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POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2017

(year)

(according to par. 82 s. 2 and par. 83 s. 3 of the Decree of Minister of Finance dated 19 February 2009 - unified text Journal of Laws 2014, No. 133, with amendments)
for the issuers in sectors of production, construction, trade or services

for the half-year of **2017**, i.e. **from 1 January 2017 to 30 June 2017**

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: **26 July 2017**

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)

Al. Jerozolimskie (street)

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526-02-50-995 (NIP)

012100784 (REGON)

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

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	half-year 2017	half-year 2016	half-year 2017	half-year 2016
condensed consolidated financial statements data				
I. Revenue	5 657 000	5 706 000	1 331 874	1 302 591
II. Operating income	278 000	357 000	65 452	81 498
III. Profit before income tax	121 000	165 000	28 488	37 667
IV. Consolidated net income	110 000	115 000	25 898	26 253
V. Net income attributable to owners of Orange Polska S.A.	110 000	115 000	25 898	26 253
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.08	0.09	0.02	0.02
VII. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VIII. Total comprehensive income	82 000	127 000	19 306	28 992
IX. Total comprehensive income attributable to owners of Orange Polska S.A.	82 000	127 000	19 306	28 992
X. Net cash provided by operating activities	1 005 000	1 378 000	236 615	314 576
XI. Net cash used in investing activities	(1 040 000)	(4 240 000)	(244 855)	(967 926)
XII. Net cash provided by financing activities	224 000	3 028 000	52 738	691 245
XIII. Net change in cash and cash equivalents	189 000	166 000	44 498	37 895
	balance as at 30/06/2017	**balance as at 31/12/2016**	**balance as at 30/06/2017**	**balance as at 31/12/2016**
XIV. Total current assets	2 786 000	2 639 000	659 174	596 519
XV. Total non-current assets	19 790 000	20 187 000	4 682 362	4 563 065
XVI. Total assets	22 576 000	22 826 000	5 341 536	5 159 584
XVII. Total current liabilities	5 502 000	4 386 000	1 301 786	991 410
XVIII. Total non-current liabilities	6 983 000	8 431 000	1 652 195	1 905 742
XIX. Total equity	10 091 000	10 009 000	2 387 555	2 262 432
XX. Equity attributable to owners of Orange Polska S.A.	10 089 000	10 007 000	2 387 082	2 261 980
XXI. Share capital	3 937 000	3 937 000	931 504	889 919
condensed separate financial statements data				
	half-year 2017	half-year 2016	half-year 2017	half-year 2016
I. Revenue	5 501 000	5 606 000	1 295 145	1 279 763
II. Operating income	269 000	329 000	63 333	75 106
III. Profit before income tax	129 000	247 000	30 372	56 386
IV. Net income	120 000	215 000	28 253	49 081
V. Earnings per share (in PLN/EUR) (basic and diluted)	0.09	0.16	0.02	0.04
VI. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VII. Total comprehensive income	92 000	227 000	21 660	51 821
VIII. Net cash provided by operating activities	1 000 000	1 463 000	235 438	333 980
IX. Net cash used in investing activities	(1 045 000)	(4 246 000)	(246 032)	(969 296)
X. Net cash provided by financing activities	243 000	2 949 000	57 211	673 211
XI. Net change in cash and cash equivalents	198 000	166 000	46 617	37 895
	balance as at 30/06/2017	**balance as at 31/12/2016**	**balance as at 30/06/2017**	**balance as at 31/12/2016**
XII. Total current assets	2 657 000	2 448 000	628 653	553 345
XIII. Total non-current assets	19 783 000	20 180 000	4 680 705	4 561 483
XIV. Total assets	22 440 000	22 628 000	5 309 358	5 114 828
XV. Total current liabilities	5 467 000	4 303 000	1 293 505	972 649
XVI. Total non-current liabilities	6 944 000	8 388 000	1 642 967	1 896 022
XVII. Total equity	10 029 000	9 937 000	2 372 886	2 246 157
XVIII. Share capital	3 937 000	3 937 000	931 504	889 919

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
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Independent Auditor's Report
on review of interim condensed consolidated financial statements
for the 6 month period ended 30 June 2017

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

Introduction

We have reviewed the accompanying condensed IFRS interim consolidated financial statements of Orange Polska S.A. ("the Company"), located at 160 Aleje Jerozolimskie in Warsaw, and its subsidiaries ("the Group"), as of 30 June 2017, including the consolidated statement of financial position as at 30 June 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2017 to 30 June 2017 and the explanatory notes ("the Interim Condensed Consolidated Financial Statements").

Management is responsible for the preparation and presentation of accompanying interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union ('IAS 34'). Our responsibility is to express a conclusion on accompanying interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with National Financial Revision Standard 2410 based on International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* prepared by International Auditing and Assurance Standards Board and in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ('standards'). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than audit conducted in accordance with National Standards on Auditing or International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on accompanying interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

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

Key Certified Auditor	Partner
Łukasz Piotrowski certified auditor No. 12390	Mikołaj Rytel

Warsaw, 26 July 2017

ORANGE POLSKA GROUP

CONDENSED IFRS INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2017

July 26, 2017

Contents

CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings per share)	*3 months*	*6 months*	*3 months*	*6 months*
	ended 30 June 2017		*ended 30 June 2016*	
Revenue	**2,839**	**5,657**	**2,903**	**5,706**
External purchases	(1,541)	(3,095)	(1,580)	(3,056)
Labour expense	(438)	(890)	(440)	(821)
Other operating expense	(174)	(287)	(166)	(296)
Other operating income	69	110	70	112
Gains on disposal of assets	57	65	37	47
Depreciation and amortisation	(642)	(1,281)	(683)	(1,336)
(Impairment)/reversal of impairment of non-current assets	(1)	(1)	1	1
Operating income	**169**	**278**	**142**	**357**
Interest income	6	12	5	10
Interest expense and other financial charges	(72)	(145)	(67)	(146)
Discounting expense	(20)	(24)	(34)	(56)
Finance costs, net	**(86)**	**(157)**	**(96)**	**(192)**
Income tax	(12)	(11)	(29)	(50)
Consolidated net income	**71**	**110**	**17**	**115**
Net income attributable to owners of Orange Polska S.A.	71	110	17	115
Net income attributable to non-controlling interests	-	-	-	-
Earnings per share (in PLN) (basic and diluted)	**0.05**	**0.08**	**0.01**	**0.09**
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 2017		*ended 30 June 2016*	
Consolidated net income	**71**	**110**	**17**	**115**
Items that will not be reclassified to profit or loss				
Actuarial gains on post-employment benefits	-	-	-	3
Income tax relating to items not to be reclassified	-	-	-	(1)
Items that may be reclassified subsequently to profit or loss				
Gains/(losses) on cash flow hedges	3	(35)	51	12
Income tax relating to items that may be reclassified	-	7	(10)	(2)
Other comprehensive income/(loss), net of tax	**3**	**(28)**	**41**	**12**
Total comprehensive income	**74**	**82**	**58**	**127**
Total comprehensive income attributable to owners of Orange Polska S.A.	74	82	58	127
Total comprehensive income attributable to non-controlling interests	-	-	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*At 30 June 2017*	*At 31 December 2016 (see Note 6)*
ASSETS		
Goodwill	2,147	2,147
Other intangible assets	5,477	5,722
Property, plant and equipment	10,612	10,678
Trade receivables	488	433
Derivatives	61	206
Other assets	73	72
Deferred tax assets	932	929
Total non-current assets	**19,790**	**20,187**
Inventories	226	163
Trade receivables	1,937	2,033
Derivatives	1	36
Income tax assets	1	5
Other assets	56	60
Prepaid expenses	114	80
Cash and cash equivalents	451	262
Total current assets	**2,786**	**2,639**
TOTAL ASSETS	**22,576**	**22,826**
EQUITY AND LIABILITIES		
Share capital	3,937	3,937
Share premium	832	832
Other reserves	(57)	(29)
Retained earnings	5,377	5,267
Equity attributable to owners of Orange Polska S.A.	**10,089**	**10,007**
Non-controlling interests	2	2
Total equity	**10,091**	**10,009**
Trade payables	662	682
Loans from related party	5,520	7,087
Other financial liabilities at amortised cost	48	66
Derivatives	70	76
Employee benefits	132	144
Provisions	457	280
Other liabilities	16	15
Deferred income	78	81
Total non-current liabilities	**6,983**	**8,431**
Trade payables	2,008	2,642
Loans from related party	1,690	5
Other financial liabilities at amortised cost	39	36
Derivatives	46	-
Employee benefits	230	188
Provisions	813	850
Income tax liabilities	22	24
Other liabilities	173	132
Deferred income	481	509
Total current liabilities	**5,502**	**4,386**
TOTAL EQUITY AND LIABILITIES	**22,576**	**22,826**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Other reserves			Retained earnings	Equity attributable to owners of OPL S.A.	Non-controlling interests	Total equity
			Gains/(losses) on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax				
Balance at 1 January 2017	**3,937**	**832**	**9**	**(44)**	**6**	**5,267**	**10,007**	**2**	**10,009**
Total comprehensive income for the 6 months ended 30 June 2017	-	-	(35)	-	7	110	82	-	82
Balance at 30 June 2017	**3,937**	**832**	**(26)**	**(44)**	**13**	**5,377**	**10,089**	**2**	**10,091**
Balance at 1 January 2016	**3,937**	**832**	**(83)**	**(43)**	**23**	**7,309**	**11,975**	**2**	**11,977**
Total comprehensive income for the 6 months ended 30 June 2016	-	-	12	3	(3)	115	127	-	127
Dividend	-	-	-	-	-	(328)	(328)	-	(328)
Balance at 30 June 2016	**3,937**	**832**	**(71)**	**(40)**	**20**	**7,096**	**11,774**	**2**	**11,776**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)	*3 months ended 30 June 2017*	*6 months ended 30 June 2017*	*3 months ended 30 June 2016 (see Note 6)*	*6 months ended 30 June 2016 (see Note 6)*
OPERATING ACTIVITIES				
Consolidated net income	71	110	17	115
Adjustments to reconcile net income to cash from operating activities				
Gains on disposal of assets	(57)	(65)	(37)	(47)
Depreciation and amortisation	642	1,281	683	1,336
Impairment/(reversal of impairment) of non-current assets	1	1	(1)	(1)
Finance costs, net	86	157	96	192
Income tax	12	11	29	50
Change in provisions and allowances	18	(14)	5	(124)
Operational foreign exchange and derivatives (gains)/losses, net	-	6	(8)	(6)
Change in working capital				
(Increase)/decrease in inventories, gross	21	(62)	36	21
(Increase)/decrease in trade receivables, gross	(87)	27	(90)	(43)
Increase/(decrease) in trade payables	(57)	(326)	66	16
(Increase)/decrease in prepaid expenses and other receivables	17	(29)	22	6
Increase/(decrease) in deferred income and other payables	(11)	43	(19)	-
Interest received	6	12	5	10
Interest paid and interest rate effect paid on derivatives, net	(90)	(134)	(94)	(139)
Exchange rate effect received/(paid) on derivatives, net	(14)	(7)	-	11
Income tax received/(paid)	5	(6)	34	(19)
Net cash provided by operating activities	**563**	**1,005**	**744**	**1,378**
INVESTING ACTIVITIES				
Purchases of property, plant and equipment and intangible assets	(437)	(822)	(480)	(4,025)
Increase/(decrease) in amounts due to fixed assets suppliers	16	(306)	19	(311)
Exchange rate effect received/(paid) on derivatives economically hedging capital expenditures, net	(1)	-	2	14
Proceeds from sale of property, plant and equipment and intangible assets	77	87	57	82
Decrease in other financial instruments	1	1	-	-
Net cash used in investing activities	**(344)**	**(1,040)**	**(402)**	**(4,240)**
FINANCING ACTIVITIES				
Issuance of long-term debt	-	-	-	2,701
Repayment of long-term debt	(7)	(18)	(7)	(1,207)
Increase/(decrease) in revolving credit line and short-term debt	41	241	(200)	1,517
Exchange rate effect received on derivatives hedging debt, net	-	1	-	17
Net cash provided by/(used in) financing activities	**34**	**224**	**(207)**	**3,028**
Net change in cash and cash equivalents	**253**	**189**	**135**	**166**
Cash and cash equivalents at the beginning of the period	198	262	297	266
Cash and cash equivalents at the end of the period	**451**	**451**	**432**	**432**

Notes to the Condensed Interim Consolidated Financial Statements

1. The Orange Polska Group

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

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

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

The list of entities included in the Condensed IFRS Interim Consolidated Financial Statements of the Group (the "Condensed Interim Consolidated Financial Statements") as at and for the 6 months ended 30 June 2017 is presented in Note 1.2 to the Orange Polska Group IFRS Consolidated Financial Statements and the notes thereto ("IFRS Consolidated Financial Statements") for the year ended 31 December 2016.

2. Segment (Group) revenue and results

The Group reports a single operating segment as decisions about resources to be allocated and assessment of performance are made on consolidated basis. 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 financial debt and consolidated net financial debt / EBITDA ratio based on cumulative EBITDA for the last four quarters. To give a better representation of underlying performance, the above measures are adjusted as specified below.

Revenue from the Group's activities is adjusted for the impact of changes in the scope of consolidation. There was no adjustment for the 6 months ended 30 June 2017 and 2016.

Calculation of EBITDA, organic cash flows, capital expenditures and net financial debt is not defined by IFRS, methodology adopted by the Group is presented below.

EBITDA is the key measure of operating profitability used by the Management Board and corresponds to operating income before depreciation and amortisation expense and impairment of non-current assets. To give a better representation of underlying performance, EBITDA is adjusted for the impact of changes in the scope of consolidation, employment termination programs, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items. Adjustments for the 6 months ended 30 June 2017 and 2016 are presented in the table below.

Organic cash flows are the key measure of cash flow generation used by the Management Board and correspond to net cash provided by operating activities decreased by purchases of property, plant and equipment and intangible assets, changes in amounts due to fixed assets suppliers, impact of net exchange rate effect paid/received on derivatives economically hedging capital expenditures and increased by proceeds from sale of property, plant and equipment and intangible assets. To give a better representation of underlying performance, organic cash flows are adjusted for the payments for acquisition of telecommunications licences and payments relating to significant claims, litigation and other risks. Adjustments for the 6 months ended 30 June 2017 and 2016 are presented in the table below.

Capital expenditures are the key measure of resources allocation used by the Management Board and represent acquisitions of property, plant and equipment and intangible assets. To give a better representation of underlying performance, capital expenditures are adjusted for the impact of acquisition of telecommunications licences. Adjustments for the 6 months ended 30 June 2017 and 2016 are presented in the table below.

Net financial debt and net financial debt / adjusted EBITDA ratio are the key measures of indebtedness and liquidity used by the Management Board. The calculation of net financial debt is presented in Note 7.

Basic financial data of the operating segment is presented below:

(in PLN millions)	*6 months ended 30 June 2017*	*6 months ended 30 June 2016*
Revenue [(1)]	5,657	5,706
Adjusted EBITDA	1,568	1,692
Net income as per consolidated income statement	110	115
Adjusted organic cash flows	(36)	286
Adjusted capital expenditures	822	857

[(1)] There was no adjustment for the 6 months ended 30 June 2017 and 2016.

	At 30 June 2017	*At 31 December 2016*
Net financial debt (in PLN millions, see Note 7)	6,874	6,775
Net financial debt / adjusted EBITDA ratio	2.3	2.1

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

(in PLN millions)	*6 months ended 30 June 2017*	*6 months ended 30 June 2016*
EBITDA	1,560	1,692
- adjustment for employment termination expense	8	-
Adjusted EBITDA	1,568	1,692
Organic cash flows	(36)	(2,862)
- adjustment for payments for acquisition of telecommunications licences	-	3,148
Adjusted organic cash flows	(36)	286
Capital expenditures	822	4,025
- adjustment for expenditures on acquisition of telecommunications licences	-	(3,168)
Adjusted capital expenditures	822	857

3. Statement of compliance and basis of preparation

Basis of preparation

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

These Condensed Interim Consolidated Financial Statements should be read in conjunction with the audited IFRS Consolidated Financial Statements for the year ended 31 December 2016.

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

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

These Condensed Interim Consolidated Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 26 July 2017.

<u>Changes to standards and interpretations in 2017</u>

- IFRS 17 "Insurance Contracts". This standard was issued on 18 May 2017 and will be effective for annual periods beginning on or after 1 January 2021. This standard has not yet been endorsed by the European Union. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The Group does not act as a principal in case of insurance contracts and this standard will have no impact on financial statements.

- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". This interpretation was issued on 7 June 2017 and will be effective for annual periods beginning on or after 1 January 2019. This interpretation has not yet been endorsed by the European Union. IFRIC 23 clarifies the accounting for uncertainties in income taxes. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. This interpretation will have no impact on the Group's financial statements.

4. Statement of accounting policies

The accounting policies and methods of computation used in the preparation of the Condensed Interim Consolidated Financial Statements are materially consistent with those described in Notes 2 and 30 to the audited IFRS Consolidated Financial Statements for the year ended 31 December 2016.

