☐ - restated

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2014

(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 **2014**, i.e. **from 1 January 2014 to 30 June 2014**

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: **25 July 2014**

ORANGE POLSKA SA
(full name of issuer)

ORANGEPL (abbreviated name of the issuer)

Telecommunication (tel) (classification according to WSE/ sector)

02-326 (post code)

Warsaw (location)

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012100784 (REGON)

Deloitte Polska Sp. z o.o. Sp.k. (formerly: Deloitte Audyt Sp. z o.o.)
(entity authorized to audit)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	half-year 2014	half-year 2013	half-year 2014	half-year 2013
condensed consolidated financial statements data				
I. Revenue	6 079 000	6 570 000	1 454 863	1 559 089
II. Operating income	591 000	459 000	141 442	108 923
III. Profit before income tax	354 000	217 000	84 721	51 495
IV. Consolidated net income	365 000	157 000	87 354	37 257
V. Net income attributable to owners of Orange Polska S.A.	365 000	157 000	87 354	37 257
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.28	0.12	0.07	0.03
VII. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VIII. Total comprehensive income	356 000	159 000	85 200	37 731
IX. Total comprehensive income attributable to owners of Orange Polska S.A.	356 000	159 000	85 200	37 731
X. Net cash provided by operating activities	1 444 000	1 498 000	345 587	355 482
XI. Net cash used in investing activities	(609 000)	(1 097 000)	(145 750)	(260 323)
XII. Net cash used in financing activities	(385 000)	(500 000)	(92 141)	(118 652)
XIII. Total net change in cash and cash equivalents	450 000	(98 000)	107 697	(23 256)
	balance as at 30/06/2014	**balance as at 31/12/2013**	**balance as at 30/06/2014**	**balance as at 31/12/2013**
XIV. Total current assets	2 337 000	1 852 000	561 657	446 566
XV. Total non-current assets	20 321 000	20 725 000	4 883 799	4 997 348
XVI. Assets held for sale	-	225 000	-	54 253
XVII. Total assets	22 658 000	22 802 000	5 445 457	5 498 167
XVIII. Total current liabilities	5 504 000	7 333 000	1 322 791	1 768 181
XIX. Total non-current liabilities	4 823 000	2 800 000	1 159 124	675 154
XX. Total equity	12 331 000	12 631 000	2 963 542	3 045 669
XXI. Equity attributable to owners of Orange Polska S.A.	12 329 000	12 629 000	2 963 061	3 045 187
XXII. Share capital	3 937 000	3 937 000	946 190	949 315
XXIII. Liabilities related to assets held for sale	-	38 000	-	9 163
condensed separate financial statements data				
	half-year 2014	**half-year 2013**	**half-year 2014**	**half-year 2013**
I. Revenue	5 968 000	3 534 000	1 428 298	838 633
II. Operating income	515 000	104 000	123 253	24 680
III. Profit before income tax	431 000	901 000	103 150	213 811
IV. Net income	444 000	862 000	106 261	204 556
V. Earnings per share (in PLN/EUR) (basic and diluted)	0.34	0.66	0.08	0.16
VI. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VII. Total comprehensive income	435 000	843 000	104 107	200 047
VIII. Net cash provided by operating activities	1 603 000	1 724 000	383 640	409 112
IX. Net cash used in investing activities	(973 000)	(764 000)	(232 864)	(181 300)
X. Net cash used in financing activities	(192 000)	(995 000)	(45 951)	(236 118)
XI. Total net change in cash and cash equivalents	438 000	(35 000)	104 825	(8 306)
	balance as at 30/06/2014	**balance as at 31/12/2013**	**balance as at 30/06/2014**	**balance as at 31/12/2013**
XII. Total current assets	2 938 000	2 197 000	706 097	529 755
XIII. Total non-current assets	22 187 000	22 785 000	5 332 260	5 494 068
XIV. Assets held for sale	-	198 000	-	47 743
XV. Total assets	25 125 000	25 180 000	6 038 357	6 071 566
XVI. Total current liabilities	6 346 000	7 983 000	1 525 151	1 924 913
XVII. Total non-current liabilities	6 606 000	4 803 000	1 587 637	1 158 131
XVIII. Total equity	12 173 000	12 394 000	2 925 569	2 988 522
XIX. Share capital	3 937 000	3 937 000	946 190	949 315

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AUDITOR'S REPORT ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2014

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

We have reviewed the attached condensed interim consolidated financial statements of the Orange Polska Group ('the Group') with Orange Polska S.A. having its registered office in Warsaw, at 160 Al. Jerozolimskie St, as the Parent company, including a consolidated statement of financial position prepared as of 30 June 2014, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the period from 1 January to 30 June 2014 and selected explanatory notes.

Compliance of these condensed interim consolidated financial statements with the requirements of IAS 34 "Interim Financial Reporting" as endorsed by the European Union ('IAS 34') and with other regulations in force is the responsibility of the Management Board and the members of Supervisory Board of the Parent company. Our responsibility is to review the financial statements.

Our review has been conducted in accordance with the auditing standards issued by the National Council of Statutory Auditors and International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". These Standards require us to plan and conduct the review in such a way as to obtain moderate assurance that the condensed interim consolidated financial statements are free from material misstatements.

Our review was conducted mainly based on an analysis of data included in the financial statements, the examination of consolidation documentation as well as information provided by the Management Board and the financial and accounting personnel of the Parent company as well as other selected subsidiaries of the Orange Polska Group.

The scope and methodology of a review of financial statements are substantially different from an audit. Expressing an opinion on the true and fair view of the condensed interim consolidated financial statements is not the objective of a review; therefore, no such opinion is being issued.

Our review did not reveal the need to make material changes in the attached condensed interim consolidated financial statements to present truly and fairly in all material respects the financial position of the Group as at 30 June 2014 and the financial result for the six month period ended 30 June 2014 in accordance with IAS 34.

Piotr Sokołowski
Key Certified Auditor
conducting the review
No. 9752

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Piotr Sokołowski – Deputy Chairman of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 24 July 2014

The above auditor's report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

ORANGE POLSKA GROUP

CONDENSED IFRS INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2014

July 24, 2014

Contents

CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings per share)

	3 months	*6 months*	*3 months*	*6 months*
	ended 30 June 2014		*ended 30 June 2013*	
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Revenue	**3,084**	**6,079**	**3,303**	**6,570**
External purchases	(1,495)	(2,947)	(1,649)	(3,245)
Labour expense	(453)	(975)	(516)	(1,061)
Other operating expense	(220)	(381)	(226)	(402)
Other operating income	72	154	81	154
Gains on disposal of assets	8	17	11	21
Gain on disposal of Wirtualna Polska S.A.	-	191	-	-
Depreciation and amortisation	(794)	(1,544)	(783)	(1,574)
Impairment of non-current assets	(2)	(3)	(3)	(4)
Operating income	**200**	**591**	**218**	**459**
Interest income	4	7	3	7
Interest expense and other financial charges	(94)	(187)	(78)	(187)
Foreign exchange gains/(losses)	(1)	(1)	3	2
Discounting expense	(27)	(56)	(36)	(64)
Finance costs, net	**(118)**	**(237)**	**(108)**	**(242)**
Income tax	12	11	(34)	(60)
Consolidated net income	**94**	**365**	**76**	**157**
Net income attributable to owners of Orange Polska S.A.	94	365	76	157
Net income attributable to non-controlling interests	-	-	-	-
Earnings per share (in PLN) (basic and diluted)	**0.07**	**0.28**	**0.06**	**0.12**
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)

	3 months	*6 months*	*3 months*	*6 months*
	ended 30 June 2014		*ended 30 June 2013*	
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Consolidated net income	**94**	**365**	**76**	**157**
Items that may be reclassified subsequently to profit or loss				
Gains/(losses) on cash flow hedges	(21)	(11)	(5)	3
Income tax relating to items that may be reclassified	4	2	1	(1)
Other comprehensive income/(loss), net of tax	**(17)**	**(9)**	**(4)**	**2**
Total comprehensive income	**77**	**356**	**72**	**159**
Total comprehensive income attributable to owners of Orange Polska S.A.	77	356	72	159
Total comprehensive income attributable to non-controlling interests	-	-	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)

	At 30 June 2014 *(unaudited)*	***At 31 December 2013*** *(audited)*
ASSETS		
Goodwill	3,940	3,940
Other intangible assets	3,308	3,081
Property, plant and equipment	12,114	12,768
Trade receivables	54	-
Derivatives	6	4
Other financial assets	11	9
Deferred tax assets	888	923
Total non-current assets	**20,321**	**20,725**
Inventories	200	200
Trade receivables	1,253	1,199
Derivatives	3	89
Other financial assets	9	15
Income tax assets	3	7
Other assets	101	56
Prepaid expenses	113	88
Cash and cash equivalents	655	198
Total current assets	**2,337**	**1,852**
Assets held for sale	-	225
TOTAL ASSETS	**22,658**	**22,802**
EQUITY AND LIABILITIES		
Share capital	3,937	3,937
Share premium	832	832
Other reserves	(16)	(7)
Retained earnings	7,576	7,867
Equity attributable to owners of Orange Polska S.A.	**12,329**	**12,629**
Non-controlling interests	2	2
Total equity	**12,331**	**12,631**
Trade payables	943	921
Loans from related party	3,151	1,157
Other financial liabilities at amortised cost	62	79
Derivatives	73	9
Employee benefits	282	296
Provisions	285	313
Deferred income	27	25
Total non-current liabilities	**4,823**	**2,800**
Trade payables	2,072	1,921
Loans from related party	960	237
Other financial liabilities at amortised cost	78	3,106
Derivatives	17	276
Employee benefits	209	187
Provisions	966	899
Income tax liabilities	6	95
Other liabilities (including dividend of PLN 656 million paid on 10 July 2014)	815	185
Deferred income	381	427
Total current liabilities	**5,504**	**7,333**
Liabilities related to assets held for sale	-	38
TOTAL EQUITY AND LIABILITIES	**22,658**	**22,802**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Treasury shares	Other reserves				Translation adjustment	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					
Balance at 1 January 2013 *(audited)*	**4,007**	**832**	**(400)**	**(15)**	**(127)**	**26**	**79**	**(5)**	**8,559**	**12,956**	**2**	**12,958**
Total comprehensive income for the 6 months ended 30 June 2013	-	-	-	3	-	(1)	-	-	157	159	-	159
Redemption of treasury shares	(70)	-	400	-	-	-	-	-	(330)	-	-	-
Dividends	-	-	-	-	-	-	-	-	(656)	(656)	-	(656)
Balance at 30 June 2013 *(unaudited)*	**3,937**	**832**	**-**	**(12)**	**(127)**	**25**	**79**	**(5)**	**7,730**	**12,459**	**2**	**12,461**
Balance at 1 January 2014 *(audited)*	**3,937**	**832**	**-**	**(16)**	**(89)**	**19**	**79**	**-**	**7,867**	**12,629**	**2**	**12,631**
Total comprehensive income for the 6 months ended 30 June 2014	-	-	-	(11)	-	2	-	-	365	356	-	356
Dividends	-	-	-	-	-	-	-	-	(656)	(656)	-	(656)
Balance at 30 June 2014 *(unaudited)*	**3,937**	**832**	**-**	**(27)**	**(89)**	**21**	**79**	**-**	**7,576**	**12,329**	**2**	**12,331**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)

	3 months	*6 months*	*3 months*	*6 months*
	ended 30 June 2014		*ended 30 June 2013*	
	(unaudited)	*(unaudited)*	*(see Note 2, unaudited)*	*(see Note 2, unaudited)*
OPERATING ACTIVITIES				
Consolidated net income	94	365	76	157
Adjustments to reconcile net income to cash from operating activities				
Gains on disposal of assets	(8)	(17)	(11)	(21)
Gain on disposal of Wirtualna Polska S.A.	-	(191)	-	-
Depreciation and amortisation	794	1,544	783	1,574
Impairment of non-current assets	2	3	3	4
Finance costs, net	118	237	108	242
Income tax	(12)	(11)	34	60
Change in provisions and allowances	(13)	(63)	(68)	(120)
Operational foreign exchange and derivatives losses, net	1	-	-	2
Change in working capital (trade)				
Increase in inventories, gross	(2)	(10)	(21)	(26)
(Increase)/decrease in trade receivables, gross	(155)	(58)	53	170
Increase/(decrease) in trade payables	138	4	(78)	(82)
Change in working capital (non-trade)				
(Increase)/decrease in prepaid expenses and other receivables	(1)	(18)	25	(14)
Decrease in deferred income and other payables	(59)	(54)	(77)	(40)
Interest received	4	6	3	7
Interest paid and interest rate effect paid on derivatives, net	(193)	(258)	(230)	(340)
Exchange rate effect received/(paid) on derivatives, net	-	3	1	(20)
Income tax received/(paid)	28	(38)	34	(55)
Net cash provided by operating activities	**736**	**1,444**	**635**	**1,498**
INVESTING ACTIVITIES				
Purchases of property, plant and equipment and intangible assets	(760)	(1,134)	(452)	(852)
Increase/(decrease) in amounts due to fixed assets suppliers	329	135	(19)	(285)
Exchange rate effect received /(paid) on derivatives economically hedging capital expenditures, net	-	3	1	(4)
Proceeds from sale of property, plant and equipment and intangible assets	20	34	24	42
Decrease in receivables related to leased fixed assets	2	4	3	4
Proceeds from sale of subsidiaries, net of cash and transaction costs	(2)	345	-	-
Cash paid for subsidiaries, net of cash acquired	-	(2)	-	(8)
Decrease in other financial assets	-	6	3	3
Exchange rate effect received on other derivatives, net	-	-	3	3
Net cash used in investing activities	**(411)**	**(609)**	**(437)**	**(1,097)**
FINANCING ACTIVITIES				
Redemption of bonds	(2,969)	(2,969)	-	-
Issuance of long-term debt	2,011	2,011	1,172	1,172
Repayment of long-term debt	(20)	(24)	(519)	(523)
Increase/(decrease) in short-term debt	956	717	(806)	(1,145)
Exchange rate effect received/(paid) on derivatives, net	(118)	(120)	1	(4)
Net cash used in financing activities	**(140)**	**(385)**	**(152)**	**(500)**
Net change in cash and cash equivalents	**185**	**450**	**46**	**(99)**
Effect of changes in exchange rates and other impacts on cash and cash equivalents	-	-	1	1
Cash and cash equivalents at the beginning of the period	470	198	261	406
Cash and cash equivalents at the beginning of the period classified as assets held for sale	-	7	-	-
Cash and cash equivalents at the end of the period	**655**	**655**	**308**	**308**

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 telecommunications services based on the CDMA 450, GSM 900/1800, UMTS 900/2100 and LTE 1800 technologies, fixed-line telephony services (local, domestic and international calls), Integrated Services Digital Network ("ISDN"), fixed access to the Internet, TV and Voice over Internet Protocol ("VoIP"). In addition, the Group provides leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, multimedia services and various Internet services. Orange Polska provides telecommunications services on the basis of entry number 1 in the register of telecommunications companies maintained by the President of Office of Electronic Communication ("UKE").

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 "Interim Consolidated Financial Statements") as at and for the 6 months ended 30 June 2014 is presented in the 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 2013. Additionally, the Group disposed of its 100% shareholding in Wirtualna Polska S.A. (see Note 5) and Contact Center Sp. z o.o. was divided into two entities: Contact Center Sp. z o.o. and Orange Szkolenia Sp. z o.o.

<u>Segment revenue and segment results</u>

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 payments to fixed assets suppliers (after 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 the impact of significant non-recurring transactions or other events and changes in scope of consolidation.

Basic financial data of the operating segment is presented below:

(in PLN millions)	***6 months ended 30 June 2014*** *(selected data restated)*	***6 months ended 30 June 2013*** *(selected data restated)*
Restated [1] revenue	6,079	6,513
Restated [1] EBITDA	1,991 [2]	2,036 [3]
Net income	365 [4]	157
Organic cash flows	482	399
Restated capital expenditures	778 [5]	852

	At 30 June 2014	***At 31 December 2013***
Net gearing ratio	23%	26%
Net financial debt / restated EBITDA ratio	0.9	1.1

[1] Comparative amounts for revenue and EBITDA include Wirtualna Polska S.A.'s data for period up to February 2013 (see Note 5) and do not include data of Otwarty Rynek Elektroniczny S.A. (a subsidiary disposed of in 2013).
[2] Restatement relates to the gain on disposal of Wirtualna Polska S.A. (see Note 5) and the impact of certain claims and litigation.
[3] Restatement relates to employment termination expenses.
[4] Net income for the period ended 30 June 2014 includes the gain on disposal of Wirtualna Polska S.A. (see Note 5).
[5] Restatement relates to expenditures on telecommunications licences.

2. Statement of compliance and basis of preparation

Basis of preparation

These unaudited 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 Interim Consolidated Financial Statements (see also Note 3).

These Interim Consolidated Financial Statements should be read in conjunction with the audited IFRS Consolidated Financial Statements for the year ended 31 December 2013.

The 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 Interim Consolidated Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 24 July 2014.

Adoption of standards and interpretations in 2014

No new standards or interpretations were adopted by the Group since 1 January 2014.

Standards and interpretations issued but not yet adopted

- IFRS 15 "Revenue from Contracts with Customers". This standard was issued on 28 May 2014 and it shall be applied for reporting periods beginning on or after 1 January 2017. This standard has not been endorsed by the European Union. The standard will mainly affect:
    - recognition of revenue from multiple elements arrangements: the allocation of the revenue between the communication and handset component will change and therefore the timing of the revenue recognition will be accelerated;
    - subscriber acquisition and retention costs: the portion of these costs relating to incremental costs to acquire a contract (i.e. payment to distributors directly attributable to contract acquisition, excluding subsidies) will be eligible for deferral. Overall costs will not change.

- IFRIC 21 "Levies". This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. This interpretation has been endorsed by the European Union to apply at the latest as from 1 January 2015. The Group has decided against earlier application of this Interpretation. The Group considers that future application of IFRIC 21 should not have a significant impact on the annual consolidated financial statements.

- IFRS 9 "Financial Instruments". The aim of IFRS 9 is to supersede IAS 39 "Financial Instruments: Recognition and Measurement". The final version of IFRS 9 was published on the date when these consolidated financial statements were authorised for issuance. The consequences of the adoption of this standard will be determined after the analysis of the standard. The standard has not been endorsed by the European Union.

Changes in presentation of the statement of cash flows

In the fourth quarter of 2013, the Group changed the presentation of the allowance for certain trade receivables and inventories. As a result, comparative amounts presented as a change in provisions and allowances in the consolidated statement of cash flows were adjusted with the counterpart in lines presenting increase/decrease of trade receivables and inventories, gross.

3. Statement of accounting policies

Except for the changes described in Note 2, the accounting policies and methods of computation used in the preparation of the Interim Consolidated Financial Statements are consistent with those described in the audited IFRS Consolidated Financial Statements for the year ended 31 December 2013 (see Notes 2 and 32 to IFRS Consolidated Financial Statements for the year ended 31 December 2013).

4. Explanatory comments about the seasonality or cyclicality 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

Disposal of Wirtualna Polska S.A.

On 13 February 2014, the Group and o2 Sp. z o.o. finalised a share sale agreement under which the Group disposed of its 100% shareholding in Wirtualna Polska S.A. ("WP"), for a total consideration amounting to PLN 367 million, consisting of consideration received in cash amounting to PLN 356 million and PLN 26 million to be received subsequently, decreased by PLN 15 million of liabilities assumed by the Group. Additionally, the Group incurred transaction costs of PLN 4 million.

The Group disposed of the following assets and liabilities:

(in PLN millions)

Assets:	**202**
- Goodwill	85
- Other intangible assets	7
- Property, plant and equipment	43
- Deferred tax assets	5
- Trade receivables	25
- Bonds issued by the Group [1]	26
- Cash and cash equivalents	7
- Other	4
Liabilities:	**30**
- Trade payables	20
- Employee benefits	8
- Other	2
Net assets disposed of	**172**

[1] Bonds issued by the Group to WP were recognised at the disposal date in the consolidated statement of financial position as current other financial liabilities at amortised cost.

Gain on disposal amounting to PLN 191 million is presented separately in the consolidated income statement. WP's assets and liabilities were classified as held for sale and presented separately in the consolidated statement of financial position as at 31 December 2013.

900 MHz licence

On 27 June 2014, the Group was granted a 900 MHz licence for a period of next 15 years for a consideration of PLN 358 million paid on 1 July 2014. As a result, the Group increased the value of intangible assets by this amount with a corresponding increase in trade payables at 30 June 2014.

Income tax

The positive income tax presented by the Group in the consolidated income statement for the 3 months and 6 months ended 30 June 2014 is mainly a result of a recognition of accruals for tax refunds and tax relief on new technologies.

6. Changes in loans from related party

On 15 May 2014, the Group and Atlas Service Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for EUR 480 million with repayment date in 2019 and Annex to existing Revolving Credit Facility Agreement, increasing the revolving credit by EUR 230 million up to EUR 480 million and extending its maturity to 2018. Financial terms of the agreements are based on normal market terms.

In the 6 months ended 30 June 2014, the net cash flows from issuance and repayments of loans from related party amounted to PLN 2,730 million (PLN 2,970 million in the 3 months ended 30 June 2014). As at 30 June 2014, the total outstanding balance of loans from related party amounted to PLN 4,111 million, including accrued interest and arrangement fees.

The Group 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 2014 was EUR 760 million and PLN 2,600 million, respectively, with a total fair value amounting to PLN (67) million.

On 22 May 2014, the Group redeemed at maturity bonds of the nominal value of EUR 700 million issued by TPSA Eurofinance France S.A. in 2009 under the European Medium Term Note issuance programme.

