundles, addresses household telecommunication needs in a comprehensive manner, increasing customer satisfaction and reducing churn (as churn rate is significantly lower than among single service users). It also contributes to revenue growth and increased efficiency of IT and marketing spending. Through our convergent offer, we are able to enter new households with our services as well as upsell additional services to households where we are already present, displacing competitors that cannot provide such a comprehensive offer.

In the first half of 2019, we significantly modified our Orange Love convergent offer, which is our flagship proposal for Polish households. In addition to the existing packages, Mini (broadband + SIM card) and Standard (broadband + SIM card + home phone + TV package of around 100 channels), we introduced two richer packages called Extra and Premium. These have been designed mainly for customers looking for much richer TV content and more abundant mobile data packages on the SIM card. Before, customers could also create similar packages themselves. Now, the choice is simpler and the price is more attractive. All packages can be still extended to include broader TV packages, additional mobile post-paid services at a discounted price or added-value services, such as Orange TV GO or multiroom. The offer is supplemented by a broad portfolio of smartphones offered on instalment schemes.

Another major change was an increase in price of the Standard package of Orange Love from PLN 99.99 to PLN 110. In return, the fibre broadband speed increased to 300 Mbps (from 100 Mbps) and the mobile data package increased to 7 GB (from 5 GB). The prices of the other packages did not change. Higher service prices are in line with our strategy focused on value and growth of revenue and profits.

Sales remained high, despite considerable saturation of our broadband customer base with convergent services (60%). The majority of new mobile and fixed broadband service sales are still effected in the convergent bundle formula. Our convergent offer is a major competitive advantage over CATV operators, as they provide no or very limited mobile services.

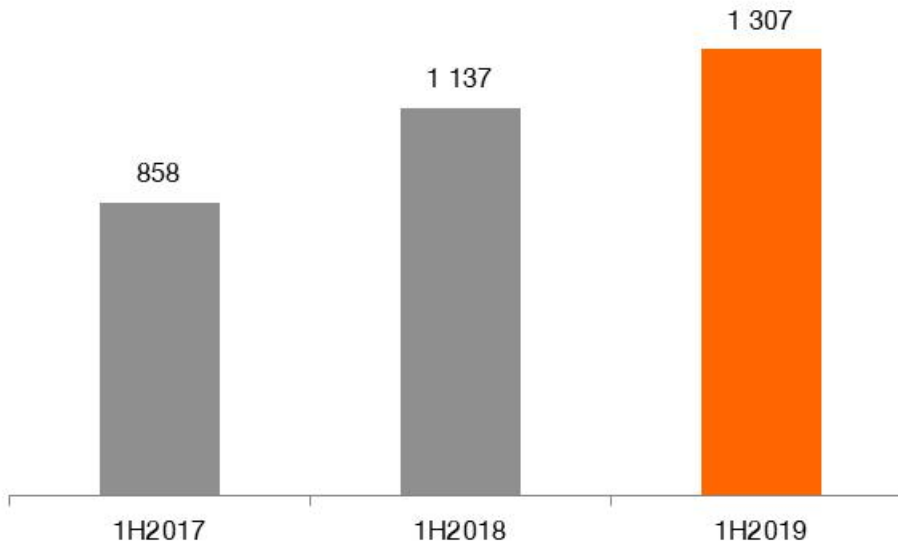
In the first six months of 2019, our B2C convergent customer base increased by 71 thousand (or 6%), reaching 1,307 thousand. The total number of services provided in the convergence scheme among B2C customers reached almost 5.4 million. On average, each convergent individual customer uses more than four Orange services, and this ratio is on a stable upward trend owing to upsell of additional mobile and TV services. The share of convergent customers in the aggregate base of residential customers of fixed broadband and mobile voice services is shown in the diagram below. This share has considerably increased owing to the attractiveness of the Orange Love offer and the prioritisation of convergence at Orange Polska. Currently, exactly 60% of B2C fixed broadband customers have convergent bundles.

Our convergence strategy has been reflected in a new layout of revenues. Since the beginning of 2018, we have been separately reporting revenues from this group of customers.

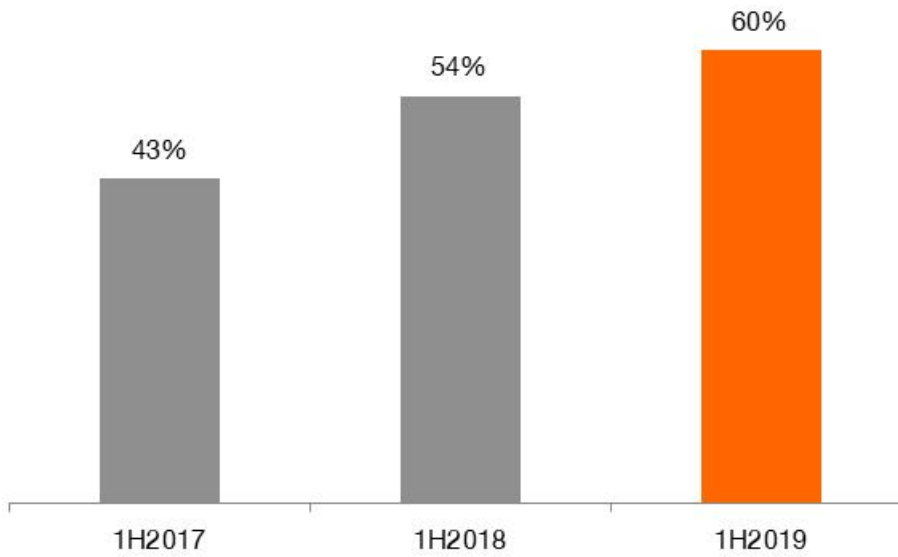
(IFRS16) Comparable data	For 6 months ended		Change
	30 June 2019	30 June 2018	
Convergence revenues (PLN mn)	753	607	24%
Convergence ARPO (PLN)	101.7	101.6	0.1%

In the first half of 2019, revenues from convergent services totalled PLN 753 million and were up 24% year-on-year. The increase was driven by customer base growth. In the same period, average revenue per customer remained virtually flat, which is an improvement compared to a 4% decline reported in 2018. The trend improvement in the trend is attributable to focus on value and upsell of services.

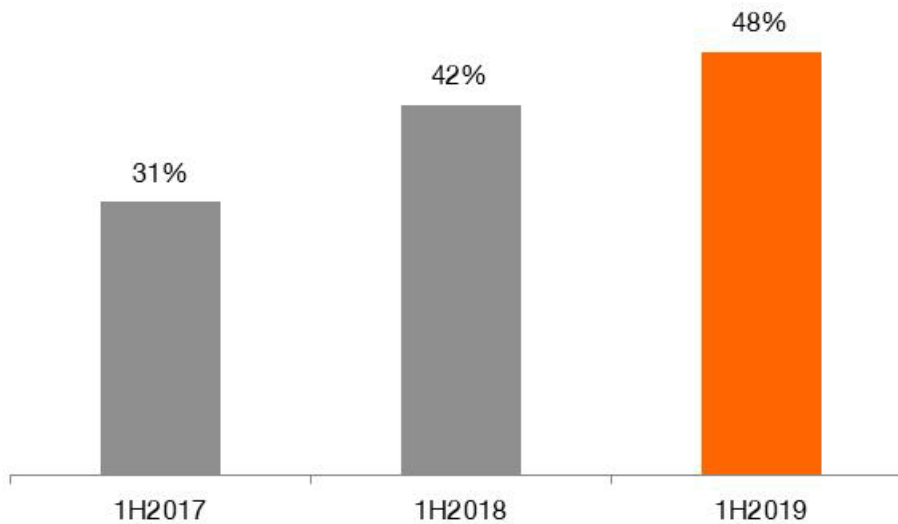
**Orange Polska's B2C convergent customer base (in '000)**



**Convergence penetration in B2C fixed broadband customer base**



**Convergence penetration in B2C mobile handset post-paid customer base**



## 2.2 Mobile-only Services

Revenues (PLN million)	For 6 months ended		Change 2019/2018 <u>Comparable data</u>
	30 June 2019 (IFRS16)	30 June 2018 (IFRS16) <u>Comparable data</u>	
Mobile-only services	1,286	1,366	-5.9%

Key performance indicators (number of services) ('000)	30 June 2019	31 Dec 2018	30 June 2018	Change 30.06.2019/ 31.12.2018	Change 31.12.2018/ 30.06.2018
Post-paid mobile services	10,040	9,922	9,790	1.2%	1.3%
convergent	2,486	2,369	2,183	4.9%	8.5%
mobile-only	7,554	7,553	7,607	0.0%	-0.7%
Pre-paid mobile services	4,924	4,883	4,694	0.8%	4.0%
Total mobile services	14,964	14,805	14,484	1.1%	2.2%

Key performance indicators (PLN)	1H 2018	1H 2017	1H 2016	Change 2018/2017	Change 2017/2016
Monthly blended retail ARPO from mobile-only services	20.1	21.8	22.7	-7.8%	-4.0%
post-paid (excluding M2M)	27.0	28.9	32.9	-6.6%	-12.2%
pre-paid	11.5	12.1	10.3	-5.0%	17.5%

As at the end of June 2019, Orange Polska had a mobile services base of 15.0 million, which is an increase of slightly over 1% vs. the end of 2018. The growth rate was roughly similar in the post-paid and pre-paid segments.

The post-paid segment has seen stable SIM card trends since the beginning of 2018:

- Sales of handset offers grow by approximately 1% each quarter, as a result of the consistent implementation of a value-based commercial strategy and concentration on the Orange Love convergent offer in customer acquisition;
- As expected, the number of mobile broadband services continues to fall due to increased popularity of mobile broadband for fixed use offers as well as growing data packages for smartphones in mobile voice tariff plans (it was down almost 10% in the first half of 2019);
- The number of SIM cards related to M2M services grows rapidly (it was up almost 7% in the first half of 2019),

In order to better reflect our commercial strategy, since the beginning of 2018 we have been presenting separately convergent mobile customers and those who use mobile services only. The number of the former grows rapidly, driven by convergent customer base expansion and upsales of additional SIM cards to Orange Love customers. On average, there are almost two SIM cards per convergent customer, and this ratio is on an upward trend. A decrease in non-convergent services can be attributed to migration to convergence, churn, lower migration from pre-paid services (as a result of their higher price attractiveness) and phasing-out of old value-diluting offers.

Blended ARPO (from mobile-only services) amounted to PLN 20.1 in the first six months of 2019 and was down 8% (year-on-year). The decrease resulted from a combination of a 5% decline in pre-paid ARPO and an approximately 7% decline in post-paid ARPO.

The post-paid ARPO decline was significantly lower than in 2018, when it was 10%. It was influenced by the following factors:

- popularity of family offers, in which customers get several SIM cards and which involve price discounts;
- substantial decrease in mobile broadband ARPO, resulting from much lower take-up of this service;
- price competition in both business and consumer markets.

### 2.2.1 Market and Competition<sup>1</sup>

The estimated number of SIM cards in Poland (53.4 million) increased by 2.5% compared to the end of June 2018, driving the penetration rate (among population) to 139% at the end of June 2019. The first six months saw the continuation of the trend of post-paid and M2M customer base growth accompanied by decline in both pre-paid and mobile broadband (largely due to migration to fixed broadband services).