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

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

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

From 2017, the Group extended the estimated useful lives for certain terminals, network assets and items of software which decreased the depreciation and amortisation expense by PLN 83 million in the 6 months ended 30 June 2017. Depreciation and amortisation expense in 2017 relating to these assets is expected to be lower by approximately PLN 150 million in comparison to 2016.

In the second quarter of 2017 the Group revised estimate of dismantling provision due to the change of the agreement with dismantling services provider. Higher unit price of dismantling resulted in an increase of provision and fixed assets as at 30 June 2017 by PLN 178 million.

In the consolidated statement of financial position as at 31 December 2016, certain figures were adjusted to conform with the presentation as at 30 June 2017. Trade receivables and trade payables were increased by PLN 209 million due to reclassification of roaming discounts granted to and received from other operators, historically presented net of trade receivables and payables. Other assets were increased by PLN 32 million as a result of reclassification of balances related to free service periods from deferred income and trade receivables. The comparative amounts in the consolidated statement of cash flows were adjusted accordingly for the 6 months ended 30 June 2016, with no impact on net cash provided by operating activities.

The amount of trade payables subject to reverse factoring increased from PLN 132 million as at 31 December 2016 to PLN 157 million as at 30 June 2017. These payables are presented together with the remaining balance of trade payables, as analysis conducted by the Group indicates they have retained their trade nature.

7. Net financial debt

Net financial debt is a measure of indebtedness used by the Management Board. Calculation of this aggregate is not defined by IFRS, methodology adopted by the Group is presented below:

(in PLN millions)	*At 30 June 2017*	*At 31 December 2016*
Loans from related party	7,210	7,092
Other financial debt	87	102
Derivatives – net (liabilities less assets)	54	(166)
Gross financial debt after derivatives	**7,351**	**7,028**
Cash and cash equivalents	(451)	(262)
Effective portion of cash flow hedges	(26)	9
Net financial debt	**6,874**	**6,775**

In the 6 months ended 30 June 2017, the net cash flows from issuance and repayments of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange S.A., amounted to PLN 240 million.

As at 30 June 2017, the total outstanding balance of loans from the related party amounted to PLN 7,210 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 1.91% before swaps and 3.39% after swaps as at 30 June 2017.

In the 6 months ended 30 June 2017 the Group entered into new derivative transactions under the agreement with Orange S.A. hedging interest rate risk on the related party financing provided in PLN.
The total nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 30 June 2017 was EUR 670 million and PLN 5,450 million, respectively, with a total negative fair value amounting to PLN 9 million.

8. Fair value of financial instruments

Derivative instruments are measured subsequent to their initial recognition at fair value. The fair value of derivatives is determined as described in Note 20 to the IFRS Consolidated Financial Statements for the year ended 31 December 2016. Significant inputs to the valuation technique used by the Group to measure the fair value of derivatives are classified to Level 2 of the fair value hierarchy described in Note 21.1.

The carrying amount of the Group's financial instruments approximates their fair value, except for telecommunications licence payables for which as at 30 June 2017 and 31 December 2016 the estimated fair value exceeded the carrying amount by PLN 133 million and PLN 152 million, respectively, due to significant change between the original effective interest rates and current market rates.

9. Dividend

The General Meeting of Orange Polska S.A. held on 19 April 2017 did not adopt a resolution on a dividend payment in 2017, in accordance with the recommendation of the Management Board of the Company.

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

The information hereunder refers to the matters presented in Note 27 to the IFRS Consolidated Financial Statements for the year ended 31 December 2016 or describes major matters that occurred after 31 December 2016.

a. Proceedings by UOKiK

Proceedings by UOKiK related to retail prices of calls to Play
UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 4 August 2017.

Proceedings by UOKiK related to tenders for mobile services
UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 31 August 2017.

Magna Polonia S.A. claim towards Orange Polska, T-Mobile Polska, Polkomtel and P4
Magna Polonia asserts that its claim towards Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. for payment jointly and severally of PLN 618 million results from lack of the launch of DVB-H television. Magna Polonia claims that the lack of the launch of DVB-H television was caused by an agreement of the four operators which was found to be in breach of the competition law by UOKiK. UOKiK issued a decision to this effect on 23 November 2011. That decision was subsequently repealed by the court of first instance and that verdict was maintained by the Court of Appeal on 15 March 2017. UOKiK may lodge a cassation claim to the Supreme Court.

b. Proceedings by the European Commission related to broadband access

On 27 February 2016, Orange Polska appealed the verdict of the General Court of 17 December 2015 to the Court of Justice. On 3 March 2017, Orange Polska was notified by the Court of Justice about staying the appeal proceedings until the Court of Justice issues its judgement in another case.

c. Other contingent liabilities and provisions

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

11. Related party transactions

As at 30 June 2017, 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 decides about the composition of the Management Board.

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

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

(in PLN millions)	*3 months*	*6 months*	*3 months*	*6 months*
	ended 30 June 2017		*ended 30 June 2016*	
Sales of goods and services and other income:	**51**	**97**	**60**	**106**
Orange S.A. (parent)	32	61	34	60
Orange Group (excluding parent)	19	36	26	46
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(58)**	**(121)**	**(66)**	**(130)**
Orange S.A. (parent)	(15)	(36)	(21)	(40)
Orange Group (excluding parent)	(43)	(85)	(45)	(90)
- including Orange Brand Services Limited (brand licence agreement)	*(30)*	*(60)*	*(32)*	*(66)*
Finance costs, net:	**(60)**	**(119)**	**(61)**	**(131)**
Orange S.A. (parent)	(20)	(183)	80	36
Orange Group (excluding parent)	(40)	64	(141)	(167)
Other comprehensive income/(loss):	**(4)**	**(6)**	**23**	**(3)**
Orange S.A. (parent)	(4)	(6)	23	(3)
Dividend declared:	**-**	**-**	**166**	**166**
Orange S.A. (parent)	-	-	166	166

(in PLN millions)	*At 30 June 2017*	*At 31 December 2016 (see Note 6)*
Receivables:	**67**	**73**
Orange S.A. (parent)	42	46
Orange Group (excluding parent)	25	27
Payables:	**126**	**94**
Orange S.A. (parent)	40	49
Orange Group (excluding parent)	86	45
Financial receivables:	**61**	**206**
Orange S.A. (parent)	61	206
Cash and cash equivalents deposited with:	**308**	**106**
Orange S.A. (parent)	308	106
Financial payables:	**7,280**	**7,168**
Orange S.A. (parent)	70	76
Orange Group (excluding parent)	7,210	7,092

Compensation (remuneration, bonuses, post-employment and other long-term benefits and termination indemnities - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board Members for the 6 months ended 30 June 2017 and 2016 amounted to PLN 8.6 million and PLN 10.9 million, respectively.

From the fourth quarter of 2016, bonuses are included in compensation in the period when they are accrued only. Consequently, total compensation in comparative data for the 6 months ended 30 June 2016 was amended to exclude PLN 1.8 million of bonuses accrued in 2015 and paid in 2016.

12. Subsequent events

On 21 July 2017, the Group signed a conditional preliminary agreement for an acquisition of 100% shareholding in Multimedia Polska Energia Sp. z o.o., a company that sells electrical energy. The closure of the transaction is subject to a condition precedent that Orange Polska obtains an approval of the antimonopoly authorities for the acquisition within the expected time limit of three months after the date of the agreement. The purchase price will be PLN 37 million, an amount determined as the enterprise value. This amount will be adjusted for working capital and cash positions as of the date of closure of outstanding transactions in Multimedia Polska Energia Sp. z o.o. The aforementioned transaction is consistent with Group's strategy to develop services to households which are complementary to its core telecommunication services.

On 25 July 2017, the Group repaid PLN 200 million of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange S.A.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
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Independent Auditor's Report
on review of interim condensed financial statements
for the 6 month period ended 30 June 2017

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

Introduction

We have reviewed the accompanying condensed IFRS interim separate financial statements of Orange Polska S.A. ("the Company") located at 160 Aleje Jerozolimskie in Warsaw, as of 30 June 2017, including the statement of financial position as at 30 June 2017, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the period from 1 January 2017 to 30 June 2017 and the explanatory notes ("the Interim Condensed Financial Statements").

Management is responsible for the preparation and presentation of accompanying interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union ('IAS 34'). Our responsibility is to express a conclusion on accompanying interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with National Financial Revision Standard 2410 based on International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* prepared by International Auditing and Assurance Standards Board and in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ('standards'). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than audit conducted in accordance with National Standards on Auditing or International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on accompanying interim condensed financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

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

Key Certified Auditor	Partner
Łukasz Piotrowski certified auditor No. 12390	Mikołaj Rytel

Warsaw, 26 July 2017

ORANGE POLSKA S.A.

CONDENSED IFRS INTERIM SEPARATE FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2017

July 26, 2017

Contents

INCOME STATEMENT

(in PLN millions, except for earnings per share)	*3 months*	*6 months*	*3 months*	*6 months*
	ended 30 June 2017		*ended 30 June 2016*	
Revenue	**2,756**	**5,501**	**2,842**	**5,606**
External purchases	(1,483)	(2,991)	(1,614)	(3,145)
Labour expense	(420)	(852)	(360)	(668)
Other operating expense	(174)	(287)	(172)	(308)
Other operating income	72	116	78	131
Gains on disposal of assets	57	65	37	47
Depreciation and amortisation	(642)	(1,282)	(682)	(1,335)
(Impairment)/reversal of impairment of non-current assets	(1)	(1)	1	1
Operating income	**165**	**269**	**130**	**329**
Dividend income	8	17	77	109
Interest income	6	12	40	81
Interest expense and other financial charges	(72)	(145)	(102)	(216)
Discounting expense	(20)	(24)	(34)	(56)
Finance costs, net	**(78)**	**(140)**	**(19)**	**(82)**
Income tax	(10)	(9)	(15)	(32)
Net income	**77**	**120**	**96**	**215**
Earnings per share (in PLN) (basic and diluted)	**0.06**	**0.09**	**0.07**	**0.16**
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 2017		*ended 30 June 2016*	
Net income	**77**	**120**	**96**	**215**
Items that will not be reclassified to profit or loss				
Actuarial gains on post-employment benefits	-	-	-	3
Income tax relating to items not to be reclassified	-	-	-	(1)
Items that may be reclassified subsequently to profit or loss				
Gains/(losses) on cash flow hedges	3	(35)	51	12
Income tax relating to items that may be reclassified	-	7	(10)	(2)
Other comprehensive income/(loss), net of tax	**3**	**(28)**	**41**	**12**
Total comprehensive income	**80**	**92**	**137**	**227**

STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*At 30 June 2017*	*At 31 December 2016 (see Note 5)*
ASSETS		
Goodwill	2,014	2,014
Other intangible assets	5,474	5,720
Property, plant and equipment	10,695	10,754
Investments in subsidiaries	132	132
Trade receivables	458	403
Derivatives	61	206
Other assets	72	72
Deferred tax asset	877	879
Total non-current assets	**19,783**	**20,180**
Inventories	203	139
Trade receivables	1,871	1,921
Derivatives	1	36
Income tax assets	-	5
Other assets	51	48
Prepaid expenses	110	76
Cash and cash equivalents	421	223
Total current assets	**2,657**	**2,448**
TOTAL ASSETS	**22,440**	**22,628**
EQUITY AND LIABILITIES		
Share capital	3,937	3,937
Share premium	832	832
Other reserves	(55)	(27)
Retained earnings	5,315	5,195
Total equity	**10,029**	**9,937**
Trade payables	662	682
Financial liabilities at amortised cost excluding trade payables	5,567	7,150
Derivatives	70	76
Employee benefits	128	140
Provisions	448	270
Deferred income	69	70
Total non-current liabilities	**6,944**	**8,388**
Trade payables	1,979	2,591
Financial liabilities at amortised cost excluding trade payables	1,762	58
Derivatives	46	-
Employee benefits	217	176
Provisions	801	838
Income tax liabilities	22	21
Other liabilities	155	112
Deferred income	485	507
Total current liabilities	**5,467**	**4,303**
TOTAL EQUITY AND LIABILITIES	**22,440**	**22,628**

STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Other reserves			Retained earnings	Total equity
			Gains/(losses) on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax		
Balance at 1 January 2017	**3,937**	**832**	**9**	**(43)**	**7**	**5,195**	**9,937**
Total comprehensive income for the 6 months ended 30 June 2017	-	-	(35)	-	7	120	92
Balance at 30 June 2017	**3,937**	**832**	**(26)**	**(43)**	**14**	**5,315**	**10,029**
Balance at 1 January 2016	**3,937**	**832**	**(83)**	**(45)**	**25**	**7,113**	**11,779**
Total comprehensive income for the 6 months ended 30 June 2016	-	-	12	3	(3)	215	227
Dividend	-	-	-	-	-	(328)	(328)
Balance at 30 June 2016	**3,937**	**832**	**(71)**	**(42)**	**22**	**7,000**	**11,678**

STATEMENT OF CASH FLOWS

(in PLN millions)	*3 months*	*6 months*	*3 months*	*6 months*
	ended 30 June 2017		*ended 30 June 2016 (see Note 5)*	
OPERATING ACTIVITIES				
Net income	77	120	96	215
Adjustments to reconcile net income to cash from operating activities				
Gains on disposal of assets	(57)	(65)	(37)	(47)
Depreciation and amortisation	642	1,282	682	1,335
Impairment/(reversal of impairment) of non-current assets	1	1	(1)	(1)
Finance costs, net	78	140	19	82
Income tax	10	9	15	32
Change in provisions and allowances	16	(17)	17	(100)
Operational foreign exchange and derivatives (gains)/losses, net	-	5	(7)	(5)
Change in working capital				
(Increase)/decrease in inventories, gross	19	(63)	40	25
Increase in trade receivables, gross	(86)	(15)	(64)	(46)
Increase/(decrease) in trade payables	(60)	(306)	41	(13)
(Increase)/decrease in prepaid expenses and other receivables	17	(31)	16	8
Increase/(decrease) in deferred income and other payables	(2)	52	(23)	(21)
Dividends received	13	13	77	109
Interest received	6	12	6	12
Interest paid and interest rate effect paid on derivatives, net	(90)	(134)	(94)	(140)
Exchange rate effect received/(paid) on derivatives, net	(14)	(7)	-	11
Income tax received	5	4	34	7
Net cash provided by operating activities	**575**	**1,000**	**817**	**1,463**
INVESTING ACTIVITIES				
Purchases of property, plant and equipment and intangible assets	(442)	(828)	(485)	(4,033)
Increase/(decrease) in amounts due to fixed assets suppliers	16	(305)	18	(314)
Exchange rate effect received/(paid) on derivatives economically hedging capital expenditures, net	(1)	-	2	14
Proceeds from sale of property, plant and equipment and intangible assets	77	87	57	82
Decrease in loans and other financial instruments	1	1	2	5
Net cash used in investing activities	**(349)**	**(1,045)**	**(406)**	**(4,246)**
FINANCING ACTIVITIES				
Issuance of long-term debt	-	-	-	2,701
Repayment of long-term debt	(6)	(17)	(7)	(1,207)
Increase/(decrease) in revolving credit line and short-term debt	25	259	(283)	1,438
Exchange rate effect received on derivatives hedging debt, net	-	1	-	17
Net cash provided by/(used in) financing activities	**19**	**243**	**(290)**	**2,949**
Net change in cash and cash equivalents	**245**	**198**	**121**	**166**
Cash and cash equivalents at the beginning of the period	176	223	263	218
Cash and cash equivalents at the end of the period	**421**	**421**	**384**	**384**

Notes to the Condensed Interim Separate Financial Statements

1. Orange Polska S.A.

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

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

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

2. Statement of compliance and basis of preparation

Basis of preparation

These unaudited Condensed IFRS Interim Separate Financial Statements for the 6 months ended 30 June 2017 (the "Condensed Interim Separate Financial Statements") are prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting ("IAS 34") and with all accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective as at the time of preparing the Condensed Interim Separate Financial Statements (see also Note 3).

These Condensed Interim Separate Financial Statements should be read in conjunction with the audited Orange Polska S.A. IFRS Separate Financial Statements and the notes thereto ("IFRS Separate Financial Statements") for the year ended 31 December 2016.

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

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

These Condensed Interim Separate Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 26 July 2017.

Changes to standards and interpretations in 2017

- IFRS 17 "Insurance Contracts". This standard was issued on 18 May 2017 and will be effective for annual periods beginning on or after 1 January 2021. This standard has not yet been endorsed by the European Union. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The Company does not act as a principal in case of insurance contracts and this standard will have no impact on financial statements.

- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". This interpretation was issued on 7 June 2017 and will be effective for annual periods beginning on or after 1 January 2019. This interpretation has not yet been endorsed by the European Union. IFRIC 23 clarifies the accounting for uncertainties in income taxes. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. This interpretation will have no impact on the Company's financial statements.

3. Statement of accounting policies

The accounting policies and methods of computation used in the preparation of the Condensed Interim Separate Financial Statements are materially consistent with those described in Notes 2 and 31 to the audited IFRS Separate Financial Statements for the year ended 31 December 2016.

