

□ - adjusted

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2018

(year)

(according to par. 60 s. 2 and par. 62 s. 3 of the Decree of Minister of Finance dated 29 March 2018)
for the issuers in sectors of production, construction, trade or services

for the half-year of 2018, i.e. from 1 January 2018 to 30 June 2018

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: **24 July 2018**

ORANGE POLSKA SA	
(full name of issuer)	
ORANGEPL	Telecommunication (tel)
(abbreviated name of the issuer)	(classification according to WSE / sector)
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(post code)	(location)
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Ernst & Young Audyt Polska Sp. z o.o. Sp. komandytowa
(entity authorised to audit)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	half-year 2018	half-year 2017	half-year 2018	half-year 2017
condensed consolidated financial statements data				
I. Revenue	5,416,000	5,657,000	1,277,509	1,331,874
II. Operating income	106,000	278,000	25,003	65,452
III. Profit/(loss) before income tax	(67,000)	121,000	(15,804)	28,488
IV. Consolidated net income/(loss)	(66,000)	110,000	(15,568)	25,898
V. Net income/(loss) attributable to owners of Orange Polska S.A.	(66,000)	110,000	(15,568)	25,898
VI. Earnings/(loss) per share (in PLN/EUR)	(0.05)	0.08	(0.01)	0.02
VII. Weighted average number of shares (in millions)	1,312	1,312	1,312	1,312
VIII. Total comprehensive income/(loss)	(62,000)	82,000	(14,624)	19,306
IX. Total comprehensive income/(loss) attributable to owners of Orange Polska S.A.	(62,000)	82,000	(14,624)	19,306
X. Net cash provided by operating activities	850,000	1,005,000	200,495	236,615
XI. Net cash used in investing activities	(1,037,000)	(1,040,000)	(244,604)	(244,855)
XII. Net cash provided by financing activities	89,000	224,000	20,993	52,738
XIII. Net change in cash and cash equivalents	(98,000)	189,000	(23,116)	44,498
	balance as at 30/06/2018	balance as at 31/12/2017	balance as at 30/06/2018	balance as at 31/12/2017
XIV. Total current assets	3,950,000	3,273,000	905,631	784,723
XV. Total non-current assets	19,287,000	19,660,000	4,422,001	4,713,611
XVI. Total assets	23,237,000	22,933,000	5,327,632	5,498,334
XVII. Total current liabilities	6,246,000	6,043,000	1,432,043	1,448,848
XVIII. Total non-current liabilities	6,543,000	6,952,000	1,500,138	1,666,787
XIX. Total equity	10,448,000	9,938,000	2,395,451	2,382,699
XX. Equity attributable to owners of Orange Polska S.A.	10,446,000	9,936,000	2,394,993	2,382,220
XXI. Share capital	3,937,000	3,937,000	902,650	943,921
condensed separate financial statements data				
	half-year 2018	half-year 2017	half-year 2018	half-year 2017
I. Revenue	5,202,000	5,501,000	1,227,031	1,295,145
II. Operating income	103,000	269,000	24,295	63,333
III. Profit/(loss) before income tax	(47,000)	129,000	(11,086)	30,372
IV. Net income/(loss)	(45,000)	120,000	(10,614)	28,253
V. Earnings/(loss) per share (in PLN/EUR)	(0.03)	0.09	(0.01)	0.02
VI. Weighted average number of shares (in millions)	1,312	1,312	1,312	1,312
VII. Total comprehensive income/(loss)	(41,000)	92,000	(9,671)	21,660
VIII. Net cash provided by operating activities	901,000	1,000,000	212,525	235,438
IX. Net cash used in investing activities	(1,040,000)	(1,045,000)	(245,312)	(246,032)
X. Net cash provided by financing activities	61,000	243,000	14,389	57,211
XI. Net change in cash and cash equivalents	(78,000)	198,000	(18,398)	46,617
	balance as at 30/06/2018	balance as at 31/12/2017	balance as at 30/06/2018	balance as at 31/12/2017
XII. Total current assets	3,758,000	3,041,000	861,610	729,099
XIII. Total non-current assets	19,300,000	19,675,000	4,424,982	4,717,208
XIV. Total assets	23,058,000	22,716,000	5,286,592	5,446,307
XV. Total current liabilities	6,152,000	5,960,000	1,410,492	1,428,948
XVI. Total non-current liabilities	6,491,000	6,899,000	1,488,215	1,654,080
XVII. Total equity	10,415,000	9,857,000	2,387,885	2,363,279
XVIII. Share capital	3,937,000	3,937,000	902,650	943,921

**Independent Auditor's Report
on review of interim condensed consolidated financial statements
for the 6 month period ended 30 June 2018**

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 Group (the 'Group'), with its parent company Orange Polska S.A. (the 'Company'), located in Warsaw at Aleje Jerozolimskie 160, as of 30 June 2018, including the consolidated statement of financial position as at 30 June 2018, 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 2018 to 30 June 2018 and the explanatory notes (the 'interim condensed consolidated financial statements').

The Company's Management is responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with National Review Standard 2410 in the wording of the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018 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 Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018 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.



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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Warsaw, 24 July 2018

Key Certified Auditor

Partner

Łukasz Piotrowski
certified auditor
no in the register: 12390

Mikołaj Rytel

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
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ORANGE POLSKA GROUP

CONDENSED IFRS INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2018



July 24, 2018

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

	3 months ended 30 June 2018	6 months ended 30 June 2018	3 months ended 30 June 2017	6 months ended 30 June 2017
	<i>IFRS 15 basis</i>		<i>IAS 18 basis (see Note 3.3)</i>	
Revenue (see Note 5)	2,706	5,416	2,839	5,657
External purchases	(1,529)	(3,078)	(1,541)	(3,095)
Labour expense	(397)	(829)	(438)	(890)
Other operating expense	(109)	(224)	(148)	(243)
Other operating income	76	140	69	110
Impairment of receivables and contract assets	(41)	(64)	(26)	(44)
Gains on disposal of assets	3	22	57	65
Depreciation and amortisation	(636)	(1,277)	(642)	(1,281)
Impairment of fixed assets	-	-	(1)	(1)
Operating income	73	106	169	278
Interest income	8	16	6	12
Interest expense and other financial charges	(62)	(132)	(72)	(145)
Discounting expense	(33)	(57)	(20)	(24)
Finance costs, net	(87)	(173)	(86)	(157)
Income tax	(2)	1	(12)	(11)
Consolidated net income/(loss)	(16)	(66)	71	110
Net income/(loss) attributable to owners of Orange Polska S.A.	(16)	(66)	71	110
Net income/(loss) attributable to non-controlling interests	-	-	-	-
Earnings/(loss) per share (in PLN)	(0.01)	(0.05)	0.05	0.08
Weighted average number of shares (in millions)	1,312	1,312	1,312	1,312

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*(in PLN millions)*

	3 months ended 30 June 2018	6 months ended 30 June 2018	3 months ended 30 June 2017	6 months ended 30 June 2017
	<i>IFRS 15 basis</i>		<i>IAS 18 basis</i>	
Consolidated net income/(loss)	(16)	(66)	71	110
Items that may be reclassified subsequently to profit or loss				
Gains/(losses) on cash flow hedges	17	5	3	(35)
Income tax relating to items that may be reclassified	(3)	(1)	-	7
Other comprehensive income/(loss), net of tax	14	4	3	(28)
Total comprehensive income/(loss)	(2)	(62)	74	82
Total comprehensive income/(loss) attributable to owners of Orange Polska S.A.	(2)	(62)	74	82
Total comprehensive income/(loss) attributable to non-controlling interests	-	-	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)

		<i>At 30 June 2018</i>	<i>At 31 December 2017</i>
	<i>Note</i>	<i>IFRS 15 basis</i>	<i>IAS 18 basis</i>
ASSETS			
Goodwill		2,147	2,147
Other intangible assets		5,040	5,256
Property, plant and equipment		10,556	10,666
Trade receivables		514	532
Contract assets	3	25	-
Contract costs	3	50	-
Derivatives	9	60	37
Other assets		74	72
Deferred tax assets		821	950
Total non-current assets		19,287	19,660
Inventories		241	217
Trade receivables		2,374	2,266
Contract assets	3	164	-
Contract costs	3	310	-
Derivatives	9	112	-
Other assets		109	78
Prepaid expenses		92	66
Cash and cash equivalents	9	548	646
Total current assets		3,950	3,273
TOTAL ASSETS		23,237	22,933
EQUITY AND LIABILITIES			
Share capital		3,937	3,937
Share premium		832	832
Other reserves		(36)	(40)
Retained earnings		5,713	5,207
Equity attributable to owners of Orange Polska S.A.		10,446	9,936
Non-controlling interests		2	2
Total equity		10,448	9,938
Trade payables	10	594	550
Loans from related party	9	5,109	5,485
Other financial liabilities at amortised cost	9	95	68
Derivatives	9	14	58
Provisions		506	553
Contract liabilities	3	53	-
Employee benefits		129	139
Other liabilities		43	16
Deferred income	3	-	83
Total non-current liabilities		6,543	6,952
Trade payables	10	2,054	2,421
Loans from related party	9	2,102	1,484
Other financial liabilities at amortised cost	9	54	45
Derivatives	9	33	42
Provisions	12	863	854
Contract liabilities	3	467	-
Employee benefits		217	221
Income tax liabilities		18	19
Other liabilities		438	479
Deferred income	3	-	478
Total current liabilities		6,246	6,043
TOTAL EQUITY AND LIABILITIES		23,237	22,933

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 2018	3,937	832	(2)	(47)	9	5,207	9,936	2	9,938
The effect of adoption of IFRS 15 (see Note 3.2)	-	-	-	-	-	583	583	-	583
The effect of adoption of IFRS 9 (see Note 3.3)	-	-	-	-	-	(11)	(11)	-	(11)
Balance at 1 January 2018 after adoption of IFRS 15 and IFRS 9	3,937	832	(2)	(47)	9	5,779	10,508	2	10,510
Total comprehensive loss for the 6 months ended 30 June 2018	-	-	5	-	(1)	(66)	(62)	-	(62)
Balance at 30 June 2018	3,937	832	3	(47)	8	5,713	10,446	2	10,448
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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)

	<i>Note</i>	<i>3 months ended 30 June 2018 IFRS 15 basis</i>	<i>6 months ended 30 June 2018 IFRS 15 basis</i>	<i>3 months ended 30 June 2017 IAS 18 basis</i>	<i>6 months ended 30 June 2017 IAS 18 basis</i>
OPERATING ACTIVITIES					
Consolidated net income/(loss)		(16)	(66)	71	110
<i>Adjustments to reconcile net income/loss to cash from operating activities</i>					
Gains on disposal of assets		(3)	(22)	(57)	(65)
Depreciation and amortisation		636	1,277	642	1,281
Impairment of fixed assets		-	-	1	1
Finance costs, net		87	173	86	157
Income tax		2	(1)	12	11
Change in provisions and allowances		(43)	(53)	18	(14)
Operational foreign exchange and derivatives (gains)/losses, net		(3)	(5)	-	6
<i>Change in working capital</i>					
(Increase)/decrease in inventories, gross		(20)	(28)	21	(62)
(Increase)/decrease in trade receivables, gross		(101)	(130)	(87)	27
Decrease in contract assets, gross	3	54	107	-	-
Decrease in contract costs	3	21	44	-	-
Decrease in trade payables		(7)	(195)	(57)	(326)
Decrease in contract liabilities	3	(22)	(39)	-	-
(Increase)/decrease in prepaid expenses and other receivables		(12)	(59)	17	(29)
Increase/(decrease) in deferred income and other payables	3	(22)	(13)	(11)	43
Interest received		8	16	6	12
Interest paid and interest rate effect paid on derivatives, net		(99)	(146)	(90)	(134)
Exchange rate and other effect received/(paid) on derivatives, net		12	(5)	(14)	(7)
Income tax received/(paid)		(4)	(5)	5	(6)
Net cash provided by operating activities		468	850	563	1,005
INVESTING ACTIVITIES					
Purchases of property, plant and equipment and intangible assets		(583)	(971)	(437)	(822)
Increase/(decrease) in amounts due to fixed assets suppliers		80	(97)	16	(306)
Investment grants paid to fixed assets suppliers		(3)	(6)	-	-
Exchange rate effect received/(paid) on derivatives economically hedging capital expenditures, net		1	-	(1)	-
Proceeds from sale of property, plant and equipment and intangible assets		5	37	77	87
Receipts from other financial instruments		1	-	1	1
Net cash used in investing activities		(499)	(1,037)	(344)	(1,040)
FINANCING ACTIVITIES					
Repayment of long-term debt		(6)	(16)	(7)	(18)
Increase in revolving credit line and short-term debt	9	39	106	41	241
Exchange rate effect received/(paid) on derivatives hedging debt, net		-	(1)	-	1
Net cash provided by financing activities		33	89	34	224
Net change in cash and cash equivalents		2	(98)	253	189
Cash and cash equivalents at the beginning of the period		546	646	198	262
Cash and cash equivalents at the end of the period		548	548	451	451

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 2018 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 2017.

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/loss, consolidated organic cash flows, consolidated capital expenditures, consolidated net financial debt and consolidated net financial debt to 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.

To facilitate comparability between periods following the modified retrospective approach to adoption of IFRS 15, certain performance measures are presented also on an “IAS 18 comparable basis”, i.e. calculated under IAS 18 and other standards and interpretations concerning revenue recognition applicable in 2017. More information on IFRS 15 and its application by the Group in 2018 is presented in Note 3.2.

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 2018 and 2017.

Since the calculation of EBITDA, organic cash flows, capital expenditures and net financial debt is not defined by IFRS, the 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 fixed 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 2018 and 2017 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 investment grants received/paid to fixed assets

suppliers, impact of net exchange rate effect received/paid 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 as well as for investment grants received/paid to fixed assets suppliers. Adjustments for the 6 months ended 30 June 2018 and 2017 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 2018 and 2017 are presented in the table below.

Net financial debt and net financial debt to 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 9.

Basic financial data of the operating segment is presented below:

(in PLN millions)

	6 months ended	
	30 June 2018	30 June 2017
Revenue (IFRS 15 basis) ⁽¹⁾	5,416	Not applicable
Revenue (IAS 18 comparable basis) ⁽¹⁾	5,532	5,657
EBITDA (IFRS 15 basis) ⁽¹⁾	1,383	Not applicable
Adjusted EBITDA (IAS 18 comparable basis)	1,531	1,568
Net loss as per consolidated income statement (IFRS 15 basis)	(66)	Not applicable
Net income as per consolidated income statement (IAS 18 comparable basis)	54	110
Adjusted organic cash flows	(181)	(36)
Adjusted capital expenditures	939	822

⁽¹⁾ There was no adjustment for the 6 months ended 30 June 2018 and 2017.

	At 30 June 2018	At 31 December 2017
Net financial debt (in PLN millions, see Note 9)	6,690	6,497
Net financial debt/adjusted EBITDA ratio (IAS 18 comparable basis)	2.2	2.2

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

(in PLN millions)

	6 months ended	
	30 June 2018	30 June 2017
EBITDA (IAS 18 comparable basis)	1,531	1,560
- adjustment for employment termination expense	-	8
Adjusted EBITDA	1,531	1,568
Organic cash flows	(187)	(36)
- adjustment for investment grants paid to fixed assets suppliers	6	-
Adjusted organic cash flows	(181)	(36)
Capital expenditures	971	822
- adjustment for expenditures on acquisition of telecommunication licences	(32)	-
Adjusted capital expenditures	939	822

3. Statement of compliance and basis of preparation

3.1. 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 2017.

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 24 July 2018.

Adoption of standards in 2018

The following standards endorsed by the European Union were adopted by the Group as at 1 January 2018:

- IFRS 15 “Revenue from Contracts with Customers”. This standard has been endorsed by the European Union on 22 November 2016 and it is applicable for financial years beginning on or after 1 January 2018.
- IFRS 9 “Financial Instruments”. This standard has been endorsed by the European Union on 22 November 2016 and it is applicable for financial years beginning on or after 1 January 2018.

3.2. Adoption of IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for reporting the information about the nature, amount, timing and uncertainty of revenue arising from an entity’s contracts with customers.

The effects on the Group’s accounts primarily relate to the mobile phone market and notably to:

- a) the accounting for arrangements which bundle the sale of a handset with a discounted price and with customer subscription to a communication service for a defined period of time: the cumulative revenue does not change but the allocation between the handset sold and the communication service changes (higher equipment revenue up front, with an equivalent decrease in service revenue spread over time due to the subsidy mechanism embedded in the offers);
- b) the accelerated recognition of revenue when the equipment is sold, offset by the supply of the service during the enforceable period, leads to the recognition of a contract asset in the statement of financial position which is settled against a receivable as the communication service is provided;
- c) recognition of some incremental subscriber acquisition and retention costs (i.e. payments to retailers directly attributable to the contract with customer) over the duration of the contractual relationship;
- d) recognition of a contract liability representing the Group’s obligation to provide services or equipment to a customer for which consideration has been received or is due (mainly unused balances in pre-paid system and post-paid subscription previously recognised as deferred income).

The new accounting policy relating to revenue and contract costs applied by the Group from 1 January 2018 is presented in Note 4.

Orange Polska Group
Condensed IFRS Interim Consolidated Financial Statements – 30 June 2018

Translation of the financial statements originally issued in Polish

IFRS 15 is applied by the Group using the “modified retrospective approach” in which the cumulative effect of initially applying the standard is recognised as an adjustment to retained earnings at the date of initial application.

Adoption of IFRS 15 affected the consolidated statement of financial position as at 1 January 2018 as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)

	<i>At 1 January 2018</i>		
	<i>Before IFRS 15</i>	<i>Impact of IFRS 15 adoption</i>	<i>After IFRS 15</i>
ASSETS			
Contract assets	-	58	58
Contract costs	-	53	53
Other assets	72	(2)	70
Deferred tax assets	950	(137)	813
Total non-current assets	19,660	(28)	19,632
Contract assets	-	235	235
Contract costs	-	351	351
Other assets	78	(5)	73
Total current assets	3,273	581	3,854
TOTAL ASSETS	22,933	553	23,486
EQUITY AND LIABILITIES			
Retained earnings	5,207	583	5,790
Total equity	9,938	583	10,521
Contract liabilities	-	71	71
Deferred income	83	(83)	-
Total non-current liabilities	6,952	(12)	6,940
Trade payables	2,421	(28)	2,393
Contract liabilities	-	488	488
Deferred income	478	(478)	-
Total current liabilities	6,043	(18)	6,025
TOTAL EQUITY AND LIABILITIES	22,933	553	23,486

To facilitate comparability between periods, the tables below present how the adoption of IFRS 15 affected the consolidated financial statements in the current period:

CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings/loss per share)

	<i>3 months ended 30 June 2018</i>			<i>6 months ended 30 June 2018</i>		
	<i>IAS 18 comparable basis</i>	<i>Impact of IFRS 15 adoption</i>	<i>IFRS 15 reported</i>	<i>IAS 18 comparable basis</i>	<i>Impact of IFRS 15 adoption</i>	<i>IFRS 15 reported</i>
Revenue	2,766	(60)	2,706	5,532	(116)	5,416
External purchases	(1,508)	(21)	(1,529)	(3,032)	(46)	(3,078)
Labour expense	(394)	(3)	(397)	(827)	(2)	(829)
Impairment of receivables and contract assets	(49)	8	(41)	(80)	16	(64)
Operating income	149	(76)	73	254	(148)	106
Income tax	(16)	14	(2)	(27)	28	1
Consolidated net income/(loss)	46	(62)	(16)	54	(120)	(66)
Earnings/(loss) per share (in PLN)	0.04	(0.05)	(0.01)	0.04	(0.09)	(0.05)
Total comprehensive income/(loss)	60	(62)	(2)	58	(120)	(62)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)

	At 30 June 2018		
	IAS 18 comparable basis	Impact of IFRS 15 adoption	IFRS 15 reported
ASSETS			
Contract assets	-	25	25
Contract costs	-	50	50
Other assets	77	(3)	74
Deferred tax assets	930	(109)	821
Total non-current assets	19,324	(37)	19,287
Contract assets	-	164	164
Contract costs	-	310	310
Other assets	113	(4)	109
Total current assets	3,480	470	3,950
TOTAL ASSETS	22,804	433	23,237
EQUITY AND LIABILITIES			
Retained earnings	5,250	463	5,713
Total equity	9,985	463	10,448
Contract liabilities	-	53	53
Deferred income	58	(58)	-
Total non-current liabilities	6,548	(5)	6,543
Trade payables	2,078	(24)	2,054
Contract liabilities	-	467	467
Deferred income	468	(468)	-
Total current liabilities	6,271	(25)	6,246
TOTAL EQUITY AND LIABILITIES	22,804	433	23,237

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)

	3 months ended 30 June 2018			6 months ended 30 June 2018		
	IAS 18 comparable basis	Impact of IFRS 15 adoption	IFRS 15 reported	IAS 18 comparable basis	Impact of IFRS 15 adoption	IFRS 15 reported
OPERATING ACTIVITIES						
Consolidated net income/(loss)	46	(62)	(16)	54	(120)	(66)
<i>Adjustments to reconcile net income/loss to cash from operating activities</i>						
Income tax	16	(14)	2	27	(28)	(1)
Change in provisions and allowances	(42)	(1)	(43)	(50)	(3)	(53)
<i>Change in working capital</i>						
Decrease in contract assets, gross	-	54	54	-	107	107
Decrease in contract costs	-	21	21	-	44	44
Decrease in trade payables	(10)	3	(7)	(199)	4	(195)
Decrease in contract liabilities	-	(22)	(22)	-	(39)	(39)
(Increase)/decrease in prepaid expenses and other receivables	(13)	1	(12)	(59)	-	(59)
Increase/(decrease) in deferred income and other payables	(42)	20	(22)	(48)	35	(13)
Net cash provided by operating activities	468	-	468	850	-	850
Net change in cash and cash equivalents	2	-	2	(98)	-	(98)

3.3. Adoption of IFRS 9 “Financial Instruments”

IFRS 9 defines three categories of financial assets – depending on the business model in which assets are managed and their cash flow characteristics:

- assets subsequently measured at amortised cost - if the financial assets are held within a business model whose objective is to collect contractual cash flows, and the contractual terms of these financial assets give rise to cash flows that are solely payments of principal and interest;
- assets subsequently measured at fair value through other comprehensive income - if the financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of these financial assets give rise to cash flows that are solely payments of principal and interest;
- assets at fair value through profit or loss - all other financial assets.