The mature mobile market in Poland is characterised by low prices. While designing offers for both residential and business customers, MNOs seek more value from added-value services in mobile packages. As offers with unlimited voice calls and SMSs/MMs have become a market standard, the size of a mobile data package has become a differentiator. Growing data packages contribute to more intensive usage of digital services, but negatively affect the popularity of mobile broadband offers due to tethering, i.e. sharing of the mobile phone's Internet connection with other devices. Operators' involvement in large investment programmes (fibre networks, mobile network development and preparations for 5G launch) as well as enhancement of traditional bundles with added-value services were reflected in an increase in prices in the mobile market in the second quarter of 2019. On the other hand, price promotions still play the leading role in marketing strategies in the mobile market. When choosing voice offers, customers are still sensitive to price, but they also increasingly consider other elements, such as added-value services offered by the operator itself (e.g. insurance) or by its partners from the digital domain (i.e. social, music or video platforms).

The pre-paid market saw a decrease in the volume of services. Despite migration of customers to post-paid services (including those offered by MVNOs), pre-paid offers still have a considerable market share because of their competitiveness and characteristics.

Due to differences among operators in reporting pre-paid SIM cards, their comparative analysis is still difficult.

According to Orange Polska's own estimates, the four leading operators' aggregated market share remained at 98% as of the end of June 2019, with Orange Polska's estimated market share of 28.1%.

### 2.2.2 Mobile Voice and Data Services

In connection with the market launch of the Orange Love offer in February 2017, we focused on our convergent offer in customer acquisitions, as it enables upsales of additional services and contributes to higher loyalty of customers. Currently, the convergent formula accounts for a major share in mobile voice acquisitions. The post-paid mobile-only customer base decreases mainly as a result of migration to convergence but also due to churn.

In the first six months of 2019, the key developments related to our mobile portfolio were the revision of our mobile plans and the launch of Orange Flex.

As part of our 'more for more' approach, we raised all four subscription fees by PLN 5, while offering in return increased data packages for use in Poland and across the European Union. The rationale behind this move included: higher demand for data transmission, more stable competitive environment in the mobile market, very low prices of telecommunications services in Poland, and favourable macroeconomic environment in Poland. Higher service prices are in line with our strategy focused on value and growth of revenue and profits.

In May 2019, we launched a very innovative offer called Orange Flex. It is a fully digital offer supported by an application on the phone, which enables customers to adjust their mobile plans using their smartphones and subsequently change packages depending on their needs with no loyalty agreements involved. Customers can choose from among ten tariff plans which differ in data usage limits. They can change these plans (even every month), buy additional services in real time or even temporarily disable services with no consequences. Payments are effected with a payment card attached to the application, so there is no need for invoices.

In line with our value-based strategy, we still followed a policy of low handset subsidies, which was introduced in 2017. We also continued to offer an option to purchase handsets in an instalment scheme at any time during the lifetime of the service contract (which had been introduced in the second half of 2018). Before, customers could only buy a new smartphone on an instalment basis when concluding or renewing their contracts. Now, they can be much more flexible in this respect, which increases our competitiveness in the smartphone market versus other sales channels. We have thus addressed the needs of customers who either look for novelties or have lost their handset for whatever reason and need a new one. As a result, we have significantly increased smartphone sales and enhanced customer loyalty.

The most important development in the consumer market was the introduction of higher service prices, accompanied by increased data packages, by three out of four operators in the second quarter. It is a colossal change over previous years, when fierce competitive struggle led to lower and lower prices.

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<sup>1</sup> Analysis of the mobile market, excluding wireless for fixed offers.

As for other key trends in the B2C market, in the first half of 2019 there were no significant changes versus 2018:

- With rapidly growing demand for data transfer, the volume of data package has become the key competitive differentiator.
- An attractive portfolio of modern smartphones remains a differentiator in competition for customers. Operators now more actively promote sales of smartphones and other accessories independently of a service contract.
- Households are increasingly the main arena of competitive struggle in contrast to earlier competition for single customers. Customers can get price benefits, sometimes significant, for buying a bundle of several services, which contributes to the popularity of multi-SIM family offers. A part of this trend is the growing take-up of convergent offers, which combine mobile and fixed-line services.
- As a product category, mobile broadband has been less and less attractive, mainly due to attractiveness of the wireless broadband for fixed offers as well as growing volumes of data packages in voice offers.
- Looking for other differentiators, in addition to price, operators offer new services, such as access to music services or TV content.



## 2.3 Fixed-only Services

Revenues (PLN million)	For 6 months ended		Change 2019/2018 <u>Comparable data</u>
	30 June 2019 (IFRS16)	30 June 2018 (IFRS16) <u>Comparable data</u>	
Fixed-only services	1,121	1,249	-10.2%
fixed narrowband	477	559	-14.7%
broadband, TV and VoIP	432	464	-6.9%
enterprise solutions and networks	212	226	-6.2%

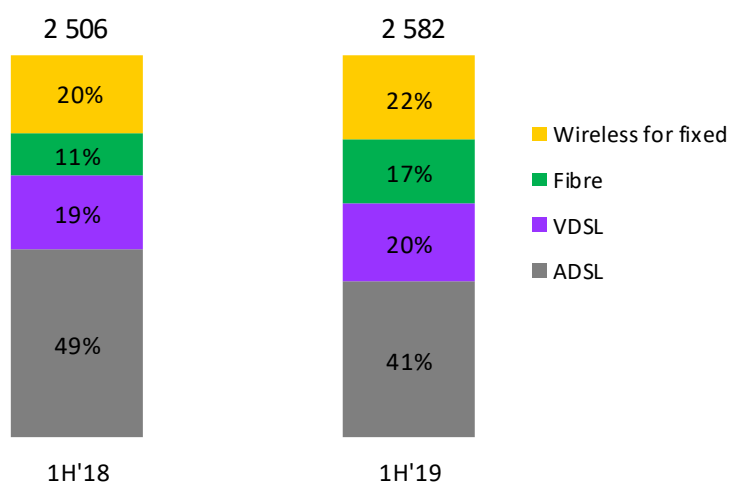
Key performance indicators (number of services) ('000)	30 June 2019	31 Dec 2018	30 June 2018	Change 30.06.2019/ 31.12.2018	Change 31.12.2018/ 30.06.2018
Fixed voice services (retail: PSTN and VoIP)	3,259	3,407	3,541	-4.3%	-3.8%
convergent	800	755	718	6.0%	5.2%
fixed-only	2,459	2,652	2,823	-7.3%	-6.1%
Fixed broadband accesses (retail)	2,582	2,560	2,506	0.9%	2.2%
convergent	1,307	1,236	1,137	5.7%	8.7%
fixed broadband-only	1,275	1,324	1,369	-3.7%	-3.3%

Key performance indicators (PLN)	1H 2019	1H 2018	1H 2017	Change 2019/2018	Change 2018/2017
ARPO from fixed narrowband-only (PSTN) services	36.3	36.5	37.2	-0.5%	-0.8%
ARPO from fixed broadband-only services	55.2	56.6	57.7	-2.5%	-1.9%

Total fixed broadband customer base increased by 1% in the first half of 2019, reaching 2,582 thousand. The trend did not change compared to 2018. Decline in the mostly non-competitive ADSL technology was offset by growth in VDSL, fibre and wireless for fixed. The share of these growing technologies in the aggregate customer base increased to 59% at the end of June 2019 (from 55% at the end of 2018). We expect this transformation to continue as a result of the steady implementation of our convergence strategy and further investments in the fibre network.

In connection with a new layout of revenue reporting, since the beginning of 2018 we have separated convergent broadband customers (their number equals to that of convergent customers) from non-convergent broadband customers. Our non-convergent broadband customer base shrinks as a result of migration to convergence but also due to churn. As a consequences, revenues in this category decrease. Broadband ARPO also decreases, mainly due to a declining share of customers with a TV service, as they migrate to convergence.

### Broadband customer base (in thousand)



Erosion of the fixed voice customer base (excluding VoIP) totalled 198 thousand in the first six months of 2019 and in relative terms was similar to that in previous periods. The decline can be attributed mainly to structural demographic factors and the popularity of mobile services with unlimited calls to all networks. It is also a result of our convergence strategy, which stimulates partial migration of customers to VoIP. Revenue erosion was nearly 15%, remaining at a similar level to 2018. We expect this downward trend to continue in subsequent periods. A positive trend, however, is the stabilisation of average revenue per user.

#### 2.3.1 Market and Competition

##### *Fixed Voice Market*

The Group estimates that the fixed line penetration rate was at 17.6% of Poland's population at the end of June 2019, as compared to 18.5% at the end of June 2018. The decline is still attributable mainly to growing popularity of mobile technologies. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a substitute to fixed line telephony. The aforementioned downward trend has been also affecting regulated fixed-line wholesale products based on traditional infrastructure (WLR and LLU).

##### *Fixed Broadband Market*

According to Group's estimates, in the first half of 2019, the total number of fixed broadband access lines, including wireless for fixed technology, increased by 0.1 million as compared to the end of 2018. This can be attributed to two factors: intensive roll-out of fibre infrastructure and high popularity of mobile broadband for fixed-line uses.

The high-speed fixed broadband market has been constantly expanding and growing in Poland, especially in urban areas, with Orange Polska contributing greatly to the growth. In the first six months of 2019, Orange Polska's high-speed broadband customer base increased by 92 thousand. The key growth drivers were rapidly growing range of our fibre network, modernisation of our VDSL network as well as our convergent offer competitive to cable television (CATV) operators.

Orange Polska's increased activity in the high-speed broadband segment has stimulated the already highly competitive market environment and forced CATV operators to upgrade and enhance their offer even more quickly. As a result of such efforts, the position of CATV operators remains strong. According to Orange Polska's estimates, CATV operators' aggregate share in Poland's fixed broadband market stood at 31.7% by volume or 27.7% by value in the first half of 2019.

The rapid growth of the high-speed fixed broadband and wireless for fixed customer base, accompanied by a decline in the customer base of the less competitive ADSL technology, was reflected in an increase in the aggregate number of Orange Polska's broadband users by 22 thousand in the first half of 2019.

According to internal estimates, Orange Polska had the following share in the fixed broadband market:

#### Fixed broadband market – key performance indicators

	30 June 2019 (estimate)	30 June 2018
Market penetration rate – broadband lines (in total population)	23.7%	23.0%
Total number of broadband lines in Poland ('000)	9,111	8,831
Orange Polska's market share by volume	28.3%	28.4%

#### Fixed voice market share in June 2018

	30 June 2019 (estimate)	30 June 2018
Retail local access <sup>2</sup>	48.1%	49.9%

### 2.3.2 Fixed Line Data Services

Due to great differences in the competitive environment, the technological options related to population density, our market shares and customer needs, Orange Polska uses a local approach in its activities, which varies in big cities, medium to small towns and rural areas.

In big cities we focus on development of fibre coverage and recovery of market share in fixed broadband by capitalising on our excellent position in the mobile market; whereas in rural areas mobile technologies, supplemented by fixed ones, are the primary broadband access solution. Our main challenge is to defend the fixed broadband customer base, particularly by cross-sales of mobile services.

As at the end of June 2019, almost 3.8 million households were connectable with the fibre network, which is an increase of over 400,000 compared to the end of 2018. Our fibre services are available in 130 cities compared to 117 cities at the end of 2018. In 66 cities, our fibre network reaches over 50% of all households. In 2019, we have focused more on developing our network in smaller towns, where some districts are dominated by single-family houses. These accounted for 37% of the total network roll-out. On one hand, it involves much higher investments, but on the other hand, we expect much higher demand for our services in single-family house despite the fact that fibre broadband is more expensive for such customers. In the first half of 2019, a significant portion of the fibre network expansion to single-family houses was effected over the infrastructure of other operators (mainly Inea).

Our fibre customer base reached 434 thousand, growing by over 50% (or 148 thousand) year-on-year. This corresponds to a service adoption rate of over 11%, which grows steadily. It should be noted that over 80% of fibre activations are new broadband customers for Orange which means that our market share is increasing. It is specific to the Polish market that customers sign two-year loyalty agreements, which is a factor slowing down customer migration from cable networks to our fibre network.