4. Explanatory comments about the seasonality or cyclicality of interim Company operations

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

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

From 2017, the Company extended the estimated useful lives for certain terminals, network assets and items of software which decreased the depreciation and amortisation expense by PLN 83 million in the 6 months ended 30 June 2017. Depreciation and amortisation expense in 2017 relating to these assets is expected to be lower by approximately PLN 150 million in comparison to 2016.

In the second quarter of 2017 the Company revised estimate of dismantling provision due to the change of the agreement with dismantling services provider. Higher unit price of dismantling resulted in an increase of provision and fixed assets as at 30 June 2017 by PLN 178 million.

In the statement of financial position as at 31 December 2016, certain figures were adjusted to conform with the presentation as at 30 June 2017. Trade receivables and trade payables were increased by PLN 209 million due to reclassification of roaming discounts granted to and received from other operators, historically presented net of trade receivables and payables. Other assets were increased by PLN 32 million as a result of reclassification of balances related to free service periods from deferred income and trade receivables. The comparative amounts in the statement of cash flows were adjusted accordingly for the 6 months ended 30 June 2016, with no impact on net cash provided by operating activities.

The amount of trade payables subject to reverse factoring increased from PLN 132 million as at 31 December 2016 to PLN 157 million as at 30 June 2017. These payables are presented together with the remaining balance of trade payables, as analysis conducted by the Company indicates they have retained their trade nature.

Orange Polska S.A. and its 100% owned subsidiaries – Orange Customer Service Sp. z o.o. ("OCS") and TP Invest Sp. z o.o. ("TPI") – merged as at 30 September 2016. The merger is accounted for prospectively starting from 30 September 2016. The statement of financial position as at 31 December 2016 includes assets, liabilities and equity of OCS and TPI. The income statement, the statement of comprehensive income and the statement of cash flows do not include income, expenses and cash flows of these subsidiaries for the 6 months ended 30 June 2016.

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

In the 6 months ended 30 June 2017, the net cash flows from issuance and repayments of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange S.A., amounted to PLN 240 million.

As at 30 June 2017, the total outstanding balance of loans from the related party amounted to PLN 7,210 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 1.91% before swaps and 3.39% after swaps as at 30 June 2017.

In the 6 months ended 30 June 2017 Orange Polska S.A. entered into new derivative transactions under the agreement with Orange S.A. hedging interest rate risk on the related party financing provided in PLN.
The total nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 30 June 2017 was EUR 670 million and PLN 5,450 million, respectively, with a total negative fair value amounting to PLN 9 million.

In the 6 months ended 30 June 2017, the Company issued and redeemed short-term bonds under the Orange Polska S.A. Bond Issuance Programme. In the 6 months ended 30 June 2017, the net cash flows on the bonds amounted to PLN 19 million. As at 30 June 2017 and 31 December 2016, the aggregate par value of the outstanding bonds issued under the programme amounted to PLN 39 million and PLN 20 million, respectively.

7. Fair value of financial instruments

Derivative instruments are measured subsequent to their initial recognition at fair value. The fair value of derivatives is determined as described in Note 21 to the IFRS Separate Financial Statements for the year ended 31 December 2016. Significant inputs to the valuation technique used by the Company to measure the fair value of derivatives are classified to Level 2 of the fair value hierarchy described in Note 22.1.

The carrying amount of the Company's financial instruments approximates their fair value, except for telecommunications licence payables for which as at 30 June 2017 and 31 December 2016 the estimated fair value exceeded the carrying amount by PLN 133 million and PLN 152 million, respectively, due to significant change between the original effective interest rates and current market rates.

8. Dividend

The General Meeting of Orange Polska S.A. held on 19 April 2017 did not adopt a resolution on a dividend payment in 2017, in accordance with the recommendation of the Management Board of the Company.

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

The information hereunder refers to the matters presented in Note 28 to the IFRS Separate Financial Statements for the year ended 31 December 2016 or describes major matters that occurred after 31 December 2016.

a. Proceedings by UOKiK

Proceedings by UOKiK related to retail prices of calls to Play
UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 4 August 2017.

Proceedings by UOKiK related to tenders for mobile services
UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 31 August 2017.

Magna Polonia S.A. claim towards Orange Polska, T-Mobile Polska, Polkomtel and P4
Magna Polonia asserts that its claim towards Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. for payment jointly and severally of PLN 618 million results from lack of the launch of DVB-H television. Magna Polonia claims that the lack of the launch of DVB-H television was caused by an agreement of the four operators which was found to be in breach of the competition law by UOKiK. UOKiK issued a decision to this effect on 23 November 2011. That decision was subsequently repealed by the court of first instance and that verdict was maintained by the Court of Appeal on 15 March 2017. UOKiK may lodge a cassation claim to the Supreme Court.

b. Proceedings by the European Commission related to broadband access

On 27 February 2016, Orange Polska appealed the verdict of the General Court of 17 December 2015 to the Court of Justice. On 3 March 2017, Orange Polska was notified by the Court of Justice about staying the appeal proceedings until the Court of Justice issues its judgement in another case.

c. Other contingent liabilities and provisions

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

10. Related party transactions

As at 30 June 2017, 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 decides about the composition of the Management Board.

OPL S.A.'s income earned from its subsidiaries comprises mainly telecommunications equipment sales and IT services. The purchases from the subsidiaries comprise mainly network development and maintenance, selling fees, property maintenance and additionally, in the 6 months ended 30 June 2016, included also customer support and management services. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

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

OPL S.A.'s financial income earned from its subsidiaries comprises dividends from the subsidiaries and additionally, in the 6 months ended 30 June 2016, included also interest on bonds issued by the subsidiaries. Financial expense incurred by OPL S.A. in the 6 months ended 30 June 2016 in transactions with the subsidiaries comprised mainly interest on loans from the subsidiaries. Financial payables to the subsidiaries comprise bonds issued to the subsidiaries.

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

(in PLN millions)	*3 months*	*6 months*	*3 months*	*6 months*
		ended 30 June 2017		*ended 30 June 2016*
Sales of goods and services and other income:	**102**	**194**	**122**	**222**
Orange Polska Group (subsidiaries)	51	97	62	116
Orange Group	51	97	60	106
- Orange S.A. (parent)	32	61	34	60
- Orange Group (excluding parent)	19	36	26	46
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(200)**	**(375)**	**(334)**	**(620)**
Orange Polska Group (subsidiaries)	(142)	(254)	(268)	(490)
Orange Group	(58)	(121)	(66)	(130)
- Orange S.A. (parent)	(15)	(36)	(21)	(40)
- Orange Group (excluding parent)	(43)	(85)	(45)	(90)
- including Orange Brand Services Limited (brand licence agreement)	*(30)*	*(60)*	*(32)*	*(66)*
Financial income:	**9**	**18**	**112**	**181**
Orange Polska Group (subsidiaries)	8	17	111	180
Orange S.A. (parent)	1	1	1	1
Financial expense, net:	**(61)**	**(120)**	**(96)**	**(202)**
Orange Polska Group (subsidiaries)	-	-	(34)	(70)
Orange Group	(61)	(120)	(62)	(132)
- Orange S.A. (parent)	(21)	(184)	79	35
- Orange Group (excluding parent)	(40)	64	(141)	(167)
Other comprehensive income/(loss):	**(4)**	**(6)**	**23**	**(3)**
Orange S.A. (parent)	(4)	(6)	23	(3)
Dividend declared:	**-**	**-**	**166**	**166**
Orange S.A. (parent)	-	-	166	166

(in PLN millions)	*At 30 June 2017*	*At 31 December 2016 (see Note 5)*
Receivables:	**109**	**122**
Orange Polska Group (subsidiaries)	42	49
Orange Group	67	73
- Orange S.A. (parent)	42	46
- Orange Group (excluding parent)	25	27
Payables:	**316**	**306**
Orange Polska Group (subsidiaries)	190	212
Orange Group	126	94
- Orange S.A. (parent)	40	49
- Orange Group (excluding parent)	86	45
Financial receivables:	**61**	**206**
Orange S.A. (parent)	61	206
Cash and cash equivalents deposited with:	**308**	**106**
Orange S.A. (parent)	308	106
Financial payables:	**7,319**	**7,188**
Orange Polska Group (subsidiaries)	39	20
Orange Group	7,280	7,168
- Orange S.A. (parent)	70	76
- Orange Group (excluding parent)	7,210	7,092

Compensation (remuneration, bonuses, post-employment and other long-term benefits and termination indemnities - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board

Members for the 6 months ended 30 June 2017 and 2016 amounted to PLN 8.6 million and PLN 10.9 million, respectively.

From the fourth quarter of 2016, bonuses are included in compensation in the period when they are accrued only. Consequently, total compensation in comparative data for the 6 months ended 30 June 2016 was amended to exclude PLN 1.8 million of bonuses accrued in 2015 and paid in 2016.

11. Subsequent events

On 21 July 2017, the Company signed a conditional preliminary agreement for an acquisition of 100% shareholding in Multimedia Polska Energia Sp. z o.o., a company that sells electrical energy. The closure of the transaction is subject to a condition precedent that Orange Polska obtains an approval of the antimonopoly authorities for the acquisition within the expected time limit of three months after the date of the agreement. The purchase price will be PLN 37 million, an amount determined as the enterprise value. This amount will be adjusted for working capital and cash positions as of the date of closure of outstanding transactions in Multimedia Polska Energia Sp. z o.o. The aforementioned transaction is consistent with Company's strategy to develop services to households which are complementary to its core telecommunication services.

On 25 July 2017, OPL S.A. repaid PLN 200 million of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange 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 – unified text Journal of Laws of 2014, item 133, 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 26 July 2017, i.e. the date of submission of the interim report for the 6 months ended 30 June 2017 was the same as at 26 April 2017, i.e. the date of submission of the quarterly report for the first quarter of 2017:

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 2017 and the quarterly report for the first quarter of 2017 is as follows:

	26 July 2017	26 April 2017
Jean-François Fallacher	-	-
Mariusz Gaca	68,839	68,839
Bożena Leśniewska	27,536	27,536
Piotr Muszyński	190,896	190,896
Jolanta Dudek	13,768	13,768
Jacek Kowalski	25,241	25,241
Maciej Nowohoński	36,715	36,715

Mr Maciej Witucki, the Chairman of the Supervisory Board of OPL S.A., held 305,557 bonds with a pre-emption right as at 26 July 2017 and 26 April 2017. Other Members of the Supervisory Board of OPL S.A. do not participate in the Company's incentive program and as at 26 July 2017 and 26 April 2017 held no bond with a pre-emption right.

Mr Jean-François Fallacher, the President of the Management Board of OPL S.A., held 25,000 Orange Polska S.A. shares as at 26 July 2017 and 26 April 2017.
Mr Maciej Witucki, the Chairman of the Supervisory Board of OPL S.A., held 4,000 Orange Polska S.A. shares as at 26 July 2017 and 26 April 2017.
There was no OPL S.A. share held by other members of the Management Board or the Supervisory Board of the Company.

III. Information on guarantees or collaterals of loans or borrowings granted by the Company or its subsidiaries to other entities or their subsidiaries, where the total amount of guarantees or collaterals accounts for at least 10% of the Company's equity

In the 6 months ended 30 June 2017, 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

As published on 13 February 2017 in the current report 4/2017, the Group forecasts the adjusted EBITDA for 2017 to be in the range of PLN 2.8 – 3.0 billion. The Management Board of Orange Polska S.A. confirms the above-mentioned forecast based on analysis of financial results for the 6 months ended 30 June 2017.

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

Factors that, in the Management Board's opinion, have influence on the Group's operations or may have such influence in the near future are presented in Section 4 of the Chapter II of Management Board's Report on the Activity of Orange Polska Group in the first half of 2017 as well as in the current report 15/2017 published on 21 July 2017. 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 2017 and 31 December 2016 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 2017 and 2016, was translated into Euro at an exchange rate which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of the 6-month periods ended 30 June 2017 and 2016.

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 2017	**31 December 2016**	**30 June 2016**
Statement of financial position	4.2265 PLN	4.4240 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.2474 PLN	Not applicable	4.3805 PLN

ORANGE POLSKA GROUP

MANAGEMENT BOARD'S REPORT ON THE ACTIVITY

IN THE FIRST SIX MONTHS ENDED 30 JUNE 2017

This report on the activity of the Orange Polska Group ("the Group" or "Orange Polska") in the first half of 2017 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 2014, item 133). For additional information please refer to the full year 2016 report.
Disclosures on performance measures, including restatements, are presented in the Note 1 to Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the 6 months ended 30 June 2017.

26 July 2017

CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of June 30, 2017 and for the six month period ended thereon

1 SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

	For 6 months ended				
	30 June 2017		30 June 2016		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue	5,657	1,332	5,706	1,303	-0.9%
EBITDA	1,560	367	1,692	386	-7.8%
EBITDA margin	27.6%		29.7%		-2.1 pp
EBITDA (adjusted*)	1,568	369	1,692	386	-7.3%
EBITDA margin (adjusted*)	27.7%		29.7%		-2.0 pp
Operating income	278	65	357	81	-22.1%
Operating margin	4.9%		6.3%		-1.4 pp
Consolidated net income	110	26	115	26	-4.3%
Net income attributable to owners of Orange Polska S.A.	110	26	115	26	-4.3%
Weighted average number of shares (in millions)**	1,312		1,312		
Earnings/(loss) per share (in PLN) (basic and diluted)	0.08	0.02	0.09	0.02	-11.1%
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	1,005	237	1,378	315	-27.1%
Net cash used in investing activities	(1,040)	(245)	(4,240)	(968)	-75.5%
Net cash provided by financing activities	224	53	3,028	691	-92.6%
Net change in cash and cash equivalents	189	44	166	38	13.9%
Capex	822	194	4,025	919	-79.6%
Capex (adjusted*)	822	194	857	196	-4.1%
Organic cash flow	(36)	(8)	(2,862)	(653)	n/a
Organic cash flow (adjusted*)	(36)	(8)	286	65	n/a

	As of				
	30 June 2017		31 December 2016		Change
	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Consolidated Statement of Financial Position					
Cash and cash equivalents	451	107	262	59	72.1%
Other intangible assets	5,477	1,296	5,722	1,293	-4.3%
Property, plant and equipment	10,612	2,511	10,678	2,414	-0.6%
Total assets	22,576	5,342	22,826	5,160	-1.1%
Financial liabilities at amortised cost***, of which:	7,297	1,726	7,194	1,626	1.4%
Current	1,729	409	41	9	n/a
Non-current	5,568	1,317	7,153	1,617	-22.2%
Other liabilities, current and non-current	5,188	1,227	5,623	1,271	-7.7%
Total equity	10,091	2,388	10,009	2,262	0.8%

Notes on data conversion:

1 – PLN/EUR fx rate of 4.2474 applied

2 – PLN/EUR fx rate of 4.3805 applied

3 – PLN/EUR fx rate of 4.2265 applied

4 – PLN/EUR fx rate of 4.4240 applied

** For adjustments of basic financial data please see Note 2 to the IFRS Interim Consolidated Financial Statements.*
*** Weighted average number of shares in 6 months ended June 30, 2017 and June 30, 2016, respectively.*
**** Excluding trade payables.*

1.1 Comments on the Consolidated Income Statement

Consolidated revenue amounted to PLN 5,657 million in the first half of 2017 and was lower by PLN 49 million compared to the first half of 2016. This decline was mainly attributable to the downward trend in traditional telephony services (retail and wholesale). The contraction in mobile services was mainly due to shift in the customer base to SIM-only and instalment offers, combined with convergent discounts and ongoing price competition on the market. It was partially offset by a sharp increase in mobile equipment sales, driven in particular by the sale of mobile handsets on instalment plans and supported by the growth in other revenue mainly due to higher ICT equipment sales.

Adjusted EBITDA (adjusted operating income before depreciation and amortisation expense and impairment of non-current assets (please see Note 2 to the Condensed IFRS Interim Consolidated Financial Statements for the first half of 2017) amounted to PLN 1,568 million and was lower by PLN 124 million compared to the first half of 2016. The decrease in adjusted EBITDA was mainly attributable to the drop in revenues and much higher interconnect costs (due to growth in retail and wholesale traffic). Additionally, EBITDA trend was affected by a credit of PLN 94 million, resulting from agreements with trade unions that amended the value of retirement bonuses and jubilee awards paid to employees, which was recognised in labour expense in the first half of 2016.

Operating income (EBIT) was lower by PLN 79 million year-on-year due to lower reported EBITDA, which was partially offset by a decrease in depreciation and amortisation expense of PLN 55 million. The decrease in depreciation and amortisation expense resulted from a PLN 83 million impact of extended useful lives for certain terminals, network assets and items of software, which was partially offset by an amortisation charge relating to frequencies in the 800 MHz and 2600 MHz bands acquired in 2016.

Net finance costs in the first half of 2017 decreased by PLN 35 million compared to the first half of 2016, mainly as a result of favourable movements in foreign exchange rates.

As a result, consolidated net income for the first half of 2017 amounted to PLN 110 million compared to PLN 115 million for the first half of 2016.

