



**LSE – Current Report (54/2014)**  
**Orange Polska S.A., Warsaw, Poland**  
**July 25, 2014**

Pursuant to art. 56, clause 1, item 1 of the Law of July 29, 2005 on public offering and the conditions for introducing financial instruments to the organised trading system and on public companies (Journal of Laws of 2005, No. 184, item 1539 with amendments), the Management Board of Orange Polska S.A. hereby provides selected financial and operating data related to the activities of Orange Polska Capital Group (“Group”, “Orange Polska”) for 2Q and 1H 2014.

**Orange Polska reports continuation of solid commercial trends and financial results improvement in 2Q 2014**

**2Q 2014 highlights:**

- revenue evolution limited to -2.2%<sup>1</sup> year-on-year excl. regulatory impact<sup>2</sup> vs. -5.0% in 1Q
  - mobile revenue excl. regulatory impact<sup>2</sup> +1.7% year-on-year vs. -0.3% in 1Q, reflecting mainly growth of customer base and higher sales of equipment
  - regulatory impact of PLN -107mn stemming mostly from MTR cuts
- solid commercial trends maintained:
  - Orange Open customer base +66k to 418k, 3.3x prior year
  - good momentum in mobile continued: customer base +3.4% year-on-year
    - +99k postpaid net adds in 2Q, ~500k post-paid net adds over the past 12 months
    - balanced mobile number portability in 2Q (excl. key accounts +11k vs 1Q)
  - fixed voice lines net losses limited to 52k in 2Q (1.1% of all lines) vs -95k in 2Q 2013 (1.9% of all lines)
- restated<sup>3</sup> EBITDA +5.1% year-on-year, EBITDA margin at 33.7% (+3.3 pp year-on-year), due to better revenues dynamics and tight cost control
- PLN 78mn of cost savings realised in 2Q, PLN 19mn more than in 1Q
- 1H Organic Cash Flow at PLN 482mn, PLN +83mn year-on-year; full year Organic Cash Flow guidance reaffirmed

key figures (PLN million) IFRS	2Q 2014	2Q 2013	change	1H 2014	1H2013	change
Group revenue	3,084	3,261 <sup>1</sup>	-5.4% <sup>1</sup>	6,079	6,513 <sup>1</sup>	-6.7% <sup>1</sup>
excl. regulatory impact <sup>2</sup>			-2.2% <sup>1</sup>			-3.6% <sup>1</sup>
restated EBITDA <sup>3</sup>	1,040	990 <sup>1</sup>	+5.1% <sup>1</sup>	1,991	2,036 <sup>1</sup>	-2.2% <sup>1</sup>
restated EBITDA <sup>3</sup> (as % of revenue)	33.7%	30.4% <sup>1</sup>	+3.3 pp <sup>1</sup>	32.8%	31.3% <sup>1</sup>	+1.5 pp <sup>1</sup>
net income	94	76	+23.7%	365	157	+132%
organic cash flow	325	189	+72.0%	482	399	+20.8%

<sup>1</sup> on pro forma basis

<sup>2</sup> impact of regulation of rates (such as Mobile Termination Rate, Fixed Termination Rate, Fixed-to-Mobile rate, customer and visitor roaming rates, Bitstream Access rates); calculation based on traffic in previous year and variation between rates before and after regulated changes

<sup>3</sup> on pro forma basis restated for the gain on disposal of Wirtualna Polska (PLN 191mn) in 1Q 2014, the impact of certain claims and litigation (PLN -44mn) in 2Q 2014 and restated for restructuring costs in 1Q2013 (PLN -18mn)

### **commenting on 2Q 2014 performance, Bruno Duthoit, Chief Executive Officer, said:**

“In 2Q we maintained good commercial achievements in most areas and simultaneously delivered solid results in terms of top-line, profitability and cash flow. The convergent Open product continues to sell well, our post-paid customer base expanded further and we were able to limit losses of our fixed voice lines to just 1.1%. To accelerate adoption of smartphones we made them available on instalments which boosted our revenues and profitability. Pricing pressure, however, especially on B2B market, affected our mobile ARPU, and broadband performance remains unsatisfactory. Our rigorous cost optimization program once again delivered good results contributing significantly to financial results this quarter. In May the Polish regulator initiated broadband market deregulation process which, if successful, could bring us new opportunities. In 2Q we accelerated our operational efforts: our 3G network coverage increased to 97% of population and 4G exceeded 50%. Going forward we do not expect market competition to become any easier but we feel we are equipped with the right tools and tactics to effectively withstand it and we expect offers introduced in 2Q to gain momentum.”

### **Financial Review**

#### **revenue evolution limited to only -2.2% year-on-year excluding regulatory impact**

Consolidated revenues totalled PLN 3,084 million in 2Q, down by 5.4% year-on-year. The decrease reflected the negative impact of regulatory decisions (PLN 107 million, mostly MTR cut<sup>4</sup>). Excluding this regulatory impact, the top-line decline was limited to PLN 70 million or 2.2% year-on-year, compared to PLN 159 million (5%) a quarter ago. The improvement was driven mainly by two factors. Firstly, mobile revenues (ex-regulatory) were up 1.7% year-on-year helped by handsets sale on instalments (which boosted equipment revenues), and growth of the customer base both of which offset pricing pressures. Secondly, revenues also benefitted from PLN 16 million year-on-year increase of the other revenue category, which is mostly explained by realisation of broadband infrastructure projects in cooperation with local communities.

The number of Orange Open customers reached 418,000 at the end of 2Q. Net acquisitions were maintained at 66,000, as in the previous quarter. Its upsell potential is evidenced by the fact that 60% of its subscribers bought additional fixed or mobile services upon entering the product, which supported overall customer ARPU.

The growth rate in the number of mobile customers was maintained at a strong 3.4% year-on-year. Orange Polska had 99,000 net customer additions in 2Q in post-paid, leading to a 7% year-on-year increase in the post-paid customer base. Quarterly uptake of mobile broadband customers, (+86,000) was the highest ever. Persisting pricing pressures (mainly on business market) and higher popularity of SIM only offers decreased retail ARPU by 9% year-on-year. It was however stable versus 1Q.

The fixed line key performance indicators (KPIs) continued to benefit from product bundling and convergence. The evolution of the number of fixed voice customers improved further, with the net loss of lines limited to just -52,000 in 2Q 2014 versus -56,000 in 1Q 2014 and -95,000 in 2Q 2013.

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<sup>4</sup> voice mobile termination rate (MTR) was cut from PLN 0.0826 a minute to PLN 0.0429 a minute on July 1, 2013. In 1H 2012 the MTR amounted to PLN 0.1520 a minute and in 2H 2012: PLN 0.1223 a minute

KPI ('000)	2Q 2014	2Q 2013	change
Orange Open customers	418	125	+234.4%
3P customers (BB, TV and VoIP)	383	314	+22.0%
number of mobile customers	15,461	14,947	+3.4%
post-paid	7,459	6,970	+7.0%
pre-paid	8,002	7,977	+0.3%
fixed voice lines (retail)	4,633	4,881	-5.1%
fixed broadband accesses (retail)	2,281	2,317	-1.6%
mobile broadband accesses	1,319	1,079	+22.2%
number of TV customers	720	699	+3.0%

### restated<sup>5</sup> EBITDA margin at 33.7% (+3.3 pp year-on-year), due to better revenue dynamics and ongoing cost optimization

Restated EBITDA<sup>5</sup> for 2Q 2014 amounted to PLN 1,040 million and rose to 33.7% of revenues. In comparison to last year, it went up by PLN 50 million. Growth was fuelled by the above mentioned better revenue trend, which excluding regulatory impact, had only PLN 70 million negative impact on EBITDA. The cost optimization program was another important contributor to EBITDA evolution and delivered PLN 78 million of savings. In addition EBITDA was helped by an improvement in other costs (including PLN 32 million lower labour costs due to adjustment to social fund) as well as by PLN 31 million decrease in direct commercial costs, despite of the higher number of net additions in mobile post-paid. Impact of regulatory decisions affected EBITDA by PLN 19 million. Finally, higher traffic inflated Group's interconnection costs by PLN 30 million.

### 2Q net income at PLN 94 million, up 24% year-on-year

Orange Polska's net income for 2Q 2014 rose to PLN 94 million, versus PLN 76 million in 2Q 2013. This increase reflects a positive tax variance of PLN 46 million due to recognition of accruals for tax refunds and tax relief on new technologies in 2Q 2014. Operating profit was down PLN 18 million year-on-year as a result of a PLN 8 million decrease in EBITDA and PLN 11 million higher depreciation charges due to one-offs booked in 2Q. Financial costs in the period were negatively affected by mark-to-market valuation of derivatives.

### 2Q organic cash flow of PLN 325 million brings the total for 1H to PLN 482 million, in line with the full-year guidance

Organic cash flow amounted to PLN 325 million in 2Q 2014, compared to PLN 189 million a year ago. Higher cash generation resulted predominantly from PLN 88 million year-on-year higher cash from operating activities (before income tax paid and change in working capital). This results from a combination of improved underlying EBITDA and lower cash net interest payments. Secondly, PLN 40 million less cash was spent for capital expenditures. Furthermore, increase in working capital requirement was PLN 19 million lower year-on-year, mostly due to more favourable balance in trade payables and inventories.

<sup>5</sup> on pro forma basis restated for the gain on disposal of Wirtualna Polska (PLN 191mn) in 1Q 2014, the impact of certain claims and litigation (PLN -44mn) in 2Q 2014 and restated for restructuring costs in 1Q2013 (PLN -18mn)

**commenting on 2Q 2014 results, Maciej Nowohoński, Chief Financial Officer said:**

“During the quarter we managed to maintain solid commercial momentum and at the same time we kept on strict cost control across all lines, which generated almost PLN 80 million savings over the period. As a consequence we increased our restated EBITDA margin to almost 34% in 2Q. In addition, as said a quarter ago we enhanced our cash generation in 2Q and are therefore able to reaffirm our full year guidance for organic cash flow<sup>6</sup>.”

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<sup>6</sup> 2014 Organic Cash Flow guidance for at least stable level versus 2013 (PLN 1.1bn), excluding one-offs: (i) renewal of existing spectrum, (ii) acquisition of any new spectrum, (iii) potential payment of the EC fine or other claims and litigations

## Forward-looking statement

*This press release contains forward-looking statements, including, but not limited to, statements regarding anticipated future events and financial performance with respect to our operations. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like 'believe', 'expect', 'anticipate', 'estimated', 'project', 'plan', 'pro forma' and 'intend' or future or conditional verbs such as 'will,' 'would,' or 'may.' Factors that could cause actual results to differ materially from expected results include, but are not limited to, those set forth in our Registration Statement, as filed with the Polish securities and exchange commission, the competitive environment in which we operate, changes in general economic conditions and changes in the Polish and/or global financial and/or capital markets. Forward-looking statements represent management's views as of the date they are made, and we assume no obligation to update any forward-looking statements for actual events occurring after that date. You are cautioned not to place undue reliance on our forward-looking statements.*

## **Orange Polska Q2 2014 Results Presentation Friday 25th July 2014**

Venue address:  
Orange Polska  
Aleje Jerozolimskie 160,  
02-326 Warsaw,  
Poland

Start: 11.00 CET

The presentation will also be available via [a live webcast](#) on our website and via a live conference call:

Time:  
11:00 (Warsaw)  
10:00 (London)  
05:00 (New York)

Conference title:  
Orange Polska Q2 2014 Results

Dial in numbers:  
UK/Europe: +44-203-427-1909  
US: +1-212-444-0412

Toll free numbers:  
UK: 0800-279-4977  
US: +1-877-280-2296

The results will be available on our website ([www.orange.pl/investors](http://www.orange.pl/investors)) on the morning of 25th July.

## Orange Polska Group Consolidated

amounts in PLN millions	2013								2014	
	1Q		2Q		3Q		4Q		1Q	2Q
<b>profit &amp; loss statement</b>	as reported	pro forma*	as reported	pro forma*	as reported	pro forma*	as reported	pro forma*	as reported	as reported
<b>revenues</b>										
<b>Mobile services</b>	1,533	1,533	1,590	1,590	1,514	1,514	1,473	1,473	1,438	1,456
voice traffic revenue	887	887	917	917	906	906	835	835	804	799
data, messaging, content and M2M	433	433	443	443	448	448	470	470	461	475
wholesale	213	213	230	230	160	160	168	168	173	182
<b>Mobile equipment sales</b>	33	33	40	40	35	35	41	41	43	110
<b>Fixed services</b>	1,554	1,554	1,515	1,515	1,500	1,500	1,488	1,488	1,420	1,386
fixed narrowband	614	614	582	582	559	559	542	542	521	506
fixed broadband, TV and VoIP	421	421	421	421	422	422	423	423	420	416
enterprise solutions & networks	251	251	250	250	258	258	261	261	237	231
wholesale	268	268	262	262	261	261	262	262	242	233
<b>Other revenue</b>	147	132	158	116	147	112	155	110	94	132
<b>Total revenues</b>	3,267	3,252	3,303	3,261	3,196	3,161	3,157	3,112	2,995	3,084
<b>year-on-year**</b>	-7.2%	n/a	-9.9%	n/a	-7.9%	n/a	-9.3%	n/a	-7.9%	-5.4%
labour expenses	(545)	(538)	(516)	(502)	(453)	(442)	(432)	(420)	(522)	(453)
external purchases	(1,596)	(1,593)	(1,649)	(1,635)	(1,501)	(1,484)	(1,694)	(1,674)	(1,452)	(1,495)
- interconnection costs	(314)	(314)	(358)	(357)	(284)	(284)	(295)	(295)	(280)	(297)
- network and IT	(188)	(187)	(209)	(208)	(208)	(208)	(241)	(231)	(192)	(207)
- commercial expenses	(642)	(696)	(620)	(659)	(562)	(603)	(752)	(768)	(605)	(610)
- content costs	(37)	(36)	(43)	(42)	(34)	(33)	(35)	(34)	(35)	(31)
- other external purchases	(415)	(360)	(419)	(369)	(413)	(356)	(371)	(346)	(340)	(350)
other operating incomes & expenses	(85)	(85)	(144)	(144)	(92)	(91)	(166)	(166)	(79)	(148)
employment termination expenses	(18)	(18)	(1)	(1)		0	(167)	(167)	0	0
gain/loss on disposals of assets	10	10	11	11	15	15	4	4	9	8
gain on disposal of Wirtualna Polska									191	
<b>reported EBITDA</b>	1,033	1,028	1,004	990	1,165	1,159	702	689	1,142	996
% of revenues	31.6%	31.6%	30.4%	30.4%	36.5%	36.7%	22.2%	22.1%	38.1%	32.3%
<b>restated EBITDA***</b>	1,051	1,046	1,004	990	1,165	1,159	864	851	951	1,040
% of revenues	32.2%	32.2%	30.4%	30.4%	36.5%	36.7%	27.4%	27.3%	31.8%	33.7%
depreciation & amortisation	(791)	(789)	(783)	(778)	(775)	(770)	(758)	(756)	(750)	(794)
impairment of fixed assets	(1)	(1)	(3)	(3)	0	0	(5)	(5)	(1)	(2)
<b>EBIT</b>	241	238	218	209	390	389	(61)	(72)	391	200
% of revenues	7.4%	7.3%	6.6%	6.4%	12.2%	12.3%	-1.9%	-2.3%	13.1%	6.5%
financial result	(134)	(134)	(108)	(108)	(118)	(118)	(118)	(118)	(119)	(118)
income tax	(26)	(25)	(34)	(32)	(33)	(33)	77	79	(1)	12
<b>Consolidated net income after tax</b>	81	79	76	69	239	238	(102)	(111)	271	94

\*pro forma adjusted for deconsolidation of Wirtualna Polska and ORE and reclassifications of costs related to ICT (mainly equipment) from 'other external purchases' to 'commercial expenses' and costs related to infrastructure projects for the Polish regions from 'network and IT' to 'other external purchases'

\*\*change is calculated based on pro forma figures for 2013

\*\*\*restated for restructuring costs (PLN -18mn booked in 1Q2013 and PLN -129mn in 4Q2013) mainly including restructuring provision (PLN -18mn in 1Q2013 and PLN -167mn in 4Q2013) and actuarial adjustment to long term employee benefits, and PLN -33mn adjustment linked to TPSA/PTK merger booked in 4Q 2013 and the gain on disposal of Wirtualna Polska in 1Q 2014 (PLN +191mn) and restated for the impact of certain claims and litigation (PLN -44mn) in 2Q2014

## Orange Polska Group key performance indicators

customer base (in thousands)	2012	2013				2014	
	4Q	1Q	2Q	3Q	4Q	1Q	2Q
<b>Orange Open<sup>1</sup></b>	33	72	125	211	286	352	418
<b>Fixed telephony accesses</b>							
POTS, ISDN & WLL	4 751	4 586	4 458	4 358	4 275	4 203	4 133
VoIP first line	336	390	423	445	466	482	500
<b>Total retail main lines</b>	<b>5 087</b>	<b>4 976</b>	<b>4 881</b>	<b>4 803</b>	<b>4 741</b>	<b>4 685</b>	<b>4 633</b>
<b>Fixed broadband access</b>							
ADSL	2 139	2 130	2 112	2 096	2 083	2 059	2 042
VHBB (VDSL+FTTH)	26	28	36	49	64	86	105
CDMA	180	175	169	160	154	140	134
<b>Group retail broadband - total</b>	<b>2 345</b>	<b>2 333</b>	<b>2 317</b>	<b>2 305</b>	<b>2 301</b>	<b>2 285</b>	<b>2 281</b>
<b>TV client base</b>							
IPTV	119	117	117	119	121	123	129
DTH (TV over Satellite)	588	582	582	583	586	585	591
<b>TV client base - total</b>	<b>706</b>	<b>699</b>	<b>699</b>	<b>702</b>	<b>707</b>	<b>708</b>	<b>720</b>
-o/w 'n' packages	83	98	101	115	123	133	144
<b>3P services (TV+BB+VoIP)</b>	<b>248</b>	<b>286</b>	<b>314</b>	<b>333</b>	<b>351</b>	<b>364</b>	<b>383</b>
<b>Mobile accesses</b>							
Post-paid	6 911	6 906	6 970	7 052	7 221	7 360	7 459
-o/w B2B	2 428	2 407	2 399	2 402	2 420	2 456	2 464
Pre-paid	7 984	7 980	7 977	8 074	8 104	8 035	8 002
<b>Total<sup>2</sup></b>	<b>14 895</b>	<b>14 886</b>	<b>14 947</b>	<b>15 126</b>	<b>15 325</b>	<b>15 395</b>	<b>15 461</b>
- of which dedicated mobile broadband subscription client base	985	1 043	1 079	1 120	1 165	1 233	1 319
<b>Group wholesale customers (external to Group)</b>							
WLR	1 472	1 443	1 397	1 356	1 301	1 237	1 176
Bitstream access	347	342	343	340	330	322	311
LLU	185	181	178	175	172	169	165

<sup>1</sup> Orange Open is included in fixed telephony, broadband and mobile

<sup>2</sup> all SIM cards, including voice, M2M, data

quarterly ARPU in PLN per month	2012	2013				2014	
	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Orange Polska retail fixed voice ARPU	45,7	45,3	44,4	43,7	43,3	42,4	41,9
Orange Polska broadband ARPU (Broadband, TV & VoIP)	57,8	59,7	60,1	60,5	60,9	60,5	60,4
<b>Mobile ARPU (outside the Group)</b>							
post-paid	64,5	60,4	62,7	59,2	57,2	55,6	55,6
-o/w B2B	79,9	75,6	77,5	72,2	69,7	68,0	65,7
pre-paid	16,2	14,2	14,6	13,8	13,0	11,9	12,2
Blended	37,9	34,9	36,2	34,2	32,8	31,8	32,1
retail ARPU (PLN)	31,4	30,2	31,1	30,8	29,2	28,2	28,3
wholesale ARPU (PLN)	6,4	4,7	5,1	3,4	3,6	3,6	3,9
<b>voice ARPU (PLN)</b>							
post-paid	46,5	41,9	43,4	39,5	36,4	35,3	35,0
pre-paid	11,9	9,6	10,2	9,6	8,7	8,0	8,0
blended	27,2	24,0	25,1	23,0	21,1	20,4	20,4
<b>data ARPU (PLN)</b>							
post-paid	7,0	7,8	8,4	9,1	9,3	9,9	9,9
pre-paid	0,6	0,6	0,5	0,6	0,7	0,7	0,9
blended	3,4	3,8	4,1	4,4	4,5	4,8	5,0
<b>SMS&amp;MMS and other ARPU (PLN)</b>							
post-paid	10,9	10,7	10,9	10,6	11,5	10,5	10,8
pre-paid	3,7	3,9	3,8	3,7	3,6	3,3	3,3
blended	7,4	7,0	7,0	6,8	7,1	6,5	6,8

other mobile operating statistics	2012	2013				2014	
	4Q	1Q	2Q	3Q	4Q	1Q	2Q
MVNOs customers (thousands)	69	66	67	69	62	59	32
Number of smartphones (thousands)	3 262	3 384	3 526	3 613	3 804	3 920	4 044
<b>volumes &amp; churn</b>							
<b>AUPU (in minutes)</b>							
post-paid	251,7	253,1	264,6	266,8	273,7	279,7	294,7
pre-paid	90,6	90,2	94,5	91,3	90,8	90,5	93,5
Blended	165,6	165,7	173,7	173,2	176,3	180,3	190,1
<b>Quarterly mobile customer churn rate (%)</b>							
post-paid	3,4	3,7	3,6	3,3	3,4	3,4	3,3
pre-paid	15,0	15,5	15,1	14,6	14,8	14,9	14,9
<b>subsidies</b>							
SAC post-paid (PLN)	583,8	556,8	502,3	484,8	521,6	441,4	366,4
SRC post-paid (PLN)	388,9	446,8	381,9	358,4	420,4	321,8	240,0
<b>network coverage</b>							
Group 3G coverage in % of population:	69,0%	69,9%	73,7%	85,5%	90,2%	90,9%	97,2%

Employment structure of Group as reported active full time equivalents (end of period)	2012	2013				2014	
	4Q reported	1Q reported	2Q reported	3Q reported	4Q reported	1Q	2Q
Orange Polska	21 920	21 617	21 024	20 143	19 922	19 224	18 594
50% of Networks	397	395	392	398	397	396	396
Total	22 317	22 012	21 416	20 541	20 319	19 620	18 990

Terms used:

**Monthly Mobile ARPU** - ARPU are calculated by dividing the Group revenues from mobile customers (outgoing and incoming) voice and non voice services, including one-time connection and termination fee, visitors roaming, excluding "machine to machine", by the average number of customers, excluding "machine to machine".

**Monthly Broadband ARPU** - (xDSL, FTTH, TV, and VoIP): ARPU of broadband services are calculated by dividing the monthly revenues from customers' broadband services by the average number of accesses.

**Subscriber Acquisition Cost (SAC)** - Customer acquisition costs divided by the number of gross customers added during the respective period. Customer acquisition costs comprise commissions paid to distributors and net subsidies resulting from the sale of the handset.

**Subscriber Retention Cost (SRC)** - Customer retention costs divided by the number of customers retained during the respective period. Customer retention costs comprise commissions paid to distributors and net subsidies resulting from the sale of the handset.

**Churn rate** - The number of customers who disconnect from a network in a given period divided by the weighted average number of customers in the same period

**ICT** – Information and Communication Technology