7. Dividends

On 10 April 2014, 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 2013 profit. Total dividend, paid on 10 July 2014, amounted to PLN 656 million.

8. 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 29.c-f to the IFRS Consolidated Financial Statements for the year ended 31 December 2013 or describes major matters that occurred after 31 December 2013.

a. Proceedings by UKE and UOKiK

Proceedings by UOKiK related to IP traffic
On 15 May 2014, the Supreme Court dismissed the cassation appeal. That verdict ended the appeal procedure on the fine imposed by UOKiK on Orange Polska.

Proceedings by UOKiK related to retail prices of calls to Play
UOKiK informed the Company that it further prolonged the proceedings. The indicated date of prolongation is 12 September 2014.

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 or also 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 tax authorities

The Fiscal Audit Office completed control proceedings relating to OPL S.A.'s year 2009 and, on 31 March 2014, delivered results of the control. Results of the control end the audit proceedings in front of the Fiscal Audit Office and confirm the correctness of the Company's VAT tax settlements. The results also raise certain questions concerning other tax settlements made, but do not decide on the obligations of the Company. The Company believes that the issues raised by the Fiscal Audit Office as regards these tax settlements are without merit and the possibility of ultimate outflows of resources is low. This opinion is supported by external tax advisors.

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 potential 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.

9. Related party transactions

As at 30 June 2014, 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 and leased lines, network services, IT services, consulting services and brand fees.

Financial receivables, payables and financial expense concerning transactions with the Orange Group relate to financing and hedging agreements. The impact on financial expense, net, consists of interest expense (including amortised fees) and foreign exchange gains/(losses) on loans from Atlas Services Belgium S.A. and foreign exchange and interest rate effect on swaps concluded with Orange S.A. to hedge exposure to currency risk and interest rate risk related to the abovementioned loans. Financial income from Orange S.A. and cash and cash equivalents deposited with Orange S.A. relate to Cash Management Treasury Agreement.

(in PLN millions)	***3 months***	***6 months***	***3 months***	***6 months***
	ended 30 June 2014		***ended 30 June 2013***	
Sales of goods, services and other income:	**49**	**101**	**59**	**102**
Orange S.A. (parent)	30	65	41	69
Orange Group (excluding parent)	19	36	18	33
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(58)**	**(138)**	**(90)**	**(173)**
Orange S.A. (parent)	(21)	(49)	(28)	(53)
Orange Group (excluding parent)	(37)	(89)	(62)	(120)
- including Orange Brand Services Limited (brand licence agreement)	*(24)*	*(62)*	*(44)*	*(85)*
Financial income:	**3**	**4**	**-**	**-**
Orange S.A. (parent)	3	4	-	-
Financial expense, net:	**(59)**	**(65)**	**6**	**6**
Orange S.A. (parent)	(48)	(53)	50	50
Orange Group (excluding parent)	(11)	(12)	(44)	(44)
Dividend declared:	**332**	**332**	**332**	**332**
Orange S.A. (parent)	332	332	332	332

(in PLN millions)	***At 30 June 2014***	***At 31 December 2013***
Receivables:	**69**	**79**
Orange S.A. (parent)	45	61
Orange Group (excluding parent)	24	18
Payables:	**120**	**112**
Orange S.A. (parent)	39	54
Orange Group (excluding parent)	81	58
Financial receivables:	**6**	**5**
Orange S.A. (parent)	6	5
Cash and cash equivalents deposited with:	**525**	**37**
Orange S.A. (parent)	525	37
Financial payables:	**4,184**	**1,403**
Orange S.A. (parent)	73	9
Orange Group (excluding parent)	4,111	1,394
Dividend payable to:	**332**	**-**
Orange S.A. (parent)	332	-

Compensation (remuneration, bonuses 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 2014 and 2013 amounted to PLN 8.8 million and PLN 5.5 million, including PLN 1.3 million and PLN 0.7 million accrued in previous periods, respectively. During the 6 months ended 30 June 2014 and 2013, the amount of accrued cost of compensation for the Company's Management Board amounted to PLN 1.7 million and PLN 1.7 million.

On 6 February 2014, OPL S.A.'s Supervisory Board appointed Mr Mariusz Gaca as the Member of the Management Board of OPL S.A. in charge of Business Market.

On 24 February 2014, Mr Jacques de Galzain submitted his resignation as the Member of the Management Board of OPL S.A. in charge of Finance with effect on 28 February 2014.

On 17 March 2014, OPL S.A.'s Supervisory Board appointed Mr Maciej Nowohoński as the Member of the Management Board of OPL S.A. in charge of Finance.

On 10 April 2014, OPL S.A. Supervisory Board Members' mandates of Mr Timothy Boatman and Mr Pierre Louette expired and were not renewed. On the same day the General Meeting of OPL S.A. appointed Mr Russ Houlden and Ms Valérie Thérond as Members of the Supervisory Board of OPL S.A.

On 10 July 2014, Mr Benoit Scheen submitted his resignation as the Member of the Supervisory Board of OPL S.A. with effect on 31 August 2014.

10. Subsequent events

On 10 July 2014, the Group drew PLN 600 million of the Revolving Credit Facility from Atlas Services Belgium S.A.

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 25 July 2014, i.e. the date of submission of the interim report for the 6 months ended 30 June 2014 was the same as at 25 April 2014, i.e. the date of submission of the quarterly report for the first quarter of 2014:

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

II. Statement of changes in ownership of OPL S.A.'s shares or rights to them (options) held by Members of the Management Board and the Supervisory Board of OPL S.A., according to information obtained by OPL S.A., in the period since the submission of the previous 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 2014 and the quarterly report for the first quarter of 2014 is as follows:

	25 July 2014	25 April 2014
Bruno Duthoit	-	-
Vincent Lobry	-	-
Piotr Muszyński	190,896	190,896
Mariusz Gaca	68,839	68,839
Jacek Kowalski	25,241	25,241
Maciej Nowohoński	35,715	35,715

Mr Maciej Witucki, the Chairman of the Supervisory Board of OPL S.A. held 305,557 bonds with a pre-emption right as at 25 July 2014 and 25 April 2014. Other Members of the Supervisory Board of OPL S.A. do not participate in the Company's incentive program and as at 25 July 2014 and 25 April 2014 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 25 July 2014 and 25 April 2014. 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 2014, 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 2014. 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 2014 and 31 December 2013 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 2014 and 2013, 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 months periods ended 30 June 2014 and 2013.

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

	30 June 2014	31 December 2013	30 June 2013
Statement of financial position	4.1609 PLN	4.1472 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.1784 PLN	Not applicable	4.2140 PLN

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AUDITOR'S REPORT ON THE REVIEW OF THE CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2014

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

We have reviewed the attached condensed interim separate financial statements of Orange Polska S.A. with its registered office in Warsaw at 160 Al. Jerozolimskie St, ('the Company') including a statement of financial position prepared as of 30 June 2014, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the period from 1 January to 30 June 2014 and selected explanatory notes.

Compliance of these condensed interim financial statements with the requirements of IAS 34 "Interim Financial Reporting" as endorsed by the European Union ('IAS 34') and with other regulations in force is the responsibility of the Management Board and the members of Supervisory Board of the Company. Our responsibility is to review the financial statements.

Our review has been conducted in accordance with the auditing standards issued by the National Council of Statutory Auditors and International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". These Standards require us to plan and conduct the review in such a way as to obtain moderate assurance that the condensed interim separate financial statements are free from material misstatements.

Our review was conducted mainly based on an analysis of data included in the financial statements, review of accounting documentation as well as information provided by the Management Board and the financial and accounting personnel of the Company.

The scope and methodology of a review of financial statements are substantially different from an audit. Expressing an opinion on the true and fair view of condensed interim separate financial statements is not the objective of a review; therefore, no such opinion is being issued.

Our review did not reveal the need to make material changes in the attached condensed interim separate financial statements to present truly and fairly in all material respects the financial position of the Company as at 30 June 2014 and the financial result for the six month period ended 30 June 2014 in accordance with IAS 34.

Piotr Sokołowski
Key Certified Auditor
conducting the review
No. 9752

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Piotr Sokołowski – Deputy Chairman of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 24 July 2014

The above auditor's report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

ORANGE POLSKA S.A.

CONDENSED IFRS INTERIM SEPARATE FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2014

July 24, 2014

Contents

INCOME STATEMENT

(in PLN millions, except for earnings per share)

	3 months	*6 months*	*3 months*	*6 months*
	ended 30 June 2014		*ended 30 June 2013*	
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Revenue	**3,010**	**5,968**	**1,748**	**3,534**
External purchases	(1,539)	(3,095)	(827)	(1,623)
Labour expense	(368)	(783)	(343)	(710)
Other operating expense	(233)	(402)	(129)	(205)
Other operating income	81	173	107	204
Gains on disposal of assets	7	16	9	19
Gain on disposal of Wirtualna Polska S.A.	-	183	-	-
Depreciation and amortisation	(794)	(1,542)	(559)	(1,112)
Impairment of non-current assets	(2)	(3)	(2)	(3)
Operating income	**162**	**515**	**4**	**104**
Dividend income	56	155	221	953
Interest income	57	114	65	130
Interest expense and other financial charges	(147)	(297)	(148)	(331)
Foreign exchange gains/(losses)	(1)	(1)	42	64
Discounting expense	(27)	(55)	(9)	(19)
Finance income/(costs), net	**(62)**	**(84)**	**171**	**797**
Income tax	15	13	(20)	(39)
Net income	**115**	**444**	**155**	**862**
Earnings per share (in PLN) (basic and diluted)	**0.09**	**0.34**	**0.12**	**0.66**
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	*6 months*	*3 months*	*6 months*
	ended 30 June 2014		*ended 30 June 2013*	
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Net income	**115**	**444**	**155**	**862**
Items that may be reclassified subsequently to profit or loss				
Losses on cash flow hedges	(21)	(11)	(19)	(23)
Income tax relating to items that may be reclassified	4	2	3	4
Other comprehensive loss, net of tax	**(17)**	**(9)**	**(16)**	**(19)**
Total comprehensive income	**98**	**435**	**139**	**843**

STATEMENT OF FINANCIAL POSITION

(in PLN millions)

	At 30 June 2014 *(unaudited)*	***At 31 December 2013*** *(audited)*
ASSETS		
Goodwill	3,909	3,909
Other intangible assets	3,305	3,076
Property, plant and equipment	12,119	12,758
Investments in subsidiaries	227	227
Trade receivables	54	-
Loans and receivables excluding trade receivables	1,910	2,120
Derivatives	6	4
Deferred tax assets	657	691
Total non-current assets	**22,187**	**22,785**
Inventories	181	179
Trade receivables	1,185	1,171
Loans and receivables excluding trade receivables	423	399
Derivatives	3	89
Income tax assets	3	6
Other assets	420	86
Prepaid expenses	112	94
Cash and cash equivalents	611	173
Total current assets	**2,938**	**2,197**
Assets held for sale	-	198
TOTAL ASSETS	**25,125**	**25,180**
EQUITY AND LIABILITIES		
Share capital	3,937	3,937
Share premium	832	832
Other reserves	(23)	(14)
Retained earnings	7,427	7,639
Total equity	**12,173**	**12,394**
Trade payables	943	921
Financial liabilities at amortised cost excluding trade payables	5,048	3,278
Derivatives	73	9
Employee benefits	240	258
Provisions	277	313
Deferred income	25	24
Total non-current liabilities	**6,606**	**4,803**
Trade payables	2,048	1,961
Financial liabilities at amortised cost excluding trade payables	1,967	4,047
Derivatives	17	276
Employee benefits	175	153
Provisions	931	860
Income tax liabilities	-	85
Other liabilities (including dividend of PLN 656 million paid on 10 July 2014)	829	177
Deferred income	379	424
Total current liabilities	**6,346**	**7,983**
TOTAL EQUITY AND LIABILITIES	**25,125**	**25,180**

STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Treasury shares	Other reserves				Retained earnings	Total equity
				Losses on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments		
Balance at 1 January 2013 *(audited)*	**4,007**	**832**	**(400)**	**(7)**	**(129)**	**25**	**68**	**7,209**	**11,605**
Total comprehensive income for the 6 months ended 30 June 2013	-	-	-	(23)	-	4	-	862	843
Redemption of treasury shares	(70)	-	400	-	-	-	-	(330)	-
Dividends	-	-	-	-	-	-	-	(656)	(656)
Balance at 30 June 2013 *(unaudited)*	**3,937**	**832**	**-**	**(30)**	**(129)**	**29**	**68**	**7,085**	**11,792**
Balance at 1 January 2014 *(audited)*	**3,937**	**832**	**-**	**(16)**	**(95)**	**21**	**76**	**7,639**	**12,394**
Total comprehensive income for the 6 months ended 30 June 2014	-	-	-	(11)	-	2	-	444	435
Dividends	-	-	-	-	-	-	-	(656)	(656)
Balance at 30 June 2014 *(unaudited)*	**3,937**	**832**	**-**	**(27)**	**(95)**	**23**	**76**	**7,427**	**12,173**

STATEMENT OF CASH FLOWS

(in PLN millions)

	3 months	*6 months*	*3 months*	*6 months*
	ended 30 June 2014		*ended 30 June 2013*	
	(unaudited)	*(unaudited)*	*(see Note 2, unaudited)*	*(see Note 2, unaudited)*
OPERATING ACTIVITIES				
Net income	115	444	155	862
Adjustments to reconcile net income to cash from operating activities				
Gains on disposal of assets	(7)	(16)	(9)	(19)
Gain on disposal of Wirtualna Polska S.A.	-	(183)	-	-
Depreciation and amortisation	794	1,542	559	1,112
Impairment of non-current assets	2	3	2	3
Finance (income)/costs, net	62	84	(171)	(797)
Income tax	(15)	(13)	20	39
Change in provisions and allowances	(3)	(53)	(68)	(141)
Operational foreign exchange and derivatives losses, net	1	-	3	4
Change in working capital (trade)				
(Increase)/decrease in inventories, gross	(4)	(11)	-	9
(Increase)/decrease in trade receivables, gross	(107)	(25)	56	35
Increase/(decrease) in trade payables	103	(58)	4	(82)
Change in working capital (non-trade)				
Decrease in prepaid expenses and other receivables	25	3	83	75
Increase/(decrease) in deferred income and other payables	(36)	(30)	(18)	17
Dividends received	56	155	383	953
Interest received	5	8	3	8
Interest paid and interest rates effect paid on derivatives, net	(197)	(264)	(238)	(360)
Exchange rate effect received/(paid) on derivatives, net	-	3	-	(21)
Income tax received	28	14	36	27
Net cash provided by operating activities	**822**	**1,603**	**800**	**1,724**
INVESTING ACTIVITIES				
Purchases of property, plant and equipment and intangible assets	(765)	(1,143)	(278)	(565)
Increase/(decrease) in amounts due to fixed assets suppliers	327	138	(46)	(224)
Exchange rate effect received on derivatives economically hedging capital expenditures, net	-	3	1	1
Proceeds from sale of property, plant and equipment and intangible assets	16	29	11	30
Decrease in receivables related to leased fixed assets	3	4	2	3
Transaction costs paid on sale of investments in subsidiaries	-	(2)	-	-
Cash paid for investments in subsidiaries	-	(2)	-	(11)
Decrease in loans and other financial assets	-	-	7	7
Exchange rate effect received/(paid) on other derivatives, net	-	-	4	(5)
Net cash used in investing activities	**(419)**	**(973)**	**(299)**	**(764)**
FINANCING ACTIVITIES				
Redemption of bonds	(2,969)	(2,969)	-	-
Issuance of long-term debt	2,011	2,011	1,172	1,172
Repayment of long-term debt	(22)	(28)	(521)	(526)
Increase/(decrease) in short-term debt	875	914	(1,077)	(1,637)
Exchange rate effect received/(paid) on derivatives, net	(118)	(120)	1	(4)
Net cash used in financing activities	**(223)**	**(192)**	**(425)**	**(995)**
Net change in cash and cash equivalents	**180**	**438**	**76**	**(35)**
Cash and cash equivalents at the beginning of the period	431	173	112	223
Cash and cash equivalents at the end of the period	**611**	**611**	**188**	**188**

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 fixed-line telephony services (local, domestic and international calls), Integrated Services Digital Network (“ISDN”), fixed access to the Internet, TV and Voice over Internet Protocol (“VoIP”). From 2014, following the merger with PTK-Centertel Sp. z o.o. (“PTK-Centertel”) (see Note 4), the Company provides mobile telecommunications services based on the CDMA 450, GSM 900/1800, UMTS 900/2100 and LTE 1800 technologies. In addition, the Company provides leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, multimedia services and various Internet services. Orange Polska provides telecommunications services on the basis of entry number 1 in the register of telecommunications companies maintained by the President of Office of Electronic Communication (“UKE”).

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 (the “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 Interim Financial Statements (see also Note 3).

These 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 2013.

The 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 Interim Financial Statements are prepared in millions of Polish zloty (“PLN”) and were authorised for issuance by the Management Board on 24 July 2014.

Adoption of standards and interpretations in 2014

No new standards or interpretations were adopted by the Company since 1 January 2014.

Standards and interpretations issued but not yet adopted

- IFRS 15 “Revenue from Contracts with Customers”. This standard was issued on 28 May 2014 and it shall be applied for reporting periods beginning on or after 1 January 2017. This standard has not been endorsed by the European Union. The standard will mainly affect:
  - recognition of revenue from multiple elements arrangements: the allocation of the revenue between the communication and handset component will change and therefore the timing of the revenue recognition will be accelerated;
  - subscriber acquisition and retention costs: the portion of these costs relating to incremental costs to acquire a contract (i.e. payment to distributors directly attributable to contract acquisition, excluding subsidies) will be eligible for deferral. Overall costs will not change.

- IFRIC 21 “Levies”. This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. This interpretation has been endorsed by the European Union to apply at the latest as from 1 January 2015. The Company has decided against earlier application of this Interpretation. The Company considers that future application of IFRIC 21 should not have a significant impact on the annual financial statements.

- IFRS 9 “Financial Instruments”. The aim of IFRS 9 is to supersede IAS 39 “Financial Instruments: Recognition and Measurement”. The final version of IFRS 9 was published on the date when these separate financial statements were authorised for issuance. The consequences of the adoption of this standard will be determined after the analysis of the standard. The standard has not been endorsed by the European Union.

Changes in presentation of the statement of cash flows

In the fourth quarter of 2013, the Company changed the presentation of the allowance for certain trade receivables and inventories. As a result, comparative amounts presented as a change in provisions and allowances in the statement of cash flows were adjusted with the counterpart in lines presenting increase/decrease of trade receivables and inventories, gross.

3. Statement of accounting policies

Except for the changes described in Note 2, the accounting policies and methods of computation used in the preparation of the Interim Separate Financial Statements are consistent with those described in the audited IFRS Separate Financial Statements for the year ended 31 December 2013 (see Notes 2 and 31 to IFRS Separate Financial Statements for the year ended 31 December 2013).

4. Legal merger of Orange Polska S.A., PTK-Centertel Sp. z o.o. and Orange Polska Sp. z o.o.

Orange Polska S.A. and its 100% owned subsidiaries – PTK-Centertel and Orange Polska Sp. z o.o. – merged as at 31 December 2013 (“merger”). All assets and liabilities of PTK-Centertel and Orange Polska Sp. z o.o. were transferred to OPL S.A. (see Note 3 to IFRS Separate Financial Statements for the year ended 31 December 2013).

The merger is accounted for prospectively starting from 31 December 2013. The income statement, the statement of comprehensive income and the statement of cash flows for the 6 months ended 30 June 2013 do not include income, expenses and cash flows of PTK-Centertel and Orange Polska Sp. z o.o.

For information purposes, the income statement, the statement of comprehensive income and the statement of cash flows are presented below as if the merger had occurred as at 1 January 2013.

This pro-forma information has been prepared applying the same rules as for the legal merger accounting.