Please see more information regarding operating and financial performance in the Section 2 below.

1.2 Comments on the Consolidated Statement of Cash Flows

Net cash from operating activities amounted to PLN 1,005 million in the first half of 2017 and was PLN 373 million lower year-on-year. Lower EBITDA and higher working capital requirement were the two key factors behind the deterioration in cash generation.

Net cash used in investing activities amounted to PLN 1,040 million in the first half of 2017 compared to PLN 4,240 million in the first half of 2016. This change is mainly attributable to a payment of PLN 3,148 million for the frequencies in the 800 MHz and 2600 MHz bands acquired in 2016.

Net cash inflows from financing activities amounted to PLN 224 million compared to PLN 3,028 million in the first half of 2016. This change is mainly attributable to cash flows from related party loans.

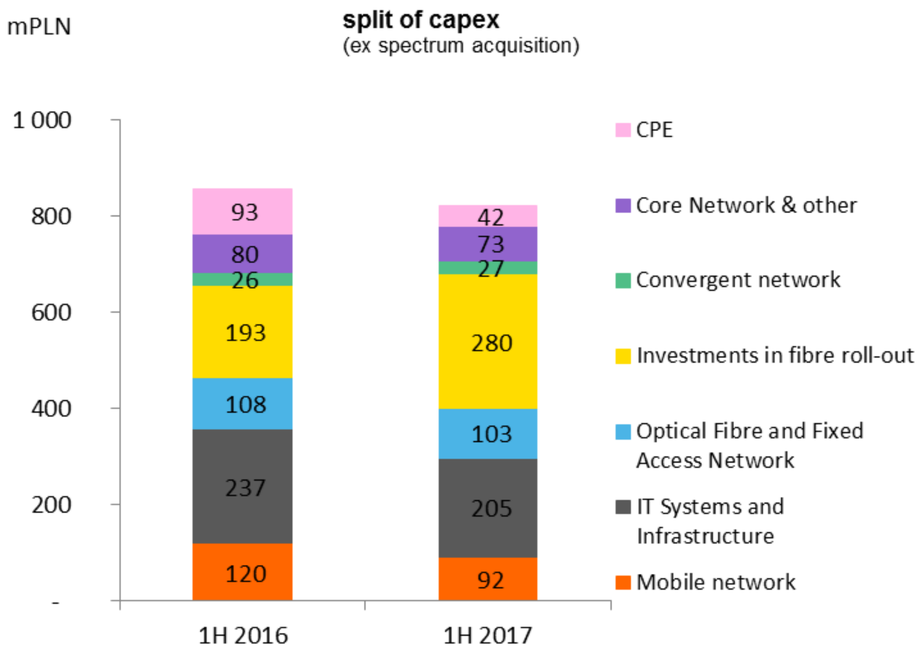
1.3 Capital Expenditures (CAPEX)

Group's adjusted capital expenditures in the first half of 2017 amounted to PLN 822 million and were lower by PLN 35 million year-on-year (amounts excluding spectrum licence payments).

The Group invested mainly in the following areas:

- Roll-out of the fibre access network in the announced investment programme, which covered 482 thousand households in the first half of 2017. Including the lines developed in 2014, 2015 and 2016, there are now almost 2 million households connectable with the fibre network, in a total of 54 cities compared to 37 cities at the end of 2016.
- Investments to enhance the range of LTE services and the quality of the mobile network, expand the capacity and range of GSM/UMTS services, and adapt the mobile access network to the 4G technology requirements, particularly in the areas not covered by the mobile access network consolidation project (i.e. strategic or underinvested regions);
- Expansion of the mobile transport and core network in order to handle the growing volume of data transmission and ensure the service quality expected by customers;
- Implementation of IT transformation programmes, including a common system for handling fixed-line and mobile service sales to B2C and SOHO customers;
- Investment projects related to the portfolio development and sales and customer service processes as well as the modernisation and enhancement of the IT technical infrastructure;
- Research and development.

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



1.4 Comments on the Consolidated Statement of Financial Position

Total assets were lower by PLN 250 million than as at 31 December 2016. This change resulted mainly from depreciation and amortisation expense that was higher by PLN 459 million than capital expenditures. This impact was partially offset by a revised estimate of dismantling costs due to a change of the agreement with dismantling service provider, which led to a PLN 178 million increase in dismantling provision and fixed assets as at 30 June 2017.

Total liabilities decreased by PLN 332 million to PLN 12,485 million as at 30 June 2017. This change resulted mainly from a decrease of PLN 654 million in trade payables partially offset by the revision of dismantling provision described above.

1.5 Related Parties Transactions

Please see Note 11 to the Condensed IFRS Interim Consolidated Financial Statements about Group's transactions with related entities.

1.6 Description of Significant Agreements

Please see section 1.10 below for information on significant agreements concluded by the Group in the first half of 2017.

1.7 Subsequent Events

Please see Note 12 to the Condensed IFRS Interim Consolidated Financial Statements for information on subsequent events.

1.8 Scope of Consolidation within the Group

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

1.9 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 2017 for the relevant information.

In the six months ended June 30, 2017, neither the Company nor its subsidiaries granted guarantees or collateral of loans or borrowings to any entity or its subsidiary with a total value representing the equivalent of at least 10% of Orange Polska S.A.'s shareholders equity. Please see section 1.10.5 below for additional information.

1.10 Management of Financial Resources and Liquidity of the Group

In the reported period, the Group financed its activities by cash from operating activities, loans provided by the Orange SA Group and current account overdraft facilities.

In the first six months of 2017, the Group repaid long-term bank loans totalling PLN 3 million and a revolving loan of PLN 160 million provided by the Orange SA Group.

In the first half of 2017, the value of the revolving credit facility used by the Group amounted PLN 400 million.
As of June 30, 2017, Group's interest-bearing liabilities (before derivatives) totalled PLN 7,237 million, which is an increase of PLN 115 million compared to December 31, 2016.

The value of liabilities under financial lease and other financial liabilities as of June 30, 2017 amounted to PLN 60 million and was PLN 12 million lower compared to December 31, 2016.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 451 million at June 30, 2017, and available credit facilities totalling the equivalent of PLN 2,126 million.

Based on available cash, back-up and revolving credit facilities, as well as external sources of financing, the Group has sufficient funds to carry out its investment projects, including capital investments, scheduled for implementation in 2017.

At June 30, 2017, Group's liquidity ratios decreased as compared to the end of 2016. The Group's lower financial liquidity resulted from an increase of PLN 1,181 million in current liabilities (less provisions and deferred credits) and an increase of PLN 147 million in current assets.

The liquidity ratios for the Group at June 30, 2017 and December 31, 2016, respectively, are presented in the table below.

	June 30, 2017	December 31, 2016
Current ratio Current assets / current liabilities*	0.66	0.87
Quick ratio Total current assets – inventories / current liabilities*	0.61	0.82
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.15	0.15

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

Group's net financial debt (after valuation of derivatives) increased to PLN 6,874 million at June 30, 2017 (from PLN 6,775 million at the end of 2016).

1.10.1 Bonds

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

1.10.2 Loan and Borrowings Agreements

Orange Polska S.A. concluded no additional loan agreements in the first six months of 2017.

1.10.3 Unused Credit Facilities

As of June 30, 2017, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 376 million.

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

1.10.4 Loan Covenants

Agreements to which Orange Polska S.A. is a party do not impose any obligations on the Group to meet any financial ratios. For informational purposes, the ratio of net debt to adjusted EBITDA was 2.3 on June 30, 2017.

1.10.5 Guarantees and Collaterals

In the reported period, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of TP Teltech sp. z o.o., an Orange Polska's wholly-owned subsidiary, towards its business partners, while Orange Polska promised to cover any claims related to payments under the guarantee. As of June 30, 2017, those guarantees totalled PLN 3.1 million.

A collateral of PLN 2.6 million granted in December 2015 and December 2016 by Orange Polska S.A. to Bank Handlowy w Warszawie S.A. to secure a bank guarantee issued by the latter upon request of TP Teltech sp. z o.o. as a proper performance bond as well as a collateral granted to Alior Bank S.A. to secure an overdraft facility amounting to PLN 7 million provided by the latter to Orange Retail S.A., a subsidiary of Orange Polska S.A., were still in force on June 30, 2017.

1.10.6 Hedging Transactions

In the first half of 2017, the Group continued to minimise its exposure to foreign exchange volatility by concluding and maintaining cross currency swap, currency option, cross currency interest rate swap and non-deliverable forward contracts, which at June 30, 2017 covered:

- 99.6% of debt denominated in foreign currencies,
- 53.5% of licence payable for the 2100 MHz spectrum (UMTS licence); and
- 84.6% of European Commission proceedings provision.

As a result of hedging, Group's effective currency exposure at June 30, 2017 was as follows:

- USD 3 million of debt;
- EUR 68 million of licence payable for the 2100 MHz spectrum (UMTS licence); and
- EUR 23 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, 2017 the Group's proportion between fixed/floating rate debt (after hedging) was 76/24% as compared to 69/31% on December 31, 2016.

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

in the first half of 2017

2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

The Group identifies a single operating segment in its business activity. Segment performance is evaluated mainly based on consolidated revenue, consolidated EBITDA, consolidated net income/(loss), consolidated organic cash flows, consolidated capital expenditures, consolidated net financial debt and consolidated net financial debt / EBITDA ratio based on cumulative EBITDA for the last four quarters. EBITDA corresponds to operating income/(loss) before depreciation and amortisation expense and impairment of non-current assets. Organic cash flows correspond to net cash provided by operating activities decreased by purchases of property, plant and equipment and intangible assets, changes in amounts due to fixed assets suppliers, impact of net exchange rate effect paid/received on derivatives economically hedging capital expenditures and increased by proceeds from sale of fixed and intangible assets. To give a better representation of underlying performance, these financial data can be adjusted to exclude the impact of significant non-recurring transactions or other events and changes in the scope of consolidation.

key figures (PLN million), IFRS	**1H 2017**	**1H 2016**	**change**
revenue	5,657	5,706	-0.9%
adjusted revenues*	5,657	5,706	-0.9%
EBITDA	1,560	1,692	-7.8%
EBITDA margin	27.6%	29.7%	-2.1 pp
adjusted EBITDA*	1,568	1,692	-7.3%
adjusted EBITDA margin*	27.7%	29.7%	-2.0 pp
operating income/(loss)	278	357	-22.1%
net income/(loss)	110	115	-4.3%
capex	822	4,025	-79.6%
adjusted capex*	822	857	-4.1%
organic cash flow	-36	-2,862	n/a
adjusted organic cash flow*	-36	286	n/a

** For adjustments of basic financial data please see Note 2 to the Condensed IFRS Interim Consolidated Financial Statements.*

Adjusted revenue totalled PLN 5,657 million in the first half of 2017 and was down PLN 49 million (or -0.9%) year-on-year. The decrease resulted entirely from fixed line revenue erosion. In this segment, the decline affected exclusively traditional voice and wholesale services, which are influenced by negative structural factors as legacy services. There was an improvement in the trend of fixed broadband revenues, which were up almost 2% following declines in the previous periods. This was driven by customer base expansion, which offset a decrease in average revenue per user (ARPU).

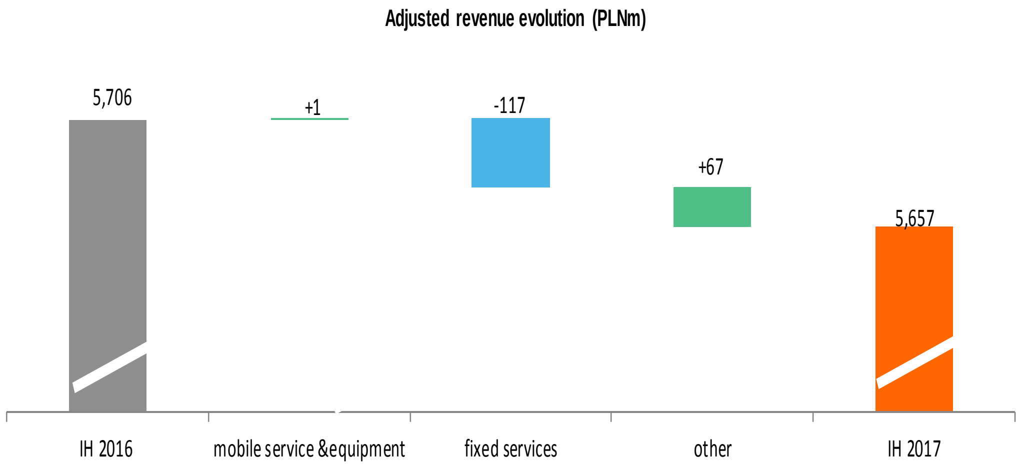
In the first half of 2017, mobile revenues remained flat year-on-year. The mobile segment saw dynamic growth of equipment sales (up 37%), which was supported by much higher volume of instalment sales and higher average price of handsets. This growth offset a decline in mobile services, resulting from a decrease in ARPU. The latter can be attributed to focus on instalment sales in customer acquisition, a marked increase in sales of SIM-only offers as well as convergence discounts. Other revenues were up 34%, mainly owing to much higher sales of ICT equipment.

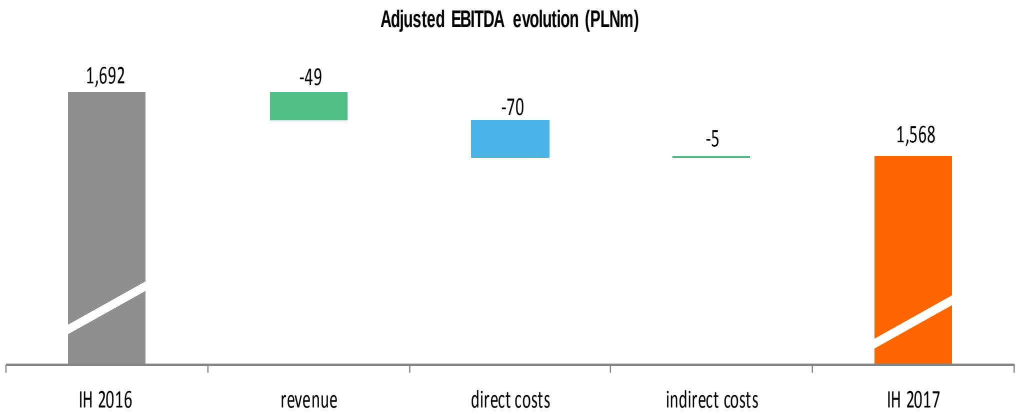
Total operating costs (determined as adjusted EBITDA less adjusted revenues) increased by less than 2% in the first half of 2017. As a result, the EBITDA erosion outpaced the revenue erosion. Adjusted EBITDA margin decreased by 2 percentage points year-on-year and stood at 27.7%. However, it should be noted that a credit of PLN 94 million, resulting from renegotiation of an agreement with trade unions with respect to retirement bonuses and jubilee awards, was recognised in labour expense in the first half of 2016. Excluding this one-off event, adjusted EBITDA decreased by only 1.9%.

Cost evolution can be attributed mainly to the following factors:

- A decrease of 4% (year-on-year) in commercial expenses, resulting mainly from lower volume of handset sales (owing to growing popularity of SIM-only offers) and optimisation of commissions paid;
- A decrease of almost 3% (year-on-year) in labour costs (excluding the aforementioned one-off event), mainly owing to workforce optimisation in line with the Social Plan announced in December 2015;
- An increase by approximately 12% in interconnect costs due to growth in retail and wholesale traffic, owing to a much higher customer base and higher usage per customer (particularly resulting from higher popularity of unlimited tariffs).

The margin decline resulted greatly from negative structural trends in high-margin traditional fixed line services (mainly fixed line voice, wholesale and business data services); the decrease in these services was almost entirely reflected in profit erosion.





2.1 Convergent Offer

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

In the first half of 2017, we considerably strengthened out convergent offer. The Orange Love offer, which was introduced in February, is based on a new formula. Instead of previous discounts on each additional service purchased, customers are now offered a predefined set of services (“a hard bundle”). The basic package includes:

- broadband access in the copper, fibre or wireless for fixed technology;
- TV package of 98 channels;
- mobile post-paid service with unlimited calls and SMSs plus a 3 GB data pool; and
- home phone.

