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POLISH FINANCIAL SUPERVISION AUTHORITY

Quarterly consolidated report for the third quarter of 2019

(year)

(according to par. 60 s. 2 and par. 62 s. 1 of the Decree on current and periodic information)
for the issuers in sectors of production, construction, trade or services
(type of issuer)

for the third quarter of 2019, i.e. from 1 January 2019 to 30 September 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: **28 October 2019**

ORANGE POLSKA SA	
(full name of issuer)	
ORANGEPL	Telecommunication (tel)
(abbreviated name of the issuer)	(classification according to WSE/sector)
02-326	Warsaw
(post code)	(location)
Al. Jerozolimskie	160
(street)	(number)
22 527 23 23	22 527 23 41
(telephone)	(fax)
investors@orange.com	www.orange.pl
(e-mail)	(www)
526-02-50-995	012100784
(NIP)	(REGON)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	3 quarter cumulative period from 01/01/2019 to 30/09/2019	3 quarter cumulative period from 01/01/2018 to 30/09/2018	3 quarter cumulative period from 01/01/2019 to 30/09/2019	3 quarter cumulative period from 01/01/2018 to 30/09/2018
condensed consolidated financial statements data				
I. Revenue	8 407 000	8 171 000	1 951 214	1 921 006
II. Operating income	571 000	281 000	132 526	66 063
III. Profit before income tax	341 000	47 000	79 144	11 050
IV. Net income	277 000	25 000	64 290	5 878
V. Net income attributable to owners of Orange Polska S.A.	277 000	25 000	64 290	5 878
VI. Earnings per share (in PLN/EUR)	0.21	0.02	0.05	-
VII. Weighted average number of shares (in millions)	1 312	1 312	1 312	1 312
VIII. Total comprehensive income	250 000	26 000	58 023	6 113
IX. Total comprehensive income attributable to owners of Orange Polska S.A.	250 000	26 000	58 023	6 113
X. Net cash provided by operating activities	1 861 000	1 017 000	431 927	239 097
XI. Net cash used in investing activities	(1 442 000)	(1 568 000)	(334 680)	(368 637)
XII. Net cash provided by/(used in) financing activities	(642 000)	380 000	(149 004)	89 338
XIII. Net change in cash and cash equivalents	(223 000)	(171 000)	(51 757)	(40 202)
	balance as at 30/09/2019	balance as at 31/12/2018	balance as at 30/09/2019	balance as at 31/12/2018
XIV. Total current assets	3 644 000	3 969 000	833 181	923 023
XV. Total non-current assets	20 508 000	19 326 000	4 689 043	4 494 419
XVI. Total assets	24 152 000	23 295 000	5 522 224	5 417 442
XVII. Total current liabilities	3 843 000	5 946 000	878 681	1 382 791
XVIII. Total non-current liabilities	9 555 000	6 846 000	2 184 699	1 592 093
XIX. Total equity	10 754 000	10 503 000	2 458 844	2 442 558
XX. Equity attributable to owners of Orange Polska S.A.	10 752 000	10 501 000	2 458 387	2 442 093
XXI. Share capital	3 937 000	3 937 000	900 174	915 581
condensed separate financial statements data				
	3 quarter cumulative period from 01/01/2019 to 30/09/2019	3 quarter cumulative period from 01/01/2018 to 30/09/2018	3 quarter cumulative period from 01/01/2019 to 30/09/2019	3 quarter cumulative period from 01/01/2018 to 30/09/2018
I. Revenue	7 905 000	7 848 000	1 834 703	1 845 069
II. Operating income	545 000	265 000	126 491	62 302
III. Profit before income tax	337 000	54 000	78 216	12 695
IV. Net income	279 000	36 000	64 754	8 464
V. Earnings per share (in PLN/EUR)	0.21	0.03	0.05	0.01
VI. Weighted average number of shares (in millions)	1 312	1 312	1 312	1 312
VII. Total comprehensive income	252 000	37 000	58 488	8 699
VIII. Net cash provided by operating activities	1 933 000	1 096 000	448 638	257 670
IX. Net cash used in investing activities	(1 438 000)	(1 609 000)	(333 751)	(378 277)
X. Net cash provided by/(used in) financing activities	(740 000)	374 000	(171 750)	87 928
XI. Net change in cash and cash equivalents	(245 000)	(139 000)	(56 863)	(32 679)
	balance as at 30/09/2019	balance as at 31/12/2018	balance as at 30/09/2019	balance as at 31/12/2018
XII. Total current assets	3 288 000	3 758 000	751 783	873 953
XIII. Total non-current assets	20 535 000	19 333 000	4 695 217	4 496 047
XIV. Total assets	23 823 000	23 091 000	5 447 000	5 370 000
XV. Total current liabilities	3 642 000	5 856 000	832 724	1 361 860
XVI. Total non-current liabilities	9 489 000	6 796 000	2 169 608	1 580 465
XVII. Total equity	10 692 000	10 439 000	2 444 668	2 427 675
XVIII. Share capital	3 937 000	3 937 000	900 174	915 581

ORANGE POLSKA GROUP

CONDENSED IFRS QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 30 SEPTEMBER 2019



October 28, 2019

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CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings per share)

		<i>3 months ended 30 September 2019 IFRS 16 basis</i>	<i>9 months ended 30 September 2019 IFRS 16 basis</i>	<i>3 months ended 30 September 2018 IAS 17 basis (see Note 3.2)</i>	<i>9 months ended 30 September 2018 IAS 17 basis (see Note 3.2)</i>
	<i>Note</i>				
Revenue	5	2,870	8,407	2,755	8,171
External purchases		(1,590)	(4,715)	(1,582)	(4,660)
Labour expense		(365)	(1,143)	(370)	(1,199)
Other operating expense		(122)	(348)	(113)	(337)
Other operating income		59	167	55	195
Impairment of receivables and contract assets		(39)	(98)	(46)	(110)
Gains on disposal of assets	8	218	266	93	115
Amortisation and impairment of right-of-use assets		(77)	(215)	-	-
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets, including:	8	(592)	(1,750)	(617)	(1,894)
- depreciation of property, plant and equipment financed by finance lease		-	-	(11)	(29)
Operating income		362	571	175	281
Interest income		10	31	9	25
Interest expense on lease liabilities		(13)	(35)	(1)	(3)
Other interest expense and financial charges		(65)	(181)	(62)	(192)
Discounting expense		(20)	(45)	(7)	(64)
Finance costs, net		(88)	(230)	(61)	(234)
Income tax		(50)	(64)	(23)	(22)
Net income		224	277	91	25
Net income attributable to owners of Orange Polska S.A.		224	277	91	25
Net income attributable to non-controlling interests		-	-	-	-
Earnings per share (in PLN)		0.17	0.21	0.07	0.02
Weighted average number of shares (in millions)		1,312	1,312	1,312	1,312

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

		<i>3 months ended 30 September 2019 IFRS 16 basis</i>	<i>9 months ended 30 September 2019 IFRS 16 basis</i>	<i>3 months ended 30 September 2018 IAS 17 basis</i>	<i>9 months ended 30 September 2018 IAS 17 basis</i>
Net income		224	277	91	25
Items that will not be reclassified to profit or loss					
Actuarial losses on post-employment benefits		(5)	(5)	(3)	(3)
Income tax relating to items not to be reclassified		1	1	1	1
Items that may be reclassified subsequently to profit or loss					
Gains/(losses) on cash flow hedges		-	(28)	(2)	3
Income tax relating to items that may be reclassified		-	5	1	-
Other comprehensive income/(loss), net of tax		(4)	(27)	(3)	1
Total comprehensive income		220	250	88	26
Total comprehensive income attributable to owners of Orange Polska S.A.		220	250	88	26
Total comprehensive income attributable to non-controlling interests		-	-	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)

		<i>At 30 September 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>
ASSETS			
Goodwill	8	2,258	2,147
Other intangible assets	8	4,611	4,871
Property, plant and equipment		10,260	10,738
Right-of-use assets	3,8	1,930	-
Trade receivables	8	441	552
Contract assets		54	27
Contract costs		77	56
Derivatives	9	56	48
Other assets		66	53
Deferred tax assets	8	755	834
Total non-current assets		20,508	19,326
Inventories		245	240
Trade receivables	8	2,268	2,371
Contract assets		101	138
Contract costs		306	297
Derivatives	9	13	52
Other assets		241	214
Prepaid expenses		82	46
Cash and cash equivalents	8,9	388	611
Total current assets		3,644	3,969
TOTAL ASSETS		24,152	23,295
EQUITY AND LIABILITIES			
Share capital		3,937	3,937
Share premium		832	832
Other reserves		(86)	(58)
Retained earnings		6,069	5,790
Equity attributable to owners of Orange Polska S.A.		10,752	10,501
Non-controlling interests		2	2
Total equity		10,754	10,503
Trade payables	10	357	473
Lease liabilities	3,8	1,483	112
Loans from related party	9	6,613	5,258
Other financial liabilities at amortised cost	9	9	11
Derivatives	9	69	31
Provisions		489	468
Contract liabilities		338	331
Employee benefits		146	136
Other liabilities		51	26
Total non-current liabilities		9,555	6,846
Trade payables	8,10	2,111	2,469
Lease liabilities	3	325	66
Loans from related party	9	244	2,074
Other financial liabilities at amortised cost	9	10	10
Derivatives	9	-	19
Provisions	12	163	217
Contract liabilities		474	460
Employee benefits		171	201
Income tax liabilities		19	54
Other liabilities		326	376
Total current liabilities		3,843	5,946
TOTAL EQUITY AND LIABILITIES		24,152	23,295

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				
Balance at 1 January 2019	3,937	832	(20)	(51)	13	5,790	10,501	2	10,503
Total comprehensive income for the 9 months ended 30 September 2019	-	-	(28)	(5)	6	277	250	-	250
Share-based payments	-	-	-	-	-	2	2	-	2
Transfer to inventories	-	-	(1)	-	-	-	(1)	-	(1)
Balance at 30 September 2019	3,937	832	(49)	(56)	19	6,069	10,752	2	10,754
Balance at 1 January 2018	3,937	832	(2)	(47)	9	5,779	10,508	2	10,510
Total comprehensive income for the 9 months ended 30 September 2018	-	-	3	(3)	1	25	26	-	26
Transfer to inventories	-	-	(4)	-	-	-	(4)	-	(4)
Balance at 30 September 2018	3,937	832	(3)	(50)	10	5,804	10,530	2	10,532

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)

		<i>3 months ended 30 September 2019 IFRS 16 basis</i>	<i>9 months ended 30 September 2019 IFRS 16 basis</i>	<i>3 months ended 30 September 2018 IAS 17 basis (see Note 3.2)</i>	<i>9 months ended 30 September 2018 IAS 17 basis (see Note 3.2)</i>
	<i>Note</i>				
OPERATING ACTIVITIES					
Net income		224	277	91	25
<i>Adjustments to reconcile net income to cash from operating activities</i>					
Gains on disposal of assets		(218)	(266)	(93)	(115)
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets		669	1,965	617	1,894
Finance costs, net		88	230	61	234
Income tax		50	64	23	22
Change in provisions and allowances		5	(92)	(647)	(700)
Operational foreign exchange and derivatives losses, net		10	7	5	-
<i>Change in working capital</i>					
(Increase)/decrease in inventories, gross		33	(5)	16	(12)
(Increase)/decrease in trade receivables, gross	8	137	276	(12)	(142)
Decrease in contract assets, gross		-	9	35	142
(Increase)/decrease in contract costs		(21)	(30)	1	45
Increase/(decrease) in trade payables		(102)	(171)	68	(127)
Increase/(decrease) in contract liabilities		(6)	21	147	108
Increase in prepaid expenses and other receivables		(67)	(118)	(2)	(61)
Increase/(decrease) in other payables		6	(6)	(20)	(33)
Interest received		10	31	9	25
Interest paid and interest rate effect paid on derivatives, net		(150)	(306)	(130)	(276)
Exchange rate effect paid on derivatives, net		-	-	-	(5)
Income tax paid		(3)	(25)	(2)	(7)
Net cash provided by operating activities		665	1,861	167	1,017
INVESTING ACTIVITIES					
Payments for purchases of property, plant and equipment and intangible assets		(538)	(1,742)	(563)	(1,631)
Investment grants received		9	36	3	3
Investment grants paid to property, plant and equipment and intangible assets suppliers		(40)	(92)	(4)	(10)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		3	3	3	3
Proceeds from sale of property, plant and equipment and intangible assets		355	488	30	67
Cash paid for subsidiaries, net of cash acquired	8	-	(132)	-	-
Payments on other financial instruments, net		(3)	(3)	-	-
Net cash used in investing activities		(214)	(1,442)	(531)	(1,568)
FINANCING ACTIVITIES					
Repayment of long-term loans from related party	9	-	(17)	-	-
Repayment of lease liabilities		(66)	(210)	(5)	(18)
Increase/(decrease) in revolving credit line and other debt	9	(420)	(473)	295	398
Exchange rate effect received/(paid) on derivatives hedging debt, net		-	58	1	-
Net cash provided by/(used in) financing activities		(486)	(642)	291	380
Net change in cash and cash equivalents		(35)	(223)	(73)	(171)
Cash and cash equivalents at the beginning of the period		423	611	548	646
Cash and cash equivalents at the end of the period		388	388	475	475

Notes to the Condensed Quarterly 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 Quarterly Consolidated Financial Statements of the Group (the “Condensed Quarterly Consolidated Financial Statements”) as at and for the 9 months ended 30 September 2019 is presented in Note 1.2 to the Orange Polska Group IFRS Consolidated Financial Statements (“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, 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 9 months ended 30 September 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 9 months ended 30 September 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)

	9 months ended	
	30 September 2019	30 September 2018
Revenue	8,407	8,164 ⁽¹⁾
EBITDAaL ⁽²⁾	2,299	Not applicable
EBITDA ⁽²⁾	Not applicable	2,175
Net income	277	25
Organic cash flows	403	84
Capital expenditures	1,440	1,347 ⁽³⁾

⁽¹⁾ Includes PLN (7) million of adjustment for the impact of deconsolidation of subsidiaries for the 9 months ended 30 September 2018.

⁽²⁾ 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).

⁽³⁾ Excludes PLN 90 million of capital expenditures financed by finance leases in the 9 months ended 30 September 2018.

	At 30 September 2019	At 31 December 2018
Net financial debt (in PLN millions, see Note 9)	6,439	6,672
Net financial debt/EBITDAaL ratio	2.2	Not applicable
Net financial debt ⁽¹⁾ /EBITDA ratio	Not applicable	2.4

⁽¹⁾ Including finance lease liabilities recognised under IAS 17 (see Note 9).

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

(in PLN millions)

	9 months ended 30 September 2019
Operating income	571
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	1,750
Interest expense on lease liabilities	(35)
Adjustment for the impact of employment termination programs	5
Adjustment for the costs related to acquisition and integration of new subsidiaries (see Note 8)	7
Adjustment for the impact of deconsolidation of subsidiaries	1
EBITDAaL	2,299

(in PLN millions)

	9 months ended	
	30 September 2019	30 September 2018
Net cash provided by operating activities ⁽¹⁾	1,861	1,017
Payments for purchases of property, plant and equipment and intangible assets	(1,742)	(1,631)
Exchange rate effect received on derivatives economically hedging capital expenditures, net	3	3
Proceeds from sale of property, plant and equipment and intangible assets	488	67
Repayment of lease liabilities ⁽¹⁾	(210)	(18)
Adjustment for payment for costs related to acquisition and integration of new subsidiaries	3	-
Adjustment for payment of European Commission fine	-	646
Organic cash flows	403	84

⁽¹⁾ 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 Quarterly 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 Quarterly Consolidated Financial Statements (see also Note 4).

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

The Condensed Quarterly 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 quarterly financial statements only if it would also be appropriate to anticipate or defer such costs at the end of the year.

These Condensed Quarterly Consolidated Financial Statements are prepared in millions of Polish zloty (“PLN”) and were authorised for issuance by the Management Board on 28 October 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 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”

As at 1 January 2019, the Group adopted the standard IFRS 16 “Leases”. The new accounting policy relating to leases applied by the Group is presented in Note 4.1.

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 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 right-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.

Adoption of IFRS 16 affected the consolidated statement of financial position as at 1 January 2019 as follows (subject to change considering subsurface rights and future decision on the approach to lease term):

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)

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

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

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 9 months ended 30 September 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 September 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 9 months ended 30 September 2018, with no impact on net cash provided by/(used in) investing and financing activities.

IFRS Interpretation Committee's decisions on IFRS 16 matters and their impact on the Group

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 concluded 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 capture only 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.

As at 30 September 2019, there was no final decision as regards lease term and useful life of leasehold improvements.

The Group's current accounting policies in respect of these matters, as reflected in these, quarterly financial statements, 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.

After analysis of the Committee's decision related to subsurface rights, the Group concluded that subsurface rights used by the Group, and considered so far as services based on the Group's interpretation of IFRS 16, should be recognised as leases. This conclusion is based on the Committee's decision and the circumstances presented in this decision. Therefore, presentation of the subsurface rights as leases is a change of policy. Currently, the Group analyses the impact of this change and aims to account for it in the 2019 annual financial statements.

As far as the Committee's tentative decision on the lease term is concerned, the Group is currently analysing the potential implications, if any, of this decision 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 September 2019, the potential impact of this decisions could not be reasonably determined.

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 Quarterly 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.

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.

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.

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.

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</i>	<i>9 months</i>	<i>3 months</i>	<i>9 months</i>
	<i>ended 30 September 2019</i>	<i>ended 30 September 2019</i>	<i>ended 30 September 2018</i>	<i>ended 30 September 2018</i>
Mobile only services	660	1,946	687	2,053
Fixed only services	540	1,661	602	1,851
Narrowband	224	701	263	822
Broadband	211	643	229	693
Network solutions (business market)	105	317	110	336
Convergent services (consumer market)	399	1,152	336	943
Equipment sales	359	1,078	336	994
IT and integration services	224	534	138	394
Wholesale	585	1,713	576	1,726
Mobile wholesale	323	957	332	973
Fixed wholesale	186	532	176	540
Other	76	224	68	213
Other revenue	103	323	80	210
Total revenue	2,870	8,407	2,755	8,171

Wholesale and other revenue for the 9 months ended 30 September 2019 include PLN 35 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 ⁽¹⁾	8.68%	9.32%

⁽¹⁾ 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 145 million in the 9 months ended 30 September 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 9 months ending 30 September 2019 does amount to PLN 224 million and loss on derecognition recognised in other operating expense for the same period amounts to PLN 3 million. As a result of the agreement, PLN 187 million of trade receivables held as at 30 September 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 9 months ended 30 September 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 9 months ended 30 September 2019 amounted to PLN 266 million and included mainly gains on disposal of real estate. On 29 August 2019, the Group concluded an agreement to sell Nowogrodzka/Św. Barbary real estate property complex for EUR 81 million (approximately PLN 350 million). Gain on disposal amounted to PLN 212 million. Additionally, Orange Polska has leased back the portion of the real estate until 2026, in order to allow sufficient time for migration of the network equipment located in the complex. As a result of the sale and leaseback agreements, the lease liability increased by PLN 88 million.

The amount of trade payables subject to reverse factoring decreased from PLN 232 million as at 31 December 2018 to PLN 193 million as at 30 September 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 9 months ended 30 September 2019, the Group recognised PLN 7 million of costs related to acquisition and integration of new subsidiaries.

The Group accounted for the acquisition provisionally and recognised the following assets and liabilities:

(in PLN millions)

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

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

The Group recognised PLN 56 million of revenue and PLN 2 million of net income with respect to BlueSoft and Essembli since the acquisition date, including PLN 8 million of revenue recognised on intra-group transactions and eliminated on consolidation.

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 September</i>	<i>At 31 December</i>
	<i>2019</i>	<i>2018</i>
Loans from related party	6,857	7,332
Other financial liabilities at amortised cost	19	21 ⁽¹⁾
Derivatives – net (liabilities less assets)	-	(50)
Gross financial debt after derivatives	6,876	7,303 ⁽¹⁾
Cash and cash equivalents	(388)	(611)
Cash flow hedge reserve	(49)	(20)
Net financial debt	6,439	6,672 ⁽¹⁾

⁽¹⁾ 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 9 months ended 30 September 2019, the net cash flows from issuance and repayments of the Revolving Credit Facility from Atlas Services Belgium S.A. amounted to PLN (470) million.

As at 30 September 2019, the total outstanding balance of loans from the related party amounted to PLN 6,857 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 2.46% before swaps and 3.07% after swaps as at 30 September 2019.

In the 9 months ended 30 September 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 September 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 15 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 September 2019 and 31 December 2018 the estimated fair value exceeded the carrying amount by PLN 74 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

In accordance with the recommendation of the Management Board of the Company there was no dividend paid in 2019.

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 Supreme Court will announce its verdict in those proceedings on 31 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 September 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, interconnect and research and development services. 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)

	<i>3 months</i>	<i>9 months</i>	<i>3 months</i>	<i>9 months</i>
	<i>ended 30 September 2019</i>	<i>ended 30 September 2019</i>	<i>ended 30 September 2018</i>	<i>ended 30 September 2018</i>
Sales of goods and services and other income:	55	159	47	157
Orange S.A. (parent)	34	103	20	87
Orange Group (excluding parent)	21	56	27	70
Purchases of goods (including inventories, tangible and intangible assets) and services:	(68)	(177)	(64)	(180)
Orange S.A. (parent)	(18)	(43)	(16)	(48)
Orange Group (excluding parent)	(50)	(134)	(48)	(132)
- including Orange Brand Services Limited (brand licence agreement)	(29)	(84)	(28)	(85)
Finance costs, net:	(53)	(165)	(55)	(170)
Orange S.A. (parent)	14	(29)	(80)	-
Orange Group (excluding parent)	(67)	(136)	25	(170)
Other comprehensive income/(loss):	(12)	(37)	4	(8)
Orange S.A. (parent)	(12)	(37)	4	(8)

Orange Polska Group

Condensed IFRS Quarterly Consolidated Financial Statements – 30 September 2019

Translation of the financial statements originally issued in Polish

<i>(in PLN millions)</i>	<i>At 30 September 2019</i>	<i>At 31 December 2018</i>
Receivables:	94	86
Orange S.A. (parent)	67	47
Orange Group (excluding parent)	27	39
Liabilities:	100	96
Orange S.A. (parent)	43	47
Orange Group (excluding parent)	57	49
Financial receivables:	54	98
Orange S.A. (parent)	54	98
Cash and cash equivalents deposited with:	30	203
Orange S.A. (parent)	30	203
Financial liabilities:	6,926	7,380
Orange S.A. (parent)	69	48
Orange Group (excluding parent)	6,857	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 9 months ended 30 September 2019 and 2018 amounted to PLN 14.9 million and PLN 11.1 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

On 25 October 2019, the Group repaid PLN 280 million of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange S.A.

ORANGE POLSKA S.A.

**CONDENSED IFRS QUARTERLY SEPARATE FINANCIAL
STATEMENTS FOR THE 3 MONTHS ENDED 30 SEPTEMBER 2019**



October 28, 2019

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INCOME STATEMENT*(in PLN millions, except for earnings per share)*

		3 months ended 30 September 2019	9 months ended 30 September 2019	3 months ended 30 September 2018	9 months ended 30 September 2018
		<i>IFRS 16 basis</i>		<i>IAS 17 basis</i>	
	<i>Note</i>				<i>(see Note 2.2)</i>
Revenue	4	2,661	7,905	2,646	7,848
External purchases		(1,416)	(4,306)	(1,507)	(4,423)
Labour expense		(342)	(1,082)	(350)	(1,140)
Other operating expense		(122)	(347)	(113)	(336)
Other operating income		58	168	58	205
Impairment of receivables and contract assets		(38)	(95)	(44)	(105)
Gains on disposal of assets	7	218	256	90	112
Amortisation and impairment of right-of-use assets		(73)	(207)	-	-
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets, including:	7	(589)	(1,747)	(618)	(1,896)
- depreciation of property, plant and equipment financed by finance lease		-	-	(11)	(28)
Operating income		357	545	162	265
Dividend income		-	21	-	23
Interest income		11	32	10	26
Interest expense on lease liabilities		(13)	(35)	(1)	(3)
Other interest expense and financial charges		(65)	(181)	(63)	(193)
Discounting expense		(20)	(45)	(7)	(64)
Finance costs, net		(87)	(208)	(61)	(211)
Income tax		(51)	(58)	(20)	(18)
Net income		219	279	81	36
Earnings per share (in PLN)		0.17	0.21	0.06	0.03
Weighted average number of shares (in millions)		1,312	1,312	1,312	1,312

STATEMENT OF COMPREHENSIVE INCOME*(in PLN millions)*

		3 months ended 30 September 2019	9 months ended 30 September 2019	3 months ended 30 September 2018	9 months ended 30 September 2018
		<i>IFRS 16 basis</i>		<i>IAS 17 basis</i>	
Net income		219	279	81	36
Items that will not be reclassified to profit or loss					
Actuarial losses on post-employment benefits		(5)	(5)	(3)	(3)
Income tax relating to items not to be reclassified		1	1	1	1
Items that may be reclassified subsequently to profit or loss					
Gains/(losses) on cash flow hedges		-	(28)	(2)	3
Income tax relating to items that may be reclassified		-	5	1	-
Other comprehensive income/(loss), net of tax		(4)	(27)	(3)	1
Total comprehensive income		215	252	78	37

STATEMENT OF FINANCIAL POSITION

(in PLN millions)

		<i>At 30 September 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>
ASSETS			
Goodwill		2,014	2,014
Other intangible assets		4,530	4,837
Property, plant and equipment		10,364	10,838
Right-of-use assets	2,7	1,912	-
Investments in subsidiaries	7	334	171
Trade receivables		408	522
Contract assets		54	27
Contract costs		73	54
Derivatives	8	56	48
Other assets		77	53
Deferred tax asset		713	769
Total non-current assets		20,535	19,333
Inventories		202	194
Trade receivables	7	2,130	2,239
Contract assets		101	138
Contract costs		306	311
Loan to related party		70	100
Derivatives	8	13	52
Other assets		126	162
Prepaid expenses		47	24
Cash and cash equivalents	8	293	538
Total current assets		3,288	3,758
TOTAL ASSETS		23,823	23,091
EQUITY AND LIABILITIES			
Share capital		3,937	3,937
Share premium		832	832
Other reserves		(85)	(57)
Retained earnings		6,008	5,727
Total equity		10,692	10,439
Trade payables	9	357	473
Lease liabilities	2,7	1,478	111
Financial liabilities at amortised cost excluding trade payables and lease liabilities	8	6,617	5,270
Derivatives	8	69	31
Provisions		471	450
Contract liabilities		317	317
Employee benefits		144	133
Other liabilities		36	11
Total non-current liabilities		9,489	6,796
Trade payables	7,9	1,991	2,326
Lease liabilities	2	312	66
Financial liabilities at amortised cost excluding trade payables and lease liabilities	8	264	2,195
Derivatives	8	-	19
Provisions	11	157	210
Contract liabilities		446	443
Employee benefits		163	190
Income tax liabilities		19	40
Other liabilities		290	367
Total current liabilities		3,642	5,856
TOTAL EQUITY AND LIABILITIES		23,823	23,091

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		
Balance at 1 January 2019	3,937	832	(20)	(51)	14	5,727	10,439
Total comprehensive income for the 9 months ended 30 September 2019	-	-	(28)	(5)	6	279	252
Share-based payments	-	-	-	-	-	2	2
Transfer to inventories	-	-	(1)	-	-	-	(1)
Balance at 30 September 2019	3,937	832	(49)	(56)	20	6,008	10,692
Balance at 1 January 2018	3,937	832	(2)	(46)	10	5,725	10,456
Total comprehensive income for the 9 months ended 30 September 2018	-	-	3	(3)	1	36	37
Transfer to inventories	-	-	(4)	-	-	-	(4)
Balance at 30 September 2018	3,937	832	(3)	(49)	11	5,761	10,489

STATEMENT OF CASH FLOWS

(in PLN millions)

		3 months ended 30 September 2019 <i>IFRS 16 basis</i>	9 months ended 30 September 2019 <i>IFRS 16 basis</i>	3 months ended 30 September 2018 <i>IAS 17 basis</i>	9 months ended 30 September 2018 <i>IAS 17 basis</i> <i>(see Note 2.2)</i>
	Note				
OPERATING ACTIVITIES					
Net income		219	279	81	36
<i>Adjustments to reconcile net income to cash from operating activities</i>					
Gains on disposal of assets		(218)	(256)	(90)	(112)
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets		662	1,954	618	1,896
Finance costs, net		87	208	61	211
Income tax		51	58	20	18
Change in provisions and allowances		4	(91)	(649)	(704)
Operational foreign exchange and derivatives losses, net		10	7	5	-
<i>Change in working capital</i>					
(Increase)/decrease in inventories, gross		28	(7)	20	(19)
(Increase)/decrease in trade receivables, gross	7	133	260	(1)	(144)
Decrease in contract assets, gross		-	9	35	142
(Increase)/decrease in contract costs		(17)	(14)	11	56
Increase/(decrease) in trade payables		(122)	(138)	71	(99)
Increase/(decrease) in contract liabilities		(6)	3	149	100
(Increase)/decrease in prepaid expenses and other receivables		(41)	(48)	2	(22)
Decrease in other payables		(10)	(21)	(18)	(29)
Dividends received		13	21	1	23
Interest received		11	32	10	26
Interest paid and interest rate effect paid on derivatives, net		(150)	(306)	(131)	(277)
Exchange rate effect paid on derivatives, net		-	-	-	(5)
Income tax received/(paid)		4	(17)	-	(1)
Net cash provided by operating activities		658	1,933	195	1,096
INVESTING ACTIVITIES					
Payments for purchases of property, plant and equipment and intangible assets		(534)	(1,742)	(569)	(1,640)
Investment grants received		9	36	3	3
Investment grants paid to property, plant and equipment and intangible assets suppliers		(40)	(92)	(4)	(10)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		3	3	3	3
Proceeds from sale of property, plant and equipment and intangible assets		355	473	28	65
Proceeds from sale of investments in subsidiaries, net of transaction costs		-	2	-	-
Cash paid for investments in subsidiaries	7	-	(133)	-	-
Receipts from/(payments on) loans made to related parties and other financial instruments, net		(3)	15	(30)	(30)
Net cash used in investing activities		(210)	(1,438)	(569)	(1,609)
FINANCING ACTIVITIES					
Repayment of long-term loans from related party	8	-	(17)	-	-
Repayment of lease liabilities		(62)	(202)	(5)	(17)
Increase/(decrease) in revolving credit line and other debt	8	(470)	(579)	317	391
Exchange rate effect received/(paid) on derivatives hedging debt, net		-	58	1	-
Net cash provided by/(used in) financing activities		(532)	(740)	313	374
Net change in cash and cash equivalents		(84)	(245)	(61)	(139)
Cash and cash equivalents at the beginning of the period		377	538	490	568
Cash and cash equivalents at the end of the period		293	293	429	429

Notes to the Condensed Quarterly 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 Quarterly Separate Financial Statements for the 9 months ended 30 September 2019 (the “Condensed Quarterly 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 Quarterly Separate Financial Statements (see also Note 3).

These Condensed Quarterly 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 Quarterly 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 quarterly 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 quarterly consolidated financial statements for the 9 months ended 30 September 2019. The Group is a part of Orange Group, based in France.

These Condensed Quarterly Separate Financial Statements are prepared in millions of Polish zloty (“PLN”) and were authorised for issuance by the Management Board on 28 October 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 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”

As at 1 January 2019, the Company adopted the standard IFRS 16 “Leases”. The new accounting policy relating to leases applied by the Company is presented in Note 3.1.

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

- the accounting for all 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;
- recognising depreciation of the right-of-use assets and interest charges related to the lease liability, instead of operating lease expenses;
- 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.

Adoption of IFRS 16 affected the statement of financial position as at 1 January 2019 as follows (subject to change considering subsurface rights and future decision on the approach to lease term):

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>
ASSETS			
Property, plant and equipment	10,838	(447)	10,391
Right-of-use assets	-	1,722	1,722
Total non-current assets	19,333	1,275	20,608
Total current assets	3,758	-	3,758
TOTAL ASSETS	23,091	1,275	24,366
EQUITY AND LIABILITIES			
Total equity	10,439	-	10,439
Lease liabilities	111	1,047	1,158
Total non-current liabilities	6,796	1,047	7,843
Lease liabilities	66	228	294
Total current liabilities	5,856	228	6,084
TOTAL EQUITY AND LIABILITIES	23,091	1,275	24,366

Additionally, as a consequence of IFRS 16 implementation, certain changes were made to the presentation in the financial statements, which impacted the comparative data as described below.

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 9 months ended 30 September 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 September 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 9 months ended 30 September 2018, with no impact on net cash provided by/(used in) investing and financing activities.

IFRS Interpretation Committee's decisions on IFRS 16 matters and their impact on the Company

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 concluded 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 capture only 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.

As at 30 September 2019, there was no final decision as regards lease term and useful life of leasehold improvements.

The Company's current accounting policies in respect of these matters, as reflected in these, quarterly financial statements, 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.

After analysis of the Committee's decision related to subsurface rights, the Company concluded that subsurface rights used by the Company, and considered so far as services based on the Company's interpretation of IFRS 16, should be recognised as leases. This conclusion is based on the Committee's decision and the circumstances presented in this decision. Therefore, presentation of the subsurface rights as leases is a change of policy. Currently, the Company analyses the impact of this change and aims to account for it in the 2019 annual financial statements.

As far as the Committee's tentative decision on the lease term is concerned, the Company is currently analysing the potential implications, if any, of this decision on the Company'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 September 2019, the potential impact of this decisions could not be reasonably determined.

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 Quarterly 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 then 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.

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.

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.

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.

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 September 2019</i>	<i>9 months ended 30 September 2019</i>	<i>3 months ended 30 September 2018</i>	<i>9 months ended 30 September 2018</i>
Mobile only services	658	1,942	685	2,046
Fixed only services	540	1,661	602	1,851
Narrowband	224	701	263	822
Broadband	211	643	229	693
Network solutions (business market)	105	317	110	336
Convergent services (consumer market)	399	1,152	336	943
Equipment sales	359	1,078	336	994
IT and integration services	50	133	55	141
Wholesale	585	1,713	576	1,726
Mobile wholesale	323	957	332	973
Fixed wholesale	186	532	176	540
Other	76	224	68	213
Other revenue	70	226	56	147
Total revenue	2,661	7,905	2,646	7,848

Wholesale and other revenue for the 9 months ended 30 September 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 ⁽¹⁾	8.68%	9.32%

⁽¹⁾ 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 145 million in the 9 months ended 30 September 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 9 months ending 30 September 2019 does amount to PLN 224 million and loss on derecognition recognised in other operating expense for the same period amounts to PLN 3 million. As a result of the agreement,

PLN 187 million of trade receivables held as at 30 September 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 9 months ended 30 September 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 9 months ended 30 September 2019 amounted to PLN 256 million and included mainly gains on disposal of real estate. On 29 August 2019, the Company concluded an agreement to sell Nowogrodzka/Św. Barbary real estate property complex for EUR 81 million (approximately PLN 350 million). Gain on disposal amounted to PLN 212 million. Additionally, Orange Polska has leased back the portion of the real estate until 2026, in order to allow sufficient time for migration of the network equipment located in the complex. As a result of the sale and leaseback agreements, the lease liability increased by PLN 88 million.

The amount of trade payables subject to reverse factoring decreased from PLN 220 million as at 31 December 2018 to PLN 183 million as at 30 September 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 9 months ended 30 September 2019, the net cash flows from issuance and repayments of the Revolving Credit Facility from Atlas Services Belgium S.A. amounted to PLN (470) million.

As at 30 September 2019, the total outstanding balance of loans from the related party amounted to PLN 6,857 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 2.46% before swaps and 3.07% after swaps as at 30 September 2019.

In the 9 months ended 30 September 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 September 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 15 million.

In the 9 months ended 30 September 2019, the Company issued and redeemed short-term bonds under the Orange Polska S.A. Bond Issuance Programme. In the 9 months ended 30 September 2019, the net cash flows on the bonds amounted to PLN (101) million. As at 30 September 2019 and 31 December 2018, the aggregate par value

of the outstanding bonds issued under the programme amounted to PLN 11 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 September 2019 and 31 December 2018 the estimated fair value exceeded the carrying amount by PLN 74 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

In accordance with the recommendation of the Management Board of the Company there was no dividend paid in 2019.

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 Supreme Court will announce its verdict in those proceedings on 31 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 September 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, interconnect and research and development services. 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. 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.

Orange Polska S.A.

Condensed IFRS Quarterly Separate Financial Statements – 30 September 2019

Translation of the financial statements originally issued in Polish

<i>(in PLN millions)</i>	<i>3 months ended 30 September 2019</i>	<i>9 months ended 30 September 2019</i>	<i>3 months ended 30 September 2018</i>	<i>9 months ended 30 September 2018</i>
Sales of goods and services and other income:	77	225	77	267
Orange Polska Group (subsidiaries)	22	67	31	113
Orange Group	55	158	46	154
- Orange S.A. (parent)	34	103	20	87
- Orange Group (excluding parent)	21	55	26	67
Purchases of goods (including inventories, tangible and intangible assets) and services:	(163)	(478)	(213)	(616)
Orange Polska Group (subsidiaries)	(95)	(301)	(149)	(436)
Orange Group	(68)	(177)	(64)	(180)
- Orange S.A. (parent)	(18)	(43)	(16)	(48)
- Orange Group (excluding parent)	(50)	(134)	(48)	(132)
- including Orange Brand Services Limited (brand licence agreement)	(29)	(84)	(28)	(85)
Financial income:	1	23	1	25
Orange Polska Group (subsidiaries)	-	22	-	23
Orange S.A. (parent)	1	1	1	2
Financial expense, net:	(54)	(167)	(56)	(173)
Orange Polska Group (subsidiaries)	-	(1)	-	(1)
Orange Group	(54)	(166)	(56)	(172)
- Orange S.A. (parent)	13	(30)	(81)	(2)
- Orange Group (excluding parent)	(67)	(136)	25	(170)
Other comprehensive income/(loss):	(12)	(37)	4	(8)
Orange S.A. (parent)	(12)	(37)	4	(8)

<i>(in PLN millions)</i>	<i>At 30 September 2019</i>	<i>At 31 December 2018</i>
Receivables and contract costs:	127	158
Orange Polska Group (subsidiaries)	33	72
Orange Group	94	86
- Orange S.A. (parent)	67	47
- Orange Group (excluding parent)	27	39
Liabilities:	200	250
Orange Polska Group (subsidiaries)	100	154
Orange Group	100	96
- Orange S.A. (parent)	43	47
- Orange Group (excluding parent)	57	49
Financial receivables:	140	202
Orange Polska Group (subsidiaries)	86	104
Orange S.A. (parent)	54	98
Cash and cash equivalents deposited with:	30	203
Orange S.A. (parent)	30	203
Financial liabilities:	6,939	7,495
Orange Polska Group (subsidiaries)	13	115
Orange Group	6,926	7,380
- Orange S.A. (parent)	69	48
- Orange Group (excluding parent)	6,857	7,332
Guarantees granted:	100	75
Orange Polska Group (subsidiaries)	100	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 9 months ended 30 September 2019 and 2018 amounted to PLN 14.9 million and PLN 11.1 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

On 25 October 2019, the Company repaid PLN 280 million of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange S.A.

Pursuant to Art. 66 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 quarterly report and changes in the ownership structure in the period since the submission of the previous interim report

The ownership structure of the Company’s share capital, based on the information available to the Company as at 28 October 2019, i.e. the date of submission of the quarterly report for the 3 months ended 30 September 2019 was the same as at 24 July 2019, i.e. the date of submission of the interim report for the 6 months ended 30 June 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%
TOTAL	1,312,357,479	1,312,357,479	100.00%	3,937,072,437	100.00%

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 interim 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 28 October 2019 and 24 July 2019.

Mr Maciej Nowohoński, the Member of the Management Board of OPL S.A., held 25,000 Orange Polska S.A. shares as at 28 October 2019 and 24 July 2019.

Ms Jolanta Dudek, the Member of the Management Board of OPL S.A., held 8,474 Orange Polska S.A. shares as at 28 October 2019 and 24 July 2019.

Mr Piotr Jaworski, the Member of the Management Board of OPL S.A., held 673 Orange Polska S.A. shares as at 28 October 2019 and 24 July 2019.

Mr Maciej Witucki, the Chairman of the Supervisory Board of OPL S.A., held no OPL S.A. share as at 28 October 2019 and held 4,000 Orange Polska S.A. shares as at 24 July 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 9 months ended 30 September 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 9 months ended 30 September 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 the 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 September 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 9 months ended 30 September 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 9-month periods ended 30 September 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:

	30 September 2019	31 December 2018	30 September 2018
Statement of financial position	4.3736 PLN	4.3000 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.3086 PLN	Not applicable	4.2535 PLN