



Current Report (49/2016)
Orange Polska S.A., Warsaw, Poland
July 25, 2016

Pursuant to Art. 17, clause 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 Orange Polska Capital Group ("the Group", "Orange Polska") for 2Q 2016 and 1H 2016.

Disclosures on performance measures, including restatements, are presented in the Note 1 to Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the 6 months ended 30 June 2016 (available at <http://orange-ir.pl/results-center/results/2016>)

Orange Polska reports in 2Q 2016 strong commercial performance in mobile post-paid and financial results in line with full-year plan

key figures (PLN million), IFRS	2Q 2015	2Q 2016	change	1H 2015	1H 2016	change
revenue	3,013	2,903	-3.7%	5,943	5,706	-4.0%
restated revenues ¹	3,008	2,903	-3.5%	5,933	5,706	-3.8%
EBITDA	959	824	-14.1%	1,918	1,692	-11.8%
EBITDA margin	31.8%	28.4%	-3.4 p.p	32.3%	29.7%	-2.6pp
restated EBITDA ¹	959	824	-14.1%	1,919	1,692	-11.8%
restated EBITDA ¹ margin	31.9%	28.4%	-3.5 pp	32.3%	29.7%	-2.6 pp
operating income	232	142	-38.8%	478	357	-25.3%
net income	126	17	-86.5%	297	115	-61.3%
capex	419	480	+14.6%	740	4,025	+443.9%
restated capex ¹	419	480	+14.6%	740	857	+15.8%
organic cash flow	152	342	+125.0%	107	-2,862	n/a
restated organic cash flow ¹	380	342	-10.0%	535	286	-46.5%

2Q 2016 highlights:

- **2Q restated revenue¹ down 3.5% year-on-year vs -4.2% in 1Q 2016**
 - **mobile revenues up 6.5% year-on-year, driven by sales of equipment**
- **strong commercial momentum in mobile:**
 - **+11% yoy mobile post-paid customers, +222k net adds in 2Q**
 - **+3% yoy mobile pre-paid customers, +209k net adds in 2Q**
 - **+46% yoy mobile broadband customers, +244k net adds in 2Q**
 - **+76% yoy VHBB customers, +43k net adds in 2Q**
 - **+27% yoy convergent customers, +33k net adds in 2Q**
 - **lower fixed voice line losses, at 61k (-74k in 1Q 2016)**

¹ please refer to restatement table on p.4

- restated EBITDA² margin at 28.4%, down by 3.5pp year-on-year, reflecting higher interconnect and commercial expenses; FY guidance in the range of PLN 3.15-3.30bn confirmed
- restated capex² at PLN 480m (up 15% year-on-year), driven up by the fibre network roll-out (PLN 127m)
- above 1 million households connectable in fibre at the end of 2Q (193k added in 2Q and 295k in 1H); full-year target of additional 800k households connectable maintained
- restated Organic Cash Flow² at PLN 342m

commenting on 2Q 2016 performance, Jean-François Fallacher, Chief Executive Officer, said:

“When I arrived in Poland to take up my new position, I could see straight away that Orange Polska has a unique position in the telecom market, as well as all the resources needed to execute its new strategy. I fully endorse the mid-term action plan presented by my predecessor. Cutting edge connectivity, both fixed and mobile, is absolutely essential to secure long term competitive advantage - even if it means temporarily high capex. We must be prepared for the explosion in data consumption that is only just beginning. That way, we will be able to make a real difference serving growing data needs of our customers in the future. I am happy to take the lead in the execution of this strategy, and I am very determined to deliver the turnaround.

Results for the second quarter confirm our strengths and weaknesses. We continue to deliver outstanding commercial momentum in mobile in both consumer and business segments. Improvement in fixed will be the key item on the agenda for 2H. Our FTTH service is already available to more than 1 million households. However, customer awareness of fibre in Poland is still low. We are now focusing on changing that by our marketing communication. Combined with our other actions, this should significantly accelerate customer take-up. We will also work to improve our convergent offering. New regulations on the registration of pre-paid cards are effective as of today. We are well prepared. Our main concern is for the process to be as friendly and simple for our customers as possible.”

Financial Review

2Q restated revenue² down 3.5% year-on-year vs. -4.2% in 1Q 2016

Restated revenues totalled PLN 2,903 million in 2Q, down -3.5% or PLN 105 million year-on-year. The decrease resulted from a fall in fixed services (stemming mainly from structural erosion of fixed voice) and lower other revenues (resulting from completion of infrastructure projects that generated PLN 65 million revenues in 2Q 2015 and lower ICT revenues). These negatives were partially offset by growth of mobile revenues driven up by equipment sales.