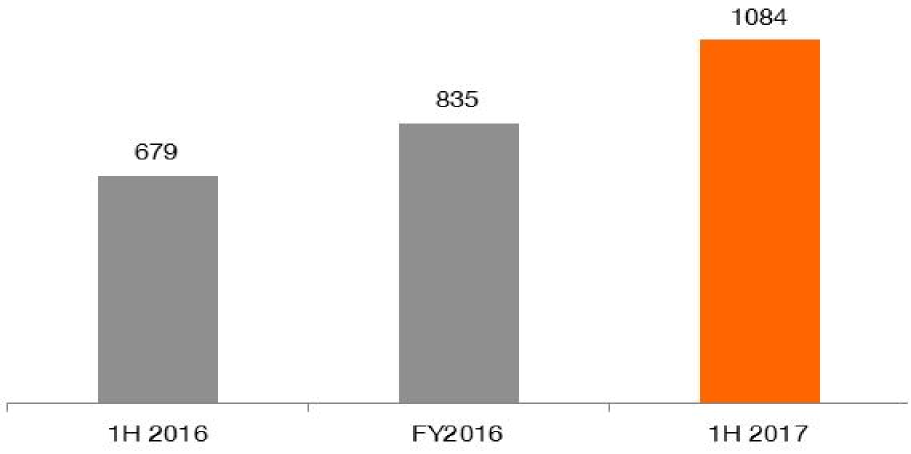
The basic package can be extended to include broader TV packages, additional mobile post-paid services or added-value services, such as Orange TV GO or multiroom. The offer is supplemented by a broad portfolio of smartphones offered in the instalment scheme. The launch of the Orange Love offer was accompanied by an intensive marketing campaign, which aimed to show it as our flagship proposal for households. The commercial results confirm that Orange Love has been well received by customers. By end of June, that is four months after the launch, the offer take-up had exceeded 200,000. Currently significant number of mobile and fixed broadband service sales are effected in the convergent bundle formula.

Our convergent offer is a very important element in ensuring the success of our broadband offer in the fibre technology. It is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. This is confirmed by the fact that as many as about 52% of fibre broadband service B2C customers were convergent customers at the end of June 2017, which is a significantly higher share than in case of broadband services based on copper technologies.

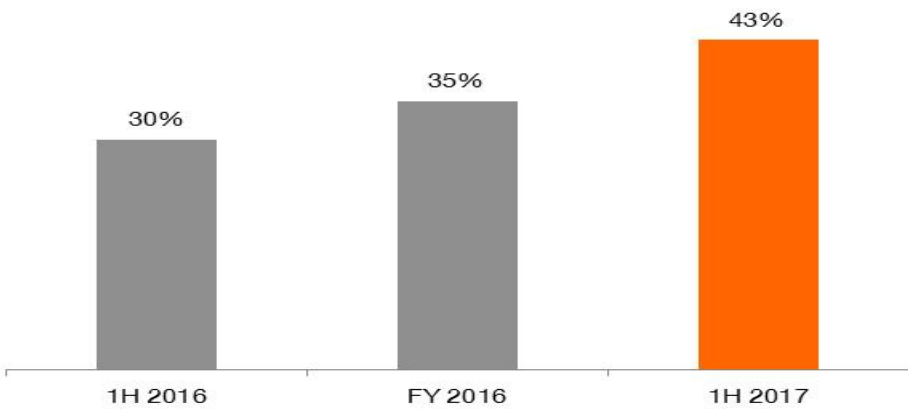
While introducing the Orange Love offer, as from the first quarter we slightly modified the convergent customer definition. Now, it only includes customers using a combination of fixed broadband (incl. wireless for fixed) and mobile handset offer, with financial benefit. The new definition fully reflects the approach to convergence adopted in Orange Love.

At the end of June 2017, our convergent customer base reached 1,084 thousand (including 858 thousand of residential customers), which is an increase of 249 thousand (or 30%) compared to the end of December 2016. The total number of services provided in the convergence scheme among B2C customers exceed 3.4 million. On average, each convergent individual customer uses four Orange services. The share of convergent customers in the aggregate base of residential customers of fixed broadband and mobile voice services is shown in the diagram below. This share has considerably increased owing to the attractiveness of the Orange Love offer and the prioritisation of convergence at Orange Polska.

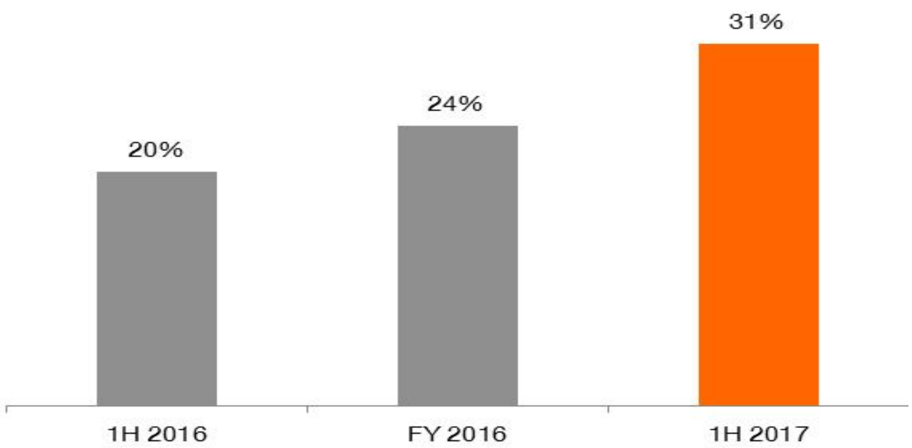
Convergent base (in thousand)



Convergance penetration in B2C fixed broadband



Convergance penetration in B2C mobile handset postpaid



2.2 Mobile Services

Revenues			
PLN million	**For 6 months ended**		**Change**
	June 30, 2017	**June 30, 2016**	
Mobile revenues:	3,122	3,121	0.0%
o/w Retail services	1,952	2,151	-9.3%
o/w Wholesale services (including interconnect)	547	514	6.4%
o/w equipment sales	623	456	36.6%

Key performance indicators					
'000, unless indicated otherwise	**Jun 30, 2017**	**Dec 31, 2016**	**Jun 30, 2016**	**Change 30.06.2017/ 31.12.2016**	**Change* 31.12.2016/ 30.06.2016**
Total mobile services (SIM)	14,555	15,799	16,614	-7.9%	-4.8%
o/w post-paid	9,573	9,262	8,716	3.4%	6.5%
o/w mobile handset	7,112	6,851	6,491	3.8%	5.9%
o/w mobile broadband	1,334	1,377	1,327	-3.1%	3.8%
o/w M2M	1,126	1,033	898	9.0%	15.0%
o/w pre-paid	4,983	6,537	7,898	-23.8%	-17.3%

*includes effects of customer base revision made in 3Q 2016

Key performance indicators					
in PLN	**1H 2017**	**1H 2016**	**1H 2015**	**Change 2017/2016**	**Change 2016/2015**
SRC (post-paid), PLN	50	199	276	-74,9%	-27.9%
SAC (post-paid), PLN	112	234	348	-52,1%	-32.8%
Monthly blended ARPU, PLN	29.1	28.4	30.4	2.5%	-6.6%
post-paid (excluding M2M)	39.6	44.7	50.3	-11.4%	-11.1%
pre-paid	13.9	12.2	12.5	13.9%	-2.4%

As at the end of June 2017, Orange Polska had a mobile services base of 14.6 million, which is a decrease of 1.2 million or almost 8% vs. end of December 2016. This was exclusively due to a sharp decline (-24%) in SIM cards in the pre-paid segment, where the introduction of the card registration obligation resulted in much lower new card activations. In addition, card registration by customers accelerated migration to post-paid. However, as the vast majority of new pre-paid activations are low usage one-time activations, the reduction did not affect our financial performance in a material way. We expect the decline in the reported SIM cards to be contained in the second half of 2017.

In the post-paid segment, the number of SIM cards increased by 3% as compared to the end of December 2016. In handset offers (up 4%), we focused mainly on the Orange Love convergent offer as a means to attract customers. In the second quarter, over 40% of new customers purchased their mobile voice service in a bundle with fixed broadband. Conversely, the number of mobile broadband services decreased, following numerous periods of substantial growth. This was due to increased popularity of mobile broadband for fixed use offers as well as growing data pools for smartphones in mobile voice tariff plans. We expect this trend to continue in the second half of 2017.

Blended ARPU amounted to PLN 29.1 in the first half of 2017 and was up 2.5% (year-on-year). The increase was driven exclusively by a major improvement in pre-paid ARPU. This improvement, however, resulted not from some fundamental factors, but from a huge decline in SIM cards following the registration obligation. In the post-paid segment, ARPU erosion continued at a double-digit pace.

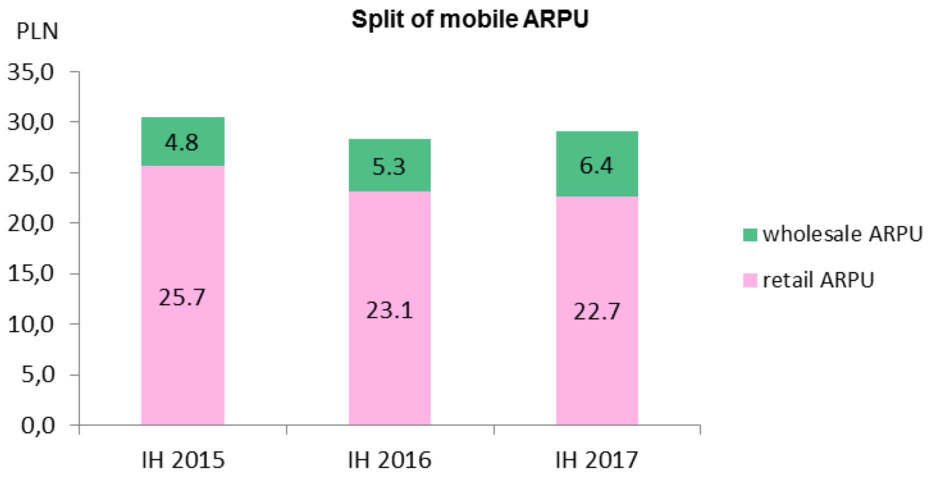
The post-paid ARPU decline in the first half of 2017 can be attributed to the following factors:

- popularity of family offers, in which customers get several SIM cards;
- growing take-up of SIM-only offers;
- focus on instalment sales in customer acquisition, while reducing sales of traditional subsidised offers (in the instalment scheme, a portion of revenue corresponding to the handset is reported as revenue from equipment sales rather than revenue from services, which is the basis for ARPU calculation);
- discounts granted to customers subscribing to convergent services;
- ongoing pressure on prices; and

- lower incoming traffic growth than in 2016.

However, it should be noted that a number of these factors have a dilutive effect on ARPU and does not result directly from intensified price competition.

Customer acquisition and retention costs (SAC, SRC) were falling, which was attributable mainly to further rapid growth in share of instalment schemes in the overall sales structure, higher handset sale prices and growing popularity of SIM-only offers.



2.2.1 Market and Competition[1]

In the first six months of 2017, the mobile market continued to be considerably affected by the pre-paid regulations introduced in the second half of 2016. These changes led to a decrease in the total number of SIM cards in Poland. According to Orange Polska's own estimates, this figure fell to 49.8 million, negatively affecting the mobile penetration rate (among population), which was estimated at 130% as of the end of June 2017. However, it is the market structure which was most affected by the regulatory changes. A marked increase in post-paid services resulted primarily from customer migration from the pre-paid segment experienced by each operator as well as pre-paid database cleanup of inactive SIM cards.

According to Orange Polska's own estimates, the four leading operators' aggregated market share remained at the level of 99% at the end of June 2017. Orange Polska's estimated share in the mobile market by SIM cards was 29.4% at the end of June 2017; as a result, the Group maintained its leadership in the market by volume.

Furthermore, the characteristics of the mobile market in Poland (saturation and a considerable number of large MNOs) together with the regulatory impact stimulated an increased activity of all operators in order to attract and retain customers both in the post-paid and pre-paid segments.

2.2.2 Mobile Voice and Data Services

In connection with the market launch of the Orange Love offer in February, we focused on our convergent offer in customer acquisitions, as it enables up-sales of additional services and contributes to higher loyalty of customers. Currently, the convergent formula accounts for a major share in mobile voice acquisitions. Owing to the Orange Love attractiveness, there is a reduced need for handset subsidies in mobile customer acquisitions, which has led to a major increase in SIM-only acquisitions. Overall, the number of mobile voice acquisitions continued to grow significantly. In the first half of 2017, the growth rate was similar to that in the first half of 2016. However, the pre-paid customer base decreased as a result of the introduction of the pre-paid SIM card registration obligation, which reflected the general market trend in this segment.

In the first half of 2017, there were no significant changes versus 2016 in the key trends in the mass market:

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[1] Analysis of the mobile market, excluding wireless broadband for fixed offers

- Households became the main arena of competitive struggle in contrast to earlier competition for single customers. On the one hand, it resulted in relative stabilisation of prices of single services after years of fierce competition. On the other hand, customers can get price benefits, sometimes significant, for buying a bundle of several services, which contributes to the popularity of multi-SIM family offers, combining mobile voice and data services. A part of this trend is the growing take-up of convergent offers, which combine mobile and fixed-line services.
- A data package is an indispensable element of any offer and the data pool volume is one of the key competitive differentiators, particularly with the roll-out of the LTE network and rapidly growing demand for data transfer. Offers featuring unlimited calls to all mobile networks and unlimited SMSs (or a considerable SMS pool) has been a market standard in customer acquisition and retention for some time.
- Although a growing number of customers choose SIM-only offers, an attractive portfolio of modern smartphones remains a major differentiator in competition for customers. Instalment schemes have become a market standard in sales of mobile equipment, which makes it easier for customers to compare their prices between operators.
- The developments in the mobile broadband segment included growing data pools offered for the same price as well as promotions offering unlimited data transfer. However, as a product category, mobile broadband has become less attractive, mainly due to the attractiveness of the wireless broadband for fixed offers as well as growing volumes of data packages in voice offers.
- Further portfolio simplification and reduction in the number of tariff plans continued.
- Looking for other differentiators, in addition to price, operators have been offering new services, such as access to music services or TV content. In addition, the elements such as connectivity or customer care quality have been increasingly highlighted in marketing communication.

There were virtually no changes in our portfolio of post-paid tariff plans in the mass market in the first half of 2017. However, in an attempt to focus on convergence and follow a value-based strategy, we significantly reduced handset subsidising.

In the second half of 2017, a major issue in the mobile market will be coming into force of the new roaming regulations across the European Union. As retail service prices in roaming are now equal to those at home, these changes will be very beneficial to customers. It means that while travelling abroad, customers will bear no extra charges for calls, SMSs, MMSs or data transfer within roaming packages. The rules in force as from June 15 apply to users of any types of services, whether post-paid, mix or pre-paid, for both voice and broadband offers. However, due to the wholesale fees involved, the new regulations will have a major negative impact on the operators' financial results.

2.3 Fixed Services and Other Revenue

Revenue			
PLN million	**For 6 months ended**		**Change**
	June 30, 2017	**June 30, 2016**	
Fixed services	2,269	2,386	-4.9%
of which fixed narrowband	687	788	-12.8%
of which fixed broadband, TV and VoIP	788	775	1.7%
of which enterprise solutions and networks	438	437	0.2%
of which wholesale (including interconnect)	356	386	-7.8%
Other revenue	266	199	33.7%

Key performance indicators					
'000, unless indicated otherwise	**Jun 30, 2017**	**Dec 31, 2016**	**Jun 30, 2016**	**Change 30.06.2017/ 31.12.2016**	**Change* 31.12.2016/ 30.06.2016**
Fixed voice services (retail: PSTN and VoIP)	3,809	3,932	4,059	-3.1%	-3.1%
Fixed broadband accesses (retail)	2,323	2,206	2,139	5.3%	4.2%

*includes effects of customer base revision made in 3Q 2016

Key performance indicators	1H 2017	1H 2016	1H 2015	Change 2017/2016	Change 2016/2015
Retail fixed voice ARPU, in PLN	37.2	39.0	40.3	-4.6%	-3.2%
Fixed broadband, TV and VoIP ARPU, in PLN	57.7	60.2	61.1	-4.2%	-1.5%

In the first half of 2017, like in the previous periods, fixed-line revenue remained under pressure from both other market players and mobile technologies. However, revenue erosion in this segment slightly slowed down, which was related to a rebound in fixed broadband revenues and better performance in enterprise solutions and networks.

Fixed broadband revenue began to grow as a result of customer base expansion. This was possible owing to investments in fibre and mobile networks. Decline in legacy technologies (ADSL and CDMA) started to be offset by growth in VDSL, FTTH and wireless LTE. The share of these growing technologies in the whole customer base increased to 39% at the end of June 2017 (from 23% at the end of June 2016).

Erosion of fixed voice customer base (excluding VoIP) totalled 187 thousand in the first six months of 2017 and was slightly higher than in the first half of 2016 (165 thousand). The decline can be attributed mainly to structural demographic factors and growing attractiveness of mobile services with unlimited calls to all networks. Revenue erosion was 13%, remaining at a similar level as last year. We expect the downward trend in fixed-line to continue in subsequent periods.

The negative trends in fixed line voice affected also the wholesale segment (WLR,WLL). However, in the first half of 2017 a rate of decline in wholesale was slightly lower than a year earlier.

Other revenues jumped by 34%, driven mainly by much higher sales of ICT equipment.

2.3.1 Market and Competition

The Group estimates that the fixed line penetration rate was at 19.5% of Poland's population at the end of June 2017, as compared to 20.4% at the end of June 2016. The decline is still attributable mainly to growing popularity of mobile technologies. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a substitute to fixed line telephony. The aforementioned downward trend has been also affecting regulated fixed-line wholesale products (WLR and LLU).

Fixed Broadband Market

According to Group's estimates, the total number of fixed broadband access lines in Poland, including wireless for fixed technology, increased by a quarter of a million at the end of June 2017 compared to the end of 2016. This can be attributed mainly to the growing popularity of mobile broadband for fixed-line uses, which can successfully substitute for traditional cable lines. Orange Polska's wireless for fixed customer base increased by 137 thousand lines in the first six months of 2017, to 328 thousand lines at the end of June 2017.

At the same time, the high-speed fixed broadband market has been constantly expanding and growing in Poland, with Orange Polska contributing greatly to the growth. In the first half of 2017, Orange Polska's high-speed broadband customer base increased by 96 thousand, with the Orange fibre customer base expanding by 57 thousand. The key success factors were rapidly growing range of our FTTH network, modernisation of our VDSL network as well as our convergent offer competitive to cable television (CATV) operators. According to Orange Polska's estimates, the majority of our fibre customers were won over from CATV operators, which confirms the effectiveness of our strategy of growth driven by the roll-out of the FTTH network in big cities and conurbations. Orange Polska's increased activity in the high-speed broadband segment and rapid growth of the wireless for fixed has stimulated the already highly competitive market environment and forced CATV operators to seek new growth areas outside their home cities. Owing to expansion in smaller cities (also through acquisitions), they are still able to defend their position. According to Orange Polska's estimates, CATV operators' aggregate share in Poland's fixed broadband market was 33.4% by volume or 31.9% by value at the end of June 2017 (versus 33.4% by volume or 32.2% by value at the end of December 2016).

The intended acquisition of Multimedia Polska by UPC Polska can be also considered a response to the latter's weakening position of CATV operators in big cities and Orange Polska's plans of further fibre network roll-out. The transaction, if approved by UOKiK, will result in emergence of a cable network with 4 million households connectable to it, thus strengthening UPC's leadership position in the CATV segment. Orange Polska estimates that the aggregate share of the merged companies in the fixed broadband market will be approximately 20%.

The rapidly growing popularity of the FTTH and wireless for fixed broadband was reflected in an increase in the aggregate number of Orange Polska's fixed broadband users by over 0.12 million in the first half of 2017.

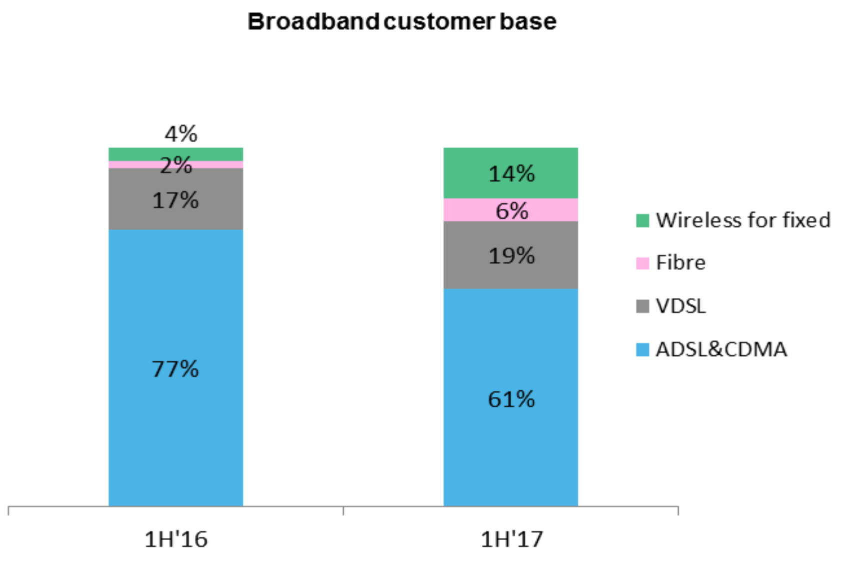
Fixed broadband market (including wireless for fixed)	June 30, 2017	June 30, 2016	Change
Market penetration rate – broadband lines (in total population)	21.6%	20.2%	+1.4 pp
Total number of broadband lines in Poland ('000)	8,310	7,764	+7.0%
Orange Polska's market share by volume	28.0%	27.8%	+0.2 pp

Source: Orange Polska's internal estimates

Fixed voice market share

	June 30, 2017	June 30, 2016	Change
Retail local access[2]	50.8%	51.7%	-0.9pp

Source: Orange Polska's internal estimates



2.3.2 Fixed Line Data Services

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

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

In the first half of 2017, the roll-out of the FTTH access network went on schedule, and its coverage reached almost 2 million households. Our fibre services are already available in 54 cities. Our customer base reached 145 thousand. The FTTH service is a novelty in the Polish market and has low awareness among consumers. Our marketing efforts aim to raise this awareness and create demand for the service. Furthermore, it is specific to the Polish market that customers sign two-year loyalty agreements, which is a factor slowing down customer migration from cable networks to our FTTH network.

As Poland's fixed broadband market in big cities is highly competitive, price is a very important differentiator of the offer attractiveness. As for portfolio developments, we have been greatly promoting convergence, using our strong position in the mobile market. It is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. The launch of the Orange Love offer in February 2017 greatly contributes to the achievement of these goals. At the end of June 2017, convergent customers accounted for over 50% of our fibre customer base.

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

A major factor in competing for fixed broadband customers is the quality of the TV offer. Notably, the Polish market is characterised by very little exclusive content. Even expensive TV content (such as rights to broadcast sports events), which in Poland is acquired mainly by satellite platforms, is broadly distributed to cable televisions. In February 2017, the launch of the Orange Love offer was accompanied by the introduction of a new set-top box with expanded functionalities. In addition to improved menu ergonomics, the decoder enables recording up to three programmes simultaneously and watching 4K TV. Thus, Orange Polska became the first nationwide pay TV operator to provide content at 4K resolution. Furthermore, in March 2017 Orange IPTV customers gained access to Polsat channels, including Polsat Sport HD. Thus, the last missing piece was added to our TV portfolio. This is a subsequent step in our TV offer development plan, which has been implemented since the launch of new TV packages in 2016.

In rural areas, mobile technologies are the primary broadband access solution and constitute the base for our wireless for fixed offers. Owing to attractive prices and high quality of our mobile network, such offers are very popular among customers.

Our fixed broadband customer base has been subject to thorough transformation. The non-competitive ADSL technology has been increasingly replaced by growth technologies, mainly fibre and wireless broadband for fixed, which is possible owing to our investments in network quality. As at the end of June 2017, the share of growth technologies in our customer base reached 39% versus 23% a year earlier.

3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

3.1 Market Outlook

According to Orange Polska estimation retail telecommunications market is going to stabilise in coming years. In short-term perspective market will be driven mainly by : dynamic expansion of very high-speed broadband access (above 30Mbps) thanks to fibre infrastructure investments as well as increase of LTE coverage. On the mobile market it will be growing post-paid volume and increasing instalments sales of equipment supporting market increase. In the same time telco services market will be under pressure due to continuing Fixed-to-Mobile substitution, both in terms of fixed telephony as well as traditional broadband (DSL below 30 Mbps). In the near future, roaming prices cuts implemented by EU will affect market value.

In medium-term perspective we expect telecommunications market back to growth owing to positive trends on VHBB market (both fixed and mobile) stimulated by dynamic growth of demand for data transmission linked with society and economy digitisation, development of e-commerce, Internet of Things, e-Administration etc. We expect growing penetration of fixed broadband in coming years as fixed access maximise profits from Internet and services such as gaming online, VoD w HD/4K, teleconferences. Also growing popularity of smartphones, tablet and other equipment with mobile access to Internet positively impact telecommunications market.

For mobile services market we predict competition to move from simple prices cuts In favour of quality-based competition. In the medium term, growth in the post-paid segment will be most likely driven by bundled and convergent offers. On the B2B market we expect volumes growth in the effect of number of employees and companies increase as well as the development of the economy towards knowledge-based economy. We expect growing popularity of telco offers combined with ICT and machine-to-machine (M2M) services.

3.2 Orange Polska's Medium Term Action Plan

The table below summarises the key goals of the mid-term action plan as presented in February 2016.

leadership in connectivity to guarantee best connectivity, both in mobile and fixed, regardless of geography of customers	**our commitments** – to connect up to 2.8 million of households within the reach of our FTTH network in 2016–2018 – to further develop our LTE coverage based on the newly purchased spectrum and provide best connectivity experience on LTE – to increase LTE coverage in population to more than 99% in 2017 – to improve volume market share statistics in fixed broadband and mobile
leadership in convergence to offer a full palette of services, enriched by non-telco products, available for households in all geographies	**our commitments** – to strengthen our position of unique convergent player in Poland – to adjust our intensive commercial strategy to the specifics of different geographical zones – to have >1 million customers of our convergent offers by 2018 – number of households using 3 or more services to reach ca. 45% penetration in our household customer base in 2018
best customer experience to put our customers at the heart of everything we do	**our commitments** – to improve customer experience by offering attractive products and services, accompanied by improvements in customer service and sales channels, both traditional and on-line – to be innovative and flexible in responding to our competitors' moves – to be among top 2 major operators for Net Promoter Score
agile and efficient company to be an agile and flexible company with a proven ability to find efficiency	**our commitments** – constant transformation of indirect costs – process optimisation and automation, IT spending optimisation as well as facilitation of commercial initiatives, especially in convergence – Social Plan signed with trade unions, enabling up to 2,050 voluntary leaves in 2016–2017 – further optimisation of real estate portfolio

financial outlook	**our commitments**
to build long term-value for the company and all stakeholders, that will allow us to return to a growth path.	– revenues back to growth in 2018 following success of FTTH and growth in mobile customers – EBITDA back to growth in 2018, driven by revenues improvement, operating leverage and business optimisation – in 2016–2018 our net debt-to-restated EBITDA ratio will not be higher than 2.2 – FTTH total capex in 2016–2018 at the level of ca PLN 2.2 bn – ex-FTTH capex down to the level of PLN 1.3–1.4 bn in 2018

In 2017 our key priorities have not changed but we are even more focusing on improvement of our commercial actions and investment process. An important factor that should enforce better execution are organisational changes that were introduced starting from 2017 with respect to both B2C and B2B areas. We recognise strategic importance of fibre network and we were encouraged by good customer take-up in the final months of 2016. Therefore we plan to cover above 1 million of additional households with fibre services in 2017 i.e. much more than in 2016. At the same time we are working to shorten fibre service delivery time. We will further improve our customer proposition and transform our distribution channels. In February we launched a new offer, Orange Love, which is our first fixed-mobile ‘hard bundle’ and which, along with a new 4K TV experience, marks our new approach to household conquest and convergence.

We plan to present update of our strategy in the beginning of September 2017.

3.3 Orange Polska’s Strengths

The Polish telecommunication market is highly competitive and challenging. Therefore, all actions taken by the Group need to be determined and consistent in order to adapt to changing conditions and respond to new market trends.

In our opinion, the strategic position of Orange Polska has improved over the last six months.

Increasing the coverage over the new frequencies in the 800 MHz band has greatly improved Orange Polska’s competitive position in terms of offering high-speed Internet, especially in the semi-urban and rural areas and in the face of exploding mobile data traffic.

Orange Polska has continued heavy investments in the FTTH network in big cities, which significantly improve competitiveness of our fixed line network, particularly vs. cable networks.

Having both a mobile network and a fast fixed line network constitutes our competitive advantage and is necessary to meet the growing data traffic, while ensuring high quality of service to mobile customers.

A trend to purchase convergent services is clear in the market, and should further intensify in the future. Orange Polska is currently the sole truly convergent operator in the mass market and the largest one in the business market. Our convergent customer base has been rapidly growing, and convergence remains one of the key pillars of our strategy even more after launching Orange Love offer in February 2017.

The most important of Orange Polska’s numerous strengths are as follows:

- Broadly recognised Orange brand in the telecommunications services market;
- Innovative B-brand mobile offer (under the nju.mobile brand);
- The ability to build and develop strategic alliances, e.g. with T-Mobile, *nc*+ and mBank;
- Service portfolio expansion to include sales of electric energy and banking services;
- High recognition of corporate social responsibility standards: inclusion in the RESPECT Index of WSE-listed companies; top positions in the Ranking of Responsible Companies developed by the Responsible Business Forum, *Gazeta Prawna* weekly and Leon Koźmiński Academy; and CSR Golden Leaf, which is awarded to selected companies from the Top 500 List of *Polityka* magazine;
- Comprehensive social initiatives of the Orange Foundation in the field or digital education and use of new technologies, with particular focus on the on-line safety of children and young people;
- Paying attention to customers with special needs, i.e. disabled and elderly customers: introduction of the relevant solutions and standards in sales and customer service;
- Active participation in building the information society through various initiatives, including development of the telecommunication infrastructure in the areas at risk of digital exclusion;
- Broad international co-operation and access to know-how of Orange Polska’s partners from the Orange Group, including use of the Buy-In company (a joint venture of Orange Group and Deutsche Telekom) as well as close co-operation and R&D experience sharing within the Orange Labs network;

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

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

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

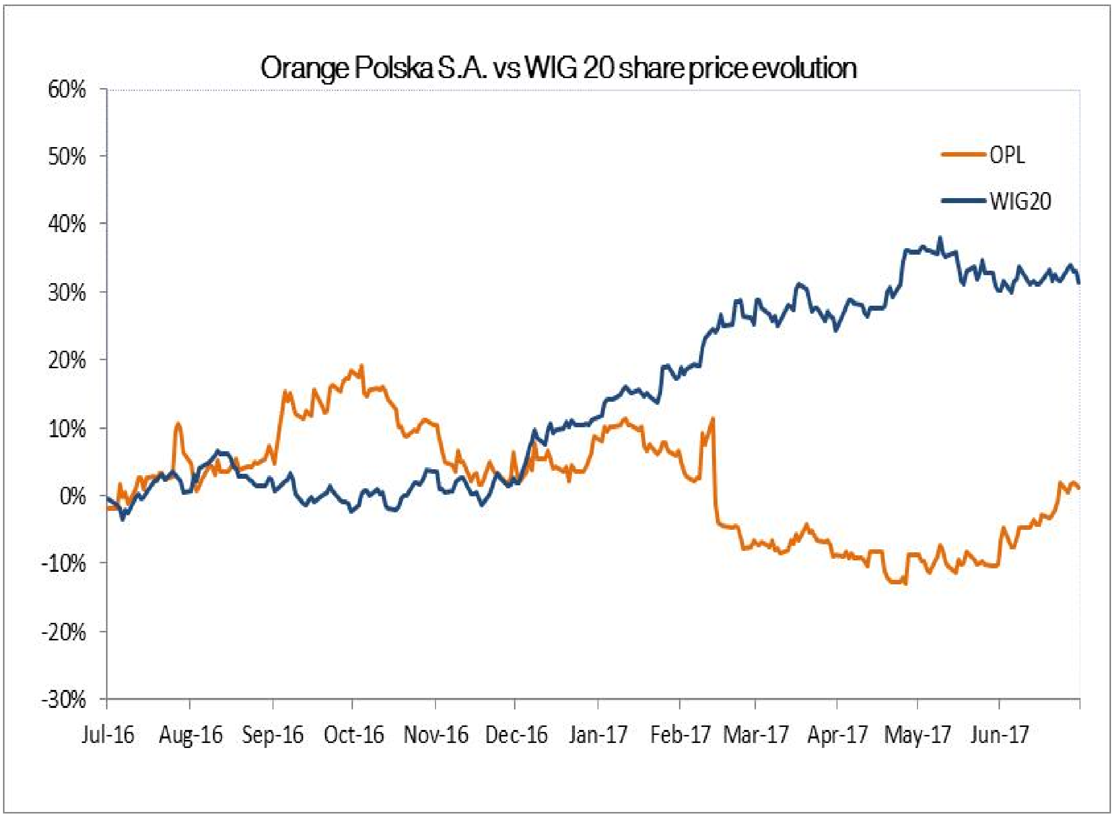
- WIG20 and WIG30 large-cap indices;
- WIG broad-market index;
- WIG-telecommunication industry index; and
- RESPECT Index of socially responsible companies.

In 2017, Orange Polska was once again included in a prestigious group of listed, socially responsible companies. The new portfolio of the RESPECT Index announced by the Warsaw Stock Exchange comprises 24 companies. Orange Polska has been present in the index portfolio since its first edition.

The RESPECT Index has been increasingly popular among companies and investors, who have noticed a link between consideration for social and environmental impact and financial performance.

The first six months of 2017 saw gains in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were down 6.90%, while the large-cap index, WIG20, gained 18.06% in the period.

ORANGE POLSKA S.A. SHARE PRICE
in the period from June 30, 2016 to June 30, 2017



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 Upcoming Update of the Strategy

Orange Polska's strategic plan, as announced in February 2016, is based on the following major pillars:

- investments in connectivity, both fixed and mobile;
- convergence, our key market differentiator;
- improving customer experience, towards a more friendly approach; and
- increasing efficiency.

