

☐ - restated

## POLISH FINANCIAL SUPERVISION AUTHORITY

## Consolidated half-year report PSr 2015

(year)

(according to par. 82 s. 2 and par. 83 s. 3 of the Decree of Minister of Finance dated 19 February 2009 - Journal of Laws No. 33, item 259, with amendments)  
for the issuers in sectors of production, construction, trade or services  
for the half-year of 2015, i.e. from 1 January 2015 to 30 June 2015

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: **27 July 2015**

<b>ORANGE POLSKA SA</b>	
(full name of issuer)	
<b>ORANGEPL</b>	<b>Telecommunication (tel)</b>
(abbreviated name of the issuer)	(classification according to WSE/ sector)
<b>02-326</b>	<b>Warsaw</b>
(post code)	(location)
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(NIP)	(REGON)

Ernst & Young Audyt Polska Sp. z o.o. Sp. komandytowa  
(entity authorized to audit)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	half-year 2015	half-year 2014	half-year 2015	half-year 2014
<b>condensed consolidated financial statements data</b>				
I. Revenue	5 943 000	6 079 000	1 437 556	1 454 863
II. Operating income	478 000	591 000	115 624	141 442
III. Profit before income tax	344 000	354 000	83 210	84 721
IV. Consolidated net income	297 000	365 000	71 842	87 354
V. Net income attributable to owners of Orange Polska S.A.	297 000	365 000	71 842	87 354
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.23	0.28	0.06	0.07
VII. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VIII. Total comprehensive income	334 000	356 000	80 791	85 200
IX. Total comprehensive income attributable to owners of Orange Polska S.A.	334 000	356 000	80 791	85 200
X. Net cash provided by operating activities	1 358 000	1 444 000	328 487	345 587
XI. Net cash used in investing activities	(1 251 000)	(609 000)	(302 605)	(145 750)
XII. Net cash provided by/(used in) financing activities	104 000	(385 000)	25 157	(92 141)
XIII. Total net change in cash and cash equivalents	212 000	457 000	51 281	109 372
	balance as at 30/06/2015	balance as at 31/12/2014	balance as at 30/06/2015	balance as at 31/12/2014
XIV. Total current assets	2 888 000	2 078 000	688 537	487 530
XV. Total non-current assets	19 298 000	20 026 000	4 600 897	4 698 402
XVI. Total assets	22 186 000	22 104 000	5 289 434	5 185 932
XVII. Total current liabilities	5 656 000	4 709 000	1 348 465	1 104 802
XVIII. Total non-current liabilities	4 454 000	4 997 000	1 061 892	1 172 372
XIX. Total equity	12 076 000	12 398 000	2 879 077	2 908 758
XX. Equity attributable to owners of Orange Polska S.A.	12 074 000	12 396 000	2 878 600	2 908 289
XXI. Share capital	3 937 000	3 937 000	938 632	923 680
<b>condensed separate financial statements data</b>				
	half-year 2015	half-year 2014	half-year 2015	half-year 2014
I. Revenue	5 734 000	5 968 000	1 387 001	1 428 298
II. Operating income	420 000	515 000	101 594	123 253
III. Profit before income tax	345 000	431 000	83 452	103 150
IV. Net income	303 000	444 000	73 293	106 261
V. Earnings per share (in PLN/EUR) (basic and diluted)	0.23	0.34	0.06	0.08
VI. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VII. Total comprehensive income	340 000	435 000	82 243	104 107
VIII. Net cash provided by operating activities	1 388 000	1 603 000	335 744	383 640
IX. Net cash used in investing activities	(1 254 000)	(973 331)	(303 331)	(232 864)
X. Net cash provided by/(used in) financing activities	87 000	(192 000)	21 044	(45 951)
XI. Total net change in cash and cash equivalents	222 000	438 000	53 700	104 825
	balance as at 30/06/2015	balance as at 31/12/2014	balance as at 30/06/2015	balance as at 31/12/2014
XII. Total current assets	3 070 000	2 298 000	731 928	539 145
XIII. Total non-current assets	20 734 000	21 688 000	4 943 258	5 088 333
XIV. Total assets	23 804 000	23 986 000	5 675 186	5 627 478
XV. Total current liabilities	6 124 000	5 218 000	1 460 042	1 224 221
XVI. Total non-current liabilities	5 797 000	6 569 000	1 382 081	1 541 187
XVII. Total equity	11 883 000	12 199 000	2 833 063	2 862 070
XVIII. Share capital	3 937 000	3 937 000	938 632	923 680

**Independent Auditors' Review Report  
on the Interim Condensed Consolidated Financial Statements  
for the 6 month period ended 30 June 2015**

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

1. We have reviewed the accompanying condensed IFRS interim consolidated financial statements of Orange Polska S.A. ("the Company"), located at 160 Aleje Jerozolimskie Street in Warsaw, and its subsidiaries ("the Group"), including the consolidated statement of financial position as at 30 June 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2015 to 30 June 2015 and the explanatory notes ("the Interim Condensed Consolidated Financial Statements").
2. The Company's Management Board is responsible for the compliance of the interim condensed consolidated financial statements with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union ("IAS 34"). Our responsibility was to issue a report on these consolidated financial statements based on our review.
3. We conducted our review in accordance with the provisions of the law binding in Poland, National Auditing Standards issued by the National Council of Statutory Auditors in Poland and International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". These standards require that we plan and perform our review to obtain moderate assurance as to whether the consolidated financial statements are free of material misstatement. The review was mainly based on applying analytical procedures to the financial data, inspection of documentation supporting the amounts and disclosures in the interim condensed consolidated financial statements and discussions with the management of the Company as well as its employees. The scope<sup>1</sup> of a review differs significantly from an audit of financial statements, the objective of which is to express an opinion on whether financial statements comply with the required applicable accounting policies, and on the truth and fairness<sup>2</sup> of these financial statements. Consequently, the review does not enable us to obtain sufficient assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
4. The financial statements for the prior financial year ended 31 December 2014 were subject to an audit by an auditor acting for another authorised audit firm who issued an unqualified opinion, on these financial statements, dated 12 February 2015.

<sup>1</sup> Translation of the following expression in Polish language: "zakres i metoda"

<sup>2</sup> Translation of the following expression in Polish language: "rzetelności i jasności"

5. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Consolidated Financial Statements are not in accordance, in all material respects, with IAS 34.

on behalf of  
Ernst & Young Audyt Polska spółka  
z ograniczoną odpowiedzialnością sp. k.  
Rondo ONZ 1, 00-124 Warsaw  
Reg. No 130

Key Certified Auditor

Partner

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Łukasz Piotrowski  
certified auditor  
No. 12390

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Mikołaj Rytel

Warsaw, 27 July 2015

## **ORANGE POLSKA GROUP**

### **CONDENSED IFRS INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2015**

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**July 27, 2015**

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**Orange Polska Group**  
**Condensed IFRS Interim Consolidated Financial Statements – 30 June 2015**

*Translation of the financial statements originally issued in Polish*

**CONSOLIDATED INCOME STATEMENT**

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

	<b>3 months ended 30 June 2015</b>	<b>6 months ended 30 June 2015</b>	<b>3 months ended 30 June 2014</b>	<b>6 months ended 30 June 2014</b>
<b>Revenue</b>	<b>3,013</b>	<b>5,943</b>	<b>3,084</b>	<b>6,079</b>
External purchases	(1,562)	(3,038)	(1,495)	(2,947)
Labour expense	(457)	(887)	(453)	(975)
Other operating expense	(170)	(355)	(220)	(381)
Other operating income	92	207	72	154
Gains on disposal of assets	43	48	8	17
Gain on disposal of Wirtualna Polska S.A.	-	-	-	191
Depreciation and amortisation	(733)	(1,443)	(794)	(1,544)
(Impairment)/reversal of impairment of non-current assets	6	3	(2)	(3)
<b>Operating income</b>	<b>232</b>	<b>478</b>	<b>200</b>	<b>591</b>
Interest income	5	8	4	7
Interest expense and other financial charges	(48)	(101)	(94)	(187)
Foreign exchange losses, net	-	-	(1)	(1)
Discounting expense	(33)	(41)	(27)	(56)
<b>Finance costs, net</b>	<b>(76)</b>	<b>(134)</b>	<b>(118)</b>	<b>(237)</b>
Income tax	(30)	(47)	12	11
<b>Consolidated net income</b>	<b>126</b>	<b>297</b>	<b>94</b>	<b>365</b>
Net income attributable to owners of Orange Polska S.A.	126	297	94	365
Net income attributable to non-controlling interests	-	-	-	-
<b>Earnings per share (in PLN) (basic and diluted)</b>	<b>0.10</b>	<b>0.23</b>	<b>0.07</b>	<b>0.28</b>
Weighted average number of shares (in millions) (basic and diluted)	1,312	1,312	1,312	1,312

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*(in PLN millions)*

	<b>3 months ended 30 June 2015</b>	<b>6 months ended 30 June 2015</b>	<b>3 months ended 30 June 2014</b>	<b>6 months ended 30 June 2014</b>
<b>Consolidated net income</b>	<b>126</b>	<b>297</b>	<b>94</b>	<b>365</b>
<b>Items that may be reclassified subsequently to profit or loss</b>				
Gains/(losses) on cash flow hedges	62	46	(21)	(11)
Income tax relating to items that may be reclassified	(12)	(9)	4	2
<b>Other comprehensive income/(loss), net of tax</b>	<b>50</b>	<b>37</b>	<b>(17)</b>	<b>(9)</b>
<b>Total comprehensive income</b>	<b>176</b>	<b>334</b>	<b>77</b>	<b>356</b>
Total comprehensive income attributable to owners of Orange Polska S.A.	176	334	77	356
Total comprehensive income attributable to non-controlling interests	-	-	-	-

**Orange Polska Group**  
**Condensed IFRS Interim Consolidated Financial Statements – 30 June 2015**

*Translation of the financial statements originally issued in Polish*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(in PLN millions)

	<b>At 30 June 2015</b>	<b>At 31 December 2014</b>
<b>ASSETS</b>		
Goodwill	3,940	3,940
Other intangible assets	3,070	3,215
Property, plant and equipment	11,178	11,715
Trade receivables	171	138
Derivatives	36	70
Other financial assets	14	14
Other assets	20	-
Deferred tax assets	869	934
<b>Total non-current assets</b>	<b>19,298</b>	<b>20,026</b>
Inventories	221	198
Trade receivables	1,516	1,372
Derivatives	29	21
Other financial assets	10	10
Income tax assets	-	4
Other assets (including deposit of PLN 448 million paid in the auction for telecommunications licences)	533	154
Prepaid expenses	119	71
Cash and cash equivalents	460	248
<b>Total current assets</b>	<b>2,888</b>	<b>2,078</b>
<b>TOTAL ASSETS</b>	<b>22,186</b>	<b>22,104</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	3,937	3,937
Share premium	832	832
Other reserves	(82)	(119)
Retained earnings	7,387	7,746
<b>Equity attributable to owners of Orange Polska S.A.</b>	<b>12,074</b>	<b>12,396</b>
Non-controlling interests	2	2
<b>Total equity</b>	<b>12,076</b>	<b>12,398</b>
Trade payables	864	866
Loans from related party	2,803	3,229
Other financial liabilities at amortised cost	65	59
Derivatives	86	148
Employee benefits	277	345
Provisions	310	303
Deferred income	49	47
<b>Total non-current liabilities</b>	<b>4,454</b>	<b>4,997</b>
Trade payables	1,719	2,006
Loans from related party	1,612	1,078
Other financial liabilities at amortised cost	65	65
Derivatives	23	-
Employee benefits	230	179
Provisions	762	790
Income tax liabilities	28	58
Other liabilities (including dividend of PLN 656 million paid on 9 July 2015)	810	131
Deferred income	407	402
<b>Total current liabilities</b>	<b>5,656</b>	<b>4,709</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,186</b>	<b>22,104</b>

**Orange Polska Group**  
**Condensed IFRS Interim Consolidated Financial Statements – 30 June 2015**  
*Translation of the financial statements originally issued in Polish*

**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
			Losses on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments				
<b>Balance at 1 January 2015</b>	<b>3,937</b>	<b>832</b>	<b>(106)</b>	<b>(137)</b>	<b>45</b>	<b>79</b>	<b>7,746</b>	<b>12,396</b>	<b>2</b>	<b>12,398</b>
Total comprehensive income for the 6 months ended 30 June 2015	-	-	46	-	(9)	-	297	334	-	334
Dividend	-	-	-	-	-	-	(656)	(656)	-	(656)
<b>Balance at 30 June 2015</b>	<b>3,937</b>	<b>832</b>	<b>(60)</b>	<b>(137)</b>	<b>36</b>	<b>79</b>	<b>7,387</b>	<b>12,074</b>	<b>2</b>	<b>12,076</b>
<b>Balance at 1 January 2014</b>	<b>3,937</b>	<b>832</b>	<b>(16)</b>	<b>(89)</b>	<b>19</b>	<b>79</b>	<b>7,867</b>	<b>12,629</b>	<b>2</b>	<b>12,631</b>
Total comprehensive income for the 6 months ended 30 June 2014	-	-	(11)	-	2	-	365	356	-	356
Dividend	-	-	-	-	-	-	(656)	(656)	-	(656)
<b>Balance at 30 June 2014</b>	<b>3,937</b>	<b>832</b>	<b>(27)</b>	<b>(89)</b>	<b>21</b>	<b>79</b>	<b>7,576</b>	<b>12,329</b>	<b>2</b>	<b>12,331</b>



**Orange Polska Group**  
**Condensed IFRS Interim Consolidated Financial Statements – 30 June 2015**

*Translation of the financial statements originally issued in Polish*

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>(in PLN millions)</i>	<b>3 months ended 30 June 2015</b>	<b>6 months ended 30 June 2015</b>	<b>3 months ended 30 June 2014</b>	<b>6 months ended 30 June 2014</b>
<b>OPERATING ACTIVITIES</b>				
Consolidated net income	126	297	94	365
<i>Adjustments to reconcile net income to cash from operating activities</i>				
Gains on disposal of assets	(43)	(48)	(8)	(17)
Gain on disposal of Wirtualna Polska S.A.	-	-	-	(191)
Depreciation and amortisation	733	1,443	794	1,544
Impairment/(reversal of impairment) of non-current assets	(6)	(3)	2	3
Finance costs, net	76	134	118	237
Income tax	30	47	(12)	(11)
Change in provisions and allowances	(44)	(134)	(13)	(63)
Operational foreign exchange and derivatives losses, net	2	1	1	-
<i>Change in working capital</i>				
Increase in inventories, gross	(16)	(15)	(2)	(10)
Increase in trade receivables, gross	(151)	(178)	(155)	(58)
Increase/(decrease) in trade payables	58	(98)	138	4
(Increase)/decrease in prepaid expenses and other receivables	2	(57)	(1)	(18)
Increase/(decrease) in deferred income and other payables	(19)	101	(59)	(54)
Interest received	4	8	4	6
Interest paid and interest rate effect paid on derivatives, net	(82)	(110)	(193)	(258)
Exchange rate effect received/(paid) on derivatives, net	(12)	(12)	-	3
Income tax received/(paid)	33	(18)	28	(38)
<b>Net cash provided by operating activities</b>	<b>691</b>	<b>1,358</b>	<b>736</b>	<b>1,444</b>
<b>INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment and intangible assets	(419)	(740)	(762)	(1,136)
Increase/(decrease) in amounts due to fixed assets suppliers	36	(180)	331	137
Deposit paid in the auction for telecommunications licences	(228)	(428)	-	-
Exchange rate effect received/(paid) on derivatives economically hedging capital expenditures, net	(2)	5	-	3
Proceeds from sale of property, plant and equipment and intangible assets	73	88	20	34
Proceeds from sale of subsidiaries, net of cash and transaction costs	-	-	(2)	345
Cash paid for subsidiaries, net of cash acquired	-	-	-	(2)
Decrease in receivables related to leased fixed assets	1	4	2	4
Decrease in other financial assets	-	-	-	6
<b>Net cash used in investing activities</b>	<b>(539)</b>	<b>(1,251)</b>	<b>(411)</b>	<b>(609)</b>
<b>FINANCING ACTIVITIES</b>				
Redemption of bonds	-	-	(2,969)	(2,969)
Issuance of long-term debt	772	772	2,011	2,011
Repayment of long-term debt	(24)	(29)	(20)	(24)
Increase/(decrease) in short-term debt	(641)	(642)	956	717
Exchange rate effect received/(paid) on derivatives, net	-	3	(118)	(120)
<b>Net cash provided by/(used in) financing activities</b>	<b>107</b>	<b>104</b>	<b>(140)</b>	<b>(385)</b>
<b>Net change in cash and cash equivalents</b>	<b>259</b>	<b>211</b>	<b>185</b>	<b>450</b>
Effect of changes in exchange rates on cash and cash equivalents	1	1	-	-
Cash and cash equivalents at the beginning of the period	200	248	470	205 <sup>(1)</sup>
<b>Cash and cash equivalents at the end of the period</b>	<b>460</b>	<b>460</b>	<b>655</b>	<b>655</b>

<sup>(1)</sup> Includes PLN 7 million classified as assets held for sale.

## Notes to the Condensed Interim Consolidated Financial Statements

### 1. The Orange Polska Group

Orange Polska S.A. ("Orange Polska" or "the Company" or "OPL S.A."), a joint stock company, was incorporated and commenced its operations on 4 December 1991. The Orange Polska Group ("the Group") comprises Orange Polska and its subsidiaries. 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, sells electrical energy and financial services.

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

The list of entities included in the Condensed IFRS Interim Consolidated Financial Statements of the Group (the "Condensed Interim Consolidated Financial Statements") as at and for the 6 months ended 30 June 2015 is presented in Note 1.2 to the Orange Polska Group IFRS Consolidated Financial Statements and the notes thereto ("IFRS Consolidated Financial Statements") for the year ended 31 December 2014. Additionally, Telefon 2000 Sp. z o.o. was liquidated in May 2015 and Ramsat S.A. changed its name to Orange Retail S.A. in June 2015.

#### Segment revenue and segment results

The Group reports a single operating segment. Segment performance is evaluated by the Management Board mainly based on consolidated revenue, consolidated EBITDA, consolidated net income, consolidated organic cash flows, consolidated capital expenditures, consolidated net gearing ratio and consolidated net financial debt / EBITDA ratio based on cumulative EBITDA for the last four quarters. EBITDA corresponds to operating income before depreciation and amortisation expense and impairment of non-current assets. Organic cash flows correspond to net cash provided by operating activities decreased by purchases of property, plant and equipment and intangible assets, changes in amounts due to fixed assets suppliers, impact of net exchange rate effect paid/received on derivatives economically hedging capital expenditures and increased by proceeds from sale of fixed assets. Net gearing ratio is the share of net financial debt in the sum of net financial debt and equity.

To enhance the performance evaluation, where it is materially important for trends analysis, these financial data can be restated to exclude mainly the impact of significant exceptional transactions or other events not related to business as usual activities and changes in scope of consolidation.

Basic financial data of the operating segment is presented below:

<i>(in PLN millions)</i>	<i>6 months ended 30 June 2015</i>	<i>6 months ended 30 June 2014</i>
Restated revenue	5,943	6,064
Restated EBITDA	1,919	1,987
Net income as per consolidated income statement	297	365
Restated organic cash flows	531	482
Restated capital expenditures	740	768
	<i>At 30 June 2015</i>	<i>At 31 December 2014</i>
Net gearing ratio	25%	25%
Net financial debt / restated EBITDA ratio	1.1	1.1

**Orange Polska Group**  
**Condensed IFRS Interim Consolidated Financial Statements – 30 June 2015**

*Translation of the financial statements originally issued in Polish*

Restatements made to financial data of the operating segment are presented below:

<i>(in PLN millions)</i>	<i>6 months ended 30 June 2015</i>	<i>6 months ended 30 June 2014</i>
Revenue	5,943	6,079
- restatement for data of Wirtualna Polska S.A. <sup>(1)</sup>	-	(15)
Restated revenue	5,943	6,064
EBITDA	1,918	2,138
- restatement for gain on disposal of Wirtualna Polska S.A.	-	(191)
- restatement for data of Wirtualna Polska S.A. <sup>(1)</sup>	-	(4)
- restatement for the impact of certain claims and litigations	-	44
- restatement for employment termination expense	1	-
Restated EBITDA	1,919	1,987
Organic cash flows	103	482
- restatement for deposit relating to the auction for telecommunications licences (see Note 5)	428	-
Restated organic cash flows	531	482
Capital expenditures	740	1,136
- restatement for expenditures on acquisition of telecommunications licences	-	(368)
Restated capital expenditures	740	768

<sup>(1)</sup> Restated revenue and restated EBITDA for 6 months ended 30 June 2014 do not include data of Wirtualna Polska S.A., a subsidiary disposed of in February 2014.