In 2Q we continued our strategy of strong marketing push. Our total mobile customer base increased by more than 400,000 or 7% year-on-year. Post-paid segment continued excellent commercial momentum with net additions at 222,000 (the third consecutive quarter in excess of 200,000). They were well balanced between handset customers, mobile broadband and machine-to-machine. Pre-paid maintained its good momentum from 1Q with net additions of 209,000, the highest in many years. That was driven by more appealing customer proposals across the board (supported by effective communication) as well as marketing action to encourage pre-paid usage among our mobile post-paid and fixed customers.

The number of customers using our LTE network reached 3.2 million, growing close to 32% in 2Q vs 1Q 2016. The share of LTE in total mobile data transmission has exceeded 53%. Growth of data usage per user in mobile post-paid continues to exceed 100% yoy.

Mobile blended ARPU in 2Q was down 8.2% year-on-year, much more than in the previous quarter. This deterioration in the trend is mainly attributed to pre-paid. Pre-paid ARPU was down

² please refer to restatement table on p.4

7.8% year-on-year after it was up 2.5% year-on-year a quarter ago. This was chiefly due to the dilution effect from the above-mentioned marketing action combined with lower growth of incoming traffic. Post-paid ARPU was down 11.4% yoy (vs. 10.3% in 1Q). Erosion was mainly stemming from changes in the customer mix (higher share of SIM-only and instalment contracts) and ongoing pricing pressure (mainly in B2B segment).

Net additions to our convergent base (at 33,000) were slightly lower than in 2Q 2015 (36,000). The number of services used by these customers amounted to 3.4 million, which implies an average of more than four services per customer.

In fixed broadband, net customer losses (at 22,000) were lower than in the past few quarters. Net additions to our high speed services (VDSL and FTTH) came in at 43,000 in 2Q, slightly below the 1Q level (50,000). The share of high speed services in total base (ex-CDMA) is now at 20% vs. 11% a year ago. In fixed voice, structural decline has continued, however at a slower pace, with net loss of lines at 61,000 vs 74,000 in 1Q 2016.

KPI ('000)	2Q 2015	2Q 2016	change
convergent customers	627	799	+27.4%
mobile customers	15,587	16,696	+7.1%
post-paid	7,897	8,798	+11.4%
pre-paid	7,690	7,898	+2.7%
mobile broadband accesses	1,693	2,473	+46.1%
fixed voice lines (retail)	4,347	4,059	-6.6%
fixed broadband accesses (retail)	2,159	2,057	-4.7%

2Q restated EBITDA³ margin at 28.4%, down by 3.5pp year-on-year, reflecting higher interconnect and commercial expenses; full-year guidance confirmed

Restated EBITDA for 2Q 2016 amounted to PLN 824 million and was lower by PLN 135 million versus prior year. Restated EBITDA margin stood at 28.4%, down by 3.5 pp year-on-year. Direct costs were up, driven by higher interconnect costs reflecting growing mobile retail and wholesale traffic, as well as higher commercial costs being a consequence of higher volume of handsets sold. Indirect expenses were reduced further and were down PLN 19 million versus prior year mainly due to optimisations in network & IT and in labour costs.

2Q net income at PLN 17 million, impacted by lower EBITDA and higher financial costs

Orange Polska's net income for 2Q 2016 came in at PLN 17 million, versus PLN 126 million in 2Q 2015. The drop is attributed to lower EBITDA and PLN 20 million year-on-year higher net financial costs following payment for new spectrum in February. These negatives were partially mitigated by PLN 50 million lower depreciation. Depreciation of the new spectrum was offset by a positive effect from extension of useful life for certain network assets.

Restated organic Cash Flow³ at PLN 342 million supported by working capital change

Restated organic cash flow for 2Q 2016 stood at PLN 342 million, lower by just 10% versus 2Q 2015. Firstly, net cash from operating activities (before income tax and change in working capital) was down PLN 89 million mainly as a result of lower EBITDA. Secondly, cash outflow from investment activity increased by PLN 74 million due to higher capex. Thirdly, cash generation from sale of assets was PLN 16 million lower. These negatives were largely offset by positive change in working capital requirement. That was mainly owing to high volume of handsets sold in 2Q 2016

³ please refer to restatement table on p.4

that positively affected inventory balance and very high growth of receivables in 2Q 2015 chiefly as a result of infrastructure projects carried out a year ago.

commenting on 2Q 2016 results, Maciej Nowohoński, Chief Financial Officer said:

“Results for 2Q 2016 were in line with our full-year plans. Despite lack of revenues from infrastructure projects overall revenue eroded less than in the previous quarter owing to much higher mobile equipment sales. Deterioration in EBITDA margin resulted from on-going pressure on high-margin legacy revenues and higher commercial costs, a consequence of higher volume of handsets sold. Despite a fall in EBITDA and higher cash paid for capex, erosion in cash generation was moderate as a result of positive change in working capital. We reiterate our full-year leverage and EBITDA guidance⁴. ”

Restatements to financial data

<i>in PLNm</i>	2Q 2015	2Q 2016	1H 2015	1H 2016
Revenue	3,013	2,903	5,943	5,706
-Revenue of Contact Center	-5	-	-10	-
Restated revenue	3,008	2,903	5,933	5,706
EBITDA	959	824	1,918	1,692
-Employment termination expense	-	-	1	-
Restated EBITDA	959	824	1,919	1,692
Capital expenditures	419	480	740	4,025
- Acquisition of telecommunications licences	-	-	-	-3,168
Restated capital expenditures	419	480	740	857
Organic cash flow	152	342	107	-2,862
-LTE auction deposits / Acquisition of LTE spectrum	228	-	428	3,148
Restated organic cash flow	380	342	535	286

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', 'restated' 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.

⁴ Management forecasts restated EBITDA for 2016 to be in the range of PLN 3.15-3.30 billion. Financial leverage defined as net debt-to-restated EBITDA is expected to be not higher than 2.2x for the full-year 2016.

Orange Polska 2Q 2016 Results Presentation
Tuesday 26th July 2016

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 2Q 2016 Results Conference Call

Conference code:
8047198

Dial in numbers:
UK/Europe: +44 20 3364 5381
US: +1 646 254 3365

Toll free numbers:
UK: 0800 279 4992
US: +1 877 280 2296

	amounts in PLN millions				2016	
	2015		2016		1Q	2Q
	1Q	2Q	3Q	4Q	as reported / as reported	
Income statement						
Revenues						
Mobile revenues	1,505	1,501	1,529	1,523	1,549	1,546
retail services	1,159	1,155	1,157	1,151	1,153	1,108
wholesale services (including interconnect)	208	208	223	223	225	253
mobile equipment sales	138	138	149	149	171	185
Fixed services	1,306	1,306	1,290	1,290	1,265	1,230
Fixed narrowband	458	458	444	445	431	413
Fixed broadband, TV and VoIP	410	410	404	404	396	391
Enterprise solutions & networks	221	221	237	236	236	230
Wholesale revenue (including interconnect)	217	217	205	205	202	196
Other revenue	119	118	194	195	153	150
Total revenues	2,930	2,925	3,013	3,008	2,967	2,926
year-on-year**	-1.7%	n/a	-2.3%	n/a	n/a	n/a
Labour expenses	(430)	(427)	(457)	(453)	(429)	(396)
External purchases	(1,476)	(1,474)	(1,562)	(1,561)	(1,521)	(1,709)
- Interconnect expenses	(321)	(321)	(333)	(333)	(342)	(349)
- Network and IT expenses	(176)	(176)	(181)	(181)	(180)	(197)
- Commercial expenses	(644)	(644)	(662)	(663)	(638)	(801)
- Other external purchases	(335)	(333)	(386)	(384)	(361)	(362)
Other operating incomes & expenses	(69)	(69)	(78)	(78)	(98)	(122)
Employment termination expenses	(1)	(1)	(1)	(1)	(122)	(128)
Gain/(loss) on disposal of assets	5	5	43	43	10	13
Reported EBITDA	959	959	959	959	929	584
% of revenues	32.7%	32.8%	31.8%	31.9%	31.3%	20.0%
- Employment termination expenses net of related curtailment of long-term employee benefits	1	1				89
- Gain on disposal of Contact Center					(4)	
Restated EBITDA	960	960	959	959	925	673
% of revenues	32.8%	32.8%	31.8%	31.9%	31.2%	23.0%
Depreciation & amortisation	(710)	(710)	(733)	(733)	(716)	(712)
(Impairment)/reversal of impairment of non-current assets	(3)	(3)	6	6	(1)	10
EBIT	246	246	232	232	212	(118)
% of revenues	8.4%	8.4%	7.7%	7.7%	7.1%	-4.0%
Finance costs, net	(58)	(58)	(76)	(76)	(76)	(81)
Income tax	(17)	(17)	(30)	(30)	(26)	46
Consolidated net income	171	171	126	126	110	(153)
						17

* Restated for deconsolidation of Contact Center(1Q'15-3Q'15) and after reclassification of wholesale SMS service revenue from "Data, messaging, content and M2M" to "Enterprise solutions & networks"

** Change is calculated based on restated figures

Orange Polska Group key performance indicators

customer base (in thousands)	2015				2016	
	1Q	2Q	3Q	4Q	1Q	2Q
Convergent customers¹	591	627	667	728	766	799
Fixed telephony accesses						
POTS, ISDN & WLL	3,880	3,780	3,681	3,580	3,487	3,415
VoIP first line	555	567	587	614	633	644
Total retail main lines	4,435	4,347	4,268	4,194	4,120	4,059
Fixed broadband access						
ADSL	1,902	1,850	1,794	1,734	1,669	1,613
VHBB (VDSL+FTTH)	207	232	271	316	366	409
CDMA	89	77	66	55	44	35
Retail broadband - total	2,198	2,159	2,131	2,105	2,079	2,057
TV client base²						
IPTV	150	156	169	184	200	213
DTH (TV over Satellite)	606	605	605	603	597	590
TV client base - total	756	761	774	787	797	803
-o/w 'hc+' packages	158	158	164	182	190	194
3P services (TV+FBB+VoIP)²	441	455	478	507	531	547
Mobile accesses						
Post-paid	7,727	7,897	8,087	8,361	8,576	8,798
-o/w B2B	2,496	2,561	2,601	2,688	2,754	2,817
Pre-paid	7,791	7,690	7,606	7,545	7,689	7,898
Total³	15,518	15,587	15,693	15,906	16,265	16,696
- of which dedicated mobile broadband accesses	1,590	1,693	1,806	2,001	2,229	2,473
Wholesale customers						
WLR	991	933	886	832	780	730
Bitstream access	263	261	254	245	234	222
LLU	146	141	136	131	125	120

1. Convergent customers are included in fixed telephony, fixed broadband and mobile

2. Please note that internal control has detected an inaccuracy in the reporting of the TV customer base as of June 2016 and prior periods. Management has undertaken necessary measures to investigate the problem. This investigation has been still ongoing at that moment of release of the results for 1H2016. It is estimated that the inaccuracy does not exceed 6% of the reported TV base at the end of June 2016. This inaccuracy has no impact on the financial results of the company.

3. All SIM cards, including voice, M2M, data

quarterly ARPU in PLN per month	2015				2016	
	1Q	2Q	3Q	4Q	1Q	2Q
Retail fixed voice ARPU	40.4	40.2	40.0	39.3	39.2	38.7
Fixed broadband ARPU (Broadband, TV & VoIP)	60.8	61.4	61.2	61.2	60.3	60.2
Mobile ARPU						
post-paid	50.5	50.0	49.1	47.1	45.3	44.3
-o/w B2B	57.1	55.0	53.9	49.8	48.8	46.8
pre-paid	12.1	12.9	13.2	12.7	12.4	11.9
blended	30.2	30.6	30.6	29.8	28.9	28.1
retail ARPU	25.6	25.7	25.6	24.5	23.6	22.8
wholesale ARPU	4.6	4.9	5.0	5.3	5.3	5.3
handset ARPU	31.0	31.7	31.8	31.1	30.1	29.7
broadband ARPU	23.1	22.2	21.8	20.7	21.4	19.2

<i>other mobile operating statistics</i>	2015				2016	
	1Q	2Q	3Q	4Q	1Q	2Q
MVNOs customers (thousands)	11	8	8	7	7	6
Number of smartphones (thousands)	4,768	4,965	5,256	5,470	5,809	5,996
AUPU (in minutes)						
post-paid	335.6	345.0	341.3	342.5	345.0	359.3
pre-paid	100.0	106.0	107.8	107.5	105.3	104.4
blended	210.9	220.1	221.1	223.9	225.3	231.8
Quarterly mobile customer churn rate (%)						
post-paid	3.7	3.2	3.0	3.0	3.0	2.8
pre-paid	16.7	16.1	17.0	16.9	15.7	15.2
SAC post-paid (PLN)	375.1	320.8	306.8	336.4	265.7	237.5
SRC post-paid (PLN)	292.3	259.0	214.6	277.6	221.1	177.2
4G coverage in % of population	72.0%	78.8%	79.0%	83.7%	89.2%	95.4%
3G coverage in % of population	99.4%	99.4%	99.6%	99.6%	99.6%	99.6%
Employment structure of Group as reported	2015				2016	
Active full time equivalents (end of period)	1Q	2Q	3Q	4Q	1Q	2Q
Orange Polska	17,887	17,393	16,871	16,599	16,497	16,099
50% of Networks	369	354	356	368	349	338
Total	18,256	17,747	17,227	16,967	16,846	16,437

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.