Our strategic goal is to restore growth of revenues and EBITDA. We have undertaken great efforts in pursuit of these objectives. In particular, we are heavily investing in the deployment of the fibre network, and we have made convergence our flagship proposal for Polish households. However, during our annual strategy review we noticed that we needed to improve execution and better adapt to the changing market environment and evolving customer habits. We are currently conducting a strategic review and analysis of various new initiatives. The outcome of this process will be presented in September 2017.

4.2 Orange Polska's Participation in the Operational Programme "Digital Poland"

Orange Polska, as a beneficiary of EU co-financing in 2007–2013, developed its own backbone and distribution broadband infrastructure in the Lubuskie Region and Pomeranian Region under the framework of Regional Operational Programmes.

In the EU Financial Framework 2014-2020, funds have been allocated for the Operational Programme "Digital Poland", which aims to strengthen digital foundations for the national development. According to the Partnership Agreement of May 23, 2014, those foundations include: common access to high-speed Internet, effective and user-friendly public e-services and a continuously rising level of digital competences of the society. In the priority axis I: Common access to high-speed Internet, funds totalling PLN 1.2 billion have been allocated for adding last mile facilities which will meet the European Digital Agenda requirements to the existing infrastructure.

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

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

Orange Polska will implement projects in seven regions of Poland, namely: Pomeranian Region (4 projects), West Pomeranian Region (4 projects), Lesser Poland Region (3 projects), Lubuskie Region (2 projects), Lower Silesian Region (2 projects), Mazovian Region (2 projects) and Silesian Region (1 project). These projects were granted a total of PLN 744.2 million from the Programme funds, which accounts for 83.95% of eligible costs. Over 363,000 households and 3,752 educational facilities are within the reach of the intended investments. The projects will be implemented from 2017 to 2020.

4.3 Roaming Regulation

On November 25, 2015 the European Parliament and the Council passed the Regulation 2015/2120 on roaming on public mobile communications networks within the Union, introducing new rules on provision of roaming services within EU.

On June 15, 2017, prices of retail services in roaming are set on the level of prices of services at home.. However, under the Fair Usage Policy (FUP), operators are allowed to introduce limits for roaming data services provided at domestic prices and apply surcharges when such limits are exceeded.

Moreover, new roaming wholesale rate limits came into force as from June 15, 2017.

	Caps to June 15, 2017	Caps from June 15, 2017
Voice	5c/min	3.2c/min
SMS	2c	1c
Data	5c/MB	from 15.06.2017 – 7.7 E/GB from 1.01.2018 – 6 E/GB from 1.01.2019 – 4.5 E/GB from 1.01.2020 – 3.5E/GB from 1.01.2021 – 3.0 E/GB from 1.01.2022 – 2.5 E/GB

4.4 Infrastructure Development

Fixed Line

In 2015, the Company commenced massive development of FTTH lines. This continues in 2017 in line with the medium term action plan. At the end of June 2017, almost 2.0 million households in 54 Polish cities were connectable with the FTTH network. The network roll-out has steadily accelerated, as it is the strategic priority of the Company. The number of households connectable to VDSL stood at approximately 4.96 million at the end of June 2017. VDSL range did not change significantly as compared to 2016, mainly due to the priority of the fibre network.

The strategy of development of services based on FTTH lines provides not only for the construction of the Group's own infrastructure but also for wholesale agreements with other fibre network operators, wherever it is technically possible and economically viable. Such agreements where concluded both in 2016 and 2017. The main benefits include quicker access to the FTTH network and more efficient use of the existing fibre infrastructure in the relevant locations. This is in line with the aims of the Cost Directive of the European Commission, which recommends avoiding duplication of the existing facilities. In 2017, Orange Polska signed further such agreements. Under this scheme, we have been already using the infrastructure of 10 operators for more than 100,000 households. Subsequent agreements will be gradually implemented in 2017.

Orange Polska is the sole operator in Poland with a network to which all the regional Emergency Communication Centres, answering calls to the emergency number 112, are connected. Furthermore, 93% of all other emergency numbers in Poland (>1,000 locations) are also connected to Orange Polska's network. This provides the Company with revenue from alternative operators for emergency call termination on the Orange network as well as subscription revenue. The Call Setup Success Rate on the fixed network, which is reported in line with UKE's memorandum, reached 99.6% at the end of June 2017. This confirms very high quality of Orange Polska's fixed-line services.

Mobile

Owing to investments in the mobile network, the 4G coverage for all bands was 99.8% of population on more than 97% of Poland's territory as of the end of June 2017. LTE services were provided by Orange Polska via over 9,860 base stations. In the first half of 2017, in addition to gradually expanding the network coverage and capacity, Orange Polska focused on increasing the number of sites enabling spectrum aggregation.

In the first half of 2017 Orange Polska decided not to extend the licence for the 450 MHz spectrum. As a result, the CDMA 450 network was finally switched off in April and commercial services based on the related technical infrastructure were discontinued. Orange Polska customers who had used CDMA services were migrated to new products and xDSL offers.

The Orange network has seen a significant increase in traffic generated by users downloading non-standard data volumes using data pools related to the available offers. Based on customer traffic profile analyses, in the first half of 2017 Orange Polska introduced proper mechanisms to manage the traffic generated by heavy users, consistent with network neutrality principles. Furthermore, the mobile network has seen a rapid increase in data traffic generated by the customers using the wireless for fixed / Home Zone offers (approx. 6% of active users of data services), which accounted for over 30% of the total traffic on the mobile network in the first six months of 2017.

Following the implementation of the VoLTE technology in 2016, in the first half of 2017 Orange Polska launched the WiFi Calling service, which enables customers to make calls via any WiFi network outside mobile network coverage.

4.5 UKE's Decision to Modify the Reference Offer with Respect to WLR

On June 26, 2017, President of UKE issued a decision obligating Orange Polska to modify its reference offer on telecommunications access ("SOR") by changing the monthly subscription fee for the WLR POTS service. The actual amount of the fee was not indicated in the decision. The relevant proceedings had been instituted upon request of Novum SA. The decision was declared immediately enforceable. However, Orange Polska has the right to apply for the reconsideration of the case or appeal to the Regional Administrative Court.

Pursuant to the decision, the draft amendment to SOR should be submitted by Orange Polska by July 28, 2017. The subsequent approval procedure will be subject to market consultation and notification to the European Commission.

4.6 TV Portfolio Development

In February 2017, the launch of the Orange Love offer was accompanied by the introduction of a new set-top box with expanded functionalities. In addition to improved menu ergonomics, the decoder enables recording up to three programmes simultaneously and watching 4K TV. Thus, Orange Polska became the first nationwide pay TV operator to provide content at 4K resolution. Initially, Stingray Festival 4K channel, VoD film catalogue and HBO TV series (in premium packages) were made available to customers. The 4K entertainment offer provided via the new decoder is reserved for Orange fibre customers.

Furthermore, in March 2017 Orange IPTV customers gained access to Polsat channels, including Polsat Sport HD. Thus, the last missing piece was added to our TV portfolio. This is a subsequent step in our TV offer development plan, which has been implemented since the launch of new TV packages in 2016. So far, our accomplishments include the introduction of new IPTV package structure and the launch of the Orange TV Go service, providing Orange TV customers with access to over 100 TV channels which can be viewed on their computer, tablet or smartphone. All these efforts are elements of the Group's general strategy to focus on households and provide convergent services. Simultaneously, Orange Polska has continued its partnership with the *nc+* satellite platform, offering NC+ packages to Orange satellite TV customers and CANAL+ channels to its IPTV customers.

4.7 Development of ICT Services

The Group's strategy provides for the development of the ICT portfolio in both the service-based and project-based model, while gradually adding new solutions and technologies. To implement its strategy in the ICT area, the Group uses its infrastructural and technological resources, offering safe end-to-end services to its customers. In particular, the ICT portfolio includes cloud services, contact centre services, communications, network and IT security solutions.

In the first six months of 2017, the Group reported a solid increase in ICT revenue. This can be attributed mainly to the new Microsoft-dedicated business unit created in 2016, which won major contracts for the delivery of Microsoft solutions, particularly in the finance and public sectors. The development of competence in Microsoft technology will be continued in the key accounts segment and expanded into both corporations and medium-sized companies segments. Moreover, technological partnerships with Oracle, Accenture and IBM were established in the first half of 2017. This co-operation will enable Orange Polska to add consulting services to its portfolio and deliver complex projects to its key customers, related not only to data centre infrastructure, but also business application development and migration. As a result, the Group will open to new areas, releasing further growth potential.

Market demand for data centre infrastructural solutions and related services has reconfirmed the strategy in which a single supplier provides complete solutions which include connectivity (fibre), own infrastructure (data centre) as well as hardware and software integration competence. Orange Polska expects both growth in the integration competence area and introduction of high-margin service platforms provided in the SaaS model ("Software as a Service").

Another major growth area was cybersecurity. The growing number of cyber threats and the prospective coming into force of the EU General Data Protection Regulation (GDPR) led to a notable rise in the number of inquiries and projects carried out for medium to large companies in the cybersecurity area. There was a major increase in sales of the Group's solutions protecting customer networks, that is DDoS Protection, Malware Protection and UTM platforms in both operator-class and dedicated solution model.

Last year's slump in public sector orders was followed by notable rebound in this area, which was reflected in a growing number of contracts acquired by the Group.

4.8 Evolution of the Group's Distribution Network

As a customer-centric organisation, Orange Polska has maintained and developed a number of different contact channels. At present, customers can settle sales and service related matters by visiting traditional points of sale (our own or of our agents) or independent distribution chain outlets, using our on-line store, calling our helpline or requesting a visit of our door-to-door salesperson.

Our key objectives include further development of our on-line sales channel and omni-channel initiatives as well as the optimisation and modernisation of our sales outlets to align with the market and consumer trends, as this is directly reflected in customer satisfaction and further efficiency gains. As at the end of June 2017, we had a chain of 752 points of sale, either our own or operated by agents. Spread over the country, they offer a complete portfolio of our mobile and fixed line services. This channel accounts for the highest share in sales of our unrivalled bundled offer Orange Love. Furthermore, we have been gradually adding Smart Stores to provide customers with convenient, friendly and innovative space for settling any matters related to our telecommunication services. There were 14 of them at the end of June 2017. Owing to up-to-date on-line and off-line solutions, any visit to our store becomes as efficient as possible. In addition, we have invested in a new store format: Fibre Shops. These are stores located close to housing estates within the fibre network reach, which combine communication and sales functions. We operated 38 such stores as at the end of June 2017. The total number of traditional stores is greatly expanded by chains of independent distributors, such as Media Markt, Saturn and Neonet. Through this co-operation we are present in 740 additional points of sale, offering a complementary service to consumers interested in buying a device.

In line with the market trends, our on-line sales are a rapidly growing channel. In connection with our fibre offer, we have introduced interactive communications with consultants (chat, call2page, etc.). Owing to gradually implemented omni-channel solutions, the co-operation between all our contact channels ensures uniform seamless customer experience at any time and any place.

The telesales channel is also used to contact customers (mainly for retention and cross-sales), while the product and agreement are subsequently delivered by courier free of charge or picked up in store. In addition, following our considerable investments in the FTTH network roll-out we have continued to develop our door-to-door sales channel, which is the most effective way to compete with cable operators and sell our fibre services.

4.9 Competition in the Telecommunications Market

Poland's telecom market, in its current configuration, is under strong pressure from four infrastructure-based operators as well as MVNO players. In addition to no-limit offers (in the voice segment), each operator tries to introduce its own key offer differentiator. In consideration of rapidly evolving customer needs, the strategies adopted by telecoms are based on low pricing, offer simplicity, friendly customer care and extensive portfolio of value-added services. Adapting to the new roaming regulations by telecom operators shows how vigorously they defend their existing revenue streams, while at the same time respond quickly to new offers of competitors. In 2017, the underlying force in Poland's market of Internet providers has been growing demand for very high speed lines with no data transfer limits, available at any time and in any place for a variety of devices. Similarly to the previous periods, LTE broadband prevailed in the first half of 2017, with LTE offers for home use (wireless for fixed) with unlimited data packages being particularly popular among customers.

Owing to its extensive geographical range, wireless for fixed has been the fastest growing broadband category in Poland in 2017. This was the case not only in rural areas with poor fixed-line infrastructure, but also in urban areas, where this technology directly competes with FTTH and CATV.

Having both technologies, that is wireless for fixed and FTTH, as well as a complete convergent offer in the operator's portfolio seems the best method to reach each customer in Poland. Therefore, consolidation between fixed and mobile operators should be expected in the telecom market in the near future. Meanwhile, consolidation within the fixed-line segment has continued, with UPC and Vectra being the most active players in this area. However, cable operators are getting close to exhausting growth potential based on fixed technology alone.

It is increasingly difficult to analyse the fixed broadband market in isolation from the mobile access market. Both technologies overlap and from the customer's point of view the boundary between them is becoming increasingly blurred.

Bundled offers dedicated 'for home' are increasingly popular among Polish customers. This trend has been also noticed by other operators, which expand their portfolio and launch intensive campaigns based on non-core services and products (electricity supply, gas supply, insurance, etc.). In order to mitigate investment spending, telecoms frequently decide to form business partnerships when expanding their service portfolio. Furthermore, data pools embedded in tariff plans offered by operators (e.g. data consumption for a fixed monthly fee if using a particular website) are gaining importance.

Customers signing up to a bundled offer, combining several services, are eligible for price benefits, which drives the popularity of multi-SIM family offers, combining voice and data services. Furthermore, in the area of services for home, there is a notable upward trend in take-up of convergent offers, which combine mobile and fixed-line services. This is also the underlying trend of the strategy of Orange Polska, which by investments in the FTTH network roll-out is and will be able to provide customers with an appropriate range of quality services, keeping pace with rapid technological developments.

4.10 Regulatory Obligations

Pursuant to the President of UKE's decisions, Orange Polska is deemed to have a significant market power (SMP) on 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; and
- market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to business customers.

Orange Polska is a SMP operator on the following relevant wholesale markets:

- market for call origination on a fixed public telephone network;
- market for call termination on Orange Polska's fixed line network (FTRs);
- market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (LLU);
- market for wholesale broadband access services, excluding 76 local administrative units (BSA), where the market was recognised as competitive;
- wholesale market for high quality access services at a fixed location, up to 2 Mbps.; and
- market for call termination on Orange Polska's mobile network (MTRs).

Each SMP decision of the President of UKE's determines specific Orange Polska obligations related to each market.

4.11 Implementation of Changes in Legislation Concerning Pre-paid Services

The Anti-terrorism Act came into force on July 2, 2016. Pursuant to the new regulations, telecom operators have the obligation to obtain and properly verify the personal data of new customers prior to providing pre-paid services to them (this requirement became effective on July 25, 2016). As from February 1, 2017, operators had the obligation to switch off any incoming or outgoing traffic for any pre-paid cards that had not been registered by then. Orange Polska fulfilled this obligation fully and timely, which was confirmed by UKE's audit.

It should be noted that a very high percentage of customers registered their SIM cards. This had exceeded 98% by February 1, 2017. This had been made possible by intensive customer communications supported by promotion to reward registration.

A negative effect of the promotion was a reduction in pre-paid customer expenditure. However, it was a short-lasting effect owing to strict control of the key parameter of the pre-paid promotion, i.e. the expiry date of the awarded bonuses. In contrast to two out of three other major players, Orange Polska decided not to award all registering customers with free prolongation of their pre-paid accounts for one year, as this would negatively affect topping-up and, consequently, pre-paid revenue in the subsequent twelve months.

The first half of 2017 saw further expansion of our network of registration outlets, which had reached 30,000 locations by June 30. Simultaneously, competitive struggle in the pre-paid segment intensified, with unlimited offers starting at PLN 25. Orange Polska stood out against this background by intentionally adopting a strategy to avoid any actions that could erode ARPU in the long run.

4.12 Fixed Termination Rate (FTR) Cost Calculation

UKE has been working on a new FTR costing model (LRIC bottom-up) in order to implement the European Commission recommendation of 7 May 2009 (2009/396/EC) on the Polish market.

The date of completion of the calculation procedure has not been specified.

In 2017 the European Commission completed evaluation of its Recommendation of 7 May 2009 on the regulatory treatment of FTR and MTR in the EU. The Commission published a report, evaluating to what extent the Recommendation had been implemented and whether to maintain or amend it as a tool for achieving the policy objectives of promoting competition, EU citizens' interests and developing the internal market. At the same time, FTR regulation is covered by the proposed European Electronic Communications Code.

4.13 Cost Calculation Results

As a consequence of significant market power decisions on the relevant markets, Orange Polska has an obligation to prepare the regulatory accounting statements and costing description of services, verified by independent auditor. On May 25, 2017, the President of UKE appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa and Ernst & Young spółka z ograniczoną odpowiedzialnością Business Advisory spółka komandytowa to conduct an audit of Orange Polska. The auditors are to submit their opinion to Orange Polska and UKE not later than on August 29, 2017.

4.14 Compensation for Universal Service Costs

The President of UKE's procedures regarding determination of operators to share in the compensation of the USO net cost deficit for the years 2007 to 2011 are pending.

In May 2017, Orange Polska collected deficit refinancing for 2007 in the amount of PLN 206 thousand. Compensation for subsequent years is expected to be collected in 2017/2018.