IFRS 9 does not change the classification of the Group’s financial liabilities.

On the date of initial application, 1 January 2018, classification and carrying value of the Group’s financial instruments were as follows:

(in PLN millions)	At 1 January 2018			
	Classification		Carrying value	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Trade receivables	Loans and receivables	Amortised cost	2,798	2,784
Derivatives	Hedging derivative instruments	Hedging derivative instruments	35	35
Derivatives	Fair value through profit or loss	Fair value through profit or loss	2	2
Cash and cash equivalents	Loans and receivables	Amortised cost	646	646
Total financial assets			3,481	3,467
Trade payables	Amortised cost	Amortised cost	2,971	2,971
Loans from related party	Amortised cost	Amortised cost	6,969	6,969
Other financial liabilities at amortised cost	Amortised cost	Amortised cost	113	113
Derivatives	Hedging derivative instruments	Hedging derivative instruments	69	69
Derivatives	Fair value through profit or loss	Fair value through profit or loss	31	31
Total financial liabilities			10,153	10,153

IFRS 9 changes the credit risk recognition model from the incurred losses to the expected losses approach. The Group measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, cash and cash equivalents and contract assets. Implementation of IFRS 9 resulted in impairment of non-matured trade receivables. The difference between the previous carrying amount of trade receivables measured according to IAS 39 and the new carrying amount under IFRS 9 as at 1 January 2018 amounted to PLN 14 million. Net effect of PLN 11 million (including deferred tax impact) was recognised as a decrease in the retained earnings as at 1 January 2018.

IFRS 9 made the consequential amendment to IAS 1 “Presentation of financial statements” which requires the Group to present impairment of receivables and contract assets as a separate line item in the consolidated income statement. The comparative amounts in the consolidated income statement for the 6 months ended 30 June 2017 were adjusted accordingly, with no impact on operating income. Previously, the Group presented these costs in other operating expense.

4. Statement of accounting policies

Except for the changes described in Note 3 and presented below, the accounting policies and methods of computation used in the preparation of the Condensed Interim Consolidated Financial Statements are materially consistent with those described in Notes 2 and 31 to the audited IFRS Consolidated Financial Statements for the year ended 31 December 2017.

The new accounting policy relating to revenue and contract costs applied by the Group from 1 January 2018 is presented below:

4.1. Revenue

Revenue from the Group's activities is recognised and presented in accordance with IFRS 15 "Revenue from Contracts with Customers".

Separable components of bundled offers

For the sale of multiple products or services (e.g. in the mobile business for sales of bundled offers including a handset and a telecommunications service contract), the Group evaluates all promises in the arrangement to determine whether they represent distinct performance obligations i.e. obligations not dependent on each other. Sale of mobile handsets and sale of services in bundled offers are distinct performance obligations.

The consideration for the bundled package (i.e. transaction price) is allocated to the distinct performance obligations (e.g. sale of a handset and sale of a service) and recognised as revenue when the performance obligation is satisfied (i.e. when the control over good or service is transferred to a customer).

The transaction price is the amount of consideration (usually the cash) to which the Group expects to be entitled during the enforceable period. The enforceable period is the period that is made enforceable through contractual terms or business practices i.e. the enforceable period length is impacted by practices e.g. when the Group creates or accepts a valid expectation to free the customer from certain commitments before the end of the contract by allowing commencement of a new contract. The transaction price does not include the effect of time value of money because the effect of financing component, in comparison to the transaction price, is not significant at a contract level.

The allocation of the transaction price between various performance obligations is made to estimate the amount to which the Group is expected to be entitled in exchange for transferring a promised good or service to the customer.

The Group is a service company and achieves the vast majority of its margin by selling telecommunication services. The sale of subsidised handsets (i.e. when an invoice amount for a handset is lower than the cost of a handset) is a tool to promote the Group's services and to attract customers. Therefore, in case of services sold with subsidised handsets, the Group allocates the subsidy to the service revenues. The Group estimates the amount of revenue that it expects to earn while pricing the service offer. Based on rationale described above, the stand-alone selling price (i.e. the price at which the Group would sell a promised good or service separately to the customer) of subsidised handsets is estimated by their cost plus margin to cover additional costs connected with the sale of handsets, such as e.g. transport costs or logistic costs. The estimated margin is insignificant. Therefore, it is disregarded from the cost plus margin formula for the sake of the practicality.

If the Group is able to sell a handset with a profit (i.e. when an invoice amount for a handset is higher than the cost of a handset in bundled offer), it allocates the handset profit to the handset revenue.

While defining the stand-alone selling price of any performance obligation, firstly, the Group's observable price should be identified i.e. the price of good or service when the Group sells that good or service separately in similar

circumstances and to similar customers. In case of the lack of an entity observable price, other methods of valuation of an obligation should be used. The stand-alone selling prices of a service are defined per different categories of customers, they are dependent on the service content, commitment period and consumption profile. Therefore, the SIMO price (the price of a service sold stand-alone i.e. not in a bundle with a handset) cannot be treated as a good proxy of the stand-alone selling price of a specific service sold in a bundled offer. Consequently, the stand-alone selling price of the telecommunication service sold in a bundled offer is determined by using an adjusted-market assessment approach and corresponds to the service price in the bundle adjusted by the handset subsidy recovered over the enforceable period.

Equipment sales

Revenue from an equipment sales is recognised when the control over the equipment is transferred to the buyer (see also paragraph *Separable components of bundled offers*). When an equipment is sold by a third-party retailer who purchases it from the Group, the related revenue is recognised when the equipment is sold to the end-customer because the Group acts as a principal in this process.

Equipment leases

Equipment lease revenue is recognised on a straight-line basis over the life of the lease agreement, except for finance leases, in case of which revenue from sale of fixed assets, equal to the net investment in lease, is recognised at the commencement of the lease and finance income is recognised over the lease term.

Revenues from the sale or supply of content

Depending on the substance of a transaction and the Group's role in the transaction, the Group can act as a principal and recognise revenue at the gross amount, separately from costs, or as an agent and recognise revenue in the amount net of costs. The assessment of the role of the Group is based on the notion of the control and the indicators of the control. The Group is treated as a principal if it controls a good or a service before the good or service is transferred to a customer.

The Group is considered as an agent if the Group's performance obligation is to arrange for the provision of a good or a service to the client by another party, i.e. when it does not control the specified good or service provided by another party before that good or service is transferred to the customer.

Service revenue

Telephone service and Internet access subscription fees are recognised in revenue on a straight-line basis over the service period.

Charges for incoming and outgoing telephone calls are recognised in revenue when the service is rendered.

Revenue from the sale of phone cards in mobile telephony systems is recognised when they are used or expire.

Promotional offers

For certain commercial offers where customers do not pay for services over a certain period in exchange for signing up for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the enforceable period.

Material rights

Material right is an option to purchase additional goods or services with a discount that is incremental to discounts typically given for those goods or services. The Group has not identified any material rights in the contracts with customers which would need to be treated as separate performance obligations.

4.2. Subscriber acquisition costs, advertising and related costs

Incremental acquisition and retention costs (e.g. commissions paid to retailers for acquisition or retention of contracts) are expensed as costs over the enforceable period of contracts. Advertising, promotion, sponsoring, communication and brand marketing costs are expensed as incurred.

5. Revenue

New disaggregation of revenue that better reflects current commercial policy of the Group was introduced in 2018 as presented below:

Mobile only services	Revenue from mobile offers (excluding consumer market convergent offers) and Machine to Machine connectivity. Mobile only services revenue does not include equipment sales, incoming and visitor roaming revenue.
Fixed only services	Revenue from fixed offers (excluding consumer market convergent offers) including mainly (i) fixed broadband (including wireless for fixed), (ii) fixed narrowband, and (iii) data infrastructure and networks for business customers.
Convergent services (consumer market)	Revenue from consumer market convergent offers. A convergent offer is defined as an offer combining at least a broadband access and a mobile voice contract with a financial benefit (excluding MVNOs). Convergent services revenue does not include equipment sales, incoming and visitor roaming revenue.
Equipment sales	Revenue from all retail mobile and fixed equipment sales, excluding equipment sales associated with the supply of IT and integration services.
IT and integration services	Revenue from ICT (Information and Communications Technology) services and Internet of Things services, including equipment sales associated with the supply of these services.
Wholesale	Revenue from telecom operators for (i) mobile: incoming, visitor roaming, domestic mobile interconnection (i.e. domestic roaming agreement and network sharing) and MVNO, (ii) fixed carriers services, and (iii) other (mainly data infrastructure and networks).
Other revenue	Include (i) equipment sales to brokers and dealers, (ii) revenue from infrastructure projects, and (iii) other miscellaneous revenue e.g. from property rentals, research and development activity.

To facilitate comparability between periods following the modified retrospective approach to adoption of IFRS 15, revenue for the 3 and 6 months ended 30 June 2018 is presented also on an “IAS 18 comparable basis”, i.e. calculated under IAS 18 and other standards and interpretations concerning revenue recognition applicable in 2017. More information on IFRS 15 and its application by the Group in 2018 is presented in Notes 3.2 and 4.

(in PLN millions)

	3 months ended			6 months ended		
	30 June 2018	30 June 2017		30 June 2018	30 June 2017	
	IFRS 15 reported	IAS 18 comparable basis	IAS 18 reported	IFRS 15 reported	IAS 18 comparable basis	IAS 18 reported
Mobile only services	682	729	879	1,370	1,476	1,754
Fixed only services	628	634	688	1,255	1,270	1,409
Narrowband	275	276	317	562	563	650
Broadband	233	238	257	465	479	529
Network solutions (business market)	120	120	114	228	228	230
Convergent services (consumer market)	316	342	256	607	663	489
Equipment sales	307	288	304	658	597	607
IT and integration services	134	134	101	246	246	193
Wholesale	571	571	524	1,150	1,150	1,036
Mobile wholesale	329	329	280	641	641	548
Fixed wholesale	176	176	180	364	364	356
Other	66	66	64	145	145	132
Other revenue	68	68	87	130	130	169
Total revenue	2,706	2,766	2,839	5,416	5,532	5,657

Wholesale and other revenue for the 6 months ended 30 June 2018 include PLN 133 million of lease revenue that is outside the scope of IFRS 15 “Revenue from Contracts with Customers”.

6. Impairment

Vast majority of the Group’s individual assets do not generate cash flows independently from other assets due to the nature of the Group’s activities, therefore the Group identifies all telecom operations as a single telecom operator Cash Generating Unit (“CGU”).

As at 30 June 2018 and 31 December 2017 the Group performed impairment tests of the CGU (including goodwill).

No impairment loss was recognised in the years 2018 and 2017.

The following key assumptions were used to determine the value in use of the telecom operator CGU:

- value of the market, penetration rate, market share and the level of the competition, level of prices and decisions of the regulator in terms of pricing, customer base, the level of commercial expenses required to replace products and keep up with existing competitors or new market entrants, the impact of changes in revenue on direct costs,
- the level of capital expenditures which may be affected by the roll-out of necessary new technologies or regulatory decisions concerning telecommunications licences allocation,
- discount rate which is based on weighted average cost of capital and reflects current market assessment of the time value of money and the risks specific to activities of the CGU and
- perpetuity growth rate which reflects Management’s assessment of cash flows evolution after the last year covered by the cash flow projections.

The amounts assigned to each of these parameters reflect past experience adjusted for expected changes over the timeframe of the business plan, but may also be affected by unforeseeable changes in the political, economic or legal framework.

Telecom operator CGU

	<i>At 30 June 2018</i>	<i>At 31 December 2017</i>
Basis of recoverable amount	Value in use	Value in use
Sources used	Business plan 5 years cash flow projections	Business plan 5 years cash flow projections
Perpetuity growth rate	1%	1%
Post-tax discount rate	8.00%	8.25%
Pre-tax discount rate ⁽¹⁾	9.32%	9.64%

⁽¹⁾ Pre-tax discount rate is calculated as a post-tax discount rate adjusted to reflect the specific amount and timing of the future tax cash flows.

Sensitivity of recoverable amount

The value in use of the telecom operator CGU as at 30 June 2018 exceeds its carrying value by PLN 4.6 billion. Any of the following changes in key assumptions:

- a 25% fall in projected cash flows after fifth year or
- a 1.8 p.p. decrease of growth rate to perpetuity or
- a 1.8 p.p. increase of post-tax discount rate

would bring the value in use of the telecom operator CGU to the level of its carrying value.

7. Explanatory comments about the seasonality or cyclicity of interim Group operations

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

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

The amount of trade payables subject to reverse factoring decreased from PLN 224 million as at 31 December 2017 to PLN 168 million as at 30 June 2018. 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.

Operational Programme "Digital Poland"

In 2017, the Group concluded agreements with the "Digital Poland" Project Centre for co-financing of investment projects under the second contest of the Operational Programme "Digital Poland" ("Programme"). The Programme aims to strengthen digital foundations for the national development including common access to high-speed Internet, effective and user-friendly public e-services and a continuously rising level of digital competences of the society. The Group was granted PLN 0.7 billion from the Programme funds. In 2017 the Group received PLN 297 million of advances for investment grants. Received advances are presented as cash and cash equivalents and other liabilities in the consolidated statement of financial position. Grants are deducted from the cost of related assets when the assets are recognised.

In 2018, OPL S.A. concluded investment agreements with subcontractors related to the development of the broadband telecommunications network under the Programme for a total amount of PLN 1,045 million, of which PLN 508 million will be indirectly executed by its subsidiary. The subsidiary concluded agreements with external subcontractors for PLN 270 million. As at 30 June 2018, the Group's commitments for the purchase

of fixed assets under the Programme, contracted for at the end of the reporting period but not recognised in the consolidated financial statements amounted to PLN 795 million.

Total investment commitments increased from PLN 507 million as at 31 December 2017 to PLN 1,363 million as at 30 June 2018 mainly due to commitments described above.

9. Net financial debt

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

<i>(in PLN millions)</i>	<i>At 30 June 2018</i>	<i>At 31 December 2017</i>
Loans from related party	7,211	6,969
Other financial debt	149	113
Derivatives – net (liabilities less assets)	(125)	63
Gross financial debt after derivatives	7,235	7,145
Cash and cash equivalents	(548)	(646)
Effective portion of cash flow hedges	3	(2)
Net financial debt	6,690	6,497

On 14 February 2018, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 750 million with repayment date in March 2023 and Revolving Credit Facility Agreement for PLN 1,500 million with repayment date in March 2022. The purpose of these new financing agreements was non-cash refinancing of the Revolving Credit Facility (granted by Atlas Services Belgium S.A.), which expired on 30 March 2018.

In the 6 months ended 30 June 2018, the net cash flows from issuance and repayments of the Revolving Credit Facilities from Atlas Services Belgium S.A. amounted to PLN 110 million.

As at 30 June 2018, the total outstanding balance of loans from the related party amounted to PLN 7,211 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 3.49% after swaps as at 30 June 2018.

The total nominal amount of cross currency interest rate swaps and interest rate swaps, outstanding under the agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk, as at 30 June 2018 was EUR 670 million and PLN 5,950 million, respectively, with a total fair value amounting to PLN 96 million.

10. Fair value of financial instruments

Derivative instruments are measured subsequent to their initial recognition at fair value. The fair value of derivatives is determined as described in Note 21 to the IFRS Consolidated Financial Statements for the year ended 31 December 2017. Significant inputs to the valuation technique used by the Group to measure the fair value of derivatives are classified to Level 2 of the fair value hierarchy described in Note 22.1.

The carrying amount of the Group's financial instruments approximates their fair value, except for telecommunications licence payables for which as at 30 June 2018 and 31 December 2017 the estimated fair value exceeded the carrying amount by PLN 96 million and PLN 113 million, respectively, due to significant change between the original effective interest rates at the date of the initial recognition and current market rates.

11. Dividend

The General Meeting of Orange Polska S.A. held on 20 April 2018 did not adopt a resolution on a dividend payment in 2018, in accordance with the recommendation of the Management Board of the Company.

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

The information hereunder refers to the matters presented in Note 28 to the IFRS Consolidated Financial Statements for the year ended 31 December 2017 or describes major matters that occurred after 31 December 2017.

a. Proceedings by UOKiK

Proceedings by UOKiK related to pre-paid offers

UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 31 August 2018.

Proceedings by UOKiK related to retail prices of calls to Play

On 2 January 2018, UOKiK discontinued the competition proceedings. UOKiK stated that there was no basis to determine that Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. acted in breach of the competition law.

There was no development in relation to claims raised by P4 jointly and severally towards Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A.

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 2018.

Magna Polonia S.A. claim towards Orange Polska, T-Mobile Polska, Polkomtel and P4

On 9 February 2018, the court, which examines Magna Polonia S.A.'s claim, decided to stay the proceedings until the Supreme Court issues its verdict in the competition proceedings.

b. Proceedings by the European Commission related to broadband access

On 22 November 2017, the hearing of the Court of Justice was held. On 21 February 2018, the Advocate General of the Court of Justice delivered his opinion to the Court. The Company was notified that the verdict of the Court of Justice will be announced on 25 July 2018.

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.

13. Related party transactions

As at 30 June 2018, 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.

Orange Polska S.A. operates under the Orange brand pursuant to a licence agreement concluded with Orange S.A. and Orange Brand Services Limited ("OBSL"). The brand licence agreement provides that OBSL receives a fee of up to 1.6% of the Company's operating revenue earned under the Orange brand. OPL S.A. and OBSL reached the agreement to renew the existing contract for the period from 24 July 2018 to 31 December 2019 with no changes to the financial terms and conditions.

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

(in PLN millions)

	3 months ended 30 June 2018	6 months ended 30 June 2018	3 months ended 30 June 2017	6 months ended 30 June 2017
Sales of goods and services and other income:	63	110	51	97
Orange S.A. (parent)	39	67	32	61
Orange Group (excluding parent)	24	43	19	36
Purchases of goods (including inventories, tangible and intangible assets) and services:	(58)	(116)	(58)	(121)
Orange S.A. (parent)	(15)	(32)	(15)	(36)
Orange Group (excluding parent)	(43)	(84)	(43)	(85)
- including Orange Brand Services Limited (brand licence agreement)	(29)	(57)	(30)	(60)
Finance costs, net:	(55)	(115)	(60)	(119)
Orange S.A. (parent)	82	80	(20)	(183)
Orange Group (excluding parent)	(137)	(195)	(40)	64
Other comprehensive income/(loss):	5	(12)	(4)	(6)
Orange S.A. (parent)	5	(12)	(4)	(6)

(in PLN millions)

	At 30 June 2018	At 31 December 2017
Receivables:	118	85
Orange S.A. (parent)	74	50
Orange Group (excluding parent)	44	35
Liabilities:	96	99
Orange S.A. (parent)	43	49
Orange Group (excluding parent)	53	50
Financial receivables:	142	33
Orange S.A. (parent)	142	33
Cash and cash equivalents deposited with:	136	166
Orange S.A. (parent)	136	166
Financial liabilities:	7,257	7,027
Orange S.A. (parent)	46	58
Orange Group (excluding parent)	7,211	6,969

Compensation (remuneration, bonuses, post-employment and other long-term benefits, termination indemnities and share-based payment plans - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board Members for the 6 months ended 30 June 2018 and 2017 amounted to PLN 7.7 million and PLN 8.6 million, respectively.

14. Subsequent events

On 23 July 2018, the Company and T-Mobile Polska signed a long term contract on telecommunications access to Orange Polska's fibre network in the form of Bitstream Access ("BSA"). Orange Polska will provide wholesale access to its network in order to provide BSA service on the Company's own fibre infrastructure for T-Mobile's clients in multi-family houses in deregulated areas. The fees under the contract comprise PLN 275 million of upfront fee and a monthly fee for each customer.

Pursuant to Art. 69 of the Decree of the Minister of Finance of 29 March 2018 on current and periodic information to be disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state – Journal of Laws of 2018, item 757 (“the Decree of the Minister of Finance of 29 March 2018”), the Management Board of Orange Polska S.A. (“OPL S.A.”, “the Company”) discloses the following information:

I. Shareholders entitled to exercise at least 5% of total voting rights at the General Meeting of OPL S.A., either directly or through subsidiaries, as at the date of publication of the 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 24 July 2018, i.e. the date of submission of the interim report for the 6 months ended 30 June 2018 was the same as at 25 April 2018, i.e. the date of submission of the quarterly report for the first quarter of 2018:

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

Mr Jean-François Fallacher, the President of the Management Board of OPL S.A., held 25,000 Orange Polska S.A. shares as at 24 July 2018 and 25 April 2018.

Mr Maciej Nowohoński, the Member of the Management Board of OPL S.A., held 25,000 Orange Polska S.A. shares as at 24 July 2018 and 25 April 2018.

Ms Jolanta Dudek, the Member of the Management Board of OPL S.A., held 8,474 Orange Polska S.A. shares as at 24 July 2018 and 25 April 2018.

Mr Maciej Witucki, the Chairman of the Supervisory Board of OPL S.A., held 4,000 Orange Polska S.A. shares as at 24 July 2018 and 25 April 2018.

There was no OPL S.A. share held by other members of the Management Board or the Supervisory Board of the Company.

III. Information on guarantees or collaterals of loans or borrowings granted by the Company or its subsidiaries to other entities or their subsidiaries, where the total amount of guarantees or collaterals is significant

In the 6 months ended 30 June 2018, neither the Company nor its subsidiaries granted guarantees or collateral of loans or borrowings to any entity or its subsidiary, a total value of which would be significant.

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

As published on 20 February 2018 in the current report 4/2018, the Group forecasts the adjusted EBITDA for 2018 to be at around PLN 3.0 billion under the old accounting standard IAS 18 and around PLN 2.75 billion

under the new accounting standard IFRS 15. 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 2018.

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 2018. Additionally, key risk factors that may impact the Group's operational and financial performance are reviewed in detail in the Chapter IV of the above-mentioned Report.

VI. Foreign exchange rates

The statement of financial position data as at 30 June 2018 and 31 December 2017 presented in the table "Selected financial data" was translated into EUR 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 2018 and 2017, was translated into EUR 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 2018 and 2017.

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 2018	31 December 2017	30 June 2017
Statement of financial position	4.3616 PLN	4.1709 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.2395 PLN	Not applicable	4.2474 PLN

**Independent Auditor's Report
on review of interim condensed financial statements
for the 6 month period ended 30 June 2018**

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') with registered office located in Warsaw at Aleje Jerozolimskie 160, as of 30 June 2018, including the statement of financial position as at 30 June 2018, 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 2018 to 30 June 2018 and the explanatory notes (the 'interim condensed financial statements').

The Company's Management is responsible for the preparation and presentation of the interim condensed financial statements in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility is to express a conclusion on the interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with National Review Standard 2410 in the wording of the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018 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 Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018 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.



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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Warsaw, 24 July 2018

Key Certified Auditor

Partner

Łukasz Piotrowski
certified auditor
no in the register: 12390

Mikołaj Rytel

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

ORANGE POLSKA S.A.

**CONDENSED IFRS INTERIM SEPARATE FINANCIAL
STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2018**



July 24, 2018

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INCOME STATEMENT

(in PLN millions, except for earnings/loss per share)

	3 months ended 30 June 2018	6 months ended 30 June 2018	3 months ended 30 June 2017	6 months ended 30 June 2017
	<i>IFRS 15 basis</i>		<i>IAS 18 basis (see Note 2.3)</i>	
Revenue (see Note 4)	2,586	5,202	2,756	5,501
External purchases	(1,438)	(2,916)	(1,483)	(2,991)
Labour expense	(379)	(790)	(420)	(852)
Other operating expense	(109)	(223)	(149)	(246)
Other operating income	81	147	72	116
Impairment of receivables and contract assets	(40)	(61)	(25)	(41)
Gains on disposal of assets	3	22	57	65
Depreciation and amortisation	(636)	(1,278)	(642)	(1,282)
Impairment of fixed assets	-	-	(1)	(1)
Operating income	68	103	165	269
Dividend income	22	23	8	17
Interest income	9	16	6	12
Interest expense and other financial charges	(62)	(132)	(72)	(145)
Discounting expense	(33)	(57)	(20)	(24)
Finance costs, net	(64)	(150)	(78)	(140)
Income tax	-	2	(10)	(9)
Net income/(loss)	4	(45)	77	120
Earnings/(loss) per share (in PLN)	-	(0.03)	0.06	0.09
Weighted average number of shares (in millions)	1,312	1,312	1,312	1,312

STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	3 months ended 30 June 2018	6 months ended 30 June 2018	3 months ended 30 June 2017	6 months ended 30 June 2017
	<i>IFRS 15 basis</i>		<i>IAS 18 basis</i>	
Net income/(loss)	4	(45)	77	120
Items that may be reclassified subsequently to profit or loss				
Gains/(losses) on cash flow hedges	17	5	3	(35)
Income tax relating to items that may be reclassified	(3)	(1)	-	7
Other comprehensive income/(loss), net of tax	14	4	3	(28)
Total comprehensive income/(loss)	18	(41)	80	92

STATEMENT OF FINANCIAL POSITION

(in PLN millions)

	<i>Note</i>	<i>At 30 June 2018 IFRS 15 basis</i>	<i>At 31 December 2017 IAS 18 basis</i>
ASSETS			
Goodwill		2,014	2,014
Other intangible assets		5,008	5,224
Property, plant and equipment		10,645	10,753
Investments in subsidiaries		176	176
Trade receivables		485	502
Contract assets	2	25	-
Contract costs	2	54	-
Derivatives	8	60	37
Other assets		70	67
Deferred tax asset		763	902
Total non-current assets		19,300	19,675
Inventories		218	183
Trade receivables		2,284	2,161
Contract assets	2	164	-
Contract costs	2	338	-
Derivatives	8	112	-
Other assets		81	67
Prepaid expenses		71	62
Cash and cash equivalents		490	568
Total current assets		3,758	3,041
TOTAL ASSETS		23,058	22,716
EQUITY AND LIABILITIES			
Share capital		3,937	3,937
Share premium		832	832
Other reserves		(34)	(38)
Retained earnings		5,680	5,126
Total equity		10,415	9,857
Trade payables	9	594	550
Financial liabilities at amortised cost excluding trade payables	8	5,203	5,551
Derivatives	8	14	58
Provisions		489	535
Contract liabilities	2	39	-
Employee benefits		125	137
Other liabilities		27	-
Deferred income	2	-	68
Total non-current liabilities		6,491	6,899
Trade payables	9	1,966	2,306
Financial liabilities at amortised cost excluding trade payables	8	2,198	1,598
Derivatives	8	33	42
Provisions	11	859	851
Contract liabilities	2	450	-
Employee benefits		206	210
Income tax liabilities		17	18
Other liabilities		423	463
Deferred income	2	-	472
Total current liabilities		6,152	5,960
TOTAL EQUITY AND LIABILITIES		23,058	22,716

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 2018	3,937	832	(2)	(46)	10	5,126	9,857
The effect of adoption of IFRS 15 (see Note 2.2)	-	-	-	-	-	610	610
The effect of adoption of IFRS 9 (see Note 2.3)	-	-	-	-	-	(11)	(11)
Balance at 1 January 2018 after adoption of IFRS 15 and IFRS 9	3,937	832	(2)	(46)	10	5,725	10,456
Total comprehensive loss for the 6 months ended 30 June 2018	-	-	5	-	(1)	(45)	(41)
Balance at 30 June 2018	3,937	832	3	(46)	9	5,680	10,415
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

STATEMENT OF CASH FLOWS

(in PLN millions)

	<i>Note</i>	3 months ended 30 June 2018	6 months ended 30 June 2018	3 months ended 30 June 2017	6 months ended 30 June 2017
		<i>IFRS 15 basis</i>		<i>IAS 18 basis</i>	
OPERATING ACTIVITIES					
Net income/(loss)		4	(45)	77	120
<i>Adjustments to reconcile net income/loss to cash from operating activities</i>					
Gains on disposal of assets		(3)	(22)	(57)	(65)
Depreciation and amortisation		636	1,278	642	1,282
Impairment of fixed assets		-	-	1	1
Finance costs, net		64	150	78	140
Income tax		-	(2)	10	9
Change in provisions and allowances		(44)	(55)	16	(17)
Operational foreign exchange and derivatives (gains)/losses, net		(3)	(5)	-	5
<i>Change in working capital</i>					
(Increase)/decrease in inventories, gross		(20)	(39)	19	(63)
Increase in trade receivables, gross		(89)	(143)	(86)	(15)
Decrease in contract assets, gross	2	54	107	-	-
Decrease in contract costs	2	21	45	-	-
Decrease in trade payables		(44)	(170)	(60)	(306)
Decrease in contract liabilities	2	(29)	(49)	-	-
(Increase)/decrease in prepaid expenses and other receivables		20	(24)	17	(31)
Increase/(decrease) in deferred income and other payables	2	(18)	(11)	(2)	52
Dividends received		22	22	13	13
Interest received		8	16	6	12
Interest paid and interest rate effect paid on derivatives, net		(99)	(146)	(90)	(134)
Exchange rate and other effect received/(paid) on derivatives, net		12	(5)	(14)	(7)
Income tax received/(paid)		-	(1)	5	4
Net cash provided by operating activities		492	901	575	1,000
INVESTING ACTIVITIES					
Purchases of property, plant and equipment and intangible assets		(585)	(974)	(442)	(828)
Increase/(decrease) in amounts due to fixed assets suppliers		78	(97)	16	(305)
Investment grants paid to fixed assets suppliers		(3)	(6)	-	-
Exchange rate effect received/(paid) on derivatives economically hedging capital expenditures, net		1	-	(1)	-
Proceeds from sale of property, plant and equipment and intangible assets		5	37	77	87
Receipts from other financial instruments		1	-	1	1
Net cash used in investing activities		(503)	(1,040)	(349)	(1,045)
FINANCING ACTIVITIES					
Repayment of long-term debt		(5)	(15)	(6)	(17)
Increase in revolving credit line and short-term debt	8	9	77	25	259
Exchange rate effect received/(paid) on derivatives hedging debt, net		-	(1)	-	1
Net cash provided by financing activities		4	61	19	243
Net change in cash and cash equivalents		(7)	(78)	245	198
Cash and cash equivalents at the beginning of the period		497	568	176	223
Cash and cash equivalents at the end of the period		490	490	421	421

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

2.1. Basis of preparation

These unaudited Condensed IFRS Interim Separate Financial Statements for the 6 months ended 30 June 2018 (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 2017.

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 24 July 2018.

Adoption of standards in 2018

The following standards endorsed by the European Union were adopted by the Company as at 1 January 2018:

- IFRS 15 “Revenue from Contracts with Customers”. This standard has been endorsed by the European Union on 22 November 2016 and it is applicable for financial years beginning on or after 1 January 2018.
- IFRS 9 “Financial Instruments”. This standard has been endorsed by the European Union on 22 November 2016 and it is applicable for financial years beginning on or after 1 January 2018.

2.2. Adoption of IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for reporting the information about the nature, amount, timing and uncertainty of revenue arising from an entity’s contracts with customers.

The effects on the Company’s accounts primarily relate to the mobile phone market and notably to:

- a) the accounting for arrangements which bundle the sale of a handset with a discounted price and with customer subscription to a communication service for a defined period of time: the cumulative revenue does not change but the allocation between the handset sold and the communication service changes (higher equipment revenue up front, with an equivalent decrease in service revenue spread over time due to the subsidy mechanism embedded in the offers);
- b) the accelerated recognition of revenue when the equipment is sold, offset by the supply of the service during the enforceable period, leads to the recognition of a contract asset in the statement of financial position which is settled against a receivable as the communication service is provided;
- c) recognition of some incremental subscriber acquisition and retention costs (i.e. payments to retailers directly attributable to the contract with customer) over the duration of the contractual relationship;
- d) recognition of a contract liability representing the Company’s obligation to provide services or equipment to a customer for which consideration has been received or is due (mainly unused balances in pre-paid system and post-paid subscription previously recognised as deferred income).

The new accounting policy relating to revenue and contract costs applied by the Company from 1 January 2018 is presented in Note 3.

IFRS 15 is applied by the Company using the “modified retrospective approach” in which the cumulative effect of initially applying the standard is recognised as an adjustment to retained earnings at the date of initial application.

Adoption of IFRS 15 affected the statement of financial position as at 1 January 2018 as follows:

STATEMENT OF FINANCIAL POSITION

(in PLN millions)

	At 1 January 2018		
	Before IFRS 15	Impact of IFRS 15 adoption	After IFRS 15
ASSETS			
Contract assets	-	58	58
Contract costs	-	58	58
Other assets	67	(2)	65
Deferred tax asset	902	(143)	759
Total non-current assets	19,675	(29)	19,646
Contract assets	-	235	235
Contract costs	-	379	379
Other assets	67	(5)	62
Total current assets	3,041	609	3,650
TOTAL ASSETS	22,716	580	23,296
EQUITY AND LIABILITIES			
Retained earnings	5,126	610	5,736
Total equity	9,857	610	10,467
Contract liabilities	-	56	56
Deferred income	68	(68)	-
Total non-current liabilities	6,899	(12)	6,887
Trade payables	2,306	(28)	2,278
Contract liabilities	-	482	482
Deferred income	472	(472)	-
Total current liabilities	5,960	(18)	5,942
TOTAL EQUITY AND LIABILITIES	22,716	580	23,296

To facilitate comparability between periods, the tables below present how the adoption of IFRS 15 affected the financial statements in the current period:

INCOME STATEMENT

(in PLN millions, except for earnings/loss per share)

	3 months ended 30 June 2018			6 months ended 30 June 2018		
	IAS 18 comparable basis	Impact of IFRS 15 adoption	IFRS 15 reported	IAS 18 comparable basis	Impact of IFRS 15 adoption	IFRS 15 reported
Revenue	2,646	(60)	2,586	5,318	(116)	5,202
External purchases	(1,417)	(21)	(1,438)	(2,869)	(47)	(2,916)
Labour expense	(376)	(3)	(379)	(788)	(2)	(790)
Impairment of receivables and contract assets	(48)	8	(40)	(77)	16	(61)
Operating income	144	(76)	68	252	(149)	103
Income tax	(14)	14	-	(26)	28	2
Net income/(loss)	66	(62)	4	76	(121)	(45)
Earnings/(loss) per share (in PLN)	0.05	(0.05)	-	0.06	(0.09)	(0.03)
Total comprehensive income/(loss)	80	(62)	18	80	(121)	(41)

STATEMENT OF FINANCIAL POSITION

(in PLN millions)

At 30 June 2018

	IAS 18 comparable basis	Impact of IFRS 15 adoption	IFRS 15 reported
ASSETS			
Contract assets	-	25	25
Contract costs	-	54	54
Other assets	73	(3)	70
Deferred tax asset	878	(115)	763
Total non-current assets	19,339	(39)	19,300
Contract assets	-	164	164
Contract costs	-	338	338
Other assets	85	(4)	81
Total current assets	3,260	498	3,758
TOTAL ASSETS	22,599	459	23,058
EQUITY AND LIABILITIES			
Retained earnings	5,191	489	5,680
Total equity	9,926	489	10,415
Contract liabilities	-	39	39
Deferred income	44	(44)	-
Total non-current liabilities	6,496	(5)	6,491
Trade payables	1,990	(24)	1,966
Contract liabilities	-	450	450
Deferred income	451	(451)	-
Total current liabilities	6,177	(25)	6,152
TOTAL EQUITY AND LIABILITIES	22,599	459	23,058

STATEMENT OF CASH FLOWS

(in PLN millions)

3 months ended 30 June 2018

6 months ended 30 June 2018

	IAS 18 comparable basis	Impact of IFRS 15 adoption	IFRS 15 reported	IAS 18 comparable basis	Impact of IFRS 15 adoption	IFRS 15 reported
OPERATING ACTIVITIES						
Net income/(loss)	66	(62)	4	76	(121)	(45)
<i>Adjustments to reconcile net income/loss to cash from operating activities</i>						
Income tax	14	(14)	-	26	(28)	(2)
Change in provisions and allowances	(43)	(1)	(44)	(52)	(3)	(55)
<i>Change in working capital</i>						
Decrease in contract assets, gross	-	54	54	-	107	107
Decrease in contract costs	-	21	21	-	45	45
Decrease in trade payables	(47)	3	(44)	(174)	4	(170)
Decrease in contract liabilities	-	(29)	(29)	-	(49)	(49)
(Increase)/decrease in prepaid expenses and other receivables	19	1	20	(24)	-	(24)
Increase/(decrease) in deferred income and other payables	(45)	27	(18)	(56)	45	(11)
Net cash provided by operating activities	492	-	492	901	-	901
Net change in cash and cash equivalents	(7)	-	(7)	(78)	-	(78)

2.3. Adoption of IFRS 9 “Financial Instruments”

IFRS 9 defines three categories of financial assets – depending on the business model in which assets are managed and their cash flow characteristics:

- assets subsequently measured at amortised cost - if the financial assets are held within a business model whose objective is to collect contractual cash flows, and the contractual terms of these financial assets give rise to cash flows that are solely payments of principal and interest;
- assets subsequently measured at fair value through other comprehensive income - if the financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of these financial assets give rise to cash flows that are solely payments of principal and interest;
- assets at fair value through profit or loss - all other financial assets.

IFRS 9 does not change the classification of the Company’s financial liabilities.

On the date of initial application, 1 January 2018, classification and carrying value of the Company’s financial instruments were as follows:

<i>(in PLN millions)</i>	<i>At 1 January 2018</i>			
	<i>Classification</i>		<i>Carrying value</i>	
	<i>IAS 39</i>	<i>IFRS 9</i>	<i>IAS 39</i>	<i>IFRS 9</i>
Trade receivables	Loans and receivables	Amortised cost	2,663	2,649
Derivatives	Hedging derivative instruments	Hedging derivative instruments	35	35
Derivatives	Fair value through profit or loss	Fair value through profit or loss	2	2
Cash and cash equivalents	Loans and receivables	Amortised cost	568	568
Total financial assets			3,268	3,254
Trade payables	Amortised cost	Amortised cost	2,856	2,856
Financial liabilities at amortised cost excluding trade payables	Amortised cost	Amortised cost	7,149	7,149
Derivatives	Hedging derivative instruments	Hedging derivative instruments	69	69
Derivatives	Fair value through profit or loss	Fair value through profit or loss	31	31
Total financial liabilities			10,105	10,105

IFRS 9 changes the credit risk recognition model from the incurred losses to the expected losses approach. The Company measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, cash and cash equivalents and contract assets. Implementation of IFRS 9 resulted in impairment of non-matured trade receivables. The difference between the previous carrying amount of trade receivables measured according to IAS 39 and the new carrying amount under IFRS 9 as at 1 January 2018 amounted to PLN 14 million. Net effect of PLN 11 million (including deferred tax impact) was recognised as a decrease in the retained earnings as at 1 January 2018.

IFRS 9 made the consequential amendment to IAS 1 “Presentation of financial statements” which requires the Company to present impairment of receivables and contract assets as a separate line item in the income statement. The comparative amounts in the income statement for the 6 months ended 30 June 2017 were adjusted accordingly, with no impact on operating income. Previously, the Company presented these costs in other operating expense.

3. Statement of accounting policies

Except for the changes described in Note 2 and presented below, the accounting policies and methods of computation used in the preparation of the Condensed 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 2017.

The new accounting policy relating to revenue and contract costs applied by the Company from 1 January 2018 is presented below:

3.1. Revenue

Revenue from the Company's activities is recognised and presented in accordance with IFRS 15 "Revenue from Contracts with Customers".

Separable components of bundled offers

For the sale of multiple products or services (e.g. in the mobile business for sales of bundled offers including a handset and a telecommunications service contract), the Company evaluates all promises in the arrangement to determine whether they represent distinct performance obligations i.e. obligations not dependent on each other. Sale of mobile handsets and sale of services in bundled offers are distinct performance obligations.

The consideration for the bundled package (i.e. transaction price) is allocated to the distinct performance obligations (e.g. sale of a handset and sale of a service) and recognised as revenue when the performance obligation is satisfied (i.e. when the control over good or service is transferred to a customer).

The transaction price is the amount of consideration (usually the cash) to which the Company expects to be entitled during the enforceable period. The enforceable period is the period that is made enforceable through contractual terms or business practices i.e. the enforceable period length is impacted by practices e.g. when the Company creates or accepts a valid expectation to free the customer from certain commitments before the end of the contract by allowing commencement of a new contract. The transaction price does not include the effect of time value of money because the effect of financing component, in comparison to the transaction price, is not significant at a contract level.

The allocation of the transaction price between various performance obligations is made to estimate the amount to which the Company is expected to be entitled in exchange for transferring a promised good or service to the customer.

The Company is a service company and achieves the vast majority of its margin by selling telecommunication services. The sale of subsidised handsets (i.e. when an invoice amount for a handset is lower than the cost of a handset) is a tool to promote the Company's services and to attract customers. Therefore, in case of services sold with subsidised handsets, the Company allocates the subsidy to the service revenues. The Company estimates the amount of revenue that it expects to earn while pricing the service offer. Based on rationale described above, the stand-alone selling price (i.e. the price at which the Company would sell a promised good or service separately to the customer) of subsidised handsets is estimated by their cost plus margin to cover additional costs connected with the sale of handsets, such as e.g. transport costs or logistic costs. The estimated margin is insignificant. Therefore, it is disregarded from the cost plus margin formula for the sake of the practicality.

If the Company is able to sell a handset with a profit (i.e. when an invoice amount for a handset is higher than the cost of a handset in bundled offer), it allocates the handset profit to the handset revenue.

While defining the stand-alone selling price of any performance obligation, firstly, the Company's observable price should be identified i.e. the price of good or service when the Company sells that good or service separately

in similar circumstances and to similar customers. In case of the lack of an entity observable price, other methods of valuation of an obligation should be used. The stand-alone selling prices of a service are defined per different categories of customers, they are dependent on the service content, commitment period and consumption profile. Therefore, the SIMO price (the price of a service sold stand-alone i.e. not in a bundle with a handset) cannot be treated as a good proxy of the stand-alone selling price of a specific service sold in a bundled offer. Consequently, the stand-alone selling price of the telecommunication service sold in a bundled offer is determined by using an adjusted-market assessment approach and corresponds to the service price in the bundle adjusted by the handset subsidy recovered over the enforceable period.

Equipment sales

Revenue from an equipment sales is recognised when the control over the equipment is transferred to the buyer (see also paragraph *Separable components of bundled offers*). When an equipment is sold by a third-party retailer who purchases it from the Company, the related revenue is recognised when the equipment is sold to the end-customer.

Equipment leases

Equipment lease revenue is recognised on a straight-line basis over the life of the lease agreement, except for finance leases, in case of which revenue from sale of fixed assets, equal to the net investment in lease, is recognised at the commencement of the lease and finance income is recognised over the lease term.

Revenues from the sale or supply of content

Depending on the substance of a transaction and the Company's role in the transaction, the Company can act as a principal and recognise revenue at the gross amount, separately from costs, or as an agent and recognise revenue in the amount net of costs. The assessment of the role of the Company is based on the notion of the control and the indicators of the control. The Company is treated as a principal if it controls a good or a service before the good or service is transferred to a customer.

The Company is considered as an agent if the Company's performance obligation is to arrange for the provision of a good or a service to the client by another party, i.e. when it does not control the specified good or service provided by another party before that good or service is transferred to the customer.

Service revenue

Telephone service and Internet access subscription fees are recognised in revenue on a straight-line basis over the service period.

Charges for incoming and outgoing telephone calls are recognised in revenue when the service is rendered.

Revenue from the sale of phone cards in mobile telephony systems is recognised when they are used or expire.

Promotional offers

For certain commercial offers where customers do not pay for services over a certain period in exchange for signing up for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the enforceable period.

Material rights

Material right is an option to purchase additional goods or services with a discount that is incremental to discounts typically given for those goods or services. The Company has not identified any material rights in the contracts with customers which would need to be treated as separate performance obligations.

3.2. Subscriber acquisition costs, advertising and related costs

Incremental acquisition and retention costs (e.g. commissions paid to retailers for acquisition or retention of contracts) are expensed as costs over the enforceable period. Advertising, promotion, sponsoring, communication and brand marketing costs are expensed as incurred.

4. Revenue

New disaggregation of revenue that better reflects current commercial policy of the Company was introduced in 2018 as presented below:

Mobile only services	Revenue from mobile offers (excluding consumer market convergent offers) and Machine to Machine connectivity. Mobile only services revenue does not include equipment sales, incoming and visitor roaming revenue.
Fixed only services	Revenue from fixed offers (excluding consumer market convergent offers) including mainly (i) fixed broadband (including wireless for fixed), (ii) fixed narrowband, and (iii) data infrastructure and networks for business customers.
Convergent services (consumer market)	Revenue from consumer market convergent offers. A convergent offer is defined as an offer combining at least a broadband access and a mobile voice contract with a financial benefit (excluding MVNOs). Convergent services revenue does not include equipment sales, incoming and visitor roaming revenue.
Equipment sales	Revenue from all retail mobile and fixed equipment sales, excluding equipment sales associated with the supply of IT and integration services.
IT and integration services	Revenue from ICT (Information and Communications Technology) services and Internet of Things services, including equipment sales associated with the supply of these services.
Wholesale	Revenue from telecom operators for (i) mobile: incoming, visitor roaming, domestic mobile interconnection (i.e. domestic roaming agreement and network sharing) and MVNO, (ii) fixed carriers services, and (iii) other (mainly data infrastructure and networks).
Other revenue	Include (i) equipment sales to brokers and dealers and (ii) other miscellaneous revenue e.g. from property rentals, research and development activity.

To facilitate comparability between periods following the modified retrospective approach to adoption of IFRS 15, revenue for the 3 and 6 months ended 30 June 2018 is presented also on an “IAS 18 comparable basis”, i.e. calculated under IAS 18 and other standards and interpretations concerning revenue recognition applicable in 2017. More information on IFRS 15 and its application by the Company in 2018 is presented in Notes 2.2 and 3.

(in PLN millions)	3 months ended			6 months ended		
	30 June 2018	30 June 2017	30 June 2018	30 June 2018	30 June 2017	
	IFRS 15 reported	IAS 18 comparable basis	IAS 18 reported	IFRS 15 reported	IAS 18 comparable basis	IAS 18 reported
Mobile only services	681	728	875	1,365	1,471	1,746
Fixed only services	628	634	688	1,255	1,270	1,409
Narrowband	275	276	317	562	563	650
Broadband	233	238	257	465	479	529
Network solutions (business market)	120	120	114	228	228	230
Convergent services (consumer market)	316	342	256	607	663	489
Equipment sales	307	288	304	658	597	607
IT and integration services	34	34	37	76	76	70
Wholesale	571	571	524	1,150	1,150	1,036
Mobile wholesale	329	329	280	641	641	548
Fixed wholesale	176	176	180	364	364	356
Other	66	66	64	145	145	132
Other revenue	49	49	72	91	91	144
Total revenue	2,586	2,646	2,756	5,202	5,318	5,501

Wholesale and other revenue for the 6 months ended 30 June 2018 include PLN 134 million of lease revenue that is outside the scope of IFRS 15 “Revenue from Contracts with Customers”.

5. Impairment

Vast majority of the Company’s individual assets do not generate cash flows independently from other assets due to the nature of the Company’s activities, therefore the Company identifies all telecom operations as a single telecom operator Cash Generating Unit (“CGU”).

As at 30 June 2018 and 31 December 2017 the Company performed impairment tests of the CGU (including goodwill).

No impairment loss was recognised in the years 2018 and 2017.

The following key assumptions were used to determine the value in use of the telecom operator CGU:

- value of the market, penetration rate, market share and the level of the competition, level of prices and decisions of the regulator in terms of pricing, customer base, the level of commercial expenses required to replace products and keep up with existing competitors or new market entrants, the impact of changes in revenue on direct costs,
- the level of capital expenditures which may be affected by the roll-out of necessary new technologies or regulatory decisions concerning telecommunications licences allocation,
- discount rate which is based on weighted average cost of capital and reflects current market assessment of the time value of money and the risks specific to activities of the CGU and
- perpetuity growth rate which reflects Management’s assessment of cash flows evolution after the last year covered by the cash flow projections.

The amounts assigned to each of these parameters reflect past experience adjusted for expected changes over the timeframe of the business plan, but may also be affected by unforeseeable changes in the political, economic or legal framework.

Telecom operator CGU

	<i>At 30 June 2018</i>	<i>At 31 December 2017</i>
Basis of recoverable amount	Value in use	Value in use
Sources used	Business plan 5 years cash flow projections	Business plan 5 years cash flow projections
Perpetuity growth rate	1%	1%
Post-tax discount rate	8.00%	8.25%
Pre-tax discount rate ⁽¹⁾	9.32%	9.64%

⁽¹⁾ Pre-tax discount rate is calculated as a post-tax discount rate adjusted to reflect the specific amount and timing of the future tax cash flows.

Sensitivity of recoverable amount

The value in use of the telecom operator CGU as at 30 June 2018 exceeds its carrying value by PLN 4.5 billion. Any of the following changes in key assumptions:

- a 25% fall in projected cash flows after fifth year or
- a 1.8 p.p. decrease of growth rate to perpetuity or
- a 1.7 p.p. increase of post-tax discount rate

would bring the value in use of the telecom operator CGU to the level of its carrying value.

6. Explanatory comments about the seasonality or cyclicity of interim Company operations

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

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

The amount of trade payables subject to reverse factoring decreased from PLN 211 million as at 31 December 2017 to PLN 155 million as at 30 June 2018. 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.

Operational Programme "Digital Poland"

In 2017, OPL S.A. concluded agreements with the "Digital Poland" Project Centre for co-financing of investment projects under the second contest of the Operational Programme "Digital Poland" ("Programme"). The Programme aims to strengthen digital foundations for the national development including common access to high-speed Internet, effective and user-friendly public e-services and a continuously rising level of digital competences of the society. The Company was granted PLN 0.7 billion from the Programme funds. In 2017 OPL S.A. received PLN 297 million of advances for investment grants. Received advances are presented as cash and cash equivalents and other liabilities in the statement of financial position. Grants are deducted from the cost of related assets when the assets are recognised.

In 2018, OPL S.A. concluded investment agreements with subcontractors related to the development of the broadband telecommunications network under the Programme for a total amount of PLN 1,045 million, of which PLN 508 million will be indirectly executed by its subsidiary. As at 30 June 2018, commitments

for the purchase of fixed assets under the Programme, contracted for at the end of the reporting period but not recognised in the financial statements amounted to PLN 1,030 million.

Total investment commitments increased from PLN 695 million as at 31 December 2017 to PLN 1,767 million as at 30 June 2018 mainly due to commitments described above.

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

On 14 February 2018, the Company and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 750 million with repayment date in March 2023 and Revolving Credit Facility Agreement for PLN 1,500 million with repayment date in March 2022. The purpose of these new financing agreements was non-cash refinancing of the Revolving Credit Facility (granted by Atlas Services Belgium S.A.), which expired on 30 March 2018.

In the 6 months ended 30 June 2018, the net cash flows from issuance and repayments of the Revolving Credit Facilities from Atlas Services Belgium S.A. amounted to PLN 110 million.

As at 30 June 2018, the total outstanding balance of loans from the related party amounted to PLN 7,211 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 3.49% after swaps as at 30 June 2018.

The total nominal amount of cross currency interest rate swaps and interest rate swaps, outstanding under the agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk, as at 30 June 2018 was EUR 670 million and PLN 5,950 million, respectively, with a total fair value amounting to PLN 96 million.

In the 6 months ended 30 June 2018, the Company issued and redeemed short-term bonds under the Orange Polska S.A. Bond Issuance Programme. In the 6 months ended 30 June 2018, the net cash flows on the bonds amounted to PLN (32) million. As at 30 June 2018 and 31 December 2017, the aggregate par value of the outstanding bonds issued under the programme amounted to PLN 44 million and PLN 75 million, respectively.

9. Fair value of financial instruments

Derivative instruments are measured subsequent to their initial recognition at fair value. The fair value of derivatives is determined as described in Note 21 to the IFRS Separate Financial Statements for the year ended 31 December 2017. 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 2018 and 31 December 2017 the estimated fair value exceeded the carrying amount by PLN 96 million and PLN 113 million, respectively, due to significant change between the original effective interest rates at the date of the initial recognition and current market rates.

10. Dividend

The General Meeting of Orange Polska S.A. held on 20 April 2018 did not adopt a resolution on a dividend payment in 2018, in accordance with the recommendation of the Management Board of the Company.

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

The information hereunder refers to the matters presented in Note 28 to the IFRS Separate Financial Statements for the year ended 31 December 2017 or describes major matters that occurred after 31 December 2017.

a. Proceedings by UOKiK

Proceedings by UOKiK related to pre-paid offers

UOKiK informed the Company that it had further prolonged the proceedings. The indicated date of prolongation is 31 August 2018.

Proceedings by UOKiK related to retail prices of calls to Play

On 2 January 2018, UOKiK discontinued the competition proceedings. UOKiK stated that there was no basis to determine that Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. acted in breach of the competition law.

There was no development in relation to claims raised by P4 jointly and severally towards Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A.

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 2018.

Magna Polonia S.A. claim towards Orange Polska, T-Mobile Polska, Polkomtel and P4

On 9 February 2018, the court, which examines Magna Polonia S.A.'s claim, decided to stay the proceedings until the Supreme Court issues its verdict in the competition proceedings.

b. Proceedings by the European Commission related to broadband access

On 22 November 2017, the hearing of the Court of Justice was held. On 21 February 2018, the Advocate General of the Court of Justice delivered his opinion to the Court. The Company was notified that the verdict of the Court of Justice will be announced on 25 July 2018.

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.

12. Related party transactions

As at 30 June 2018, 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 selling fees, network development and maintenance,

property maintenance. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

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

Orange Polska S.A. operates under the Orange brand pursuant to a licence agreement concluded with Orange S.A. and Orange Brand Services Limited (“OBSL”). The brand licence agreement provides that OBSL receives a fee of up to 1.6% of the Company’s operating revenue earned under the Orange brand. OPL S.A. and OBSL reached the agreement to renew the existing contract for the period from 24 July 2018 to 31 December 2019 with no changes to the financial terms and conditions.

OPL S.A.’s financial income earned from its subsidiaries comprises dividends. Financial costs incurred by OPL S.A. in transactions with the subsidiaries comprise mainly interest on bonds issued to the subsidiaries. Financial liabilities to the subsidiaries comprise mainly bonds issued to the subsidiaries.

Financial receivables, liabilities, 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 ended 30 June 2018	6 months ended 30 June 2018	3 months ended 30 June 2017	6 months ended 30 June 2017
Sales of goods and services and other income:	90	190	102	194
Orange Polska Group (subsidiaries)	29	82	51	97
Orange Group	61	108	51	97
- Orange S.A. (parent)	39	67	32	61
- Orange Group (excluding parent)	22	41	19	36
Purchases of goods (including inventories, tangible and intangible assets) and services:	(218)	(403)	(200)	(375)
Orange Polska Group (subsidiaries)	(160)	(287)	(142)	(254)
Orange Group	(58)	(116)	(58)	(121)
- Orange S.A. (parent)	(15)	(32)	(15)	(36)
- Orange Group (excluding parent)	(43)	(84)	(43)	(85)
- including Orange Brand Services Limited (brand licence agreement)	(29)	(57)	(30)	(60)
Financial income:	22	24	9	18
Orange Polska Group (subsidiaries)	22	23	8	17
Orange S.A. (parent)	-	1	1	1
Financial expense, net:	(56)	(117)	(61)	(120)
Orange Polska Group (subsidiaries)	(1)	(1)	-	-
Orange Group	(55)	(116)	(61)	(120)
- Orange S.A. (parent)	82	79	(21)	(184)
- Orange Group (excluding parent)	(137)	(195)	(40)	64
Other comprehensive income/(loss):	5	(12)	(4)	(6)
Orange S.A. (parent)	5	(12)	(4)	(6)

<i>(in PLN millions)</i>	<i>At 30 June 2018</i>	<i>At 31 December 2017</i>
Receivables and contract costs:	214	144
Orange Polska Group (subsidiaries)	96	61
Orange Group	118	83
- Orange S.A. (parent)	74	50
- Orange Group (excluding parent)	44	33
Liabilities:	257	286
Orange Polska Group (subsidiaries)	161	187
Orange Group	96	99
- Orange S.A. (parent)	43	49
- Orange Group (excluding parent)	53	50
Financial receivables:	142	33
Orange S.A. (parent)	142	33
Cash and cash equivalents deposited with:	136	166
Orange S.A. (parent)	136	166
Financial liabilities:	7,301	7,102
Orange Polska Group (subsidiaries)	44	75
Orange Group	7,257	7,027
- Orange S.A. (parent)	46	58
- Orange Group (excluding parent)	7,211	6,969
Guarantees granted:	80	51
Orange Polska Group (subsidiaries)	80	51

Compensation (remuneration, bonuses, post-employment and other long-term benefits, termination indemnities and share-based payment plans - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board Members for the 6 months ended 30 June 2018 and 2017 amounted to PLN 7.7 million and PLN 8.6 million, respectively.

13. Subsequent events

On 18 July 2018, the Company and its subsidiary, TP TelTech Sp. z o.o., concluded a Loan Agreement for PLN 130 million with repayment date in December 2019.

On 23 July 2018, the Company and T-Mobile Polska signed a long term contract on telecommunications access to Orange Polska's fibre network in the form of Bitstream Access ("BSA"). Orange Polska will provide wholesale access to its network in order to provide BSA service on the Company's own fibre infrastructure for T-Mobile's clients in multi-family houses in deregulated areas. The fees under the contract comprise PLN 275 million of upfront fee and a monthly fee for each customer.

ORANGE POLSKA GROUP



MANAGEMENT BOARD'S REPORT ON THE ACTIVITY

IN THE FIRST SIX MONTHS ENDED 30 JUNE 2018

This report on the activity of the Orange Polska Group ("the Group" or "Orange Polska") in the first half of 2018 has been drawn up in compliance with Article 69 of the Decree of the Minister of Finance of 29 March 2018 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 2018, item 757). For additional information please refer to the full year 2017 report.

Disclosures on performance measures, including restatements, are presented in the Note 2 to Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the 6 months ended 30 June 2018.

Evolution of business trends is presented under the old IAS18 accounting standard. The new accounting standard, IFRS15, has been implemented by Orange Polska prospectively i.e. no comparative figures for past years restated to IFRS15 are provided. In the opinion of the Company, such an approach assures continuity of performance vis-a-vis the recently announced strategy and already known business trends.

July 24, 2018

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CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of June 30, 2018 and for the six month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

	For 6 months ended						
	30 June 2018 (IFRS15) in PLN mln	30 June 2018 (IFRS15) in EUR ¹ mln	30 June 2018 (IAS18) in PLN mln	30 June 2018 (IAS18) in EUR ¹ mln	30 June 2017 (IAS18) in PLN mln	30 June 2017 (IAS18) in EUR ² mln	Change (IAS18) (PLN)
Consolidated Income Statement							
Revenue	5,416	1,278	5,532	1,305	5,657	1,332	-2.2%
EBITDA	1,383	326	1,531	361	1,560	367	-1.9%
EBITDA margin			27.7%		27.6%		0.1pp
EBITDA (adjusted*)	1,383	326	1,531	361	1,568	369	-2.4%
EBITDA margin (adjusted*)			27.7%		27.7%		0.0pp
Operating income	106	25	254	60	278	65	-8.6%
Operating margin			4.6%		4.9%		-0.3pp
Consolidated net income (loss)	(66)	(16)	54	13	110	26	-50.9%
Net income (loss) attributable to owners of Orange Polska S.A.**	(66)	(16)	54	13	110	26	-50.9%
Weighted average number of shares (in millions)**	1,312		1,312		1,312		
Income (loss) per share (in PLN) (basic and diluted)	(0.05)	(0.01)	0.04	0.01	0.08	0.02	-50.0%
Consolidated Statement of Cash Flows							
Net cash provided by operating activities	850	200	850	200	1,005	237	-15.4%
Net cash used in investing activities	(1,037)	(245)	(1,037)	(245)	(1,040)	(245)	-0.3%
Net cash provided by financing activities	89	21	89	21	224	53	-60.3%
Net change in cash and cash equivalents	(98)	(23)	(98)	(23)	189	44	-151.9%
Capex	971	229	971	229	822	194	18.1%
Capex (adjusted*)	939	221	939	221	822	194	14.2%
Organic cash flow	(187)	(44)	(187)	(44)	(36)	(8)	n/a
Organic cash flow (adjusted*)	(181)	(43)	(181)	(43)	(36)	(8)	n/a
As of							
	30 June 2018 (IFRS15) in PLN mln	30 June 2018 (IFRS15) in EUR ³ mln	30 June 2018 (IAS18) in PLN mln	30 June 2018 (IAS18) in EUR ³ mln	31 Dec 2017 (IAS18) in PLN mln	31 Dec 2017 (IAS18) in EUR ⁴ mln	Change (IAS18) (PLN)
Consolidated Statement of Financial Position							
Cash and cash equivalents	548	126	548	126	646	155	-15.2%
Other intangible assets	5,040	1,156	5,040	1,156	5,256	1,260	-4.1%
Property, plant and equipment	10,556	2,420	10,556	2,420	10,666	2,557	-1.0%
Total assets	23,237	5,328	22,804	5,228	22,933	5,498	-0.6%
Financial liabilities at amortised cost***, of which:	7,360	1,687	7,360	1,687	7,082	1,698	3.9%
Current	2,156	494	2,156	494	1,529	367	41.0%
Non-current	5,204	1,193	5,204	1,193	5,553	1,331	-6.3%
Other liabilities, current and non-current	5,429	1,245	5,459	1,252	5,913	1,418	-7.7%
Total equity	10,448	2,395	9,985	2,289	9,938	2,383	0.5%
Notes on data conversion: 1 – PLN/EUR fx rate of 4.2395 applied 2 – PLN/EUR fx rate of 4.2474 applied 3 – PLN/EUR fx rate of 4.3616 applied 4 – PLN/EUR fx rate of 4.1709 applied *For adjustments of basic financial data please see Note 2 to the IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the first six months of 2018 ** Weighted average number of shares in 6 months ended June 30, 2018 and June 30, 2017, respectively *** Excluding trade payables							

1.1 Comments on the Consolidated Income Statement

Consolidated revenue on an IAS18 comparable basis amounted to PLN 5,532 million in the first half of 2018 and was lower by PLN 125 million compared to the first half of 2017. Rapid growth of revenues from convergent services was accompanied by decline in mobile-only and fixed broadband-only services, mainly due to migration to convergence and market competition. Legacy voice services, both retail and wholesale, continued to deteriorate under the influence of structural trends of fixed-to-mobile substitution. Furthermore, the evolution of revenues was affected by a decrease in equipment sales due to saturation of the customer base with instalment offers as well as implementation of a strategy of a radical reduction of handset subsidies.

Adjusted EBITDA on an IAS18 comparable basis (adjusted operating income before depreciation and amortisation expense and impairment of fixed assets; please see Note 2 to the Condensed IFRS Interim Consolidated Financial Statements for the first six months of 2018) amounted to PLN 1,531 million and was lower by PLN 37 million compared to the first half of 2017. The decrease in EBITDA was significantly lower than revenue erosion. Operating costs decreased year-on-year as a result of the value-driven strategy (much lower commercial expenses) and very significant cost-saving initiatives, mainly with respect to labour expenses and network and IT expenses.

Operating income (EBIT) on an IAS18 comparable basis was lower by PLN 24 million year-on-year, mainly due to lower adjusted EBITDA, as described above.

Net finance costs in the first half of 2018 increased by PLN 16 million compared to the first half of 2017, mainly as a result of unfavourable movements in foreign exchange rates.

As a result, consolidated net income on an IAS18 comparable basis in the first half of 2018 amounted to PLN 54 million compared to PLN 110 million in the first half of 2017.

1.2 Comments on the Consolidated Statement of Cash Flows

Net cash from operating activities amounted to PLN 850 million in the first half of 2018 and was PLN 155 million lower year-on-year. Lower EBITDA and higher working capital requirement were the two key factors behind the deterioration in cash flow generation.

Net cash used in investing activities amounted to PLN 1,037 million in the first half of 2018 and was flat year-on-year.

Net cash inflows from financing activities amounted to PLN 89 million compared to PLN 224 million in the first half of 2017. This change is mainly attributable to cash flows from related party loans.

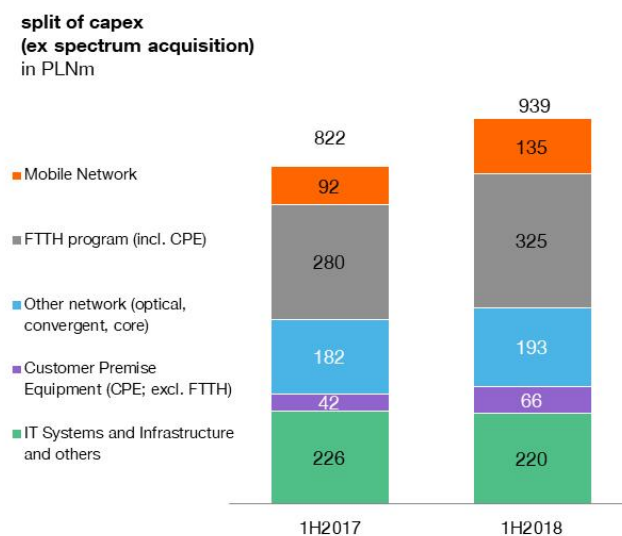
1.3 Capital Expenditures (CAPEX)

Group's adjusted capital expenditures in the first half of 2018 amounted to PLN 939 million and were higher by PLN 117 million year-on-year (amounts excluding spectrum licence acquisition).

The Group invested mainly in the following areas:

- Roll-out of the fibre access network in the announced investment programme, which covered over 0.4 million households in the first half of 2018. Including the lines developed in 2014 to 2017, there are now more than 2.9 million households connectable with the fibre network, in a total of 116 cities compared to 75 cities at the end of 2017;
- 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 on an IAS18 comparable basis were lower by PLN 129 million than on December 31, 2017. This change resulted mainly from the decrease in fixed assets as depreciation and amortisation expense exceeded capital expenditures by PLN 306 million. This impact was partially offset by an increase in trade receivables and derivatives.

Total liabilities on an IAS18 comparable basis decreased by PLN 176 million compared to the end of December 2017. This change resulted mainly from a decrease of PLN 299 million in trade payables, partially offset by an increase in related party loans.

1.5 Related Parties Transactions

Please see Note 14 to the Condensed IFRS Interim Consolidated Financial Statements about Group's transactions with related entities.

1.6 Description of Significant Agreements

Please see section 1.10.2 below for information on significant agreements concluded by the Group in the first half of 2018.

1.7 Subsequent Events

Please see Note 15 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 2017 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

In the six months ended June 30, 2018, 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 2018, the Group repaid long-term bank loans of PLN 3 million and revolving loans of PLN 130 million provided by the Orange SA Group. In addition, it refinanced without cash flow a revolving credit facility of PLN 1,550 million, maturing in March 2018, through long-term loan and revolving loan agreements signed with the Orange SA Group in February 2018.

In the reported period, the Group used loans provided by the Orange SA Group, namely PLN 750 million out of a long-term loan, PLN 160 million out of a revolving loan provided in 2013 and PLN 880 million out of a revolving loan provided in 2018.

As of June 30, 2018, Group's interest-bearing liabilities (before derivatives) totalled PLN 7,228 million, which is an increase of PLN 237 million compared to December 31, 2017.

The value of liabilities under financial lease and other financial liabilities as of June 30, 2018 amounted to PLN 132 million and was PLN 41 million higher compared to December 31, 2017.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 548 million at June 30, 2018, and available credit facilities totalling the equivalent of PLN 2,420 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 2018.

At June 30, 2018, Group's liquidity ratios increased as compared to the end of 2017. The Group's higher financial liquidity resulted from an increase of PLN 677 million in current assets, which was partially offset by an increase of PLN 205 million in current liabilities (less provisions and contract liabilities).

The liquidity ratios for the Group at June 30, 2018 and December 31, 2017, respectively, are presented in the table below.

	June 30, 2018	December 31, 2017
Current ratio		
Current assets / current liabilities*	0.80	0.69
Quick ratio		
Total current assets – inventories / current liabilities*	0.75	0.65
Super-quick ratio		
Total current assets – inventories – receivables / current liabilities*	0.27	0.17

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

Group's net financial debt (after valuation of derivatives) increased to PLN 6,690 million at June 30, 2018 (from PLN 6,497 million at the end of 2017).

1.10.1 Bonds

As part of Group liquidity management, in the first six months of 2018 Orange Polska S.A. issued and redeemed short-term bonds which were acquired by Orange Polska S.A.'s subsidiaries under a program established in 2002 and totals PLN 2,500 million. Proceeds from the issue were used to ensure current liquidity in the scope of business operations. As of June 30, 2018, Orange Polska's liability on the account of outstanding bonds amounted to PLN 44 million.

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

1.10.2 Loan and Borrowings Agreements

On 14 February 2018, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 750 million with repayment date in March 2023 and Revolving Credit Facility Agreement for PLN 1,500 million with repayment date in March 2022, which refinanced the Revolving Loan Agreement of EUR 480 million maturing in March 2018. On July 18, 2018, Orange Polska S.A. and its subsidiary TP Teltech Sp. z o.o. signed a loan agreement for PLN 130 million, maturing in December 2019. The purpose of the agreement was to finance working capital of the subsidiary in connection with the execution by the latter of subcontractor's agreements in the Operational Programme "Digital Poland 2".

1.10.3 Unused Credit Facilities

As of June 30, 2018, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 670 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 (according to IAS18 accounting) was 2.2 on June 30, 2018.

1.10.5 Guarantees and Collaterals

In the first half of 2018, 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 promising to cover any claims related to payments under the guarantee. As of June 30, 2018, those guarantees totalled PLN 4.9 million.

Furthermore, pursuant to two collateral agreements made in the first half of 2018, Orange Polska S.A. granted a collateral of PLN 27.9 million to Bank Handlowy w Warszawie S.A. to secure bank guarantees issued by the latter in favour of TP Teltech Sp. z o.o. with respect to obligations under contracts with Alcatel Lucent Polska Sp. z o.o. related to the implementation of the Operational Programme "Digital Poland 2".

As of June 30, 2018, the following collaterals granted by Orange Polska S.A. were still valid:

- PLN 2.6 million granted in December 2015 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;
- PLN 7 million granted in December 2016 to Alior Bank S.A. to secure an overdraft facility provided by the latter to Orange Retail S.A., a subsidiary of Orange Polska S.A.;
- PLN 20 million granted in November 2017 to BZ WBK Faktor Sp z o.o. to secure a facility provided by the latter to TP Teltech Sp. z o.o. under a confirming agreement for payment management.

As of June 30, 2018, nine bank guarantees, which had been issued upon request of Orange Polska S.A. with respect to liabilities of Orange Energia Sp. z o.o. (formerly Multimedia Polska Energia Sp. z o.o.) towards its business partners in connection with the acquisition of this company by the Group in 2017, remained in force. These guarantees total PLN 17.9 million and Orange Polska S.A. shall indemnify the banks against any claims thereunder.

1.10.6 Hedging Transactions

In the first half of 2018, 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, 2018 covered:

- 100% of debt denominated in foreign currencies,
- 45% of licence payable for the 2100 MHz spectrum (UMTS licence); and
- 83.0% of European Commission proceedings provision.

As a result of hedging, Group's effective currency exposure at June 30, 2018 was as follows:

- EUR 69 million of licence payable for the 2100 MHz spectrum (UMTS licence); and
- EUR 26 million of European Commission proceedings provision.

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

The Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As of June 30, 2018, the Group's proportion between fixed/floating rate debt (after hedging) was 95/5% as compared to 78/22% on December 31, 2017.

In addition, the Group has hedged the risk of Orange Polska share price increase with options. As of June 30, 2018, 100% of phantom shares for the incentive programme for managers were hedged.

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

in the first half of 2018

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 fixed 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 investments grants received/paid 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 enhance the performance presentation, these financial data can be adjusted to exclude the impact of significant non-recurring transactions or other events or changes in the scope of consolidation.

Key figures (PLN million)	1H 2018 (IFRS15)	1H 2018 (IAS18)	1H 2017 (IAS18)	Change (IAS18)
Revenue	5,416	5,532	5,657	-2.2%
EBITDA	1,383	1,531	1,560	-1.9%
EBITDA margin	25.5%	27.7%	27.6%	0.1pp
Adjusted EBITDA*	1,383	1,531	1,568	-2.4%
Adjusted EBITDA margin*	25.5%	27.7%	27.7%	0.0pp
Operating income	106	254	278	-8.6%
Net income (loss)	(66)	54	110	-50.9%
Capex	971	971	822	18.1%
Adjusted capex*	939	939	822	14.2%
Organic cash flow	(187)	(187)	(36)	n/a
Adjusted organic cash flow*	(181)	(181)	(36)	n/a

* For adjustments of basic financial data please see Note 2 to the Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the first six months of 2018.

In 2018, we changed the layout of revenue reporting. The new layout better reflects our commercial strategy focused on convergent offer sales. Consequently, we report separately convergent revenues and revenues from mobile-only and fixed-only services, which are used by non-convergent customers.

Revenues (under IAS18 accounting) totalled PLN 5,532 million in the first half of 2018 and was down PLN 125 million or -2,2% year-on-year.

The rate of decline was higher than for the full year 2017 (-1.4%). This can be attributed mainly to a reversal of the trend in mobile equipment sales. Throughout 2017, this category was growing rapidly, while in the first half of 2018, it fell 2% year-on-year. The earlier growth was driven by popularity of instalment schemes for handsets. Currently, the mobile customer base is saturated with instalment offers. Furthermore, the trend was negatively affected by the implementation of the value-driven strategy, involving a radical reduction in handset subsidies, which resulted in a considerable rise in unit sales prices accompanied by a decline in sales volume. This strategy led to an improvement in EBITDA, but had a negative impact on mobile equipment sales.

Convergence is expected to drive a rebound in the revenue trend. In the first half of 2018, convergent revenues increased 36% year-on-year, which was stronger growth than in 2017. This was accompanied by a decrease in mobile-only and fixed broadband-only revenues (14% year-on-year) as a result of migration to convergent offers, value focus reflected in service pricing and market competition.

However, it is important to underline that the improving growth rate of convergent service revenues increasingly offsets decline of mobile-only and fixed broadband-only revenues. Combined revenues of these categories were down 5.6% year-on-year in first half of 2018, as compared to 6.3% year-on-year decline in 2017.

There was an improvement in wholesale revenues, which grew 11% year-on-year, benefitting mainly from a national roaming contract with Play and growth in international interconnect.

Revenues from IT and integration services maintained a high growth rate (27% year-on-year). This is consistent with the adopted strategy, which sees strong growth potential in this area. The key growth engines are projects involving provision of professional services to the largest companies sector and an increase in public procurement.

Total operating costs (determined as adjusted EBITDA less revenues) fell by 2.2% year-on-year in the first half of 2018, compensating a considerable portion of revenue erosion. As a result, adjusted EBITDA decreased by only 2.4% year-on-year, which was significantly lower than in the full year 2017, when it fell by almost 5%. Adjusted EBITDA margin stood at 27.7%, remaining flat year-on-year. Stabilisation of EBITDA margin should be considered a positive result, considering continued structural pressure on high-margin traditional fixed line services (mainly fixed line voice services), as any decrease in these services is almost entirely reflected in profit erosion. The margin stabilisation was a result of the convergence strategy implementation, monetisation of fibre investments, focus on value creation and considerable optimisation of operating costs.

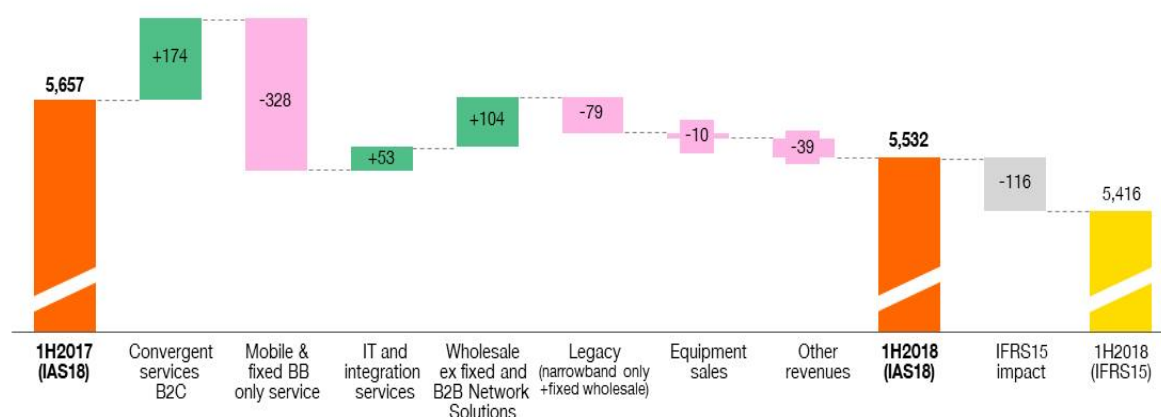
The adjusted EBITDA trend was considerably affected by evolution of gains on disposal of assets. These totalled PLN 65 million in the first half of 2017, but only PLN 22 million in the first half of 2018. It was a result of protracted negotiations on real estate disposal. Excluding this factor, adjusted EBITDA was stable year-on-year.

Orange Polska forecasts EBITDA in 2018 to be stable year-on-year. This forecast is upheld following the H1 results.

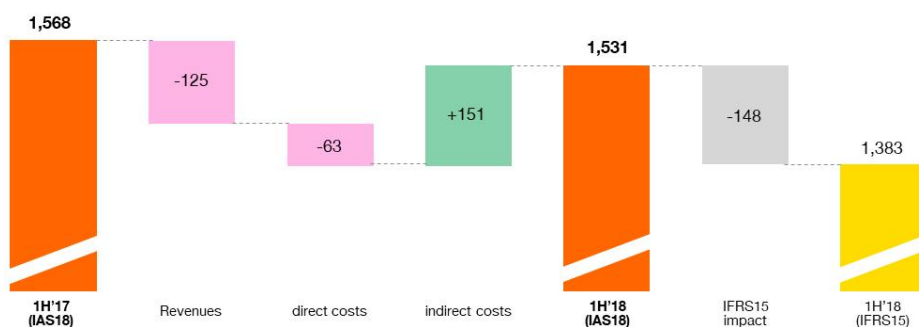
Cost evolution can be attributed mainly to the following factors:

- A decrease of 13% in commercial expenses, resulting mainly from much lower volume of customer acquisition and retention transactions bundled with handsets as well as optimisation of the distribution channel mix and significant savings in advertising and promotion costs;
- An increase of almost 11% in interconnect costs due to growth in retail and wholesale traffic, owing to a higher customer base and much higher usage per customer (particularly resulting from a massive increase in traffic following the introduction of free roaming within the EU);
- A decrease of over 7% (year-on-year) in labour costs, mainly owing to workforce optimisation related to the implementation of the new Social Agreement;
- A decrease of approximately 7% in network and IT expenses, resulting from savings in energy consumption, network maintenance and installation costs.

Revenue evolution breakdown in PLNm



Adjusted EBITDA evolution (yoy change in PLNm)



2.1 Convergent Services

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 significantly lower than among single service users). It also contributes to revenue growth and increased efficiency of IT and marketing spending. 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 six months of 2018, we continued sales of the Orange Love convergent offer, which is our flagship proposal for Polish households. It was introduced in February 2017 and its basic package includes:

- broadband access in the copper, fibre or wireless for fixed technology;
- a TV package of around 100 channels;
- mobile post-paid service with unlimited calls and SMSs plus a 5 GB data pool; and
- a home phone.

The basic package can be extended to include broader TV packages, additional mobile post-paid services at a discounted price 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. Sales remained high, despite very large growth in 2017, which resulted in considerable saturation of our broadband customer base with convergent services. The majority of mobile and fixed broadband service sales are still effected in the convergent bundle formula. Our convergent offer is a major competitive advantage over CATV operators, as they provide no or very limited mobile services.

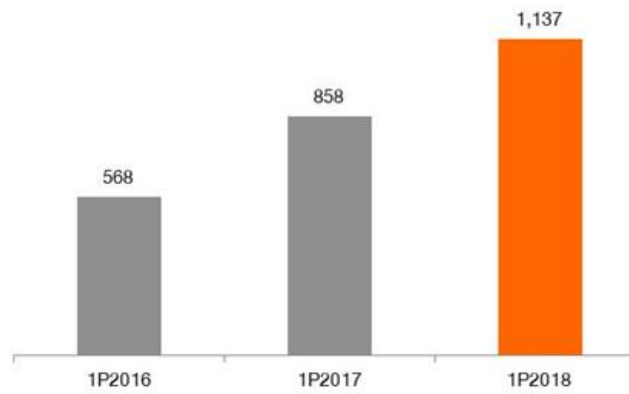
At the end of June 2018, our B2C convergent customer base reached 1,137 thousand, which is an increase of 102 thousand (or 10%) compared to the end of 2017. The total number of services provided in the convergence scheme among B2C customers is almost 4.7 million. On average, each convergent individual customer uses over 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. Currently, over 50% of B2C fixed broadband customers have convergent bundles.

Our convergence strategy has been reflected in a new layout of revenues. Since the beginning of 2018, we have been separately reporting revenues from this group of customers.

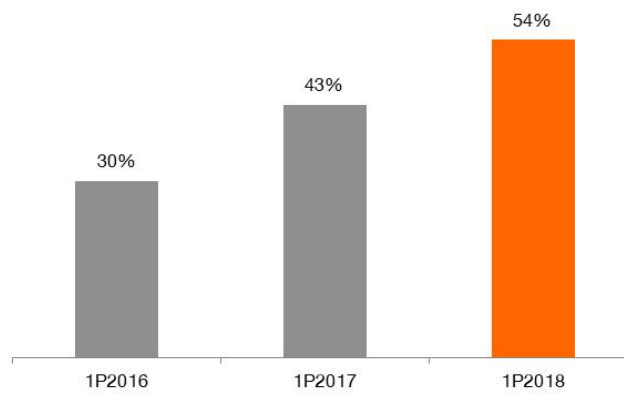
	For 6 months ended		Change
	30 June 2018 (IAS18)	30 June 2017	
Convergent revenues (PLN million)	663	489	35.6%
Convergent ARPO (PLN)	101.6	108.8	-6.6%

In the first half of 2018, revenues from convergent services totalled PLN 663 million and were up 35.6% year-on-year. The increase was driven by massive customer base growth. In the same period, average revenue per customer declined by 6.6% year-on-year. This was attributable to an increase in the take-up of the Orange Love offer, as it generates lower revenue per customer compared to earlier convergent offers, which were based on price discounts for buying additional services. However, ARPO is stabilising, as the convergent base is getting saturated with Orange Love customers. In the second quarter of 2018, convergent ARPO was PLN 102.4, a slight improvement over PLN 100.8 in the first quarter.

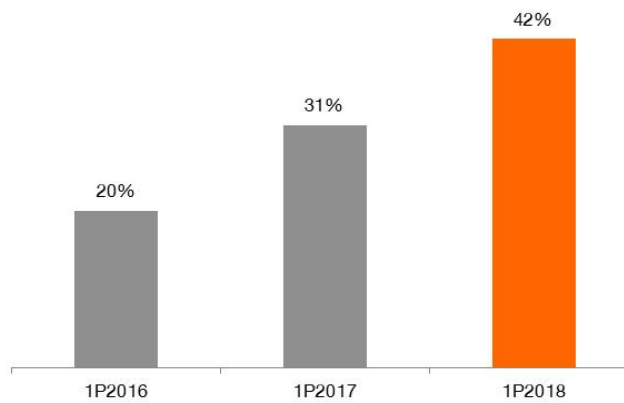
Orange Polska's convergent customer base (in thousand)



Convergence penetration in B2C fixed broadband customer base



Convergence penetration in B2C mobile handset post-paid customer base



2.2 Mobile-only Services

Revenues (PLN million)	For 6 months ended		Change
	30 June 2018 (IAS18)	30 June 2017	
Mobile-only services	1,476	1,754	-15.8%

Key performance indicators ('000)	30 June 2018	31 Dec 2017	30 June 2017	Change 30.06.2018/ 31.12.2017	Change 31.12.2017/ 30.06.2017
Post-paid mobile services	9,790	9,726	9,573	0.7%	1.6%
convergent	2,183	1,959	1,601	11.4%	22.4%
mobile-only	7,607	7,767	7,972	-2.1%	-2.6%
Pre-paid mobile services	4,694	4,698	4,983	-0.1%	-5.7%
Total mobile services	14,484	14,424	14,555	0.4%	-0.9%

Key performance indicators (PLN)	1H 2018	1H 2017	1H 2016	Change 2018/2017	Change 2017/2016
Monthly blended retail ARPO from mobile-only services	21.8	22.7	22.6	-4.0%	0.4%
post-paid (excluding M2M)	29.0	32.9	37.7	-11.9%	-12.7%
pre-paid	12.1	10.3	9.4	17.5%	9.6%

As at the end of June 2018, Orange Polska had a mobile services base of 14.5 million, which is a slight increase vs. the end of December 2017.

In the post-paid segment, the number of SIM cards increased by less than 1% as compared to the end of 2017. Sales of handset offers increased by 1%, that is less than in 2017, which resulted from the consistent implementation of a value-based commercial strategy and concentration on the Orange Love convergent offer in customer acquisition. As we expected, the number of mobile broadband services continued to fall due to increased popularity of mobile broadband for fixed use offers as well as growing data pools for smartphones in mobile voice tariff plans. The number of SIM cards related to M2M services was still growing rapidly.

In order to better reflect our commercial strategy, since the beginning of 2018 we have been presenting separately convergent mobile customers and those who use mobile services only. The number of the former grows rapidly, outpacing the growth of convergent customer base, owing to increasing upsales of additional SIM cards to Orange Love customers. On average, there are almost two SIM cards per convergent customer. A decrease in non-convergent services can be attributed to migration to convergence, churn, lower migration from pre-paid services (as a result of their higher price attractiveness) and phasing-out of old value-diluting offers.

Blended ARPO (from mobile-only services) amounted to PLN 21.8 in the first six months of 2018 and was down 4% (year-on-year). The decrease resulted from a combination of a major improvement in pre-paid ARPO and an approximately 12% decline in post-paid ARPO. The pre-paid ARPO improvement, however, resulted not from fundamental factors, but from a huge decline in SIM cards following the registration obligation.

The post-paid ARPO decline can be attributed to the following factors:

- 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);
- popularity of family offers, in which customers get several SIM cards and which involve price discounts;
- substantial decrease in mobile broadband ARPO, resulting from much lower take-up of this service;
- price competition.

2.2.1 Market and Competition¹

The estimated number of SIM cards (52.6 million) increased by 1.2% compared to the end of December 2017, driving the mobile penetration rate (among population) to 137% at the end of June 2018. It was a result of a

¹ Analysis of the mobile market, excluding wireless for fixed offers.

growing post-paid and M2M customer base accompanied by a decline in both pre-paid and mobile broadband (largely due to migration to LTE for fixed broadband). The first six months of 2018 saw no regulatory developments affecting the mobile market.

Following a period of massive erosion of pre-paid service volumes, resulting from the regulations imposing on mobile operators the obligation of pre-paid SIM card registration as from July 25, 2016, the first six months of 2018 saw a slow-down of migration to post-paid services, mainly owing to increased competitiveness of pre-paid offers.

The impact of the pre-paid card registration regulations on the mobile market was significant, but owing to differences among operators in reporting pre-paid SIM cards, their comparative analysis is still difficult.

According to Orange Polska's own estimates, the four leading operators' aggregated market share remained at 98.5% as of the end of June 2018, with Orange Polska's estimated market share of 27.7%.

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. The post-paid mobile-only customer base decreases mainly as a result of migration to convergence and churn.

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. 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.

Following significant modifications of tariff plans in the autumn of 2017 (which involved mainly substantial simplification), the changes introduced in the first six months of 2018 aimed mainly at increasing the attractiveness of high-end tariffs. In particular, such plans now include unlimited data transfer; namely, once a dedicated data pool is used up, customers can still access the Internet, though the transfer rate is reduced to 1 Mbps. In addition, we introduced higher flexibility in combining various tariff plans in family offers. In line with our value-based strategy, we continued to follow a policy of low handset subsidies, which was introduced in 2017.

In the first half of 2018, there were no significant changes versus 2017 in the key trends in the B2C market:

- Households are increasingly 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.
- With rapidly growing demand for data transfer, the volume of data package has become the key competitive differentiator.
- An attractive portfolio of modern smartphones remains a differentiator in competition for customers, even though a growing number of them choose SIM-only offers.
- As a product category, mobile broadband has become less attractive, mainly due to attractiveness of the wireless broadband for fixed offers as well as growing volumes of data packages in voice offers.
- Looking for other differentiators, in addition to price, operators offer new services, such as access to music services or TV content.

2.3 Fixed-only Services

Revenues (PLN million)	For 6 months ended		Change
	30 June 2018 (IAS18)	30 June 2017	
Fixed-only services	1,270	1,409	-9.9%
fixed narrowband	563	650	-13.4%
broadband, TV and VoIP	479	529	-9.5%
enterprise solutions and networks	228	230	-0.9%

Key performance indicators ('000)	30 June 2018	31 Dec 2017	30 June 2017	Change 30.06.2018/31.12.2017	Change 31.12.2017/30.06.2017
Fixed voice services (retail: PSTN and VoIP)	3,541	3,684	3,809	-3.9%	-3.3%
convergent	718	630	530	14.0%	18.9%
fixed-only	2,823	3,054	3,279	-7.6%	-6.9%
Fixed broadband accesses (retail)	2,506	2,438	2,323	2.8%	5.0%
convergent	1,137	1,035	858	9.9%	20.6%
fixed broadband-only	1,369	1,403	1,465	-2.4%	-4.2%

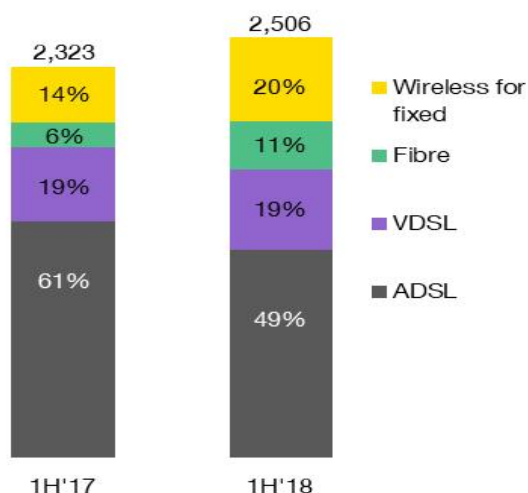
Key performance indicators (PLN)	1H 2018	1H 2017	1H 2016	Change 2018/2017	Change 2017/2016
ARPO from fixed narrowband-only (PSTN) services	36.9	37.2	39.0	-0.8%	-4.6%
ARPO from fixed broadband-only services	56.7	57.7	60.9	-1.7%	-5.3%

Total fixed broadband customer base increased by almost 3% in the first six months of 2018, exceeding 2.5 million. The trend did not change compared to 2017. The growth is driven by investments in fibre and mobile networks. Decline in the mostly non-competitive ADSL technology was offset by growth in VDSL, fibre and wireless for fixed. The share of these growing technologies in the whole customer base increased to 51% at the end of June 2018 (from 46% at the end of December 2017 and 39% at the end of June 2017). We expect this transformation to continue as a result of the steady implementation of our convergence strategy and further investments in the fibre network.

In connection with a new layout of revenue reporting, since the beginning of 2018 we have separated convergent broadband customers (their number equals to that of convergent customers) from non-convergent broadband customers. The non-convergent broadband customer base shrinks as a result of migration to convergence but also due to churn. As a consequence, revenues in this category decrease. Broadband ARPO also decreases, but its erosion is much lower than before, owing to a growing share of fibre (which generates higher ARPO) and lower decline among business customers.

Broadband customer base

(in thousand)



Erosion of fixed voice customer base (excluding VoIP) totalled 234 thousand in the first half of 2018 and was higher than in the first half of 2017 (187 thousand). The decline can be attributed mainly to structural demographic factors and attractiveness of mobile services with unlimited calls to all networks. It is also a result of our convergence strategy, which stimulates partial migration of customers to VoIP. Revenue erosion was approximately 13.4%, remaining at a similar level to 2017. There is a positive trend of a falling rate of decline in average revenue per user.

2.3.1 Market and Competition

Fixed Voice Market

The Group estimates that the fixed line penetration rate was at 18.5% of Poland's population at the end of June 2018, as compared to 19.0% at the end of December 2017. 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 based on traditional infrastructure (WLR and LLU).

Fixed Broadband Market

According to Group's estimates, the total number of fixed broadband access lines, including wireless for fixed technology, increased by a 0.2 million at the end of June 2018 compared to the end of December 2017. This can be attributed to two factors: intensive roll-out of fibre infrastructure and growing popularity of mobile broadband for fixed-line uses.

Mobile broadband can successfully complement or even substitute for traditional cable lines. Orange Polska's wireless for fixed customer base increased by 68 thousand lines in the first six months of 2018, reaching 502 thousand lines at the end of June 2018.

At the same time, the high-speed fixed broadband market has been constantly expanding and growing in Poland, especially in the urban areas, with Orange Polska contributing greatly to the growth. In the first half of 2018, Orange Polska's high-speed broadband customer base increased by 86 thousand. The key success factors were rapidly growing range of our fibre network, modernisation of our VDSL network as well as our convergent offer competitive to cable television (CATV) operators.

Orange Polska's increased activity in the high-speed broadband segment has stimulated the already highly competitive market environment and forced CATV operators to upgrade and enhance their offer even more quickly. In addition, local markets saw a number of dedicated marketing campaigns by CATV operators, offering additional discounts for discontinuation of services provided by other operators. As a result of such efforts, the position of CATV operators remains strong. According to Orange Polska's estimates, CATV operators' aggregate share in Poland's fixed broadband market was 32% by volume or 30% by value.

The rapid growth of the high-speed fixed broadband and wireless for fixed customer base was reflected in an increase in the aggregate number of Orange Polska's broadband users by 68 thousand in the first six months of 2018.

According to internal estimates Orange Polska had the following share in the fixed broadband market:

Fixed broadband market – key performance indicators

	30 June 2018	30 June 2017
Market penetration rate – broadband lines (in total population)	23.0%	21.6%
Total number of broadband lines in Poland ('000)	8,838	8,290
Orange Polska's market share by volume	28.4%	28.0%

Fixed voice market share in June 2018

	30 June 2018	30 June 2017	Change
Retail local access ²	49.8%	50.9%	-1.1pp

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.

As at the end of June 2018, over 2.9 million households were connectable with the fibre network, which is an increase of over 400 thousand compared to the end of 2017. It is consistent with the full-year plan, which

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

provides for adding approximately 1 million households. Our fibre services are available in 116 cities. Our fibre customer base almost doubled year-on-year, reaching 286 thousand. This corresponds to a service adoption rate of almost 10%, which grows steadily (from 8.7% at the end of December 2017 and 7.4% at the end of June 2017). The fibre 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 fibre 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 2018, penetration of convergence in our fibre customer base was 56%.

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.

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.

3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

3.1 Market Outlook

Orange Polska expects the telecommunications market to rebound in the coming years. In a short-term perspective, the market will be driven by the following factors: rapid expansion of very high-speed broadband access (above 30Mbps), owing to fibre infrastructure investments and an increase in LTE coverage, as well as growing post-paid volume in the mobile segment. At the same time, the telco services market will be under pressure due to continuing fixed-to-mobile substitution, both in terms of fixed telephony and traditional broadband (DSL below 30 Mbps).

In particular, the telecommunications market growth will be a result of expansion of the VHBB market, stimulated by rapid growth of demand for data transmission, which is linked with digitisation of the society and economy, including development of e-commerce, Internet of Things, e-Administration etc. We expect growing penetration of fixed broadband in the coming years, as fixed access maximises profits from the Internet and services such as gaming on-line, HD/4K VoD or teleconferences. Growing demand will be satisfied by increased supply of fixed broadband owing to EU-financed investment projects carried out by Orange and other telecom operators, as well as constant improvements in mobile connectivity. Also growing popularity of smartphones, tablets and other equipment with mobile Internet access will positively affect the telecommunications market.

As for the mobile services market, we predict competition to shift from simple price cuts towards quality-based competition. We expect the market growth to be driven by bundled and convergent offers. On the B2B market we expect volume growth to continue as a result of an increase in the number of employees and companies as well as the development of the knowledge-based economy. We expect growing popularity of telco offers combined with ICT and machine-to-machine (M2M) services.

In the first half of 2018, UPC Polska and Multimedia Polska announced withdrawal from the acquisition of the latter as a result of failure to reach an agreement on the value of the transaction which would take into consideration the conditions set by UOKiK. Meanwhile, the Cyfrowy Polsat Group acquired a controlling stake in Netia, following an unconditional approval by UOKiK. These developments on one hand confirm Orange Polska's strategy of convergence (i.e. combining fixed and mobile services), but on the other hand may result in increased market competition.

3.2 Orange.one Strategy

Orange.one: A new momentum for Orange Polska

In September 2017, we announced a new strategic plan for 2017–2020 called *Orange.one*. Our vision is to become Poland's first choice telecommunications operator for consumers and businesses by 2020, while creating a business model that will generate sustainable growth in both sales and profits. We expect to achieve these objectives by developing services and products of unmatched quality, supported by the comprehensive development of our fibre network and digital capabilities, and by significantly increasing our operational efficiency.

Orange.one reaffirms the key priorities of the strategy announced at the beginning of 2016, while giving them a new momentum. To achieve the goal of sustainable turnaround, we will need better execution, clearer focus and more agility. All our business decisions will be driven to a greater extent by value creation, and our customer propositions will be driven by simplicity and consistency. Poland's telecommunications market is characterised by very intense competition and even though there are some clear signs of a shift towards value-oriented strategies, we do not expect any significant change in the level of competition.

We have right assets at hand

We believe to have adequate assets to implement our strategy, and what we need is better execution to get the proper return and value out of these assets. We have Poland's largest base of mobile and fixed line customers, who have trusted us. For several years we have been heavily investing in our mobile and fixed networks and their connectivity has been appreciated by both retail and wholesale customers. We operate under a global and broadly recognised brand, which is a major source of competitive advantage, as it is considered innovative and enjoys very high awareness. The Company's another strength is highly motivated and skilled employees, in whom we invest to make them contribute to value creation.

Consumer market strategy driven by convergence

The key to success in the B2C market will be convergence, or sales of mobile and fixed line service bundles. Convergence addresses the household telecommunication needs in a comprehensive manner, increases customer satisfaction and reduces churn. We still see a great potential in convergence for both upselling additional services to the households where we are already present and entering new households with our services. According to our research, about 90% of Polish households still buy telecom services from several suppliers. A fast, modern and reliable network is a critical factor to success in convergence. Our ambition is to have over 5 million households, or about 40% of all households in Poland, connectable to our fibre network by 2020. While implementing our strategy in the mass market, we will also account for customers who for some reason do not need or do not want convergence, offering them attractive tariff plans and equipment at

competitive prices. In customer acquisition and retention, our guiding principle will be to create value for the Company.

Business market strategy driven by digital transformation

In the B2B market, our main ambition is to become the first choice partner for our customers in digitisation. Digitisation is currently the key transformation process in business organisations with respect to both their internal environment and their products and services. This process involves increased demand for data transmission, business migration to the cloud, increased cybersecurity needs and demand for tailor-made and much more flexible ICT solutions. Development in these areas will be our priority. We will continue to improve connectivity, which provides the basis for digitisation of both corporations and small businesses. Convergence, which is the key growth engine in the B2C market, is also a pillar of our offer to small to medium companies, often supplemented by an ICT component. In the next few years, the Internet of Things will remain a major growth area. We will continue development also in this segment, benefiting from the fact that we are currently the market leader in machine-to-machine (M2M) services.

Our common ambition for both B2B and B2C segments is to achieve the number one position in NPS (Net Promoter Score) ranking on the Polish market by 2020.

Financial goal: Sustainable growth of revenue and EBITDA in 2020

Proper implementation of the *Orange.one* strategy is to lead to the development of a business model, which will enable us to return to a sustainable and stable growth path. In financial terms, this should result to a gradual improvement in trends, generating revenue and EBITDA growth in 2020.

Sales revenues stabilisation in 2019 and growth afterwards is to be driven by the following factors:

- significant growth of convergent customer base and convergent services,
- more focus on value generation,
- successful development in adjacent business areas (ICT, Orange Energy, Orange Finance, Orange Smart Care, sales of equipment), and
- diminishing share of legacy services in total revenues.

The improving revenue trend will contribute to an improvement in the EBITDA trend, which will be also driven by operating leverage and continued cost optimisation. We forecast a reduction of underlying indirect costs by 12–15% by 2020 versus 2016. Savings will be generated across all cost groups, including labour, outsourcing, general & administrative, energy and network maintenance costs. They will result largely from comprehensive transformation of Orange Polska's processes at each stage of our business model: networks, products and services, distribution and customer care. The process transformation will aim at their simplification, automation and digitisation.

The intended capex will reflect our connectivity programme and business transformation needs. Our capex ambition is to spend at least PLN 2 billion annually by 2020, including ambition to spend ca PLN 2.8 billion on fibre network deployment in 2018–2020 to cover more than 5 million households by the end of 2020.

We believe that the financial performance in 2017 and the adjusted EBITDA forecast for 2018 confirm the success of the *Orange.one* strategy. The adjusted EBITDA erosion slowed down significantly, mainly owing to very large savings on handset subsidies, sales channel optimisation and a reduction of underlying indirect costs by almost 5% year-on-year. The expected stabilisation of adjusted EBITDA in 2018 will be the first time of non-decline in 9 years.

Key business objectives by 2020

Business-to-Consumer

- Increase of convergent customer base by an additional 1 million to 1.5 million by the end of 2020 (vs. 858,000 in 1H2017)
- Increase of fibre customer base 5–6 times by the end of 2020 (vs. 140,000 in 1H2017)
- Increase of TV customer base by an additional 300,000 to 600,000 by the end of 2020 (vs. 792,000 in 1H2017)
- Achieving number one position in NPS (Net Promoter Score) ranking on the Polish market by 2020

Business-to-Business

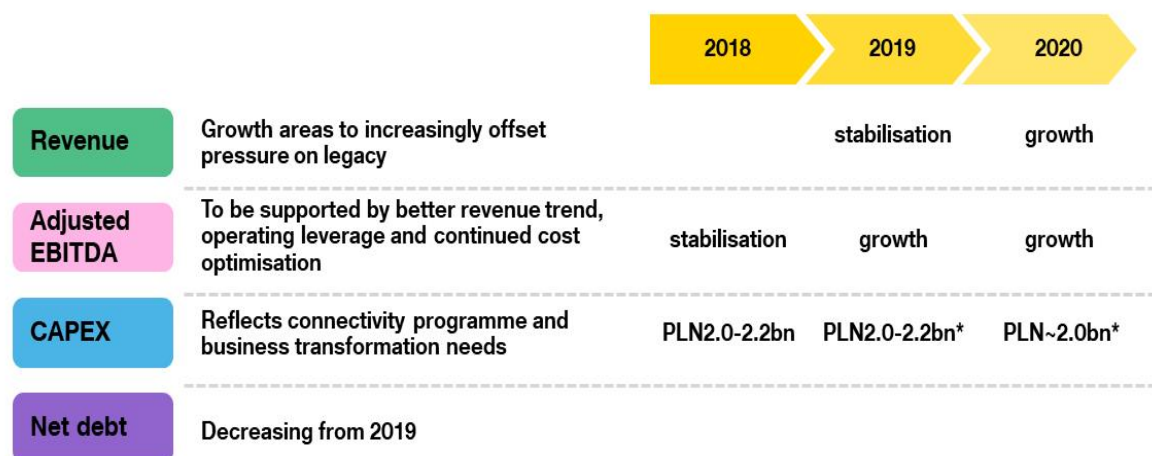
- Reaching 55% of convergent customers in SOHO/SME segment by the end of 2020 (vs. 24% in 1H2017)
- Increase of mobile handset customer base an additional 0.6 million by the end of 2020 (vs. 2.4 million in 1H2017)
- Achieving number one position in NPS (Net Promoters Score) ranking on the Polish market by 2020

Key financial targets by 2020 (under IFRS18 accounting, valid to 2017)

- Revenues: stabilisation in 2019 and growth afterwards
- EBITDA: stabilisation in 2018 and growth afterwards
- Capex: PLN 2.0–2.2 billion
- Net debt reduction from 2019

The diagram below illustrates the expected gradual improvement in financial trends as well as our initial Capex expectations:

Return to growth backed by more focus on value creation



* ambitions

under IAS 18 accounting standard, effective until 2017

3.3 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:

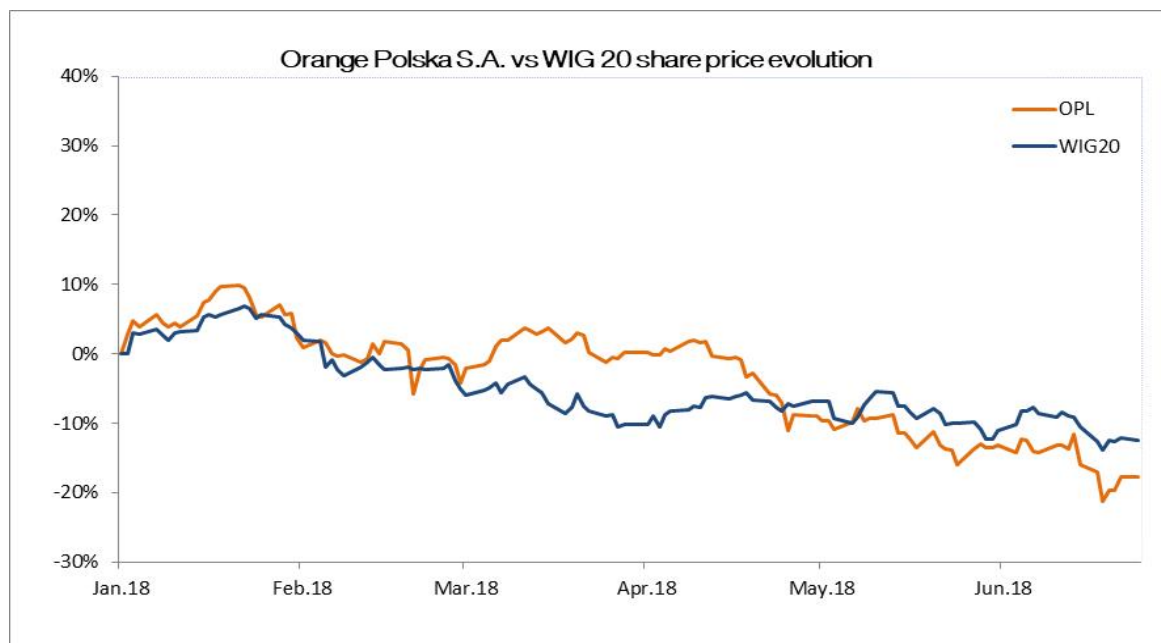
- WIG20 and WIG30 large-cap indices;
- WIG broad-market index;
- WIG-telecommunication industry index; and
- RESPECT Index of socially responsible companies.

In 2017, Orange Polska S.A. 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 28 companies. Orange Polska S.A. 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.

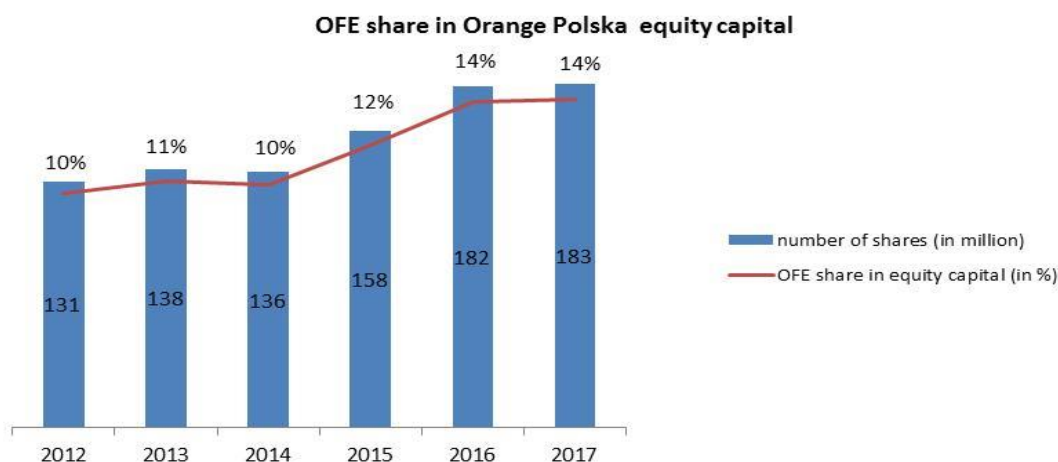
In addition, Orange Polska S.A. has been included in the global FTSE Russell's ESG Ratings, a global index that measures company's performance across environmental, social and governance (ESG) areas.

The first six months of 2018 saw losses in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were down 19.9%, while the large-cap index, WIG20, lost 13.2% in the period.

ORANGE POLSKA S.A. SHARE PRICE in the period from June 30, 2017 to June 30, 2018



A diagram of Polish Open Pension Funds ("OFE") total shareholding in Orange Polska S.A. as of the end of 2017 and previous years is shown below. The figures indicate that a stake held by these Funds in Orange Polska's share capital has been growing since 2012 and at the end of 2017 was on the historically highest level.



On September 4, 2017, the Supervisory Board adopted the Incentive Programme ("the Programme") for the Management Board Members, Executive Directors and key managers of Orange Polska S.A., including selected members of management boards of subsidiaries of Orange Polska S.A. ("the Participants"), which is based on derivative instruments ("phantom shares"), whose underlying asset is the Orange Polska S.A. share price on the regulated market operated by the Warsaw Stock Exchange.

The purpose of the Programme is to provide additional incentives to motivate senior managers to achieve mid-term commercial and financial objectives, resulting from Orange Polska's new strategy, which will lead to increasing the value of the Company's shares.

The terms of the Programme are as follows:

1. Participation in the programme shall be voluntary.
2. Until 31 October 2017 the Programme Participants could have purchased a total of up to 2,315,000 phantom shares from the basic pool for a price of PLN 1 per phantom share.
3. In case of meeting certain criteria described in the detailed Regulations of the Programme regarding the average price of Orange Polska shares and NPS (Net Promoter Score), the Participants shall purchase additional packages of up to 1,438,500 and 616,500 phantom shares, respectively.

4. Phantom shares shall be bought back from the Participants by the Company, at Orange Polska's average share price in the first quarter of 2021, only in the case it is not lower than the arithmetic mean of Orange Polska's closing share prices in the third quarter of 2017. Otherwise, phantom shares shall not be bought back, resulting in the loss of invested funds by the Participants.

More than 90% of managers have chosen to participate in the Programme.

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 Implementation of Orange Polska's New Strategy: *Orange.one*

In September 2017, Orange Polska announced *Orange.one*: new strategic plan for the years 2017–2020. According to the Company's strategic vision, Orange Polska aims to become Poland's telecommunications operator of first choice for consumers and businesses, while creating a corporate business model that will generate sustainable sales and profit growth. These objectives are to be achieved by developing unmatched quality of services and products, supported by comprehensive development of its fibre network and digital capabilities, and by increasing significantly its operational effectiveness and efficiency. *Orange.one* assumes continuation of the key efforts initiated by the action plan announced in February 2016, while giving them a new momentum. The key to success will be better execution, clearer focus and more speed and agility. All decisions will be influenced by long-term value creation and all customer propositions will be driven by simplicity and consistency.

In financial terms, the new strategic plan is to result in a gradual improvement in trends of revenues and EBITDA and their sustainable growth from 2020. This will be supported mainly by concentration on the convergence strategy, monetisation of fibre network investments, development of complimentary business areas, focus on value generation and significant optimisation of underlying indirect costs. The plan provides for considerable capital expenditures to 2020, resulting mainly from intensive roll-out of the fibre network. As part of *Orange.one*, the Company published new business objectives and financial targets, which are presented in detail in section 3.2 above.

4.2 Business Opportunities in the Wholesale Market

In order to benefit from our investments made in mobile and fixed-line networks, we actively seek opportunities to improve return on these investments by establishing wholesale co-operation with other operators.

Agreement with T-Mobile regarding acces to Orange Polska fibre network

On 23 July 2018, Orange Polska and T-Mobile Polska signed an agreement on telecommunications access to Orange Polska's fibre network in the form of Bitstream Access ("BSA").

This wholesale co-operation will contribute to faster monetization of Orange Polska investments in the fibre network and promote fibre as superfast broadband technology in Poland. It will also maximize usage of Orange Polska infrastructure while avoiding fibre network overbuilding by other operators and accelerate convergence of telecom services in the Polish market based on fibre. No exclusivity is granted under the transaction and Orange Polska is open to negotiate wholesale access to its fibre network with other operators.

The key terms and conditions of the agreement were described in the current report of the Company No. 19/2018 dated 23 July 2018.

National roaming agreement with P4

In July 2017, we signed an annex to the national roaming agreement with P4. The annex changed the existing terms of co-operation, particularly by departing from per-minute or per-gigabyte charges in favour of specific service packages in the take-or-pay scheme, which guarantees a minimum income for Orange Polska. The annex provides for a four-year term of co-operation from July 2017. The agreement will enable better monetisation of the network investments carried out by Orange Polska by guaranteeing a minimum revenue of PLN 321 million over the four-year period, including PLN 110 million in 2018.

4.3 Infrastructure Development

Fixed Line

In 2015, the Company commenced massive development of FTTH lines. It has been continued in line with the medium term action plan. At the end of June 2018, above 2.9 million households in 116 Polish cities were connectable with our fibre network. The network roll-out has been maintained at a high rate of 1 million households and businesses annually, as it is one of the strategic priorities of the Company.

The number of households connectable to Orange Polska's VDSL network stood at over 5.2 million at the end of June 2018. VDSL range increased only 3% as compared to 2017, mainly due to the priority of the fibre network investments.

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 were concluded in 2016, 2017 and 2018. The

main benefits include quicker access to the fibre 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 2018, Orange Polska signed further such agreements. Under this scheme, we have been already using the infrastructure of 20 operators for more than 290,000 households. In the second half of 2018 and in subsequent years, Orange Polska intends to continue to acquire FTTH range from other operators, including fibre network developed in the Operational Programme "Digital Poland".

Orange Polska is Poland's largest wholesale service provider. In particular, the Company leases lines to other operators. Especially lines of capacity of 1 Gbps or more have been in great demand recently. In 2018, we have continued to build the nationwide OTN (Optical Transport Network) trunk lines in order to enhance accessibility and reduce time to deliver leased lines services. Our nationwide OTN consists of 26 transport nodes in Poland's biggest cities, providing for the aggregate network capacity of 2.6 Tbps.

Orange Polska is Poland's sole operator of a network to which all the regional Emergency Communication Centres (ECCs), answering calls to the emergency numbers 112 and 999, are connected. The process of adding the 997 number to these regional centres started in April 2018 and is scheduled for completion in December 2018. Furthermore, 90.39% of all emergency numbers in Poland (over 1,000 locations) are 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 reached 99.50% at the end of June 2018. This confirms very high quality of Orange Polska's fixed-line services.

Mobile

Orange Polska has been steadily increasing the number of its base stations and enhancing their capacity. In the first half of 2018, our customers got access to further 147 base stations. In consideration of the rapid growth of data transfer on the Orange mobile network and the biggest increase being reported in 4G LTE network (which grew nearly double in the first half of 2018 year-on-year), the LTE technology remains the top priority in our investments in mobile network. As a result, the 4G coverage for all bands was 99.8% of population on 97.7% of Poland's territory as of the end of June 2018. LTE services were provided by Orange Polska via 10,531 base stations. In 2018, in addition to gradually expanding the network coverage and capacity, Orange Polska focused on increasing the number of sites enabling spectrum aggregation, their number reaching 5,095 on June 30, 2018 (on December 31, 2017 was 3,916).

Furthermore, Orange Polska concluded an agreement with T-Mobile, effective on May 1, 2018, to allow better use of the available radio band resources and increase the capacity of the LTE 4G network by nearly 40% by 2020.

As a significant portion of the available spectrum is still allocated to older technologies, 2G and 3G, Orange Polska decided that in addition to building new stations and expanding its 4G LTE network based on the 800 MHz and 2600 MHz frequencies won in the auction, it will also optimise the use of its frequency resources. The first change involves the conversion of the 15 MHz frequency block in the 1800 MHz band, which is used jointly with T-Mobile, into two independent carriers of 10 MHz each. This will enable the Company to increase the capacity of its 4G LTE network within this band by approximately 1/3 in a short time. The second element of the spectrum refarming process will be to launch LTE services in the 2100 MHz band. Orange Polska will use 10 MHz currently allocated to 3G for this purpose. Both changes will allow aggregation of up to four carrier bands, which will translate into higher network capacity and transfer speed. The total bandwidth allocated to LTE services will increase to 45 MHz (from 33 MHz currently). At the same time, in order to maintain the quality of our 3G network, we will also convert the 4.2 MHz frequency block used jointly with T-Mobile for UMTS900 services into two independent carriers of 4.2 MHz each. The change in the spectrum usage in the 900 MHz band will be effected by the end of 2018, while the one in the 1800 MHz band will take place in 2019–2020.

The agreement with T-Mobile does not mean the end of co-operation under Networks!, but only a departure from co-operation in the bandwidth sharing model (Multi-Operator Core Network – MOCN). Both operators will continue to share infrastructure (access to the radio network) in the MORAN (Multi-Operator Radio Access Network) model. Developments of mobile and fibre networks are complementary processes, which aim to provide Orange Polska's customers with the highest quality services regardless of where they use them. It is also the basis for developing a convergent portfolio with its the flagship product Orange Love.

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

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 projects have been scheduled for implementation in 2017 and 2018.

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 implements 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 approximately 84% of eligible cost (according to co-financing agreements concluded by Orange Polska with "Digital Poland" Project Centre). According to contracts signed by the Company with subcontractors, co-financing accounts for approximately 70% of the total costs of network development. Over 363,000 households and 3,752 educational facilities are within the reach of the intended investments. The projects have been scheduled for implementation from 2017 to 2020.

4.5 Competition in the Telecommunications Market

Poland's mobile telecom market, with four main infrastructure-based players, is still highly competitive. In addition to price, which is slowly ceasing to be the key offer differentiator, other elements of the operator's offer, such as value-added services (access to music services or TV content), connectivity and customer care, are gaining importance. Price competition over recent years has led to a relative balance in market shares of the main players and reduced mobile service prices in Poland to one of the lowest levels within the European Union. In the first half of 2018, the strongest price pressure was exerted by MVNOs, which have been increasingly adding post-paid services to their service portfolio. The main infrastructure-based operators try to retain proper value proposition for customers, but owing to low prices they still affect market competitiveness.

In the competitive market, mobile operators have adopted various strategies for implementation of 'Roam Like at Home' (RLaH) regulations, which have been reflected in their roaming offers. Low price levels in the mobile market coupled with RLaH-related changes, resulting in losses, have forced operators to apply to UKE for surcharges on roaming services provided within the EU.

Households have become the main arena of competitive struggle in contrast to earlier competition for single customers. Therefore, the service portfolio of both Orange Polska and alternative operators includes a number of dedicated services 'for home', including non-core services, such as electricity supply, personal finance, gas supply, insurance or sale of household appliances.

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.

The market of Internet providers in Poland is still very fragmented, so further market consolidation and CATV operators' geographical expansion in smaller towns should be expected. These actions in combination with the intended fibre network roll-out by Orange Polska could result in even more fierce competition in the local markets where Orange Polska has had an established position.

Customers increasingly expect bundles of fixed line services (mainly broadband) and mobile services from the same provider, which forces operators to provide comprehensive convergent offers, particularly to incorporate an attractive mobile offer into their service portfolio. Hence, strategic alliances or mergers of CATV operators and mobile operators may be expected in the medium term. Such developments reduce the competitive advantage of the Group as the sole provider of the convergent offer in the mass market. In anticipation of such a scenario, Orange Polska has made its priority to enhance the existing convergent offer.

Increase in investments in the fibre infrastructure based on EU funds was another major market development in the first half of 2018. Owing to EU co-financing, such projects are possible even in low-urban areas, where investments in the fibre network have not been economically viable hitherto. From Orange Polska's perspective, development of the fibre infrastructure in less urban areas poses a major challenge to defend our market position, but at the same time a major opportunity to attract new customers to its retail offer by using the newly constructed networks on wholesale terms.

There are over 1.33 million households in the areas covered by the investments projects carried out in the Operational Programmes "Digital Poland" 1 & 2. These are largely areas out of reach of fixed line telecom networks or areas where provision of high-speed broadband service is not technically possible.

4.6 Pay TV Portfolio Development

As for development of Orange TV services, the first half of 2018 saw the continued implementation of the convergence strategy, of which pay TV is a major element, as well as further investments in quality 4K services. Penetration of TV services among convergent increased from 53% to 71% within the past 12 months.

4K TV was introduced by Orange in the beginning of 2017. This made Orange Polska the first nationwide operator to provide pay TV content at 4K resolution. Initially, the offer consisted of the Festival 4K channel as well as a video-on-demand catalogue of films, TV series and programmes. This was subsequently expanded to include the Eleven Sports 4K channel and Netflix, for which Orange set-top boxes offer unique 4K quality, quick downloading and stable video streaming. The latest investment in 4K involved the introduction of TVP 4K and Canal+ 4K channels during the 2018 FIFA World Cup.

4.7 Development of ICT Services

ICT, as an area of very high growth potential, has remained one of the priorities in Orange Polska's offer enhancement in 2018. The Group's strategy provides for the gradual expansion of the ICT portfolio by adding new solutions and technologies in both the service-based and project-based model. Our ICT strategy for 2018 provides for both growth in the areas with established market position (ICT infrastructure and cybersecurity) and further competence development in the area of specialist services related to software, data analysis, process automation and business digitisation and provided to the largest companies in Poland. 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 the first six months of 2018, sales of IT services and products increased by over 30% year-on-year, mainly as a result of excellent results of Integrated Solutions, an IT integrator focusing on IT Project for medium to large companies and the public sector. As a result of a double-digit growth of revenues in 2017 and subsequent successful sales in 2018, Integrated Solutions has become one of the largest IT integrators in Poland, as confirmed in *Computerworld* and *ITWiz* reports. The consistent implementation of the adopted ICT strategy has resulted in an increase in revenues in the areas related to both ICT infrastructure and business software. The main growth engines were projects involving provision of professional services to the largest companies sector and an increase in public procurement.

Another major factor positively affecting ICT revenues was strategic partnerships with Oracle, Cisco, Dell-EMC, Microsoft, HP Enterprise and Google. As part of the Group's co-operation with Oracle, Integrated Solutions became the first company in Poland to receive the status of Cloud Managed Service Provider in mid-2017. As a result, within a year the company implemented several large projects based on the Oracle technology, which improved its financial results. Furthermore, in the first half of 2018, Integrated Solutions signed new partnership agreements with Salesforce on marketing and customer management systems, as well as NICE and UiPath on process automation with RPA (Robotic Process Automation) technology. At the same time, Orange Polska works on expanding its own portfolio of IT infrastructure services in the SaaS model so as to maximise margins and effectively address customer needs to the greatest extent possible.

4.8 Evolution of the Group's Distribution Network

Customer preferences for contact channels evolve over time, but still a lot of customers use points of sale. Orange Polska has a chain of 740 POSs all over Poland (as of the end of June 2018), including 18 Smart Stores – large, modern outlets with a full product portfolio, where customers can try solutions for home. In the first half of 2018, we opened four additional Smart Stores (one in Gliwice and three in Warsaw).

Fiber Shops (portable outlets combining profile-raising and sales functions) are located in the vicinity of fibre investments. Currently, there are 38 such shops. Each of them operates up to six months after the network roll-out is completed in a given area; then, it is moved to another location. Fiber Shops enable us to effectively compete for customers with local cable operators.

If customers are interested in buying electronic equipment and choose one of Media Markt, Saturn or Media Expert electronics stores, they can purchase a device together with our service (e.g. a laptop with mobile broadband service).

On the www.orange.pl website, customers can check whether their homes are connectable to our fibre network, identify the nearest sales outlets, schedule a visit to a POS and, obviously, make a purchase (either by themselves or assisted). The portal features content customisation: customers are presented dedicated content depending on their actions and the services they use. We are developing customisation solutions based on machine learning and artificial intelligence technologies.

The 'My Orange' mobile app is increasingly popular among our customers. In 2018, we added several options, such as 'one click payment' with a credit card or BLIK, authentication with a fingerprint or face ID (for Iphone X only) and pre-paid top-ups after code scanning.

Our infoline consultants are at customer's disposal. Telesales consultants contact customers whose agreements are about to expire or for whom we have additional offers. Our agency chain was consolidated in the first half of 2018.

Customers are also offered direct contact with our active sales representatives. Typically, they operate in urban areas of our fibre investments. In connection with a considerable increase in investments in fibre infrastructure in residential districts of single-family houses, we developed the 'oneTeam' project, in which active sales people directly co-operate with technicians in selling fibre services in such areas in order to maximise customer satisfaction (NPS) and saturation.

We strive to ensure positive customer experience in any place and at any time, gradually implementing omnichannel solutions, which are based on close co-operation between all contact channels.

4.9 '5G for Poland' Strategy

On June 29, 2017, an Agreement for the '5G for Poland' Strategy was signed under the aegis of the Minister of Digital Affairs, with Orange Polska as one of the signatories. Orange Polska has been actively involved in the work of the task forces established pursuant to the Agreement. In January 2018, the Ministry of Digital Affairs released Draft Strategy '5G for Poland' for public consultation. It is assumed that the document will ultimately become an official development programme adopted by the Council of Ministers. The Draft Strategy provides for amending a number of regulations to facilitate quick and efficient implementation of the 5G network. The future of the 5G network implementation in Poland will depend on the issues related to release and allocation of mobile spectrum as well as changes in the electromagnetic field (EMF) emission standards. Both issues require amendments to legal regulations, which are preconditions for launching the 5G network implementation in Poland.

Orange Polska's representatives have been actively participating in the public consultation held by the Ministry of Digital Affairs and works carried out by the Office of Electronic Communications. It is our ambition to take an active part in the 5G network implementation in Poland and provide our customers with access to the 5G network and modern services based on this technology. We have continued our 5G launch preparations. The ongoing intensive roll-out of our fibre network is a precondition of the efficient operation of the 5G mobile network. Furthermore, in June 2018, Orange Polska and the supplier tested the Cloud RAN architecture, which will be used for smooth migration to 5G. The tests of 5G services are scheduled to begin in 2019.

4.10 Regulatory Environment

The telecommunications market in Poland is subject to sector-specific regulations, which are adopted on the European Union level and subsequently transposed to domestic legislation. The market oversight is performed by the local regulatory agency, Office of Electronic Communications (UKE). According to a general rule, the telecom market is divided into individual retail and wholesale service markets referred to as 'relevant markets'. UKE reviews the competitiveness of each of these markets and, based on the results of the review, determines the required extent of regulation. Orange Polska S.A. has been designated as an operator having significant market power (SMP) and has been imposed regulatory obligations with respect to certain telecom market segments. These regulatory restrictions significantly affect some of the services we provide. In the mobile market, Orange Polska S.A. and the other major operators are subject to the same regulations.

As we provide services to millions of customers, our business activity is monitored by the Office for Competition and Consumer Protection (UOKiK), mainly for proper protection of consumer rights.

Furthermore, as a company we have to comply with administrative decisions and general regulations.

Regulatory Obligations

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

Orange Polska S.A. is also an 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.A.'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 high quality access services at a fixed location, up to 2 Mbps;
- market for call termination on Orange Polska S.A.'s mobile network (MTRs); and
- market for wholesale broadband access (BSA) services, excluding 76 local administrative units (*communes*), where the market was recognised as competitive.

In February 2018, the Court of Appeal decided to repeal the President of UKE's disposition of October 7, 2014, which recognised effective competition on the market for wholesale broadband access services (market 5/2007; BSA) in 76 communes. The Court of Appeal's decision was based exclusively on formal grounds, namely that a disposition rather than an administrative decision had been issued.

Other deregulation decisions remain in force, namely a decision recognising Orange Polska as an SMP operator in the remaining territory (excluding 76 communes) and a decision on expiration of the previous

decision (issued in 2011) recognising Orange Polska as an SMP operator in almost the entire territory of Poland. The decision of the Court of Appeal does not affect the conditions of Orange Polska's operations in 76 communes.

Each SMP decision of the President of UKE's determines specific Orange Polska obligations with respect to the given relevant market, particularly an obligation to prepare regulatory accounting statements and costing description (for BSA service only), which are to be verified by independent auditors.

Potential Regulatory Changes

Regulations affecting Orange Polska S.A. are subject to periodical reviews in order to adjust them to the current market needs and the existing competitive environment. At present, the regulator is reviewing the following areas:

- markets for call termination on a fixed network with respect to networks operated by Orange Polska S.A. and 74 other telecommunication operators – UKE has released its draft decisions determining the regulatory obligations of all operators, including a symmetric FTR of PLN 0.32, for consultation; the new rate is expected to become effective for both Orange Polska and alternative operators as from the date of delivery of the relevant decision, but not before January 1, 2019;
- retail markets for provision of access services to a fixed network – draft deregulation decisions have been released for consultation; the final decisions are expected in the second half of 2018;
- wholesale market for call origination on a fixed network, which includes the WLR service – a draft deregulation decision has been released for consultation; the final decision, which is expected in the second half of 2018, is to provide for a two-year transitional period. At the same time, UKE has demanded a change in the WLR rate charged by Orange Polska. A draft proposal submitted by the Company provides for a reduction of the WLR rate from PLN 20.05 to PLN 18.82. The proceedings have reached the consultation stage and the relevant decision is expected in the second half of 2018;
- market for wholesale broadband access services (BSA) and wholesale market for provision of access to network infrastructure (LLU) – the proceedings have reached the market analysis stage.

In addition, UKE has been working on regulations concerning access to outdoor and indoor cable ducts as well as indoor cables. These regulations will cover not only Orange Polska, but also other operators. It is expected that regulatory obligations may be imposed also on CATV operators, especially the largest ones, such as UPC, Vectra, Inea and Toya. The President of UKE intends to impose regulations concerning access to technical infrastructure on these players; moreover, imposition of regulatory measures on the largest CATV operators in the BSA or LLU markets is also possible.

In the course of works on the European Electronic Communications Code, it was postulated to regulate international calls. Following a compromise agreement between the European Parliament and the Council reached in June 2018, it was proposed that international rates should not exceed EUR 0.19 per minute for calls and EUR 0.06 per SMS message. The regulation is to apply to consumers only and is to come into force for five years starting from May 15, 2019. Works on the draft Code are expected to be completed at the end of the third quarter or beginning of the fourth quarter of 2018.

Compensation for Universal Service Costs

From 2006 to 2011, Orange Polska S.A. was an operator designated to provide the universal service, which included access to a fixed network, domestic and international calls (including dial-up and fax services), payphone service and directory inquiry service. Owing to unprofitability of the universal service, Orange Polska S.A. applied to UKE for compensation, which is paid pro rata by all operators with revenues of more than PLN 4 million in the calendar year for which the compensation is due.

Orange Polska S.A. also participates in compensating the deficit. Its share is typically about 41%. Furthermore, with respect to some operators, Orange Polska S.A. has reached agreements regulating the issue of mutual settlements on the account of the universal service obligation.

Between 2007 and 2012, the President of UKE issued decisions granting compensation lower than requested by Orange Polska S.A. Therefore, the Company exercised its right to appeal. Courts did not agree with UKE's arguments for partly rejecting compensation to Orange Polska S.A. and obligated UKE to re-examine the case. Following administrative courts' rulings, UKE initiated administrative proceedings regarding additional compensation for the universal service net cost deficit provision in 2006–2010. In September 2017, the President of UKE issued two decisions, granting to the Company additional compensation of PLN 45 million for 2006 and PLN 47 million for 2007. These amounts include a share contributed by Orange Polska S.A. itself. The decisions are final, but have been challenged in an administrative court by other operators. At present, it is difficult to assess when the cases will be decided and what amounts and when will be paid to Orange Polska S.A.

At the same time, procedures to determine the share of individual operators in the compensation of the universal service net cost deficit for 2009–2011 are pending. The President of UKE first determines a list of operators to share in the compensation for particular years, and then their share in the compensation by way of individual decisions. Operators have the right to appeal against such decisions. The majority of individual

decisions for 2009–2010 have been issued, and some operators have already paid the relevant amounts. The proceedings related to individual decisions for 2011 are pending.

In the first six months of 2018, Orange Polska S.A. collected deficit refinancing in the amount of PLN 0.1 million for 2008, PLN 13 million for 2009 and PLN 11.4 million for 2010. Subsequent payments for 2008 and 2009 are expected in the second half of 2018, while compensation for 2011 is expected to be collected in the first half of 2019.

Major Changes in Legislation

In 2018, 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 May 25, 2018, new provisions regulating the protection of personal data of Europeans came into force, namely the Regulation (EU) 2016/679 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, and repealing Directive 95/46/EC (General Data Protection Regulation – GDPR) and, within the national context, the new Act on personal data protection;
- On June 11, 2018, the Act of May 10, 2018 amending the Telecommunications Law and some other acts was promulgated. Its key provisions will come into force on December 12, 2018. The Act introduces changes related to some solutions for digitisation of customer service and reporting processes and imposes new restrictions and obligations for premium rate services. In addition, pursuant to amendments to crisis management regulations, operators will have an obligation to distribute warning messages. Furthermore, the 450 MHz spectrum has been allocated for the energy sector;
- On June 20, 2018, the amendment to the Act on payment services, implementing the PSD2 Directive, came into force. It has introduced exclusions (with limits) for payment transactions executed by telecom providers on behalf of end users in addition to telecommunications services. These provisions should be implemented by December 20, 2018.

The following bills which may affect Orange Polska are currently at various stages of the legislative process:

- The Ministry of Digital Affairs has initiated works on another amendment to the Telecommunications Law and the Act on TV and radio broadcasting, which will change the spectrum management regulations. There are also ongoing legislative works on the draft Act on the national cybersecurity system, which will implement the Directive of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union (the NIS Directive) and introduce additional IT security solutions. The purpose of the new act is to establish and regulate the functioning of the national cybersecurity system, particularly determine the rights and obligations of service providers in the ICT market in Poland.
- The Ministry of Finance is working on an amendment to the Act on tax on goods and services (VAT), which will implement the Directive (EU) 2016/1065 amending Directive 2006/112/EC as regards the treatment of vouchers (for goods and services). The regulations concerning single-purpose and multi-purpose vouchers will apply to telecommunication services provided in the pre-paid card model.

EU Law

- EU institutions are about to complete works on a fundamental revision of the package of telecom directives, i.e. the European Electronic Communications Code. The Code will include revised regulations on access to infrastructure, radio spectrum management, electronic communications services, universal service and competences of the relevant institutions. It will also regulate intra-EU international calls by introducing uniform fixed and mobile termination rates.
- The discussions between Member States in the EU Council regarding the Regulation on privacy and electronic communications (ePrivacy) are pending.

4.11 Claims and Disputes, Fines and Proceedings

Please see Note 28 to the Consolidated Full-Year Financial Statements for 2017 and Note 13 to the Condensed IFRS Interim Consolidated Financial Statements for the first six months of 2018 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 S.A.

CHAPTER III ORGANISATION AND CORPORATE STRUCTURE

5 ORGANISATIONAL CHANGES IN THE FIRST HALF OF 2018

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

In the first half of 2018, there were changes in the corporate structure of the following functions:

Transformation and Effectiveness, Carriers Market, Business Market, Consumer Market, Customer Excellence, Networks and Technology, and Corporate Affairs.

The changes aimed at improving the efficiency of these functions and addressing business needs.

5.1.1 Management Board of Orange Polska S.A.

As of June 30, 2018, the Management Board was composed of six Members, who have been assigned the direct supervision over the following Company's matters:

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

On February 7, 2018: the Supervisory Board of Orange Polska reappointed Ms. Bożena Leśniewska and Ms. Jolanta Dudek for the next terms of office as members of the Management Board. The renewals were made before the expiration of the current terms of office. The new terms of office started on the day of the Annual General Meeting that accepted the financial statements of Orange Polska for 2017, i.e. on April 20, 2018, and would last three years.

5.1.2 Business Units of Orange Polska S.A.

As of June 30, 2018, Orange Polska had 83 business units, reporting directly to:

President of the Management Board: 1 business unit;
Management Board Member in charge of Customer Experience: 8 business units;
Executive Officer in charge of IT: 8 business units;
Executive Director in charge of Carriers Market: 7 business units;
Executive Officer in charge of Networks and Technology: 13 business units;
Executive Director in charge of Transformation and Effectiveness: 2 business units;
Vice President of the Management Board in charge of Business Market: 7 business units;
Vice President of the Management Board in charge of Consumer Market: 10 business units;
Management Board Member in charge of Human Resources: 12 business units;
Management Board Member in charge of Finance: 9 business units; and
Executive Officer in charge of Corporate Affairs: 6 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 2018.

5.2 Ownership Changes in the Group in the First Half of 2018

The Group effected no ownership changes in the first half of 2018.

5.3 Orange Polska Shareholders

As of June 30, 2018, 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 24, 2018 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 24, 2018, 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 SA is one of the world's foremost telecommunications operators, with a turnover of over €41 billion at the end of 2017. Present in 28 countries, the Orange Group serves over 211 million customers all over the world (as of the end of 2017). Its broadband customer base exceeded 19.5 million and its convergent customer base exceeded 10.3 million. The TV customer base was over 9 million. Orange SA is also the leading provider of global IT and telecommunication services to multinational corporations under its brand Orange Business Services. Orange SA is listed on the Euronext Paris (ORA) and the New York Stock Exchange (ORAN).

As of June 30, 2018, the Company had no information regarding valid agreements or other events that could result in changes in the proportions of shares held by the shareholders.

Orange Polska S.A. did not issue any employee shares in the first half of 2018.

6 GROUP'S STRUCTURE AS OF JUNE 30, 2018

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 on June 30, 2018:

- | | |
|----------------------------|-------------------------------|
| 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. Jolanta Dudek | - Board Member |
| 5. Jacek Kowalski | - Board Member |
| 6. Maciej Nowohoński | - Board Member |

Composition of the Supervisory Board and its Committees and changes thereof in the first half of 2018

Composition on June 30, 2018:

- | | |
|---------------------------------|---|
| 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. Thierry Bonhomme | - Board Member |
| 6. Federico Colom Artola | - 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. Jean-Marc Vignolles | - Board Member |

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.

On April 20, 2018, the mandates of Ms. Henryka Bochniarz, Mr. Jean-Marie Culpin, Mr. Ramon Fernandez, Ms. Maria Pasło-Wiśniewska, Mr. Wiesław Rozłucki and Ms. Valérie Théron expired. On the same day, Ms. Henryka Bochniarz, Mr. Thierry Bonhomme, Mr. Ramon Fernandez, Ms. Maria Pasło-Wiśniewska, Mr. Wiesław Rozłucki and Mr. Jean-Marc Vignolles were appointed by the Annual General Assembly as Members of the Supervisory Board.

Composition of the Committees of the Supervisory Board on June 30, 2018:

The Audit Committee

1. John Russell Houlden – Chairman
2. Federico Colom Artola
3. Prof. Michał Kleiber
4. Dr. Maria Pasło-Wiśniewska
5. 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. Thierry Bonhomme
3. Dr. Maria Pasło-Wiśniewska
4. Marc Ricau

The Strategy Committee

1. Jean-Marc Vignolles – Chairman
2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Prof. Michał Kleiber
5. Patrice Lambert-de Diesbach

6. Dr. Maria Paśo-Wiśniewska
7. Gervais Pellissier

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 24, 2018:

- Mr. Jean-François Fallacher, President of the Management Board, held 25,000 shares of Orange Polska S.A.
- Mr. Maciej Nowohoński, Member of the Management Board, held 25,000 shares of Orange Polska S.A.
- Ms. Jolanta Dudek, Member of the Management Board, held 8,474 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 24, 2018.

Shares held in related entities:

Jean-François Fallacher	1 share of Orange Money IFN S.A. of par value of RON 10
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
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 24, 2018, 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.

Shares held in related entities:

Gervais Pellissier	34.527	shares of Orange S.A. of par value of €4 each
Gervais Pellissier	1	share of Orange Horizons of par value of €10
Marc Ricau	10.315	shares of Orange S.A. of par value of €4 each
Thierry Bonhomme	7.692	shares of Orange S.A. of par value of €4 each
Federico Colom Artola	4.121	shares of Orange S.A. of par value of €4 each
Eric Debroeck	5.533	shares of Orange S.A. of par value of €4 each
Ramon Fernandez	1.524	shares of Orange S.A. of par value of €4 each
Ramon Fernandez	1	share of Orange Maroc of par value of 100 Dirhams

6.1.2 General Assembly

On April 20, 2018, the Annual General Meeting among others:

- approved the Management Board's Report on the activity of Orange Polska S.A. and the Orange Polska Group in the 2017 financial year;
- approved Orange Polska S.A. financial statements for the 2017 financial year;
- approved the consolidated financial statements for the 2017 financial year;
- granted approval of the performance of their duties by members of Orange Polska S.A.'s governing bodies in the financial year 2017;
- amended the Company's Articles of Association;
- did not adopt a resolution on a dividend payment in 2018, prioritising investment in long-term value creation and taking into account potential payment of EC fine.

6.2 Workforce

As of June 30, 2018, Orange Polska employed 13,730 people (in full-time equivalents), which is a decrease of 5.9% compared to the end of December 2017.

Orange Polska's workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2018–2019. Pursuant to the Social Agreement, 997 employees left the Company in the first six months of 2018, 97% of whom under the voluntary departure programme. In the first half of 2018, severance pay in Orange Polska S.A. averaged PLN 76.4 thousand per employee.

In the first six months of 2018, external recruitment in Orange Polska totalled 188 positions. External recruitment was mainly related to sale positions and customer service staff.

6.2.1 New Social Agreement

On December 5, 2017, the Management Board of Orange Polska concluded negotiations with the Social Partners on the terms of a new Social Agreement. This will remain in force for the next two years, that is 2018–2019. In parallel to negotiating the Social Agreement, Orange Polska completed negotiations on a Settlement for 2018 under the Act of 13 March 2003 on special rules on termination of employment for reasons not attributable to employees (Journal of Law of 2016, item 1474).

In particular, the Social Agreement for 2018–2019 sets the number of voluntary departures in the next two years at 2,680 people and determines a financial package for employees leaving Orange Polska under the voluntary departure scheme. It also provides for potential basic salary rises (2.5% in 2018 and 2019) and additional compensation for employees reaching retirement age, while specifying the position and role of internal mobility in supporting an allocation programme and offering participation in an outplacement programme to people whose employment contracts are to be terminated by the employer. In addition, the Social Agreement for 2018–2019 provides for the follow-up of the 'Friendly Work Environment' programme and continuation of medical coverage.

The negotiated Settlement sets the number of employees to leave Orange Polska in 2018 at 1,450 and determines the terms of voluntary departures in 2018 as well as the amount of severance pay and additional compensation for employees departing in 2018. The Settlement also specifies the rules and selection criteria to be applied to people whose employment will be terminated by the employer for reasons not attributable to employees.

The amount of compensation package per departing employee will depend on their seniority in the Group in accordance with the Intragroup Collective Labour Agreement and will be increased in 2018 by additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 10,000 for employees with seniority of 15 to 20 years or PLN 26,000 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 S.A. compared to the state of affairs presented in the Chapter IV of the Management Board's Report for 2017.

Please see Note 28 to the IFRS Consolidated Full-Year Financial Statements for 2017 and Note 13 to the Condensed IFRS Interim Consolidated Financial Statements for the first half of 2018 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. Jolanta Dudek - Board Member in charge of Customer Care and Customers Excellence
5. Jacek Kowalski - Board Member in charge of Human Resources
6. 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 announced on February 20, 2018 in the current report 4/2018, the Group forecasts the restated EBITDA in 2018 to be around PLN 3.0 billion under an old accounting standard (IAS18) or around PLN 2.75 billion under a new accounting standard (IFRS15). The Management Board of Orange Polska S.A. confirms the above-mentioned forecast based on the analysis of financial results for the first six months ended June 30, 2018.

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)
- ARPO** – Average Revenues per Offer
- 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** (or Office Zone for business customers) – area within range of predefined base stations which cover the particular location (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
- VHBB** – Very high speed broadband, above 30 Mbps
- VoIP** – Voice over Internet Protocol
- Wireless for fixed** – LTE broadband access offers dedicated to use within the Home/Office Zone, consisting of a fixed router (Home Zone) plus large or unlimited data packages, which are a substitute for fixed broadband and are provided by all mobile operators in Poland, including Orange Polska.
- WLL** – Wireless Local Loop
- WLR** – Wholesale Line Rental