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POLISH FINANCIAL SUPERVISION AUTHORITY

Quarterly consolidated report for the first quarter of 2019

(year)

(according to par. 60 s. 2 and par. 62 s. 1 of the Decree on current and periodic information)
for the issuers in sectors of production, construction, trade or services

for the first quarter of 2019, i.e. from 1 January 2019 to 31 March 2019

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: 29 April 2019

ORANGE POLSKA SA
(full name of issuer)

ORANGEPL
(abbreviated name of the issuer)

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(classification according to WSE/sector)

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SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	1 quarter cumulative period from 01/01/2019 to 31/03/2019	1 quarter cumulative period from 01/01/2018 to 31/03/2018	1 quarter cumulative period from 01/01/2019 to 31/03/2019	1 quarter cumulative period from 01/01/2018 to 31/03/2018
condensed consolidated financial statements data				
I. Revenue	2 778 000	2 710 000	646 377	648 574
II. Operating income	71 000	33 000	16 520	7 898
III. Loss before income tax	(3 000)	(53 000)	(698)	(12 684)
IV. Net loss	(2 000)	(50 000)	(465)	(11 966)
V. Net loss attributable to owners of Orange Polska S.A.	(2 000)	(50 000)	(465)	(11 966)
VI. Loss per share (in PLN/EUR)	-	(0.04)	-	(0.01)
VII. Weighted average number of shares (in millions)	1 312	1 312	1 312	1 312
VIII. Total comprehensive loss	(9 000)	(60 000)	(2 094)	(14 360)
IX. Total comprehensive loss attributable to owners of Orange Polska S.A.	(9 000)	(60 000)	(2 094)	(14 360)
X. Net cash provided by operating activities	529 000	382 000	123 086	91 423
XI. Net cash used in investing activities	(587 000)	(538 000)	(136 582)	(128 758)
XII. Net cash provided by/(used in) financing activities	(200 000)	56 000	(46 535)	13 402
XIII. Net change in cash and cash equivalents	(258 000)	(100 000)	(60 031)	(23 933)
	balance as at 31/03/2019	balance as at 31/12/2018	balance as at 31/03/2019	balance as at 31/12/2018
XIV. Total current assets	3 529 000	3 969 000	820 450	923 023
XV. Total non-current assets	20 482 000	19 326 000	4 761 816	4 494 419
XVI. Total assets	24 011 000	23 295 000	5 582 266	5 417 442
XVII. Total current liabilities	5 866 000	5 946 000	1 363 774	1 382 791
XVIII. Total non-current liabilities	7 651 000	6 846 000	1 778 765	1 592 093
XIX. Total equity	10 494 000	10 503 000	2 439 727	2 442 558
XX. Equity attributable to owners of Orange Polska S.A.	10 492 000	10 501 000	2 439 263	2 442 093
XXI. Share capital	3 937 000	3 937 000	915 305	915 581
condensed separate financial statements data				
	1 quarter cumulative period from 01/01/2019 to 31/03/2019	1 quarter cumulative period from 01/01/2018 to 31/03/2018	1 quarter cumulative period from 01/01/2019 to 31/03/2019	1 quarter cumulative period from 01/01/2018 to 31/03/2018
I. Revenue	2 643 000	2 616 000	614 966	626 077
II. Operating income	68 000	35 000	15 822	8 376
III. Loss before income tax	(5 000)	(51 000)	(1 163)	(12 206)
IV. Net loss	(3 000)	(49 000)	(698)	(11 727)
V. Loss per share (in PLN/EUR)	-	(0.04)	-	(0.01)
VI. Weighted average number of shares (in millions)	1 312	1 312	1 312	1 312
VII. Total comprehensive loss	(10 000)	(59 000)	(2 327)	(14 120)
VIII. Net cash provided by operating activities	531 000	409 000	123 552	97 884
IX. Net cash used in investing activities	(553 000)	(537 000)	(128 671)	(128 518)
X. Net cash provided by/(used in) financing activities	(226 000)	57 000	(52 585)	13 642
XI. Net change in cash and cash equivalents	(248 000)	(71 000)	(57 704)	(16 992)
	balance as at 31/03/2019	balance as at 31/12/2018	balance as at 31/03/2019	balance as at 31/12/2018
XII. Total current assets	3 353 000	3 758 000	779 532	873 953
XIII. Total non-current assets	20 481 000	19 333 000	4 761 583	4 496 047
XIV. Total assets	23 834 000	23 091 000	5 541 115	5 370 000
XV. Total current liabilities	5 820 000	5 856 000	1 353 079	1 361 860
XVI. Total non-current liabilities	7 585 000	6 796 000	1 763 420	1 580 465
XVII. Total equity	10 429 000	10 439 000	2 424 616	2 427 675
XVIII. Share capital	3 937 000	3 937 000	915 305	915 581

ORANGE POLSKA GROUP

CONDENSED IFRS QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2019

April 29, 2019

Contents

CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for loss per share)	Note	*3 months ended* *31 March 2019* *IFRS 16 basis*	*31 March 2018* *IAS 17 basis* *(see Note 3.2)*
Revenue	**5**	**2,778**	**2,710**
External purchases		(1,570)	(1,549)
Labour expense		(401)	(432)
Other operating expense		(107)	(115)
Other operating income		53	64
Impairment of receivables and contract assets		(32)	(23)
Gains on disposal of assets		4	19
Amortisation and impairment of right-of-use assets		(71)	-
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets, including:	7	(583)	(641)
- depreciation of property, plant and equipment financed by finance lease		-	*(9)*
Operating income		**71**	**33**
Interest income		10	8
Interest expense on lease liabilities		(10)	(1)
Other interest expense and financial charges		(60)	(69)
Discounting expense		(14)	(24)
Finance costs, net		**(74)**	**(86)**
Income tax		1	3
Net loss		**(2)**	**(50)**
Net loss attributable to owners of Orange Polska S.A.		(2)	(50)
Net loss attributable to non-controlling interests		-	-
Loss per share (in PLN)		**-**	**(0.04)**
Weighted average number of shares (in millions)		1,312	1,312

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)	*3 months ended* *31 March 2019* *IFRS 16 basis*	*31 March 2018* *IAS 17 basis*
Net loss	**(2)**	**(50)**
Items that may be reclassified subsequently to profit or loss		
Losses on cash flow hedges	(9)	(12)
Income tax relating to items that may be reclassified	2	2
Other comprehensive loss, net of tax	**(7)**	**(10)**
Total comprehensive loss	**(9)**	**(60)**
Total comprehensive loss attributable to owners of Orange Polska S.A.	(9)	(60)
Total comprehensive loss attributable to non-controlling interests	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*Note*	*At 31 March 2019 IFRS 16 basis*	*At 31 December 2018 IAS 17 basis (see Note 3.2)*
ASSETS			
Goodwill		2,147	2,147
Other intangible assets		4,755	4,871
Property, plant and equipment		10,261	10,738
Right-of-use assets	3	1,698	-
Trade receivables		549	552
Contract assets		88	27
Contract costs		62	56
Derivatives	8	42	48
Other assets		62	53
Deferred tax assets		818	834
Total non-current assets		**20,482**	**19,326**
Inventories		228	240
Trade receivables		2,366	2,371
Contract assets		67	138
Contract costs		296	297
Derivatives	8	42	52
Other assets		98	214
Prepaid expenses		79	46
Cash and cash equivalents	8	353	611
Total current assets		**3,529**	**3,969**
TOTAL ASSETS		**24,011**	**23,295**
EQUITY AND LIABILITIES			
Share capital		3,937	3,937
Share premium		832	832
Other reserves		(66)	(58)
Retained earnings		5,789	5,790
Equity attributable to owners of Orange Polska S.A.		**10,492**	**10,501**
Non-controlling interests		2	2
Total equity		**10,494**	**10,503**
Trade payables	9	471	473
Lease liabilities	3	1,123	112
Loans from related party	8	5,059	5,258
Other financial liabilities at amortised cost	8	10	11
Derivatives	8	40	31
Provisions		456	468
Contract liabilities		330	331
Employee benefits		130	136
Other liabilities		32	26
Total non-current liabilities		**7,651**	**6,846**
Trade payables	7,9	2,129	2,469
Lease liabilities	3	309	66
Loans from related party	8	2,073	2,074
Other financial liabilities at amortised cost	8	78	10
Derivatives	8	18	19
Provisions	11	209	217
Contract liabilities		470	460
Employee benefits		206	201
Income tax liabilities		19	54
Other liabilities		355	376
Total current liabilities		**5,866**	**5,946**
TOTAL EQUITY AND LIABILITIES		**24,011**	**23,295**

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
			Cash flow hedge reserve	Actuarial losses on post-employment benefits	Deferred tax				
Balance at 1 January 2019	**3,937**	**832**	**(20)**	**(51)**	**13**	**5,790**	**10,501**	**2**	**10,503**
Total comprehensive loss for the 3 months ended 31 March 2019	-	-	(9)	-	2	(2)	(9)	-	(9)
Share-based payments	-	-	-	-	-	1	1	-	1
Transfer to inventories	-	-	(1)	-	-	-	(1)	-	(1)
Balance at 31 March 2019	**3,937**	**832**	**(30)**	**(51)**	**15**	**5,789**	**10,492**	**2**	**10,494**
Balance at 1 January 2018	**3,937**	**832**	**(2)**	**(47)**	**9**	**5,779**	**10,508**	**2**	**10,510**
Total comprehensive loss for the 3 months ended 31 March 2018	-	-	(12)	-	2	(50)	(60)	-	(60)
Balance at 31 March 2018	**3,937**	**832**	**(14)**	**(47)**	**11**	**5,729**	**10,448**	**2**	**10,450**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)		*3 months ended*	
		31 March 2019	*31 March 2018*
		IFRS 16 basis	*IAS 17 basis*
	Note		*(see Note 3.2)*
OPERATING ACTIVITIES			
Net loss		(2)	(50)
Adjustments to reconcile net loss to cash from operating activities			
Gains on disposal of assets		(4)	(19)
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets		654	641
Finance costs, net		74	86
Income tax		(1)	(3)
Change in provisions and allowances		(27)	(10)
Operational foreign exchange and derivatives gains, net		(1)	(2)
Change in working capital			
(Increase)/decrease in inventories, gross		3	(8)
(Increase)/decrease in trade receivables, gross		27	(29)
Decrease in contract assets, gross		10	53
(Increase)/decrease in contract costs		(5)	23
Decrease in trade payables		(139)	(188)
Increase/(decrease) in contract liabilities		9	(17)
Increase in prepaid expenses and other receivables		(13)	(47)
Increase in other payables		7	9
Interest received		10	8
Interest paid and interest rate effect paid on derivatives, net		(52)	(47)
Exchange rate effect paid on derivatives, net		-	(17)
Income tax paid		(21)	(1)
Net cash provided by operating activities		**529**	**382**
INVESTING ACTIVITIES			
Payments for purchases of property, plant and equipment and intangible assets		(664)	(565)
Investment grants paid to property, plant and equipment and intangible assets suppliers		(26)	(3)
Exchange rate effect paid on derivatives economically hedging capital expenditures, net		-	(1)
Proceeds from sale of property, plant and equipment and intangible assets		103	32
Payments on other financial instruments		-	(1)
Net cash used in investing activities		**(587)**	**(538)**
FINANCING ACTIVITIES			
Repayment of lease liabilities		(67)	(7)
Increase/(decrease) in revolving credit line and other debt	8	(133)	64
Exchange rate effect paid on derivatives hedging debt, net		-	(1)
Net cash provided by/(used in) financing activities		**(200)**	**56**
Net change in cash and cash equivalents		**(258)**	**(100)**
Cash and cash equivalents at the beginning of the period		611	646
Cash and cash equivalents at the end of the period		**353**	**546**

Notes to the Condensed Quarterly 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. The Group is a part of Orange Group based in France. 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 and sells electrical energy.

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

The list of entities included in the Condensed IFRS Quarterly Consolidated Financial Statements of the Group (the "Condensed Quarterly Consolidated Financial Statements") as at and for the 3 months ended 31 March 2019 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 2018.

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 a consolidated basis. Starting from 2019, following the adoption of IFRS 16 "Leases" (see Note 3.2), the Group redefined the performance measures used. Segment performance is currently evaluated by the Management Board based on consolidated revenue, consolidated EBITDAaL, consolidated net income/loss, consolidated organic cash flows, consolidated capital expenditures, consolidated net financial debt and consolidated net financial debt to EBITDAaL ratio based on cumulative EBITDAaL for the last four quarters. Comparative amounts were adjusted accordingly.

Since the calculation of EBITDAaL, organic cash flows, capital expenditures and net financial debt is not defined by IFRS, these performance measures may not be comparable to similar indicators used by other entities. The methodology adopted by the Group is presented below.

Starting from 2019, EBITDAaL is the key measure of operating profitability used by the Management Board. The Group decided to replace EBITDA with EBITDAaL (EBITDA after leases) as EBITDA is no longer a relevant measure of operating profitability after the adoption of IFRS 16 because it excludes expenses related to leases.
EBITDAaL corresponds to operating income before depreciation, amortisation and impairment of property, plant and equipment and intangible assets, decreased by interest expense on lease liabilities and adjusted for the impact of deconsolidation of subsidiaries, employment termination programs, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items. Calculation of EBITDAaL for the 3 months ended 31 March 2019 and 2018 is presented in the table below.

Organic cash flows are the key measure of cash flow generation used by the Management Board. Starting from 2019, organic cash flows include repayment of capital of lease liabilities. Organic cash flows correspond to net cash provided by operating activities decreased by payments for purchases of property, plant and equipment and intangible assets and repayment of lease liabilities, increased by impact of net exchange rate effect received/paid on derivatives economically hedging capital expenditures and proceeds from sale of property, plant and equipment and intangible assets and adjusted for the payments for acquisition of telecommunications licences and payments relating to significant claims, litigation and other risks. Calculation of organic cash flows for the 3 months ended 31 March 2019 and 2018 is 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. Starting from 2019, this measure excludes capital expenditures financed by leases and is adjusted for the impact of acquisition of telecommunications licences.

Net financial debt and net financial debt to EBITDAaL ratio are the key measures of indebtedness and liquidity used by the Management Board. The calculation of net financial debt is presented in Note 8.

Additionally, to give a better representation of underlying performance, revenue from the Group's activities for the comparative period is adjusted for the impact of deconsolidation of subsidiaries.

Basic financial data of the operating segment is presented below:

(in PLN millions)	*3 months ended*	
	31 March 2019	*31 March 2018*
Revenue	2,778	2,708 [1]
EBITDAaL	643	659
Net loss	(2)	(50)
Organic cash flows	(99)	(159)
Capital expenditures	463	351 [2]

[1] Includes PLN (2) million of adjustment for the impact of deconsolidation of subsidiaries for Q1 2018.
[2] Excludes PLN 37 million of capital expenditures financed by finance leases in Q1 2018.

	At 31 March 2019	*At 31 December 2018*
Net financial debt (in PLN millions, see Note 8)	6,811	6,672
Net financial debt/EBITDAaL ratio	2.4	2.4

Calculation of performance measures of the operating segment is presented below:

(in PLN millions)	*3 months ended*	
	31 March 2019	*31 March 2018*
Operating income	71	33
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	583	641
Interest expense on lease liabilities	(10)	(1)
Estimation of IFRS 16 impact on operating leases for Q1 2018 [1]	-	(6)
Depreciation of property, plant and equipment financed by finance lease in Q1 2018	-	(9)
Adjustment for the impact of employment termination programs	(2)	-
Adjustment for the impact of deconsolidation of subsidiaries	1	1
EBITDAaL	**643**	**659**

[1] The difference between operating lease expense recognised under IAS 17 and corresponding amortisation of right-of-use assets and interest expense on lease liabilities that would be recognised under IFRS 16 (see Note 3.2). This impact is attributable to non-linear spread of interest expense over time and is estimated based on financial data for Q1 2019.

(in PLN millions)	*3 months ended*	
	31 March 2019	*31 March 2018*
Net cash provided by operating activities	529	382
Payments for purchases of property, plant and equipment and intangible assets	(664)	(565)
Exchange rate effect paid on derivatives economically hedging capital expenditures, net	-	(1)
Proceeds from sale of property, plant and equipment and intangible assets	103	32
Repayment of lease liabilities	(67)	(7)
Organic cash flows	**(99)**	**(159)**

3. Statement of compliance and basis of preparation

3.1. Basis of preparation

These unaudited Condensed Quarterly 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 Quarterly Consolidated Financial Statements (see also Note 4).

These Condensed Quarterly Consolidated Financial Statements should be read in conjunction with the audited IFRS Consolidated Financial Statements for the year ended 31 December 2018.

The Condensed Quarterly 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 quarterly financial statements only if it would also be appropriate to anticipate or defer such costs at the end of the year.

These Condensed Quarterly Consolidated Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 29 April 2019.

<u>Adoption of standards and interpretations in 2019</u>

The following standards and interpretations endorsed by the European Union were adopted by the Group as at 1 January 2019:
- IFRS 16 "Leases". This standard has been endorsed by the European Union on 31 October 2017 and it is applicable for financial years beginning on or after 1 January 2019.
- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". This interpretation was issued on 7 June 2017 and is effective for annual periods beginning on or after 1 January 2019. This interpretation has been endorsed by the European Union on 23 October 2018. There is no impact of the interpretation on the Group's financial statements.

3.2. Adoption of IFRS 16 "Leases"

IFRS 16 "Leases" establishes new accounting principles for reporting of lease contracts.

As at 1 January 2019 the Group has defined four major categories of lease contracts:
- real estate: points of sale, offices, perpetual usufruct of land;
- mobile network: land, technical premises, space on towers, chimneys, rooftops;
- fixed network: technical premises, limited property rights, access to the local loop, collocation, dark fiber contracts;
- other rentals: vehicles, technical equipment, data center.

The accounting presentation of lease contracts in the statement of financial position depends mainly on:
- the scope of contracts qualified as leases,
- the duration adopted for certain types of contracts,

which require significant judgment from the Company's Management Board. The Management Board reviews these estimates if the circumstances on which they were based evolve or in the light of new information or established market practice.

The lease duration corresponds to the non-cancellable period of the lease, periods covered by extension options that the Group is reasonably certain to exercise and termination options that the Group is reasonably certain not to exercise. The definition of the contract duration takes also into account the laws and practices specific to the Polish jurisdiction and specificity of Group's contracts. In particular, in case of indefinite period leases the Group adopts the notice period as the non-cancellable period of the lease. In case of indefinite period leases, most of notice periods in the Group are below 12 months and the Group adopted the short term leases exemption for these contracts. As a result, such contracts are treated as short term contracts and are not measured and presented on the balance sheet. For easements in buildings, where the Group located its telecommunication infrastructure, a lease duration is assessed as an average useful life of buildings in the Group.
None of the early termination options were assessed as at 1 January 2019 to be reasonably certain to be exercised. Contracts, for which the execution of extension options was assessed as probable, have immaterial impact on the measurement of the lease liability.

The impact of IFRS 16 adoption on the Group's accounts primarily relates to changes in lessee accounting and results in:

a) the accounting for all of lease contracts according to a single model in which an asset is recognised in the statement of financial position as an asset for the right to use the leased assets in correspondence with the liability related to the lease obligations;
b) recognising depreciation of the rights of use assets and interest charges related to the lease liability, instead of operating lease expenses;
c) the accelerated recognition of the expense related to leases, resulting in particular from the interest component.

The Group applied IFRS 16 as of 1 January 2019 using the modified retrospective method without restatement of comparative periods. As the Group decided to measure the right-of-use asset in the amount equal to the lease liability (effect of prepaid or accrued lease payments was negligible), there was no impact on equity as of 1 January 2019.

The Group decided to use the practical expedient as described in IFRS 16 C.10 (c) allowing not to apply the requirements defined in points (a) – (c) above to leases for which the lease term ends within 12 months of the date of the initial application.

The new accounting policy relating to leases applied by the Group from 1 January 2019 is presented in Note 4.1.

Adoption of IFRS 16 affected the consolidated statement of financial position as at 1 January 2019 as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*At 1 January 2019*		
	Before IFRS 16	*Impact of IFRS 16 adoption*	*After IFRS 16*
ASSETS			
Property, plant and equipment	10,738	(448)	10,290
Right-of-use assets	-	1,742	1,742
Total non-current assets	**19,326**	**1,294**	**20,620**
Total current assets	**3,969**	**-**	**3,969**
TOTAL ASSETS	**23,295**	**1,294**	**24,589**
EQUITY AND LIABILITIES			
Total equity	**10,503**	**-**	**10,503**
Lease liabilities	112	1,058	1,170
Total non-current liabilities	**6,846**	**1,058**	**7,904**
Lease liabilities	66	236	302
Total current liabilities	**5,946**	**236**	**6,182**
TOTAL EQUITY AND LIABILITIES	**23,295**	**1,294**	**24,589**

Additionally, as a consequence of IFRS 16 implementation, certain changes were made to the presentation in the consolidated financial statements, which had impact on the comparative data.

In the consolidated income statement and consolidated statement of cash flows two separate lines for depreciation and amortisation and impairment of fixed assets were consolidated into one line. Additionally, the Group presents currently interest expense on lease liabilities as a separate line item in the consolidated income statement. Previously, the Group presented these costs together with other interest expense and financial charges. The comparative amounts for the 3 months ended 31 March 2018 were changed accordingly, with no impact on operating income or net loss.

In the consolidated statement of financial position as at 31 December 2018, certain figures were reclassified to conform with the presentation as at 31 March 2019. Non-current and current lease liabilities were separated from other financial liabilities at amortised cost to new line items.

In the consolidated statement of cash flows two separate lines within cash flows from investing activities for purchases of property, plant and equipment and intangible assets and increase/decrease in amounts due to fixed assets suppliers were consolidated into one line presenting payments for purchases of property, plant and equipment and intangible assets. Additionally, repayment of lease liabilities was reclassified from repayment of long-term debt to a separate line item within cash flows from financing activities. Repayment of other long-term debt is now presented together with increase/decrease in revolving credit line and short-term debt. The comparative amounts were adjusted accordingly for the 3 months ended 31 March 2018, with no impact on net cash used in investing and financing activities.

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 Quarterly 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 2018.

4.1. Leases

IFRS 16 "Leases" establishes the principles for recognition, measurement, presentation and disclosure of lease contracts. A single lease accounting model was adopted if the Group acts as a lessee . If the Group acts as a lessor then it continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

The Group qualifies a contract as a lease as long as it gives the lessee the right to control the use of a particular asset. In order to qualify a contract as a lease, three main conditions shall be met:
– the contract shall convey the right to use an identified asset;
– the lessee shall obtain the economic benefits from use of this asset;
– the lessee obtains the right to direct the use of this asset throughout the period of the contract.

Group as a lessee

On the lessee's side the Group uses a single accounting model, in which the lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Group has chosen to apply two exemptions proposed by the standard and expense the following contracts:
– all contracts, except for contracts for vehicles, whose duration is less than 12 months;
– contracts where the value of the underlying asset is less than USD 5,000.

IFRS 16 lease term is determined in a range between the non-cancellable period and the end of the enforceable period. The non-cancellable period is the period during which neither the lessee nor the lessor have the ability to terminate the contract without paying any significant penalty fees. The enforceable period is the period taking into account all the options available for the Group to extend but not the options to terminate.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability.

The right-of-use asset is measured at cost which comprises:
– the amount of the initial measurement of the lease liability;
– any lease payments made at or before the commencement date, less any lease incentives received;
– any initial direct costs incurred by the lessee; and
– an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

At the date of initial application of IFRS 16, 1 January 2019, no significant lease prepayments and initial direct costs were identified.

After the commencement date, the Group measures the right-of-use asset applying a cost model, less any accumulated depreciation and any accumulated impairment losses, as well as any adjustments resulting from remeasurement of the lease liability.

The lease liability is measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the Group incremental borrowing rates as the rates implicit in the lease are not easily determinable. Discount rates adopted are based on Polish state bond yield, adjusted by credit spread observable for entities with similar credit rating. Discount rates are differentiated by duration and by currency, and not by class of assets.

The lease liability comprises the following payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

At the moment of initial application fixed and variable payments were identified in the lease contracts.

After the commencement date, the lease liability is increased to reflect interest on the lease liability and reduced to reflect the lease payments made, as well remeasured to reflect any reassessment or lease modification.
Only the lease component is taken into account in the measurement of the right-of-use asset and of the lease liability. Other non-lease components, like payments for utilities, are accounted for separately in accordance with other applicable accounting standards.

Group as a lessor

The Group continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Examples of situations that individually or in combination would lead to a lease being classified as a finance lease are as follows:

- the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the underlying asset at a price significantly lower than the fair value;
- the lease term is for the major part of the economic life of the underlying asset;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

5. Revenue

(in PLN millions)	*3 months ended 31 March 2019*	*3 months ended 31 March 2018*
Mobile only services	**640**	**686**
Fixed only services	**569**	**629**
Narrowband	244	285
Broadband	219	232
Network solutions (business market)	106	112
Convergent services (consumer market)	**369**	**291**
Equipment sales	**367**	**351**
IT and integration services	**147**	**112**
Wholesale	**560**	**579**
Mobile wholesale	310	312
Fixed wholesale	177	188
Other	73	79
Other revenue	**126**	**62**
Total revenue	**2,778**	**2,710**

Wholesale and other revenue for the 3 months ended 31 March 2019 include PLN 23 million of lease revenue that is outside the scope of IFRS 15 “Revenue from Contracts with Customers”.

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

The Group’s activities are subject to some seasonality. The fourth quarter is typically a peak sales season with 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.

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

From 2019, the Group extended the estimated useful lives for certain network assets and items of software which decreased the depreciation and amortisation expense by PLN 48 million in the 3 months ended 31 March 2019. Depreciation and amortisation expense in 2019 relating to these assets is expected to be lower by approximately PLN 192 million in comparison to 2018.

In 2018, the Company and T-Mobile Polska signed a long term contract on telecommunications access to Orange Polska’s fiber network in the form of Bitstream Access. OPL S.A. started providing services in December 2018. The fees under the contract comprise mainly a fixed upfront fee of PLN 275 million, a fixed fee for infrastructure set-up, IT systems integration and monthly fees for each customer. The revenue from the contract will be recognised during 15 years which is an estimated period of the contract. The Group applies input method to measure revenue for the period with the application of constraint in respect to recognition of revenue to the level that is highly probable not to be reversed in the future. In result, the fixed fee elements will be evenly accounted as revenue over 15 years, while the variable fees dependent on the number of end-customers will be recognised as revenue based on the actual number of customers in the period.

The amount of trade payables subject to reverse factoring decreased from PLN 232 million as at 31 December 2018 to PLN 192 million as at 31 March 2019. 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.

8. 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. Starting from 2019, following the adoption of IFRS 16 (see Note 3.2), the Group redefined net financial debt and currently the measure excludes lease liabilities. As a result, comparative amounts in this note were adjusted.

(in PLN millions)	*At 31 March 2019*	*At 31 December 2018*
Loans from related party	7,132	7,332
Other financial liabilities at amortised cost	88	21 [1]
Derivatives – net (liabilities less assets)	(26)	(50)
Gross financial debt after derivatives	**7,194**	**7,303** [1]
Cash and cash equivalents	(353)	(611)
Cash flow hedge reserve	(30)	(20)
Net financial debt	**6,811**	**6,672** [1]

[1] Excludes PLN 178 million of finance lease liabilities at 31 December 2018.

On 11 February 2019, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 1,500 million with repayment date in May 2024, which will refinance the Loan Agreement for EUR 480 million expiring in May 2019.

In the 3 months ended 31 March 2019, the net cash flows from issuance and repayments of the Revolving Credit Facility from Atlas Services Belgium S.A. amounted to PLN (200) million.

As at 31 March 2019, the total outstanding balance of loans from the related party amounted to PLN 7,132 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 2.00% before swaps and 3.56% after swaps as at 31 March 2019.

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 31 March 2019 was EUR 670 million and PLN 5,950 million, respectively, with a total fair value amounting to PLN 23 million.

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 Consolidated Financial Statements for the year ended 31 December 2018. 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 excluding lease liabilities approximates their fair value, except for telecommunications licence payables for which as at 31 March 2019 and 31 December 2018 the estimated fair value exceeded the carrying amount by PLN 83 million and PLN 84 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 24 April 2019 did not adopt a resolution on a dividend payment in 2019, 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 Consolidated Financial Statements for the year ended 31 December 2018 or describes major matters that occurred after 31 December 2018.

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 30 June 2019.

Proceedings by UOKiK related to retail prices of calls to Play
P4 Sp. z o.o. appealed the verdict of 27 December 2018 dismissing P4's claim for PLN 316 million in its entirety to the Appeal Court.

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. On 9 April 2019, the Supreme Court decided to examine UOKiK's cassation claim in those proceedings.

b. Other contingent liabilities and provisions

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

12. Related party transactions

As at 31 March 2019, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board.

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

Financial receivables, liabilities, finance costs, net and other comprehensive 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*	
	31 March 2019	*31 March 2018*
Sales of goods and services and other income:	**49**	**47**
Orange S.A. (parent)	32	28
Orange Group (excluding parent)	17	19
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(50)**	**(58)**
Orange S.A. (parent)	(9)	(17)
Orange Group (excluding parent)	(41)	(41)
- including Orange Brand Services Limited (brand licence agreement)	*(27)*	*(28)*
Finance costs, net:	**(57)**	**(60)**
Orange S.A. (parent)	(21)	(2)
Orange Group (excluding parent)	(36)	(58)
Other comprehensive loss:	**(10)**	**(17)**
Orange S.A. (parent)	(10)	(17)

(in PLN millions)	*At 31 March 2019*	*At 31 December 2018*
Receivables:	**83**	**86**
Orange S.A. (parent)	47	47
Orange Group (excluding parent)	36	39
Liabilities:	**99**	**96**
Orange S.A. (parent)	45	47
Orange Group (excluding parent)	54	49
Financial receivables:	**80**	**98**
Orange S.A. (parent)	80	98
Cash and cash equivalents deposited with:	**19**	**203**
Orange S.A. (parent)	19	203
Financial liabilities:	**7,189**	**7,380**
Orange S.A. (parent)	57	48
Orange Group (excluding parent)	7,132	7,332

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 3 months ended 31 March 2019 and 2018 amounted to PLN 4.8 million and PLN 4.0 million, respectively. The increase of compensation results from an increase of a number of the Members of the Management Board of OPL S.A.

13. Subsequent events

On 29 April 2019, Orange Polska and Tokajami Limited and Wellchosen Investments Limited have entered into a preliminary agreement ("the Agreement") based on which Orange Polska will acquire 100% shares in BlueSoft sp. z o.o. ("BlueSoft"). BlueSoft is providing multiple IT services in the areas with high-growth potential: application development and integration, system customization, analytics and cloud services. Total Enterprise Value of the acquired business and total transaction value according to the Agreement is expected to be around PLN 200 million. Out of this amount, around PLN 149 million will be paid upon signing of the final agreement. The remaining part will be settled before the end of 2022 and will be based on achieving certain financial targets of BlueSoft in 2019 and 2020 as well as on meeting certain other legal conditions. Acquisition will be financed by Orange Polska from own cash and available financing sources. Signing of the final agreement is subject to an approval of the antimonopoly authority.

ORANGE POLSKA S.A.

CONDENSED IFRS QUARTERLY SEPARATE FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2019

April 29, 2019

Contents

INCOME STATEMENT

(in PLN millions, except for loss per share)	Note	*3 months ended 31 March 2019 IFRS 16 basis*	*3 months ended 31 March 2018 IAS 17 basis (see Note 2.2)*
Revenue	4	**2,643**	**2,616**
External purchases		(1,461)	(1,478)
Labour expense		(381)	(411)
Other operating expense		(108)	(114)
Other operating income		54	66
Impairment of receivables and contract assets		(31)	(21)
Gains on disposal of assets		5	19
Amortisation and impairment of right-of-use assets		(70)	-
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets, including:	6	(583)	(642)
- depreciation of property, plant and equipment financed by finance lease		-	*(8)*
Operating income		**68**	**35**
Dividend income		1	1
Interest income		10	7
Interest expense on lease liabilities		(10)	(1)
Other interest expense and financial charges		(60)	(69)
Discounting expense		(14)	(24)
Finance costs, net		**(73)**	**(86)**
Income tax		2	2
Net loss		**(3)**	**(49)**
Loss per share (in PLN)		**-**	**(0.04)**
Weighted average number of shares (in millions)		1,312	1,312

STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)	*3 months ended 31 March 2019 IFRS 16 basis*	*3 months ended 31 March 2018 IAS 17 basis*
Net loss	**(3)**	**(49)**
Items that may be reclassified subsequently to profit or loss		
Losses on cash flow hedges	(9)	(12)
Income tax relating to items that may be reclassified	2	2
Other comprehensive loss, net of tax	**(7)**	**(10)**
Total comprehensive loss	**(10)**	**(59)**

STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*Note*	*At 31 March 2019* *IFRS 16 basis*	*At 31 December 2018* *IAS 17 basis* *(see Note 2.2)*
ASSETS			
Goodwill		2,014	2,014
Other intangible assets		4,722	4,837
Property, plant and equipment		10,363	10,838
Right-of-use assets	2	1,680	-
Investments in subsidiaries		166	171
Trade receivables		520	522
Contract assets		88	27
Contract costs		58	54
Derivatives	7	42	48
Other assets		61	53
Deferred tax asset		767	769
Total non-current assets		**20,481**	**19,333**
Inventories		184	194
Trade receivables		2,286	2,239
Contract assets		67	138
Contract costs		304	311
Loan to related party		70	100
Derivatives	7	42	52
Other assets		54	162
Prepaid expenses		56	24
Cash and cash equivalents	7	290	538
Total current assets		**3,353**	**3,758**
TOTAL ASSETS		**23,834**	**23,091**
EQUITY AND LIABILITIES			
Share capital		3,937	3,937
Share premium		832	832
Other reserves		(65)	(57)
Retained earnings		5,725	5,727
Total equity		**10,429**	**10,439**
Trade payables	8	471	473
Lease liabilities	2	1,109	111
Financial liabilities at amortised cost excluding trade payables and lease liabilities	7	5,068	5,270
Derivatives	7	40	31
Provisions		439	450
Contract liabilities		314	317
Employee benefits		127	133
Other liabilities		17	11
Total non-current liabilities		**7,585**	**6,796**
Trade payables	6,8	2,058	2,326
Lease liabilities	2	306	66
Financial liabilities at amortised cost excluding trade payables and lease liabilities	7	2,235	2,195
Derivatives	7	18	19
Provisions	10	203	210
Contract liabilities		450	443
Employee benefits		197	190
Income tax liabilities		19	40
Other liabilities		334	367
Total current liabilities		**5,820**	**5,856**
TOTAL EQUITY AND LIABILITIES		**23,834**	**23,091**

STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Other reserves			Retained earnings	Total equity
			Cash flow hedge reserve	Actuarial losses on post-employment benefits	Deferred tax		
Balance at 1 January 2019	**3,937**	**832**	**(20)**	**(51)**	**14**	**5,727**	**10,439**
Total comprehensive loss for the 3 months ended 31 March 2019	-	-	(9)	-	2	(3)	(10)
Share-based payments	-	-	-	-	-	1	1
Transfer to inventories	-	-	(1)	-	-	-	(1)
Balance at 31 March 2019	**3,937**	**832**	**(30)**	**(51)**	**16**	**5,725**	**10,429**
Balance at 1 January 2018	**3,937**	**832**	**(2)**	**(46)**	**10**	**5,725**	**10,456**
Total comprehensive loss for the 3 months ended 31 March 2018	-	-	(12)	-	2	(49)	(59)
Balance at 31 March 2018	**3,937**	**832**	**(14)**	**(46)**	**12**	**5,676**	**10,397**

STATEMENT OF CASH FLOWS

(in PLN millions)	*Note*	*3 months ended 31 March 2019 IFRS 16 basis*	*3 months ended 31 March 2018 IAS 17 basis (see Note 2.2)*
OPERATING ACTIVITIES			
Net loss		(3)	(49)
Adjustments to reconcile net loss to cash from operating activities			
Gains on disposal of assets		(5)	(19)
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets		653	642
Finance costs, net		73	86
Income tax		(2)	(2)
Change in provisions and allowances		(24)	(11)
Operational foreign exchange and derivatives gains, net		(1)	(2)
Change in working capital			
(Increase)/decrease in inventories, gross		1	(19)
Increase in trade receivables, gross		(23)	(54)
Decrease in contract assets, gross		10	53
Decrease in contract costs		3	24
Decrease in trade payables		(69)	(126)
Increase/(decrease) in contract liabilities		4	(20)
Increase in prepaid expenses and other receivables		(17)	(44)
Increase/(decrease) in other payables		(7)	7
Interest received		10	8
Interest paid and interest rate effect paid on derivatives, net		(52)	(47)
Exchange rate effect paid on derivatives, net		-	(17)
Income tax paid		(20)	(1)
Net cash provided by operating activities		**531**	**409**
INVESTING ACTIVITIES			
Payments for purchases of property, plant and equipment and intangible assets		(662)	(564)
Investment grants paid to property, plant and equipment and intangible assets suppliers		(26)	(3)
Exchange rate effect paid on derivatives economically hedging capital expenditures, net		-	(1)
Proceeds from sale of property, plant and equipment and intangible assets		103	32
Proceeds from sale of investments in subsidiaries, net of transaction costs		2	-
Receipts from/(payments on) loans made to related parties and other financial instruments, net		30	(1)
Net cash used in investing activities		**(553)**	**(537)**
FINANCING ACTIVITIES			
Repayment of lease liabilities		(65)	(6)
Increase/(decrease) in revolving credit line and other debt	7	(161)	64
Exchange rate effect paid on derivatives hedging debt, net		-	(1)
Net cash provided by/(used in) financing activities		**(226)**	**57**
Net change in cash and cash equivalents		**(248)**	**(71)**
Cash and cash equivalents at the beginning of the period		538	568
Cash and cash equivalents at the end of the period		**290**	**497**

Notes to the Condensed Quarterly 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 and sells electrical energy.

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 Quarterly Separate Financial Statements for the 3 months ended 31 March 2019 (the "Condensed Quarterly 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 Quarterly Separate Financial Statements (see also Note 3).

These Condensed Quarterly 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 2018.

The Condensed Quarterly 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 quarterly financial statements only if it would also be appropriate to anticipate or defer such costs at the end of the year.

Orange Polska S.A. is the parent company of the Orange Polska Group ("the Group", "OPL Group") and prepares quarterly consolidated financial statements for the 3 months ended 31 March 2019. The Group is a part of Orange Group, based in France.

These Condensed Quarterly Separate Financial Statements are prepared in millions of Polish zloty ("PLN") and were authorised for issuance by the Management Board on 29 April 2019.

<u>Adoption of standards and interpretations in 2019</u>

The following standards and interpretations endorsed by the European Union were adopted by the Company as at 1 January 2019:
- IFRS 16 "Leases". This standard has been endorsed by the European Union on 31 October 2017 and it is applicable for financial years beginning on or after 1 January 2019.

- IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”. This interpretation was issued on 7 June 2017 and is effective for annual periods beginning on or after 1 January 2019. This interpretation has been endorsed by the European Union on 23 October 2018. There is no impact of the interpretation on the Company’s financial statements.

2.2. Adoption of IFRS 16 “Leases”

IFRS 16 “Leases” establishes new accounting principles for reporting of lease contracts.

As at 1 January 2019 the Company has defined four major categories of lease contracts:
- real estate: points of sale, offices, perpetual usufruct of land;
- mobile network: land, technical premises, space on towers, chimneys, rooftops;
- fixed network: technical premises, limited property rights, access to the local loop, collocation, dark fiber contracts;
- other rentals: vehicles, technical equipment, data center.

The accounting presentation of lease contracts in the statement of financial position depends mainly on:
- the scope of contracts qualified as leases,
- the duration adopted for certain types of contracts,

which require significant judgment from the Company’s Management Board. The Management Board reviews these estimates if the circumstances on which they were based evolve or in the light of new information or established market practice.

The lease duration corresponds to the non-cancellable period of the lease, periods covered by extension options that the Company is reasonably certain to exercise and termination options that the Company is reasonably certain not to exercise. The definition of the contract duration takes also into account the laws and practices specific to the Polish jurisdiction and specificity of Company’s contracts. In particular, in case of indefinite period leases the Company adopts the notice period as the non-cancellable period of the lease. In case of indefinite period leases, most of notice periods in the Company are below 12 months and the Company adopted the short term leases exemption for these contracts. As a result, such contracts are treated as short term contracts and are not measured and presented on the balance sheet. For easements in buildings, where the Company located its telecommunication infrastructure, a lease duration is assessed as an average useful life of buildings in the Company.
None of the early termination options were assessed as at 1 January 2019 to be reasonably certain to be exercised. Contracts, for which the execution of extension options was assessed as probable, have immaterial impact on the measurement of the lease liability.

The impact of IFRS 16 adoption on the Company’s accounts primarily relates to changes in lessee accounting and results in:

a) the accounting for all of lease contracts according to a single model in which an asset is recognised in the statement of financial position as an asset for the right to use the leased assets in correspondence with the liability related to the lease obligations;
b) recognising depreciation of the rights of use assets and interest charges related to the lease liability, instead of operating lease expenses;
c) the accelerated recognition of the expense related to leases, resulting in particular from the interest component.

The Company applied IFRS 16 as of 1 January 2019 using the modified retrospective method without restatement of comparative periods. As the Company decided to measure the right-of-use asset in the amount equal to the lease liability (effect of prepaid or accrued lease payments was negligible), there was no impact on equity as of 1 January 2019.

The Company decided to use the practical expedient as described in IFRS 16 C.10 (c) allowing not to apply the requirements defined in points (a) – (c) above to leases for which the lease term ends within 12 months of the date of the initial application.

The new accounting policy relating to leases applied by the Company from 1 January 2019 is presented in Note 3.1.

Adoption of IFRS 16 affected the statement of financial position as at 1 January 2019 as follows:

STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*At 1 January 2019*		
	Before IFRS 16	*Impact of IFRS 16 adoption*	*After IFRS 16*
ASSETS			
Property, plant and equipment	10,838	(447)	10,391
Right-of-use assets	-	1,722	1,722
Total non-current assets	**19,333**	**1,275**	**20,608**
Total current assets	**3,758**	**-**	**3,758**
TOTAL ASSETS	**23,091**	**1,275**	**24,366**
EQUITY AND LIABILITIES			
Total equity	**10,439**	**-**	**10,439**
Lease liabilities	111	1,047	1,158
Total non-current liabilities	**6,796**	**1,047**	**7,843**
Lease liabilities	66	228	294
Total current liabilities	**5,856**	**228**	**6,084**
TOTAL EQUITY AND LIABILITIES	**23,091**	**1,275**	**24,366**

Additionally, as a consequence of IFRS 16 implementation, certain changes were made to the presentation in the financial statements, which had impact on the comparative data.

In the income statement and statement of cash flows two separate lines for depreciation and amortisation and impairment of fixed assets were consolidated into one line. Additionally, the Company presents currently interest expense on lease liabilities as a separate line item in the income statement. Previously, the Company presented these costs together with other interest expense and financial charges. The comparative amounts for the 3 months ended 31 March 2018 were changed accordingly, with no impact on operating income or net loss.

In the statement of financial position as at 31 December 2018, certain figures were reclassified to conform with the presentation as at 31 March 2019. Non-current and current lease liabilities were separated from financial liabilities at amortised cost excluding trade payables to new line items.

In the statement of cash flows two separate lines within cash flows from investing activities for purchases of property, plant and equipment and intangible assets and increase/decrease in amounts due to fixed assets suppliers were consolidated into one line presenting payments for purchases of property, plant and equipment and intangible assets. Additionally, repayment of lease liabilities was reclassified from repayment of long-term debt to a separate line item within cash flows from financing activities. Repayment of other long-term debt is now presented together with increase/decrease in revolving credit line and short-term debt. The comparative amounts were adjusted accordingly for the 3 months ended 31 March 2018, with no impact on net cash used in investing and financing activities.

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 Quarterly Separate Financial Statements are materially consistent with those described in Notes 2 and 30 to the audited IFRS Separate Financial Statements for the year ended 31 December 2018.

3.1. Leases

IFRS 16 "Leases" establishes the principles for recognition, measurement, presentation and disclosure of lease contracts. A single lease accounting model was adopted if the Company acts as a lessee . If the Company acts as a lessor than it continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

The Company qualifies a contract as a lease as long as it gives the lessee the right to control the use of a particular asset. In order to qualify a contract as a lease, three main conditions shall be met:
- the contract shall convey the right to use an identified asset;
- the lessee shall obtain the economic benefits from use of this asset;
- the lessee obtains the right to direct the use of this asset throughout the period of the contract.

Company as a lessee

On the lessee's side the Company uses a single accounting model, in which the lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Company has chosen to apply two exemptions proposed by the standard and expense the following contracts:
- all contracts, except for contracts for vehicles, whose duration is less than 12 months;
- contracts where the value of the underlying asset is less than USD 5,000.

IFRS 16 lease term is determined in a range between the non-cancellable period and the end of the enforceable period. The non-cancellable period is the period during which neither the lessee nor the lessor have the ability to terminate the contract without paying any significant penalty fees. The enforceable period is the period taking into account all the options available for the Company to extend but not the options to terminate.

At the lease commencement date, the Company recognises a right-of-use asset and a lease liability.

The right-of-use asset is measured at cost which comprises:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

At the date of initial application of IFRS 16, 1 January 2019, no significant lease prepayments and initial direct costs were identified.

After the commencement date, the Company measures the right-of-use asset applying a cost model, less any accumulated depreciation and any accumulated impairment losses, as well as any adjustments resulting from remeasurement of the lease liability.

The lease liability is measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the Company incremental borrowing rates as the rates implicit in the lease are not easily determinable. Discount rates adopted are based on Polish state bond yield, adjusted by credit spread observable for entities with similar credit rating. Discount rates are differentiated by duration and by currency, and not by class of assets.

The lease liability comprises the following payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

At the moment of initial application fixed and variable payments were identified in the lease contracts.

After the commencement date, the lease liability is increased to reflect interest on the lease liability and reduced to reflect the lease payments made, as well remeasured to reflect any reassessment or lease modification.
Only the lease component is taken into account in the measurement of the right-of-use asset and of the lease liability. Other non-lease components, like payments for utilities, are accounted for separately in accordance with other applicable accounting standards.

Company as a lessor

The Company continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Examples of situations that individually or in combination would lead to a lease being classified as a finance lease are as follows:
- the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the underlying asset at a price significantly lower than the fair value;
- the lease term is for the major part of the economic life of the underlying asset;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

4. Revenue

(in PLN millions)	*3 months ended*	
	31 March 2019	*31 March 2018*
Mobile only services	**639**	**682**
Fixed only services	**569**	**629**
Narrowband	244	285
Broadband	219	232
Network solutions (business market)	106	112
Convergent services (consumer market)	**369**	**291**
Equipment sales	**367**	**351**
IT and integration services	**45**	**42**
Wholesale	**560**	**579**
Mobile wholesale	310	312
Fixed wholesale	177	188
Other	73	79
Other revenue	**94**	**42**
Total revenue	**2,643**	**2,616**

Wholesale and other revenue for the 3 months ended 31 March 2019 include PLN 23 million of lease revenue that is outside the scope of IFRS 15 "Revenue from Contracts with Customers".

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

The Company's activities are subject to some seasonality. The fourth quarter is typically a peak sales season with 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.

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

From 2019, the Company extended the estimated useful lives for certain network assets and items of software which decreased the depreciation and amortisation expense by PLN 48 million in the 3 months ended 31 March 2019. Depreciation and amortisation expense in 2019 relating to these assets is expected to be lower by approximately PLN 192 million in comparison to 2018.

In 2018, the Company and T-Mobile Polska signed a long term contract on telecommunications access to Orange Polska's fiber network in the form of Bitstream Access. OPL S.A. started providing services in December 2018. The fees under the contract comprise mainly a fixed upfront fee of PLN 275 million, a fixed fee for infrastructure set-up, IT systems integration and monthly fees for each customer. The revenue from the contract will be recognised during 15 years which is an estimated period of the contract. The Company applies input method to measure revenue for the period with the application of constraint in respect to recognition of revenue to the level that is highly probable not to be reversed in the future. In result, the fixed fee elements will be evenly accounted as revenue over 15 years, while the variable fees dependent on the number of end-customers will be recognised as revenue based on the actual number of customers in the period.

The amount of trade payables subject to reverse factoring decreased from PLN 220 million as at 31 December 2018 to PLN 178 million as at 31 March 2019. 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.

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

On 11 February 2019, the Company and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 1,500 million with repayment date in May 2024, which will refinance the Loan Agreement for EUR 480 million expiring in May 2019.

In the 3 months ended 31 March 2019, the net cash flows from issuance and repayments of the Revolving Credit Facility from Atlas Services Belgium S.A. amounted to PLN (200) million.

As at 31 March 2019, the total outstanding balance of loans from the related party amounted to PLN 7,132 million, including accrued interest and arrangement fees. The weighted average effective interest rate on loans from the related party amounted to 2.00% before swaps and 3.56% after swaps as at 31 March 2019.

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 31 March 2019 was EUR 670 million and PLN 5,950 million, respectively, with a total fair value amounting to PLN 23 million.

In the 3 months ended 31 March 2019, the Company issued and redeemed short-term bonds under the Orange Polska S.A. Bond Issuance Programme. In the 3 months ended 31 March 2019, the net cash flows on the bonds amounted to PLN (29) million. As at 31 March 2019 and 31 December 2018, the aggregate par value of the outstanding bonds issued under the programme amounted to PLN 83 million and PLN 112 million, respectively.

8. Fair value of financial instruments

Derivative instruments are measured subsequent to their initial recognition at fair value. The fair value of derivatives is determined as described in Note 20 to the IFRS Separate Financial Statements for the year ended 31 December 2018. 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 21.1.

The carrying amount of the Company's financial instruments excluding lease liabilities approximates their fair value, except for telecommunications licence payables for which as at 31 March 2019 and 31 December 2018 the estimated fair value exceeded the carrying amount by PLN 83 million and PLN 84 million, respectively, due to significant change between the original effective interest rates at the date of the initial recognition and current market rates.

9. Dividend

The General Meeting of Orange Polska S.A. held on 24 April 2019 did not adopt a resolution on a dividend payment in 2019, in accordance with the recommendation of the Management Board of the Company.

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

The information hereunder refers to the matters presented in Note 27 to the IFRS Separate Financial Statements for the year ended 31 December 2018 or describes major matters that occurred after 31 December 2018.

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 30 June 2019.

Proceedings by UOKiK related to retail prices of calls to Play
P4 Sp. z o.o. appealed the verdict of 27 December 2018 dismissing P4's claim for PLN 316 million in its entirety to the Appeal Court.

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. On 9 April 2019, the Supreme Court decided to examine UOKiK's cassation claim in those proceedings.

b. Other contingent liabilities and provisions

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

11. Related party transactions

As at 31 March 2019, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board.

OPL S.A.'s income earned from its subsidiaries comprises mainly telecommunications equipment sales and IT services. The purchases from the subsidiaries comprise mainly network development and maintenance and selling fees. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

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

OPL S.A.'s financial income earned from its subsidiaries comprises dividends and interest on the loan granted to TP TelTech Sp. z o.o. Financial receivables from the subsidiaries relate mainly to the loan granted to TP TelTech Sp. z o.o. Financial liabilities to the subsidiaries comprise mainly bonds issued to the subsidiaries.

Financial receivables, liabilities, financial expense and other comprehensive 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*	
	31 March 2019	*31 March 2018*
Sales of goods and services and other income:	**76**	**100**
Orange Polska Group (subsidiaries)	28	53
Orange Group	48	47
- Orange S.A. (parent)	32	28
- Orange Group (excluding parent)	16	19
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(137)**	**(185)**
Orange Polska Group (subsidiaries)	(87)	(127)
Orange Group	(50)	(58)
- Orange S.A. (parent)	(9)	(17)
- Orange Group (excluding parent)	(41)	(41)
- including Orange Brand Services Limited (brand licence agreement)	*(27)*	*(28)*
Financial income:	**1**	**2**
Orange Polska Group (subsidiaries)	1	1
Orange S.A. (parent)	-	1
Financial expense, net:	**(57)**	**(61)**
Orange Group	(57)	(61)
- Orange S.A. (parent)	(21)	(3)
- Orange Group (excluding parent)	(36)	(58)
Other comprehensive loss:	**(10)**	**(17)**
Orange S.A. (parent)	(10)	(17)

(in PLN millions)	*At 31 March 2019*	*At 31 December 2018*
Receivables and contract costs:	**138**	**158**
Orange Polska Group (subsidiaries)	56	72
Orange Group	82	86
- Orange S.A. (parent)	47	47
- Orange Group (excluding parent)	35	39
Liabilities:	**202**	**250**
Orange Polska Group (subsidiaries)	103	154
Orange Group	99	96
- Orange S.A. (parent)	45	47
- Orange Group (excluding parent)	54	49
Financial receivables:	**154**	**202**
Orange Polska Group (subsidiaries)	74	104
Orange S.A. (parent)	80	98
Cash and cash equivalents deposited with:	**19**	**203**
Orange S.A. (parent)	19	203
Financial liabilities:	**7,275**	**7,495**
Orange Polska Group (subsidiaries)	86	115
Orange Group	7,189	7,380
- Orange S.A. (parent)	57	48
- Orange Group (excluding parent)	7,132	7,332
Guarantees granted:	**75**	**75**
Orange Polska Group (subsidiaries)	75	75

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 3 months ended 31 March 2019 and 2018 amounted to PLN 4.8 million and PLN 4.0 million, respectively. The increase of compensation results from an increase of a number of the Members of the Management Board of OPL S.A.

12. Subsequent events

On 29 April 2019, Orange Polska and Tokajami Limited and Wellchosen Investments Limited have entered into a preliminary agreement ("the Agreement") based on which Orange Polska will acquire 100% shares in BlueSoft sp. z o.o. ("BlueSoft"). BlueSoft is providing multiple IT services in the areas with high-growth potential: application development and integration, system customization, analytics and cloud services. Total Enterprise Value of the acquired business and total transaction value according to the Agreement is expected to be around PLN 200 million. Out of this amount, around PLN 149 million will be paid upon signing of the final agreement. The remaining part will be settled before the end of 2022 and will be based on achieving certain financial targets of BlueSoft in 2019 and 2020 as well as on meeting certain other legal conditions. Acquisition will be financed by Orange Polska from own cash and available financing sources. Signing of the final agreement is subject to an approval of the antimonopoly authority.

Pursuant to Art. 66 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 quarterly report and changes in the ownership structure in the period since the submission of the previous annual report

The ownership structure of the Company's share capital, based on the information available to the Company as at 29 April 2019, i.e. the date of submission of the quarterly report for the 3 months ended 31 March 2019 was the same as at 20 February 2019, i.e. the date of submission of the annual report for the 12 months ended 31 December 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 annual report

Mr Jean-François Fallacher, the President of the Management Board of OPL S.A., held 40,000 Orange Polska S.A. shares as at 29 April 2019 and 20 February 2019.
Mr Maciej Nowohoński, the Member of the Management Board of OPL S.A., held 25,000 Orange Polska S.A. shares as at 29 April 2019 and 20 February 2019.
Ms Jolanta Dudek, the Member of the Management Board of OPL S.A., held 8,474 Orange Polska S.A. shares as at 29 April 2019 and 20 February 2019.
Mr Piotr Jaworski, the Member of the Management Board of OPL S.A., held 673 Orange Polska S.A. shares as at 29 April 2019 and 20 February 2019.
Mr Maciej Witucki, the Chairman of the Supervisory Board of OPL S.A., held 4,000 Orange Polska S.A. shares as at 29 April 2019 and 20 February 2019.
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 3 months ended 31 March 2019, 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 2019 in the current report 3/2019, the Group forecasts the EBITDAaL for 2019 to be above PLN 2.8 billion. The Management Board of Orange Polska S.A. confirms the above-mentioned forecast based on analysis of financial results for the 3 months ended 31 March 2019.

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 and Orange Polska S.A. in 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 31 March 2019 and 31 December 2018 presented in the table "Selected financial data" was translated into EUR at the average exchange rates 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 3 months ended 31 March 2019 and 2018, were translated into EUR at an exchange rates which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of the 3-month periods ended 31 March 2019 and 2018.

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:

	31 March 2019	**31 December 2018**	**31 March 2018**
Statement of financial position	4.3013 PLN	4.3000 PLN	Not applicable
Income statement, statement of comprehensive income, statement of cash flows	4.2978 PLN	Not applicable	4.1784 PLN