4.15 Major Changes in Legislation

In 2017, there was a number of changes in legal environment with respect to both general law and provisions specific to the telecom sector. Such modification of legal environment entails constant and diligent monitoring as well as ensuring resources to implement new regulations.

The key acts include:

Domestic Law

- On January 10, 2017, the Act of September 23, 2016 on out-of-court consumer dispute resolution, which is based on the Directive 2013/11/EU on consumer ADR and Regulation (EC) No 524/2013 on consumer ODR. It establishes rules for out-of-court resolution of disputes between Poland-based companies and consumers from all EU countries.
- On January 13, 2017, the Act of December 15, 2016 amending the Act on gambling was promulgated. It imposes as of July 1, 2017 an obligation to block access to websites listed in the Register of Prohibited Websites managed by the Ministry of Finance.
- On June 1, 2017, the Act of April 7, 2017 on amending the Code of Administrative Procedure and certain other acts came into force. The Code amendment is to facilitate proceedings by the requirements to comply with the established practice and give the party to the proceedings the benefit of the doubt as well as making application for the case re-examination optional (filing a complaint with an administrative court no longer has to be preceded by such a application); in addition, the party to the appeal proceedings will have the right to demand deciding the case by the court of second instance rather than returning the case to the court of first instance for re-examination.
- On June 1, 2017, the Act of April 7, 2017 on amending certain acts in order to facilitate debt recovery came into force. This amended Article 647[1] of the Civil Code concerning relations between the Investor and contractors or subcontractors under contracts for construction work.
- On June 27, 2017, the Act of April 21, 2017 on actions for damages for infringements of the competition law came into force. This regulates the rules of liability for infringements and of the related enforcement actions under civil law (implementation of the Damages Directive 2014/104/EU).

Legislative works on the new Urban and Construction Code have been carried out since September 2017. The codification will thoroughly reform the investment planning process.

Following the adoption of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation – GDPR), which provides uniform legal framework for personal data protection, the Ministry of Digitisation commenced work on a new act on personal data protection and amendments to other regulations in connection with GDPR.

The Ministry of Culture and National Heritage is working on the draft Act amending the Act on television subscription fees and the Broadcasting Act, which will improve subscription fee collection by the public administration through involving pay TV providers in the process. The amendment will impose a number of obligations on pay TV providers, particularly the obligation to collect TV registration forms from customers and transfer these forms to the Polish Post Office, the obligation to forward customer data to the Polish Post Office whenever signing a pay TV service agreement, and the relevant information obligations towards customers.

EU Law

- The European Commission is working on a fundamental revision of the package of telecom directives. It will be in the form a new directive. A proposal for the directive establishes the European Electronic Communications Code. The Code will include revised regulations on access to infrastructure, radio spectrum, electronic communications services, universal service and competences of the relevant institutions.

- The European Commission presented a proposal for Regulation on privacy and electronic communications. The Regulation will be parallel to the already adopted General Data Protection Regulation. It includes direct references to GDPR (e.g. conditions of the consent) and some identical provisions (e.g. sanctions). The legislative process is pending. The Commission assumed that the Regulation would come into force on May 25, 2018, but there have been reports that this date is unrealistic.

4.16 Claims and Disputes, Fines and Proceedings

Please see Note 10 to the Condensed IFRS Interim Consolidated Financial Statements and Note 27 to the Consolidated Full-Year Financial Statements for detailed information about material proceedings and claims against Group companies and fines imposed thereon, including a fine imposed by the European Commission, as well as issues related to the incorporation of Orange Polska.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

5 ORGANISATIONAL CHANGES IN THE FIRST HALF OF 2017

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

In the first half of 2017, there were changes in the corporate structure of the following functions: Human Resources, Customer Care and Customer Excellence, Consumer Market, Strategy and Transformation, and Networks and Technology. The changes aimed at improving the efficiency of these functions.

5.1.1 Management Board of Orange Polska S.A.

As of June 30, 2017, the Management Board was composed of seven 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 Consumer Market;
- Vice President of the Management Board in charge of Business Market;
- Vice President of the Management Board in charge of Strategy and Transformation;
- Management Board Member in charge of Customer Care and Customer Excellence;
- Management Board Member in charge of Finance; and
- Management Board Member in charge of Human Resources.

On February 7, 2017, Mariusz Gaca, Jacek Kowalski and Maciej Nowohoński were reappointed as Members of the Management Board for the next term of office. The reappointments were made before the expiration of the current term of office. The new term of office is three years, starting from April 19, 2017.

5.1.2 Business Units of Orange Polska S.A.

As of June 30, 2017, Orange Polska had 96 business units, reporting directly to:

President of the Management Board: 1 business unit (functionally reporting);
Vice President of the Management Board in charge of Business Market: 7 business units;
Vice President of the Management Board in charge of Strategy and Transformation: 13 business units;
Vice President of the Management Board in charge of Consumer Market: 11 business units;
Management Board Member in charge of Finance: 7 business units;
Management Board Member in charge of Human Resources: 12 business units;
Management Board Member in charge of Customer Care and Customer Excellence: 11 business units;
Executive Officer in charge of Corporate Affairs: 6 business units;
Executive Officer in charge of Networks and Technology: 11 business units;
Executive Officer in charge of IT: 8 business units;
Executive Director in charge of Effectiveness: 3 business units; and
Executive Director in charge of Carriers Market: 7 business units.

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

There were no major organisational changes in Orange Polska S.A.'s subsidiaries in the first half of 2017.

5.2 Ownership Changes

The Group effected no ownership changes in the first half of 2017.

5.3 Parent Company's Shareholders

As of June 30, 2017, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital based on information available on July 26, 2017 was as follows:

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

As of July 26, 2017, 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.

Orange S.A. is one of the world's foremost telecommunications operators, with a turnover of over €40 billion in 2016 and 156,000 employees worldwide, including 97,000 in France. Present in 28 countries, the Orange Group serves 263 million customers all over the world, including 201 million mobile customers and 18 million fixed broadband customers. Orange S.A. is also the leading provider of global IT and telecommunication services to multinational corporations under its brand Orange Business Services. In 2016, the convergent customer base of Orange S.A. reached approximately 10 million, driving the company to a position of Europe’s top convergent operator.

Orange is listed on Euronext Paris (ORA) and on the New York Stock Exchange (ORAN).

As of June 30, 2017, 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 2017.

6 GROUP'S STRUCTURE AS OF JUNE 30, 2017

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

6.1 Corporate Governance Bodies of the Parent Company

Composition of the Management Board in the first half of 2017

Composition on June 30, 2017:

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

On February 7, 2017, the Supervisory Board of Orange Polska reappointed Messrs. Mariusz Gaca, Jacek Kowalski and Maciej Nowohoński as Members of the Management Board for the next term of office. The reappointments were made before the expiration of the current term of office. The new term of office is three years, starting from April 19, 2017. Mr. Mariusz Gaca holds the position of Vice-President of the Orange Polska Management Board in charge of Consumer Market, Mr. Maciej Nowohoński holds the position of Member of the Orange Polska Management Board in charge of Finance (Chief Financial Officer) and Mr. Jacek Kowalski holds the position of Member of the Orange Polska Management Board in charge of Human Resources.

Composition of the Supervisory Board and its Committees and changes thereof in the first half of 2017

Composition on June 30, 2017:

1. Maciej Witucki - Chairman of the Supervisory Board
2. Gervais Pellissier - Deputy Chairman and Chairman of the Strategy Committee
3. Marc Ricau - Board Member and Secretary
4. Dr. Henryka Bochniarz - Independent Board Member
5. Federico Colom Artola - Board Member
6. Jean-Marie Culpin - Board Member
7. Eric Debroeck - Board Member
8. Ramon Fernandez - Board Member
9. John Russell Houlden - Independent Board Member and Chairman of the Audit Committee
10. Prof. Michał Kleiber - Independent Board Member
11. Patrice Lambert de Diesbach - Board Member
12. Dr. Maria Pasło-Wiśniewska - Independent Board Member
13. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee
14. Valérie Thérond - Board Member

On April 19, 2017, the mandates of Mr. Federico Colom Artola, Mr. John Russell Houlden, Mr. Patrice Lambert de Diesbach and Ms. Valérie Thérond expired. On the same day, Mr. Federico Colom Artola, Mr. John Russell Houlden, Mr. Patrice Lambert de Diesbach and Ms. Valérie Thérond were appointed by the Annual General Assembly as Members of the Supervisory Board.

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

Composition of the Committees of the Supervisory Board on June 30, 2017:

The Audit Committee

1. John Russell Houlden – Chairman
2. Federico Colom Artola
3. Dr. Maria Pasło-Wiśniewska
4. Marc Ricau

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

The Remuneration Committee

1. Dr. Wiesław Rozłucki – Chairman
2. Dr. Maria Pasło-Wiśniewska
3. Marc Ricau
4. Valérie Thérond

The Strategy Committee

1. Gervais Pellissier – Chairman
2. Dr. Henryka Bochniarz
3. Jean-Marie Culpin
4. Eric Debroeck
5. Prof. Michał Kleiber
6. Patrice Lambert de Diesbach
7. Dr. Maria Pasło-Wiśniewska

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

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

Managing Persons

As of July 26, 2017, Mr. Jean-François Fallacher, President of the Orange Polska Management Board, held 25,000 shares of Orange Polska S.A.

Other Members of the Management Board did not hold any shares of Orange Polska S.A. as of July 26, 2017.

As part of the Company's incentive program, members of the Management Board of the Company acquired Orange Polska registered A-series first option bonds, giving the right to subscribe for the Company's shares with priority over existing shareholders. The number of first option bonds held by members of the Management Board of the Company on July 26, 2017 was as follows:

Mariusz Gaca	68,839
Bożena Leśniewska	27,536
Piotr Muszyński	190,896
Jolanta Dudek	13,768
Jacek Kowalski	25,241
Maciej Nowohoński	36,715

Shares held in related entities:

Mariusz Gaca	500 shares of Orange S.A. of par value of €4 each
Bożena Leśniewska	80 shares of Orange S.A. of par value of €4 each
Piotr Muszyński	500 shares of Orange S.A. of par value of €4 each
Jolanta Dudek	80 shares of Orange S.A. of par value of €4 each
Jacek Kowalski	350 shares of Orange S.A. of par value of €4 each

Supervising Persons

As of July 26, 2017, Mr. Maciej Witucki, Chairman of the Orange Polska Supervisory Board, held 305,557 first option bonds. Other Members of the Supervisory Board of Orange Polska S.A. do not participate in the Company's incentive program and as of July 26, 2017 held no first option bonds. As of July 26, 2017, Mr. Maciej Witucki, Chairman of the Orange Polska Supervisory Board, held 4,000 shares of Orange Polska S.A. No other persons who supervise Orange Polska S.A. held any shares in the Company or related entities as of July 26, 2017.

Shares held in related entities:

Gervais Pellissier	34.527	shares of Orange S.A. of par value of 4 EUR each.
Gervais Pellissier	1	share of Orange Horizons of par value of 10 EUR each.
Marc Ricau	10.315	shares of Orange S.A. of par value of 4 EUR each.
Federico Colom Artola	4.121	shares of Orange S.A. of par value of 4 EUR each.
Jean-Marie Culpin	1	share of Orange Caraibe of par value of 16 EUR each.
Eric Debroeck	5.267	share of Orange S.A. of par value of 4 EUR each.
Ramon Fernandez	1.524	shares of Orange S.A. of par value of 4 EUR each.
Ramon Fernandez	1	share of Médi Télécom of par value of 100 Dirhams each.
Valérie Thérond	340	shares of Orange S.A. of par value of 4 EUR each.

6.1.2 General Assembly

On April 19, 2017, the Annual General Meeting among others:

- Approved the Management Board's Report on the activity of Orange Polska S.A. in the 2016 financial year,
- Approved Orange Polska S.A. financial statements for the 2016 financial year,
- Approved of the Management Board's Report on the activity of Orange Polska Group in the 2016 financial year,
- Aproved the consolidated financial statements for the 2016 financial year,
- Granted approval on performance of members of Orange Polska S.A governing bodies in the financial year 2016,
- Decided not to pay any dividend in 2017 for the year ended December 31, 2016 in order to maximise cash allocation to strategic investment projects (including fibre network and 4G/LTE network roll-out).

6.2 Workforce

As of June 30, 2017, Orange Polska employed 15,131 people (in full-time equivalents), which is a decrease of 2.6% compared to the end of December 2016.

Orange Polska's workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2016–2017. Pursuant to the Social Agreement, a total of 660 employees left Orange Polska in the first six months of 2017, 92% of whom under the voluntary departure programme. In the first half of 2017, severance pay in Orange Polska S.A. averaged PLN 62.2 thousand per employee.

In the first six months of 2017, external recruitment in Orange Polska totalled 204 positions. External recruitment was mainly related to sale positions and customer service staff.

6.2.1 Social Agreement

On December 2, 2015, the Management Board of Orange Polska S.A. concluded with trade unions a new Social Agreement for the years 2016–2017, which come into force on January 1, 2016. In particular, the Social Agreement concerns investments in a friendly work environment and pay rises (2.5% both in 2016 and 2017), as well as enabling long-standing employees to leave Orange Polska S.A. with fair compensation and supporting employees in seeking jobs in the market (outplacement).

In the years 2016–2017, up to 2,050 employees of Orange Polska S.A. and Orange Customer Service sp. z o.o. (a wholly-owned subsidiary of Orange Polska S.A.) will be eligible for the voluntary departure package, provided that they have seniority of 10 or more years in the calendar year in which their employment is terminated. In addition, the parties concluded separate agreements with trade unions specifying that up to 730 employees of Orange Polska S.A. and 300 employees of Orange Customer Service sp. z o.o. may use the package in 2016. 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 depended on their seniority in the Group and ranged between 4 and 15 basic monthly salaries. In 2016, this was increased by an additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 10,000 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.

On November 16, 2016, the companies concluded another agreement with trade unions. It specifies that up to 1,020 employees of Orange Polska S.A. will be eligible for the voluntary departure package in 2017. 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 in 2017 will depend on their seniority in the Group and range between 4 and 15 basic monthly salaries. In 2017, this will be increased by an additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 8,000 for employees with seniority of more than 15 but less than 20 years or PLN 22,000 for employees with seniority of more than 20 years.

CHAPTER IV
KEY RISK FACTORS

7 RISK MANAGEMENT FRAMEWORK IN ORANGE POLSKA

There were no material changes with respect to the key risk factors affecting the activities of Orange Polska compared to the state of affairs presented in the Chapter 8 of the Management Board's Report for 2016.

Please see Note 27 to the IFRS Consolidated Full-Year Financial Statements for 2016 and Note 10 to the Condensed IFRS Interim Consolidated Financial Statements for the first half of 2017 for additional information about material proceedings and claims against Group companies and fines imposed thereon, including a fine imposed by the European Commission, as well as issues related to the incorporation of Orange Polska.

CHAPTER V
STATEMENTS

8 STATEMENTS OF THE MANAGEMENT BOARD

8.1 Statement on Adopted Accounting Principles

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

1. Jean-François Fallacher - President of the Board
2. Bożena Leśniewska - Vice President in charge of Business Market
3. Mariusz Gaca - Vice President in charge of Consumer Market
4. Piotr Muszyński - Vice President in charge of Strategy and Transformation
5. Jolanta Dudek - Board Member in charge of Customer Care and Customer Excellence
6. Jacek Kowalski - Board Member in charge of Human Resources
7. Maciej Nowohoński - Board Member charge of Finance, Chief Financial Officer

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

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

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

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

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

As published on February 13, 2017 in the current report 4/2017, the Group forecasts the restated EBITDA to be in the range of PLN 2.8–3.0 billion. The Management Board of Orange Polska S.A. confirms the above-mentioned forecast based on analysis of financial results for the first six months of 2017.

GLOSSARY OF TELECOM TERMS

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

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

ARPU – Average Revenues per User

AUPU – Average Usage per User

BSA – Bitstream Access Offer

CATV – Cable Television

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

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

F2M – Fixed to Mobile Calls

FBB – Fixed Broadband

FTE – Full time equivalent

FTTH – Fibre To The Home

FVNO – Fixed Virtual Network Operator

Home Zone (Office Zone for B2B customers) – area within the range of predefined base stations which cover the location of home/office

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

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

LLU – Local Loop Unbundling

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

M2M – Machine to Machine, telemetry

MTR – Mobile Termination Rates

MVNO – Mobile Virtual Network Operator

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

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

RAN agreement – agreement on reciprocal use of radio access networks

RIO – Reference Interconnection Offer

SAC – Subscriber Acquisition Costs

SIMO – mobile SIM only offers without devices

SMP – Significant Market Power

SRC – Subscriber Retention Cost

UKE – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

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

USO – Universal Service Obligation

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

Wireless for fixed – LTE broadband offer dedicated for usage in home zone or office zone with stationary routers (home) and very high (or unlimited) data packages constitute substitution for fixed broadband and are offered by all mobile operators in Poland including Orange Polska

VHBB – Very high speed broadband, above 30 Mbps

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental