



LSE – Current Report (35/2014)
Orange Polska S.A., Warsaw, Poland
April 25, 2014

Pursuant to art. 56, clause 1, item 1 of the Law of July 29, 2005 on public offering and the conditions for introducing financial instruments to the organised trading system and on public companies (Journal of Laws of 2005, No. 184, item 1539 with amendments), the Management Board of Orange Polska S.A. hereby provides selected financial and operating data related to the activities of Orange Polska Capital Group (“Group”, “Orange Polska”) for 1Q 2014.

Orange Polska reports positive commercial momentum in 1Q 2014 and satisfactory financial results

1Q 2014 highlights:

- **revenue down -5%¹ year-on-year excluding regulatory impact**
 - **mobile revenue flat year-on-year excl. regulatory impact (-0.3%)**
 - **regulatory impact of PLN -98mn resulting mainly from MTR cuts**
- **commercial momentum improving in most areas:**
 - **+66k net adds of Orange Open drive its customer base to 352k, 4.9x prior year**
 - **mobile customer base growth accelerated to +3.4% y-o-y vs. +2.9% in 4Q 2013**
 - **positive mobile number portability balance, first time since 3Q2008**
 - **+139k post-paid net adds in 1Q versus -5k a year ago**
 - **+126k net adds of nju.mobile, driving its customer base to 479k**
 - **slower drop of fixed voice clients: -56k in 1Q, versus -62k in 4Q 2013 and -111k in 1Q 2013**
- **opex² down by -7.3% year-on-year, defending the restated³ EBITDA margin at 31.8%**
- **capex at PLN 374 million, down 7% year-on-year**
- **Organic Cash Flow at PLN 157mn, reflecting higher payments for handsets. FY Organic Cash Flow guidance confirmed**
- **Wirtualna Polska sale completed; PLN 382mn cash proceeds and PLN 191mn gain on disposal**

key figures (PLN million) IFRS	1Q 2014	1Q 2013	change
Group revenue	2,995	3,252 ¹	-7.9% ¹
excl. regulatory impact			-5.0% ¹
restated EBITDA ³	951	1,046 ¹	-9.1% ¹
restated EBITDA ³ (as % of revenue)	31.8%	32.2% ¹	-0.4 pp. ¹
net income	271	79 ¹	243% ¹
organic cash flow	157	210	-25.2%

¹ on pro forma basis

² total cost base up to restated EBITDA

³ on pro forma basis restated for the gain on disposal of Wirtualna Polska (PLN 191mn) in 1Q 2014 and for restructuring costs in 1Q2013 (PLN -18mn)

commenting on 1Q 2014 performance, Bruno Duthoit, Chief Executive Officer, said:

“Our 1Q commercial activity delivered meaningful progress; the convergent Open product is on a good growth path, we continue to limit the churn of our fixed voice clients and we have achieved solid growth of our mobile postpaid customer base, including nju.mobile. This enabled us to record a positive result in mobile number portability, for the first time since 2008. On the other hand ARPU is still under pressure and we need more actions to improve broadband performance. We aim to continue commercial progress, with a new set of actions launched for 2Q, including new tariff plans in mobile, supported by decreased entry price for smartphone ownership and an enhanced Orange Open. We signed a landmark agreement with mBank, paving the way for innovative financial services to be provided to Orange customers. Simultaneously, we continued our operational progress, as we extended 3G to 91% of population and cover 29% of the population with 4G. Going forward, we expect the market to remain competitive, but we feel well equipped for this rivalry. We will remain proactive and will be fast to adapt to the changing market conditions.”

Financial Review

revenue decline limited to -7.9% year-on-year, (-5.0% excluding regulatory impact)

Group's revenue totalled PLN 2,995 million in 1Q, down by -7.9% year-on-year. The decrease largely reflected a PLN -98 million impact of regulatory decisions (mostly MTR cuts⁴). Excluding the regulatory impact, the top-line decline was limited to PLN 159 million or -5%. It was caused by lower revenues from fixed services, which – excluding regulatory impact - went down by PLN 117 million, mainly due to a structural decline of PSTN. Mobile revenues, excluding regulatory impact, were nearly stable year-on-year (-0.3% or PLN -4 million), as positive dynamics of the customer base offset the price pressure in mobile voice. Other revenues went down by PLN 38 million, mostly due to higher ICT revenue in 1Q 2013.

The number of customers of the Orange Open solution reached 352,000. The Group's flagship convergent offer has 4.9 times as many customers as last year. Its upsell potential is evidenced by the fact that 57% of its subscribers bought additional fixed or mobile services upon entering the product, and benefitting the overall customer ARPU.

The growth rate in the number of mobile customers accelerated to +3.4% year-on-year, versus +2.9% in 4Q 2013. The upturn was possible due to 139,000 net customer additions in 1Q in post-paid, as post-paid growth has reached +6.6% year-on-year. 1Q mobile retail ARPU was still adversely affected by the price pressure in voice, falling by -6.6% year-on-year.

The fixed line KPIs continued to benefit from the strategy of product bundling and convergence. The evolution of the number of fixed voice customers improved, with the loss of lines that amounted to -56,000 in 1Q 2014 versus -62,000 in 4Q 2013 and -111,000 in 1Q 2013.

KPI ('000)	1Q 2014	1Q 2013	change
Orange Open customers	352	72	+389%
3P customers (BB, TV and VoIP)	364	286	+27.3%
number of mobile customers	15,395	14,886	+3.4%
post-paid	7,360	6,906	+6.6%
pre-paid	8,035	7,980	+0.7%
fixed voice lines (retail)	4,685	4,976	-5.8%
fixed broadband accesses (retail)	2,285	2,333	-2.1%
mobile broadband accesses	1,233	1,043	+18.2%
number of TV customers	708	699	+1.3%

⁴ voice mobile termination rate (MTR) was cut from PLN 0.0826 a minute to PLN 0.0429 a minute on July 1, 2013. In 1H 2012 the MTR amounted to PLN 0.1520 a minute and in 2H 2012: PLN 0.1223 a minute.

opex down by -7.3% year-on-year, defending the restated EBITDA margin at 31.8%

The restated EBITDA⁵ for 1Q 2014 amounted to PLN 951 million and it stood at 31.8% of revenues. In comparison to last year, it decreased by PLN 95 million. This was caused mainly by lower revenues, down by PLN 159 million excluding the regulatory impact, while impact of regulatory decisions affected the EBITDA by further PLN -19 million. In addition higher traffic inflated the Group's interoperator costs by PLN 42 million. This was partly offset by a PLN 76 million decrease of direct commercial costs, made in spite of the higher number of net additions in mobile post-paid, as well as by PLN 59 million savings stemming from the Group's cost optimisation program.

1Q net income at PLN 271 million, incl. PLN 191 million gain on disposal of Wirtualna Polska

Group's net income for 1Q2014 amounted to PLN 271 million, versus PLN 79 million 1Q 2013. The growth predominantly reflected PLN 191 million gain on the disposal of a subsidiary - Wirtualna Polska. The net income was stable year-on-year when excluding this item, as the contraction of the restated EBITDA was offset by lower depreciation (PLN 39 million year-on-year), less net interest expense (PLN 15 million below 1Q 2013) and a PLN +24 million variance in tax, partly due to new technology tax relief.

Organic Cash Flow at PLN 157mn, reflecting higher payments for mobile handsets

The organic cash flow amounted to PLN 157 million in 1Q 2014, as compared to PLN 210 million a year ago. Smaller cash generation resulted from variance in working capital requirement; it grew in 1Q 2014 by PLN 57 million, reflecting higher payments for handsets (in line with better net additions in post-paid), while in 1Q 2013 working capital requirement decreased by 106 million. The amount of current trade payables is PLN 362 million lower than at March 31, 2013. Cash from operating activities (before income tax paid and change in working capital) was down only by PLN 15 million year-on-year. This was offset by PLN 106 million less cash outflows for capital expenditures.

commenting on 1Q 2014 results, Maciej Nowohoński, Chief Financial Officer said:

"Our financial performance in 1Q was satisfactory. Despite high net additions in post-paid, we were able to decrease our opex by 7% versus 1Q of 2013. Stronger operational management of our SAC and SRC costs was coupled with the effects of our ongoing cost optimisation program. In effect, we defended our EBITDA margin at a level close to one year ago. 1Q cash generation reflected higher payments for handsets, predominantly from 4Q 2013 but also from 1Q. We have a significantly lower level of trade payables at the end of the quarter. We expect an upturn in cash generation in the coming quarters. We confirm the full-year Organic Cash Flow guidance for 2014⁶."

⁵ on pro forma basis restated for the gain on disposal of Wirtualna Polska (PLN 191mn) in 1Q 2014 and restated for restructuring costs in 1Q2013 (PLN -18mn)

⁶ 2014 Organic Cash Flow guidance for at least stable level versus 2013 (PLN 1.1bn), excluding one-offs: (i) renewal of existing spectrum, (ii) acquisition of any new spectrum, (iii) potential payment of the EC fine or other claims and litigations

Forward-looking statement

This press release contains forward-looking statements, including, but not limited to, statements regarding anticipated future events and financial performance with respect to our operations. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like 'believe', 'expect', 'anticipate', 'estimated', 'project', 'plan', 'pro forma' and 'intend' or future or conditional verbs such as 'will,' 'would,' or 'may.' Factors that could cause actual results to differ materially from expected results include, but are not limited to, those set forth in our Registration Statement, as filed with the Polish securities and exchange commission, the competitive environment in which we operate, changes in general economic conditions and changes in the Polish and/or global financial and/or capital markets. Forward-looking statements represent management's views as of the date they are made, and we assume no obligation to update any forward-looking statements for actual events occurring after that date. You are cautioned not to place undue reliance on our forward-looking statements.

Orange Polska Q1 2014 Results Presentation Friday 25th April 2014

Venue address:
Orange Polska
Aleje Jerozolimskie 160,
02-326 Warsaw,
Poland

Start: 11.00 CET

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

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

Conference title:
Orange Polska Q1 2014 Results

Dial in numbers:
UK/Europe: +44-208-515-2319
US: +1-480-629-9866

Toll free numbers:
UK: 0800-358-0856
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The results will be available on our website (www.orange.pl/investors) on the morning of 25th April. If you are on the Orange Polska mailing list, you should receive further notification by email as soon as they are available.

Orange Polska Group Consolidated

amounts in PLN millions	2013								2014
	1Q		2Q		3Q		4Q		1Q
profit & loss statement	as reported	pro forma*	as reported	pro forma*	as reported	pro forma*	as reported	pro forma*	as reported
revenues									
Mobile services	1 533	1 533	1 590	1 590	1 514	1 514	1 473	1 473	1 438
voice traffic revenue	887	887	917	917	906	906	835	835	804
data, messaging, content and M2M	433	433	443	443	448	448	470	470	461
wholesale	213	213	230	230	160	160	168	168	173
Mobile equipment sales	33	33	40	40	35	35	41	41	43
Fixed services	1 554	1 554	1 515	1 515	1 500	1 500	1 488	1 488	1 420
fixed narrowband	614	614	582	582	559	559	542	542	521
fixed broadband, TV and VoIP	421	421	421	421	422	422	423	423	420
enterprise solutions & networks	251	251	250	250	258	258	261	261	237
wholesale	268	268	262	262	261	261	262	262	242
Other revenue	147	132	158	116	147	112	155	110	94
Total revenues	3 267	3 252	3 303	3 261	3 196	3 161	3 157	3 112	2 995
year-on-year**	-7,2%	n/a	-9,9%	n/a	-7,9%	n/a	-9,3%	n/a	-7,9%
labour expenses	(545)	(538)	(516)	(502)	(453)	(442)	(432)	(420)	(522)
external purchases	(1 596)	(1 593)	(1 649)	(1 635)	(1 501)	(1 484)	(1 694)	(1 674)	(1 452)
- interconnection costs	(314)	(314)	(358)	(357)	(284)	(284)	(295)	(295)	(280)
- network and IT	(188)	(187)	(209)	(208)	(208)	(208)	(241)	(231)	(192)
- commercial expenses	(642)	(696)	(620)	(659)	(562)	(603)	(752)	(768)	(605)
- content costs	(37)	(36)	(43)	(42)	(34)	(33)	(35)	(34)	(35)
- other external purchases	(415)	(360)	(419)	(369)	(413)	(356)	(371)	(346)	(340)
other operating incomes & expenses	(85)	(85)	(144)	(144)	(92)	(91)	(166)	(166)	(79)
employment termination expenses	(18)	(18)	(1)	(1)		0	(167)	(167)	0
gain/loss on disposals of assets	10	10	11	11	15	15	4	4	9
gain on disposal of Wirtualna Polska									191
reported EBITDA	1 033	1 028	1 004	990	1 165	1 159	702	689	1 142
% of revenues	31,6%	31,6%	30,4%	30,4%	36,5%	36,7%	22,2%	22,1%	38,1%
restated EBITDA***	1 051	1 046	1 004	990	1 165	1 159	864	851	951
% of revenues	32,2%	32,2%	30,4%	30,4%	36,5%	36,7%	27,4%	27,3%	31,8%
depreciation & amortisation	(791)	(789)	(783)	(778)	(775)	(770)	(758)	(756)	(750)
impairment of fixed assets	(1)	(1)	(3)	(3)	0	0	(5)	(5)	(1)
EBIT	241	238	218	209	390	389	(61)	(72)	391
% of revenues	7,4%	7,3%	6,6%	6,4%	12,2%	12,3%	-1,9%	-2,3%	13,1%
financial result	(134)	(134)	(108)	(108)	(118)	(118)	(118)	(118)	(119)
income tax	(26)	(25)	(34)	(32)	(33)	(33)	77	79	(1)
Consolidated net income after tax	81	79	76	69	239	238	(102)	(111)	271

*pro forma adjusted for deconsolidation of Wirtualna Polska and ORE and reclassifications of costs related to ICT (mainly equipment) from 'other external purchases' to 'commercial expenses' and costs related to infrastructure projects for the Polish regions from 'network and IT' to 'other external purchases'

**change is calculated based on pro forma figures for 2014

***restated for restructuring costs (PLN -18mn booked in 1Q2013 and PLN -129mn in 4Q2013) mainly including restructuring provision (PLN -18mn in 1Q2013 and PLN -167mn in 4Q2013) and actuarial adjustment to long term employee benefits, and PLN -33mn adjustment linked to TPSA/PTK merger booked in 4Q2013 and the gain on disposal of Wirtualna Polska in 1Q2014(PLN +191mn)

Orange Polska Group key performance indicators

customer base (in thousands)	2012	2013				2014
	4Q	1Q	2Q	3Q	4Q	1Q
Orange Open¹	33	72	125	211	286	352
Fixed telephony accesses						
POTS, ISDN & WLL	4,751	4,586	4,458	4,358	4,275	4,203
VoIP first line	336	390	423	445	466	482
Total retail main lines	5,087	4,976	4,881	4,803	4,741	4,685
Fixed broadband access						
ADSL	2,139	2,130	2,112	2,096	2,083	2,059
VHBB (VDSL+FTTH)	26	28	36	49	64	86
CDMA	180	175	169	160	154	140
Group retail broadband - total	2,345	2,333	2,317	2,305	2,301	2,285
TV client base						
IPTV	119	117	117	119	121	123
DTH (TV over Satellite)	588	582	582	583	586	585
TV client base - total	706	699	699	702	707	708
-o/w 'n' packages	83	98	101	115	123	133
3P services (TV+BB+VoIP)	248	286	314	333	351	364
Mobile accesses						
Post-paid	6,911	6,906	6,970	7,052	7,221	7,360
-o/w B2B	2,428	2,407	2,399	2,402	2,420	2,456
Pre-paid	7,984	7,980	7,977	8,074	8,104	8,035
Total²	14,895	14,886	14,947	15,126	15,325	15,395
- of which dedicated mobile broadband subscription client base	985	1,043	1,079	1,120	1,165	1,233
Group wholesale customers (external to Group)						
WLR	1,472	1,443	1,397	1,356	1,301	1,237
Bitstream access	347	342	343	340	330	322
LLU	185	181	178	175	172	169

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

² all SIM cards, including voice, M2M, data

quarterly ARPU in PLN per month	2012	2013				2014
	4Q	1Q	2Q	3Q	4Q	1Q
Orange Polska retail fixed voice ARPU	45.7	45.3	44.4	43.7	43.3	42.4
Orange Polska broadband ARPU (Broadband, TV & VoIP)	57.8	59.7	60.1	60.5	60.9	60.5
Mobile ARPU (outside the Group)						
post-paid	64.5	60.4	62.7	59.2	57.2	55.6
-o/w B2B	79.9	75.6	77.5	72.2	69.7	68.0
pre-paid	16.2	14.2	14.6	13.8	13.0	11.9
Blended	37.9	34.9	36.2	34.2	32.8	31.8
retail ARPU (PLN)	31.4	30.2	31.1	30.8	29.2	28.2
wholesale ARPU (PLN)	6.4	4.7	5.1	3.4	3.6	3.6
voice ARPU (PLN)						
post-paid	46.5	41.9	43.4	39.5	36.4	35.3
pre-paid	11.9	9.6	10.2	9.6	8.7	8.0
blended	27.2	24.0	25.1	23.0	21.1	20.4
data ARPU (PLN)						
post-paid	7.0	7.8	8.4	9.1	9.3	9.9
pre-paid	0.6	0.6	0.5	0.6	0.7	0.7
blended	3.4	3.8	4.1	4.4	4.5	4.8
SMS&MMS and other ARPU (PLN)						
post-paid	10.9	10.7	10.9	10.6	11.5	10.5
pre-paid	3.7	3.9	3.8	3.7	3.6	3.3
blended	7.4	7.0	7.0	6.8	7.1	6.5

other mobile operating statistics	2012	2013				2014
	4Q	1Q	2Q	3Q	4Q	1Q
MVNOs customers (thousands)	69	66	67	69	62	59
Number of smartphones (thousands)	3,262	3,384	3,526	3,613	3,804	3,920
volumes & churn						
AUPU (in minutes)						
post-paid	251.7	253.1	264.6	266.8	273.7	279.7
pre-paid	90.6	90.2	94.5	91.3	90.8	90.5
Blended	165.6	165.7	173.7	173.2	176.3	180.3
Quarterly mobile customer churn rate (%)						
post-paid	3.4	3.7	3.6	3.3	3.4	3.4
pre-paid	15.0	15.5	15.1	14.6	14.8	14.9
subsidies						
SAC post-paid (PLN)	583.8	556.8	502.3	484.8	521.6	441.4
SRC post-paid (PLN)	388.9	446.8	381.9	358.4	420.4	321.8
network coverage						
Group 3G coverage in % of population:	69.0%	69.9%	73.7%	85.5%	90.2%	90.9%

Employment structure of Group as reported active full time equivalents (end of period)	2012	2013				2014
	4Q reported	1Q reported	2Q reported	3Q reported	4Q reported	1Q
Orange Polska	21,920	21,617	21,024	20,143	19,922	19,224
50% of Networks	397	395	392	398	397	396
Total	22,317	22,012	21,416	20,541	20,319	19,620

Terms used:

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

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

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

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

Churn rate - The number of customers who disconnect from a network in a given period divided by the weighted average number of customers in the same period

ICT – Information and Communication Technology