As for portfolio developments, we have been greatly promoting convergence, using our strong position in the mobile market. It is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. The Orange Love offer launched in February 2017 greatly contributes to the achievement of these goals. At the end of June 2019, penetration of convergence in our fibre customer base was 58%.

Responding to the growing demand for fast broadband services and following our 'more for more' strategy, we introduced changes in our fixed broadband portfolio in June. We increased both download and upload speeds in the fibre technology (graphic below):

Download (upload) speed in Mbps	
Old	New
100 (10)	300 (50)
300 (30)	600 (100)
1 Gbps (100)	1 Gbps (300)

<sup>2</sup> Without Wholesale Line Rental but with Orange WLR and VoIP services, which are the equivalents of subscriber lines.

Accordingly, we introduced changes in our price lists. The same price now applies throughout the 24-month term of the service contract, while previously there were different prices in the first and the second year. The effective price for customers is by PLN 5 higher. Moreover, fixed broadband is now offered for the same price regardless of technology (before, there was a different price for wireless for fixed).

A major factor in competing for fixed broadband customers is the quality of the TV offer. Notably, the Polish market is characterised by very little exclusive content. Even expensive TV content (such as rights to broadcast sports events), which in Poland is acquired mainly by satellite platforms, is broadly distributed to cable televisions. Orange Polska continues to follow its strategy as a content distributor, co-operating with all content providers. In February 2017, the launch of the Orange Love offer was accompanied by the introduction of a new set-top box with expanded functionalities. In addition to improved menu ergonomics, the decoder enables recording up to three programmes simultaneously and watching 4K TV. Thus, Orange Polska became the first nationwide pay TV operator to provide content at 4K resolution.

In rural areas, mobile technologies are the primary broadband access solution and constitute the basis for our wireless for fixed offers. Owing to convenience (no complicated installation) and high quality of our mobile network, such offers are very popular among customers.

Our fixed broadband customer base has been subject to thorough transformation. The non-competitive ADSL technology has been increasingly replaced by growth technologies, mainly fibre and wireless broadband for fixed, which is possible owing to our investments in network quality.

### 3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

#### 3.1 Market Outlook

Orange Polska expects the telecommunications market to grow in the coming years. In a short-term perspective, the market will be driven by the following factors: rapid expansion of very high-speed broadband access (above 30 Mbps), owing to fibre infrastructure investments and an increase in LTE coverage, as well as growing post-paid volume in the mobile segment. At the same time, the telco services market will be under pressure due to continuing fixed-to-mobile substitution, both in terms of fixed telephony and traditional broadband (DSL, below 30 Mbps). In the long run, the market growth will be stimulated by the development of 5G services. This, however, requires support by the State, which should cut red tape on the investment process and, possibly, verify Polish electromagnetic field (EMF) emission standards, which are currently among the most restrictive in Europe. We expect growing penetration of fixed broadband in the coming years, driven by the on-going digitisation of the society and economy, including development of e-commerce, Internet of Things, e-administration etc. Growing demand will be satisfied by increased supply of fixed broadband owing to EU-financed investment projects carried out by Orange (with a total of 1.8 million lines to be constructed) and other telecom operators, as well as constant improvements in mobile connectivity. The activity of operators as well as agreements between them on using the constructed infrastructure, such as the one between Orange Polska and T-Mobile to provide access to 1.7 million households in multi-family houses in deregulated areas, will bring Poland closer to meeting the European Digital Agenda objectives. The new infrastructure is largely based on the fibre technology, so it could likely be used for the future 5G network.

As for the mobile services market, we predict competition to shift from simple price cuts towards quality-based competition. We expect the market growth to be driven by bundled and convergent offers, as well as a trend of offering an increased number of services and a larger data package (in case of mobile offers) for a higher price. On the B2B market we expect volume growth to continue as a result of an increase in the number of employees and companies as well as the development of the knowledge-based economy. We expect growing popularity of telco offers combined with ICT and machine-to-machine (M2M) services.

In August 2018, the market's second largest cable operator, Vectra, attempted to acquire Multimedia Polska. Despite reports on withdrawal of both companies from the attempted merger, as announced by UOKiK the process is still formally open and the transaction is being reviewed by the latter. If the transaction were finalised, Vectra would become the largest cable operator in Poland in terms of reach.

Telecom operators are trying to expand their operations into the area of ICT through acquisitions, as illustrated by the acquisition of BlueSoft (specialising in the design and development of dedicated applications) by Orange Polska.

#### 3.2 Orange.one Strategy

##### **Orange.one: A new momentum for Orange Polska**

In September 2017, we announced a new strategic plan for 2017–2020 called *Orange.one*. Our vision is to become Poland's first choice telecommunications operator for consumers and businesses by 2020, while creating a business model that will generate sustainable growth in both sales and profits. We expect to achieve these objectives by developing services and products of unmatched quality, supported by the comprehensive development of our fibre network and digital capabilities, and by significantly increasing our operational efficiency.

*Orange.one* reaffirms the key priorities of the strategy announced at the beginning of 2016, while giving them a new momentum. To achieve the goal of sustainable turnaround, we will need better execution, clearer focus and more agility. All our business decisions will be driven to a greater extent by value creation, and our customer propositions will be driven by simplicity and consistency. Poland's telecommunications market is characterised by very intense competition and even though there are some clear signs of a shift towards value-oriented strategies, we do not expect any significant change in the level of competition.

##### **We have right assets at hand**

We believe to have adequate assets to implement our strategy, and what we need is better execution to get the proper return and value out of these assets. We have Poland's largest base of mobile and fixed line customers, who have trusted us. For several years we have been heavily investing in our mobile and fixed networks and their connectivity has been appreciated by both retail and wholesale customers. We operate under a global and broadly recognised brand, which is a major source of competitive advantage, as it is considered innovative and enjoys very high awareness. The Company's another strength is highly motivated and skilled employees, in whom we invest to make them contribute to value creation.

### **Consumer market strategy driven by convergence**

The key to success in the B2C market is convergence, or sales of mobile and fixed line service bundles. Convergence addresses the household telecommunication needs in a comprehensive manner, increases customer satisfaction and reduces churn. We still see a great potential in convergence for both upselling additional services to the households where we are already present and entering new households with our services. According to our research, about 90% of Polish households still buy telecom services from several suppliers. A fast, modern and reliable network is a critical factor to success in convergence. Our ambition is to have over 5 million households, or about 40% of all households in Poland, connectable to our fibre network by 2020. While implementing our strategy in the mass market, we also account for customers who for some reason do not need or do not want convergence, offering them attractive tariff plans and equipment at competitive prices. In customer acquisition and retention, our guiding principle will be to create value for the Company.

### **Business market strategy driven by digital transformation**

In the B2B market, our main ambition is to become the first choice partner for our customers in digitisation. Digitisation is currently the key transformation process in business organisations with respect to both their internal environment and their products and services. This process involves increased demand for data transmission, business migration to the cloud, increased cybersecurity needs and demand for tailor-made and much more flexible ICT solutions. Development in these areas is our priority. We continue to improve connectivity, which provides the basis for digitisation of both corporations and small businesses. Convergence, which is the key growth engine in the B2C market, is also a pillar of our offer to small to medium companies, often supplemented by an ICT component. In the next few years, the Internet of Things will remain a major growth area. We continue development also in this segment, benefiting from the fact that we are currently the market leader in machine-to-machine (M2M) services.

Our common ambition for both B2B and B2C segments is to achieve the number one position in NPS (Net Promoter Score) ranking on the Polish market by 2020.

### **Financial goal: Sustainable growth of revenue and EBITDA in 2020**

Proper implementation of the *Orange.one* strategy is to lead to the development of a business model, which will enable us to return to a sustainable and stable growth path. In financial terms, this should result to a gradual improvement in trends, generating sustainable revenue and EBITDA growth.

It is to be driven by the following factors:

- significant growth of convergent customer base and convergent services,
- more focus on value generation,
- successful development in adjacent business areas (ICT, Orange Energy, Orange Smart Care, sales of equipment), and
- a diminishing share of legacy services in total revenues.

The improving revenue trend will contribute to an improvement in the EBITDA trend, which will be also driven by operating leverage and continued cost optimisation. We forecast a reduction of underlying indirect costs by 12–15% by 2020 versus 2016. Savings will be generated across all cost groups, including labour, outsourcing, general & administrative, energy and network maintenance costs. They will result largely from comprehensive transformation of Orange Polska's processes at each stage of our business model: networks, products and services, distribution and customer care. The process transformation will aim at their simplification, automation and digitisation.

The intended capex will reflect our connectivity programme and business transformation needs. Our capex ambition is to spend at least PLN 2 billion annually by 2020, including ambition to spend ca PLN 2.8 billion on fibre network deployment in 2018–2020 to cover more than 5 million households by the end of 2020.

### **Current performance and expectations validate strategic objectives**

We believe that our financial performance in both 2018 and the first half of 2019 as well as our expectations for 2019 full year results validate our *Orange.one* strategy. Following a significant decrease in adjusted EBITDA erosion in 2017, it increased 3.1% last year. It was the first improvement in adjusted EBITDA after twelve years of decline. The growth was mainly a result of the implementation of our convergence strategy, monetisation of fibre network investments, steady focus on value generation in our commercial activities, very high cost savings and record gains on disposal of real estate. EBITDA improved despite continued structural pressure on high-margin traditional fixed line services, the erosion of which almost fully filters through to profits. In 2019, we intend to sustain this growth through consistent implementation of our strategy.

A major factor that will positively influence the implementation of our strategy is an increase in most prices in the consumer market, which occurred in the second quarter of 2019. Other mobile operators also either effected or declared price increases. Higher service prices are in line with our strategy focused on value and growth of revenue and profits. We expect that such prices will gradually contribute to improvements in the ARPO, revenue and EBITDAaL trends.

The diagram below illustrates the expected gradual improvement in financial trends as well as our initial Capex expectations:

**IFRS 16**

		2018	2019	2020
<b>Revenue</b>	Growth areas to increasingly offset pressure on legacy	approached stabilisation	–stabilisation* growth	growth
<b>EBITDAaL</b>	To be supported by better revenue trend, operating leverage and continued cost optimisation	–stabilisation* growth**	growth	growth
<b>CAPEX</b>	Reflects connectivity programme and business transformation needs	PLN2.1bn	PLN2.0-2.1bn	PLN~2.0bn

\* As presented during strategy presentation in September 2017

\*\* Adjusted EBITDA growth under IAS18

### 3.3 Listing of Orange Polska S.A. Shares on the Warsaw Stock Exchange

Since November 1998, shares of Orange Polska S.A. (formerly Telekomunikacja Polska S.A.) have been listed on the primary market of the Warsaw Stock Exchange (WSE) within the continuous listing system.

The Company's shares are included in the following indices:

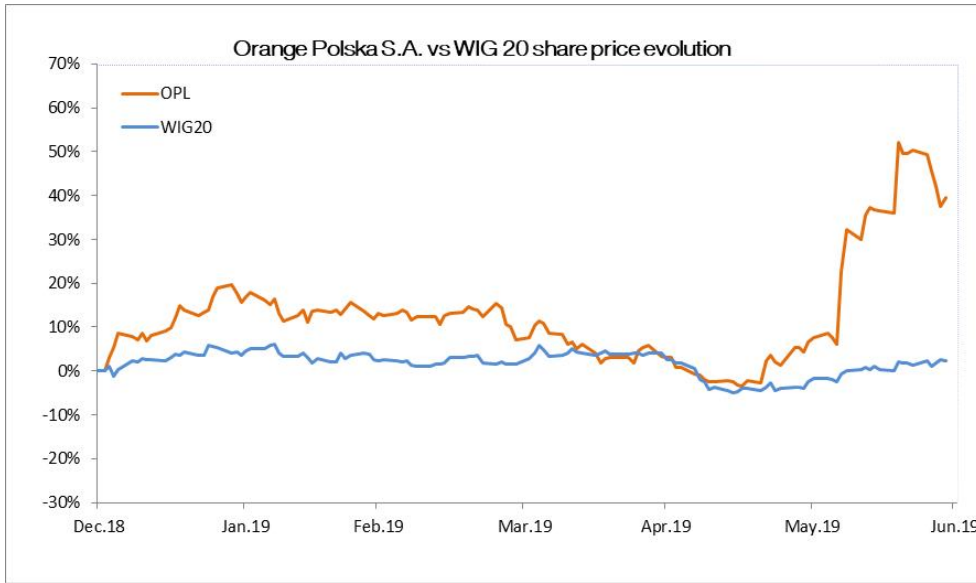
- WIG20 and WIG30 large-cap indices;
- WIG broad-market index;
- WIG-telecommunication industry index; and
- RESPECT Index of socially responsible companies.

In the first six months of 2019, Orange Polska S.A. was once again included in a prestigious group of listed, socially responsible companies. The new portfolio of the RESPECT Index announced by the Warsaw Stock Exchange comprises 31 companies. Orange Polska S.A. has been present in the index portfolio since its first edition. The RESPECT Index has been increasingly popular among companies and investors, who have noticed a link between consideration for social and environmental impact and financial performance.

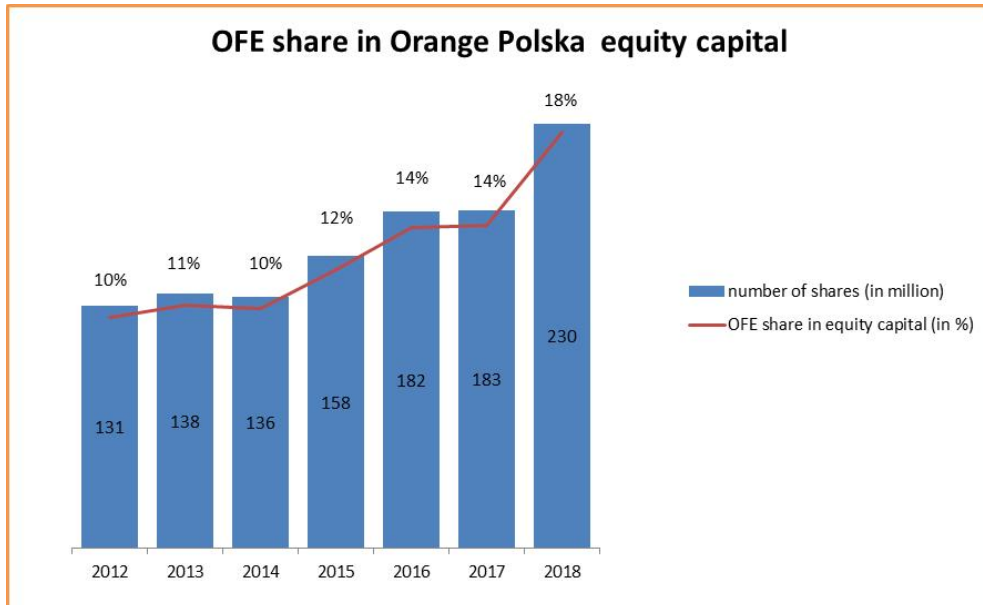
In addition, Orange Polska S.A. has been included in the global FTSE Russell's ESG Ratings, a global index that measures company's performance across environmental, social and governance (ESG) areas.

The first six months of 2019 saw gains in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were up 40.9%, while the large-cap index, WIG20, gained 2.3% in the period.

ORANGE POLSKA S.A. SHARE PRICE in the period from June 30, 2018 to June 30, 2019



A diagram of Polish Open Pension Funds (“OFE”) total shareholding in Orange Polska S.A. as of the end of 2018 and previous years is shown below. The figures indicate that a stake held by these Funds in Orange Polska’s share capital has been growing since 2012 and at the end of 2018 was at a historic high. A total of ten Open Pension Funds operated in the Polish capital market in 2019.





Recommendations and reports for Orange Polska S.A. shares are issued by the following financial institutions (according to the Company's knowledge as of the date of this report)\*:

Name of the Institution
Citigroup
Dom Maklerski Banku Ochrony Środowiska
Dom Maklerski mBanku
Dom Maklerski PKO Bank Polski
Dom Maklerski Santander
Erste Bank Investment
Goldman Sachs
Haitong Bank
HSBC
Ipopema Securities
Pekao Investment Banking
Raiffeisenbank AG
Trigon Dom Maklerski
VTB Capital
Wood & Company

\*For an updated list of brokers with the related institution data please visit the Company's website at [www.orange-ir.pl](http://www.orange-ir.pl)

### 3.3.1 Orange Polska S.A. Incentive Programme Based on Phantom Shares

On September 4, 2017, the Supervisory Board adopted the ("the Programme") for the Management Board Members, Executive Directors and key managers of Orange Polska S.A., including selected members of management boards of subsidiaries of ("the Participants"), which is based on derivative instruments ("phantom shares"), whose underlying asset is the Orange Polska S.A. share price on the regulated market operated by the Warsaw Stock Exchange.

The purpose of the Programme is to provide additional incentives to motivate senior managers to achieve mid-term commercial and financial objectives, resulting from Orange Polska's new strategy, which will lead to increasing the value of the Company's shares.

The terms of the Programme are as follows:

1. Participation in the programme shall be voluntary.
2. By October 31, 2017, the Programme Participants could purchase a total of up to 2,315,000 phantom shares from the basic pool for a price of PLN 1 per phantom share.
3. In case of meeting certain criteria described in the detailed Regulations of the Programme regarding the average price of Orange Polska shares and NPS (Net Promoter Score), the Participants shall purchase additional packages of up to 1,438,500 and 616,500 phantom shares, respectively.
4. Phantom shares shall be bought back from the Participants by the Company, at Orange Polska's average share price in the first quarter of 2021, only in the case it is not lower than the arithmetic mean of Orange Polska's closing share prices in the third quarter of 2017 (which was PLN 5.46). Otherwise, phantom shares shall not be bought back, resulting in the loss of invested funds by the Participants.

More than 90% of managers have chosen to participate in the Programme.

## 4 MATERIAL EVENTS THAT HAD OR MAY HAVE INFLUENCE ON ORANGE POLSKA'S OPERATIONS

Presented below are the key events that, in Management's opinion, have influence on Orange Polska's operations now or may have such influence in the near future. Apart from this section, the threats and risks that may impact the Group's operational and financial performance are also reviewed in this Chapter IV.

### 4.1 Implementation of Orange Polska's Strategy: *Orange.one*

In September 2017, Orange Polska announced *Orange.one*: new strategic plan for the years 2017–2020. According to the Company's strategic vision, Orange Polska aims to become Poland's telecommunications operator of first choice for consumers and businesses, while creating a corporate business model that will generate sustainable sales and profit growth. These objectives are to be achieved by developing unmatched quality of services and products, supported by comprehensive development of its fibre network and digital capabilities, and by increasing significantly its operational effectiveness and efficiency. *Orange.one* assumes continuation of the key efforts initiated by the action plan announced in February 2016, while giving them a new momentum. The key to success will be better execution, clearer focus and more speed and agility. All decisions will be influenced by long-term value creation and all customer propositions will be driven by simplicity and consistency.

In financial terms, the new strategic plan is to result in a gradual improvement in trends of revenues and EBITDA and their sustainable growth from 2020. This will be supported mainly by concentration on the convergence strategy, monetisation of fibre network investments, development of complimentary business areas, focus on value generation and significant optimisation of underlying indirect costs. The plan provides for considerable capital expenditures to 2020, resulting mainly from intensive roll-out of the fibre network.

### 4.2 Implementation of the 'More For More' Strategy in the Consumer Market

In the first half of 2019, we changed our price lists of most services to mass market customers. The higher prices are a consequences of, inter alia, the following developments:

1. Changing needs of customers, which is reflected in growing demand for data transmission and faster fixed broadband services;
2. More stable competitive environment in Poland's telecommunications market, particularly its mobile sector;
3. Very low prices of telecommunications services in Poland as compared to other EU member states;
4. Favourable macroeconomic environment in Poland.

In our mobile voice tariffs, we raised all four subscription fees by PLN 5, while offering in return increased data packages for use in Poland and across the European Union. It should be noted that our mass market portfolio still includes the Nju Mobile brand, which is addressed specifically to more price-sensitive customers and whose terms have not changed.

In our flagship convergent offer Orange Love, we raised the price of the standard package by PLN 10, while offering in return faster fibre broadband speed (300 Mbps instead of 100 Mbps) and a larger data package on the SIM card. The prices of the other convergent packages remained unchanged. In our fixed broadband portfolio, first of all we modified the offer structure and provided faster fibre broadband speeds. The same price now applies throughout the 24-month term of the service contract, while previously there were different prices in the first and the second year. The effective price for customers is by PLN 5 higher.

As the changes in our offers were introduced towards the end of the first half of the year (May and June), it is still too early for assessment of how they have been received by customers. Higher service prices are in line with our strategy focused on value and growth of revenue and profits. We expect that such prices will gradually contribute to improvements in the ARPO, revenue and EBITDAaL trends. Higher prices apply exclusively to newly signed contracts with customers in the acquisition and retention process. The terms of existing contracts do not change.

### 4.3 Launch of the Orange Flex Offer

In May 2019, we launched a very innovative offer called Orange Flex. It is a fully digital offer supported by an application on the phone, which enables customers to adjust their mobile plans using their smartphones and subsequently change packages depending on their needs with no loyalty agreements involved. Customers can choose from among ten tariff plans which differ in data usage limits. They can change these plans (even every month), buy additional services in real time or even temporarily disable services with no consequences. Payments are effected with a payment card attached to the application, so there is no need for invoices.

Orange Flex has been developed from scratch and has been largely based on feedback from our customers. We listened to almost 4,000 opinions for this purpose. Flex combines the flexibility of pre-paid offers with the convenience of post-paid ones. A breakthrough feature is that customers can activate a new number in a few minutes with no interaction with an operator using eSIM technology. It is a highly innovative offer, which in our opinion sets a new benchmark for the future of telecommunications services, which are to be marked by full flexibility and digital experience.

#### 4.4 Acquisition of 100% Shares in BlueSoft sp. z o.o. by Orange Polska to Strengthen Its Operations to Business Customers

On June 12, 2019, Orange Polska closed the purchase of 100% shares in BlueSoft sp. z o.o.

BlueSoft, founded in 2002, provides multiple IT services in the areas with high-growth potential: application development and integration, system customisation, analytics and cloud services. In 2018, around 75% of its consolidated revenues came from development and integration of customised applications, which included customer-facing portals (particularly for e-commerce) and back office platforms and systems. BlueSoft sells its products to a diversified portfolio of blue-chip customers from multiple industries, including: banking & insurance, utilities, pharma, telecommunications and logistics. In 2018, BlueSoft generated PLN 123 million of consolidated revenues and PLN 25 million of consolidated EBITDA. Employment at the end of 2018 stood at around 650.

In our strategy, we have always declared our intention to expand the ICT business, which offers high growth potential and considerable synergies with our core operations. These synergies have recently become higher than ever owing to on-going digitalisation processes in enterprises. For several years, we have successfully developed ICT technologies in Orange Polska through our subsidiary Integrated Solutions, which is among the top three IT integrators in Poland. Over the last two years, we have increased our ICT revenues by 50%. The acquisition of BlueSoft perfectly complements our competencies and significantly increases our competitive advantage over both alternative telecom operators and ICT-only companies. The transaction is another step in the implementation of Orange Polska's strategy in the business market, which focuses on expanding competencies to ICT services with a high added value in order to meet growing demand of business customers in the area of digital transformation, including cloud, micro-platforms, dedicated portals and cybersecurity. We expect significant revenue synergies from the merger, which we will gradually realise starting from 2020.

#### 4.5 Preparations for the 5G Launch in Poland

In the first half of 2019, the Telecommunications Law was amended to streamline frequency auction/tender procedures and enable the President of the Office of Electronic Communications (UKE) to announce an auction or tender for frequencies which are still in use under valid telecommunications licence decisions. Owing to the amendment, the bandwidth allocation and, consequently, the 5G network launch could be effected much earlier (the latter could happen immediately upon the expiration of the current licences). In the beginning of 2019, the President of UKE carried out initial informal consultation on a tender dossier for 3400–3800 MHz frequencies, which are the key band for the first stage of the 5G roll-out and the primary carrier for this new technology in urban areas. The discussions between UKE/Ministry of Digital Affairs and telecommunications market players on the format of the spectrum assignment procedure are pending. We expect another round of informal market consultation in the autumn followed by formal consultation of the tender or auction dossier late in 2019 or early in 2020. The selection procedure itself is likely to be launched in the first quarter of 2020. According to a time schedule presented in the draft Decree of the Minister of Digital Affairs, the first frequency segments from the 3400–3800 MHz band shall be allocated to operators by mid-2020.

It is our ambition to take an active part in the 5G network implementation in Poland and provide our customers with access to the 5G network and modern services based on this technology. We have continued our preparations for the 5G launch. The on-going intensive roll-out of our fibre network is a precondition of the efficient operation of the 5G mobile network. At the end of 2018, Orange Polska, as the first large mobile operator in Poland, conducted two-phase tests of the new technology using a base station in Gliwice, using a 100 MHz channel from the 3400–3800 MHz band. In the beginning of 2019, Orange Polska conducted 5G tests in Zakopane, using 26 GHz frequencies, on which 5G services of fibre-like capacity are to be based in the future. In 2019, in the Orange Cities programme, the Company intends to carry out field tests of the 5G technology in several big cities, focusing on testing the services which could be offered using the new network and using the network equipment and devices provided by various suppliers. Apart from hardware tests, Orange Polska has been actively involved in discussions about future bandwidth allocation plans, coming up with initiatives aimed to ensure quick and effective 5G spectrum allocation.

#### 4.6 Business Opportunities in the Wholesale Market

In order to benefit from our investments made in mobile and fixed-line networks, we actively seek opportunities to improve return on these investments by establishing wholesale co-operation with other operators.

##### *Access to Orange Polska's Fibre Network for T-Mobile*

On July 23, 2018, Orange Polska and T-Mobile Polska signed an agreement on telecommunications access to Orange Polska's fibre network in the form of Bitstream Access ("BSA").

This wholesale co-operation will contribute to faster monetization of Orange Polska's investments in the fibre network and promote fibre as superfast broadband technology in Poland. It will also maximise usage of Orange Polska's infrastructure while avoiding fibre network overbuilding by other operators and accelerate convergence of telecom services in the Polish market based on fibre. No exclusivity was granted under the transaction and Orange Polska is open to negotiate wholesale access to its fibre network with other operators.

The key terms and conditions of the agreement were described in the Company's Current Report 19/2018 dated July 23, 2018.

#### *National Roaming Agreement with P4*

In July 2017, we signed an annex to the national roaming agreement with P4. The annex changed the existing terms of co-operation, particularly by departing from per-minute or per-gigabyte charges in favour of specific service packages in the take-or-pay scheme, which guarantees a minimum income for Orange Polska. The annex provides for a four-year term of co-operation from July 2017. The agreement will enable better monetisation of the network investments carried out by Orange Polska by guaranteeing a minimum revenue of PLN 321 million over the four-year period.

## **4.7 Infrastructure Development**

### *Fixed Line*

In 2015, the Company commenced massive development of FTTH lines. It has been continued in line with the adopted strategy. At the end of June 2019, almost 3.8 million households in 130 Polish cities were connectable with our fibre network. The network roll-out has been maintained at a high rate of 0.9 million households and businesses annually, as it is one of the strategic priorities of the Company.

The number of households connectable to Orange Polska's VDSL network stood at over 5.3 million at the end of June 2019. VDSL range did not increase vs. the end of December 2018, mainly because we gave priority to fibre network investments.

The strategy of development of services based on FTTH lines provides not only for the construction of the Group's own infrastructure but also for wholesale agreements with other fibre network operators, wherever it is technically possible and economically viable. Such agreements were concluded in 2016, 2017 and 2018. The main benefits include quicker access to the fibre network and more efficient use of the existing fibre infrastructure in the relevant locations. This is in line with the aims of the Cost Directive of the European Commission, which recommends avoiding duplication of the existing facilities. At present, Orange Polska uses the infrastructure of 32 operators for over 560,000 households. In 2019 and in subsequent years, Orange Polska intends to continue to acquire FTTH range from other operators, including fibre network developed in the Operational Programme "Digital Poland".

Orange Polska is Poland's largest wholesale service provider. There has been growing demand for transmission bandwidth, particularly lines of capacity of 1 Gbps or 10 Gbps. In order to meet customers' needs, Orange Polska has been systematically expanding nationwide OTN (Optical Transport Network) trunk lines. In the first six months of 2019, we increased the number of OTN transport nodes, thus increasing the aggregate network capacity from 3.1 Tbps to 3.9 Tbps.

Orange Polska is Poland's sole operator of a network to which all the Emergency Communication Centres (ECCs), answering calls to the emergency numbers 112, 997, 999 and eCall, are connected. Furthermore, about 90% of all emergency numbers in Poland (over 800 locations) are connected to Orange Polska's network. This provides the Company with revenue from alternative operators for emergency call termination on the Orange network as well as subscription revenue.

The Call Setup Success Rate on the fixed network stood at 99.27% at the end of June 2019. This confirms very high quality of Orange Polska's fixed-line services.

### *Mobile*

Orange Polska has been steadily increasing the number of its base stations and enhancing their capacity. In the first half of 2019, our customers got access to further 96 base stations. As data transfer on the Orange mobile network is growing rapidly with the biggest increase reported in 4G LTE traffic, LTE technology remains the top investment priority in our mobile network. As a result, 4G coverage for all bands was 99.85% of the population on 98.18% of Poland's territory at the end of June 2019. Orange Polska provided LTE services via 11,047 base stations. In 2019, in addition to gradually expanding the network coverage and capacity, Orange Polska has also focused on increasing the number of sites that enable spectrum aggregation; their number reached 7,969 at the end of June 2018 compared to 6,901 at the end of December 2018.

Furthermore, on May 1, 2018, Orange Polska concluded an agreement with T-Mobile to allow better use of the available radio band resources and increase the capacity of its LTE 4G network by nearly 40% by 2020.

As a significant portion of the available spectrum was allocated to older technologies, 2G and 3G, Orange Polska decided that in addition to building new stations and expanding its 4G LTE network based on the 800 MHz and 2600 MHz frequencies won in the auction, it will also optimise the use of its frequency resources. The first change involves the conversion of the 15 MHz frequency segment in the 1800 MHz band, which is used jointly with T-Mobile, into two independent carriers of 10 MHz each (while simultaneously adding a 2.5 MHz segment from the GSM1800 band, as we are gradually extinguishing the 2G technology as part of the optimisation thereof). This enables us to increase the capacity of our 4G LTE network within this band by approximately 1/3 in a short time. The second element of the spectrum refarming process will be to launch LTE

services in the 2100 MHz band. Orange Polska will use 10 MHz currently allocated to 3G for this purpose. These changes allow aggregation of up to four carrier bands in the 4G technology, which translates into higher network capacity and transfer speed. The total bandwidth allocated to LTE services will increase to 45 MHz. At the same time, in order to maintain the quality of our 3G network, we have also converted the 4.2 MHz frequency segment used jointly with T-Mobile for UMTS900 services into two independent carriers of 4.2 MHz each (at the expense of a portion of the band previously allocated to 2G services). The change in the spectrum usage in the 900 MHz band has been already effected, while the ones in the 1800 and 2100 MHz bands are being introduced gradually, and by the end of June 2019 had been completed on 5,467 base stations. The whole refarming project will take three years and will be completed in 2020.

The agreement with T-Mobile does not mean the end of co-operation under NetWorks! on a consolidated network, but only a departure from co-operation in the bandwidth sharing model (Multi-Operator Core Network – MOCN). Both operators will continue to share infrastructure (access to the radio network) in the MORAN (Multi-Operator Radio Access Network) model. Developments of mobile and fibre networks are complementary processes, which aim to provide Orange Polska's customers with the highest quality services regardless of where they use them. It is also the basis for developing a convergent portfolio (based on Orange Love) and the newest Orange Flex offer.

#### **4.8 Orange Polska's Participation in the Operational Programme "Digital Poland"**

In the EU Financial Framework 2014–2020, funds have been allocated for the Operational Programme "Digital Poland", which aims to strengthen digital foundations for the national development. According to the Partnership Agreement of May 23, 2014, those foundations include: common access to high-speed Internet, effective and user-friendly public e-services and a continuously rising level of digital competences of the society. In the priority axis I: Common access to high-speed Internet, funds totalling PLN 1.02 billion have been allocated for adding last mile facilities which will meet the European Digital Agenda requirements to the existing infrastructure.

Following the first competition procedure for co-financing of investment projects in the Programme, in September 2016 Orange Polska concluded agreements with the "Digital Poland" Project Centre for co-financing of investment projects in 174 towns in 8 areas, which are located in the Lubuskie, Pomeranian and Lower Silesian Regions of Poland. The funds granted total almost PLN 24 million. The projects were implemented in 2017–2019.

The second competition procedure was announced on September 30, 2016. In this procedure, a total of PLN 3 billion was allocated for co-financing projects in 79 NUTS-3 regions (that is areas comprising of several districts each). Ultimately, 18 projects submitted by Orange Polska were selected for co-financing.

Orange Polska is implementing projects in seven regions of Poland, namely: Pomeranian Region (4 projects), West Pomeranian Region (4 projects), Lesser Poland Region (3 projects), Lubuskie Region (2 projects), Lower Silesian Region (2 projects), Mazovian Region (2 projects) and Silesian Region (1 project). These projects have been granted a total of PLN 741.3 million from the Programme funds, which accounts for about 84% of eligible costs (under co-financing agreements between Orange Polska and the "Digital Poland" Project Centre). Co-financing accounts also for about 70% of the total costs of network construction according to the agreements between Orange Polska and the contractors. Over 363,000 households and 3,752 educational facilities are within the reach of the intended investments. The projects have been scheduled for implementation from 2017 to 2020.

#### **4.9 Competition in the Telecommunications Market**

Poland's telecommunications market is becoming increasingly convergent with the biggest operators offering bundles of mobile and fixed line services and based on both mobile and fixed-line network infrastructure.

This integrated approach to provision of telecommunications services was pioneered by Orange Polska. It was followed by the Cyfrowy Polsat Group, which introduced convergent services upon acquisition of Netia. In June 2019, T-Mobile launched its convergent offer, providing fixed broadband services pursuant to wholesale agreements with Orange Polska, Nexera and Inea.

Other operators have also declared plans to launch convergent services. In June 2019, Play announced the expansion of its co-operation with Vectra, a cable TV operator, to include wholesale access to broadband services based on the DOCSiS technology.

In the first half of 2019, a major development in the highly competitive market in Poland was introduction of price increases implemented by mobile operators under the "more for more" formula. This involves higher subscription fees in return for increased benefits for subscribers. In May, Orange Polska became the first operator to raise prices of its mobile tariffs. Then, Play and T-Mobile followed soon after, while Zygmunt Solorz, the controlling shareholder of Cyfrowy Polsat, announced that the Cyfrowy Polsat Group would raise its prices in the autumn.

These market moves are important for financial standing of telecom operators, who face costly investments in 5G services in the near future. Price competition over recent years has led to a relative balance in market

shares of the main players and reduced mobile service prices in Poland to one of the lowest levels within the European Union.

In the first six months of 2019, the strongest price pressure was exerted by MVNOs, which have been increasingly adding post-paid services to their service portfolio. The main infrastructure-based operators try to retain proper value proposition for customers, but mainly through various types of promotions they still affect market competitiveness.

Households have become the main arena of competitive struggle in contrast to earlier competition for single customers. Therefore, the service portfolio of both Orange Polska and alternative operators includes a number of dedicated services 'for home', including non-core services, such as electricity supply, personal finance, gas supply, insurance or sale of household appliances.

Customers signing up to a bundled offer, combining several services, are eligible for price benefits, which drives the popularity of multi-SIM family offers, combining voice and data services.

The market of Internet providers in Poland is still very fragmented, so further market consolidation and CATV operators' geographical expansion in smaller towns should be expected. These actions in combination with further fibre network roll-out by Orange Polska could result in even more fierce competition in the local markets where Orange Polska has had an established position.

In the first half of 2019, investments in the fibre infrastructure based on EU funds continued to play a major role in the market. Owing to EU co-financing, such projects are possible even in non-urban areas, where investments in the fibre network have not been economically viable hitherto. From Orange Polska's perspective, development of the fibre infrastructure in semi-urban areas poses a major challenge to defend our market position, but at the same time a major opportunity to attract new customers to its retail offer by using the newly constructed networks on wholesale terms.

There are over 1.33 million households in the areas covered by the investments projects carried out in the Operational Programmes "Digital Poland" 1 & 2. These are largely areas out of reach of fixed line telecom networks or areas where provision of high-speed broadband services is not technically possible.

#### **4.10 Pay TV Portfolio Development**

As for the development of Orange TV services, the first half of 2019 saw the continuation of the convergence strategy, of which pay TV is a major element, as well as further investments in quality 4K services. The take-up of Orange TV services has seen steady growth, reaching 973 thousand customers (up 73 thousand year-on-year), mainly as a result of the development of the IPTV technology.

In 2017, Orange Polska became the first nationwide operator to provide pay TV content at 4K resolution. Since then, the 4K offer has been constantly expanded. In 2019, the Company added the TV channel WPolsce.pl to two channels made available in 2018 (Festival 4K and Eleven 4K). Moreover, Orange set-top boxes enable access to the 4K content provided by Netflix. In 2019, Orange Polska offered its TV customers an option to order additional TV packages at any time without a loyalty agreement.

#### **4.11 Evolution of the Group's Distribution Network**

Despite changes in customers' behaviour and purchase preferences, physical points of sale remain the most popular sales and contact channel. Orange Polska has a chain of 729 POSs all over Poland (vs. 734 at the end of 2018), including 23 Smart Stores – the largest modern flagship showrooms with intuitive and functional space divided into three main zones: home, business and entertainment. Moreover, Orange services (including fibre) can be purchased offline on the Media Markt chain (87 stores).

In the online channel, Orange Polska continues personalised marketing campaigns based on behavioural customer profiles and supported by artificial intelligence algorithms. Using customer segmentation, the Company develops offer recommendation models, dynamic pricing and campaigns aimed at sales of broadband and convergent services based on customer events and geolocation.

The 'My Orange' mobile app is increasingly popular among customers for taking up our services. In the first six months of 2019, the number of orders placed through this channel more than doubled versus the first half of 2018; and over 20% of them were made with the 'one click' process, which enables customers to extend an agreement or purchase services directly from the app. The number of users is also growing; the application is now used by 30% more customers than a year ago. The value of pre-paid top-ups in the app has tripled over the last twelve months.

Our infoline is also an important communication channel, though, as expected, the volume of its users has been slightly falling over years in favour of customers using online solutions or visiting our outlets. For digital customers, we have a dedicated group of specialised consultants to support purchase processes on our website (online assistance over phone). Furthermore, we are developing an innovative artificial intelligence solution for handling incoming calls: Max, a bot helping customers to settle matters related to Orange services.

Customers are also offered direct contact with our active sales representatives. Orange Polska uses advanced geomarketing tools for efficient planning of sales territories. Typically, they operate in urban areas of our fibre

investments. In connection with a considerable increase in investments in fibre infrastructure in residential districts of single-family houses (also through Orange Polska's participation in investment projects in the Operational Programme "Digital Poland"), active sales people directly co-operate with technicians in selling fibre services in such areas in order to maximise customer satisfaction (NPS) and saturation.

#### 4.12 Regulatory Environment

The telecommunications market in Poland is subject to sector-specific regulations, which are adopted on the European Union level and subsequently transposed to domestic legislation. The market oversight is performed by the local regulatory agency, Office of Electronic Communications (UKE). According to a general rule, the telecom market is divided into individual retail and wholesale service markets referred to as 'relevant markets'. UKE reviews the competitiveness of each of these markets and, based on the results of the review, determines the required extent of regulation. Orange Polska S.A. has been designated as an operator having significant market power (SMP) and has been imposed regulatory obligations with respect to certain telecom market segments. These regulatory restrictions significantly affect some of the services we provide. In the mobile market, Orange Polska S.A. and other major operators are subject to the same regulations.

As we provide services to millions of customers, our business activity is monitored by the Office for Competition and Consumer Protection (UOKiK), mainly for proper protection of consumer rights.

Furthermore, as a company we have to comply with administrative decisions and general regulations.

##### **Regulatory Obligations**

Pursuant to the President of UKE's decisions, Orange Polska S.A. is deemed to have a significant market power (SMP) on the following relevant wholesale markets:

- market for call termination on Orange Polska S.A.'s fixed line network (FTRs);
- market for call origination on a fixed public telephone network (pursuant to a deregulation decision issued in 2018, the relevant regulatory obligations will remain in force to October 1, 2020);
- market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (LLU);
- market for high quality access services at a fixed location, up to 2 Mbps;
- market for call termination on Orange Polska S.A.'s mobile network (MTRs); and
- market for wholesale broadband access (BSA) services, excluding 76 local administrative units (*communes*), where the market was recognised as competitive.

In February 2018, the Court of Appeal decided to repeal the President of UKE's disposition of October 7, 2014, which recognised effective competition on the market for wholesale broadband access services (market 5/2007; BSA) in 76 communes. The Court of Appeal's decision was based exclusively on formal grounds, namely that a disposition rather than an administrative decision had been issued. On April 11, 2019, the Supreme Administrative Court confirmed that the previous regulation from 2011 had expired. Thus, the decision of the Court of Appeal has not affected the conditions of Orange Polska's operations in the 76 communes.

Each SMP decision of the President of UKE's determines specific Orange Polska's obligations with respect to the given relevant market, particularly an obligation to prepare regulatory accounting statements and costing description (for BSA service only), which are to be verified by independent auditors. In May 2019, Ernst & Young Audit Polska spółka z ograniczoną odpowiedzialnością sp.k. commenced an audit of Orange Polska S.A.

##### *Access to Outdoor and Indoor Cable Ducts*

Pursuant to the obligations imposed by President of UKE's Orange Polska is providing access to its outdoor and indoor cable ducts taking into account duct administrative decision of September 2018. Similar decisions have been issued for the other six major technical infrastructure operators in Poland, namely UPC, Vectra, Inea, Netia, Toya and Multimedia Polska. The terms of access are symmetrical, with the exception of monthly rates for outdoor cable duct lease.

##### *International Calls within EU*

Pursuant to the Regulation (EU) 2018/1971 establishing the Body of European Regulators for Electronic Communications (BEREC), starting from May 15, 2019 international rates within the European Union should not exceed EUR 0.19 per minute for calls and EUR 0.06 per SMS message. These provisions have been implemented by Orange Polska S.A. The regulation applies to consumers only and will remain in force for five years.

##### **Potential Regulatory Changes**

Regulations affecting Orange Polska S.A. are subject to periodical reviews in order to adjust them to the current market needs and the existing competitive environment. At present, the regulator is reviewing the

market for call termination on a fixed network with respect to networks operated by Orange Polska S.A. and almost 200 other telecommunication operators, particularly the obligation to charge fixed termination rates (FTRs) set by UKE. The European Commission has raised serious doubts about the draft regulations owing to lack of FTRs in the consulted decisions. It will lengthen the process of issuing decisions for individual operators.

Simultaneously, on the European level, there is ongoing work on the implementation of the provisions of the European Electronic Communications Code (EECC) and the BEREC Regulation, which came into force on December 20, 2018, with respect to wholesale rates for voice call termination. Pursuant to EECC, EU member states should set voice call termination rates on fixed and mobile networks on uniform levels (i.e. single FTR and single MTR) and implement them by 2021. The communication by the Commission indicates that a transition period for the implementation of the new rates should be expected.

The ultimate rates have not been determined yet, as a consultation process continues regarding the calculation models developed by the Commission and the results derived from local market data. The completion of the process and the promulgation of the implementation acts is expected in the second half of 2020.

UKE reviews also the market for wholesale broadband access services (BSA) and wholesale market for provision of access to network infrastructure (LLU). In the beginning of 2019, UKE published the relevant draft decisions, pursuant to which 51 communes are to be deregulated in the LLU market and a total of 151 communes (namely 67 communes already deregulated in 2014 plus 84 additional communes) are to be deregulated in the BSA market. The European Commission has approved the UKE's proposals and the draft decisions are waiting for the next stage: UOKiK's opinion. The final decisions providing for a two-year transition period, during which the current regulatory obligations will remain in force (except for new activations), will be published in the second half of the year.

In June 2019, the President of UKE commenced proceedings to impose regulatory obligations on Orange Polska with respect to access to indoor cables. Decisions for other six operators (Netia, UPC, Vectra, Multimedia Polska, Toya and Inea) regulating the same scope of obligations were issued in May 2019.

### **Compensation for Universal Service Costs**

From 2006 to 2011, Orange Polska S.A. was an operator designated to provide the universal service, which included access to a fixed network, domestic and international calls (including dial-up and fax services), payphone service and directory inquiry service. Owing to unprofitability of the universal service, Orange Polska S.A. applied to UKE for compensation, which is paid pro rata by all operators with revenues of more than PLN 4 million in the calendar year for which the compensation is due.

Orange Polska S.A. also participates in compensating the deficit. Its share is typically about 41%. Furthermore, with respect to some operators, Orange Polska S.A. has reached agreements regulating the issue of mutual settlements on the account of the universal service obligation.

Between 2007 and 2012, the President of UKE issued decisions granting compensation lower than requested by Orange Polska S.A. Therefore, the Company exercised its right to appeal. Courts did not agree with UKE's arguments for partly rejecting compensation to Orange Polska S.A. and obligated UKE to re-examine the case. Following administrative courts' rulings, UKE initiated administrative proceedings regarding additional compensation for the universal service net cost deficit provision in 2006–2010.

In September 2017, the President of UKE issued two decisions, granting additional compensation of PLN 45 million for 2006 and PLN 47 million for 2007 to the Company; in August 2018, it issued decisions granting additional compensation of PLN 70.3 million for 2008 and PLN 18.43 million for 2009; and in April 2019, it issued a decision granting additional compensation of PLN 12.47 million for 2010. These amounts include a share contributed by Orange Polska S.A. itself. The decisions are final, but have been challenged in an administrative court by other operators. At present, it is difficult to assess when the cases will be decided and what amounts and when will be paid to Orange Polska S.A.

At the same time, procedures to determine the share of individual operators in the compensation of the universal service net cost deficit for 2009–2011 are pending. The President of UKE first determines a list of operators to share in the compensation for particular years, and then their share in the compensation by way of individual decisions. Operators have the right to appeal against such decisions. The majority of individual decisions for 2009–2010 on the initial amount of compensation have been issued, and most operators have already paid the relevant amounts to Orange Polska S.A. The proceedings related to individual decisions for 2011 are pending. In 2018 and 2019, the President of UKE commenced similar proceedings concerning additional compensation granted for 2006–2010.

In the first six months of 2019, Orange Polska S.A. collected deficit refinancing of PLN 0.02 million for 2008–2010. Outstanding payments on the account of initial compensation for 2006–2010 total PLN 2.1 million. Compensation for 2011 and outstanding amounts for 2006–2010 are expected to be collected in the second half of 2019.



### **Major Changes in Legislation**

In the first six months of 2019, there was a number of changes in legal environment with respect to both general law and provisions specific to the telecom sector. Such modification of legal environment entails constant and diligent monitoring as well as allocating resources to implement new regulations.

#### Domestic Law

- Pursuant to the Decree of the Minister of Digital Affairs of December 11, 2018 on the conditions for the exercise of rights on public telecommunications networks, as from March 1, 2019 telecom operators can offer customers to submit phone number porting applications not only in written or electronic form, but also in the documentary form;
- On May 6, 2019, the Act of March 15, 2019 amending the Telecommunications Law with respect to frequency management came into force. The main purpose of the amendment is to provide the spectrum for the 5G network and to streamline frequency assignment procedures.

The following bills which may affect Orange Polska are currently at various stages of the legislative process:

- Draft amendment to the telecommunications 'Mega-Act' (cutting red tape on investments), which aims to support the development of modern telecommunications networks in Poland;
- Draft Decrees related to the distribution of spectrum for 5G:
  - Draft amendment to the Decree on the National Frequency Allocation Table, which makes it possible to use frequencies from the 26.5–27.5 GHz band for both civilian and military purposes,
  - Draft Decree on the time Schedule of 3.7 GHz (3600–3800 MHz) bandwidth distribution, which provides that 3.7 GHz frequency assignment decisions granting the right to use the relevant frequencies nationwide should be issued by June 2020;
- Furthermore, the President of UKE published the 3.7 GHz (3600–3800 MHz) bandwidth allocation framework.

#### EU Law

- The discussions between Member States in the EU Council regarding the Regulation on privacy and electronic communications (ePrivacy) are pending.

### **4.13 Claims and Disputes, Fines and Proceedings**

Please see Note 28 to the Consolidated Full-Year Financial Statements for 2018 and Note 12 to the Condensed IFRS Interim Consolidated Financial Statements for the first six months of 2019 for detailed information about material proceedings and claims against Group companies and fines imposed thereon, including a fine imposed by the European Commission, as well as issues related to the incorporation of Orange Polska S.A.

### **CHAPTER III ORGANISATION AND CORPORATE STRUCTURE**

## 5 ORGANISATIONAL CHANGES IN THE FIRST HALF OF 2019

### 5.1 Changes in the Corporate Structure of Orange Polska S.A.

In the first half of 2019, there were changes in the corporate structure of the following functions: Consumer Market, Networks and Technology, and Finance. The changes aimed at improving the efficiency of these functions and addressing business needs.

#### 5.1.1 Management Board of Orange Polska S.A.

During the first half of 2019 the composition of Orange Polska Management Board has not changed. As of June 30, 2019, it was composed of eight Members, who have been assigned the direct supervision over the following Company's matters:

- President of the Management Board;
- Vice President of the Management Board in charge of Business Market;
- Vice President of the Management Board in charge of Consumer Market;
- Management Board Member in charge of Customer Experience.
- Management Board Member in charge of Finance;
- Management Board Member in charge of Human Resources;
- Management Board Member in charge of Network and Technology; and
- Management Board Member in charge of Strategy and Corporate Affairs.

#### 5.1.2 Business Units of Orange Polska S.A.

In the first half of 2019, the number of business units was reduced from 80 to 78, in the following functions: Consumer Market and Finance.

As of June 30, 2019, Orange Polska had 78 business units, reporting directly to:

- 1) President of the Management Board: 1 business unit;
- 2) Vice President of the Management Board in charge of Business Market: 7 business units;
- 3) Vice President of the Management Board in charge of Consumer Market: 7 business units;
- 4) Management Board Member in charge of Customer Experience: 8 business units;
- 5) Management Board Member in charge of Finance: 8 business units;
- 6) Management Board Member in charge of Networks and Technology: 13 business units;
- 7) Management Board Member in charge of Strategy and Corporate Affairs: 6 business units;
- 8) Management Board Member in charge of Human Resources: 12 business units;
- 9) Executive Officer in charge of IT: 7 business units;
- 10) Executive Director in charge of Carriers Market: 7 business units; and
- 11) Executive Director in charge of Transformation and Effectiveness: 2 business units.

#### 5.1.3 Changes in the Structure of Subsidiaries of Orange Polska S.A.

There were no major organisational changes in Orange Polska S.A.'s subsidiaries in the first half of 2019.

### 5.2 Ownership Changes in the Group in the First Half of 2019

Apart from the acquisition of BlueSoft sp. z o.o. described in the section 4.4 above, the Group effected no significant ownership changes in the first half of 2019.

### 5.3 Orange Polska Shareholders

As of June 30, 2019, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital based on information available on July 24, 2019 was as follows:

Shareholder	Number of shares held	Number of votes at the General Assembly of Orange Polska S.A.	Percentage of the total voting power at the General Assembly of Orange Polska S.A.	Nominal value of shares held (in PLN)	Interest in the Share Capital
Orange SA	664,999,999	664,999,999	50.67%	1,994,999,997	50.67%
Other shareholders	647,357,480	647,357,480	49.33%	1,942,072,440	49.33%
<b>TOTAL</b>	<b>1,312,357,479</b>	<b>1,312,357,479</b>	<b>100.00%</b>	<b>3,937,072,437</b>	<b>100.00%</b>

As of July 24, 2019, Orange SA held a 50.67% stake in the Company.

Orange SA is one of the world's foremost telecommunications operators, with a turnover of €41.4 billion at the end of 2018. Present in 27 countries, the Orange Group serves over 264 million customers all over the world (as of the end of 2018). The Orange Group employed 151 thousand people at the end of 2018. Orange SA is also the leading provider of global IT and telecommunication services to multinational corporations under its brand Orange Business Services. Orange SA is listed on the Euronext Paris (ORA) and the New York Stock Exchange (ORAN).

As of June 30, 2019, the Company had no information regarding valid agreements or other events that could result in changes in the proportions of shares held by the shareholders.

Orange Polska S.A. did not issue any employee shares in the first half of 2019.

## 6 GROUP'S STRUCTURE AS OF JUNE 30, 2019

Please see Note 1.2 to the IFRS Full Year Consolidated Financial Statements for the description of the Group's organisation.

### 6.1 Corporate Governance Bodies of the Parent Company

*Composition of the Management Board on June 30, 2019:*

- |                            |                               |
|----------------------------|-------------------------------|
| 1. Jean-François Fallacher | – President of the Board      |
| 2. Mariusz Gaca            | – Vice President of the Board |
| 3. Bożena Leśniewska       | – Vice President of the Board |
| 4. Witold Drożdż           | – Board Member                |
| 5. Jolanta Dudek           | – Board Member                |
| 6. Piotr Jaworski          | – Board Member                |
| 7. Jacek Kowalski          | – Board Member                |
| 8. Maciej Nowohoński       | – Board Member                |

*Composition of the Supervisory Board and its Committees and changes thereof in the first half of 2019*

On April 24, 2019, the mandates of Mr. Federico Colom Artola, Mr. Eric Debroeck, Prof. Michał Kleiber, Mr. Gervais Pellissier, Mr. Marc Ricau, Dr. Wiesław Rozłucki and Mr. Maciej Witucki expired.

On the same day, the Annual General Assembly appointed the following persons as Members of the Supervisory Board: Mr. Eric Debroeck (for another term of office), Prof. Michał Kleiber (for another term of office), Monika Nachyła, Gervais Pellissier (for another term of office), Marc Ricau (for another term of office), Jean-Michel Thibaud and Maciej Witucki (for another term of office).

Composition on June 30, 2019:

- |                                 |   |
|---------------------------------|---|
| 1. Maciej Witucki               | – Chairman of the Supervisory Board                   |
| 2. Gervais Pellissier           | – Deputy Chairman of the Supervisory Board            |
| 3. Marc Ricau                   | – Board Member and Secretary of the Supervisory Board |
| 4. Dr. Henryka Bochniarz        | – Supervisory Board Member                            |
| 5. Thierry Bonhomme             | – Supervisory Board Member                            |
| 6. Eric Debroeck                | – Supervisory Board Member                            |
| 7. Ramon Fernandez              | – Supervisory Board Member                            |
| 8. John Russell Houlden         | – Supervisory Board Member                            |
| 9. Prof. Michał Kleiber         | – Supervisory Board Member                            |
| 10. Patrice Lambert-de Diesbach | – Supervisory Board Member                            |
| 11. Monika Nachyła              | – Supervisory Board Member                            |
| 12. Dr. Maria Pasło-Wiśniewska  | – Supervisory Board Member                            |
| 13. Jean-Michel Thibaud         | – Supervisory Board Member                            |
| 14. Jean-Marc Vignolles         | – Supervisory Board Member                            |

At present, Orange Polska has five independent members on the Supervisory Board, namely: Dr. Henryka Bochniarz, John Russell Houlden, Prof. Michał Kleiber, Monika Nachyła and Dr. Maria Pasło-Wiśniewska.

Composition of the Committees of the Supervisory Board on June 30, 2019:

The Audit Committee

1. John Russell Houlden – Chairman
2. Monika Nachyła
3. Dr. Maria Pasło-Wiśniewska
4. Marc Ricau
5. Jean-Michel Thibaud

Three of the five members of the Audit Committee are independent.

The Audit Committee is chaired by Mr. John Russell Houlden, an independent Member of the Supervisory Board. He has relevant experience and qualifications in finance, accounting and audit.

The Remuneration Committee

1. Dr. Maria Pasło-Wiśniewska – Chairman
2. Thierry Bonhomme
3. Prof. Michał Kleiber
4. Marc Ricau

The Strategy Committee

1. Jean-Marc Vignolles – Chairman

2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Patrice Lambert-de Diesbach
5. Monika Nachyła
6. Dr. Maria Pasło-Wiśniewska
7. Gervais Pellissier

Mr. Maciej Witucki, Chairman of the Supervisory Board, and Mr. John Russell Houlden, Independent Board Member and Chairman of the Audit Committee, participate in the meetings of the Strategy Committee on a permanent basis.

Below, is the list of the Members of Orange Polska Supervisory Board and Management Board together with the Annual General Assemblies on which their mandates expire.

Management Board	Year of AGM
Jean-François Fallacher – President	2022
Mariusz Gaca – Vice President	2020
Bożena Leśniewska – Vice President	2021
Witold Drożdż	2021
Jolanta Dudek	2021
Piotr Jaworski	2021
Jacek Kowalski	2020
Maciej Nowohoński	2020

Supervisory Board	Year of AGM
Maciej Witucki –Chairman	2022
Gervais Pellissier – Deputy Chairman	2022
Marc Ricau – Secretary	2022
Henryka Bochniarz	2021
Thierry Bonhomme	2021
Eric Debroeck	2022
Ramon Fernandez	2021
John Russell Houlden	2020
Michał Kleiber	2022
Patrice Lambert-de Diesbach	2020
Monika Nachyła	2022
Maria Pasło-Wiśniewska	2021
Jean-Michel Thibaud	2022
Jean-Marc Vignolles	2021

### 6.1.1 Orange Polska Shares Held by Persons Who Manage or Supervise Orange Polska

#### *Managing Persons*

As of July 24, 2019:

- Mr. Jean-François Fallacher, President of the Management Board, held 40,000 shares of Orange Polska S.A.;
- Ms. Jolanta Dudek, Management Board Member, held 8,474 shares of Orange Polska S.A.;
- Mr. Piotr Jaworski, Management Board Member, held 673 shares of Orange Polska S.A.; and
- Mr. Maciej Nowohoński, Management Board Member, held 25,000 shares of Orange Polska S.A.

Other Members of the Management Board did not hold any shares of Orange Polska S.A. as of July 24, 2019.

#### Shares held in related entities:

Jean-François Fallacher	1 share of Orange Money IFN S.A. of par value of RON 10
Mariusz Gaca	500 shares of Orange S.A. of par value of EUR 4 each
Bożena Leśniewska	80 shares of Orange S.A. of par value of EUR 4 each
Jolanta Dudek	80 shares of Orange S.A. of par value of EUR 4 each
Piotr Jaworski	250 shares of Orange S.A. of par value of EUR 4 each
Jacek Kowalski	350 shares of Orange S.A. of par value of EUR 4 each

#### **Supervising Persons**

As of July 24, 2019, Mr. Maciej Witucki, Chairman of the Orange Polska Supervisory Board, held 4,000 shares of Orange Polska S.A. No other persons who supervise Orange Polska S.A. held any shares in the Company.

#### Shares held in related entities:

Gervais Pellissier	34,527 shares of Orange S.A. of par value of EUR 4 each
Gervais Pellissier	1 share of Business Services SA of par value of EUR 0.84
Gervais Pellissier	1 share of Orange Horizons of par value of EUR 10
Thierry Bonhomme	7,692 shares of Orange S.A. of par value of EUR 4 each
Eric Debroeck	5,533 shares of Orange S.A. of par value of EUR 4 each
Ramon Fernandez	1,524 shares of Orange S.A. of par value of EUR 4 each

### **6.1.2 General Assembly**

On April 24, 2019, the Annual General Meeting among others:

- approved the Management Board's Report on the activity of Orange Polska S.A. and the Orange Polska Group in the 2018 financial year;
- approved Orange Polska S.A. financial statements for the 2018 financial year;
- approved the consolidated financial statements for the 2018 financial year;
- granted approval of the performance of their duties by members of Orange Polska S.A.'s governing bodies in the financial year 2018;
- adopted a resolution on distribution of Orange Polska S.A.'s profit for the financial year 2018, pursuant to which Orange Polska S.A.'s profit of PLN 1,004,149.76 disclosed in the Company's financial statements for the financial year 2018 was allocated to the reserve capital;
- adopted a resolution on distribution of Orange Polska S.A.'s profit from previous years, pursuant to which Orange Polska S.A.'s profit from previous years of PLN 598,705,137.63 disclosed in the Company's financial statements for the financial year 2018 was allocated to the reserve capital, and the amount of PLN 598,705,137.63 allocated to the reserve capital may be distributed as a dividend; and
- did not adopt a resolution on paying a dividend in 2019, prioritising investment in long-term value creation.

### **6.2 Workforce**

As of June 30, 2019, Orange Polska employed 12,782 people (in full-time equivalents), which is a decrease of 5.6% compared to the end of December 2018.

Orange Polska's workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2018–2019. Pursuant to the Social Agreement, 879 employees left the Company in the first six months of 2019. Severance pay in Orange Polska S.A. averaged PLN 82.7 thousand per employee in the first half of 2019.

In the first six months of 2019, external recruitment in Orange Polska totalled 216 positions. External recruitment was mainly related to sale positions and customer service staff.

### **6.3 Social Agreement**

The Social Agreement for 2018–2019 as well as the Settlement for 2019, which was concluded with trade unions on December 5, 2018, have applied in 2019.

In particular, the Social Agreement for 2018–2019 sets the number of voluntary departures over these two years at 2,680 people and determines a financial package for employees leaving Orange Polska under the voluntary departure scheme. It also provides for potential basic salary rises (2.5% in both 2018 and 2019) and additional compensation for employees reaching retirement age, while specifying the position and role of internal mobility in supporting an allocation programme and offering participation in an outplacement programme to people whose employment contracts are to be terminated by the employer. In addition, the Social Agreement for 2018–2019 provides for the follow-up of the 'Friendly Work Environment' programme and continuation of medical coverage.

The negotiated Settlement sets the number of employees to leave Orange Polska in 2019 at 1,230 and determines the terms of voluntary departures in 2019 as well as the amount of severance pay and additional compensation for employees departing in 2019. The Settlement also specifies the rules and selection criteria applied to people whose employment is terminated by the employer for reasons not attributable to employees.

The amount of compensation package per departing employee depends on their seniority in the Group in accordance with the Intragroup Collective Labour Agreement and has been increased in 2019 by additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 8,000 for employees with seniority of 15 to 20 years or PLN 24,000 for employees with seniority of more than 20 years.



## **CHAPTER IV KEY RISK FACTORS**

## 7 RISK MANAGEMENT FRAMEWORK IN ORANGE POLSKA

There were no material changes with respect to the key risk factors affecting the activities of Orange Polska S.A. compared to the state of affairs presented in the Chapter IV of the Management Board's Report for 2018. However, the Company identified one additional risk factor in the first half of 2019.

### **Potential consequences of US – China dispute**

Due to a bilateral dispute between the US and China, some Chinese suppliers face a risk of sanctions by the US government. Thus, they may be blacklisted, so that US companies would not be allowed to do any business with them. The sanctions would also affect their daughter companies. As a result, such suppliers may lose the right to use some technologies developed and patented by US companies and be banned from doing business with US-based companies.

For telecom operators, such as Orange Polska, imposition of sanctions against Chinese suppliers could hinder the scheduled roll-out of network infrastructure (particularly 5G) and necessitate a change of telecommunications equipment suppliers. Consequently, Orange Polska may suffer losses resulting from decreased popularity of Chinese brands. Furthermore, due to the global scale of the conflict, there may be delays or an increase in costs of implementation of the 5G network.

Please see Note 28 to the Consolidated Full-Year Financial Statements for 2018 and Note 12 to the Condensed IFRS Interim Consolidated Financial Statements for the first six months of 2019 for additional information about material proceedings and claims against Group companies and fines imposed thereon, including a fine imposed by the European Commission, as well as issues related to the incorporation of Orange Polska S.A.

## **CHAPTER V STATEMENTS**

## 8 STATEMENTS OF THE MANAGEMENT BOARD

### 8.1 Statement on Adopted Accounting Principles

Orange Polska S.A. Management Board, composed of:

1. Jean-François Fallacher – President of the Board
2. Bożena Leśniewska – Vice President in charge of Business Market
3. Mariusz Gaca – Vice President in charge of Consumer Market
4. Witold Drożdż – Board Member in charge of Strategy and Corporate Affairs
5. Jolanta Dudek – Board Member in charge of Customer Care and Customers Excellence
6. Piotr Jaworski – Board Member in charge of Networks and Technology
7. Jacek Kowalski – Board Member in charge of Human Resources
8. Maciej Nowohoński – Board Member in charge of Finance, Chief Financial Officer

hereby confirms that according to their best knowledge the Condensed Interim Consolidated Financial Statements and comparable data have been drawn up in compliance with the accounting regulations in force and reflect the Group's property, financial standing and financial result in an accurate, reliable and transparent manner.

This Management Board's Report provides accurate depiction of the development, achievements and standing of the Orange Polska Group, including the description of major threats and risks.

### 8.2 Statement on Appointment of the Licensed Auditor of the Group's Consolidated Financial Statements

Orange Polska S.A. Management Board hereby declares that the licensed auditor to review the Condensed Interim Consolidated Financial Statements has been appointed in compliance with the relevant regulations and that both the auditor and the chartered accountants carrying out the review meet the requirements to develop an impartial and independent report on the reviewed financial statements in compliance with the relevant regulations and professional standards.

### 8.3 Management Board's Position as to the Achievement of the Previously Published Financial Projections for the Given Period

As announced on February 20, 2019 in the current report 3/2019, the Group forecasts EBITDAaL (EBITDA after Leases) in 2019 to be higher than PLN 2.8 billion (the Group's estimate for 2018).

The Management Board of Orange Polska S.A. confirms the above-mentioned forecast based on the analysis of financial results for the first six months ended June 30, 2019.

## GLOSSARY OF TELECOM TERMS

**4G** – fourth generation of mobile technology, sometimes called LTE (Long Term Evolution)

**Access Fee** – revenues from monthly fee from New Tariff Plans (incl. Free minutes)

**ARPO** – Average Revenues per Offer

**AUPU** – Average Usage per User

**BSA** – Bitstream Access Offer

**CATV** – Cable Television

**EBITDAaL (EBITDA after Leases)** – Operating income before depreciation, amortisation and impairment of property, plant and equipment and intangible assets, decreased by interest expense on lease liabilities and adjusted for the impact of deconsolidation of subsidiaries, employment termination programmes, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items

**F2M** – Fixed to Mobile Calls

**FBB** – Fixed Broadband

**FTE** – Full time equivalent

**FTTH** – Fibre To The Home

**Household connectable with fibre** – Household (an apartment in multi-family building or a single family house) within the reach of our fibre to the home service that allows to provide service with a speed of at least 100Mb/s

**Home Zone** (or Office Zone for business customers) – area within range of predefined base stations which cover the particular location (home/office).

**ICT** – Information and Communication Technologies

**ILD** – International Calls

**IP TV** – TV over Internet Protocol

**Liquidity Ratio** – Cash and unused credit lines divided by debt to be repaid in the next 18 months

**LLU** – Local Loop Unbundling

**LTE** – Long Term Evolution, standard of data transmission on mobile networks (4G)

**M2M** – Machine to Machine, telemetry

**MTR** – Mobile Termination Rates

**MVNO** – Mobile Virtual Network Operator

**Net Gearing** – net gearing after hedging ratio = net debt after hedging / (net debt after hedging + shareholders' equity)

**Organic Cash Flow** – Organic Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables) + proceeds from sale of assets

**RAN agreement** – agreement on reciprocal use of radio access networks

**SAC** – Subscriber Acquisition Costs

**SIMO** – mobile SIM only offers without devices

**SMP** – Significant Market Power

**SRC** – Subscriber Retention Cost

**UKE** – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

**UOKiK** – Urząd Ochrony Konkurencji i Konsumentów (Office for Competition and Consumer Protection)

**USO** – Universal Service Obligation

**VDSL** – Very-high-bit-rate Digital Subscriber Line

**VHBB** – Very high speed broadband, above 30 Mbps

**VoIP** – Voice over Internet Protocol

**Wireless for fixed** – LTE broadband access offers dedicated to use within the Home/Office Zone, consisting of a fixed router (Home Zone) plus large or unlimited data packages, which are a substitute for fixed broadband and are provided by all mobile operators in Poland, including Orange Polska.

**WLL** – Wireless Local Loop

**WLR** – Wholesale Line Rental