## 2. Statement of compliance and basis of preparation

### Basis of preparation

These unaudited Condensed Interim Consolidated Financial Statements are prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting ("IAS 34") and with all accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective as at the time of preparing the Condensed Interim Consolidated Financial Statements (see also Note 3).

These Condensed Interim Consolidated Financial Statements should be read in conjunction with the audited IFRS Consolidated Financial Statements for the year ended 31 December 2014.

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

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

These Condensed Interim Consolidated Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 27 July 2015.

### Adoption of standards or interpretations in 2015

- IFRIC 21 "Levies". This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. Adoption of IFRIC 21 did not have a significant impact on financial statements.

### **3. Statement of accounting policies**

The accounting policies and methods of computation used in the preparation of the Condensed Interim Consolidated Financial Statements are materially consistent with those described in the audited IFRS Consolidated Financial Statements for the year ended 31 December 2014 (see Notes 2 and 31 to IFRS Consolidated Financial Statements for the year ended 31 December 2014).

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

The Group's activities are not subject to any significant seasonality or cyclical trends of operations.

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

In the first quarter of 2015, the Group signed with Trade Unions agreements which curtailed other post-employment benefits for retirees of the Group and agreed additional contributions totalling PLN 24 million to the social fund during the years 2015-2017. As a result, in the first quarter of 2015, a credit of PLN 58 million was recognised in labour expense as the net effect of PLN 82 million of released provision for post-employment benefits and PLN 24 million of the recognised liability relating to the additional contributions to the social fund.

From 2015, the Group extended the estimated useful lives for certain items of software which decreased the amortisation expense by PLN 67 million in the 6 months ended 30 June 2015.

In the 6 months ended 30 June 2015, interest expense and other financial charges amounted to PLN 101 million and were lower by PLN 86 million compared to the 6 months ended 30 June 2014. The change resulted mainly from lower interest expense on debt refinanced in 2014 and lower financial costs on derivatives (in May 2014, the Group redeemed bonds of the nominal value of EUR 700 million issued under the European Medium Term Note issuance programme, which were refinanced by loans from Atlas Services Belgium S.A., a subsidiary of Orange S.A.).

The amount of cash flows from investing activities for the 6 months ended 30 June 2015 includes PLN 428 million of deposit paid in the course of the auction for 800 MHz and 2600 MHz telecommunications licences.

### **6. Changes in loans from related party**

On 13 May 2015, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for EUR 190 million with repayment date in 2021. Additionally, in the 6 months ended 30 June 2015, the net cash flows from issuance and repayments of short term loan from Atlas Services Belgium S.A. amounted to PLN (640) million.

As at 30 June 2015, the total outstanding balance of loans from the related party amounted to PLN 4,415 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 1.39% before swaps and 4.02% after swaps as at 30 June 2015.

The Group has entered into new derivative transactions under the agreement with Orange S.A. hedging currency and interest rate risk on the related party financing provided in EUR. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 30 June 2015 was EUR 950 million and PLN 3,550 million, respectively, with a total negative fair value amounting to PLN 55 million.

### **7. Fair value of financial instruments**

Derivative instruments are the Group's financial assets and liabilities which are measured subsequent to their initial recognition at fair value. The fair value of derivatives is determined as described in Note 21 to Orange Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2014. 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 approximates their fair value, except for telecommunications licence payables for which as at 30 June 2015 and 31 December 2014 the estimated fair value exceeded the carrying amount by PLN 108 million and PLN 217 million, respectively.

## **8. Dividend**

On 9 April 2015, the General Meeting of Orange Polska S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from the 2014 profit and retained earnings from previous years. The total dividend, paid on 9 July 2015, amounted to PLN 656 million.

## **9. 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 2014 or describes major matters that occurred after 31 December 2014.

### **a. Proceedings by UOKiK**

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

UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 14 September 2015. In addition, in May 2015, Orange Polska received a request for settlement filed by P4 with the Court under which P4 raises claims relating to the retail mobile prices for a period between April 2012 and 31 December 2014 (in 2012 P4 filed a similar request for the period between July 2009 and March 2012). On 2 July 2015, at the court session, the parties did not reach an agreement (as with the previous request).

#### *Proceedings by UOKiK related to tenders for mobile services*

UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 20 October 2015.

According to the Act on Competition and Consumer Protection, in case of non-compliance with its regulations, the President of the UOKiK is empowered to impose on an entity penalties of up to a maximum amount of EUR 50 million for refusal to provide requested information and/or up to a maximum amount of 10% of an entity's prior year's revenue for a breach of the law.

### **b. Proceedings by the European Commission related to broadband access**

On 26 June 2015, a hearing was held at the General Court of the European Union. The verdict has not yet been issued. The verdict of the General Court could be appealed to the Court of Justice by any of the parties.

### **c. Other contingent liabilities and provisions**

Apart from the above mentioned, operational activities of the Group are subject to legal, social and administrative regulations and the Group is a party to a number of legal 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.

## 10. Related party transactions

As at 30 June 2015, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board appoints and dismisses Members of the Management Board.

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

Financial receivables, payables, financial expense 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 abovementioned 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.

<i>(in PLN millions)</i>	<i>3 months ended 30 June 2015</i>	<i>6 months ended 30 June 2015</i>	<i>3 months ended 30 June 2014</i>	<i>6 months ended 30 June 2014</i>
<b>Sales of goods, services and other income:</b>	<b>55</b>	<b>104</b>	<b>49</b>	<b>101</b>
Orange S.A. (parent)	33	60	30	65
Orange Group (excluding parent)	22	44	19	36
<b>Purchases of goods (including inventories, tangible and intangible assets) and services:</b>	<b>(66)</b>	<b>(132)</b>	<b>(58)</b>	<b>(138)</b>
Orange S.A. (parent)	(17)	(38)	(21)	(49)
Orange Group (excluding parent)	(49)	(94)	(37)	(89)
- including Orange Brand Services Limited (brand licence agreement)	(33)	(66)	(24)	(62)
<b>Financial income:</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Orange S.A. (parent)	1	2	3	4
<b>Financial expense, net:</b>	<b>(41)</b>	<b>(86)</b>	<b>(59)</b>	<b>(65)</b>
Orange S.A. (parent)	85	(71)	(48)	(53)
Orange Group (excluding parent)	(126)	(15)	(11)	(12)
<b>Other comprehensive income/(loss):</b>	<b>46</b>	<b>47</b>	<b>(24)</b>	<b>(24)</b>
Orange S.A. (parent)	46	47	(24)	(24)
<b>Dividend declared:</b>	<b>332</b>	<b>332</b>	<b>332</b>	<b>332</b>
Orange S.A. (parent)	332	332	332	332

<i>(in PLN millions)</i>	<i>At 30 June 2015</i>	<i>At 31 December 2014</i>
<b>Receivables:</b>	<b>69</b>	<b>71</b>
Orange S.A. (parent)	37	46
Orange Group (excluding parent)	32	25
<b>Payables:</b>	<b>88</b>	<b>106</b>
Orange S.A. (parent)	19	43
Orange Group (excluding parent)	69	63
<b>Financial receivables:</b>	<b>45</b>	<b>70</b>
Orange S.A. (parent)	45	70
<b>Cash and cash equivalents deposited with:</b>	<b>316</b>	<b>69</b>
Orange S.A. (parent)	316	69
<b>Financial payables:</b>	<b>4,515</b>	<b>4,455</b>
Orange S.A. (parent)	100	148
Orange Group (excluding parent)	4,415	4,307
<b>Dividend payable to:</b>	<b>332</b>	<b>-</b>
Orange S.A. (parent)	332	-

Compensation (remuneration, bonuses, post-employment benefits and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) paid in accordance with contractual commitments to OPL S.A.'s Management Board and Supervisory Board Members during the 6 months ended 30 June 2015 and 2014 amounted to PLN 6.4 million and PLN 8.8 million, respectively, including

PLN 1.3 million and PLN 1.3 million accrued in previous periods. During the 6 months ended 30 June 2015 and 2014, the amount of accrued cost of compensation for the Company's Management Board amounted to PLN 1.5 million and PLN 1.7 million, respectively.

On 9 April 2015, the mandate of Mr Sławomir Lachowski, a Member of the Supervisory Board of OPL S.A., expired and was not renewed. On the same day the General Meeting of OPL S.A. appointed Ms Maria Pasło-Wiśniewska as a Member of the Supervisory Board of OPL S.A.

## 11. Subsequent events

On 6 July 2015, the Group concluded a share sale agreement under which the 100% shareholding in Contact Center Sp. z o.o. will be disposed of for a total consideration amounting to approximately PLN 8 million. Total assets and liabilities of Contact Center amounted to respectively PLN 10 million and PLN 5 million as at 30 June 2015. The agreement is subject to a condition not within the Group's control.

On 9 July 2015, the Group drew down PLN 480 million of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange S.A.

On 24 July 2015, OPL S.A. increased the deposit paid in the course of the auction for 800 MHz and 2600 MHz telecommunications licences. The amount of the additional deposit is not disclosed due to its commercial sensitivity.

*Orange Polska Group*  
*Interim consolidated report for the 6 months ended 30 June 2015*

Pursuant to Art. 90 of the Decree of the Minister of Finance of 19 February 2009 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 2009, no. 33, item 259, with amendments ("the Decree of the Minister of Finance of 19 February 2009"), the Management Board of Orange Polska S.A. ("OPL S.A.", "the Company") discloses the following information:

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

The ownership structure of the Company's share capital, based on the information available to the Company as at 27 July 2015, i.e. the date of submission of the interim report for the 6 months ended 30 June 2015 was the same as at 27 April 2015, i.e. the date of submission of the quarterly report for the first quarter of 2015:

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

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

As part of the Company's incentive program, Members of the Management Board of the Company acquired OPL S.A. registered A-series bonds with a pre-emption right attached to the bonds to subscribe for the Company's shares with priority over existing shareholders.

The number of bonds with a pre-emption right held by Members of the Management Board of the Company at the dates of submission of the interim report for the 6 months ended 30 June 2015 and the quarterly report for the first quarter of 2015 is as follows:

	27 July 2015	27 April 2015
Bruno Duthoit	-	-
Mariusz Gaca	68,839	68,839
Piotr Muszyński	190,896	190,896
Jacek Kowalski	25,241	25,241
Maciej Nowohoński	36,715	36,715



*Orange Polska Group*  
*Interim consolidated report for the 6 months ended 30 June 2015*

Mr Maciej Witucki, the Chairman of the Supervisory Board of OPL S.A., held 305,557 bonds with a pre-emption right as at 27 July 2015 and 27 April 2015. Other Members of the Supervisory Board of OPL S.A. do not participate in the Company's incentive program and as at 27 July 2015 and 27 April 2015 held no bond with a pre-emption right.

Mr Maciej Witucki, the Chairman of the Supervisory Board of OPL S.A., held 4,000 OPL S.A. shares as at 27 July 2015 and 27 April 2015. There was no OPL S.A. share held by other members of the Management Board or the Supervisory Board of OPL S.A.

**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 account for at least 10% of the Company's equity**

In the 6 months ended 30 June 2015, neither the Company nor its subsidiaries granted guarantees or collateral of loans or borrowings to any entity or its subsidiary with a total value representing the equivalent of at least 10% of OPL S.A.'s shareholders equity.

**IV. The Management Board's comment on previously published financial forecasts**

The Group does not publish financial forecasts as defined by the Decree of the Minister of Finance of 19 February 2009.

**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 Management Board's Report on the Activity of Orange Polska Group in the first half of 2015. Additionally, threats and risks that may impact the Group's operational and financial performance are reviewed in detail in the Chapter IV of the above mentioned Report.

**VI. Foreign exchange rates**

The statement of financial position data as at 30 June 2015 and 31 December 2014 presented in the table "Selected financial data" was translated into Euro at the average exchange rate of the National Bank of Poland ("NBP") at the end of the reporting period. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the 6 months ended 30 June 2015 and 2014, was translated into Euro at an exchange rate which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of the 6 month periods ended 30 June 2015 and 2014.

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

	<b>30 June 2015</b>	<b>31 December 2014</b>	<b>30 June 2014</b>
Statement of financial position	4.1944 PLN	4.2623 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.1341 PLN	Not applicable	4.1784 PLN

**Independent Auditors' Review Report  
on the Interim Condensed Financial Statements  
for the 6 month period ended 30 June 2015**

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

1. We have reviewed the accompanying condensed IFRS interim separate financial statements of Orange Polska S.A. ("the Company") located at 160 Aleje Jerozolimskie in Warsaw, including the statement of financial position as at 30 June 2015, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the period from 1 January 2015 to 30 June 2015 and the explanatory notes ("the Interim Condensed Financial Statements").
2. The Company's Management Board is responsible for the compliance of the accompanying interim condensed financial statements with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union ("IAS 34"). Our responsibility was to issue a report on these financial statements based on our review.
3. We conducted our review in accordance with the provisions of the law binding in Poland, National Auditing Standards issued by the National Council of Statutory Auditors in Poland and International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". These standards require that we plan and perform our review to obtain moderate assurance as to whether the financial statements are free of material misstatement. The review was mainly based on applying analytical procedures to the financial data, inspection of accounting records and discussions with the management of the Company as well as its employees. The scope<sup>1</sup> of a review differs significantly from an audit of financial statements, the objective of which is to express an opinion on whether financial statements comply with the required applicable accounting policies, and on the truth and fairness<sup>2</sup> of these financial statements. Consequently, the review does not enable us to obtain sufficient assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
4. The financial statements for the prior financial year ended 31 December 2014 were subject to an audit by an auditor acting for another authorised audit firm who issued an unqualified opinion, on these financial statements, dated 12 February 2015.

<sup>1</sup> Translation of the following expression in Polish language: "zakres i metoda"

<sup>2</sup> Translation of the following expression in Polish language: "rzetelności i jasności"

5. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Financial Statements are not in accordance, in all material respects, with IAS 34.

on behalf of  
Ernst & Young Audyt Polska spółka  
z ograniczoną odpowiedzialnością sp. k.  
Rondo ONZ 1, 00-124 Warsaw  
Reg. No 130

Key Certified Auditor

Partner

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Łukasz Piotrowski  
certified auditor  
No. 12390

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Mikołaj Rytel

Warsaw, 27 July 2015

**ORANGE POLSKA S.A.**

**CONDENSED IFRS INTERIM SEPARATE FINANCIAL  
STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2015**

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**July 27, 2015**

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## INCOME STATEMENT

(in PLN millions, except for earnings per share)

	3 months ended 30 June 2015	6 months ended 30 June 2015	3 months ended 30 June 2014	6 months ended 30 June 2014
<b>Revenue</b>	<b>2,870</b>	<b>5,734</b>	<b>3,010</b>	<b>5,968</b>
External purchases	(1,542)	(3,062)	(1,539)	(3,095)
Labour expense	(376)	(719)	(368)	(783)
Other operating expense	(173)	(365)	(233)	(402)
Other operating income	98	221	81	173
Gains on disposal of assets	43	48	7	16
Gain on disposal of Wirtualna Polska S.A.	-	-	-	183
Depreciation and amortisation	(731)	(1,440)	(794)	(1,542)
(Impairment)/reversal of impairment of non-current assets	6	3	(2)	(3)
<b>Operating income</b>	<b>195</b>	<b>420</b>	<b>162</b>	<b>515</b>
Dividend income	13	58	56	155
Interest income	48	98	57	114
Interest expense and other financial charges	(91)	(190)	(147)	(297)
Foreign exchange losses, net	-	-	(1)	(1)
Discounting expense	(33)	(41)	(27)	(55)
<b>Finance costs, net</b>	<b>(63)</b>	<b>(75)</b>	<b>(62)</b>	<b>(84)</b>
Income tax	(24)	(42)	15	13
<b>Net income</b>	<b>108</b>	<b>303</b>	<b>115</b>	<b>444</b>
<b>Earnings per share (in PLN) (basic and diluted)</b>	<b>0.08</b>	<b>0.23</b>	<b>0.09</b>	<b>0.34</b>
Weighted average number of shares (in millions) (basic and diluted)	1,312	1,312	1,312	1,312

## STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	3 months ended 30 June 2015	6 months ended 30 June 2015	3 months ended 30 June 2014	6 months ended 30 June 2014
<b>Net income</b>	<b>108</b>	<b>303</b>	<b>115</b>	<b>444</b>
<b>Items that may be reclassified subsequently to profit or loss</b>				
Gains/(losses) on cash flow hedges	62	46	(21)	(11)
Income tax relating to items that may be reclassified	(12)	(9)	4	2
<b>Other comprehensive income/(loss), net of tax</b>	<b>50</b>	<b>37</b>	<b>(17)</b>	<b>(9)</b>
<b>Total comprehensive income</b>	<b>158</b>	<b>340</b>	<b>98</b>	<b>435</b>

**Orange Polska S.A.**  
**Condensed IFRS Interim Separate Financial Statements – 30 June 2015**

*Translation of the financial statements originally issued in Polish*

**STATEMENT OF FINANCIAL POSITION**

(in PLN millions)

	<b>At 30 June 2015</b>	<b>At 31 December 2014</b>
<b>ASSETS</b>		
Goodwill	3,909	3,909
Other intangible assets	3,068	3,211
Property, plant and equipment	11,215	11,743
Investments in subsidiaries	227	227
Trade receivables	171	138
Loans and receivables excluding trade receivables	1,464	1,695
Derivatives	36	70
Other assets	20	-
Deferred tax assets	624	695
<b>Total non-current assets</b>	<b>20,734</b>	<b>21,688</b>
Inventories	171	176
Trade receivables	1,334	1,244
Loans and receivables excluding trade receivables	469	451
Derivatives	29	21
Income tax assets	-	1
Other assets (including deposit of PLN 448 million paid in the auction for telecommunications licences)	528	133
Prepaid expenses	112	67
Cash and cash equivalents	427	205
<b>Total current assets</b>	<b>3,070</b>	<b>2,298</b>
<b>TOTAL ASSETS</b>	<b>23,804</b>	<b>23,986</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	3,937	3,937
Share premium	832	832
Other reserves	(83)	(120)
Retained earnings	7,197	7,550
<b>Total equity</b>	<b>11,883</b>	<b>12,199</b>
Trade payables	864	866
Financial liabilities at amortised cost excluding trade payables	4,261	4,909
Derivatives	86	148
Employee benefits	232	300
Provisions	310	303
Deferred income	44	43
<b>Total non-current liabilities</b>	<b>5,797</b>	<b>6,569</b>
Trade payables	1,622	1,932
Financial liabilities at amortised cost excluding trade payables	2,312	1,788
Derivatives	23	-
Employee benefits	195	150
Provisions	748	768
Income tax liabilities	25	57
Other liabilities (including dividend of PLN 656 million paid on 9 July 2015)	797	129
Deferred income	402	394
<b>Total current liabilities</b>	<b>6,124</b>	<b>5,218</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>23,804</b>	<b>23,986</b>

STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Other reserves				Retained earnings	Total equity
			Losses on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments		
<b>Balance at 1 January 2015</b>	<b>3,937</b>	<b>832</b>	<b>(106)</b>	<b>(136)</b>	<b>46</b>	<b>76</b>	<b>7,550</b>	<b>12,199</b>
Total comprehensive income for the 6 months ended 30 June 2015	-	-	46	-	(9)	-	303	340
Dividend	-	-	-	-	-	-	(656)	(656)
<b>Balance at 30 June 2015</b>	<b>3,937</b>	<b>832</b>	<b>(60)</b>	<b>(136)</b>	<b>37</b>	<b>76</b>	<b>7,197</b>	<b>11,883</b>
<b>Balance at 1 January 2014</b>	<b>3,937</b>	<b>832</b>	<b>(16)</b>	<b>(95)</b>	<b>21</b>	<b>76</b>	<b>7,639</b>	<b>12,394</b>
Total comprehensive income for the 6 months ended 30 June 2014	-	-	(11)	-	2	-	444	435
Dividend	-	-	-	-	-	-	(656)	(656)
<b>Balance at 30 June 2014</b>	<b>3,937</b>	<b>832</b>	<b>(27)</b>	<b>(95)</b>	<b>23</b>	<b>76</b>	<b>7,427</b>	<b>12,173</b>



## STATEMENT OF CASH FLOWS

(in PLN millions)

	3 months ended 30 June 2015	6 months ended 30 June 2015	3 months ended 30 June 2014	6 months ended 30 June 2014
<b>OPERATING ACTIVITIES</b>				
Net income	108	303	115	444
<i>Adjustments to reconcile net income to cash from operating activities</i>				
Gains on disposal of assets	(43)	(48)	(7)	(16)
Gain on disposal of Wirtualna Polska S.A.	-	-	-	(183)
Depreciation and amortisation	731	1,440	794	1,542
Impairment/(reversal of impairment) of non-current assets	(6)	(3)	2	3
Finance costs, net	63	75	62	84
Income tax	24	42	(15)	(13)
Change in provisions and allowances	(35)	(125)	(3)	(53)
Operational foreign exchange and derivatives losses, net	1	-	1	-
<i>Change in working capital</i>				
(Increase)/decrease in inventories, gross	(8)	2	(4)	(11)
Increase in trade receivables, gross	(99)	(124)	(107)	(25)
Increase/(decrease) in trade payables	27	(124)	103	(58)
(Increase)/decrease in prepaid expenses and other receivables	(6)	(61)	25	3
Increase/(decrease) in deferred income and other payables	(29)	83	(36)	(30)
Dividends received	-	45	56	155
Interest received	5	10	5	8
Interest paid and interest rates effect paid on derivatives, net	(82)	(111)	(197)	(264)
Exchange rate effect received/(paid) on derivatives, net	(12)	(12)	-	3
Income tax received/(paid)	33	(4)	28	14
<b>Net cash provided by operating activities</b>	<b>672</b>	<b>1,388</b>	<b>822</b>	<b>1,603</b>
<b>INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment and intangible assets	(423)	(748)	(767)	(1,145)
Increase/(decrease) in amounts due to fixed assets suppliers	36	(177)	329	140
Deposit paid in the auction for telecommunications licences	(228)	(428)	-	-
Exchange rate effect received/(paid) on derivatives economically hedging capital expenditures, net	(2)	5	-	3
Proceeds from sale of property, plant and equipment and intangible assets	73	85	16	29
Transaction costs paid on sale of investments in subsidiaries	-	-	-	(2)
Cash paid for investments in subsidiaries	-	-	-	(2)
Decrease in receivables related to leased fixed assets	1	4	3	4
Decrease in loans and other financial assets	3	5	-	-
<b>Net cash used in investing activities</b>	<b>(540)</b>	<b>(1,254)</b>	<b>(419)</b>	<b>(973)</b>
<b>FINANCING ACTIVITIES</b>				
Redemption of bonds	-	-	(2,969)	(2,969)
Issuance of long-term debt	772	772	2,011	2,011
Repayment of long-term debt	(23)	(28)	(22)	(28)
Increase/(decrease) in short-term debt	(628)	(660)	875	914
Exchange rate effect received/(paid) on derivatives, net	-	3	(118)	(120)
<b>Net cash provided by/(used in) financing activities</b>	<b>121</b>	<b>87</b>	<b>(223)</b>	<b>(192)</b>
<b>Net change in cash and cash equivalents</b>	<b>253</b>	<b>221</b>	<b>180</b>	<b>438</b>
Effect of changes in exchange rates on cash and cash equivalents	1	1	-	-
Cash and cash equivalents at the beginning of the period	173	205	431	173
<b>Cash and cash equivalents at the end of the period</b>	<b>427</b>	<b>427</b>	<b>611</b>	<b>611</b>

## **Notes to the Condensed Interim Separate Financial Statements**

### **1. Orange Polska S.A.**

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

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

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

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

#### Basis of preparation

These unaudited Condensed IFRS Interim Separate Financial Statements for the 6 months ended 30 June 2015 (the "Condensed Interim Separate Financial Statements") are prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting ("IAS 34") and with all accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective as at the time of preparing the Condensed Interim Separate Financial Statements (see also Note 3).

These Condensed Interim Separate Financial Statements should be read in conjunction with the audited Orange Polska S.A. IFRS Separate Financial Statements and the notes thereto ("IFRS Separate Financial Statements") for the year ended 31 December 2014.

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

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

These Condensed Interim Separate Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 27 July 2015.

#### Adoption of standards or interpretations in 2015

- IFRIC 21 "Levies". This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. Adoption of IFRIC 21 did not have a significant impact on financial statements.

### **3. Statement of accounting policies**

The accounting policies and methods of computation used in the preparation of the Condensed Interim Separate Financial Statements are materially consistent with those described in the audited IFRS Separate Financial Statements for the year ended 31 December 2014 (see Notes 2 and 32 to IFRS Separate Financial Statements for the year ended 31 December 2014).

### **4. Explanatory comments about the seasonality or cyclicity of interim operations**

The Company's activities are not subject to any significant seasonality or cyclical trends of operations.

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

In the first quarter of 2015, Orange Polska signed with Trade Unions agreements which curtailed other post-employment benefits for retirees of the Company and agreed additional contributions totalling PLN 24 million to the social fund during the years 2015-2017. As a result, in the first quarter of 2015, a credit of PLN 58 million was recognised in labour expense as the net effect of PLN 82 million of released provision for post-employment benefits and PLN 24 million of the recognised liability relating to the additional contributions to the social fund.

From 2015, the Company extended the estimated useful lives for certain items of software which decreased the amortisation expense by PLN 67 million in the 6 months ended 30 June 2015.

In the 6 months ended 30 June 2015, interest expense and other financial charges amounted to PLN 190 million and were lower by PLN 107 million compared to the 6 months ended 30 June 2014. The change resulted mainly from lower interest expense on debt refinanced in 2014 and lower financial costs on derivatives (in May 2014, Orange Polska redeemed bonds of the nominal value of EUR 700 million issued under the European Medium Term Note issuance programme, which were refinanced by loans from Atlas Services Belgium S.A., a subsidiary of Orange S.A.).

The amount of cash flows from investing activities for the 6 months ended 30 June 2015 includes PLN 428 million of deposit paid in the course of the auction for 800 MHz and 2600 MHz telecommunications licences.

## **6. Changes in financial liabilities at amortised cost excluding trade payables**

On 13 May 2015, Orange Polska S.A. and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for EUR 190 million with repayment date in 2021. Additionally, in the 6 months ended 30 June 2015, the net cash flows from issuance and repayments of short term loan from Atlas Services Belgium S.A. amounted to PLN (640) million.

As at 30 June 2015, the total outstanding balance of loans from the related party amounted to PLN 4,415 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 1.39% before swaps and 4.02% after swaps as at 30 June 2015.

Orange Polska S.A. has entered into new derivative transactions under the agreement with Orange S.A. hedging currency and interest rate risk on the related party financing provided in EUR. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 30 June 2015 was EUR 950 million and PLN 3,550 million, respectively, with a total negative fair value amounting to PLN 55 million.

In the 6 months ended 30 June 2015, the Company issued and redeemed short-term bonds under the Orange Polska S.A. Bond Issuance Programme of 15 July 2002. The bonds are denominated in PLN and are offered by private placement to the Orange Polska Group's entities, exclusively within the territory of the Republic of Poland. The bonds are redeemed at their par value. In the 6 months ended 30 June 2015, the net cash flows on the bonds amounted to PLN (21) million. As at 30 June 2015, the aggregate par value of the outstanding bonds issued under the programme amounted to PLN 202 million.

## **7. Fair value of financial instruments**

Derivative instruments are the Company's financial assets and liabilities which are measured subsequent to their initial recognition at fair value. The fair value of derivatives is determined as described in Note 21 to Orange Polska S.A. IFRS Separate Financial Statements for the year ended 31 December 2014. 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 22.1.

The carrying amount of the Company's financial instruments approximates their fair value, except for telecommunications licence payables, loans from subsidiaries and bonds issued by subsidiaries. As at 30 June 2015 and 31 December 2014 the estimated fair value of telecommunications licence payables exceeded their carrying amount by PLN 108 million and PLN 217 million, respectively, and the estimated fair values of loans from

subsidiaries and bonds issued by subsidiaries exceeded their carrying amounts by approximately PLN 220 million and PLN 300 million, respectively.

## **8. Dividend**

On 9 April 2015, the General Meeting of Orange Polska S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from the 2014 profit and retained earnings from previous years. The total dividend, paid on 9 July 2015, amounted to PLN 656 million.

## **9. 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 Separate Financial Statements for the year ended 31 December 2014 or describes major matters that occurred after 31 December 2014.

### **a. Proceedings by UOKiK**

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

UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 14 September 2015. In addition, in May 2015, Orange Polska received a request for settlement filed by P4 with the Court under which P4 raises claims relating to the retail mobile prices for a period between April 2012 and 31 December 2014 (in 2012 P4 filed a similar request for the period between July 2009 and March 2012). On 2 July 2015, at the court session, the parties did not reach an agreement (as with the previous request).

#### *Proceedings by UOKiK related to tenders for mobile services*

UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 20 October 2015.

According to the Act on Competition and Consumer Protection, in case of non-compliance with its regulations, the President of the UOKiK is empowered to impose on an entity penalties of up to a maximum amount of EUR 50 million for refusal to provide requested information and/or up to a maximum amount of 10% of an entity's prior year's revenue for a breach of the law.

### **b. Proceedings by the European Commission related to broadband access**

On 26 June 2015, a hearing was held at the General Court of the European Union. The verdict has not yet been issued. The verdict of the General Court could be appealed to the Court of Justice by any of the parties.

### **c. Other contingent liabilities and provisions**

Apart from the above mentioned, operational activities of the Company are subject to legal, social and administrative regulations and the Company is a party to a number of legal 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.

## **10. Related party transactions**

As at 30 June 2015, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board appoints and dismisses Members of the Management Board.

OPL S.A.'s income earned from its subsidiaries comprises mainly property rental and related fees, telecommunications equipment sales and IT services. The purchases from the subsidiaries comprise mainly

customer support and management services, selling fees, network services and property maintenance. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

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

OPL S.A.'s financial income earned from its subsidiaries comprises mainly dividends from the subsidiaries and interest on bonds issued by the subsidiaries. Financial costs incurred by OPL S.A. in transactions with the subsidiaries comprise interest on loans from the subsidiaries and interest on bonds issued to the subsidiaries. The Company's financial receivables from its subsidiaries comprise mainly bonds issued by the subsidiaries, together with accrued interest. Financial payables to the subsidiaries comprise loans from the subsidiaries, together with accrued interest, and bonds issued to the subsidiaries.

Financial receivables, payables, financial expense 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 abovementioned 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.

<i>(in PLN millions)</i>	<i>3 months ended 30 June 2015</i>	<i>6 months ended 30 June 2015</i>	<i>3 months ended 30 June 2014</i>	<i>6 months ended 30 June 2014</i>
<b>Sales of goods, services and other income:</b>	<b>102</b>	<b>196</b>	<b>98</b>	<b>189</b>
Orange Polska Group (subsidiaries)	47	92	49	88
Orange Group	55	104	49	101
- Orange S.A. (parent)	33	60	30	65
- Orange Group (excluding parent)	22	44	19	36
<b>Purchases of goods (including inventories, tangible and intangible assets) and services:</b>	<b>(337)</b>	<b>(639)</b>	<b>(332)</b>	<b>(709)</b>
Orange Polska Group (subsidiaries)	(271)	(507)	(274)	(571)
Orange Group	(66)	(132)	(58)	(138)
- Orange S.A. (parent)	(17)	(38)	(21)	(49)
- Orange Group (excluding parent)	(49)	(94)	(37)	(89)
- including Orange Brand Services Limited (brand licence agreement)	(33)	(66)	(24)	(62)
<b>Financial income:</b>	<b>58</b>	<b>150</b>	<b>112</b>	<b>267</b>
Orange Polska Group (subsidiaries)	57	148	109	263
Orange S.A. (parent)	1	2	3	4
<b>Financial expense, net:</b>	<b>(84)</b>	<b>(175)</b>	<b>(139)</b>	<b>(244)</b>
Orange Polska Group (subsidiaries)	(43)	(89)	(80)	(179)
Orange Group	(41)	(86)	(59)	(65)
- Orange S.A. (parent)	85	(71)	(48)	(53)
- Orange Group (excluding parent)	(126)	(15)	(11)	(12)
<b>Other comprehensive income/(loss):</b>	<b>46</b>	<b>47</b>	<b>(24)</b>	<b>(24)</b>
Orange S.A. (parent)	46	47	(24)	(24)
<b>Dividend declared:</b>	<b>332</b>	<b>332</b>	<b>332</b>	<b>332</b>
Orange S.A. (parent)	332	332	332	332

(in PLN millions)	At 30 June 2015	At 31 December 2014
<b>Receivables:</b>	<b>121</b>	<b>143</b>
Orange Polska Group (subsidiaries)	52	72
Orange Group	69	71
- Orange S.A. (parent)	37	46
- Orange Group (excluding parent)	32	25
<b>Payables:</b>	<b>264</b>	<b>303</b>
Orange Polska Group (subsidiaries)	176	197
Orange Group	88	106
- Orange S.A. (parent)	19	43
- Orange Group (excluding parent)	69	63
<b>Financial receivables:</b>	<b>1,955</b>	<b>2,193</b>
Orange Polska Group (subsidiaries)	1,910	2,123
Orange S.A. (parent)	45	70
<b>Cash and cash equivalents deposited with:</b>	<b>310</b>	<b>63</b>
Orange S.A. (parent)	310	63
<b>Financial payables:</b>	<b>6,561</b>	<b>6,729</b>
Orange Polska Group (subsidiaries)	2,046	2,274
Orange Group	4,515	4,455
- Orange S.A. (parent)	100	148
- Orange Group (excluding parent)	4,415	4,307
<b>Dividend payable to:</b>	<b>332</b>	-
Orange S.A. (parent)	332	-

Compensation (remuneration, bonuses, post-employment benefits and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) paid in accordance with contractual commitments to OPL S.A.'s Management Board and Supervisory Board Members during the 6 months ended 30 June 2015 and 2014 amounted to PLN 6.4 million and PLN 8.8 million, respectively, including PLN 1.3 million and PLN 1.3 million accrued in previous periods. During the 6 months ended 30 June 2015 and 2014, the amount of accrued cost of compensation for the Company's Management Board amounted to PLN 1.5 million and PLN 1.7 million, respectively.

On 9 April 2015, the mandate of Mr Sławomir Lachowski, a Member of the Supervisory Board of OPL S.A., expired and was not renewed. On the same day the General Meeting of OPL S.A. appointed Ms Maria Paśło-Wiśniewska as a Member of the Supervisory Board of OPL S.A.

## 11. Subsequent events

On 9 July 2015, OPL S.A. drew down PLN 480 million of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange S.A.

On 14 July 2015, the shareholding in TP Edukacja i Wypoczynek Sp. z o.o. was contributed in kind to Orange Szkolenia Sp. z o.o., a fully owned subsidiary. Total value of investments in subsidiaries in the statement of financial position will not change as a result of this contribution.

On 24 July 2015, OPL S.A. increased the deposit paid in the course of the auction for 800 MHz and 2600 MHz telecommunications licences. The amount of the additional deposit is not disclosed due to its commercial sensitivity.

# ORANGE POLSKA GROUP



## MANAGEMENT BOARD'S REPORT

FIRST SIX MONTHS  
ENDED 30 JUNE 2015

27 July 2015

*This report on the activity of the Orange Polska Group ("the Group" or "Orange Polska") in the first half of 2015 has been drawn up in compliance with Article 90 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2009, No. 33, item 259, as amended). For additional information please refer to the full year 2014 report.*



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

as of June 30, 2015 and for the six month period ended thereon

## 1 SUMMARISED FINANCIAL STATEMENTS

	For 6 months ended				Change
	30 June 2015		30 June 2014		
	in PLN mln	in EUR <sup>1</sup> mln	in PLN mln	in EUR <sup>2</sup> mln	
<b>Consolidated Income Statement</b>					
Revenue	5,943	1,438	6,079	1,455	-2.2%
EBITDA (restated*)	1,919	464	1,987	476	-3.4%
<i>EBITDA margin (restated*)</i>	32.3%		32.8%		-0.5 pp
Operating income	478	116	591	141	-19.1%
<i>Operating margin</i>	8.0%		9.7%		-1.7 pp
Consolidated net income	297	72	365	87	-18.6%
<i>Net income attributable to owners of Orange Polska S.A.</i>	297	72	365	87	-18.6%
<i>Weighted average number of shares (in millions)**</i>	1,312		1,312		
<i>Earnings per share (in PLN) (basic and diluted)</i>	0.23	0.06	0.28	0.07	-17.9%
<b>Consolidated Statement of Cash Flows</b>					
Net cash provided by operating activities	1,358	328	1,444	346	-6.0%
Net cash used in investing activities, including	(1,251)	(303)	(609)	(146)	105.4%
Purchases of property, plant and equipment and intangible assets	(740)	(179)	(1,136)	(272)	34.9%
Net cash used in financing activities	104	25	(385)	(92)	n/a
Net change in cash and cash equivalents	211	51	450	108	-53.1%
Organic cash flow (restated*)	531	128	482	115	10.2%
<b>As of</b>					
	30 June 2015		30 June 2014		Change
	in PLN mln	in EUR <sup>3</sup> mln	in PLN mln	in EUR <sup>4</sup> mln	
<b>Consolidated Statement of Financial Position</b>					
Cash and cash equivalents	460	110	248	58	85.5%
Other intangible assets	3,070	732	3,215	754	-4.5%
Property, plant and equipment	11,178	2,665	11,715	2,749	-4.6%
Total assets	22,186	5,289	22,104	5,186	0.4%
Financial liabilities at amortised cost***, of which:	4,545	1,084	4,431	1,040	2.6%
Current	1,677	400	1,143	268	46.7%
Non-current	2,868	684	3,288	771	-12.8%
Other liabilities, current and non-current	5,565	1,327	5,275	1,238	5.5%
Total equity	12,076	2,879	12,398	2,909	-2.6%

Notes on data conversion, for information only:

1 – PLN/EUR fx rate of 4.1341 applied

3 – PLN/EUR fx rate of 4.1944 applied

2 – PLN/EUR fx rate of 4.1784 applied

4 – PLN/EUR fx rate of 4.2623 applied

\* For the restatements of the key financial data please see Note 1 to the Condensed IFRS Interim Consolidated Financial Statements

\*\* Weighted average number of shares in 6 months ended June 30, 2015 and June 30, 2014, respectively

\*\*\* Excluding trade payables

## 1.1 Comments to the Consolidated Income Statement

The consolidated restated revenue amounted to PLN 5,943 million in the first half of 2015 and was lower by PLN 121 million (-2%) as compared to the first half of 2014.

Restated operating income before depreciation and amortisation expense and impairment of non-current assets (EBITDA restated, please see Note 1 to the Condensed IFRS Interim Consolidated Financial Statements) amounted to PLN 1,919 million in the first six months of 2015 and was PLN 68 million lower than in the first half of 2014.

In particular, in first half of 2015 compared to first half of 2014 (restated data):

- Mobile voice traffic revenue decreased by PLN 232 million, mainly due to market competition and related price pressure;
- Mobile equipment sales increased by PLN 134 million, owing to the introduction of instalments sales in 2014 and the launch of sales of handsets without SIM cards in 2015;
- Fixed narrowband revenue decreased by PLN 125 million, mainly due to substitution of fixed traffic and lines to mobile, reflecting the general downward trend in the fixed line market;
- Other revenue increased by PLN 102 million, mainly as a result of higher revenue from integrated ICT (Information and Communication Technology) services and infrastructure projects;
- Interconnect expenses increased by PLN 77 million, mainly due to an increase in traffic volume on the mobile network;
- Commercial expenses increased by PLN 93 million as a result of intensified activity in the ICT market, launch of sales of handsets without SIM cards and a higher number of commercial acts acquired in the mobile market;
- Labour expense decreased by PLN 82 million, mainly due to lower headcount in the first half of 2015;
- Network costs decreased by PLN 42 million, mainly as a result of the optimisation of network and IT system maintenance costs;
- Gains on disposal of assets increased by PLN 31 million, mainly owing to the intensification of real estate sales in the second quarter of 2015.

Operating income (EBIT) amounted to PLN 478 million in the first half of 2015 and was PLN 113 million lower than in the first six months of 2014.

Net finance costs were PLN 103 million lower than in the first half of 2014, which resulted mainly from a decrease in interest expense of PLN 86 million and a decrease in discounting expense of PLN 15 million. Lower interest expense is mainly a consequence of debt refinancing completed in May 2014, which significantly reduced the cost of debt for Orange Polska.

Consolidated net income amounted to PLN 297 million in the first half of 2015, which is a decrease of PLN 68 million year-on-year. Earnings per share decreased from PLN 0.28 to PLN 0.23.

## 1.2 Comments to the Consolidated Statement of Cash Flows

Net cash from operating activities amounted to PLN 1,358 million in the first half of 2015 and was lower by PLN 86 million compared to the first half of 2014. The decrease was mainly attributable to change in the working capital (PLN 247 million used in the first half of 2015 compared to PLN 136 million used in the first half of 2014).

Net cash used in investing activities amounted to PLN 1,251 million in the first half of 2015 and was higher by PLN 642 million compared to the first half of 2014. In the first half of 2014, cash inflow of PLN 345 million resulted from net proceeds from sale of Wirtualna Polska S.A., while in the first half of 2015 cash outflow of PLN 428 million resulted from the deposit paid in the course of the auction for telecommunications licences. Cash outflows for purchases of property, plant and equipment and intangible assets, restated for payments relating to the above mentioned deposit, amounted to PLN 920 million in the first half of 2015 and were lower by PLN 79 million compared to the first half of 2014.

Net cash provided by financing activities amounted to PLN 104 million in the first half of 2015 and was higher by PLN 489 million compared to the first half of 2014. In the first half of 2014, cash outflow of PLN 2,969 million for redemption of bonds issued in 2009 under the European Medium Term Note ("EMTN") issuance programme was offset by PLN 2,730 million cash inflow from related party loans (financing from the Orange Group), while in the first half of 2015, cash inflow from the Orange Group financing was higher by PLN 129 million than the repayment of debt.

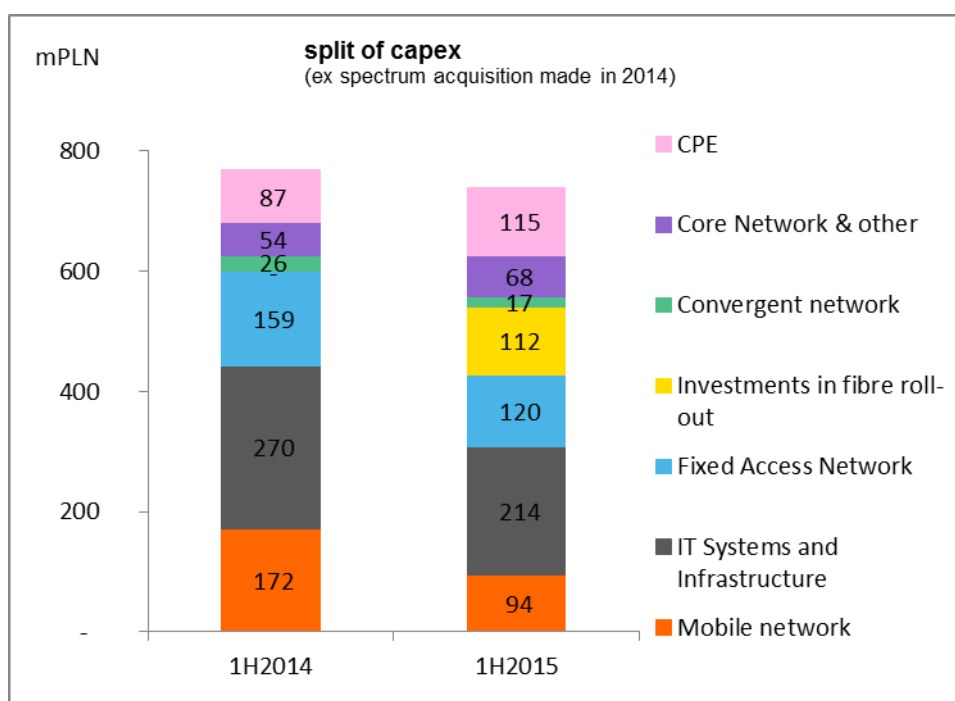
### 1.2.1 Capital Expenditures (CAPEX)

Excluding expenditures on telecommunications licences (PLN 368 million in the first half of 2014), Group's capital expenditures amounted to PLN 740 million in the first half of 2015 and were PLN 28 million lower year-on-year. They also decreased in relation to revenue, which is consistent with the medium-term plan objectives.

The Group invested mainly in the following areas:

- roll-out of the fibre access network which aims to cover up to 650 thousand households in 2015; currently, there are 193 thousand households within the reach of the fibre network (including the lines developed in 2014), mainly in Warsaw and Lublin; in addition, investments in Białystok, Bydgoszcz, Katowice, Łódź, Szczecin and Wrocław have started;
- investments to enhance the quality of the mobile network, expand the capacity and range of GSM/UMTS services, and adapt the mobile access network to the 4G technology requirements, as well as in the areas not covered by the mobile access network consolidation project (i.e. strategic or underinvested regions);
- expansion of the mobile transport and core network in order to handle the growing volume of data transmission and ensure the service quality expected by customers;
- implementation of a single billing system for fixed-line services for B2C customers;
- investment projects related to the portfolio development and sales and customer service processes as well as the modernisation and enhancement of the IT technical infrastructure;
- revitalisation and modernisation of Orange Point of Sale (POS) network;
- research and development.

The break-down of capital expenditures by main categories (excluding telecommunication licences) is presented in the diagram below.



### 1.3 Comments to the Consolidated Statement of Financial Position

As at June 30, 2015, total equity amounted to PLN 12,076 million and was lower by PLN 322 million than as at December 31, 2014. The change was attributable mainly to the declaration of the dividend of PLN 656 million, which was partially offset by consolidated net income of PLN 297 million generated in the first half of 2015.

Property, plant, equipment and other intangible assets decreased by PLN 682 million compared to December 31, 2014, mainly as a result of depreciation and amortisation that was higher by PLN 703 million than capital expenditures.

Total assets were higher by PLN 82 million than as at December 31, 2014. The change resulted mainly from the aforementioned decrease of PLN 682 million in property, plant, equipment and other intangible assets, which was offset by an increase of PLN 399 million in other assets (includes PLN 428 million of the deposit paid in the course of the auction for telecommunications licences), an increase of PLN 177 million in trade receivables and an increase of PLN 212 million in cash and cash equivalents.

Total non-current and current liabilities increased by PLN 404 million to PLN 10,110 million as at 30 June 2015. The change resulted mainly from increase of other liabilities as a result of the declaration of the dividend (PLN 656 million, paid on 9 July 2015), which was offset by a decrease of PLN 289 million in trade payables.

#### **1.4 Related Parties Transactions**

Please see Note 10 to the Condensed IFRS Interim Consolidated Financial Statements about Group's transactions with related entities.

#### **1.5 Description of Significant Agreements**

Please see section 1.9.2 below for information on significant agreements concluded by the Group in the first six months of 2015.

#### **1.6 Subsequent Events**

Please see Note 11 to the Condensed IFRS Interim Consolidated Financial Statements for information on subsequent events.

#### **1.7 Scope of Consolidation within the Group**

Please see Note 1.2 to the IFRS Consolidated Full-Year Financial Statements for information about the scope of consolidation within the Group.

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

Please see section III of the Additional Information to the Consolidated Half-Year Report PSr 2015 for the relevant information.

#### **1.9 Management of Financial Resources and Liquidity of the Group**

In the reported period, the Group financed its activities mostly by cash from operating activities and loans provided by the Orange SA Group.

In the first half of 2015, the Group repaid long-term bank loans totalling PLN 20 million and a revolving loan of PLN 960 million provided by Orange SA Group.

The Group benefited from a long-term loan, of which a total of PLN 769 million was used, and a revolving loan, of which a total of PLN 320 million was used, both provided by the Orange SA Group.

As of June 30, 2015, Group's interest-bearing liabilities (before derivatives) totalled PLN 4,469 million, which is an increase of PLN 89 million compared to December 31, 2014.

The value of liabilities under financial lease and other financial liabilities as of June 30, 2015 amounted to PLN 76 million and was 26 million lower compared to December 31, 2014.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 460 million at June 30, 2015, and available credit facilities totalling the equivalent of PLN 3,326 million (please see section 1.9.3 below for details).

Based on available cash, back-up and revolving credit facilities, as well as external sources of financing, the Group has sufficient funds to carry out its investment projects, including capital investments, scheduled for implementation in 2015.

##### **1.9.1 Bonds**

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

##### **1.9.2 Loan and Borrowings Agreements**

In the first six months of 2015, Group companies concluded the following major loan agreements:

On May 13, 2015, Orange Polska S.A. concluded a loan agreement with Atlas Services Belgium SA, a wholly-owned subsidiary of Orange SA, which provided the Group with long-term financing of up to EUR 190 million, with the maturity date of May 20, 2021.

##### **1.9.3 Unused Credit Facilities**

As of June 30, 2015, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 1,576 million, specifically (by Group companies):

- Orange Polska S.A.: EUR 374 million (revolving loan);

- Orange Retail S.A. (formerly Ramsat S.A.): PLN 3 million (current account overdraft); and
- Orange Real Estate sp. z o.o.: PLN 2 million (current account overdraft).

In addition, the Group had an unused limit of back-up liquidity financing of PLN 1,750 million, provided by Orange SA.

#### 1.9.4 Loan Covenants

Bank guarantee agreements to which Orange Polska S.A. is a party impose an obligation to meet the ratio of net debt to restated EBITDA not higher than 3.5:1 (tested for the Group on a six months' basis). The ratio on June 30, 2015 was met, as it was 1.1.

#### 1.9.5 Guarantees and Collaterals

In the reported period, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of TP Teltech sp. z o.o., an Orange Polska's wholly-owned subsidiary, towards its business partners, while Orange Polska promised to cover any claims related to payments under the guarantee. As of June 30, 2015, those guarantees totalled PLN 16 million.

On April 27, 2015, Orange Polska S.A. granted a collateral of PLN 0.4 million to mBank S.A. to secure a bank guarantee for lease issued upon request of Contact Center sp. z o.o.

#### 1.9.6 Hedging Transactions

In the first six months of 2015, the Group continued to minimise its exposure to foreign exchange volatility by concluding and maintaining cross currency swap, cross currency interest rate swap and non-deliverable forward contracts, which at June 30, 2015 covered:

- 99.7% of debt denominated in foreign currencies,
- 53.5% of licence payable for the 2100 MHz spectrum; and
- 74.6% of European Commission proceedings provision.

As a result of hedging, Group's effective currency exposure at June 30, 2015 was as follows:

- USD 3 million of debt;
- EUR 85 million of licence payable for the 2100 MHz spectrum; and
- EUR 36 million of European Commission proceedings provision.

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

In addition, the Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As of June 30, 2015 the Group's proportion between fixed/floating rate debt (after hedging) was 81/19% as compared to 73/27% on December 31, 2014.

#### 1.9.7 Group's Financial Liquidity and Net Financial Debt

At June 30, 2015, Group's quick and current ratios increased as compared to the end of 2014. Higher liquidity of the Group was driven by an increase of PLN 810 million in current assets, including an increase of PLN 212 million in cash, as well as an increase of PLN 970 million in current liabilities (less provisions and deferred income).

The liquidity ratios for the Group at June 30, 2015 and December 31, 2014, respectively, are presented in the table below.

	June 30, 2015	December 31, 2014
Current ratio		
Current assets / current liabilities*	0.64	0.59
Quick ratio		
Total current assets – inventories / current liabilities*	0.59	0.53
Super-quick ratio		
Total current assets – inventories – receivables / current liabilities*	0.26	0.14

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

Group's net financial debt (after valuation of derivatives) decreased to PLN 4,069 million at June 30, 2015 (from PLN 4,134 million at the end of December 2014).



**CHAPTER II**  
**MANAGEMENT BOARD'S REPORT ON OPERATING**  
**AND FINANCIAL PERFORMANCE OF THE GROUP**  
in the first half of 2015

## 2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

Selected financial data (PLN million) IFRS	For 6 months ended		Change
	June 30, 2015	June 30, 2014	
Restated Group's revenue	5,943	6,064	-2.0%
Restated EBITDA	1,919	1,987*	-3.4%
Restated EBITDA (as % of revenue)	32.3%	32.8%	-0.5 pp
Consolidated net income	297	365	-18.6%

\* For the restatements of the key financial data please see Note 1 to the Condensed IFRS Interim Consolidated Financial Statements

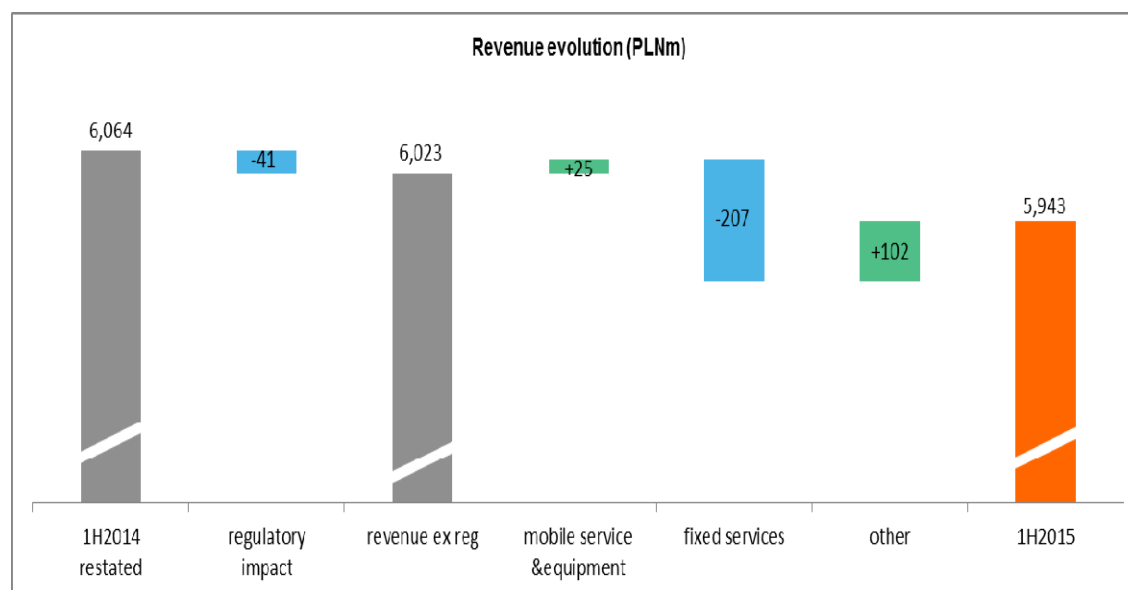
Group's restated revenue totalled PLN 5,943 million in the first half of 2015 and was down PLN 121 million (2.0%) year-on-year.

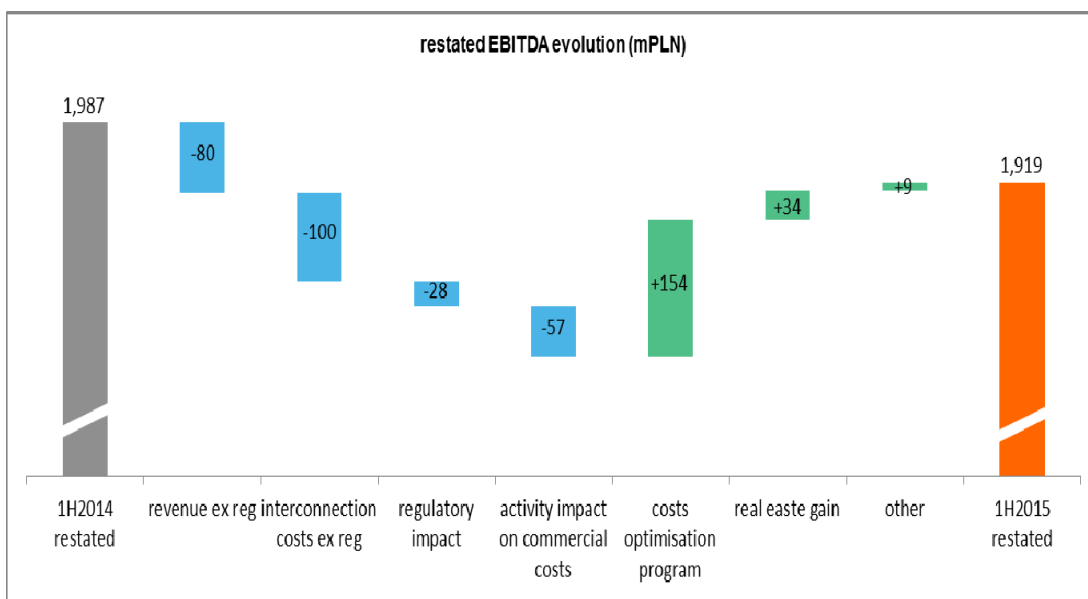
This partly reflected the impact of regulatory decisions (mostly roaming rate cuts), which decreased the Group's revenues by PLN 41 million, a decrease of PLN 207 million in fixed line revenue (mainly due to structural erosion in fixed line voice and wholesale segments), as well as price pressure that negatively affected mobile voice traffic revenue.

These factors were only partly offset by an increase in equipment sales (by PLN 134 million), higher mobile incoming traffic revenue and higher other revenue. The sharp rise in equipment sales was driven mainly by the introduction of an instalment scheme in mobile equipment sales (from the second quarter of 2014). Other revenue grew by PLN 102 million mainly as a result of implementation of broadband infrastructure projects and activity in the ICT area.

Group's restated EBITDA margin decreased by 0.5 percentage points year-on-year, while restated EBITDA was PLN 68 million lower than in the first half of 2014. This can be attributed mainly to the following factors:

- a revenue decrease, as described above;
- a PLN 100 million (excl. regulatory impact) increase in interconnect costs related to growth in traffic, particularly resulting from higher popularity of unlimited mobile tariffs;
- negative regulatory impact (PLN 28 million) resulting mainly from cuts in European Union roaming rates;
- a PLN 57 million increase in direct commercial costs due to higher customer net additions in mobile and a higher number of transactions with terminals compared to the first half of 2014;
- sustainable cost savings of PLN 154 million.





Striving to reverse the negative trends, Orange Polska has focused on constant offer portfolio enhancement, development of bundled services, promotion of its convergent Orange Open offer as well as further optimisation of its cost base and improvement in customer satisfaction from Orange services. In addition, revenue trends have been supported by steady growth in the ICT segment and introduction of additional services (financial services, resale of electricity), which supplement the core telecommunication portfolio. These initiatives are based on the assumptions for the medium-term action plan for 2013–2015, which was adopted in February 2013 (see section 3.3 below).

## 2.1 Mobile Services

Revenue	For 6 months ended		
PLN million	June 30, 2015	June 30, 2014	Change
Mobile services revenue	2,747	2,894	-5.1%
of which voice traffic revenue	1,371	1,603	-14.5%
of which data, messaging, content and M2M	945	936	1.0%
of which wholesale	431	355	21.4%
Mobile equipment sales	287	153	87.6%

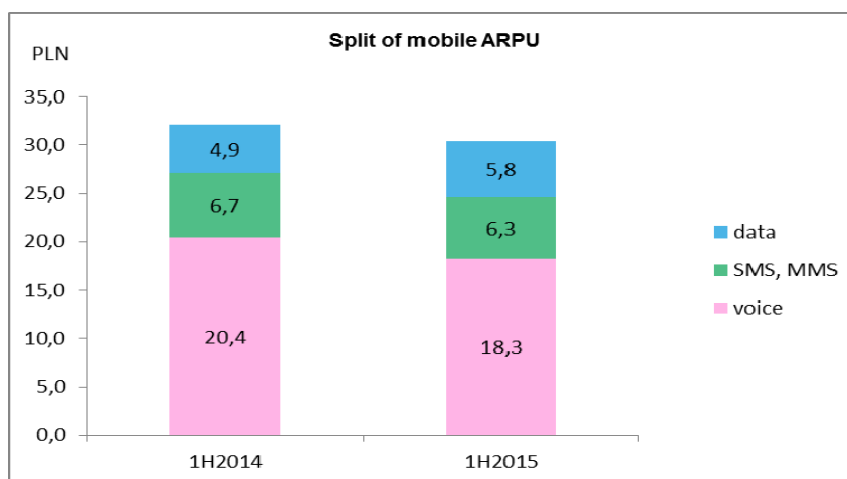
Key performance indicators			
PLN '000, unless indicated otherwise	June 30, 2015	June 30, 2014	Change
Orange Open customers*	627	418	50%
Total mobile customers (SIM)	15,587	15,461	0.8%
of which post-paid	7,897	7,459	5.9%
of which pre-paid	7,690	8,002	-3.9%
SRC (post-paid), PLN	276	280	-1.4%
SAC (post-paid), PLN	348	406	-14.3%
Monthly blended ARPU, PLN	30.4	32.0	-5.0%
post-paid	50.2	55.6	-9.7%
pre-paid	12.5	12.1	3.3%

\* Orange Open is a bundle of fixed-line and mobile services

As at the end of June 2015, Orange Polska had a mobile customer base of 15.6 million, which is an increase of 126 thousand or 0.8% year-on-year. The increase was driven entirely by the expansion of the post-paid customer base, which grew by 438 thousand or almost 6% year-on-year. This was a result of the introduction of new attractive tariffs for both residential and business customers as well as intensive marketing activity, especially in the second quarter of 2015. Growing popularity of SIM cards dedicated to mobile broadband was another growth factor, as these are typically activated in the post-paid scheme. Furthermore, post-paid services became significantly more affordable for customers, who partly migrated to post-paid solutions from the pre-paid segment. This largely explains the decline of the pre-paid customer base.

Blended ARPU amounted to PLN 30.4 in the first half of 2015 and was 5.0% down year-on-year. This can be attributed mainly to a decline in voice and SMS ARPU, resulting from price competition in the market, particularly in the business segment, and the growing popularity of unlimited offers. The introduction of instalment sales of terminals in the second quarter of 2014 further contributed to a decrease in ARPU, as in this scheme a portion of revenue corresponding to the handset is reported as revenue from equipment sales rather than revenue from services (which is the basis for ARPU). These negative factors were only partially offset by an increase in data ARPU, which grew 18% (year-on-year) in the first half of 2015. The share of data ARPU in aggregate ARPU increased from 15% in the first half of 2014 to 19% in the first half of 2015.

As for changes in ARPU by segments (post-paid and pre-paid), the decline affected exclusively post-paid ARPU, due to the aforementioned factors. Pre-paid ARPU gained from an increase in incoming traffic and was subjected to lower price pressure as compared to post-paid services (mainly owing to the fact that pre-paid is not affected by competition in the business market).



### 2.1.1 Market and Competition

The mobile voice market is in a saturation phase in terms of the number of users. The number of SIM cards increased by 1.5% from December 31, 2014, driving the mobile penetration rate (among the population) to 152% at the end of June 2015.

The three leading operators continued to lose market share to P4. According to Group's estimates between the end of June 2014 and the end of December 2014, their total volume market share decreased from 78% to 77%. Orange Polska's estimated share in the mobile market was 26.8% by volume at June 30, 2015.

Due to differences in methodology, such as different definitions of an active prepaid SIM card or different methods of customer acquisition and retention (instalment sales, subsidies), positioning of the data sets presented by various operators against one another is becoming increasingly difficult.

In the first half of 2015, Orange Polska maintained the second position in terms of portability market share. Numbers transferred to Orange Polska totalled 198 thousand, which corresponded to a market share of 24%. Mobile number portability balance was -51 thousand in the January-June period, which was a decline over +5 thousand in the same period of 2014 (but a slight improvement over the second half of 2014). Notably, the balance was positive for post-paid services alone.

### 2.1.2 Convergent Orange Open Offer

In the first half of 2015, Orange Polska further expanded its convergent offer, Orange Open (i.e. discount for customers who use multiple Orange mobile and fixed-line services). At the end of June 2015, Orange Open customer base reached 627 thousand, which is an increase of 88 thousand (or 16%) compared to the end of 2014. It corresponded to 29% of the entire fixed broadband customer base. The total number of services sold in the Orange Open scheme exceeded 2,587 thousand. On average, each customer uses four Orange services. The convergent offer increases customer loyalty, as its churn rate is much lower than among single service users.

As part of its efforts to refresh the Orange brand, in April 2015 the Group introduced pre-defined bundles of mobile and home services with Orange Open discount, which are based on the 'Family', 'Free', 'Comfortable' and 'Convenient' packages. The packages were developed on the basis of the most frequently chosen options and are expected to better respond to household needs. However, the packages do not exclude other combinations of services, to which Orange Open discounts apply.

Furthermore, mobile tariff plans dedicated to users of fixed-line services, Open Smart Plans, were introduced for the first time in June. There are three plans to choose from, namely Super Smart Plan Open 29.99, Smart Plan Halo Open 39.98 and Smart Plan Multi Open 59.98. The benefits for a customer include a discount of PLN 30 on monthly subscription fee (this includes the Orange Open discount), unlimited calls, SMSs and MMSs to all, a pool of 400 minutes for roaming within EU and up to 5 GB for data transfer for PLN 0. The Super Smart Plan is a SIM-only option, while the two other plans are inclusive of the price of a handset

The *Orange Open for Business* promotional offer is still available to business customers. It offers a broader range of discounts, that is higher discounts (of up to PLN 15) for combining mobile and fixed-line products as well as discounts (of up to PLN 30) for using several products from the same category, like mobile voice or mobile broadband.

### 2.1.3 Mobile Voice and Data Services

The most important initiatives in the first six months of 2015 included:

Introduction of new Smart Plans, i.e. new tariff solutions for residential customers, in response to growing demand for unlimited offers. The new voice offer consists of three SIM-only plans offering LTE broadband access, namely: Super Smart Plan 59.99, Super Smart Plan 29.99 and Super Smart Plan 9.99.

- **Super Smart Plan 59.99:** It offers unlimited calls to all mobile and fixed-line networks, SMSs and MMSs (included in the subscription fee), roaming solutions for outgoing and incoming calls, as well as data transmission in roaming within the European Union. A 2 GB data pool is embedded in the subscription fee and a further 3 GB can be added for PLN 10.
- **Super Smart Plan 29.99:** When subscribing to this plan via the orange.pl on-line channel, customers can make calls and send SMSs without limits to all mobile networks, and get a 1 GB data pool (and a further 1.5 GB for PLN 10).
- **Super Smart Plan 9.99:** The subscription fee includes unlimited on-net calls (if the plan is purchased on-line). The plan offers a very favourable tariff solution: unlimited calls and SMSs to all networks for PLN 0.99 per day. This fee is charged when the first call is made on the given day and all the subsequent calls and SMSs are free until the end of the day.

All the new tariff plans have several features in common, which increase their usefulness. In particular, they include, as standard, the 'Safe Internet on the Phone' service, which enables customers to comfortably use data transmission without worrying about the bill.

Customer demand is increasingly focusing on data transmission. Therefore, in the first six months of 2015 Orange Polska first continued a promotional offer of unlimited data transfer in the LTE technology; then, after it ended, customers were offered unlimited LTE access for PLN 10 within the existing tariff plans. Data transmission in this service is available once the 'Safe Internet' data pools included in *Smart Plans* and *Super Smart Plans* are used up.

In the offers with handsets area, Orange Polska has consistently offered latest smartphone models in the subsidised or instalment model. Competitive handset prices attract customers, especially during limited time promotions, such as 'Post-Christmas Sale' or 'Crazy Days at orange.pl'.

### **Pre-paid Portfolio**

Orange Polska's pre-paid portfolio was massively enhanced in the first six months of 2015. It was expanded to include an option of unlimited calls to all networks. The next natural step in the portfolio development was the introduction of integrated products combining unlimited calls and SMSs plus a 2 GB data pool included in the price. The offer was appreciated by customers willing to pay more upfront in return for comfortable communications in the unlimited formula, and quickly started to build its position.

The first half of 2015 also saw the promotion of data solutions. In the SMART and FREE tariff plans, which are dedicated to smartphones and tablets, the free data pools obtained after topping up were increased five times in January 2015, provided that the top-up is effected through an on-line channel.

### **Voice Offer to Business Customers**

The introduction of the *New Orange Biz* offer of four new tariff plans in April was the most important development in the mobile business portfolio in the first half of 2015.

For the first time, each plan provides for a data pool embedded in the subscription fee. The key characteristics of the new plans are as follows:

- Unlimited calls, SMSs and MMSs included in the subscription fee in three out of four plans;
- LTE/3G Internet access in each tariff plan (unlimited in the top two plans);
- pool of minutes for roaming calls in the European Union;
- pool of SMSs for roaming in the European Union;
- pool of MB for data transmission anywhere in the world;
- smartphone display insurance for PLN 4.99 per month (PLN 0 for the first month).

Another innovation is the *Orange Biz Daily* tariff plan, which was launched in May. *Orange Biz Daily* is available on the SIM-only basis and offers low subscription fee (from PLN 9.99), unlimited on-net calls, as well as M2F calls, off-net calls and SMSs/MMSs without limits for PLN 0.99 per day. If no M2F or off-net calls are made and no SMSs or MMSs are sent on the particular day, the daily fee is not charged. The offer is addressed to new customers or customers porting their number to Orange.

### **Data Services**

New mobile broadband plans, dedicated to customers with different needs, were introduced in April 2015. Orange LTE FreeNet tariff plans are three simple solutions, each offering a very large data pool and unlimited access to the LTE network. From just PLN 19.90 per month, customers can freely use the LTE Internet service with no transfer limits subject to the terms of the offer.

A new item in the Orange portfolio are tariff plans for customers who need high-speed home Internet or universal access to the network both at and out of home. The home offer consists of two tariff plans for PLN 69.90 and PLN 89.90, which offer large data pools of 50 GB and 70 GB, respectively. After customers use up their basic data pool, they can still access the LTE network at the maximum transmission rate.

New tariff plans are also available to customers renewing their agreements with Orange. Regardless of the option chosen, they get 40% more GB, so that they can have up to 98 GB for data transfer per month at their disposal.

In the business portfolio, the first half of 2015 saw the development of services based on the LTE technology.

In April 2015, LTE was added to the Orange VPN service, in which a public IP address is allocated during mobile broadband connections on the Orange network. The Orange VPN service is available to *Business Everywhere*, M2M or *Internet For Business Pro* subscribers.

In parallel with the launch of *New Orange Biz* tariff plans, the new *LTE Internet For Business* offer, which consists of four tariff plans, was introduced in June. In the high-end option, the data transmission rate is never reduced.

In addition, an option to buy 'Unlimited LTE' was introduced for the subscribers of older tariff plans willing to use the LTE technology.

## 2.2 Fixed Line Services and Other Revenue

Revenue	For 6 months ended		
PLN million	June 30, 2015	June 30, 2014	Change
Fixed line revenue	2,596	2,806	-7.5%
of which narrowband	902	1,027	-12.2%
of which broadband, TV and VoIP	814	836	-2.6%
of which enterprise solutions and networks	458	468	-2.1%
of which wholesale	422	475	-11.2%
Other revenue	313	211	48.3%

Key performance indicators	June 30, 2015	June 30, 2014	Change
Fixed voice lines (retail: PSTN and VoIP)	4,347	4,633	-6.2%
Orange Open customers*	627	418	50.0%
3P customers (broadband, TV and VoIP)	455	383	18.8%
Fixed broadband accesses (retail)	2,159	2,281	-5.3%
TV customers	761	720	5.7%
Retail fixed voice ARPU, PLN	40.2	41.9	-4.1%
Broadband, TV and VoIP ARPU, PLN	61.4	60.4	1.7%

\* Orange Open is a bundle of fixed-line and mobile services

In the first six months of 2015, fixed-line revenue remained under pressure from both other market players and mobile technologies. Churn of fixed voice customers accelerated to 165 thousand in the first half of 2015 as compared to 108 thousand in the first half of 2014. However, this was partially offset by lower decline in fixed voice ARPU. As a result, fixed-line revenue decreased by 12.2% compared to 14.1% in the first half of 2014.

A similar trend was observed with respect to a decrease in broadband, TV and VoIP revenue. The number of services declined, but the customer mix improved. Owing to excellent sales of high-speed broadband and a major decline in the CDMA technology, which is no longer competitive, the share of VDSL and FTTH customers in the entire customer base grew to 11% (from 5% at the end of June 2014). Customers who use fast broadband access are more keen to purchase additional services. The 3P (Internet, TV and VoIP) customer base increased by almost 19% year-on-year and accounted for over 21% of the entire broadband customer base at the end of June 2015. As a result, broadband ARPU slightly improved year-on-year, partially mitigating the impact of overall decline in the customer base.

There was a significant increase, by almost 50%, in other revenue in the first half of 2015. It resulted from higher sales of ICT equipment as well as implementation of infrastructure projects by Orange Polska's subsidiary, TP Teltech, in co-operation with local municipalities. The implementation of broadband projects in two regions (namely the Warmińsko-Mazurskie Region and the Podkarpackie Region) is scheduled for completion in the third quarter of 2015; consequently, their contribution to revenue in the second half of the year will be significantly lower.

### 2.2.1 Market and Competition

#### Fixed Line Voice Market

The Group estimates that the fixed line penetration rate was at 21.5% of Poland's population at the end of June 2015, as compared to 22% at the end of December 2014. The decline is mainly attributable to growing popularity of mobile technologies. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a substitute to fixed line telephony. The aforementioned downward trend has been also affecting regulated fixed-line wholesale products (WLR and LLU).

#### Fixed Broadband Market

According to Group's estimates, the total number of fixed broadband access lines at the end of June 2015 was down by 0.3% compared to the end of December 2014. Thus, the market was shrinking as compared to growth in the first half of 2014 (+0.5% compared to the end of December 2013). The decline was mainly caused by the popularisation of mobile broadband access, which, depending on the price option, may be either a substitute of or complementary to fixed broadband access. The penetration of fixed broadband services in Poland's population stood at 18.9% at the end of June 2015 (and did not change compared to the end of 2014).

According to Group's estimates, the value of the fixed broadband market in the first half of 2015 declined by 0.1% year-on-year, versus a 1.5% increase in the first half of 2014. Pace of market value decline was lower than the rate of decrease in the number of accesses. This was mainly a result of growing monthly ARPU,



which may be attributed to a combination of two factors: customer migration to higher speed options with a gradual increase in ARPU from the service, and an increase in ARPU owing to cross-sales of additional services.

Competitive pressure from cable television (CATV) operators has remained strong and their total market share has been steadily growing. It is estimated at 34.7% by volume or 32.8% by value (in Q2 2015), as compared to 32.8% by volume and 31.1% by value the year before. The increase in CATV market share results from popularity of bundled offers, which may be effectively sold by CATV operators due to their strong position on the television market. It is also a result of growth of the broadband speeds offered by CATV operators, without raising prices, which contributes to an increase in average line speeds and raises customers' expectations in this respect.

Alternative operators, primarily Netia, still use the wholesale BSA and LLU based services. The number of BSA-based lines at the end of June 2015 declined by 19 thousand compared to the end of December 2014, while the number of LLU-based lines at the end of June 2015 totalled 141 thousand as compared to 152 thousand at the end of December 2014.

## 2.2.2 Fixed Line Voice Services

The voice market saw deregulation in the first half of 2015. The relevant markets 3 to 6 were deregulated. The markets 3 (market for provision of national telephone services on a fixed public telephone network to consumers) and 4 (market for provision of international telephone services on a fixed public telephone network to consumers) are of particular relevance to the fixed voice offer. As a result of the aforementioned changes, the voice offer is no longer subject to regulation and may be developed according to the operator's own business model. Orange Polska is working on a new offer, which can be introduced owing to the deregulation.

A new promotional connection offer was added to the portfolio in April 2015. Customers can be connected to the Orange network for a very attractive price of PLN 9.99 (in case of a 24-month loyalty agreement) or PLN 19.99 (in case of a 12-month agreement).

In the first six months of 2015, Orange Polska continued steady efforts to contain the erosion of its fixed-line voice subscriber base. Customers were further loyalised mainly through 'Adjusted Home Plans' with agreements for a specified time. Nevertheless, the line erosion accelerated, particularly due to intensified competition.

The fixed line voice portfolio is still based on three unlimited tariff plans (enabling unlimited calls for no additional cost either 24 hours/day or in the evening/weekend option) for calls to both domestic and international fixed networks and, in the high-end option, also to domestic mobile networks. Owing to such a design, the offer can meet the expectations of customers with various needs, as they can choose a plan which is best tailored to what they expect from a fixed-line voice offer. The portfolio also includes a tariff plan with no pool of minutes embedded in the subscription fee; it is offered for a very attractive price and is dedicated to customers who mainly use the fixed-line phone to answer calls.

According to Orange Polska's internal estimates, the Group had the following market shares:

### Fixed voice market share in June 2015

	2Q 2015 (estimated)	4Q 2014	Change
Retail local access <sup>1</sup>	52.5%	53.3%	-0.8 pp

## 2.2.3 Fixed Line Data Services

Fixed broadband market – key performance indicators:

	June 30, 2015	Dec 31, 2014
Market penetration rate in Poland – broadband lines (in total population)	18.9%	18.9%
Total number of broadband lines in Poland ('000)	7253	7275
Market share of Orange Polska	29.9%	30.9%

The first half of 2015 saw a decline in Orange Polska's fixed broadband sales. However, the situation differed in the deregulated areas and elsewhere. Sales of *Neostrada* and *Neostrada* bundles grew (year-on-year) in the areas where the market was deregulated in the fourth quarter of 2014, and a share of high-speed options and *Neostrada* plus TV bundles in the total sales increased owing to a strategy of more flat price structure as well as gadget offers.

In consideration of good reception of new offers by customers in the deregulated areas and intensified competitive pressure, Orange Polska decided to introduce uniform prices nationwide in June 2015.

<sup>1</sup> Without Wholesale Line Rental but with Orange WLR and VoIP services, which are the equivalents of subscriber lines.



Furthermore, a single price for three speed options (up to 10, 20 and 80 Mbps) was introduced. Furthermore, as compared to the previous leading promotions *Neostrada* prices were reduced by PLN 10 for the option of up to 10 Mbps or PLN 20 for higher-speed options.

Gadget promotions and promotions with devices (tablets) included in the service price were continued. The tablet offer is also convergent one, as two services, fixed and mobile broadband, are offered for a single price; customers can also buy a tablet and a mobile router for PLN 1.

Orange Polska continued to focus on promoting high speed broadband access. In addition to continuing sales of VDSL, the customer base of which exceeded 200 thousand, the company greatly intensified its investments in fibre-optic lines. According to the adopted investment plan, the FTTH network is to be expanded to cover 650 thousand households by the end of 2015. In the FTTH investment programme, investments are currently carried out in Warsaw, Lublin, Białystok, Bydgoszcz, Katowice, Łódź, Szczecin and Wrocław; and a further 8 cities are to be added in the second half of 2015. Through investments in FTTH lines Orange Polska intends to regain its position in the high-speed broadband market in big cities, which is currently dominated by CATV operators.

### 3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

#### 3.1 Market Outlook

According to Group's estimates, the value of Poland's telecommunication market increased by 1.1% in the first six months of 2015 (year-on-year). The main factor contributing to the growth was the development of mobile wholesale market, in particular the services for operators enabling the creation of their services to end users. On the other hand, there was still visible re-evaluation of the fixed line market accompanied by price reductions in the mobile retail market as a result of lowering of the average fees paid by clients.

Offers with terminals sold by operators in the instalment scheme have been gaining popularity in the market. On the one hand, it enables operators to report revenue at the moment of sale of terminals to end users, that is earlier than in the traditional approach adopted in the telecommunication market, i.e. subsidised offers. On the other hand, such an approach enables customers to compare prices of terminals, which may result in shifting some value out of the telecommunication market (to distribution chains not owned by operators).

Mobile operators continue to offer voice services with unlimited minutes both in their mobile and fixed-line portfolio. This contributes to a decline of the market value, particularly in the mobile segment. On the other hand growing popularity of smartphones, tablets and other devices that use mobile broadband access has a positive impact on the development of the telecom market, particularly mobile data services.

Fixed to mobile substitution continues to be an important adverse factor on the market. In previous years, this trend affected mainly fixed-line voice services; now, it is beginning to affect the fixed broadband segment, as well. Popularisation of LTE, depending on price options, could either play substitute or complementary role to fixed lines services..

In subsequent years, market developments will concentrate around growing importance of fixed-mobile convergence, further bundling of telecommunication services with television and entertainment, as well as expansion of services based on 4G technology. Major developments in the business market will most likely include growing popularity of combining telecom offers with ICT offers as well as growth in the machine-to-machine (M2M) segment.

Poland is currently going through a transformation on the fixed line Internet market towards a higher share of very high speed broadband in total broadband access. With growing demand for data transmission and connection speed, traditional Internet access is facing loss of popularity. Having a product with very high connection speed in their portfolio is crucial for a company to stay competitive and to face challenges of growing needs of customers. After an extensive FTTH pilot conducted in 2014, Orange Polska commenced considerable investments in the fibre-optic technology in the first half of 2015.

There was a number of major ownership changes in the telecommunication market in the first six months of 2015. In the wake of the acquisition of GTS Central Europe by Deutsche Telekom (owner of T-Mobile Polska) and approval of the transaction by the European Commission, GTS Poland's results were for the first time consolidated with those of T-Mobile Polska in Q1 2015. In May Netia has signed preliminary agreement to acquire for around PLN 222 million 100% of TK Telekom to strengthen its position on B2B market. The transaction has been approved by UOKiK (antimonopoly authority) and finalised in July.

Furthermore, new business partnerships were formed, which combine telecommunication services with other sectors of the economy. Operators, including Orange Polska started to sell banking services or, in conjunction with electricity providers, offer power supply to its customers. One of the mobile operators is also considering gas sales. These processes are expected to continue in the future.

#### 3.2 Orange Polska's Strengths

Orange Polska operates in an increasingly challenging market. Due to fierce competition and the market structure, actions taken by the Group need to be determined and consistent. The ability to adapt to the existing conditions and respond to new market trends results from a number of Orange Polska's strengths, the most important of which are as follows:

- Market's broadest portfolio of mobile and fixed line services, including the possibility to render convergent solutions;
- Cost-effective bundles of telecommunication services;
- Market's broadest bundle of services within a single offer (Orange Open);
- Service portfolio expansion to include sales of electric energy and banking services;
- Broadly recognised Orange brand in the telecommunications services market;
- Innovative B-brand mobile offer (under the nju.mobile brand);
- Largest coverage of telecommunication network in Poland;
- The ability to build and develop strategic alliances, e.g. with T-Mobile (see section 4.3 below), nc+ and mBank;
- Expertise in comprehensive ICT infrastructure management (gained through Integrated Solutions);

- High recognition of corporate social responsibility standards (Ministry of Economy's award), including projects carried out by the Orange Polska Foundation and efforts to ensure web security for minors;
- Poland's largest sales network, enabling professional customer service during and after sales; simultaneously, modern distribution channels, particularly on-line, are being developed;
- Active participation in building the information society through various initiatives, including development of the telecommunication infrastructure in the areas at risk of digital exclusion;
- Broad international co-operation and access to know-how of Orange Polska's partners from the Orange Group, including use of the Buy-In company (a joint venture of Orange Group and Deutsche Telekom) as well as close co-operation and R&D experience sharing within the Orange Labs network;
- One of Poland's top five employers in 2015 according to Top Employers Institute's study (awarded with a prestigious Top Employer Polska certificate) and one of the most attractive companies as a potential employer in the telecommunication industry for students (according to the 'Your Perspective' Programme ranking list);
- Experienced workforce and well-developed work assessment and competence development system.

Owing to these strengths, Orange Polska is the leading provider of an integrated offer and value-added services for telecommunication products nationwide. The Group is able to provide its customers with offers which match their needs, while effectively responding to actions of its rivals.

### 3.3 Orange Polska's Medium Term Action Plan

The Group's action plan aims at strengthening its leadership in core market segments and developing new markets and value-added services, while preserving Orange Polska's financial standing and revenues. The Group will flexibly respond to changing customer needs, offering an attractive range of services and solutions to accompany customers in their everyday life. It means the following efforts:

- To reinforce a leadership position in Group's core markets, by leveraging on the convergence concept in order to maximise the potential of its existing and future customer bases, by providing its customers with convergent products and services, including both fixed and mobile components, offered at attractive prices and delivered via a convergent sales and distribution network;
- To further develop convergent infrastructure required to offer cutting-edge technological solutions to customers;
- To continue investments in both mobile and fixed-line networks, improving the customer satisfaction level;
- To expand the portfolio of value-added services (banking services, sales of electric energy, multimedia, cloud, smart home, etc.), which contribute to an increase in data transmission volume and revenue;
- To successively implement multimedia services accessible for Orange customers regardless of the form of access to the Internet ('Here and There' product catalogue);
- To adjust its solutions and services to customer needs in order to become the telecommunication (fixed and mobile) service provider of choice;
- To continue to develop a new portfolio for business customers in the Information and Communication Technology (ICT) market, particularly through the dedicated company, Integrated Solutions;
- To improve and unify its customer care, in coherence with the convergent service portfolio;
- To develop an even stronger sales network by leveraging on convergent customer databases and also by developing remote sales channels which increase the offer availability;
- To continue the cost savings and transformation programme, aimed at reducing the cost base and increasing operating efficiency;
- To adjust its recurring capital expenditure to the challenging environment, optimising the allocation of capital expenses while acquiring the spectrum needed for the future growth.

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

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

### **4.1 Orange Brand Evolution in Poland**

On April 16, 2015, Orange Polska launched a new philosophy and visual identity of the Orange brand. The changes in communication were introduced as a result of the identification of new customer needs.

The Group's new ambition is to connect its customers with what is essential in their lives. Hence, the new brand slogan is "always in touch to connect what's essential in your life." The new guidelines for all of the Group's actions and its internal culture are based on listening and responding to customer needs.

Changes in communications involve also new customer experience with the brand in customer care and sales channels. In particular, service bundles for residential customers and new tariff plans for business customers were launched, while the on-line safety of Internet users is to be enhanced with the CyberShield.

Orange outlets and other sales channels are also undergoing transformation. They will complement one another, while ensuring uniform positive experience for customers. The Smart Store was opened in Warsaw; it is an interactive store of the future, designed in line with the latest trends and encouraging customers to discover new solutions.

The new brand identity is better adapted to the digital world and enables an active dialogue with customers. The Orange logo, which enjoys wide recognition and positive associations, has not been changed. Instead, a new way of communicating, which is focused on customer needs and what really counts for customers, has been introduced. Furthermore, other elements of the brand visual identity are evolving; the changes include a more diverse colour palette and a refined photo and illustration style.

### **4.2 4G Development and Spectrum Auction**

In the first half of 2015, all operators continued to roll-out their data networks using the LTE technology. Orange Polska launched LTE services in September 2013, reaching almost 79% population coverage by the end of June 2015.

Until March 2015, the LTE services were commercially provided in Poland mainly using the 1800 MHz spectrum. Then, member companies of the Midas Group concluded agreements with Sferia (holding a licence for one frequency block from the digital dividend), under which Polkomtel launched LTE services in the 800 MHz band. The operator has informed that it operated its LTE 800 network using 1,000 base stations (with the target of 5,000 sites) and that its overall LTE coverage was 90% of Poland's population.

Furthermore, the most important development related to frequency allocation in the first half of 2015 was the launch on February 10, 2015 of an auction for frequencies from the 800 MHz and 2600 MHz bands, intended for the further increase of coverage and capacity of the 4G network.

The auction covers 5 blocks in the 800 MHz spectrum (a total of 2×25 MHz) and 14 blocks in the 2600 MHz spectrum (a total of 2×70 MHz). In addition to Orange Polska, five other players decided to participate in the auction process. These are the other three mobile infrastructure-based operators, a subsidiary of Emitel and NetNet.

By 30 June 2015, the auction had not been concluded and the highest bids totalled PLN 4.4 billion at that time.

### **4.3 Network Infrastructure and Frequency Sharing Agreement**

As part of RAN sharing co-operation with T-Mobile, Orange Polska continued to roll-out its LTE network. By the end of June 2015, LTE services were provided via approximately 6,100 base stations, which provided coverage of almost 79% of Poland's population.

For other information concerning the RAN sharing agreement with T-Mobile, please see section 4.5 of the Management Board's Report on the Activity of the Group in 2014.

### **4.4 Co-operation with mBank in the Area of Financial Services**

As a result of the co-operation between Orange Polska and mBank in sales of banking products under the Orange Finanse brand, approximately 150,000 customers had been acquired by the end of June 2015.

Currently, the offer is addressed to residential and self-employed customers and the product portfolio includes current accounts, savings accounts, revolving loans, cash loans, deposits as well as debit and credit cards.

#### 4.5 Sales of Electric Energy by Orange Polska

Following a successful period of pilot sales, which ended on January 31, 2015, on February 13, 2015, Orange Polska launched retail sales of electricity under the trade name of Orange Energia nationwide. On that day, a special offer addressed to both residential and business customers became available via all major sales channels.

Customers who sign an electricity purchase agreement gain attractive Welcome Packages and discounts, saving up to several hundred zlotys annually on their electricity bills. The offer is addressed to both the existing Orange customers and those who do not use the company's telecommunication services but decide to switch their energy supplier to Orange Polska.

On June 1, Orange Polska launched a special innovative offer addressed to fixed-line voice and *Neostrada* customers. In this offer, residential customers get the most competitive electricity price in the market, fixed price throughout the 24-month term of the agreement, uniform rate in the most popular tariff groups across Poland, as well as no activation fee or monthly fees.

#### 4.6 Growth of Infrastructure-based Operators in the Mobile Market

As the mobile market has entered the saturation phase, there are two areas which have the key importance in the activity of infrastructure-based operators, namely (i) customer base increase by winning customers from rival operators in the number portability scheme, and (ii) wholesale revenues.

As a result of aggressive marketing and pricing policy, Play continued to have the biggest, though falling, share in number portability in the first half of 2015.

A particularly important development in the wholesale market is further development of infrastructure by companies from the Midas Group, which is controlled by Zygmunt Solorz-Żak. The constructed base stations are subsequently used for providing wholesale data services to other member companies controlled by the businessman, such as Polkomtel, Cyfrowy Polsat and related company Sferia.

#### 4.7 Co-operation with TVN and ITI Neovision

In June 2015, the Group terminated the agreement with TVN, which had been signed in 2011. At the same time, Orange Polska continues to co-operate with ITI Neovision in the distribution of its basic TV offering as well as pay-TV packages corresponding to the *nc+* platform offer (formerly "new generation *n* platform"). In addition to the distribution of *nc+* packages together with the *Neostrada* + TV bundled offer, the companies extended their co-operation to include other product lines: Orange Free Net mobile broadband access as well as *Smart Plan Hello* and *Smart Plan Multi* mobile tariff plans. All the offers aim at strengthening up-selling potential by reciprocal use of customer bases as well as cost synergies.

#### 4.8 Group's Activity in the Area of Information and Communication Technology (ICT) Services

The Group delivers ICT products and services through its own traditional sales channels and through Integrated Solutions ("IS"), a wholly-owned subsidiary of the Group established in June 2011. The Group's strategy provides for the development of the ICT portfolio in both the service-based and project-based model as well as gradual expansion into new market segments. To implement its strategy in the ICT area, the Group uses its infrastructural and technological resources, which enable it to reap the benefits of the economies of scale and offer value to customers in the form of complete and safe service.

##### *Portfolio Expansion and Contracts Delivered*

In the area of services provided to the public sector, in the first six months of 2015 Integrated Solutions won and delivered a number of large-scale ICT projects. These included the following:

- A contract won in a consortium with Orange Polska and Comp for the delivery and implementation of IT infrastructure and software for Medyczne Centrum Przetwarzania Danych DTP sp. z o.o. (medical data centre) in Wrocław;
- A contract for the comprehensive operation of an IT system of the Agricultural Social Insurance Fund (KRUS). The subject of the contract is WAN operation services, including data, voice and image transmission with security mechanisms, as well as equipment delivery, line set-up and maintenance and management of the network infrastructure required to provide such services;
- A contract for the "Implementation of an innovative system of education in the Kujawsko-Pomorskie Region through the development of a system for the distribution of educational content." Under the contract, IS will deliver and install 2,139 sets composed of interactive boards, computers, projectors, software, speakers and control elements. The solutions will be implemented in 539 public and non-public primary schools all over the region.

The aforementioned contracts, which are being delivered by IS, total more than PLN 180 million.

#### **4.9 Machine to Machine (M2M)**

According to a market research study conducted in the first quarter of 2015, Orange Polska remains the leader in the M2M market in Poland. This confirms customers' trust in the services provided by the company.

Customers appreciate the flexibility of the M2M portfolio, which is tailored to their individual needs depending on the nature of their activity.

The M2M technology is used in 'Smart City' projects, particularly related to smart metering, smart grid or remote street lighting. Smart metering projects involve the implementation of systems for remote monitoring of water meters. Such systems have already been implemented in Środa Wielkopolska, Józefów (near Otwock) and Mikołów, while a remote lighting control system has been implemented in Gdańsk. Such investments aim mainly at generating savings for municipalities or water supply companies.

The Machine-to-Machine and Smart City market offers a great potential for Orange Polska's services, particularly in the partnership model in which they are provided. The portfolio expansion is an element of a steady development of M2M services, through which Orange sets trends for this market in Poland and across Europe.

#### **4.10 Purchase of a 2.4 MHz Block of Frequencies in the 1800 MHz Band from Polkomtel**

On April 24, 2015, the Regional Administrative Court in Warsaw announced its ruling, which rejected Orange Polska's appeal against the President of UKE's decision cancelling the transfer of a 2.4 MHz block allocation from Polkomtel to Orange Polska.

For other information concerning the purchase from Polkomtel of a 2.4 MHz block of frequencies in the 1800 MHz band, please see section 4.11 of the Management Board's Report on the Activity of the Group in 2014.

#### **4.11 Polkomtel's Letters to UOKiK and the European Commission**

There were no new developments or changes in the Group's position compared to the state of affairs presented in the section 4.11 of the Management Board's Report on the Activity of the Group in 2014.

#### **4.12 Mobile Virtual Network Operators (MVNOs)**

The first mobile virtual network operators debuted in Poland in 2007 and their main competitive advantage has been low price of services. The MVNO market is evolving towards increased presence of international brands aimed at providing services to specific groups of customers (e.g. travelling businessmen) among which they have been successful in other markets as well as emphasising the operator's unique features (e.g. full flexibility of rates or free data transfer) in order to build customer awareness in the very competitive mobile market. Upon the introduction of unlimited offers in the pre-paid segment by infrastructure-based operators, it is more difficult for virtual operators to compete exclusively on price.

In the first half of 2015 there was some recovery observed on the MVNO market, mainly owing to positive results of Virgin Mobile. As an effect of marketing campaign intensification after refinancing by owners, the operator noted significant increase of mobile numbers ported to Virgin Mobile.

According to Orange Polska's estimates, about 20 virtual operators operated in the market as at the end of June 2015 and their aggregate market share in Poland's mobile market was approximately 1.6%.

#### **4.13 CATV Operators**

In the first half of 2015, cable television (CATV) operators, which hold a total share of approximately 40% in the pay TV market and control one third of the broadband market, continued a strategy of strengthening their market position.

However, the currently used marketing tools, such as offer enhancement, addition of new telecommunication services to bundles and introduction of comprehensive household solutions (including insurance and electricity), concentrated in urban areas where CATV operators were present hitherto, are no longer sufficient to attain their goals.

Due to market saturation in big cities, CATV operators need to seek new growth opportunities in smaller towns. This is effected through both greenfield investments in infrastructure, for example UPC investment in Plock, and acquisitions of smaller players, communicated by all the major CATV operators (UPC, Multimedia Polska and Vectra).

The expansion of CATV operators in local markets, where Orange Polska has had an established position so far, poses a potential risk for the Group. The situation in big cities shows that it is difficult for Orange Polska to compete with CATV operators' comprehensive offer on the basis of its traditional copper infrastructure. Therefore, the Group's FTTH investment programme covers also smaller towns, where CATV operators have not consolidated their presence yet.



It is also worth mentioning that CATV operators have communicated the need to provide fully functional and attractive mobile offer to their customers. This may lead to either a strategic alliance or merger of CATV operator and a mobile operator. Such a development would significantly reduce the competitive advantage of the Group as the sole provider of the convergent offer in the market for individual customers. In anticipation of such a scenario, Orange Polska has made its priority to enhance the existing convergent offer, which in its fixed-line portion is going to be based on the FTTH technology.

As growing customisation of content (particularly related to entertainment) and expansion of services on demand (such as IPTV, HD channel portfolio, music and video-on-demand) generate increasing demand for high-speed broadband lines, CATV operators continuously modernise and expand their networks and, more and more frequently, they also lease third party's fibre-optic lines. These investments also aim at acquiring customers from the business segment, which has been a growing source of revenue for cable televisions.

#### 4.14 Infrastructure Development

By the end of June 2015, Orange Polska had over 4.5 million households within reach of the VDSL technology. At the same time, migration of the aggregation network from ATM to the IP standard was continued; at June 31, 2015, over 73% of *Neostrada* customers and 58% of iDSL customers were handled using access nodes connected via the IP aggregation network.

The most important developments in the first half of 2015 were as follows:

- Implementation of three new super-core routers. This successful implementation is the first stage of a two-year project to migrate the entire IP Core network to a topology based exclusively on 100GE lines and transmission on the ROADM network.
- Implementation of the new BNG platform of capacity of 1 Tbps for *Neostrada* users. The new platform significantly improves the quality of *Neostrada* and enables offering service options of higher speeds.
- Commencement of the implementation of the Content Cache platform, particularly for Google Global Cache (GGC) – YouTube, started in the first half of 2015. At the end of June, over 75% of Orange Polska's traffic related to YouTube was handled by the new GGC platform. Providing local content significantly improves the customer experience and reduces the costs of service provision.
- Continuation of a process of adjustment of the IP network infrastructure to future traffic requirements. This involves simplification of the network topology and adaptation of PoPs on the IP network to the 100 Gbps technology. A programme of expansion of the aggregation network in small to medium towns was continued.
- The G.fast technology is tested by Orange Labs. It is an access technique standardised by ITU-T at the end of 2014, which makes it possible to achieve high speeds over twisted-pair copper wire. Proof of concept for G.fast, which involved launching of all services from the FTTH Orange bundle, was effected by Orange Polska at the end of June and beginning of July. A network pilot project of this technology is scheduled to be launched by the year-end.

By the end of June 2015, the number of open LTE roaming relations had increased to 50. Currently, Orange Polska customers can use LTE roaming on 50 foreign networks in 31 countries. The roaming relations for these networks are bilateral, that is their customers can use LTE services on the Orange Polska network as well.

The process of consolidation of the mobile networks developed jointly with T-Mobile was completed in 2014. As a result, the UMTS/HSPA network covered 99.4% of Poland's population as of the end of June 2015. Furthermore, the rollout of the LTE network in the 1800 MHz band, which began in the second half of 2013, continued; by the end of June 2015, LTE service coverage had reached 79% of Poland's population.

#### 4.15 Orange Polska's Activity within Regional Operational Programmes

Orange Polska as a beneficiary of EU funds in the 2007-2013 Regional Operational Programmes has developed its own broadband infrastructure in two regions of Poland, namely Lubuskie Region and Pomeranian Region. In addition, the Group is carrying out 9 local access network projects with funds from the Operational Programme "Development of Eastern Poland" 2007-2013.

In three regions, where the new networks become the property of local governments, Group companies carry out work either directly for the Regional Marshal's Office (i.e. TP Teltech and Integrated Solutions in the Łódź Region) or as subcontractors of the Private Partners of Regional Marshal's Offices (i.e. TP Teltech in the Warmińsko-Mazurskie Region and the Podkarpackie Region).

The aggregate outcome of the projects in the Lubuskie Region and Pomeranian Region is a new regional fibre-optic information highway and new service access points in over 500 towns located within the former areas of coverage gaps. In the short term, the launch of the new infrastructure has improved the parameters of services provided via the existing access lines, while in the EU financial framework 2014-2020 it will be possible to add new 'last mile' network which will meet the European Digital Agenda requirements, using funds from the Operational Programme 'Digital Poland'.

#### 4.16 Regulatory Obligations

Up to April 30, 2015, Orange Polska S.A. had certain regulatory obligations in the relevant retail markets 3 to 7 (according to the European Commission's recommendation of 2003), namely:

- market for provision of national telephone services on a fixed public telephone network to consumers (market 3/2003);
- market for provision of international telephone services on a fixed public telephone network to consumers (market 4/2003);
- market for provision of national telephone services on a fixed public telephone network to end users, except consumers (market 5/2003); and
- market for provision of international telephone services on a fixed public telephone network to end users, except consumers (market 6/2003).

Under UKE's decisions of 2007 with respect to the markets 3/2003 to 6/2003, Orange Polska had an obligation to submit costing results and regulatory accounting statements to an independent audit. Orange Polska was also subject to an obligation to submit its price lists and terms of service provision for the President of UKE's approval with respect to services covered by the markets 3/2003 to 6/2003. There was a ban on both underpricing (to restrain competition) and overpricing.

On April 29, 2015, the President of UKE issued decisions lifting regulatory obligations of Orange Polska as from the date of delivery of the decisions (i.e. April 30, 2015) with respect to retail markets for provision of national and international telephone services to consumers and end users (markets 3–6/2003), recognising effective competition in these markets.

Furthermore, pursuant to the President of UKE's decisions issued in 2012, Orange Polska has a significant market power in the following relevant retail markets:

- market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to consumers (market 1/2003);
- market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to business customers (market 2/2003).

Under the aforementioned decisions, Orange Polska is subject to an obligation to obtain UKE's approval for its price lists and terms of service provision as well as a ban on underpricing, a ban on obligating users to subscribe to services which are unnecessary for them, a ban on unjustified preferences for groups of users and a ban on hindering the market entry of other operators.

Pursuant to the President of UKE's decisions, Orange Polska is an operator having a significant market power (SMP) in a number of the relevant wholesale markets according to the European Commission's Recommendation of 2003. Consequently, it has the following regulatory obligations:

- In the domestic market for leased line terminating segment services (market 13/2003): obligation to provide other operators with telecommunications access to Orange Polska's network (on the terms specified in the reference offer), including the use of network elements and associated facilities, in order to provide leased line terminating segment services; and
- In the domestic market for leased line trunk segment services, excluding connections between 145 locations (market 14/2003): obligation to provide other operators with telecommunications access to Orange Polska's network (on the terms specified in the reference offer), including the use of network elements and associated facilities, in order to provide leased line trunk segment services.

In addition, pursuant to decisions designating Orange Polska as an SMP operator in the relevant wholesale markets according to the Commission's Recommendation of 2007, Orange Polska has the following regulatory obligations:

- In the domestic market for call origination on a fixed public telephone network (market 2/2007): obligation to enable end-user service management, offer wholesale services for the purposes of resale (WLR), provide telecommunications infrastructure and enable colocation and other forms of facility sharing (on the terms specified in the reference offer);
- In the domestic market for call termination on Orange Polska's fixed line network (market 3/2007): obligation to provide access to the network on non-discriminatory terms specified in the reference offer, including obligation to charge flat interconnect rates for the service;
- In the domestic market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (market 4/2007): The scope of the market was extended to include not only copper but also fibre optic loops and subloops. Orange Polska has an obligation to provide access to this infrastructure on the terms specified by UKE in the reference offer;
- In the domestic market for wholesale broadband access services, excluding 76 local administrative units (market 5/2007), where the market was recognised as competitive; in the deregulated areas, Orange Polska has no regulatory obligations (with respect to either FTTx or xDSL), excluding an interim obligation (to October 2016) to maintain the BSA access provided before. In the regulated



area, Orange Polska has an obligation to provide access to its copper and fibre optic infrastructure on the terms specified in the reference offer approved by the President of UKE.

Pursuant to SMP decisions for the markets 2/2007, 3/2007 and 4/2007 as well as 13/2003 and 14/2003, Orange Polska has an obligation to charge cost-based telecommunication access fees and an obligation to carry out regulatory accounting in accordance with a manual approved by the President of UKE. The relevant regulatory statements for these markets have to be submitted to an independent audit.

Pursuant to the SMP decision for the market 5/2007, Orange Polska has an obligation to calculate costs of services and charge access fees based on the operator's justified costs. The service costing results for these markets are subject to an independent audit. Until a regulatory audit is conducted, Orange Polska has an obligation to charge cost-based prices.

Furthermore, Orange Polska is an SMP operator in the market for call termination on Orange Polska's mobile network (market 7/2007). The key regulatory obligations imposed on Orange Polska in this market are the non-discrimination obligation, the transparency obligation to disclose and publish information on matters related to providing access, the obligation to provide telecommunication access and the obligation to charge rates for call termination on Orange Polska's network according to the time schedule set in the SMP decision of December 14, 2012 (i.e. PLN 0.0429 / minute from July 1, 2013). On December 31, 2012, Orange Polska appealed from the UKE's decision of December 14, 2012, which imposed regulatory obligations on the Company in the market 7/2007. On 16 July 2015 the court of first instance (SOKiK) repealed UKE's decision on tariffs. Upon receipt of the written reasons (rationales) of the judgment, Orange Polska will consider making an appeal.

On December 14, 2010, the President of UKE designated Orange Polska as an SMP operator in the market for SMS termination on Orange Polska's mobile network. The most important regulatory obligation imposed by the decision is to provide SMS termination services based on costs. Orange Polska's appeal from the decision was rejected. The Company filed a cassation appeal. On May 6, 2015, the Supreme Court cancelled the Appellate Court's ruling and transferred the case back for re-examination. The proceedings are pending.

#### 4.17 Proposed Regulatory Changes

The wholesale leased line markets (former markets 13/2003 and 14/2003) are being reviewed. According to the draft decisions released for national consultation and notified to the European Commission in the consolidation process, the President of UKE intends to deregulate the domestic market for leased line terminating segment services and the domestic market for leased line trunk segment services, while the market for wholesale high-quality access at a fixed location above 2 Mbps is to be regulated. This market covers also such technologies as Ethernet, Metro/Carrier, Ethernet, (G)MPLS and VPN. UKE's final decisions are expected in the second half of 2015.

#### 4.18 Roaming Regulation

In the first six months of 2015, Orange Polska charged wholesale and retail rates for its roaming services according to the Regulation of the European Parliament and the Council of May 2012, which set the following caps for roaming service rates (in Euro, net of VAT):

Retail prices, in euro cents ("c"):

Data transfer – 20c/MB; outgoing calls – 19c/minute; incoming calls – 5c/minute; SMS – 6c. On July 1, 2015, roaming rates in PLN were slightly reduced as a result of changes in the EUR/PLN reference exchange rate.

Wholesale rates, in euro cents ("c"):

Data transfer – 5c/MB; calls – 5c/minute; SMS – 2c.

On June 30, 2015, a political agreement was reached at the European Union level on new rules for provision of roaming services. Roaming will be regulated by a regulation in the Telecoms Single Market (TSM) package, which has been drafted as the *Proposal for a Regulation of the European Parliament and of the Council laying down measures concerning the European single market for electronic communications and to achieve a Connected Continent*.

The key elements of the compromise are as follows:

##### a. Retail prices

- As of June 15, 2017, prices of retail services in roaming will become equal to prices of services at home.
  - After elimination of roaming charges, operators will be protected against abusive use of roaming through the "fair use" policy, which will enable them to cap the volume of roaming services provided at domestic prices and apply small surcharges to domestic prices, if a roaming provider demonstrates that it is not able to recover its costs by charging domestic rates for roaming services. The decision on an additional surcharge applied by the operator will be made by the regulator. Currently, there are no provisions regulating "fair usage"; the

relevant mechanisms and detailed rules are to be determined in a regulation which should be adopted by BEREC by December 15, 2015.

- In a transition period (i.e. until the elimination of roaming charges), that is from April 2016 to June 15, 2017, a mechanism for capping retail roaming charges will be introduced. It will involve surcharges to domestic prices of 5c per minute of call made, 2c per SMS and 5c per MB of data.

In addition:

- Roaming retail prices (the sum of the domestic price and any surcharge) cannot be higher than 19c/minute, 6c/SMS and 20c/MB;
- Surcharges for incoming calls cannot exceed the weighted average of mobile termination rates (MTR) across the EU (to be set out by the Commission, after consultation with BEREC, by December 31, 2015).

#### b. Wholesale rates

- Before prices of roaming services become equal to those of domestic services, the European Commission will be mandated to review wholesale rates and propose a new piece of legislation in this respect on the basis of the results of the review.

It should be noted that the legislative process has not been completed. The draft regulation will be submitted to voting in the European Parliament. The European Parliament vote is expected in autumn 2015.

At this stage, the ultimate draft of the regulation and the secondary acts determining in detail the major aspects of the regulation framework are unknown. Hence, it is difficult to assess the costs and risks related to the implementation of the intended changes.

### 4.19 Cost Calculation Results

Under the regulatory obligations resulting from having significant market power in the relevant markets, in 2015 Orange Polska has an obligation to prepare regulatory accounting statements for 2014 and submit them to an independent audit.

In performance of its regulatory obligations, on February 16, 2015, Orange Polska submitted a manual for drawing up regulatory statements for 2014 for the President of UKE's approval. On April 2, 2015, the President of UKE issued a decision on approving the manual. Orange Polska applied to the President of UKE for the re-examination of the case, communicating its reservations about the decision. On June 17, 2015, the President of UKE issued a decision with respect to Orange Polska's application for the re-examination of the approval of the manual for drawing up regulatory statements for 2014.

On June 3, 2015, the President of UKE appointed Ernst&Young Audit sp. z o.o. to conduct an audit of Orange Polska.

The outcome of the audit will be an audit report together with the auditor's opinion. The President of UKE set the deadline for submitting the audit report on August 28, 2015.

### 4.20 Compensation for Universal Service Costs

On October 10, 2014, the President of UKE determined a list of operators to share in the compensation for 2006 and a uniform percentage rate to determine their respective shares (with reference to their revenues). In 2015, the President of UKE began to issue individual decisions determining the share of particular operators in the compensation for 2006.

As a result in May and June 2015 Orange Polska received PLN 122.2 thousand.

The President of UKE's procedures regarding determination of operators to share in the compensation of the USO net cost deficit for the years 2007 to 2011 are pending. Consequently, the procedures to determine the share of individual operators in the compensation have not been initiated yet.

With respect to some operators, Orange Polska has reached an agreement regulating the issue of mutual settlements on the account of the universal service obligation.

For other information regarding appeal proceedings against UKE's decisions regarding compensation for universal service costs, please see section 4.20 of the Management Board's Report on the Activity of the Group in 2014.

### 4.21 Changes in Regulations

On March 27, 2015, the Act of February 20, 2015 on amending the Construction Law was promulgated in the Journal of Law (item 443). The bill came into force on June 28, 2015. The introduced simplified procedures may be relevant to broadband network development projects.

Since April 14, 2015, the President of UOKiK is working on a new draft bill amending the act on competition and consumer protection and the Code of Civil Procedure with respect to “abusive clauses”. This aims to introduce new tools for influencing companies, including telecom operators.

The following bills which may affect the investment activity of telecom operators, including Orange Polska, are currently at various stages of the legislation process:

- Draft bill on strategic public-purpose investments (formerly: “Draft bill on transmission corridors”);
- Draft Construction Code (formerly: “Draft Town Planning and Construction Code”);
- Transposition into the Polish legal framework of the Directive on measures to reduce the cost of deploying high-speed electronic communications networks; and
- Draft bill on amending the Act on physical planning and development (temporary regulation, which is to be ultimately replaced by the Town Planning Code).

Furthermore, intended regulations at the EU level, particularly a draft regulation on the European single market for electronic communications and a draft regulation on personal data protection regulation, may also be a significant factor.

The most important secondary regulations promulgated in the first half of 2015 are as follows:

- Decree of the Minister of Administration and Digitisation of January 16, 2015 on radio equipment operator's certificates (Journal of Law of 2015, item 99);
- Decree of the Minister of Administration and Digitisation of December 12, 2014 on the detailed requirements for addressing rules for proper call directing (JoL of 2015, item 12); and
- Decree of the Minister of Administration and Digitisation of December 12, 2014 on a contest for a telecommunication operator designated to provide the universal service components (JoL of 2015, item 11).

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

Please see Note 9 to the Condensed IFRS Interim Consolidated Financial Statements for detailed information about material proceedings and claims against Group companies as well as fines imposed thereon, including a fine imposed by the European Commission.

### **CHAPTER III**

## **ORGANISATION AND CORPORATE STRUCTURE**

## 5 CHANGES IN THE GROUP'S STRUCTURE IN 2015

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

There were no major changes in the corporate structure of Orange Polska in the first half of 2015.

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

As of June 30, 2015, the Management Board is composed of five Members, who have been assigned the direct supervision over the following Company's matters:

- President of the Management Board;
- Vice President of the Management Board in charge of Operations;
- Vice President of the Management Board in charge of Business Market;
- Management Board Member in charge of Finance; and
- Management Board Member in charge of Human Resources.

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

The total number of business units within the organisation changed.

As of June 30, 2015, Orange Polska had 78 business units, reporting directly to:

- 1) President of the Management Board: 6 business units;
- 2) Vice President of the Management Board in charge of Business Market: 7 business units;
- 3) Vice President of the Management Board in charge of Operations: 11 business units;
- 4) Management Board Member in charge of Finance: 6 business units;
- 5) Management Board Member in charge of Human Resources: 9 business units;
- 6) Executive Officer in charge of Corporate Affairs: 7 business units;
- 7) Executive Officer in charge of Shared Services: 5 business units;
- 8) Executive Officer in charge of Effectiveness & Transformation: 3 business unit;
- 9) Executive Officer in charge of Consumer Marketing: 10 business units;
- 10) Executive Officer in charge of Carriers Market: 6 business units;
- 11) Executive Officer in charge of Sales: 7 business units;
- 12) Executive Officer in charge of Brand and Marketing Communication; and
- 13) Executive Officer in charge of Customer Care: 1 business unit.

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

There were no major organisational changes in Orange Polska S.A.'s subsidiaries in the first half of 2015.

### 5.2 Ownership Changes within the Group in the First Half of 2015

#### 5.2.1 Winding-up of Przedsiębiorstwo Produkcyjne Projektowo-Wdrożeniowe "Telefon 2000" sp. z o.o.

On May 28, 2015, the District Court for the Capital City of Warsaw, XIII Commercial Department for the National Court Register deleted Przedsiębiorstwo Produkcyjne Projektowo-Wdrożeniowe "Telefon 2000" sp. z o.o. in liquidation from the National Court Register. The dissolved company was a wholly-owned subsidiary of TP Invest sp. z o.o.

#### 5.2.2 Sale of Contact Center sp. z o.o.

On July 6, 2015, Orange Polska and Arteria S.A. signed a sale agreement for a 100% stake in Contact Center sp. z o.o., a company specialising in call & contact center and sales support services. The expected transaction price is about PLN 8 million. The agreement is subject to a condition not within the Group's control.

### 5.3 Parent Company's Shareholders

As of June 30, 2015, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital based on information available on July 27, 2015 was as follows:

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

As of June 30, 2015, Orange SA held a 50.67% stake in the Company. Orange SA has the power to appoint the majority of Orange Polska S.A. Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

As of June 30, 2015, the Company has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

Orange Polska S.A. did not issue any employee shares in 2015, but an Incentive Programme for the Key Managers was launched in 2007 (for more information please see section 6.2.2 below).

## 6 GROUP'S STRUCTURE AS OF JUNE 30, 2015

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

### 6.1 Corporate Governance Bodies of the Parent Company

I. Composition of the Management Board did not change in the first half of 2015.

Composition on January 1 and June 30, 2015:

1. Bruno Duthoit - President of the Board
2. Mariusz Gaca - Vice President of the Board
3. Piotr Muszyński - Vice President of the Board
4. Jacek Kowalski - Board Member
5. Maciej Nowochoński - Board Member

II. Composition of the Supervisory Board and its Committees and changes thereof in the first half of 2015

Composition on January 1, 2015:

1. Maciej Witucki - Chairman of the Supervisory Board
2. Prof. Andrzej K. Koźmiński - Deputy Chairman and Independent Board Member
3. Gervais Pellissier - Deputy Chairman and Chairman of the Strategy Committee
4. Marc Ricau - Board Member and Secretary
5. Dr. Henryka Bochniarz - Independent Board Member
6. Jean-Marie Culpin - Board Member
7. Eric Debroeck - Board Member
8. Ramon Fernandez - Board Member
9. Dr. Mirosław Gronicki - Independent Board Member
10. Russ Houlden - Independent Board Member and Chairman of the Audit Committee
11. Sławomir Lachowski - Independent Board Member
12. Marie-Christine Lambert - Board Member
13. Gérard Ries - Board Member
14. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee
15. Valérie Théron - Board Member

On April 9, 2015, the mandates of Ms. Henryka Bochniarz, Mr. Ramon Fernandez, Mr. Andrzej K. Koźmiński, Mr. Sławomir Lachowski, Ms. Marie-Christine Lambert and Mr. Wiesław Rozłucki expired.

On the same day, Ms. Henryka Bochniarz, Mr. Ramon Fernandez, Mr. Andrzej K. Koźmiński, Ms. Marie-Christine Lambert, Ms. Maria Pasło-Wiśniewska and Mr. Wiesław Rozłucki were appointed by the Annual General Assembly as Members of the Supervisory Board.

Composition on June 30, 2015:

1. Maciej Witucki - Chairman of the Supervisory Board
2. Prof. Andrzej K. Koźmiński - Deputy Chairman and Independent Board Member
3. Gervais Pellissier - Deputy Chairman and Chairman of the Strategy Committee
4. Marc Ricau - Board Member and Secretary
5. Dr. Henryka Bochniarz - Independent Board Member
6. Jean-Marie Culpin - Board Member
7. Eric Debroeck - Board Member
8. Ramon Fernandez - Board Member
9. Dr. Mirosław Gronicki - Independent Board Member
10. Russ Houlden - Independent Board Member and Chairman of the Audit Committee
11. Marie-Christine Lambert - Board Member
12. Maria Pasło-Wiśniewska - Independent Board Member
13. Gérard Ries - Board Member
14. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee
15. Valérie Théron - Board Member

At present, Orange Polska has six independent members on the Supervisory Board, namely: Prof. Andrzej K. Koźmiński, Dr. Henryka Bochniarz, Dr. Mirosław Gronicki, Russ Houlden, Maria Pasło-Wiśniewska and Dr. Wiesław Rozłucki.

Composition of the Committees of the Supervisory Board on June 30, 2015:

The Audit Committee

1. Russ Houlden – Chairman
2. Marie-Christine Lambert
3. Maria Pasło-Wiśniewska
4. Marc Ricau

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

The Remuneration Committee

1. Dr. Wiesław Rożucki – Chairman
2. Prof. Andrzej K. Koźmiński
3. Marc Ricau
4. Valérie Thérond

The Strategy Committee

1. Gervais Pellissier – Chairman
2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Dr. Mirosław Gronicki
5. Maria Pasło-Wiśniewska
6. Gérard Ries

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

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

Members of the Management Board did not hold any shares of Orange Polska S.A. or related entities as of July 27, 2015.

As part of the Company's incentive program, members of the Management Board of the Company acquired Orange Polska registered A-series first option bonds, giving the right to subscribe for the Company's shares with priority over existing shareholders. The number of first option bonds held by members of the Management Board of the Company on July 27, 2015 was as follows:

Mariusz Gaca	68,839
Piotr Muszyński	190,896
Jacek Kowalski	25,241
Maciej Nowochoński	36,715

As of July 27, 2015, Mr. Maciej Witucki Chairman of the Orange Polska Supervisory Board, held 305,557 first option bonds. Other Members of the Supervisory Board of Orange Polska S.A. do not participate in the Company's incentive program and as of July 27, 2015 held no first option bonds. As of July 27, 2015, Mr. Maciej Witucki Chairman of the Orange Polska Supervisory Board, held 4,000 shares of Orange Polska S.A. No other persons who manage or supervise Orange Polska held the Company's shares.

#### 6.1.2 General Assembly

On April 9, 2015, the Annual General Assembly approved a dividend of PLN 656 million (i.e. PLN 0.5 per share). A total of 1,312,357,479 shares were eligible for dividend. The dividend was paid on July 9, 2015.

#### 6.2 Workforce

As of June 30, 2015, Orange Polska employed 17,393 people (in full-time equivalents – FTEs), which is a decrease of 6.5% compared to the end of June 2014.

The workforce reduction (year-on-year) resulted from a decrease in Orange Polska S.A. (by 815 FTEs), Orange Customer Service sp. z o.o. (342 FTEs) and TP Edukacja i Wypoczynek sp. z o.o. (77 FTEs).

Orange Polska S.A.'s workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2014–2015. Pursuant to it, a total of 557 employees left the Company in the first six months of 2015, 92% of whom under the voluntary departure programme. Severance pay averaged PLN 58.8 thousand in the first half of 2015. The voluntary departure programme was also effected in Orange Customer Service



sp. z o.o. (OCS). Pursuant to the Social Agreement for the years 2014–2015 between the OCS Management Board and trade unions, a total of 246 people left the company in the first six months of 2015, 96% of whom on a voluntary departure basis. Severance pay averaged PLN 49.4 thousand in the first half of 2015. Voluntary departures at OCS were effected on the same terms as in Orange Polska S.A.

In the first half of 2015, external recruitment in Orange Polska totalled 269 positions. External recruitment was mainly related to sale positions and customer service staff.

#### **6.2.1 Social Agreement**

There were no new developments or major changes with respect to the Social Agreement compared to the state of affairs presented in the section 7.2.1 of the Management Board's Report on the Activity of the Group in 2014.

#### **6.2.2 Stock Option Plan**

Please see Note 25.4 to the IFRS Consolidated Full-Year Financial Statements for information on the Group's incentive programme.

## **CHAPTER IV KEY RISK FACTORS**

## **7 RISK FACTORS AFFECTING THE ACTIVITIES OF ORANGE POLSKA**

There were no material changes with respect to the key risk factors affecting the activities of Orange Polska compared to the state of affairs presented in the chapter 8 of the Management Board's Report on the Activity of the Group in 2014.

Please see Note 28 to the IFRS Consolidated Full-Year Financial Statements for 2014 and Note 9 to the Condensed IFRS Interim Consolidated Financial Statements for the first half of 2015 for additional information about major outstanding claims and litigations.

## 8 TELECOMMUNICATIONS SECTOR RISKS

This section describes potential risks in the telecommunications sector that may affect the Group's operations except for the developments described in the chapter 7 above.

### 8.1 Regulatory Risks

Pressure on the Group's top line due to changes in the regulatory environment was decreasing in the first half of 2015 as compared to previous periods.

Orange Polska continuously makes efforts in order to meet its regulatory obligations in the optimum way, including issues as Wholesale Line Rental (WLR), Bitstream Access (BSA) or Local Loop Unbundling (LLU).

The Group has explored all possible legal means to protect its interests. Orange Polska intends to turn to relevant European Union institutions whenever it believes that European law is being breached.

#### 8.1.1 Single Reference Offer

The single reference offer ("SRO") for RIO, WLR, BSA and LLU services which is currently in force was approved by the President of UKE on September 29, 2010.

In the first half of 2015, upon applications of Orange Polska and the Polish Chamber of Electronics and Telecommunications ("the Chamber"), UKE issued two decisions which modified SRO. These regarded (i) the introduction of the 'up to 80 Mbps' option to the BSA portfolio (decision of May 5, 2015), and (ii) penalty fee provisions (decision of May 7, 2015).

In particular, pending proceedings at UKE regarding SRO modification concern the following:

- increased-charge services available in the WLR scheme (initiated upon application of Orange Polska and the Chamber for the re-examination of the decision issued on May 26, 2014);
- regulatory obligations in the market 4 (LLU) and market 5 (BSA) (initiated upon application of Orange Polska and the Chamber for the re-examination of the decision issued on June 2, 2014);
- call initiation service in performance of an obligation imposed in the market 2/2007 (status: pending consultation of the draft decision);
- call termination service, particularly with respect to cancellation of division into charge periods, in performance of UKE's decision obligating Orange Polska S.A. to amend its SRO in this respect (status: pending consultation of the draft decision); and
- reflecting regulated retail services in wholesale services and, consequently, the TTM process.

#### 8.1.2 Leased Lines (RLLO)

The telecommunication access reference offer for the provision of leased line services with respect to terminating segments, trunk segments and end-to-end lines (the Reference Leased Lines Offer – RLLO) which is currently in force was approved by UKE on December 31, 2009. Following the Supreme Administrative Court's decision of December 2013, which reversed the RLLO modifying decision of October 2010, the President of UKE reactivated the proceedings to re-examine her decision of December 2009. The outcome of the proceedings may affect RLLO.

On February 23, 2015, the President of UKE issued a decision in the proceedings initiated by NASK, which obligated Orange Polska to prepare modification to RLLO. In performance of the decision, Orange Polska submitted draft modification to UKE. Nevertheless, Orange Polska applied for the re-examination of the decision.

In addition, two sets of proceedings carried out by UKE may result in the reference offer modification:

- initiated upon Orange Polska's request of April 2013;
- initiated *ex officio* in November 2013 to obligate Orange Polska to modify RLLO by introducing the terms of lease of lines between Ethernet nodes.

In connection with the intended partial deregulation of the wholesale leased lines market, Orange Polska applied to UKE for suspension of some of the proceedings.

### 8.2 Competitive Risks

#### 8.2.1 CATV Operators

In the first half of 2015, cable television (CATV) operators, which hold a total share of approximately 40% in the pay TV market and control one third of the broadband market, continued a strategy of strengthening their market position.

However, the currently used marketing tools, such as offer enhancement, addition of new telecommunication services to bundles and introduction of comprehensive household solutions (including insurance and electricity), concentrated in urban areas where CATV operators were present hitherto, are no longer sufficient to attain their goals.

Due to market saturation in big cities, CATV operators need to seek new growth opportunities in smaller towns. This is effected through both greenfield investments in infrastructure, for example UPC investment in Plock, and acquisitions of smaller players communicated by all the major CATV operators (UPC, Multimedia Polska and Vectra).

The expansion of CATV operators in local markets, where Orange Polska has had an established position so far, poses a potential risk for the Group. The situation in big cities shows that it is difficult for Orange Polska to compete with CATV operators' comprehensive offer on the basis of its traditional copper infrastructure. Therefore, the Group's FTTH investment programme covers also smaller towns, where CATV operators have not consolidated their presence yet.

It is also worth mentioning that CATV operators have communicated the need to provide fully functional and attractive mobile offer to their customers. This may lead to either a strategic alliance or merger of CATV operator and a mobile operator. Such a development would significantly reduce the competitive advantage of the Group as the sole provider of the convergent offer in the market for individual customers. In anticipation of such a scenario, Orange Polska has made its priority to enhance the existing convergent offer, which in its fixed-line portion is going to be based on the FTTH technology.

As growing customisation of content (particularly related to entertainment) and expansion of services on demand (such as IPTV, HD channel portfolio, music and video-on-demand) generate increasing demand for high-speed broadband lines, CATV operators continuously modernise and expand their networks and, more and more frequently, they also lease third party's fibre-optic lines. These investments also aim at acquiring customers from the business segment, which has been a growing source of revenue for cable televisions.

### **8.2.2 Cross-selling of Cyfrowy Polsat and Polkomtel's Services**

In the first half of 2015, Cyfrowy Polsat and Polkomtel (both in the Cyfrowy Polsat Group controlled by Zygmunt Solorz-Żak) continued cross-sales of bundled offers combining mobile voice, mobile broadband and TV, coupled with sales of electrical energy and financial services in order to strengthen marketing relationship with both existing and new customers and build a joint customer base. Customers receive a number of benefits in exchange for the simultaneous use of telco-media services offered under both brands. In particular, the 'Smart Home' offers a range of household-dedicated services combined with the 'Passport of Benefits' loyalty programme.

Also other companies controlled by Mr. Solorz-Żak (Mobyland owned by Midas National Investment Fund; Plus Bank; ZE PAK energy group) were often involved in the development of bundled offers of Cyfrowy Polsat and Polkomtel.

### **8.2.3 New Integrated Operator on the Business Market: T-Mobile Merged with GTS**

Since 15 January, 2015 all products of T-Mobile Poland and GTS Poland are provided under one brand (GTS brand disappeared from the market as it was acquired in May 2014). Upon integration of the infrastructure and introduction of a comprehensive portfolio, T-Mobile is now able to offer more converged services targeting business clients - both private firms and public institutions. Its service portfolio includes traditional voice services, data transmission as well as access to the Internet, servers, applications, financial services and data processing. After the merger, T-Mobile Poland offers 15,000 kilometers of fiber network and over 5,000 access points as well as five data centers with a total collocation area of 6,300 square meters. The above factors generate accelerated business risk related to possible stronger price pressure and increased competitiveness on the B2B market.

### **8.2.4 Business Risk Created by Play**

On the mobile market Play remains a source of business risk, however this risk decreases following achievements of large operator scale by Play. Taking the level of financial liabilities into account, it can be expected that business decisions and moves of Play in the future will be more balanced and predictable.

Play in the last few years has not only survived on the market as a new operator, but almost caught up with the big three network operators and is still growing. As a result of aggressive marketing and regulatory preferences in eight years after the start of operations Play reached more than 22% estimated market share in terms of SIM cards and over 21% estimated market share in terms of revenues as of the end of June 2015.

Business risk associated with Play is an effect of high potential achieved in attracting new customers (the best results in the balance of mobile number portability), as well as strong image created of the operator with the lowest prices on the market. Currently, the price level in Play is comparable with the market, nevertheless in the perception of customers Play remains the cheapest provider.

P4 was also the fastest growing operator on MVNO hosting market in first half of 2015, where in addition to mobile internet services providers (cable TV operators, Netia) as well mobile voice services were supported (Virgin Mobile) and the offer was extended to operators providing fixed voice services based on mobile network.

In contrast to other mobile operators Play does not communicate at the moment an intention to enter convergent services market on a large scale, however such a strategy is likely to happen in the long perspective. As for the moment exact business model for such services by Play is unclear.

### **8.2.5 Fixed/Mobile Substitution**

Fixed/mobile substitution is one of the major challenges for telecom operators, particularly in Central and Eastern Europe, where the fixed line penetration at the time of popularisation of mobile telephony was significantly lower than in West European countries.

The fixed/mobile substitution in Poland, like in other CEE countries, has a greater scale than in the majority of West European countries and the ratio of 'only-mobile' users is generally higher.

Offers in which a fixed voice service is an added value to a broadband or mobile service as the equivalent of a 'traditional' fixed line have been clearly gaining popularity. Such services dedicated to fixed applications (at home or office) but based on the mobile infrastructure are generally offered by mobile operators; yet, the first half of 2015 demonstrated that also the mobile virtual network operator (MVNO) model is increasingly used for this purpose. Netia, Telestrada and Tele-Polska intend to migrate their fixed-line customers to a mobile network.

### **8.2.6 Mobile Broadband Access slows down the Fixed Broadband growth**

The upward trend in the mobile broadband segment continued in the first six months of 2015. Orange Polska estimates that the mobile broadband penetration of Poland's population reached 15.7% at the end of June 2015. In Poland, mobile broadband access, depending on price options, seems to be partly a substitute to fixed broadband access, and the development of the former has partly slowed down the growth of the latter over the recent years.

Mobile broadband service providers have aimed at enhancing the coverage and technological capacity of their networks in order to offer higher data transmission rates.

Commercial services based on fast LTE technology are currently provided by Cyfrowy Polsat, Polkomtel, Play, Orange and T-Mobile. An auction for frequencies in the 800 MHz and 2600 MHz bands, which are necessary for the development of LTE coverage in sub-urban and rural areas, had not been decided by the end of June 2015 (for more information please see section 4.2 above).

### **8.2.7 WLR, BSA and LLU Wholesale Markets**

The terms of provision of regulated wholesale services, WLR, BSA and LLU, are determined by the Single Reference Offer ("SRO"; see section 8.1.1 above).

### **8.2.8 Leased Lines Market**

Orange Polska's main competitors in the wholesale leased lines market are Netia Group, PGE/Exatel Group, GTS/T-Mobile Group, Multimedia Group and ATM. These companies have network resources that enable them to compete with Orange Polska's offer in terms of quality and price, and have their own nodes in all the sixteen regions of Poland. On the other hand, these operators are the core customers of Orange Polska's wholesale services. A major part of the leased lines market is the retail segment with additional competition from smaller market players that develop their retail offer on the basis of lines leased from Orange Polska or other large players.

The current reference leased lines offer (RLLO) provides access to this service for a broad group of customers. The companies that have used the retail leased lines services so far, may, upon registration in the register of telecom operators, use the wholesale price list.

There has been an increasingly noticeable shift towards sophisticated data transmission services on managed networks as well as convergent services which combine traditional leased line services with packet network services. For this reason, in Poland, like in other European countries, customers have been migrating from traditional data transmission services to managed solutions. Both Orange Polska and its rival companies have been expanding their service portfolio in this direction. This shift has also been noticed by the regulator. Consequently, a change of the regulatory framework for leased lines is expected in 2016. This should involve the establishment of the new relevant market for high-quality access in a fixed location at up to 2 Mbps, technologically neutral, which will include a portion of the existing market 13 (for speeds up to 2 Mbps). In addition, the deregulation of a portion of the market 13 above 2 Mbps and the entire market 14 is expected.

### **8.2.9 Interconnect Market**

#### *Mobile Termination Rates (MTR)*

There have been no intentions articulated by the regulator regarding further MTR changes. Since July 1, 2013, the mobile termination rate has been PLN 0.0429 / minute.

#### *Fixed Termination Rates (FTR)*

An administrative procedure to modify the reference offer with respect to the call initiation and termination market carried out by the President of UKE as a result of a regulatory obligation imposed on Orange Polska in the market 2/2007 and the President of UKE's decision obligating Orange Polska to modify SRO is pending. In particular, the SRO modification with respect to call termination is to involve elimination of rate division into three charge periods.

In 2014, UKE commenced work on a new FTR costing model in order to implement the Commission recommendation of 7 May 2009 (2009/396/WE) in the Polish market. On August 28, 2014, UKE announced the results of a bidding procedure for the model development. The winner was Ernst&Young, which subsequently developed the model pursuant to a contract with UKE.

In February 2015, UKE presented the FTR calculation results based on statistical data. However, UKE indicated that the rates determined using a LRIC bottom-up model would not be implemented in 2015. FTR cuts and elimination of asymmetry of rates can be expected in the second half of 2016 at the earliest.

Orange Polska has increasingly applied the IP technology in the interconnect market for new customers, while offering also the TDM technology if this is a solution expected by customers.

## **CHAPTER V STATEMENTS**



## **9 STATEMENTS OF THE MANAGEMENT BOARD**

### **9.1 Statement on Adopted Accounting Principles**

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

1. Bruno Duthoit - President of the Board
2. Mariusz Gaca - Vice President in charge of Business Market
3. Piotr Muszyński - Vice President in charge of Operations
4. Jacek Kowalski - Board Member in charge of Human Resources
5. Maciej Nowohoński - Board Member in charge of Finance

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

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

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

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

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

Orange Polska S.A. did not publish any financial projections concerning results of the Group for 2015 pursuant to Article 5(1.25) of the Decree of the Minister of Finance of February 19, 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (JoL of 2009 No. 33, item 259, as amended).

## GLOSSARY OF TELECOM TERMS

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

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

**ARPU** – Average Revenues per User

**AUPU** – Average Usage per User

**BSA** – Bitstream Access Offer

**CATV** – Cable Television

**CDMA** – Code Division Multiple Access, second generation wireless mobile network used also as a wireless local loop for locations where cable access is not economically justified

**Data user** – a customer who used mobile data transmission in a given month

**DLD** – Domestic Long Distance Calls

**DSLAM** – Digital Subscriber Line Access Multiplexer

**EBITDA** – Operating income + depreciation and amortisation + impairment of goodwill + impairment of non-current assets

**F2M** – Fixed to Mobile Calls

**FBB** – Fixed Broadband

**Fibre access network project** – rollout of fixed broadband access network based on fibre technology which provides the end user with speed of above 100Mbps

**FTE** – Full time equivalent

**FTTH** – Fibre To The Home

**FVNO** – Fixed Virtual Network Operator

**ICT** – Information and Communication Technologies

**ILD** – International Calls

**IP TV** – TV over Internet Protocol

**LC** – Local Calls

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

**LLU** – Local Loop Unbundling

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

**M2M** – Machine to Machine, telemetry

**MAN** – Metropolitan Area Network

**MPLS** – MultiProtocol Label Switching

**MTR** – Mobile Termination Rates

**MVNO** – Mobile Virtual Network Operator

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

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

**POS** – Point-Of-Sale

**POTS** – Plain Old Telephone Service

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

**RGU** – Revenue Generation Unit

**RIO** – Reference Interconnection Offer

**SAC** – Subscriber Acquisition Costs

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

**SMP** – Significant Market Power

**SRC** – Subscriber Retention Cost

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

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

**USO** – Universal Service Obligation

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

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

**VoIP** – Voice over Internet Protocol

**WLL** – Wireless Local Loop

**WLR** – Wholesale Line Rental