4.1. Income statement as if the merger had occurred as at 1 January 2013

(in PLN millions, except for earnings per share)

	3 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2014 (unaudited)	3 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2013 (unaudited)
Revenue	**3,010**	**5,968**	**3,215**	**6,402**
External purchases	(1,539)	(3,095)	(1,739)	(3,421)
Labour expense	(368)	(783)	(395)	(817)
Other operating expense	(233)	(402)	(231)	(387)
Other operating income	81	173	91	174
Gains on disposal of assets	7	16	9	19
Gain on disposal of Wirtualna Polska S.A.	-	183	-	-
Depreciation and amortisation	(794)	(1,542)	(777)	(1,561)
Impairment of non-current assets	(2)	(3)	(2)	(3)
Operating income	**162**	**515**	**171**	**406**
Dividend income	56	155	21	253
Interest income	57	114	65	131
Interest expense and other financial charges	(147)	(297)	(143)	(316)
Foreign exchange gains/(losses)	(1)	(1)	3	2
Discounting expense	(27)	(55)	(33)	(61)
Finance income/(costs), net	**(62)**	**(84)**	**(87)**	**9**
Income tax	15	13	(30)	(57)
Net income	**115**	**444**	**54**	**358**
Earnings per share (in PLN) (basic and diluted)	**0.09**	**0.34**	**0.04**	**0.27**
Weighted average number of shares (in millions) (basic and diluted)	1,312	1,312	1,312	1,312

4.2. Statement of comprehensive income as if the merger had occurred as at 1 January 2013

(in PLN millions)

	3 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2014 (unaudited)	3 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2013 (unaudited)
Net income	**115**	**444**	**54**	**358**
Items that may be reclassified subsequently to profit or loss				
Gains/(losses) on cash flow hedges	(21)	(11)	(5)	3
Income tax relating to items that may be reclassified	4	2	1	(1)
Other comprehensive income/(loss), net of tax	**(17)**	**(9)**	**(4)**	**2**
Total comprehensive income	**98**	**435**	**50**	**360**

4.3. Statement of cash flows as if the merger had occurred as at 1 January 2013

(in PLN millions)

	3 months	*6 months*	*3 months*	*6 months*
	ended 30 June 2014		*ended 30 June 2013*	
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
OPERATING ACTIVITIES				
Net income	115	444	54	358
Adjustments to reconcile net income to cash from operating activities				
Gains on disposal of assets	(7)	(16)	(9)	(19)
Gain on disposal of Wirtualna Polska S.A.	-	(183)	-	-
Depreciation and amortisation	794	1,542	777	1,561
Impairment of non-current assets	2	3	2	3
Finance (income)/costs, net	62	84	87	(9)
Income tax	(15)	(13)	30	57
Change in provisions and allowances	(3)	(53)	(66)	(142)
Operational foreign exchange and derivatives losses, net	1	-	-	2
Change in working capital (trade)				
Increase in inventories, gross	(4)	(11)	(23)	(25)
(Increase)/decrease in trade receivables, gross	(107)	(25)	54	131
Increase /(decrease) in trade payables	103	(58)	(66)	(91)
Change in working capital (non-trade)				
Decrease in prepaid expenses and other receivables	25	3	93	80
Decrease in deferred income and other payables	(36)	(30)	(69)	(47)
Dividends received	56	155	183	253
Interest received	5	8	4	9
Interest paid and interest rates effect paid on derivatives, net	(197)	(264)	(233)	(348)
Exchange rate effect received/(paid) on derivatives, net	-	3	1	(20)
Income tax received/(paid)	28	14	34	(26)
Net cash provided by operating activities	**822**	**1,603**	**853**	**1,727**
INVESTING ACTIVITIES				
Purchases of property, plant and equipment and intangible assets	(765)	(1,143)	(454)	(855)
Increase/(decrease) in amounts due to fixed assets suppliers	327	138	(23)	(286)
Exchange rate effect received/(paid) on derivatives economically hedging capital expenditures, net	-	3	1	(4)
Proceeds from sale of property, plant and equipment and intangible assets	16	29	11	30
Decrease in receivables related to leased fixed assets	3	4	3	4
Transaction costs paid on sale of investments in subsidiaries	-	(2)	-	-
Cash paid for investments in subsidiaries	-	(2)	-	(11)
Decrease in loans and other financial assets	-	-	3	3
Exchange rate effect received on other derivatives, net	-	-	3	3
Net cash used in investing activities	**(419)**	**(973)**	**(456)**	**(1,116)**
FINANCING ACTIVITIES				
Redemption of bonds	(2,969)	(2,969)	-	-
Issuance of long-term debt	2,011	2,011	1,172	1,172
Repayment of long-term debt	(22)	(28)	(521)	(526)
Increase/(decrease) in short-term debt	875	914	(1,004)	(1,350)
Exchange rate effect received/(paid) on derivatives, net	(118)	(120)	1	(4)
Net cash used in financing activities	**(223)**	**(192)**	**(352)**	**(708)**
Net change in cash and cash equivalents	**180**	**438**	**45**	**(97)**
Effect of changes in exchange rates and other impacts on cash and cash equivalents	-	-	1	1
Cash and cash equivalents at the beginning of the period	431	173	220	362
Cash and cash equivalents at the end of the period	**611**	**611**	**266**	**266**

5. Explanatory comments about the seasonality or cyclicality of interim operations

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

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

Disposal of Wirtualna Polska S.A.

On 13 February 2014, OPL S.A. and o2 Sp. z o.o. finalised a share sale agreement under which the Company disposed of its 100% shareholding in Wirtualna Polska S.A. ("WP"), for a total consideration amounting to PLN 382 million to be received in cash. Additionally, the Company incurred transaction costs of PLN 2 million.

Gain on disposal amounting to PLN 183 million is presented separately in the income statement. The Company's investment in WP was classified as held for sale and presented separately in the statement of financial position as at 31 December 2013.

900 MHz licence

On 27 June 2014, the Company was granted a 900 MHz licence for a period of next 15 years for a consideration of PLN 358 million paid on 1 July 2014. As a result, the Company increased the value of intangible assets by this amount with a corresponding increase in trade payables at 30 June 2014.

Income tax

The positive income tax presented by the Company in the income statement for the 3 months and 6 months ended 30 June 2014 is mainly a result of a recognition of accruals for tax refunds and tax relief on new technologies.

7. Changes in financial liabilities at amortised cost excluding trade payables

On 15 May 2014, Orange Polska S.A. and Atlas Service Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for EUR 480 million with repayment date in 2019 and Annex to existing Revolving Credit Facility Agreement, increasing the revolving credit by EUR 230 million up to EUR 480 million and extending its maturity to 2018. Financial terms of the agreements are based on normal market terms.

In the 6 months ended 30 June 2014, the net cash flows from issuance and repayments of loans from Atlas Service Belgium S.A. amounted to PLN 2,730 million (PLN 2,970 million in the 3 months ended 30 June 2014). As at 30 June 2014, the total outstanding balance of loans from Atlas Service Belgium S.A. amounted to PLN 4,111 million, including accrued interest and arrangement fees.

Orange Polska S.A. 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 2014 was EUR 760 million and PLN 2,600 million, respectively, with a total fair value amounting to PLN (67) million.

On 20 May 2014, Orange Polska S.A. redeemed bonds series A1 and A2 of the total nominal value of EUR 700 million issued in 2009 to TPSA Eurofinance France S.A. On 22 May 2014, TPSA Eurofinance S.A. redeemed at maturity bonds of the nominal value of EUR 700 million issued in 2009 under the European Medium Term Note issuance programme.

In the 6 months ended 30 June 2014, 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 2014, the net cash flows on the bonds amounted to PLN 188 million. As at 30 June 2014, the aggregate par value of the outstanding bonds issued under the programme amounted to PLN 544 million.

8. Dividends

On 10 April 2014, 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 2013 profit. Total dividend, paid on 10 July 2014, 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.c-f to the IFRS Separate Financial Statements for the year ended 31 December 2013 or describes major matters that occurred after 31 December 2013.

a. Proceedings by UKE and UOKiK

Proceedings by UOKiK related to IP traffic
On 15 May 2014, the Supreme Court dismissed the cassation appeal. That verdict ended the appeal procedure on the fine imposed by UOKiK on Orange Polska.

Proceedings by UOKiK related to retail prices of calls to Play
UOKiK informed the Company that it further prolonged the proceedings. The indicated date of prolongation is 12 September 2014.

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 or also 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 tax authorities

The Fiscal Audit Office completed control proceedings relating to OPL S.A.'s year 2009 and, on 31 March 2014, delivered results of the control. Results of the control end the audit proceedings in front of the Fiscal Audit Office and confirm the correctness of the Company's VAT tax settlements. The results also raise certain questions concerning other tax settlements made, but do not decide on the obligations of the Company. The Company believes that the issues raised by the Fiscal Audit Office as regards these tax settlements are without merit and the possibility of ultimate outflows of resources is low. This opinion is supported by external tax advisors.

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 potential 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.

d. Guarantees

As at 31 December 2013, total guarantees granted by Orange Polska S.A. to purchasers of bonds denominated in EUR and issued by TPSA Eurofinance France S.A. amounted to PLN 3,009 million. Bonds were redeemed at maturity on 22 May 2014 and as a result, the guarantees granted by Orange Polska S.A. expired.

10. Related party transactions

As at 30 June 2014, 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, IT services, telecommunications equipment sales and data transmission. The purchases from the subsidiaries comprise mainly customer support and management services, selling fees, network services and property rental and related fees. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

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

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

Financial receivables, payables and financial expense concerning transactions with the Orange Group relate to financing and hedging agreements. The impact on financial expense, net, consists of interest expense (including amortised fees) and foreign exchange gains/(losses) on loans from Atlas Services Belgium S.A. and foreign exchange and interest rate effect on swaps concluded with Orange S.A. to hedge exposure to currency risk and interest rate risk related to the abovementioned loans. Financial income from Orange S.A. and cash and cash equivalents deposited with Orange S.A. relate to Cash Management Treasury Agreement.

(in PLN millions)	***3 months***	***6 months***	***3 months***	***6 months***
	ended 30 June 2014		***ended 30 June 2013*** [(1)]	
Sales of goods, services and other income:	**98**	**189**	**370**	**729**
Orange Polska Group (subsidiaries)	49	88	316	634
Orange Group	49	101	54	95
- Orange S.A. (parent)	30	65	39	66
- Orange Group (excluding parent)	19	36	15	29
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(332)**	**(709)**	**(342)**	**(670)**
Orange Polska Group (subsidiaries)	(274)	(571)	(288)	(569)
Orange Group	(58)	(138)	(54)	(101)
- Orange S.A. (parent)	(21)	(49)	(23)	(41)
- Orange Group (excluding parent)	(37)	(89)	(31)	(60)
- including Orange Brand Services Limited (brand licence agreement)	*(24)*	*(62)*	*(16)*	*(32)*
Financial income:	**112**	**267**	**283**	**1,078**
Orange Polska Group (subsidiaries)	109	263	283	1,078
Orange S.A. (parent)	3	4	-	-
Financial expense, net:	**(139)**	**(244)**	**(103)**	**(223)**
Orange Polska Group (subsidiaries)	(80)	(179)	(109)	(229)
Orange Group	(59)	(65)	6	6
- Orange S.A. (parent)	(48)	(53)	50	50
- Orange Group (excluding parent)	(11)	(12)	(44)	(44)
Dividend declared:	**332**	**332**	**332**	**332**
Orange S.A. (parent)	332	332	332	332

[(1)] Transactions with subsidiaries in 2013 include income earned, costs incurred and purchases from PTK-Centertel (see Note 4).

(in PLN millions)	***At 30 June 2014***	***At 31 December 2013***
Receivables:	**122**	**131**
Orange Polska Group (subsidiaries)	53	52
Orange Group	69	79
- Orange S.A. (parent)	45	61
- Orange Group (excluding parent)	24	18
Payables:	**284**	**353**
Orange Polska Group (subsidiaries)	164	241
Orange Group	120	112
- Orange S.A. (parent)	39	54
- Orange Group (excluding parent)	81	58
Financial receivables:	**2,320**	**2,505**
Orange Polska Group (subsidiaries)	2,314	2,500
Orange S.A. (parent)	6	5
Cash and cash equivalents deposited with:	**519**	**37**
Orange S.A. (parent)	519	37
Financial payables:	**6,978**	**7,204**
Orange Polska Group (subsidiaries)	2,794	5,801
Orange Group	4,184	1,403
- Orange S.A. (parent)	73	9
- Orange Group (excluding parent)	4,111	1,394
Dividend payable to:	**332**	**-**
Orange S.A. (parent)	332	-

In addition to the above mentioned receivables from OPL Group subsidiaries, as at 30 June 2014 OPL S.A. had a receivable from TP Invest Sp. z o.o. amounting to PLN 382 million resulting from settlements relating to disposal of WP shares.

Compensation (remuneration, bonuses 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 2014 and 2013 amounted to PLN 8.8 million and PLN 5.5 million, including PLN 1.3 million and PLN 0.7 million accrued in previous periods, respectively. During the 6 months ended 30 June 2014 and 2013, the amount of accrued cost of compensation for the Company's Management Board amounted to PLN 1.7 million and PLN 1.7 million.

On 6 February 2014, OPL S.A.'s Supervisory Board appointed Mr Mariusz Gaca as the Member of the Management Board of OPL S.A. in charge of Business Market.

On 24 February 2014, Mr Jacques de Galzain submitted his resignation as the Member of the Management Board of OPL S.A. in charge of Finance with effect on 28 February 2014.

On 17 March 2014, OPL S.A.'s Supervisory Board appointed Mr Maciej Nowohoński as the Member of the Management Board of OPL S.A. in charge of Finance.

On 10 April 2014, OPL S.A. Supervisory Board Members' mandates of Mr Timothy Boatman and Mr Pierre Louette expired and were not renewed. On the same day the General Meeting of OPL S.A. appointed Mr Russ Houlden and Ms Valérie Thérond as Members of the Supervisory Board of OPL S.A.

On 10 July 2014, Mr Benoit Scheen submitted his resignation as the Member of the Supervisory Board of OPL S.A. with effect on 31 August 2014.

11. Subsequent events

On 10 July 2014, OPL S.A. drew PLN 600 million of the Revolving Credit Facility from Atlas Services Belgium S.A.

ORANGE POLSKA
GROUP

MANAGEMENT BOARD'S REPORT

FIRST SIX MONTHS
ENDED 30 JUNE 2014

24 July 2014

This report on the activity of the Orange Polska Group ("the Group" or " Orange Polska") in the first half of 2014 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 2013 report.

On December 31, 2013, the District Court for the Capital City of Warsaw, XII Commercial Department of the National Court Register, registered the merger of Telekomunikacja Polska S.A. (TP S.A.) (as the acquiring company) with Polska Telefonia Komórkowa – Centertel sp. z o.o. and Orange Polska sp. z o.o. (as the target companies) in the commercial register. As at December 31, TP S.A., as the acquiring company, entered into all the rights and obligations of the target companies, changing the company's name to Orange Polska S.A. ("Parent Company", "the Company")

CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of June 30, 2014 and for the six month period ended thereon

1. SUMMARISED FINANCIAL STATEMENTS

	For 6 months ended				
	30 June 2014		30 June 2013		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue	6,079	1,455	6,570	1,559	-7.5%
EBITDA (restated)	1,991*	476	2,036**	483	-2.2%
Operating income	591	141	459	109	28.8%
Operating margin	*9.7%*		*7.0%*		*2.7 pp*
Consolidated net income	365	87	157	37	132.5%
Net income attributable to owners of Orange Polska S.A.	*365*		*157*	*37*	
*Weighted average number of shares (in millions)****	*1,312*		*1,312*		
Earnings per share (in PLN) (basic and diluted)	*0.28*	*0.07*	*0.12*	*0.03*	*133.3%*
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	1,444	346	1,498	355	-3.6%
Net cash used in investing activities, including	(609)	(146)	(1,097)	(260)	-44.5%
Capital expenditures (on the accrual basis) financed with internal cash	(1,134)	(271)	(852)	(202)	33.1%
Net cash used in financing activities	(385)	(92)	(500)	(119)	-23.0%
Net change in cash and cash equivalents	450	108	(99)	(23)	n/a

	As of				
	30 June 2014		31 December 2013		Change
Consolidated Statement of Financial Position	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Cash and cash equivalents	655	157	198	48	230.8%
Other intangible assets	3,308	795	3,081	743	7.4%
Property, plant and equipment	12,114	2,911	12,768	3,079	-5.1%
Total assets	22,658	5,445	22,802	5,498	-0.6%
Financial liabilities at amortised costs****, of which:	4,251	1,022	4,579	1,104	-7.2%
Current	1,038	249	3,343	806	-69.0%
Non-current	3,213	772	1,236	298	160.0%
Other liabilities, current and non-current	6,076	1,460	5,554	1,339	9.4%
Total equity	12,331	2,964	12,631	3,046	-2.4%

Notes on data conversion:

1 – PLN/EUR fx rate of 4.1784 applied

2 – PLN/EUR fx rate of 4.2140 applied

3 – PLN/EUR fx rate of 4.1609 applied

4 – PLN/EUR fx rate of 4.1472 applied

** Restatement relates to the gain on disposal of Wirtualna Polska S.A. (PLN +191 mn) and the impact of certain claims and litigation (PLN -44 mn)*

*** Restatement relates to employment termination expense (PLN -18 mn)*

**** Weighted average number of shares in 6 months ended June 30, 2014 and June 30, 2013, respectively*

***** Including loans from related party*

1.1 Comments to the Consolidated Income Statement Items

The consolidated revenue amounted to PLN 6,079 million in the first half of 2014 and was lower by PLN 491 million (7,5%) as compared to the first half of 2013.
Restated operating income before depreciation and amortisation expense and impairment of non-current assets (EBITDA restated) amounted to PLN 1,991 million in the first half of 2014 and was PLN 45 million lower than in the first half of 2013.

In particular, in the first half of 2014 compared to the first half of 2013:
- Mobile voice traffic revenue decreased by PLN 201 million, due to price pressure and higher share of SIMO offers;
- Mobile data, messaging, content and M2M revenue increased by PLN 60 million, driven up by a growing demand for mobile data;
- Wholesale mobile revenue decreased by PLN 88 million, mainly due to a decrease of the Mobile Termination Rates;
- Mobile equipment sales increased by PLN 80 million, due to instalments sales launched in 2014;
- Fixed narrowband revenue decreased by PLN 169 million, mainly due to substitution of fixed traffic and lines to mobile;
- Enterprise solutions and networks revenues decreased by PLN 33 million, due to price pressure;
- Wholesale fixed revenue decreased by PLN 55 million, due to lower number of lines and lower traffic;
- Interconnect expenses decreased by PLN 94 million, mainly due to a decrease of the Mobile Termination Rates;
- Commercial costs decreased by PLN 140 million, despite higher customer net additions in mobile, which was a result of further optimisation of the subscriber acquisition and retention costs as well as lower cost of advertising and promotion and lower cost of ICT activities.
- Labour costs decreased by PLN 65 million, mainly due to lower headcount supported by lower social funds for retirees.

In the first half of 2014 gain on disposal of Wirtualna Polska S.A. was recognized in the amount of PLN 191 million.
Operating income (EBIT) amounted to PLN 591 million in the first half of 2014 and was PLN 132 million higher than in the first half of 2013.
Net finance costs for the six months through June 2014 were PLN 5 million lower year-on-year due to the combination of lower interests costs on debt and non-cash effect of marking-to-market negative valuation of derivatives.
Consolidated net income amounted to PLN 365 million in the first half of 2014, which is an increase of PLN 208 million compared to the first half of 2013. Earnings per share increased from PLN 0.12 to PLN 0.28.

1.2 Comments to the Consolidated Cash Flow Statement Items

Net cash from operating activities amounted to PLN 1,444 million in the first half of 2014 and was lower by PLN 54 million compared to the first half of 2013. The decrease was mainly attributable to higher working capital requirement. Furthermore, interest paid and interest rate effect paid on derivatives decreased by PLN 82 million.

Net cash used in investing activities amounted to PLN 609 million in the first half of 2014 and was lower by PLN 488 million compared to the first half of 2013. The change consisted of net proceeds from sale of Wirtualna Polska S.A. of PLN 345 million and PLN 138 million lower cash outflows for purchases of property, plant and equipment and intangible assets.

Net cash used in financing activities amounted to PLN 385 million in the first half of 2014 and was lower by PLN 115 million compared to the first half of 2013. 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).

1.2.1 Capital Expenditures (CAPEX)

Group's capital expenditures in the first half of 2014 amounted to PLN 1,134 million.

The Group invested mainly in the following areas:

- securing the assignment of frequencies in the 900 MHz band, which are used for mobile voice and data services, for a further 15 years;
- 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 in a joint project with T-Mobile 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;
- expansion of the fibre-optic network and transmission equipment in order to launch new backbone and access lines as well as further development of the IP new generation network in order to enhance the quality and transfer rate of broadband services;
- expansion of the broadband access network, which also enables provision of television services, as well as related purchases of subscriber terminals;
- 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;
- research and development.

1.3 Comments to the Consolidated Statement of Financial Position Items

As at 30 June 2014, total equity amounted to PLN 12,331 million and was lower by PLN 300 million than as at 31 December 2013. The change was attributable mainly to the declaration of dividend of PLN 656 million for 2013, which was partially offset by consolidated net income of PLN 365 million generated in the first half of 2014.

Property, plant, equipment and other intangible assets decreased by PLN 427 million compared to 31 December 2013, mainly as a result of depreciation and amortisation that was higher by PLN 410 million than purchases of property, plant and equipment and intangible assets.

Total assets were lower by PLN 144 million than as at 31 December 2013. The change resulted mainly from the aforementioned decrease of PLN 427 million in property, plant, equipment and other intangible assets, a decrease of PLN 225 million in assets held for sale (sale of Wirtualna Polska S.A.) and an increase of PLN 457 million in cash and cash equivalents.

Total non-current and current liabilities increased by PLN 194 million to PLN 10,327 million as at 30 June 2014. The change resulted from a decrease of PLN 3,045 million in other financial liabilities at amortised cost (mainly due to the redemption of bonds issued under the EMTN issuance programme), which was partially offset by an increase of PLN 2,717 million in loans from the related party (financing from the Orange Group). Furthermore, other liabilities increased by PLN 630 million, mainly as a result of declaration of dividend (PLN 656 million, paid on 10 July 2014).

1.4 Related Parties Transactions

Please see Note 9 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 2014.

1.6 Subsequent Events

Please see Note 10 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 2014 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 2014, the Group repaid long-term bank loans totalling PLN 19 million, short-term bank loans totalling PLN 3 million, revolving loan provided by Orange SA Group on total amount PLN 320 million and redeemed bonds totalling EUR 700 million par.

The Group benefited from a long-term loan, of which a total of PLN 2,010 million was used, and a revolving loan, of which a total of PLN 1,040 million was used, both provided by the Orange SA Group.

As of June 30, 2014, Group's interest-bearing liabilities (before derivatives) totalled PLN 4,195 million, which is a decrease of PLN 322 million compared to December 31, 2013.

The value of liabilities under financial lease as of June 30, 2014 amounted to PLN 30 million and was 7 million higher compared to December 31, 2013.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 655 million at June 30, 2014, and available credit facilities totalling the equivalent of PLN 2,817 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 2014.

1.9.1 Bonds

On May 22, 2014, TPSA Eurofinance France SA, a subsidiary of Orange Polska S.A., redeemed at maturity five-year debt securities totalling EUR 700 million par, that had been issued in two tranches, namely on 22 May 2009 (EUR 500 million) and July 17, 2009 (EUR 200 million).

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 2014, Group companies concluded the following major loan agreements:

- On May 15, 2014, 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 480 million, with the maturity date of May 20, 2019;
- On May 15, 2014, Orange Polska S.A. signed Annex to the revolving loan agreement of April 17, 2013 with Atlas Services Belgium SA, pursuant to which the amount of the revolving loan was increased by EUR 230 million to EUR 480 million and the maturity thereof was extended to March 31, 2018.
- A current account overdraft agreement concluded by the Parent Company with RBS Bank (Polska) S.A. provided an overdraft facility of PLN 40 million to secure the Parent Company's liquidity and current financing in a period from January 2, 2014 to June 27, 2014.

1.9.3 Unused Credit Facilities

As of June 30, 2014, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 1,067 million, specifically (by Group companies):

- Orange Polska S.A.: EUR 250 million (revolving loan) and PLN 20 million (current account overdraft);
- Ramsat: PLN 4.5 million (current account overdraft); and

- Orange Real Estate sp. z o.o. (formerly OPCO 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

Guarantee agreements to which Orange Polska S.A. is a party impose an obligation to meet the ratio of net debt to EBITDA not higher than 3.5:1 (tested for the Group on a six months' basis). The ratio on June 30, 2014 was met, as it was 0.9.

1.9.5 Guarantees and Collaterals

In the reported period, Orange Polska S.A. requested banks to issue banker's 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, 2014, those guarantees totalled PLN 17 million.

1.9.6 Ratings

The current ratings are as follows:

Moody's Investor Services	Baa1, negative outlook
Standard and Poor's Rating Services	BBB, stable outlook

1.9.7 Hedging Transactions

In the first six months of 2014, 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, 2014 covered:

- 99.8% of debt denominated in foreign currencies,
- 49.5% of UMTS licence payable; and
- 76.5% of European Commission proceedings provision.

As a result of hedging, Group's effective currency exposure at June 30, 2014 was as follows:

- USD 3 million of debt;
- EUR 129 million of UMTS licence payable; and
- EUR 33 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, 2014 the Group's proportion between fixed/floating rate debt (after hedging) was 62/38% as compared to 67/33% on December 31, 2013.

1.9.8 Group's Financial Liquidity and Net Financial Debt

At June 30, 2014, Group's quick and current ratios increased as compared to the end of 2013. Higher liquidity of the Group was driven by an increase of PLN 485 million in current assets, including an increase of PLN 457 million in cash, as well as a decrease of PLN 1,850 million in current liabilities (less provisions and deferred income).

The liquidity ratios for the Group at June 30, 2014 and December 31, 2013, respectively, are presented in the table below.

	June 30, 2014	December 31, 2013
Current ratio Current assets / current liabilities*	0.56	0.31
Quick ratio Total current assets – inventories / current liabilities*	0.51	0.28
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.21	0.08

*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 3,624 million at the end of June 2014 (from PLN 4,512 million at the end of December 2013).

2 STATEMENTS OF THE MANAGEMENT BOARD

2.1 Statement on Adopted Accounting Principles

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

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

hereby confirms that according to its best knowledge the 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.

2.2 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.

2.3 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 2014 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).

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

in the first half of 2014

3 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

Selected financial data (PLN million) IFRS	**June 30, 2014**	**June 30, 2013**	**Change**
Restated(1) Group's revenue	6,079	6,513	-6.7%
Restated(1) EBITDA	1,991(2)	2,036(3)	-2.2%
Restated(1) EBITDA (as % of revenue)	32.8%	31.3%	1.5 pp
Consolidated net income	365	157	132.5%

(1) Comparable data for revenue and EBITDA include the figures for Wirtualna Polska S.A. for a period to February 2013 and do not include figures for Otwarty Rynek Elektroniczny S.A. (a subsidiary sold in 2013)

(2) Restatement relates to the gain on disposal of Wirtualna Polska S.A. (PLN +191 mn) and the impact of certain claims and litigation (PLN -44 mn)

(3) Restatement relates to employment termination expense (PLN -18 mn)

Group's revenue totalled PLN 6,079 million in the first half of 2014 and was down PLN 434 million (-6.7%) year-on-year. This predominantly reflected the impact of regulatory decisions (mostly MTR cuts[1]), which decreased the Group's revenues by PLN 205 million, loss of 248 thousand fixed voice subscribers since June 30, 2013, as well as price pressure that affected mobile voice traffic revenue. This was only partly offset by a PLN 80 million year-on-year increase of revenue from mobile equipment sales, driven mainly by the introduction of instalment plans in mobile sales.

The Group's restated EBITDA margin increased by 1.5 percentage points year-on-year, while restated EBITDA was by PLN 45 million higher than in the same period of 2013. This can be attributed mainly to the following factors:

- a PLN 94 million year-on-year decrease of interconnect costs, mainly as a result of lower MTR rate, which has offset the impact of higher volume of outgoing traffic generated by unlimited plan subscribers;
- a decline of PLN 65 million in labour costs, mainly due to lower headcount;
- a PLN 140 million decrease in commercial costs, despite higher customer net additions in mobile, which was a result of further optimisation of the subscriber acquisition and retention costs as well as lower cost of advertising and promotion and lower cost of ICT activities;
- a revenue decrease, as described above.

Striving to reverse the negative trends, Orange Polska has focused on the development of bundled services, promotion of its convergent Orange Open offer as well as further optimisation of its cost base and improvement in the customer satisfaction from Orange services. In addition, revenue trends have been supported by the introduction of instalment sales. These initiatives are based on the assumptions for the medium-term action plan for 2013–2015, which was adopted in February 2013 (see section 5.3 below).

[1] Voice mobile termination rate (MTR) was cut from PLN 0.1223 / minute to PLN 0.0826 / minute on January 1, 2013 and to PLN 0.0429 / minute in July. In 1H 2012 MTR amounted to PLN 0.1520 / minute. SMS MTR was decreased from PLN 0.06 to PLN 0.05 on July 1, 2012.

3.1 Mobile Services

Revenue	For 6 months ended		
PLN million	June 30, 2014	June 30, 2013	Change
Mobile services revenue	2,894	3,123	-7.3%
of which voice traffic revenue	1,603	1,804	-11.1%
of which data, messaging, content and M2M	936	876	6.8%
of which wholesale	355	443	-19.9%
Mobile equipment sales	153	73	109.6%

Key performance indicators			
PLN '000, unless indicated otherwise	June 30, 2014	June 30, 2013	Change
Orange Open customers*	418	125	3.3x
Total mobile customers (SIM)	15,461	14,947	3.4%
of which post-paid	7,459	6,970	7.0%
of which pre-paid	8,002	7,977	0.3%
SRC (post-paid), PLN	280	415.6	-32.6%
SAC (post-paid), PLN	406	529.1	-23.3%
Monthly blended ARPU, PLN	32.0	35.5	-9.9%
post-paid	55.6	61.6	-9.7%
pre-paid	12.1	14.4	-16.0%

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

As at the end of June 2014, Orange Polska had a mobile SIM card base of 15.5 million, which is an increase of 514 thousand or 3.4% year-on-year. The increase was driven mainly by a 489 thousand expansion of the post-paid customer base, which grew by 7.0% year-on-year. Growth of the customer base is a positive sign, especially in the context of very aggressive competition; e.g. P4 (the Play network operator) changed its offer several times in last six months. Orange Polska's progress in the mobile market was helped by the success of its second mobile brand, nju.mobile. Its take-up had exceeded 560 thousand (including 131 thousand in post-paid) since its launch in April 2013. As a result of intensified marketing activity, in the first half of 2014, Orange Polska reported a positive number portability balance (+5,600) for the first time since 2008.

Blended ARPU amounted to PLN 32.0 in the first half of 2014 and was 9.9% lower than in the first half of 2013. The decline can be attributed mainly to regulatory voice and SMS MTR cuts as well as market price pressure, driven by the aforementioned MTR reductions and aggressive offers of competitors, particularly in the business market as well as the growing popularity of SIMO offers.

3.1.1 Market and Competition

The mobile voice market is in a saturation phase in terms of the number of users. The number of mobile SIM cards increased by 0.6% from December 31, 2013, driving the mobile penetration rate (among population) to 148% at the end of June 2014.

The three leading operators continued to lose market share to P4. Between June 30, 2013 and June 30, 2014, their total volume market share decreased from 81% to 79%. Orange Polska's share in the mobile market was 27.3% by volume at the end of June 2014.

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 of terminals, subsidies), positioning of the data sets presented by various operators against one another is becoming increasingly difficult.

3.1.2 Mobile Voice Services

The most important initiatives in the first half of 2014 included:

Introduction of new *Smart Plans* in April: best tariff solutions for smartphones, offering unlimited calls to all networks, roaming minutes to be used within the European Union and market's largest data pools embedded in the subscription.

Orange Polska's new voice offer to mass market customers now consists of four tariff plans:

- Completely new ***Smart Plan Multi Max*** designed for heavy phone users in Poland and abroad, who always need to have the latest smartphone model. In this plan, Orange Polska, as the only operator in the market, offers a new handset during the term of the agreement, just 12 months after it was signed. In addition, the *Smart Plan Multi Max* offers 400 minutes for roaming calls in EU countries monthly, up to 10 GB for surfing on the Internet in Poland as well as unlimited calls, SMSs or MMSs to all networks. The *TV Package* and *Orange Navigation* are also included in the subscription fee; and

- Three plans already known to customers, ***Smart Plan Halo***, ***Smart Plan Multi*** and ***Smart Plan Mix***, were enhanced to include new, more attractive solutions.

The ***Smart Plan Multi*** offers larger data pools (up to 5 GB), unlimited calls, SMSs and MMSs to Orange as well as *Orange Navigation*. Depending on the tariff, there is also a pool of 400 minutes for roaming calls in the EU as well as unlimited calls, SMSs and MMSs to all networks.

What differentiates the ***Smart Plan Halo***, is large pools of minutes, SMSs or MMSs to all networks, unlimited calls on the Orange network and, in a selected option, also unlimited SMSs to all networks. A new feature in selected options is interchangeability of minutes between domestic calls and roaming calls in EU countries (on a two per one basis).

In the ***Smart Plan Mix***, in addition to a pool of minutes for calls, customers are offered unlimited texting to all. If they also use FunPack, they will pay less than PLN 15 monthly for their mobile.

The new tariff plans are also available in the SIM-only option. By combining such an option with the Orange Open promotion, customers can use mobile services for the market lowest subscription fee, starting from PLN 4.97, and get a pool of 400 minutes for calls to all networks each month. In higher-end options, they also get unlimited calls, SMSs and MMSs to all networks, 400 minutes for EU roaming calls and a data pool.

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. Consequently, the fee for data services will never exceed PLN 10 in the *Smart Plan Multi* and the *Smart Plan Multi Max* or PLN 15 in the *Smart Plan Halo* and the *Smart Plan Mix*. Customers can combine any of the four tariffs with other offers in the Orange Open promotion, saving up to PLN 65 on their bills monthly. Another common feature of *Smart Plans* is free access to data storage in the ‘Orange Cloud’ service (which offers 5GB of virtual disc space with free transfer). In addition, each customer signing up for a new tariff with a handset can get an attractive insurance ‘Display Protection’, for just PLN 2.99 per month.

In 2014 Orange Polska introduced sales of smartphones and tables on instalments as a complementary tool to classic subsidised offers. They are available only for specific post-paid tariff plans. This move is aimed at acceleration of adoption of advanced smartphones and to encourage SIM only customers to switch to handset offers.
The new tariffs also demonstrate that porting a number to Orange or renewing the existing agreement is worthwhile. In special offers, customers get a lower activation fee, 20% more minutes within the monthly fee plus 3 months of free subscription when they move their number to Orange or 75% more minutes to all networks when they renew the existing agreement.

Further development of the Orange Open convergent offer, combining mobile and fixed line products and addressing the need to use a number of different communication services, such as mobile and fixed line telephony, mobile and fixed broadband access and TV.

On April 11, 2014, the method for the calculation of discounts for bundled services was changed. As a result, the bonuses for additional services are now equal for mobile and fixed line customers. They can get a discount of up to PLN 65 monthly, depending on the number of Orange services they use.

In order to increase customer satisfaction from Orange services, the existing promotions, Orange Open Family, Orange Open Combo and Orange Open, were combined into a single one, Orange Open. It aims at increasing the number of services used by households.

Further development of a new mobile brand, nju.mobile

The portfolio of nju.mobile, a separate brand than Orange, steadily consists of a single post-paid tariff without subsidised handsets and with an innovative charging mechanism, as well as a single pre-paid tariff based on a simple price list. Its key differentiators are low prices, no limits for calls and texting as well as cost control, transparency and simplicity of the offer (‘no catch’), as well as an option to discontinue the service quickly (even in post-paid).

- In the post-paid offer, in the first half of 2014, the flagship service was ‘M2M for PLN 19’, which had been introduced at the end of 2013. In this service, customers can divide their limit for calls (PLN 29 incl. VAT) into two sublimits: for M2M calls (PLN 19 incl. VAT) and M2F calls (PLN 10 incl. VAT), respectively. Owing to the service, customers who mainly make M2M or M2F calls can reduce their bills. The service was the leading communication message and met with interest among a large group of both existing and prospective users, contributing to an increase in new additions.

Furthermore, a tariff plan for MNP customers using a temporary number (assigned until the customer's number is successfully ported to nju.mobile from the previous operator) was modified. The 'nju zero' plan, in which customers used to be charged per the price list, was replaced with the 'nju temporary' plan with set limits of monthly charges: PLN 29 incl. VAT for M2M and M2F calls, PLN 19 incl. VAT for data (1 GB) and PLN 9 incl. VAT for SMS and MMS.

- In the pre-paid offer, the 'for ever' promotion with a guarantee that any top-ups will remain valid for an indefinite period, was introduced in February 2014. It does not require activation by the customer, but is activated automatically whenever the account is topped up. The promotion was a differentiator of the nju.mobile pre-paid offer from those of other players and positively contributed to new additions. It was accompanied by an ATL campaign.

  In late May 2014, a new solution, 'Monthy', was added to the pre-paid offer. It offers monthly charge limits similar to those in the basic post-paid offer, i.e. PLN 29 incl. VAT for M2M and M2F calls, PLN 19 incl. VAT for data (1 GB) and PLN 9 incl. VAT for SMS and MMS. The service is activated for an indefinite period and its activation is free. The introduction of the 'Monthy' offer made the pre-paid and post-paid offers more consistent and was welcomed by both the existing and prospective customers. The service was supported by an ATL campaign in mid-June 2014.

Pre-paid Portfolio

In the first six months of 2014, the most important development in the pre-paid portfolio was the market introduction of the innovative 'Choose Your Number' starter kits. Hitherto, starter kits from all operators had numbers pre-assigned at the manufacturing stage and customers could only choose from among several different starter kits available in a sales outlet. 'Choose Your Number' starter kits have no fixed numbers assigned to them and offer a revolutionary opportunity to choose a phone number during SIM card activation. Choosing the number is very intuitive and can be done in three ways: randomly, from a proposed list or after the favourite digits. The solution was welcomed by customers. It is the only such offer in the Polish market and probably the first in Europe. Due to technical complexity, the service has not been copied by other players so far, and thus represents Orange Polska's unique competitive advantage.

Offer to Business Customers

In January 2014, Orange Polska launched a new voice offer to business customers: *Orange Biz* and *Orange Biz Mix* tariff plans as well as promotions based on them. In addition to tariff plans, customers can choose from among a number of additional service multi-packs. Owing to such a design, the offer can be better tailored to individual business needs. In April, an option to buy a terminal on instalments was added to the portfolio.

In April, the 'Smartphones in Orange Biz on instalments' promotion was launched. It offered *Orange Biz* plans on promotional terms plus a terminal on no-interest instalments.

In May, the 'Smartphones in Orange Biz on instalments' promotion was expanded to include the 'Hello, Playing' service offered on a try & buy basis; that is customers activating or renewing the agreement automatically receive the 'Hello, Playing' service free of charge for one month. The promotion based on the *Orange Biz 40* plan was similarly expanded: for the first two months customers receive, free of charge, the 'Free Calls' service, which enables unlimited calls to all domestic operators of mobile and fixed line networks. The standard fee is charged from the third month on, and customers can deactivate the service at any time.

3.1.3 Mobile Data Services

The first half of 2014 saw a high share of SIM-only Orange Free Net in the sales structure; it accounted for approximately 65% of the total sales of mobile broadband services.

In April 2014, an instalment plan was introduced. As a result, customers can subscribe to mobile broadband service and buy a modern tablet for PLN 0 upfront (with its retail price divided into 24 instalments).

A new feature of Orange Free Net is a larger data transmission limit in two tariff plans: Orange Free Net for PLN49.90 and Orange Free Net for PLN59.90.

Another new portfolio addition, available since April 2014, is 'Internet Here and There', in which, for PLN 69.90 monthly, customers are offered fixed broadband, a FunTab 8 tablet for PLN 1, 5 GB mobile broadband and a Huawei 5220 router also for PLN 1.

All Orange Free Net tariff plans include a common data pool, which can be used also on a smartphone in a voice offer, provided that both offers are assigned to the same subscriber's account. Customers can combine

Orange Free Net tariffs with other offers in the Orange Open promotion, saving up to PLN 65 on their bills monthly. Another common feature of the Orange Free Net offer is free access to data storage in the cloud in the 'Orange Cloud' service (which offers 5GB of virtual disc space with free transfer).

On April 24, the promotional mobile broadband offer to business customers was modified. In the 'Business Everywhere Pool without Terminal' promotion, customers are offered a discount on monthly fees and free activation of the *Business Everywhere Pool Mini* tariff plan, provided that they sign up to *Neostrada* in the 'Fast *Neostrada* with Tablet for PLN 1' promotion.

Also in April, Orange Polska S.A. expanded its Open Orange for Business portfolio, extending discounts to other services from the same mobile category and adding a new category of IT services. As a result, business customers can more often use Open Orange for Business and get higher discounts.

3.2 Fixed Line Services

Revenue	For 6 months ended		
PLN million	June 30, 2014	June 30, 2013	Change
Fixed line revenue	2,806	3,069	-8.6%
of which narrowband	1,027	1,196	-14.1%
of which broadband, TV and VoIP	836	842	-0.7%
of which enterprise solutions and networks	468	501	-6.6%
of which wholesale	475	530	-10.4%
Other revenue	226	248	-8.9%

Key performance indicators	June 30, 2014	June 30, 2013	Change
Fixed voice lines (retail PSTN and VoIP lines)	4,633	4,881	-5.1%
Orange Open customers*	418	125	3.3x
3P customers (broadband, TV & VoIP)	383	314	22.0%
Fixed broadband accesses (retail)	2,281	2,317	-1.6%
TV customers	720	699	3.0%
Retail fixed voice ARPU, PLN	42.1	44.7	-5.8%
Broadband, TV and VoIP ARPU, PLN	60.4	59.9	0.8%

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

Fixed-line services benefited mainly from the strategy of product bundling and convergence. Net churn of fixed voice customers was limited to 108 thousands in the first half of 2014 as compared to 206 thousands in the first six months of 2013. In addition, continued rapid growth in the 3P offer take-up (+22% year-on-year) supported growth in ARPU from broadband, TV and VoIP services, which was up 0.5% year-on-year. As of the end of June 2014, revenue from broadband, TV and VoIP services accounted for 13.8% of Group's total revenue.

3.2.1 Market and Competition

Fixed Line Voice Market

The Group estimates that the fixed line penetration rate was at 22.5% of Poland's population at the end of June 2014, as compared to 23.0% at the end of December 2013. 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 2014 was up by 0.6% compared to the end of December 2013. Consequently, this shows that the market grew at a slower pace than in the first half of 2013 (+0.7% compared to the end of December 2012). The slowdown was mainly caused by the popularisation of mobile broadband access, which, depending on the price option, may be either substitute of or complementary to fixed broadband access. The penetration of fixed broadband services in Poland's population reached 18.9% by the end of June 2014, compared to 18.8% at the end of December 2013.

According to Group's estimates, the value of the fixed broadband market in the first half of 2014 grew by 1.5% year-on-year, versus a 6.0% increase in the first six months of 2013. The growth rate of the market value outpaced its increase in volume, mainly as a result of growing 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 32.9% by volume or 31.2% by value (in Q2 2014), as compared to 31.7% by volume and 29.9% 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 total volume of BSA-based lines at the end of June 2014 declined by 43 thousand compared to the end of December 2013, while the total of LLU-based lines at the end of June 2014 amounted to 165 thousand as compared to 172 thousand at the end of December 2013.

3.2.2 Fixed Line Voice Services

In the first six months of 2014, Orange Polska continued steady efforts to contain the erosion of its fixed-line subscriber base. It attempted to further increase the loyalty of its fixed voice customers, mainly through sales of Customised Home Plans with loyalty agreements.

Currently, the fixed line voice portfolio is 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 plan, also 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 first half of 2014 saw the continuation of efforts to loyalise customers who use more than a fixed voice service. These include FunPack HD (bundle including broadband, TV and voice), offering unlimited calls to fixed line terminals in Poland, EU countries, US and Canada, as well as Neostrada offer with unlimited domestic fixed line calls.

Orange Polska has continued efforts to assist elderly or disabled people in their needs. For this group of customers, our fixed line portfolio includes ‘Phone Care’, a service which improves the comfort and safety of the elderly, the disabled or people living alone. Owing to a portable SOS button, users can quickly call help if their life or health is threatened.

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

Fixed voice market share in June 2014

	2Q 2014 (estimated)	2Q 2013	Change
Retail local access[1]	53.5%	54.3%	-0.8 pp

On March 1, 2014, Orange Polska decided to discontinue special tariffs for international calls in selected border regions. Consequently, the *ISDN Price List* and the *Telecommunication Service Price List* were modified to account for the withdrawal of the relevant tariff plans. Customers were notified about the changes by mail.

In the wake of the Decree of the Minister of Administration and Digitisation of 24 February 2014 on telecommunication service complaints, the *Terms of ISDN Service Provision* and the *Terms of Telecommunication Service Provision on Fixed Line Networks* were modified to align them with the new complaint-handling procedure.

3.2.3 Fixed Line Data Services

Fixed broadband market – key performance indicators:

	30 June 2014	30 June 2013
Market penetration rate in Poland – broadband lines (in total population)	18.9%	18.6%
Total number of broadband lines in Poland (‘000)	7,267	7,174
Market share of Orange Polska	31.5%	32.3%

The first six months of 2014 saw the continuation of efforts aimed at promoting high speed broadband access. The VDSL-based portfolio was simplified and enhanced, with the 80 Mbps option replacing the existing 40 Mbps and 80 Mbps options. Owing to the changes in the portfolio, the VDSL share in new sales within the broadband technical range has been steadily growing. Currently, over two thirds of new customers within the VDSL reach choose this service. In June, the VDSL service take-up reached 100,000.

Orange Polska runs a pilot of high speed internet access in FTTH technology in selected locations in Warsaw. Within this pilot it offers speeds of 100-300 MB/s. The pilot includes around 15,000 households.

[1] Without Wholesale Line Rental but with Orange WLR and VoIP services, which are the equivalents of subscriber lines.

The standard broadband offer to residential customers has been greatly simplified. In addition to the aforementioned reduction in the number of speed options, the price differences between 12-month and 24-month agreements have been standardised for both *Neostrada* and all *Neostrada*-inclusive packages.
Orange Polska continued to promote bundles of fixed broadband and digital TV, offered in both IPTV and DTH (satellite digital TV) technologies. It also further developed its unique convergent offer, Orange Open, which provides discounts to customers who use both fixed and mobile services, as well as its offers with a tablet, in which customers can buy a tablet for PLN 1 when subscribing to one of the two strategic products: *Neostrada* or FunPack. The convergent offer was enhanced by adding ‘Internet Here and There’, a dedicated offer of *Neostrada* or FunPack and mobile broadband for the same price plus a tablet and a WiFi router for PLN 1 each, and the communication of the FunPack Light offer, that is a bundle of *Neostrada* with TV and mobile voice service.

In the business market, the first half of 2014 saw mainly the development of the fixed broadband offer. At the beginning of February, a new option, Dynamic DSL, was added to the DSL Internet Access portfolio. Choosing this option, customers get fixed broadband access at download speeds between 10 Mbps and 80 Mbps, a fixed subnet of IP addresses, E-security package and hosting package. The new option is also available in a promotional offer, ‘Dynamic DSL for Business’. Customers could also sign up for the ‘Turbo DSL’ promotional offer at attractive prices.

As for *Neostrada Business*, customers could still sign up for the service in the ‘*Neostrada Business*: More Benefits for Less’ promotion, which offered reduced installation and access fees.

It is worth noting that DSL Internet Access, Business Package and *Neostrada Business* have been offered with a hosting package, which in late January was expanded to include new functionalities. In addition, the disc space offered in the Extended Package and Premium Package was increased.

A number of marketing campaigns were carried out in the first six months of 2014 to promote both *Neostrada Business* and DSL Internet Access, a service dedicated to the high-end segment. In these campaigns, customers were offered additional benefits, such as a *Business Everywhere* Starter (‘Dynamic DSL with Mobile Broadband’), Geolocation service (‘DSL + GeoLoc’), a tablet (‘Dynamic DSL with Mobile Broadband’, ‘Tablet for TURBO DSL Internet Access’), a portable disk or GPS car navigation (‘DSL with a Gadget’).

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 Regulatory Obligations

Pursuant to President of UKE's decisions issued in 2007, Orange Polska S.A. was designated as an operator having significant market power ("an SMP operator") 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);
- market for provision of international telephone services on a fixed public telephone network to end users, except consumers (market 6/2003); and
- market for provision of services of part or whole of the minimum set of leased lines with capacity of up to and including 2 Mbps (market 7/2003).

Under the aforementioned decisions, with respect to the markets 3/2003 to 6/2003, Orange Polska has an obligation to submit costing results and regulatory accounting statements to an independent audit. Orange Polska is 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 is a ban on both underpricing (to restrain competition) and overpricing.

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, 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, including the use of network elements and associated facilities, in order to provide leased line trunk segment services.

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

- 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;

- 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. With respect to fibre optic loops, UKE has imposed on Orange Polska an obligation to provide conditional access. As a consequence of the decision, on April 29, 2011 the President of UKE declared that the previous SMP decision for Orange Polska with respect to the market 11/2003 had expired;
- In the domestic market for wholesale broadband access services, excluding some local administrative units (market 5/2007). Orange Polska has been designated as an SMP operator for the whole territory of Poland except for 11 local municipalities, including the City of Warsaw. Other areas, which have been subjected to regulation, have been differentiated in terms of regulatory obligations. Orange Polska has the obligation to provide access within all areas, but in 10 rural municipalities it has no costing or equal treatment obligations. Furthermore, in 230 municipalities (less dominated by Orange Polska), the Company does not have an obligation to apply a reference offer; however, it has the obligation of equal treatment: on the same terms and conditions as in the areas where the reference offer is required. Fibre optic technology has been included into the product range of the market.

The SMP decision for the market 12/2003 is still in force and applies to 11 geographical areas (administrative units) which are not regulated pursuant to the decision for the market 5/2007.

Pursuant to SMP decisions for the markets 2/2007, 3/2007, 4/2007 and 5/2007 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 12/2003 (with respect to 11 geographical areas which are not regulated pursuant to the 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.

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 connection with its position 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. The appeal proceedings are pending.

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 has been rejected. The Company has filed a cassation appeal. The proceedings are pending.

4.2 Proposed changes in regulations

On June 12, 2014, all regulatory obligations of Orange Polska on the market for provision of services of part or whole of the minimum set of leased lines with capacity of up to and including 2 Mbps (7/2003) were lifted pursuant to the President of UKE's decision of May 12, 2014.

On May 19, 2014, the President of UKE commenced consultation of her new decisions on the market for wholesale broadband access services (5/2007). The draft decisions provide that:

- 76 communes (*gminas*) in Poland are effectively competitive and do not need regulation;
- Elsewhere in Poland, Orange Polska is still an SMP operator and should be subject to regulation in terms of access provision, non-discrimination, transparency, reference offer and pricing.

The draft decisions still need European Commission's approval and the President of UOKiK's opinion.

The President of UKE is reviewing the retail markets for national and international calls for consumers and business customers (markets 3/2003 to 6/2003).

4.3 Merger of TP S.A. and PTK Centertel

On December 31, 2013, the District Court for the Capital City of Warsaw, XII Commercial Department of the National Court Register, registered the merger of Telekomunikacja Polska S.A. (as the acquiring company), with Polska Telefonia Komórkowa – Centertel sp. z o.o. and Orange Polska sp. z o.o. (as the target companies) in the commercial register.

The Court also registered amendments to the Articles of Association with respect to the objects of the company and a change of the name from Telekomunikacja Polska Spółka Akcyjna to Orange Polska Spółka Akcyjna. The amendments have been effected pursuant to the Resolutions no. 3, 4 and 5 of the Extraordinary General Meeting of TP S.A. dated November 7, 2013.

The merger has been effected pursuant to Article 492(1.1) of the Commercial Companies Code by transfer of all the assets of PTK Centertel sp. z o.o. and Orange Polska sp. z o.o. to TP S.A., the sole shareholder of the target companies.

As at December 31, 2013 TP S.A., as the acquiring company, entered into all the rights and obligations of the target companies.

The merger aims at integrating the main strengths of Orange Polska within a single entity. In particular, the merger will contribute to:

- Strengthening the leadership position in core markets by leveraging on convergence;
- Development of the infrastructure required to offer convergent technical solutions to customers and support the expected considerable growth of data traffic;
- Further unification of customer care in coherence with the convergent service portfolio;
- Cost savings, through increase of operational efficiency, simplification and integration of processes of the merged entity.

4.4 Launch of Financial Services by Orange Polska in Partnership with mBank

On March 19, 2014, Orange Polska and mBank signed several agreements concerning co-operation in the area of financial services. The main co-operation agreement is valid until the end of 2025, with the possibility for a further three years extension. Based on the agreement, the Parties will initiate a project to develop a financial platform in the form of a retail mobile bank for clients using mobile devices. The co-operation will focus on provision of banking services through a branch of mBank, created and financed by mBank, to clients acquired through the co-operation with Orange Polska. The Orange Group will make the Orange brand available for all products included in the co-operation. Orange Polska will be responsible for marketing and client acquisition, and will not bear the risk related to the bank management. Orange Polska will be remunerated for being an agent in acquisition of clients and for sales of bank products on a commission basis, while sales of non-banking products will be subject to profit sharing as set forth in the agreement. Orange Polska should also benefit from increased customer loyalty. Between January 1, 2020 and December 31, 2023, Orange Polska may exercise a call option on an organised portion of assets of the enterprise operated within the branch. This may be exercised mainly through the acquisition of the organised portion of assets of the enterprise by a bank indicated by Orange Polska or established jointly by the Parties. A condition precedent of the exercise of the option will be the approval by the General Assembly of mBank and the regulatory approvals required by law.

4.5 RAN sharing agreement

Orange Polska has continued its technical co-operation with T-Mobile Polska (“T-Mobile”) based on:

- agreement on reciprocal use of radio access networks (“RAN sharing Agreement”) signed in July 2011, with a subsequent annexes; and
- joint venture NetWorkS! sp. z o.o. (“NetWorkS!”), in which Orange Polska and T-Mobile hold a 50% stake each and which conducts management, planning, operations, development and maintenance of their access networks.

By the end of June 2014, the number of base stations on the co-used networks, transmitting the signal of both operators was close to 9,600. In the first six months of 2014, the networks were modernised in the Opole Region, western part of the Łódź Region, City of Częstochowa, City of Rybnik, south-eastern part of the Poznań Region and elsewhere. As a result, Orange customers in the areas where the project has been completed may now use a network which has over 60% more sites than before the project. Orange Polska expects that the RAN sharing project will be implemented nationwide in August 2014.

Since August 2013, as part of the co-operation, Orange Polska has been providing UMTS data transmission services in the 900 MHz band (over bandwidth of 4.2 MHz, which consists of Orange's and T-Mobile's channels). The 3G data services using this frequency have already been implemented in 41 zones (out of 51 intended) and cover over 80% of the country.

All these efforts resulted in a very significant increase in service coverage, particularly the availability of modern mobile data transmission services. As of June 30, 2014, the coverage for these services was as follows:

- Population: 97.2% outdoors (up almost 35 p.p. since the start of the project)
- Territory: 87% outdoors (up 75 p.p. since the start of the project)

In September 2013, the RAN Agreement was extended to include sharing of radio access networks based on the 4G (LTE) technology. Under the agreement, the parties shall invest in the LTE network development and Orange Polska has acquired the right to use T-Mobile's frequencies (together with T-Mobile) in the 1800 MHz band, particularly bandwidth of 10 MHz allocated to T-Mobile by the President of UKE on June 14, 2013, for a consideration payable over 14.5 years.

Extending the co-operation enabled Orange Polska to launch LTE services to its customers. By the end of June 2014, such services were provided via almost 4,400 base stations, which provided coverage of more than half of Poland's population.

Orange Polska's co-operation with T-Mobile is permanently limited to technical aspects; in particular, both operators continue to compete on wholesale and retail telecommunication markets.

4.6 Co-operation with TVN and ITI Neovision

In the first half of 2014, the Group continued to distribute its basic TV offering enhanced with content provided by TVN as well as pay-TV packages corresponding to the *nc+* platform offer (formerly "new generation *n* platform"); the distribution was originally started in 2011. 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 achieving cost synergies.

4.7 Group's Activity in the Area of ICT Services

The Group delivers ICT products and services through its own traditional sales channels and through Integrated Solutions, 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.

Extension of Specialised ICT Sales onto Corporate Customer Segment

The first half of 2014 saw the development of structures that would enable effective sales of specialised ICT solutions in the Corporate Customer Segment. A change in Orange Polska's organisational structure, which involved concentration of management of Key Customer and Corporate Customer Segments in a single place, enabled replication of a model which had proven successful in the Key Customer Segment.

The most important event, which aimed at rapid increase in ICT sales in the Corpo Segment, was a nationwide series of meetings, ICT Roadshow 2014. It involved 13 meetings in Poland's biggest cities, during which the new offer reached over 500 top companies in the Corpo Segment, generating over 100 new sales opportunities. The event was organised together with the Company's key technological partners in the ICT area: Cisco, EMC, VMWare and Samsung.

Portfolio Expansion

A new dedicated team, 'Smart City', was established in the first half of 2014 to carry out the biggest infrastructure projects which support the functioning of cities and their inhabitants. In the specialised portfolio, IaaS (Infrastructure as a Service) was enhanced. Since January, it has been offered as the Integrated Computing service, offering significantly greater functionalities and capacities then before.

In the further development of the 'IT Workstation for Business' service, new versions of Lenovo computers and a new printer supplier, Canon, were introduced to the portfolio in January. Furthermore, a try & buy option for IT support was added to the portfolio. A new service, Office 365 Package or a set of Microsoft office applications available in a cloud, has been in the IT for Business portfolio since May. The package also includes IT support for the customer's administrator. In addition, e-training for a range of Microsoft Office products was introduced in May.

4.8 Machine to Machine (M2M)

According to the results of the market research conducted by TNS upon Orange Polska's request, Orange Polska has maintained the leadership position in the M2M market for several quarters. This achievement reflects customers' trust in Orange services in this segment.

In the first half of 2014, new M2M Connect services were added to the Company's M2M portfolio. They enable unlimited access to packet data transmission for M2M purposes (e.g. video monitoring), which involve large data volumes. Owing to the new services, Orange Polska's portfolio even better matches the complex needs of customers in the M2M segment.

M2M solutions require top quality and continuous availability of data transmission. Therefore, in June 2014, M2M customers were offered a private APN monitoring service, which uses IPe2e probes to monitor the availability of private APNs from the radio network gateway to intranet terminals. The solution ensures even more efficient response of Orange Polska's technicians to any problems with APN availability. It also enables detecting transmission problems on the user side and informing customers automatically about any APN non-availability.

4.9 Growth of Infrastructure-based Operators in the Mobile Market

As the mobile market has entered the saturation phase, further growth of infrastructure-based operators can be mainly achieved in two key areas: (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 six months of 2014. Among the three biggest players, only Orange Polska reported positive developments in this area.

A particularly important development in the wholesale market in the first half of 2014 was 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 of Mr. Solorz-Żak's Group, such as Polkomtel, Cyfrowy Polsat and related company Sferia.

4.10 Development of the 4G Technology

The first half of 2014 saw massive rollout of networks by operators and introduction of offers including data services based on the LTE technology.

Orange Polska gained an opportunity to provide data services in the LTE technology, using the 1800 MHz band, pursuant to an annex to the RAN Agreement referred to in section 4.5 above. In September 2013, the Company launched LTE services, reaching more than 50% population coverage by the end of June 2014.

From 2011, a group of companies owned by Zygmunt Solorz-Żak, particularly Polkomtel and Cyfrowy Polsat, had a monopoly on 4G services for almost two years. Play launched commercial LTE services in November 2013 and T-Mobile became the last operator to join this group in June 2014. Thus, all infrastructure-based operators in Poland now offer access to 4G services to their retail customers.

LTE services are provided using the 1800 MHz spectrum. Frequencies from the 800 MHz and 2600 MHz bands, intended for the further increase of coverage and capacity of the 4G network, are to be distributed by the President of UKE through an auction process.

The auction announced by the President of UKE (Office of Electronic Communication) on 30 December 2013 was cancelled in February 2014 due to the fact that readable explanations to the auction dossier had not been published on time. On February 17, 2014, new consultation of the auction dossier was announced, then on April 4 the second round of consultation was launched. By the date of publication of this Report, the outcome of the consultation, which ended on May 5, had not been published. Thus, no plans concerning the action announcement, potential changes of terms or intended time schedule are known at the moment. In the second half of 2014, Orange Polska will continue investments in the rollout of LTE services using the 1800 MHz spectrum and intends to increase the service coverage to approximately 60% of Poland's population by year-end.

4.11 Purchase of a 2.4 MHz Block of Frequencies in the 1800 MHz Band from Polkomtel

On July 22, 2013 Orange Polska (then PTK Centertel) and Polkomtel concluded a conditional agreement on transfer of the right to manage frequencies in the 1800 MHz band. The agreement concerned a 2×2.4 MHz block of frequencies, namely 1757.5–1759.9 MHz and 1852.5–1854.9 MHz.
The key condition precedent was the issuance by the President of UKE, under Article122 of the Telecommunication Law, of a decision on changing the entity entitled to manage the aforementioned frequencies upon Polkomtel's request.
Such a decision was issued on February 28, 2014. According to it, Orange Polska became entitled to manage the transferred 2.4 MHz block as from March 1. As the President of UKE's decision was immediately enforceable, Orange Polska could apply for the re-assignment of this block (the original assignment expires on September 13, 2014).
Polkomtel appealed against the President of UKE's decision.
Owing to the fact that Orange Polska was entitled to manage the frequencies in questions since March 1, the Company applied for and obtained the first radio licences required to operate equipment in this band (spectrum used for provision of LTE services).
In a letter of June 13, 2014, Polkomtel withdrew its request of August 2013 for a change of the entity managing the 2×2.4 MHz block, while requesting the decision of February 28, 2014 to be cancelled.
On July 22nd President of UKE repealed the decision dated February 28th and decided to discontinue the proceeding.
Simultaneously, pursuant to the provisions of the agreement of July 2013, Orange Polska three times demanded that Polkomtel pay penalty fees totalling PLN 21 million for actions aimed at delaying the President of UKE's decision on the re-examination or repeal thereof.

4.12 Polkomtel's Letters to UOKiK and the European Commission

On April 1, 2014, the European Commission notified Orange Polska about Polkomtel's letter informing about a potential breach by Orange Polska and T-Mobile Polska of the Treaty provisions prohibiting agreements which may distort competition within the internal market (Article 101(1) of the Treaty). The letter also indicated a potential breach of the jurisdiction provisions contained in the Council Regulation No. 139/2004 on the control of concentrations between undertakings; Polkomtel claimed that the establishment of NetWorkS! should have been, allegedly, subject to approval by the European Commission rather than by UOKiK.

On April 15, 2014, Orange Polska sent to the European Commission a response to Polkomtel's charges, stating that in the Company's opinion they are groundless. The European Commission put further questions to Orange Polska on 8 July 2014.

On April 11, 2014, UOKiK opened initial proceedings to clarify whether the activity of telecommunication operators related to their co-operation of in providing access to, integration of or co-use of telecommunication networks, telecommunication infrastructure or frequencies might have resulted in a breach of the Act on Competition and Consumer Protection, justifying the opening of anti-monopoly proceedings.

In connection with the clarification proceedings, UOKiK requested that Orange Polska submit a range of documents and information, and the Company complied with the request.

In Orange Polska's opinion, there has been no breach of the Act on Competition and Consumer Protection.

4.13 Mobile Virtual Network Operators (MVNOs)

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.

According to Orange Polska's estimates, about twenty virtual operators operated in the market as at the end of June 2014 and their aggregate market share in Poland's mobile market was approximately 1%.

4.14 Nju.mobile

Nju.mobile aims to adapt Orange's marketing activity to the current market environment and maintain its leadership position. Nju.mobile is offered separately from the Orange brand. It is an price attractive alternative to all leading brands.

The main goal for the introduction of the new brand and its offer, was to attract a new group of customers, who are not interested in the current services offered by Orange. The target group for nju.mobile consists of customers, who are predominantly attracted by low prices and lack of obligations (e.g. long-term agreement or spending commitment). These are predominantly customers with low brand attachment or even clients seeking for new brands rather considering services offered by the leading mobile providers. The nju.mobile brand, with independent communication based on innovative and very simple concepts can reach these price sensitive customers (for offer characteristics please see section 3.1.2 above).

Nju.mobile can also contribute to cost optimisation. The nju.mobile post-paid offer is available exclusively on-line and is sold in the SIM-only option (i.e. without subsidised handsets). Hence, it does not involve a large portion of the traditional subscriber acquisition/retention costs, - handset subsidy cost and sales commission. Moreover, nju.mobile encourages customers to use on-line customer service and account management options (self care); customer care is not provided in Orange shops and the customer service help line is a paid service.

4.15 New Brands in the Mobile Market

The first six months of 2014 saw the following developments in the MVNO market:

- DobryTel, which offered 3 different numbers (including Polish and British or Dutch) per SIM card, decided to discontinue its activity at the end of May 2014;
- Multimedia Polska, MVNO controlled by a CATV operator, launched voice services hosted on Polkomtel's network in January 2014.

4.16 CATV Operators

Despite the growing market saturation and the launch of terrestrial digital TV, CATV operators, who hold a total share of approximately 40% in the pay TV market and control one third of the broadband market, attempt to strengthen their market position as providers of not only bundled telecommunication services (TV, broadband and voice), but also entertainment. This leads to the growing customisation of content and the development of services on demand, such as IPTV, HD channel portfolio, music and video-on-demand. Since usage of such services generates growing 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.

CATV operators, which operate in Poland's biggest cities and make use of the technological potential of their infrastructure, often offer higher broadband speeds or increased scope of services within a package without increasing the service price. In the first half of 2014, CATV operators actively promoted their mobile portfolio, using the MVNO model, in order to attract new customers and increase the loyalty of the existing customer base. The share of convergent offers (bundled fixed and mobile services) will grow steadily among CATV operators.

Further consolidation is expected in the CATV market, as UPC, Multimedia Polska and Vectra have all declared their acquisition ambitions.

4.17 Infrastructure Development

By the end of June 2014, Orange Polska provided services based on the VDSL technology in over 3,600 network sites. At the same time, migration of the aggregation network from ATM to the IP standard was continued; by the end of June 2014, approximately 68% of *Neostrada* customers and 43% of iDSL customers were handled using access nodes connected via the IP aggregation network.

The capacity of a system for handling IPv6 addressing was increased in the first six months of 2014. The new architecture enables Orange customers to use both protocols, IPv4 and IPv6, and enables evolutionary migration of the whole IP network to the IPv6-only solution.

In the first half of 2014, Orange Polska started to implement new super-core routers, scalable to 8 Tbps each, in order to increase the capacity of the IP backbone network to at least 640 Gbps with protection mechanisms by the end of 2014. In consideration of the growing traffic, the backbone network equipment has been prepared to set up IP connections at 100 Gbps and a first such connection was commercially launched between Warsaw and Poznań.

Furthermore, a process of adjustment of the IP network infrastructure to future traffic requirements continued in the first half of 2014. 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 initiated, and 20 new aggregation network nodes were launched.

In the ongoing process of co-using of the mobile networks, being developed jointly with T-Mobile, a total of 348 out of 363 clusters, covering 92.7% of Poland's territory, had been consolidated by the end of June 2014. As a result, the UMTS/HSPA co-used networks covered approximately 97.15% of Poland's population as of the end of June 2014. 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 2014, its coverage had reached 51.65% of Poland's population.

Orange Polska continued to provide the CDMA service with the maximum capacity of the Evdo Rev. B Phase I standard network, while offering Orange customers the maximum speed of 9.3 Mbps from each of 804 CDMA sites (2,385 sectors). In the second quarter of 2013, the network software was upgraded to the latest version in the radio portion of the entire CDMA network. The upgrade was required to secure further support and maintenance of the CDMA network radio interface by the supplier.

The co-using of the radio networks achieved its target in the first half of 2014, as 2,782 transmission lines of the capacity of 1 Gbps operating in the packet technology were provided.

In addition, further 463 fibre-optic leased lines for the mobile network of Orange Polska and 204 lines for T-Mobile for connecting the stations of the commonly used mobile access networks were provided in the first six months of 2014. Furthermore, in the first half of 2014, packet data transmission was provided for the purpose of the LTE service for 2,245 base stations nationwide. The radio networks co-using goals were met, as both the radio network coverage and the transmission rate available to end users increased.

4.18 Orange Polska's Activity within Regional Operational Programmes

Orange Polska as a beneficiary of EU funds in the 2007-2013 Regional Operational Programmes has been developing its own broadband infrastructure in two regions of Poland, namely Lubuskie Region and Pomeranian Region. In three other regions, in which the networks developed are to 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 Warmia-Mazuria Region and the Subcarpathian Region).

The aggregate outcome of the projects in the Lubuskie Region and Pomeranian Region will be 3,236 km of new regional information highways (in both core and distribution network layers) as well as new service access points in over 500 towns located within the current network coverage gaps. In the short term, the launch of the new infrastructure will improve the parameters of services provided via the existing access lines, while in a slightly longer perspective, it will enable the development of the 'last mile' network. Any operator interested in providing retail services has open access to the regional information highway on the basis of Orange Polska's wholesale offer and the network technological neutrality imposes no limitations on access solutions.

4.19 Claims and Disputes, Fines and Proceedings

Please see Note 8 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, particularly an appellate procedure against a fine imposed by the European Commission.

4.20 Cost Calculation Results

Under the regulatory obligations resulting from having significant market power in the relevant markets for bitstream access (market 12/2003) and retail services (markets 3/2003 to 6/2003), in 2014 Orange Polska has an obligation to carry out costing of services covered by the aforementioned markets for 2015, and submit the results thereof to an independent auditor selected by the President of UKE. In addition, Orange Polska has an obligation to prepare regulatory accounting statements for 2013 and submit them to an independent audit.

In performance of its regulatory obligations, Orange Polska submitted a manual for drawing up regulatory statements for 2013 as well as descriptions of service costing for 2015, including changes proposed by Orange Polska, for the President of UKE's approval. The President of UKE accepted these changes and on March 26, 2014 issued a decision approving Orange Polska's service costing description and regulatory reporting manual. On April 10, 2014, the Polish Chamber of Electronics and Telecommunications applied to the President of UKE for the re-examination of the case. Following the resulting administrative proceedings, on June 5, 2014, the President of UKE upheld her decision of March 26, 2014 in its entirety.

On May 9, 2014, the President of UKE called upon Ernst&Young Audit sp. z o.o. to audit Orange Polska's service costing for 2015 and regulatory accounting statements for 2013.

According to the adopted time schedule, the audit will end on August 8, 2014 with the submission of the audit report together with the auditor's opinion to the President of UKE and Orange Polska. In its opinion, the auditor will indicate whether Orange Polska's regulatory accounting statements and service costing have been developed in compliance with the mandatory regulations as well as the relevant regulatory reporting manual and service costing description.

Court proceedings regarding service costing descriptions for 2010 and the regulatory reporting manual for 2008 are pending. On March 30, 2010, the Regional Administrative Court rejected Orange Polska's complaint against the President of UKE's decision approving service costing descriptions for 2010 and the regulatory reporting manual for 2008. Consequently, on December 14, 2010, Orange Polska filed a cassation appeal against the Regional Administrative Court's ruling with the Supreme Administrative Court, then on April 5, 2012, the Supreme Administrative Court cancelled the Regional Administrative Court's ruling and transferred the case back for re-examination. On March 19, 2013, the Regional Administrative Court cancelled the President of UKE's decision being the subject of appeal and the preceding decision, and declared that they were not to be implemented. In August 2013, the President of UKE and the Polish Chamber of Electronics and Telecommunications, which is a party to the proceedings, filed cassation appeals with the Supreme Administrative Court against the Regional Administrative Court's ruling March 19, 2013. The proceedings are pending.

4.21 Compensation for Universal Service Costs

Appeal proceedings against the President of UKE's decisions granting Orange Polska compensation of the net cost deficit for the years 2006 to 2012 are pending.

In 2012, the Regional Administrative Court rejected Orange Polska's complaints against the President of UKE's decisions regarding compensation of the net cost deficit for the years 2006, 2007, 2008 and 2009. Orange Polska has filed cassation appeals with the Supreme Administrative Court with respect to the aforementioned rulings of the Regional Administrative Court.

In December 2013 and May 2014, the Supreme Administrative Court examined Orange Polska's appeals and reversed all the rulings adverse to Orange Polska, transferring all cases for the re-examination by the Regional Administrative Court. The primary basis for the reversal was the fact that UKE and the Regional Administrative Court groundlessly assumed that compensation should be reduced when Orange Polska had failed to meet some of the USO indicators.

The case of compensation for 2010 is pending examination by the Supreme Administrative Court (with Regional Administrative Court's ruling adverse to Orange Polska), while the case of compensation for 2011 is pending review by the Regional Administrative Court.

The compensation is paid pro rata by all the operators (including Orange Polska) with revenues of more than PLN 4 million in the year for which the compensation is due. The President of UKE determines the share of particular operators in the compensation to be paid to the Company by way of individual decisions.

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. Simultaneously, the President of UKE has initiated proceedings to determine the share of particular operators in the compensation for the years 2006 to 2011.

On March 26, 2014, the President of UKE determined a list of 91 operators to share in the compensation for 2006 and a uniform percentage rate to determine their respective shares (with reference to their revenues). The decision does not determine the amounts to be paid by individual operators; these will be determined by the President of UKE in separate decisions.

Proceedings to determine operators to share in the compensation for the years 2007 to 2011 are pending.

5 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

5.1 Market Outlook

According to Group's estimates, the value of Poland's telecommunication market decreased by 3.7% in the first half of 2014 as compared with the first half of 2013. The main factors contributing to the decline were an MTR reduction and a decrease in roaming fees, which in turn resulted in a general drop in prices. There is still a downward trend in the fixed-line voice market, though it is partly offset by growth in the fixed broadband market.

On July 1, 2013, MTR rates were reduced to PLN 0.0429 / minute. The reduction caused a significant decline in wholesale revenue of mobile operators, while resulting in a decrease in prices of calls off-net. Earlier (on January 1, 2013), the MTR asymmetry favouring the Play network was eliminated; previously, it used to be an element of regulatory preferences for P4 (Play network operator) over other mobile 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 potentially affect the substitute role of mobile services to fixed line services or the complementarity of both 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.

There was a number of major ownership changes in the telecommunication market in the first six months of 2014. The acquisition of GTS Central Europe by Deutsche Telekom (owner of T-Mobile Polska) was approved by the European Commission and the merger process was initiated. Cyfrowy Polsat took over control of Polkomtel, thus increasing its potential for offering convergent services. Orange Polska signed an agreement for the sale of Wirtualna Polska, which is to be merged with the O2 Group's portal by the new investor. Furthermore, new business partnerships were formed, which combine telecommunication services with other sectors of the economy. Operators started to sell banking services or, in conjunction with electricity providers, offer power supply to its customers. One of mobile operators is also considering gas sales. These processes are expected to continue in the future.

Regarding sale of shares through the stock exchange, Multimedia Polska's initial public offering was cancelled due to unsatisfactory demand from investors, while Tele-Polska Holding sold just 22% of its shares offered.

5.2 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);
- Unique service portfolio, which includes services from outside the core telecommunication sector (multimedia, e-health, e-insurance, smart home and dedicated applications);
- 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 and *nc+*);
- 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 and Deutsche Telekom) as well as close co-operation and R&D experience sharing within the Orange Labs network;
- One of Poland's top ten employers in 2013 (according to the CRF Institute) 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 sole 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.

5.3 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 (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.

Strategic vision for 2013–2015 (based on strategy presented in February 2013):

customer customer-oriented, total telecom solutions	**our commitments** – sign up about half of our contract customers to convergent products, like Orange Open – compete with solutions that offer better services and better value to customer – single, convergent sales network – seamless 'Orange Care' customer service operation
convergence anytime, anywhere services, convenient and technology-transparent	**our commitments** – full legal merger of fixed and mobile businesses – coherent service for >20 million customers – maximise sales of product bundles and convergent solutions
connectivity seamless connectivity experience on a convergent network with wide coverage	**our commitments** – extend very high broadband (VHBB) network to 4 million homes – extend 4G coverage to over 90% and 3G coverage to 80% of population – ensure seamless switching between networks – improved customer experience
capital selective investments and a sound balance sheet	**our commitments** – long-term capex target at 12-13% of annual sales (excl. spectrum acquisition and licence renewal) – selective network investments to enable revenue-generating data traffic, including spectrum to launch 4G services – in the long term, net gearing maintained below 40% and net debt to EBITDA at maximum 1.5x – reasonable remuneration offered to Group's shareholders
cost efficiency flexible cost base and an effective business model	**our commitments** – social plan to reduce headcount by 2,950 in 2014–2015 including 1,530 FTEs less in 2014 – reduction in the number of low performing shops and growth in share of online sales – co-used network to provide cost savings, coupled with significant capex avoidance – reduction of G&A costs made possible by the merger of TP S.A. with PTK Centertel into a single company, Orange Polska – study of options, including partial outsourcing, for the fixed network and IT activities – sale of non-core subsidiaries, including Wirtualna Polska

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

6 CHANGES IN THE GROUP'S STRUCTURE IN THE FIRST HALF OF 2014

6.1 Changes in the Corporate Structure of Orange Polska S.A.

In February 2014, a new position reporting directly to the President of the Management Board was created:

- Board Member in charge of Business Market (formerly Executive Officer in charge of Business Market).

6.1.1 Management Board of Orange Polska S.A.

As of June 30, 2014, the Management Board is composed of six 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 Value Management and Convergence;
- Vice President of the Management Board in charge of Operations;
- Management Board Member in charge of Finance;
- Management Board Member in charge of Human Resource; and
- Management Board Member in charge of Business Market.

6.1.2 Business Units of Orange Polska S.A.

The total number of business units within the organisation changed in the first half of 2014.

As of June 30, 2014, Orange Polska had 77 business units, reporting directly to:

1) President of the Management Board: 3 business units;
2) Vice President of the Management Board in charge of Value Management and Convergence: 4 business units;
3) Vice President of the Management Board in charge of Operations: 10 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) Management Board Member in charge of Business Market: 7 business units;
7) Executive Officer in charge of Corporate Matters: 7 business units;
8) Executive Officer in charge of Service Centre: 6 business units;
9) Executive Officer in charge of Customer Relations Strategy: 4 business unit;
10) Executive Officer in charge of Mass Market Marketing: 8 business units;
11) Executive Officer in charge of Operator Customer Market: 6 business units; and
12) Executive Officer in charge of Sales: 7 business units.

6.1.3 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 2014.

6.2 Ownership Changes within the Group in the First Half of 2014

6.2.1 Sale of Wirtualna Polska S.A.

On February 13, 2014, Orange Polska effected sale of all shares in Gdańsk-based Wirtualna Polska S.A. to o2 sp. z o.o. The shares constituted a 100% stake in Wirtualna Polska S.A. and corresponded to 100% votes at the General Assembly of the latter. The final sale price was PLN 382 million.

6.2.2 Division of Contact Center sp. z o.o.

On May 8, 2014, Contact Center sp. z o.o. (the current name: Orange Szkolenia sp. z o.o.) was divided by separation of a portion of its assets, constituting an organised part of the enterprise, and the transfer thereof into a newly established company. The newly established company assumed the name of the divided company, i.e. Contact Center sp. z o.o.

6.3 Parent Company's Shareholders

As of June 30, 2014, 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 June 30, 2014 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 (formerly France Telecom 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, 2014, 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, 2014, 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 the first half of 2014, but an Incentive Programme for the Key Managers was launched in 2007 (for more information please see section 7.2.2 below).

7 GROUP'S STRUCTURE AS OF JUNE 30, 2014

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

7.1 Corporate Governance Bodies of the Parent Company

I. The composition of the Management Board in the first half of 2014

Composition on January 1, 2014:

1. Bruno Duthoit - President of the Board
2. Vincent Lobry - Vice President of the Board
3. Piotr Muszyński - Vice President of the Board
4. Jacques de Galzain - Board Member
5. Jacek Kowalski - Board Member

On February 6, 2014, Mr. Mariusz Gaca was appointed by the Supervisory Board as Member of the Management Board.

On February 24, Mr. Jacques de Galzain resigned as Member of the Management Board, effective on February 28.

On March 17, Mr. Maciej Nowohoński was appointed by the Supervisory Board as Member of the Management Board.

Composition on June 30, 2014:

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

II. Composition of the Supervisory Board and its Committees and changes thereof in the first half of 2014

Composition on January 1, 2014:

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

On April 10, 2014, the mandates of Messrs. Benoit Scheen, Timothy Boatman, Pierre Louette and Gérard Ries expired.

On the same day, Messrs. Benoit Scheen, Russ Houlden and Gérard Ries and Ms. Valérie Thérond were appointed by the Annual General Assembly as Members of the Supervisory Board.

Composition on June 30, 2014:

1.	Maciej Witucki	- Chairman of the Supervisory Board
2.	Prof. Andrzej K. Koźmiński	- Deputy Chairman and Independent Board Member
3.	Benoit Scheen	- 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.	Dr. Mirosław Gronicki	- Independent Board Member
9.	Russ Houlden	- Independent Board Member and Chairman of the Audit Committee
10.	Sławomir Lachowski	- Independent Board Member
11.	Marie-Christine Lambert	- Board Member
12.	Gervais Pellissier	- Board Member
13.	Gérard Ries	- Board Member
14.	Dr. Wiesław Rozłucki	- Independent Board Member and Chairman of the Remuneration Committee
15.	Valérie Thérond	- 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, Sławomir Lachowski and Dr. Wiesław Rozłucki.

Composition of the Committees of the Supervisory Board on June 30, 2014:

The Audit Committee

1. Russ Houlden – Chairman
2. Marc Ricau
3. Sławomir Lachowski
4. Marie-Christine Lambert

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

The Remuneration Committee

1. Dr. Wiesław Rozłucki – Chairman
2. Prof. Andrzej K. Koźmiński
3. Benoit Scheen
4. Marc Ricau

The Strategy Committee

1. Benoit Scheen – Chairman
2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Dr. Mirosław Gronicki
5. Sławomir Lachowski
6. Gérard Ries

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

On July 10, 2014 Mr Benoit Scheen submitted his resignation as Member of the Supervisory Board of Orange Polska S.A. with effect on August 31, 2014.

7.1.1 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 or related entities as of June 30, 2014.

Maciej Witucki Chairman of the Supervisory Board held 4,000 shares of Orange Polska as June 30, 2014.

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 June 30, 2014 was as follows:

Piotr Muszyński	190,896
Jacek Kowalski	25,241

The members of the Supervisory Board of Orange Polska S.A. do not participate in the Company's incentive program and held no first option bonds as at June 30, 2014.

7.1.2 General Assembly

On April 10, 2014, 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, net of withholding tax, was paid on July 10, 2014.

7.2 Workforce

As of June 30, 2014, Orange Polska employed 18,594 people (in full-time equivalents), which is a decrease of 11.6% compared to the end of June 2013.

The workforce reduction (year-on-year) resulted from the sale of Wirtualna Polska S.A. (410 employees) and Orange Real Estate sp. z o.o. (88 employees) as well as a decrease in Orange Polska S.A. (by 702 employees), Orange Customer Service sp. z o.o. (844 employees), Ramsat S.A. (352 employees) and TP Edukacja i Wypoczynek sp. z o.o. (54 employees).

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 667 employees left the Company in the first six months of 2014, 92% of whom under the voluntary departure programme. Severance pay was paid to 399 departing employees and averaged PLN 62 thousand per employee in the first half of 2014. 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 274 people left the company in the first six months of 2014, 88% of whom on a voluntary departure basis. Severance pay averaged PLN 51.1 thousand. Voluntary departures at OCS were effected on the same terms as in Orange Polska S.A.

In the first six months of 2014, external recruitment in Orange Polska totalled 255 positions. External recruitment was mainly related to sale positions and customer service staff.

7.2.1 Social Agreement

On December 9, 2013, the Management Board of the Company concluded with trade unions a new Social Agreement for the years 2014–2015, coming into force on January 1, 2014. In particular, the Social Agreement concerns investments in a friendly work environment and pay rises (2.5% both in 2014 and 2015), as well as enabling long-standing employees to leave the Company with fair compensation and supporting employees, particularly aged 50 or more, in seeking jobs in the market (outplacement).

In the years 2014–2015, up to 2,250 employees of Orange Polska S.A. and 700 employees of Orange Customer Service sp. z o.o. (a wholly-owned subsidiary of Orange Polska S.A.) with seniority of over 10 years will be eligible for the voluntary departure package. In addition, the parties concluded separate agreements with trade unions specifying that up to 1,150 employees of Orange Polska S.A. and 380 employees of Orange Customer Service sp. z o.o. may use the package in 2014. In Orange Polska S.A., the voluntary departure offer is addressed to the employees who are covered by the Intragroup Collective Labour Agreement.

The package offered to departing employees depends on their seniority in the Group and ranges between 4 and 15 basic monthly salaries. In 2014, this is increased by an additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 9,000 for employees with seniority of more than 15 but less than 20 years or PLN 26,000 for employees with seniority of more than 20 years.

7.2.2 Stock Option Plan

On April 28, 2006, the General Assembly of TP S.A.(currently Orange Polska S.A.) approved an Incentive Program based on a "Stock Option Plan". On December 12, 2006, the Management Board of TP S.A. adopted the resolution No. 149/0/06 on adopting the Incentive Program Rules for the Members of the Management Board of TP S.A. and the Incentive Program Rules for the Key Managers of the TP Group (currently Orange Polska Group).

The main purpose of the Program is to link the remuneration of key managers with their contribution into Orange Polska Group's development through enabling them to benefit from the planned growth of the Company's value; getting them more involved in the active management of the Group in order to increase its profitability.

First Option Bonds

The Program is carried out through issuing Orange Polska S.A.'s first option bonds. The issued bonds are registered bonds giving the right to subscribe, before the existing shareholders, for B-series shares issued by Orange Polska S.A.

Pursuant to the resolution on the issue of bonds proposed by the Management Board the bonds have the nominal value of PLN 0.01 per piece and are to be issued at the issue price equal to the nominal value. Owing to the purpose of the Program, the bonds will not bear coupons. One bond will enable the subscription for one B-series share.

B-series shares carry the right to the dividend on the terms described in the information memorandum.

The issue of new B-series shares has an impact on reducing the percentage share of the existing shareholders in the share capital of Orange Polska S.A. In the case that the bondholders exercise the rights under all the bonds, the percentage share in the share capital of all existing shareholders will be reduced by 0.508%.

Size of the Program

Initially in total, 7,113,000 of bonds enabling the subscription for 7,113,000 B series shares were planned to be issued in the Program.

Size of Individual Award

The number of bonds granted to particular Beneficiaries depends on the assessment of performance and operational involvement of each Beneficiary and the level of responsibility.

Exercise Period

The bondholders' right to subscribe for B-series shares might be exercised within seven years, i.e. from the third anniversary of the bonds issue date to the 10th anniversary of this date. The exercise of this right will be possible, in principle, only if the Beneficiary, on the day of its exercise, is the employee or member of the governing bodies of the Company or companies from the Group covered by the Program. As a general rule, if the Beneficiary stops being the employee or the member of Orange Polska S.A. governing bodies or those companies before the subscription date of B-series shares, all their bonds will be redeemed by way of payment of the nominal value of these bonds.

Issue Price of Shares

The issue price of B-series shares taken up by the bondholders was set by the Management Board of TP S.A. on the bonds issue day and was equal to the average market price of TP S.A. shares from 20 sessions on the Warsaw Stock Exchange immediately preceding the bonds issue day.

In September 2007, the Management Board launched the Program and the information memorandum was sent to potential Beneficiaries. Subscription letters were sent to 356 employees, out of which 339 managers subscribed for options (96% of potential Beneficiaries). The grant date was set up on October 9, 2007 and the option exercise price at PLN 21.57 (average TP S.A. close price of 20 sessions on Warsaw Stock Exchange proceeding the grant date). 6,047,710 A-series bonds were allotted to eligible managers and 154,698 bonds were taken by the trustee (KBC Securities). 0.9 million options out of 7.1 million were not issued. Cost of the Program of PLN 25 million has been booked over the vesting period.

By the end of June 2014, a total of 2,987,737 options had been redeemed as a result of the termination of Beneficiaries' contracts of employment in the cases set out in the Program.

The Program is secured by a control system according to the resolution that implemented the Program in the Group. The Program is subject to a special procedure consistent with the reporting standards that is implemented across Orange Group (previously France Telecom Group). The controls will include the verification of the number of Program beneficiaries, Program revaluation and settlements with the employees leaving the Company.

CHAPTER IV
KEY RISK FACTORS

8 RISK FACTORS AFFECTING THE ACTIVITIES OF ORANGE POLSKA

The risks mentioned in this report are not intended to constitute an exhaustive list of all possible risks and uncertainties, which could adversely impact the Group's activities, its results, liquidity or capital resources. The system of internal control and risk management in the Group is designed and implemented by the Management. This approach allows to manage the risk of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures as needed) – (please see Note 29 to the IFRS Consolidated Full-Year Financial Statements for additional information about major outstanding claims and litigations). Our processes are designed to give reasonable, but cannot give absolute assurance that the risks significant to the Group are identified and addressed. There may be risks which are unknown or which are presently judged not to be significant but later prove to be significant. We have included comments on mitigations that are applied to help us manage the risks; however, it is possible that not all of these mitigations will be successful.

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The Group has developed a risk management process which encompasses risk identification, analysis and assessment, implementation of risk mitigation measures and verification of action results. This provides the Management Board with information about the key risks within the Group, so preventive actions may be additionally supported. The Risk Management team provides structure, facilitates communication and reviews external risks reported within the industry. The review and assessment of the identified risks, the identification of the main causes and the implementation of action plans involve the participation of Group's top management. The major risks are subject to monitoring. For such risks, preventive measures aimed at reducing their vulnerability and limiting their potential impact on the Group's operations are implemented. The top risks are updated and submitted by the Management Board to the Supervisory Board on an annual basis. The internal audit plan for each year is developed also taking account of a list of the major risks identified.

8.1 Implementation of the Group's Medium Term Action Plan

The medium-term plan focuses on stabilising the Group's leadership in Poland's telecommunication market, rebalancing the organisation in order to achieve greater efficiency and ensure meeting the expectations of external and internal customers to the greatest possible extent. Due to strong competition and volatile regulatory environment, the Group's ability to achieve business objectives is under strong pressure, so Orange Polska carries out dedicated actions aimed at reducing the competitive pressure on its performance by constantly modernising its offers in the fixed-line and mobile segments and enhancing customer service. The Group's ability to protect its margins will also depend on the transformation of its cost structure.

8.2 Regulatory Decisions and Changes in the Regulatory Environment Could Adversely Impact the Group

The Group must comply with various regulatory obligations governing the provision of its services and products, also relating to obtaining and renewing licenses. The regulatory obligations result from significant market power of Orange Polska on the relevant markets. If Group companies are unable to satisfy the imposed regulatory requirements or fail to meet imposed requirements, there is a risk of administrative fines. As provided in the Telecommunications Law of July 16, 2004, the President of UKE may impose a penalty of up to 3% of its prior calendar year's revenues on a telecommunications operator, if the operator does not fulfil certain requirements thereof.

According to the Act on Competition and Consumer Protection (UOKiK), 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 or also up to a maximum amount of 10% of an entity's prior year's revenue for a breach of the law.

Further information on the regulatory risks is set out in section 9.

8.3 The Extent of Competition and the Resulting Pressure on Services and Prices

Strong competition on the market and technological developments of new services result in pressure on price reductions in the mobile segment and also in the fixed segment. There is a risk that the effect of further price reductions will not be offset by increased volume of traffic on the network. Competition could lead to a reduction in the rate at which the Group adds new customers, a decrease in the size of the Group market share and a decline in ARPU in certain markets. The Group faces competition from not only telecom and cable - network companies but also players from outside the industry, such as providers of special services (VoIP, video services/TV Over-The-Top). Despite its efforts, the Group is still at risk of erosion of its revenues and market shares.

In response to this competition, the Group strives to better answer customer needs in terms of the quality and simplicity of services. The Group is developing an organisation, procedures and systems aimed at offering the latest technological developments and improved products and services to its customers. Perception and trust from customers is one of the top priorities of Orange Polska. In order to enhance customer relationship the Group continues the transformation to a customer centric organisation.

The Group continues to introduce further convergent offers like Orange Open which combines multi contract packages of fixed/mobile voice and data services, Internet and television. The Group has introduced new mobile brand on Polish telecom market: nju.mobile. It was created mainly for customers looking for smarter and cheaper solutions, in prepaid and postpaid segment. The Group continues to offer IT and telecommunication system integration services and provides solutions to satisfy business clients' needs. The uncertainty remains with regard to not being able to successfully monetize new services offered to customers and profit from the significant investment made.

In addition, new products and services require an adjustment of network and IT systems. This is a complex and time-consuming process, which poses a potential risk of delays in the market launch of products and services. The requirement to provide an equivalent offer to alternative operators poses an additional risk to timely implementation thereof. Delays in the launch of new products and services may result in lower than planned take-up, posing a risk of non-achievement of the Group's budgeted financial results.

8.4 Potential Saturation of Networks

The current expansion in broadband usages, such as TV (as part of triple-play) or Internet, fixed-line and mobile, has already on occasion resulted in the saturation of existing aggregation and backbone networks. As a result of growing use of sophisticated equipment (smartphones, tablets) and development of services which require high capacity, the Group faces a challenge of undertaking significant capital expenditure programs in scope of aggregation and backbone networks development in order to ensure appropriate servicing of growing IP traffic.

8.5 New Investments in Network Infrastructure

In 2014 the Group expects to invest substantial amounts over the next years in acquiring new reservation of frequencies or renewing the existing reservation of frequencies. There is a risk concerning the costs of acquiring frequencies resources and the availability of future spectrum.

Due to new services, growing customer needs and competitive pressure, the Group undertakes costly investments in the network infrastructure. To achieve synergies and assure more efficient use of the network infrastructure, Orange Polska has established a RAN Sharing cooperation with T-Mobile Polska with the objective to build the best-in-class mobile network development by 2014. Partners established also a joint venture NetWorkS! – entity responsible for managing the networks owned by Orange and T-Mobile.

The Group continues the development of HSPA+ DC, LTE network and deployment of fixed and radio IP backhaul to handle increasing traffic.

Traffic growth trends in mobile network will require in coming years investments in new sites providing additional capacity for data as well as new equipment on existing sites. While new LTE layers will be added, the need for fiber optical aggregation network for mobile sites will arise for the group of sites, which are currently served via microwave backhaul.

8.6 New services

The Group's growth also depends on a strategy for developing new businesses to cope with the rapid and extensive transformation of the electronic communications sector. This strategy rests on new businesses, particularly content aggregation, mobile payment, contactless services (NFC), Machine to Machine or cloud computing. The pursuit of these goals requires resources, in particular regarding service integration and content development, however there is no guarantee that the use of these services and contents will grow or that they will be monetized at fair value and generate a profit on the corresponding costs or that current market shares can be maintained. Furthermore, the development of these new services could be hampered by regulatory changes or as a result of the economic environment.

Further information on Orange Polska services is set out in sections 3 i 4 above.

8.7 Non-availability or Failure of Technical Infrastructure

The technical infrastructure required to offer the Group's products and services is exposed to a risk of failure and interruption resulting from natural disasters or intentional human actions. Interruptions in technical infrastructure operations have a direct impact on provision of services and supply of products by the Group, which in turn translates into lower revenues from such products and services and a decline in customer satisfaction and the deterioration of the Group's image. This risk is mitigated by the proper network development planning, preventive maintenance, implementation of business continuity and crisis management plans and insurance schemes. The Group is generally covered by an insurance policy which protects it against loss of assets and profit if the Group's telecom infrastructure has been damaged. Aerial lines and submarine cables are excluded from the insurance policy and damage to these assets, and resulting losses, will be borne by the Group.

8.8 System security and Data Protection

The Group is faced with numerous security challenges. Any material failure in maintaining the security of network infrastructure and ITsystems may significantly damage our reputation and may lead to disruptions in business processes, resulting in revenue losses. Therefore the Group implements measures, as far as it is practicable, to protect the network and IT infrastructure from cyber-attacks and to detect the disclosure of sensitive data to unauthorised parties and to promptly react to security incidents.

8.9 Non-availability or Failure of IT Systems

As rapid implementation or modification of IT systems has become a necessity to meet customer demand for attractive offers, there may be a risk of malfunctions resulting from insufficient testing of new services or lack of data integrity within connected systems. Potential failures and reduced availability of critical systems, resulting from frequent changes in the applications used, can lead to decreased quality of services and delayed response to changing customer needs.

8.10 Dependence on External Partners

The Group concludes contracts with external partners, particularly for development and maintenance of its networks and telecommunication and IT infrastructure. Although adequate safety clauses are included in the contracts, there is still a risk of non-performance by the Group's suppliers, resulting in delays and a decrease in quality of services provided by the Group. At the same time, the Group has partially outsourced operation and supervision of IT and networks systems and processes to external suppliers. This process has been monitored on a current basis in order to assure its optimum operation and taking effective corrective actions, if required.

8.11 Risk Related to Trade Agreements and Strategic Alliances

In order to attain its business objectives and to mitigate the risk in question, the Group attempts to extend its portfolio through trade agreements and strategic alliances that enable it to use products and services of external partners. It is assumed that such bilateral agreements will bring added value to both the Group and its customers. However, there is a risk that the benefits resulting from them will fall short of the anticipated and planned levels. At the same time, the Group is at risk of losing a portion of its revenues due to migration of some of the existing customers who may sign beneficial trade agreements or arrangements with other telecom service providers which are competitive to Orange Polska. In response, Orange Polska has undertaken a number of initiatives to reduce the exposure. In particular, a co-operation agreement with *nc*+ is continued: both companies have joined forces to satisfy growing demands of customers and provide them with as complete an offer as possible.

8.12 Availability of Skilled Employees

The Group operates in a market which is affected by a constant risk related to attracting and retaining skilled employees in all business areas. The risk of unavailability of skilled employees is particularly noticeable in customer service and sales, where personnel turnover is relatively high, and in the technology area, where highly qualified employees need to be attracted. It may pose a threat to the timely performance and quality of the Group's core business processes and may hinder the achievement of the Group's business objectives.

8.13 Human Resources Risks and Alignment of Organisation Structure

The Group, its managers, continues transforming its internal culture in order to motivate the employees and drive the performance culture and also streamlining the organisation and infrastructure in order to confront the competition and to take account of new technologies, new and more efficient business models through the transformation program. If the Group does not complete these transformations successfully, its operating margins, financial position and results could be adversely impacted.

The Group has continued a voluntary departure programme and a workforce optimisation process. Regular staff satisfaction surveys are conducted by an outside consultant.

8.14 Issues Related to the Incorporation of TP S.A.

TP S.A. was established as a result of the transformation of the former state-owned organisation PPTiT into two entities – Poczta Polska and TP S.A. During the transformation process and transfer of ownership rights to the new entities, certain items of property and other assets that are currently under the Company's control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that Orange Polska S.A.'s rights to certain

properties may be questioned. A process of dissolution of co-ownership and regulation of limited rights in property (e.g. entering them in land and mortgage registers) is going on and will be continued for a few more years.
In addition, as the regulations concerning the transformation of PPTiT are unclear, the division of certain liabilities of PPTiT may be ineffective, which may result in joint liability in respect of Orange Polska S.A.'s predecessor's obligations existing at the date of transformation.

8.15 Tax Contingent Liability

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes causing considerable volatility of the tax system.
Tax authorities may examine accounting records up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. Orange Polska S.A. and certain of its subsidiaries were subject to audits by the tax office in respect of taxes paid. Certain of these audits have not yet been finalised. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard.

8.16 Compliance with Personal Data Protection Regulations and Breach of Licence Agreements or Infringement of Copyrights

The Group possesses a vast customer base and constantly undertakes activities designed to prevent leakage of its customers' data. In that respect, the Group complies with the relevant regulations, implements adequate policies, adheres to rules and guidelines, and conducts any relevant training. However, it is not possible to fully exclude the risk of an unintended leak of data.
There are further risks which arise from the Group's operations as a broadcaster of Orange Sport television channels. The risks include that of infringing copyrights, neighbouring rights or defaming persons or entities. In addition, the broadcasts are subject to regulations regarding the editor's responsibility for content of programmes comprising the service as well as a number of regulatory obligations imposed by the Polish Broadcasting Act. Orange Polska S.A. uses its best efforts to properly perform its obligations under Polish copyright law, press law, intellectual property law, Broadcasting Act and Act on Suppression of Unfair Competition. It applies to all content used in all media, including the Internet.
Some element of risk derives from a lack of effective control over broadcast content, in particular during broadcasting of live programmes. However, it should be noted that the Group exercises due diligence in preparing programmes to avoid any unlawful materials from being broadcast.

8.17 Environmental Risks

Orange Polska believes that its activities do not pose a serious threat to the environment. The Group's activities generate waste for which recycling is closely controlled, such as electronic equipment waste, electronics at end-of-life, batteries and storage cells, cables and treated poles as well as other waste.
Procedures for monitoring and reporting environmental impact have been implemented in Orange Polska. These procedures are aimed at limiting the impact of the Group's activities on the environment and at maintaining compliance with Polish regulations on environment protection. The Group has been subject to environmental audits which have confirmed its compliance with Polish regulations and highlighted achievements in the field of limiting the impact on the environment. In addition, a team has been established to carry out on going supervision regarding regulatory compliance, emission levels, as well as to meet other legal requirements in the area of environmental protection.
Exposure to electromagnetic fields from telecommunications equipment raises concerns for possible health risks. If the perception of this risk were to deteriorate or if a health risk was scientifically proven, this could have a material impact on the activity and results of operators such as Orange Polska.

8.18 Risk of Impairment in Value of Assets

Recoverable amounts of the businesses which support the book value of non-current assets, including recorded goodwill, are sensitive to the valuation method and to the assumptions used in the model. They are also sensitive to any change in the business environment that is different to assumptions used. For further information on the impairment of goodwill and the recoverable amounts see the notes in the IFRS Consolidated Full-Year Financial Statements.

9 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 section 8 above.

9.1 Regulatory Risks

Changes in the regulatory environment combined with increasing competition caused pressure on the Group's top line in the first half of 2014.

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 interest. Orange Polska intends to turn to relevant European Union institutions whenever it believes that European law is being breached.

9.1.1 Single Reference Offer

On September 29, 2010, the President of UKE decided to approve the single reference offer ("SRO") for RIO, WLR, BSA and LLU services. As the approved offer differed from the draft submitted by Orange Polska for approval, the Company filed a complaint against the SRO approving decision. On March 3, 2014, the Regional Administrative Court rejected the complaint.

In 2014, the President of UKE issued five SRO modifying decisions, as follows:

- regarding information and request handling services available in the WLR scheme (issued on March 3, 2014);
- regarding increased-charge services available in the WLR scheme (issued on May 26, 2014);
- regarding the introduction of the 'up to 80 Mbps' option to the BSA portfolio (issued on May 30, 2014);
- resulting from the President of UKE's SMP decisions for the market 4 (LLU) of December 30, 2010 and for the market 5 (BSA) of April 28, 2011 (issued on June 2, 2014); and
- regarding changes in penalty fee provisions (issued on June 18, 2014).

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

- 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);
- reflecting regulated retail services in wholesale services and, consequently, TTM process.

9.1.2 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.

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

- initiated upon NASK's request of February 2013 to obligate Orange Polska to prepare modification to RLLO;
- 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.

9.1.3 Cable Ducts (ROI)

The telecommunication access reference offer, in the telecommunication infrastructure part, for cable ducts (the Reference Offer for Infrastructure – ROI) which is currently in force was approved by the President of UKE on November 23, 2012. The offer provides for access to cable ducts in the Indefeasible Right of Use (IRU) scheme in the Lease for the Implementation of Community Projects (DRPU) model. The DRPU model is the IRU scheme restricted to projects which are wholly or partially financed from public funds in EU Operational Programmes or other similar programmes.

On December 7, 2012, Orange Polska filed a request for the re-examination of a decision which implemented ROI, questioning the IRU-DRPU scheme and technical solutions which weaken Orange Polska's control of its assets. The proceedings are pending.

In April 2014, Orange Polska filed an application for ROI modification with respect to inter-operator communication channel (Inter System Interface – ISI). The Company requested that it could use a limited version of ISI in line with the market needs.

9.1.4 Frequencies of Orange Polska

On June 27, 2014, the President of the Office of Electronic Communications assigned 908.1–914.9 MHz and 953.1–959.9 MHz frequency blocks in the 900 MHz band to Orange Polska. The assignment is for a further 15 years (to July 6, 2029), is valid in the whole country and is technology-neutral. The requirement is to cover 90% of Poland's territory with telecommunication services provided using these frequencies. However, in case of Orange Polska, such coverage was already over 99.5% as of the end of March 2014.

Orange Polska uses the 900 MHz band to provide 2G services as well as data and voice services based on the 3G technology (UMTS 900). Orange is the first mobile operator to pay a fee for frequency assignment for another period under the amended Telecommunication Law. The fee has been set at PLN 358.1 million and was paid in July.

On December 30, 2013, the President of UKE announced an auction for new frequencies (in the 800 and 2600 MHz bands), enabling the provision of 4G services. However, the auction was cancelled. Then, new auction consultation was announced in February 2014. The outcome of the consultation was not published, but the second round of consultation, with changes to some auction dossier provisions, was launched on April 4. The outcome of this round of consultation has not been published yet (see also sections 4.10 above).

9.1.5 Roaming Rate Reduction

According to the Regulation of the European Parliament and the Council of May 2012, the caps for roaming service rates are as follows (in Euro, net of VAT):

Maximum retail rates, Eurotariffs, in euro cents ("c"):

- From July 1, 2013: data transfer (per MB) – 45c; outgoing calls – 24c; incoming calls – 7c; SMS – 8c;
- From July 1, 2014: data transfer (per MB) – 20c; outgoing calls – 19c; incoming calls – 5c; SMS – 6c. These tariffs will remain valid until June 30, 2017.

Maximum wholesale rates:

- From July 1, 2013: data transfer (per MB) – 15c; calls – 10c; SMS – 2c;
- From July 1, 2014: data transfer (per MB) – 5c; calls – 5c; SMS – 2c. These tariffs will remain valid until June 30, 2022.

In 2014, Orange Polska has been charging wholesale rates and retail prices for its roaming services in conformity with the caps specified in the regulation (retail prices in PLN, including VAT: outgoing calls – PLN 1.22 / minute; incoming calls – PLN 0.36 / minute; SMS – PLN 0.41; MMS – PLN 2.30; data transfer – PLN 2.30 per MB).

In addition, the Regulation provides for separating roaming from other services to enable separate sales (i.e. customers will not have to buy roaming services exclusively from their operator, but will be able to buy them from any provider). This option may be exercised from July 1, 2014.

The draft regulation on a single market for electronic communications, 'Connected Continent', which was approved by the European Parliament in April 2014, introduces a number of changes in the roaming regulation. In particular, the draft package provides for eliminating roaming charges for calls received within EU from 16 December 2015.

9.1.6 Telecommunication Law Amendment

The following secondary regulations were promulgated in the first six months of 2014:

- Decree of the Council of Ministers of December 27, 2013 on the National Frequency Allocation Table (Journal of Law of 2014, item 161);
- Decree of the Minister of Administration and Digitisation of February 24, 2014 on telecommunication service complaints (JoL of 2014, item 284);
- Decree of the Minister of Administration and Digitisation of March 26, 2014 on the detailed requirements for facilities for the disabled provided by public telephone service providers (JoL of 2014, item 464);
- Decree of the Minister of Administration and Digitisation of March 19, 2014 on the detailed requirements for numbering management on public telecommunication networks (JoL of 2014, item 471); and
- Decree of the Minister of Administration and Digitisation of May 8, 2014 amending the Decree on bidding procedures, auctions and competitions for assignment of frequencies or orbit resources (JoL of 2014, item 713).

Currently, the Government is working on further secondary regulations to the Telecommunication Law, including:

- Decree of the Minister of Administration and Digitisation on the required line capacity for the broadband service for authorised entities (pursuant to Article 81(6) of the Telecommunication Law);
- Decree of the Minister of Administration and Digitisation on the net costing of the telecommunication service component of the universal service (pursuant to Article 95(4) of the Telecommunication Law);
- Decree of the Minister of Administration and Digitisation on the radio transmission or transceiver equipment which may be operated without a radio licence (pursuant to Article 144(3) of the Telecommunication Law); and
- Decree of the Council of Ministers on the requirements and procedures for providing access to and recording telecommunication messages and data as well as the types of telecommunication activity and types of telecommunication operators excluded from this obligation (pursuant to Article 179(12) of the Telecommunication Law).

9.2 Competitive Risks

9.2.1 CATV Operators

Cable TV (CATV) operators are one of the major risks to Orange Polska on the broadband market.

Holding an aggregate share of approximately 40% in the pay TV market and controlling one third of the broadband market, CATV operators aspire to further strengthen their market position as providers of not only bundled telecommunication services (TV, broadband and voice), but also entertainment. This leads to the growing customisation of content and the development of services on demand, such as IPTV, HD channel portfolio, music and video-on-demand. Since usage of such services generates growing 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.

CATV operators, which operate in Poland's biggest cities and make use of the technological potential of their infrastructure, often offer higher broadband speeds or increased scope of services within a package without increasing the service price. In the first half of 2014, CATV operators actively expanded their mobile portfolio, using the MVNO model, in order to attract new customers and increase the loyalty of the existing customer base. The share of convergent offers (bundled fixed and mobile services) will grow steadily among CATV operators.

Further consolidation is expected in the CATV market, as UPC, Multimedia Polska and Vectra have all declared their acquisition ambitions.

9.2.2 Cross-selling of Cyfrowy Polsat and Polkomtel's Offers

In the first half of 2014, Cyfrowy Polsat and Polkomtel (both controlled by Zygmunt Solorz-Żak) continued cross-sales of bundled offers combining mobile voice, mobile broadband and TV, which were launched in 2013, 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 from both operators. In particular, the ‘Smart Home’ offers a range of household-dedicated services combined with the ‘Passport of Benefits’ loyalty programme.

The closer organisational and portfolio co-operation was accompanied and facilitated by ownership changes, as a result of which Cyfrowy Polsat took over formal control over Polkomtel (through the acquisition of Metelem Holding Company).

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.

9.2.3 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.

The offers in which fixed line voice services are an added value to broadband or mobile services and are provided in the VoIP technology or using the mobile infrastructure as the equivalent of ‘traditional’ fixed lines have been clearly gaining popularity.

9.2.4 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 9.1.1 above).

In the first half of 2014, the President of UKE issued five decisions modifying SRO, particularly with respect to penalty fees, access to increased-charge numbers and offer update to include access to fibre-optic and technical infrastructure. These modifications are being implemented in Orange Polska’s IT systems.

WLR Service

The access to Orange Polska’s network based on wholesale line rental (WLR) has been provided since 2006. At the end of June 2014, Orange Polska provided WLR services to 22 operators and handled about 1.18 million WLR lines.

BSA Service

The broadband access to a local subscriber loop (bitstream access – BSA) has been provided by Orange Polska since 2006. At the end of June 2014, Orange Polska provided BSA services to 25 operators and handled approximately 311,000 BSA lines.

LLU Service

The access to Orange Polska’s local subscriber loop (LLU service) has been provided since 2005. By the end of 2013, 9 operators had made active use of the LLU offer (while 28 operators had signed the relevant agreements), and Orange Polska handled over 165,000 LLU lines.

9.2.5 Mobile Broadband Access

The upward trend in the mobile broadband segment continued in the first half of 2014. Orange Polska estimates that the mobile broadband penetration of Poland’s population exceeded 13.7% at the end of June 2014. 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.

A bidding procedure for frequencies from the 800 MHz and 2600 MHz bands, which are predestined for the development of LTE coverage in sub-urban and rural areas, is scheduled to be carried out in 2014 (for more information please see also sections 4.10 above).

9.2.6 Leased Lines Market

Orange Polska's main competitors in the wholesale leased lines market are Exatel, TK Telecom, GTS Poland and Netia. These companies have network resources that enable them to compete with Orange Polska's offer in terms of quality and price. 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 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 preferential wholesale price list.

There has been an increasingly noticeable churn 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.

9.2.7 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)

The decision with the new obligations with respect to the call initiation and termination market, resulting from the SMP decision (based on the offer prepared in 2012), has not been issued yet. This modification of SRO is to eliminate asymmetry resulting from a schedule for reaching symmetry of rates on alternative operators' networks which does not account for a division into three charge periods.

Orange Polska continued preparations, which started in 2013, to provide interconnect services based on the IP technology. This involved selecting two operators for tests through a competition (ultimately, tests are carried out for one operator only). The intermediate test results have been positive. Currently, works on launching traffic exchange based on commercial offer are going on (it is scheduled for launch in the fourth quarter of 2014).

In connection with the merger of former TP S.A. with former PTK Centertel, uniform rates for call termination on the fixed line network in the GSM 900/1800 technology were introduced. These rates are now the same as for traditional fixed line network.

9.2.8 International Long Distance Inbound and Gateway Markets

The ILD inbound and gateway markets are highly competitive and the activity of operators in this market segment reflects the need to search for additional sources of revenue. As a result, operators establish more and more direct interconnections with global international operators. At the same time, operators try to attract traffic to their own networks and win transit traffic to other domestic networks. The struggle is most dynamic in the market for mobile calls, which relatively generate the highest revenues.

Orange Polska has been an active player in the international inbound and gateway markets, which is particularly reflected in the following actions:

- expanding its foreign interconnect base;
- maintaining its share in Poland's inbound market;
- attracting new gateway traffic volumes by winning subsequent operators for its ILD service;
- conclusion of short-term bilateral agreements with operators, which assure stable traffic volumes, stable revenues and costs, the optimum network usage and business predictability; and

- co-operation with 40 domestic operators, providing services of call termination on foreign operators' networks via its own network, as well as similar co-operation model in business relations with 86 foreign operators.

These efforts increase Orange Polska's bargaining power in its relations with foreign partners.

Another major trend in the ILD market is growing use of the IP technology. A number of operators is migrating or planning to migrate from the TDM technology to the IP technology both within their own networks and in the interconnect traffic.

In 2011, Orange Polska launched its first IP-based interconnect gateways. Such interconnections with a total of 23 foreign operators have been launched so far. In addition, Orange Polska has been working on attracting further international operators to co-operate on the IP interconnect basis.

As shown by the experience of foreign operators (e.g. Belgacom or KPN), the migration of complete service portfolio is a difficult and prolonged process. Therefore, operators are still using mixed technology and have not entirely given up TDM. Orange Polska has also adopted a similar model: it introduces a growing number of IP-based services into its portfolio, while not giving up the TDM technology.

9.2.9 International IP Transit Market

Orange Polska's principal competitors in this market are domestic operators which develop or lease international lines to the main traffic exchange points. The presence of international operators in Poland further intensifies competition for access to the worldwide Internet resources. The activity of domestic operators and the growing volume of IP traffic handled by international players (of Tier-1) have been gradually reducing Orange Polska's position in this market.

9.2.10 VoIP services

Constant growth in voice-over-Internet Protocol (VoIP) services in Poland is driven mostly by subscribers' pursuit of lower voice rates (as some VoIP calls, e.g. between users of the same application, are free). Dedicated applications (communicators), which may be installed on any devices with the Internet connection, have been particularly popular among users.

For many years the VoIP technology has been widely used in Poland also by telecom operators for providing fixed voice services in the form of fully functional equivalents of traditional fixed lines.

Orange Polska has also been active in the market for VoIP services, steadily enhancing and adapting its VoIP portfolio to changing needs of customers. VoIP is a major component of multi-play offers, such as FunPack, which combine broadband, TV and VoIP services. With the VoIP take-up of 500,000, Orange Polska is among Poland's leading VoIP providers (including CATV operators).

The VoIP technology has been gaining popularity among mobile users in Poland, on one hand contributing to increased data transfer and on the other cannibalising both traditional voice services and SMS services.

10 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

10.1 Macroeconomic Factors and Factors Related to Poland

10.1.1 Economic Growth

Reports on the GDP growth in the first quarter of 2014 (+3.4% y-o-y), better than expected by the market, confirm that the slowdown is over and the Polish economy is entering the growth stage, which should continue in subsequent quarters of 2014. The increase in the GDP growth rate resulted mainly from growing exports as well as gradually improving domestic demand, driven by individual consumption and private investments. In the 2015 budget assumptions presented by the Ministry of Finance in June 2014, the expected Poland's GDP growth rate in 2014 was updated from 2.5% to 3.3%. Poland's economic outlook partly depends on the condition of other European economies and the economic climate in global markets. There is still a risk of decline of the economic and financial situation within the European Union, particularly in the context of potential escalation of the Ukraine crisis. Owing to strong ties between the Polish economy and economies of other European countries, especially Germany, a potential negative scenario for the European or German economy may have adverse effects on Poland's GDP growth rate.

10.1.2 Inflation

CPI fell to 0.4% in the first half of 2014, staying well below inflation target (2.5%).

The fact that the Monetary Policy Council maintained interest rates at the record low (to which they had been reduced in July 2013) and declared that they would remain stable at least until the end of the third quarter of 2014 implies that the Central Bank expects the continuation of the non-inflationary economic recovery and that inflation does not pose a threat to the Polish economy in the nearest future.

Potential demand shocks in the global market for raw materials in the second half of the year, particularly due to prolonged Ukraine crisis, remain a risk factor. A potential increase in inflation may also result from depreciation of the Polish zloty in case of a significant increase in risk aversion in global financial markets.

10.1.3 Unemployment and Labour Costs

The labour market has been positively affected by the economic recovery, which was reflected in an increase in employment and a decrease in unemployment to 12.0% (-1.2 p.p. y-o-y) in June 2014. At the same time, an increase in wages in the enterprise sector was reported; in the first half of 2014, they were up 4.1% in nominal terms or 3.7% in real terms (y-o-y).

A further improvement in the labour market, driven by growing GDP and enhanced mood in the enterprise sector, may be expected in subsequent months of 2014.

10.1.4 Political and Economic Factors

Poland has undergone significant political, economic and social transformation in the last twenty five years. Changes in political, economic, social and other conditions may have influence on the economy and the condition of enterprises, including the financial condition and performance of Orange Polska. A trend observed over the recent years shows that the activity of the telecommunication market regulator has much more material effects on the Group and the telecommunication market as a whole than any political changes in Poland do.

Raised sensitivity to personal data protection and the privacy of telecommunication service users in Poland and across the European Union might lead to regulatory decisions with negative economic effects for operators. Another major factor is an on-going discussion about Poland's position in the European Union and the target date for entering the Euro zone as well as potential solutions for the EU economic recovery, particularly a debate on the establishment of a single telecommunications market within the EU by 2015.

10.1.5 Ukraine Crisis Impact on Polish Economy

The Ukrainian crisis, which resulted in the annexation of Crimea by the Russian Federation and destabilisation of south-eastern regions of Ukraine, was among the main geopolitical developments influencing the market sentiment in the CEE region in the last six months.

Proximity to the area of conflict is an important factor not only for Poland's safety, but also the strength of economic recovery, which started in the second half of 2013.

Despite the fact that Russia and Ukraine are not the dominant export markets of Poland (3.2% of GNP and 8.1% of total exports in 2013), the escalation of the conflict may nevertheless reduce exports and inhibit the recovery in investments observed in the first six months of 2014.

The recent data of Poland's Central Statistical Office (GUS) have confirmed concerns about a slump in foreign trade with Russia and Ukraine. However, so far this negative trend has been offset by growth in exports to Central and Western Europe.

Potential escalation of the conflict may force the European Union to impose more severe political and economic sanctions, whose indirect effects may be much more significant for Poland, especially in the light of the strong position of German exports in Russian foreign trade and high dependence of Polish exports on the economic climate in Germany.

In addition to an impact on foreign trade with Russia and Ukraine and resulting slow-down of the economic growth, the Ukraine conflict may disrupt Russian gas and crude oil supplies to Europe, contributing to an increase in prices of raw materials and pushing inflation up.

Concerns about geopolitical stability in the region may negatively affect business sentiment and result in outflow of capital not only from the countries directly involved in the conflict, but also their neighbours, weakening local currencies in the process. They may also contribute to a decrease in private consumption due to worsening household sentiment.

On the other hand, the growing risk of economic uncertainty in Ukraine and Russia has made foreign investors withdraw their capital and move their investments to safer locations, particularly in the IT outsourcing industry. Given good opinion of Poland as a favourable place for such activity, this may become an opportunity for the Polish economy to attract additional investments.

10.1.6 Changes in Regulations

On May 30, 2014, the Polish Parliament passed the Act on consumer rights, which was promulgated in the Journal of Law (item 827) on June 24, 2014. The bill will come into force on December 25, 2014.

On June 10, 2014, the Parliament passed an amendment to the Act on competition and consumer protection and it was signed by the President on June 30. The bill is pending promulgation in the Journal of Law and will come into force six months thereafter.

The following bills which may affect Orange Polska's operations are currently at various stages of the legislation process:

- draft bill on landscape protection;
- draft bill on transmission corridors; and
- draft Town Planning and Construction Code.

Furthermore, regulations resulting from the EU law, 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.

10.1.7 Polish Tax System

Polish tax laws and regulations, in particular regarding value added tax and income tax, are complex and subject to frequent changes and contradictory interpretations by tax authorities. Changes in regulations, leading to lack of stability of the tax system, may adversely affect the legal, business and financial situation of the Group. Recently, the Ministry of Finance has not indicated any plans to change tax rates; in particular, return to VAT rates of 22% and 7% is not intended until the end of 2016. Furthermore, there has been a clear tendency of the Ministry of Finance to tighten up the tax system by eliminating solutions which used to enable lawful tax optimisation.

10.2 Factors Related to Financial Markets

10.2.1 General Risks Related to the Polish Market

Poland is still considered a less stable market, which is exposed to higher fluctuations in case of negative developments in global markets. Therefore, investors should exercise caution while assessing the risk of purchase of financial assets of Polish companies. In consideration of the above, investment decisions should be made by experienced investors who are able to fully assess all risks involved in such investments.

10.2.2 Interest Rates

In the first six months of 2014, the Monetary Policy Council kept interest rates on hold. The last change was effected in July 2013, when the reference interest rate was reduced to 2.50%. Considering very low inflation rate both in Poland and generally in Europe, no changes in the monetary policy should be expected in 2014. The first increase in interest rates is expected not earlier than at the beginning of 2015.

A potential increase in interest rates should not have any major influence on the Group's debt service costs, due to high hedging ratio.

10.2.3 Foreign Exchange Rates

Foreign exchange rate fluctuations affect Orange Polska's obligations denominated in foreign currencies and settlements with foreign operators. However, this influence is greatly contained by a portfolio of hedging instruments held by Orange Polska. In the first half of 2014, Polish zloty gained slightly (less than 1%) against euro and was subject to fluctuations caused mainly by external factors. In the future, further appreciation of zloty, supported by improving foreign trade balance and relatively stable economic situation in Poland, may be expected. Potential risks for the Polish currency include the geopolitical risk across Poland's eastern border and outflow of capital from the Polish bond market in response to increasing profitability in base markets. In the reported period, the exchange rate of zloty against euro was in the 4.0998 – 4.2375 bracket, while its exchange rate against the US dollar oscillated between 3.0042 and 3.1370. NBP's mean exchange rates of PLN against the US dollar and euro were 3.0466 and 4.1768, respectively, in the first half of 2014.

10.2.4 Situation at the Warsaw Stock Exchange

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

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

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

On January 14, 2014, in connection with the change of the Company's name from Telekomunikacja Polska S.A. to Orange Polska S.A., pursuant to a decision of the WSE Board, the abbreviated names used by WSE for the Company's shares were changed in the following manner:

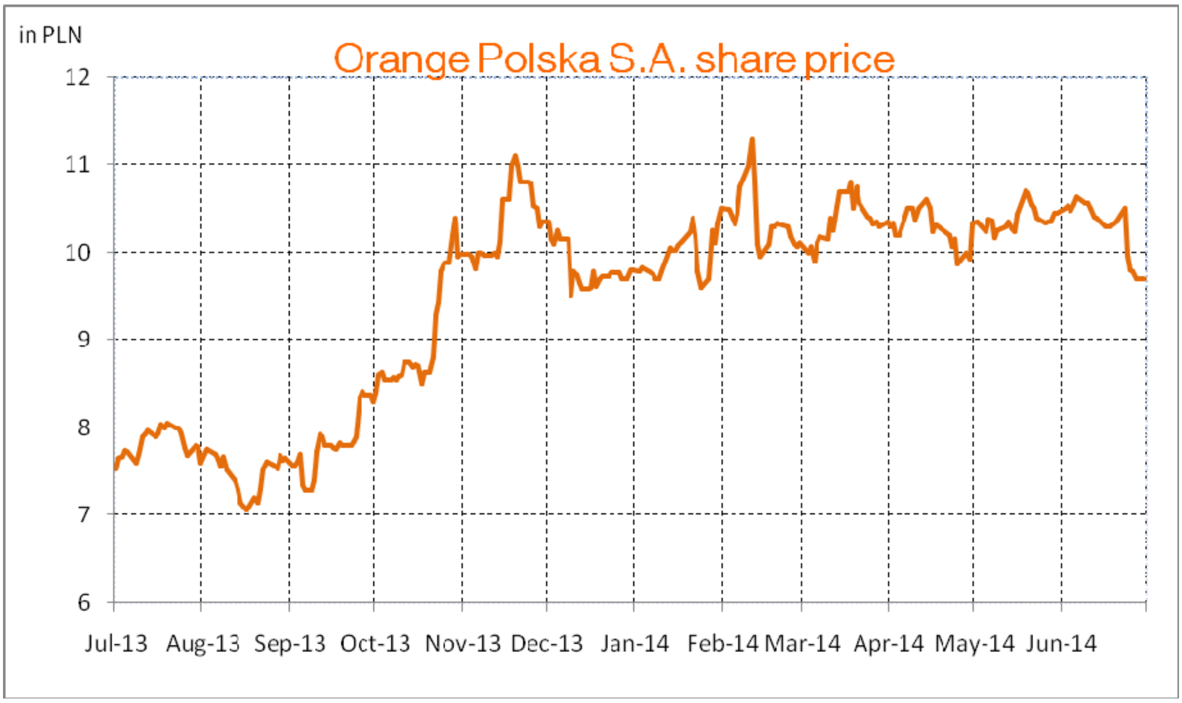
a) the existing abbreviated name: TPSA; the new abbreviated name: ORANGEPL;
b) the existing ticker: TPS; the new ticker: OPL.

The first six months of 2014 saw slight gains in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were up 4.3% (after the dividend-related reference price change), while the large-cap index, WIG20, gained 0.3% in the period.

The changes in the pension system effected by the Government may potentially reduce the funds allocated by Open Pension Funds onto the Warsaw Stock Exchange. This may result in a change in the investors' attitude towards the shares listed in the WSE's blue-chip indices, WIG20 and WIG30, including Orange Polska shares.

By July 31, 2014, the insured will have to decide whether a portion of their gross wages will be transferred to Open Pension Funds or will remain in the state-controlled Social Insurance Institution (ZUS). According to ZUS, 385,126 people, or less than 3% of all pension funds members, had chosen Open Pension Funds by the end of June.

ORANGE POLSKA S.A. SHARE PRICES
in the period from June 30, 2013 to June 30, 2014



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

BASED IN POLAND	BASED OUTSIDE POLAND
DM BZ WBK	BARCLAYS
ING SECURITIES	CITIGROUP
DM BOŚ	CONCORDE
DM PKOBP	DEUTSCHE BANK
UNICREDIT GROUP	ERSTE BANK INVESTMENT
DM MBANKU	GOLDMAN SACHS
TRIGON DOM MAKLERSKI S.A.	HSBC
ESPIRITO SANTO INVESTMENT BANK	J.P. MORGAN
	RAIFFEISENBANK AG
	RENAISSANCE CAPITAL
	UBS
	VTB CAPITAL
	WOOD & COMPANY
	NEW STREET RESEARCH LLP
	MORGAN STANLEY

*For an updated list of brokers with the related institution data please visit the Company's website at www.orange-ir.pl

10.2.5 Other Factors That May Influence the Price of Orange Polska Shares

Other than major factors already mentioned earlier in this document, the following may also result in Orange Polska share price fluctuations:

- Change in the dividend per share;
- Change in the Group's ratings;
- Change in the Group's debt;
- Sale or purchase of assets by the Group;
- Significant changes in the shareholder structure; and
- Changes in the capital market analysts' forecasts and recommendations concerning the Group, its competitors and partners, or business sectors in which the Group operates.

GLOSSARY OF TELECOM TERMS

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

ARPL – Average Revenues per Line

ARPU – Average Revenues per User

AUPU – Average Usage per User

BSA – Bitstream Access Offer

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

DLD – Domestic Long Distance Calls

DSLAM – Digital Subscriber Line Access Multiplexer

F2M – Fixed to Mobile Calls

FVNO – Fixed Virtual Network Operator

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

LC – Local Calls

LLU – Local Loop Unbundling

LTE – Long Term Evolution, standard of data transmission on mobile networks

MAN – Metropolitan Area Network

MPLS – MultiProtocol Label Switching

M2M – Machine to Machine, telemetry

MTR – Mobile Termination Rates

MVNO – Mobile Virtual Network Operator

Net FCF – Net Free Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables)

POTS – Plain Old Telephone Service

RAN agreement – agreement on reciprocal use of radio access networks

RIO – Reference Interconnection Offer

SAC – Subscriber Acquisition Costs

SDI – Permanent (Rapid) Access to Internet

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

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental