



Current Report (16/2017)
Orange Polska S.A., Warsaw, Poland
26 July, 2017

Pursuant to Article 17(1) of the Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, the Management Board of Orange Polska S.A. hereby provides selected financial and operating data related to the activities of the Orange Polska Capital Group ("the Group", "Orange Polska") for 2Q 2017.

Disclosures on performance measures, including adjustments, are presented in the Note 2 to Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the 6 months ended 30 June 2017 (available at <http://orange-ir.pl/results-center/results/2017>).

Orange Polska in 2Q 2017 reports record growth of convergent customer base and better EBITDA trend supported by more value oriented approach

key figures (PLN million), IFRS	2Q 2016	2Q 2017	change	1H 2016	1H 2017	change
revenue	2,903	2,839	-2.2%	5,706	5,657	-0.9%
EBITDA	824	812	-1.5%	1,692	1,560	-7.8%
EBITDA margin	28.4%	28.6%	+0.2pp	29.7%	27.6%	-2.1pp
adjusted EBITDA ¹	824	820	-0.5%	1,692	1,568	-7.3%
adjusted EBITDA margin ¹	28.4%	28.9%	+0.5pp	29.7%	27.7%	-2.0pp
operating income	142	169	+19.0%	357	278	-22.1%
net income	17	71	+317.6%	115	110	-4.3%
capex	480	437	-9.0%	4,025	822	-79.6%
adjusted capex ¹	480	437	-9.0%	857	822	-4.1%
organic cash flow	342	218	-36.3%	-2,862	-36	n/a
adjusted organic cash flow ¹	342	218	-36.3%	286	-36	n/a

¹ please refer to adjustment table on p.5

KPI ('000)	2Q 2016	2Q 2017	change ²
convergent customers ³	679	1,084	+59.6%
mobile accesses (SIM cards)	16,614	14,555	-12.3%
post-paid	8,716	9,573	+10.1%
pre-paid	7,898	4,983	-37.0%
fixed broadband accesses (retail)	2,139	2,323	+9.7%
fixed voice lines (retail)	4,059	3,809	-6.1%

2Q 2017 highlights:

- **strong commercial performance in convergence, fixed broadband and mobile post-paid:**
 - a record 16% qoq growth of convergent customer base thanks to success of the Orange Love offer,
 - turnaround of fixed broadband business continues: +10%² year-on-year customer base growth, +54k net adds in 2Q driven by wireless for fixed and fibre
 - +10%² year-on-year mobile post-paid customers, +121k net adds in 2Q
- **solid financial results reflecting higher focus on value generation**
 - revenue down 2.2% year-on-year:
 - more value oriented approach in mobile resulting in lower handset subsidies and shift to SIM-only offers
 - growing fixed broadband
 - pressure on legacy areas continues
 - adjusted EBITDA⁴ down 0.5% year-on-year; corresponding margin at 28.9%, up 0.5 pp year-on-year:
 - decline in commercial expenses as a consequence of our stronger focus on value
 - supported by gain on sale of real estate (PLN 57 million)
 - FY EBITDA guidance in the range of PLN 2.8-3.0bn confirmed
- **more than 1.9 million households connectable with fibre at the end of June (266k added in 2Q)**
 - fibre customer base at 145k (+28k net adds in 2Q)
 - service adoption rate at 7.4%
- **adjusted capex⁴ at PLN 437m, -9.0% year-on-year, incl. PLN 154m for the fibre network roll-out**
 - ex-fibre capex down 20% year-on-year
- **adjusted Organic Cash Flow⁴ at PLN 218m rebounding after 1Q**

² includes effects of customer base revision made in 3Q 2016

³ Since 1Q 2017 convergent customer definition has been modified and reflects only a combination of fixed broadband (incl. wireless for fixed) and mobile handset offer, with financial benefit

⁴ please refer to adjustment table on p.5

commenting on 2Q 2017 performance, Jean-François Fallacher, Chief Executive Officer, said:

“Now that Orange Love has been on the market for around five months, we can say with confidence that the flagship offer is a success. It has already attracted more than 200k customers, and around 80% of them purchased at least one new Orange service, generating additional value for us. We believe that the simplicity of the offer, combined with its attractive price and our good execution are key driving forces behind the popularity of Orange Love. As a consequence, our convergent customer base increased by a record 16% in 2Q and exceeded 1 million. Currently more than 50% of individual customers acquired in fixed broadband and more than 40% in post-paid handset offers are buying an Orange Love package. We will work to improve our convergent offers even more in the coming months.

As we expected, commercialisation of our fibre network in 2Q was slightly affected by the lower number of working days in the period. In 2Q the network expanded by 266k households connectable; around 20% of the increase was generated on the infrastructure of other operators, which helps to optimise our capex. Today our fibre service is available to almost 2 million households. We already cover around 40% of all households in big cities in Poland. We will continue to work on the monetisation of our fibre investments in the second half of the year.

By 2020 our fibre network deployment will benefit from co-financing from the Digital Poland Operational Programme. We will provide fast internet coverage for more than 360k households and 3,700 schools in many more rural areas of Poland. Orange Polska is the operator best positioned to undertake such projects due to significant synergies with its existing network infrastructure. I am pleased that together with the government we will be gradually filling in the “black spots”, contributing also to the development of local communities in line with our integrated approach.

A few days ago we announced the acquisition of the electricity distribution business from Multimedia Polska, which makes us the leader among alternative energy providers in Poland. This is an important step in the development of growth areas adjacent to our core telco business. It will also allow us to upsell additional telco services, contributing to increased revenues and higher customer loyalty.

Our commercial and financial results in 2017, especially in 2Q, have started to reflect our higher focus on value generation. We plan to move further in this direction going forward. We will present our updated mid-term plans on 4 September in a separate event held at the Warsaw Stock Exchange. At this event, we will explain how we want to better execute our strategic goals and adapt our operations to the changing market environment.”

Financial Review

revenue down 2.2% year-on-year, vs -3.5% in 2Q 2016

Revenues totalled PLN 2,839 million in 2Q, down 2.2% or PLN 64 million year-on-year. Deterioration of the trend versus the previous two quarters reflects higher comparable base for the growth of mobile equipment sales (16% year-on-year in 2Q vs. 65% year-on-year in 1Q). Growth of equipment sales in 2Q was driven by lower subsidies on handsets sold in instalment schemes. Other key trends in revenues were broadly unchanged. Mobile services revenues were down 5.9% year-on-year (PLN -79 million), and legacy fixed business lines (PSTN and wholesale) fell by 11.2% year-on-year (PLN -65 million). The improvement continued in fixed broadband revenues, which were up 2.3% year-on-year versus 1% in 1Q 2017 and -4.5% in 2Q 2016.

Our convergent customer base increased by a record high 146,000 or 16% in 2Q 2017 to 1.08 million. This achievement was driven by the Orange Love convergent offer which, launched in February, was present on the market for the full quarter. The driving forces behind the success

were an attractive price, simplicity of the concept supported by our focus and good execution. As a consequence, penetration of convergence in B2C fixed broadband base increased to 43% versus 30% a year ago, while in B2C mobile handset base it increased to 31% versus 20% in 2Q 2016. The total number of services used by B2C convergent customers exceeded 3.4 million, which implies that on average every customer uses four services.

In 2Q 2017 our mobile post-paid customer base increased by 121,000 or 1.3%. In handset offers, net customer additions continued to be strong at 103,000. Mobile broadband customer base fell by 30,000 driven by the shift to wireless for fixed offers and growing data packages for smartphone usage available in handset tariffs. Pre-paid base was again affected by consequences of the obligation of SIM cards registration. This was the last quarter of this impact.

The share of LTE traffic in total mobile data transmission reached 73% in 2Q. Smartphone penetration in post-paid handset customer base reached 69% versus 64% in 2Q 2016. Growth of data usage per user in post-paid handset customer base continued to double in year-on-year terms.

Our fixed broadband customer base continued its transformation. In 2Q it increased by 54,000, or by 10%⁵ year-on year, reaching 2.32 million. Net losses in ADSL and CDMA bases were more than compensated by 112,000 net additions from fibre, VDSL and wireless for fixed. The number of fibre customers increased by 28,000 (versus 29,000 in 1Q 2017) and reached 145,000. The share of growth technologies (fibre, wireless for fixed, VDSL) in our customer base reached 39% versus 23% in 2Q 2016.

In fixed voice, the net loss of lines slowed down to 50,000 vs 73,000 a quarter ago. This is solely attributable to the growth of VoIP services, which are part of the Orange Love package.

adjusted EBITDA margin at 28.9%, up 0.5 pp year-on-year, reflecting lower commercial expenses

Adjusted EBITDA for 2Q 2017 came in at PLN 820 million, and was only PLN 4 million down versus 2Q 2016. EBITDA margin stood at 28.9%, up 0.5 pp year-on-year. This strong performance is mainly attributable to two factors. Firstly, 11% year-on-year decline in commercial expenses as a consequence of our stronger focus on value. Focus on value resulted in a higher share of SIM-only transactions and less subsidies on handsets needed to achieve desired customer acquisition and retention volumes. Secondly, it was supported by high gain on sale of real estate, which in 2Q stood at PLN 57 million.

net income at PLN 71 million supported mainly by lower depreciation

Net income for 2Q 2017 stood at PLN 71 million versus PLN 17 million in 2Q 2016. Slightly lower reported EBITDA was more than offset by lower depreciation, net financial expense and taxes. Fall in depreciation reflected mainly extension of useful life of certain fixed assets – an impact of PLN 42 million recognised in 2Q 2017.

adjusted Organic Cash Flow⁶ at PLN 218 million rebound after 1Q

Adjusted organic cash flow for 2Q 2017 came in at PLN 218 million, down versus PLN 342 million in 2Q 2016 but up strongly versus PLN -254 million a quarter ago. This year-on-year decrease almost entirely stemmed from PLN 132 million higher year-on-year working capital requirement, notably payables. It was mainly a consequence of more high-end mix of purchased handsets which reflected market demand. Strong quarter-on-quarter improvement was a consequence of stronger EBITDA, much lower capital expenditure cash outflows, lower working capital expenditure and high proceeds from sale of real estate (PLN 77 million vs PLN 10 million).

⁵ includes effects of customer base revision made in 3Q 2016

⁶ please refer to adjustment table on p.5

commenting on 2Q 2017 results, Maciej Nowohoński, Chief Financial Officer, said:

“2Q results demonstrate that we are increasingly capable of offsetting the decline of our legacy businesses by improving value generation in growth areas. In line with the market trend, we have been limiting subsidies on handsets, which on one hand had a positive impact on revenues and on the other hand allowed us to optimise commercial expenses. Taking into account our achievements for 1H, we are confident about our full-year EBITDA target and maximum leverage level. Looking forward to 2H there is uncertainty around the impact of roaming on our results, and we also want to preserve flexibility in commercial spending during the peak season. This is why we reiterate our full-year EBITDA guidance of PLN 2.8-3.0bn.”

Adjustments to financial data

<i>in PLNm</i>	2Q'16	2Q'17	1H'16	1H'17
EBITDA	824	812	1,692	1,560
-Employment termination expense	-	8	-	8
Adjusted EBITDA	824	820	1,692	1,568
Capital expenditures	480	437	4,025	822
-acquisition of telecommunications licences	-	-	-3,168	-
Adjusted capital expenditures	480	437	857	822
Organic cash flow	342	218	-2,862	-36
-LTE auction deposits / Acquisition of LTE spectrum	-	-	3,148	-
Adjusted organic cash flow	342	218	286	-36

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', 'adjusted' 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's Management Board are pleased to invite you to the Company's 2Q 2017 results presentation.

Orange Polska 2Q 2017 Results Presentation

Date: Thursday, 27th July 2017

Venue address:
Orange Polska
Aleje Jerozolimskie 160,
(Conference room – ground floor)
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 2Q 2017 Results Conference Call

Confirmation code: 7496938

Dial in numbers:

UK/Europe: +44 (0) 330 336 9411
US: +1 719-457-1036

Toll free numbers:

UK: 0800 279 7204
US: 866-548-4713

Orange Polska Group Consolidated

Disclosures on performance measures, including adjustments, are presented in the Note 2 to Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the 6 months ended 30 June 2017 (available at <http://orange-ir.pl/results-center/results/2017>)

amounts in PLN millions	2016								2017	
	1Q		2Q		3Q		4Q		1Q	2Q
	as reported	after reclassification*	as reported	after reclassification*	as reported	after reclassification*	as reported	after reclassification*	as reported	as reported
Income statement										
Revenues										
Mobile revenues	1 526	1 517	1 622	1 604	1 594	1 565	1 679	1 638	1 554	1 568
Retail services	1 090	1 082	1 080	1 069	1 085	1 069	1 041	1 018	972	980
Wholesale services (including interconnect)	244	244	270	270	251	251	272	272	267	280
Mobile equipment sales	192	191	272	265	258	245	366	348	315	308
Fixed services	1 192	1 200	1 175	1 186	1 156	1 172	1 139	1 162	1 134	1 135
Fixed narrowband	401	401	387	387	376	376	363	363	350	337
Fixed broadband, TV and VoIP	381	389	375	386	369	385	365	388	393	395
Enterprise solutions & networks	219	219	218	218	222	222	233	233	215	223
Wholesale revenue (including interconnect)	191	191	195	195	189	189	178	178	176	180
Other revenue	85	86	106	113	101	114	163	181	130	136
Total revenues	2 803	2 803	2 903	2 903	2 851	2 851	2 981	2 981	2 818	2 839
year-on-year**	-4,2%	n/a	-3,5%	n/a	-3,9%	n/a	1,9%	n/a	0,5%	-2,2%
Labour expenses	(381)	(381)	(440)	(440)	(404)	(404)	(411)	(411)	(452)	(438)
External purchases	(1 476)	(1 476)	(1 580)	(1 580)	(1 535)	(1 535)	(1 841)	(1 841)	(1 554)	(1 541)
- Interconnect expenses	(354)	(354)	(384)	(384)	(381)	(381)	(395)	(395)	(409)	(421)
- Network and IT expenses	(160)	(160)	(168)	(168)	(164)	(164)	(178)	(178)	(157)	(167)
- Commercial expenses	(615)	(615)	(685)	(685)	(656)	(656)	(883)	(883)	(638)	(609)
- Other external purchases	(347)	(347)	(343)	(343)	(334)	(334)	(385)	(385)	(350)	(344)
Other operating incomes & expenses	(88)	(88)	(96)	(96)	(90)	(90)	(103)	(103)	(72)	(97)
Employment termination expenses										(8)
Gain on disposal of assets	10	10	37	37	9	9	14	14	8	57
Reported EBITDA	868	868	824	824	831	831	640	640	748	812
% of revenues	31,0%	31,0%	28,4%	28,4%	29,1%	29,1%	21,5%	21,5%	26,5%	28,6%
Employment termination expenses										8
Adjusted EBITDA	868	868	824	824	831	831	640	640	748	820
% of revenues	31,0%	31,0%	28,4%	28,4%	29,1%	29,1%	21,5%	21,5%	26,5%	28,9%
Depreciation & amortisation	(653)	(653)	(683)	(683)	(695)	(695)	(694)	(694)	(639)	(642)
(Impairment)/reversal of impairment of non-current assets	0	0	1	1	1	1	(1 794)	(1 794)	0	(1)
Operating income / (loss)	215	215	142	142	137	137	(1 848)	(1 848)	109	169
% of revenues	7,7%	7,7%	4,9%	4,9%	4,8%	4,8%	-62,0%	-62,0%	3,9%	6,0%
Finance costs, net	(96)	(96)	(96)	(96)	(79)	(79)	(88)	(88)	(71)	(86)
Income tax	(21)	(21)	(29)	(29)	(21)	(21)	38	38	1	(12)
Consolidated net income / (loss)	98	98	17	17	37	37	(1 898)	(1 898)	39	71

* Adjusted after reclassification of Wireless Access for Fixed from mobile retail services to Fixed broadband, TV and VoIP & from mobile equipment sales to other revenue

** Change is calculated based on adjusted figures

Orange Polska Group key performance indicators

customer base (in thousands)	2016				2017	
	1Q	2Q	3Q	4Q	1Q	2Q
Convergent customers¹	626	679	738	835	938	1 084
o/w B2C	532	568	603	666	738	858
o/w B2B	94	111	135	169	200	227
Fixed telephony accesses						
POTS, ISDN & WLL	3 487	3 415	3 337	3 268	3 181	3 081
VoIP	633	644	651	664	678	728
Total retail main lines	4 120	4 059	3 988	3 932	3 859	3 809
Fixed broadband access						
ADSL	1 669	1 613	1 562	1 503	1 451	1 407
VHBB (VDSL+Fibre)	366	409	436	492	544	588
o/w VDSL	339	370	379	404	427	443
o/w Fibre	27	39	57	88	117	145
CDMA	44	35	27	20	14	0
Wireless for fixed	50	82	128	191	260	328
Retail broadband - total	2 130	2 139	2 153	2 206	2 269	2 323
TV client base						
IPTV	200	213	214	234	254	277
DTH (TV over Satellite)	597	590	548	532	521	515
TV client base - total	797	803	761	766	775	792
-o/w 'nc+' packages	190	194	194	195	189	193
Mobile accesses						
Post-paid						
Mobile Handset	6 369	6 491	6 640	6 851	7 009	7 112
Mobile Broadband	1 298	1 327	1 355	1 377	1 364	1 334
M2M	858	898	963	1 033	1 079	1 126
Total postpaid	8 526	8 716	8 957	9 262	9 452	9 573
Total pre-paid	7 689	7 898	7 309	6 537	5 820	4 983
Total	16 215	16 614	16 266	15 799	15 272	14 555
Wholesale customers						
WLR	780	730	693	652	614	587
Bitstream access	234	222	213	202	195	183
LLU	125	120	116	110	105	100

¹ Since 1Q'17 convergent customer definition has been modified and reflects only a combination of fixed broadband (incl. wireless for fixed) and mobile handset offer, with financial benefit

quarterly ARPU in PLN per month	2016				2017	
	1Q	2Q	3Q	4Q	1Q	2Q
Retail fixed voice ARPU	39,2	38,7	38,4	37,9	37,3	37,0
Fixed broadband ARPU (Broadband, TV & VoIP)	60,3	60,1	59,9	59,2	58,2	57,1
Mobile ARPU						
Total postpaid excl M2M	45,2	44,2	43,6	41,8	39,6	39,6
Mobile Handset	48,9	48,1	47,6	45,6	43,2	43,2
Mobile Broadband	27,3	25,2	23,3	22,8	21,6	20,6
Prepaid	12,4	11,9	12,0	12,6	12,6	15,2
Total Mobile excl M2M	28,8	28,0	27,9	28,3	28,1	30,1
retail ARPU	23,5	22,7	22,6	22,3	22,0	23,3
wholesale ARPU	5,3	5,3	5,3	5,9	6,0	6,7

<i>other mobile operating statistics</i>	2016				2017	
	1Q	2Q	3Q	4Q	1Q	2Q
Number of smartphones (thousands)	5 809	5 996	6 057	6 291	6 312	6 441
AUPU (in minutes)						
post-paid	345,0	359,3	351,1	354,5	342,5	341,0
pre-paid	105,3	104,4	104,7	113,7	121,7	133,2
blended	225,3	231,8	230,4	244,7	248,0	259,8
Quarterly mobile customer churn rate (%)						
post-paid	3,0	2,8	2,7	2,8	3,1	2,8
pre-paid	15,7	15,2	16,9	18,1	21,3	25,0
SAC post-paid (PLN)	256,4	211,1	183,0	188,9	130,7	92,7
SRC post-paid (PLN)	222,1	176,3	169,8	179,9	64,0	36,6
4G coverage in % of population	89,2%	95,4%	97,4%	99,1%	99,2%	99,8%
3G coverage in % of population	99,6%	99,6%	99,6%	99,6%	99,6%	99,6%
Employment structure of Group as reported	2016				2017	
Active full time equivalents (end of period)	1Q	2Q	3Q	4Q	1Q	2Q
Orange Polska	16 497	16 099	15 786	15 537	15 481	15 131
50% of Networks	349	338	344	343	347	351
Total	16 846	16 437	16 130	15 880	15 828	15 482

Terms used:

Average Usage per User (AUPU) – the average monthly total usage of minutes divided by the average number of SIM cards (excluding M2M) in a given period.

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

Fixed Broadband ARPU – the average monthly revenues from fixed broadband services (including TV and VoIP services) divided by the average number of accesses in a given period.

Mobile ARPU – the average monthly revenues from mobile services (outgoing and incoming, including connection and termination fees, visitors roaming, excluding M2M), divided by the average number of SIM cards (excluding M2M) in a given period.

Mobile Broadband ARPU – the average monthly revenues from SIM cards dedicated to mobile broadband access (all service revenues including outgoing and incoming) divided by the average number of these SIM cards in a given period.

Mobile Handset ARPU – the average monthly revenues from SIM cards dedicated to mobile handset access (all service revenues including outgoing and incoming) divided by the average number of these SIM cards in a given period.

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.