

A young man and woman are riding a motorcycle. The man is in the driver's seat, wearing a red and blue checkered shirt and sunglasses, smiling broadly. The woman is seated behind him, also wearing sunglasses and a straw hat, with her arms raised in the air and a joyful expression. The motorcycle's handlebars, mirrors, and headlight are visible in the foreground. The background shows a sunny outdoor setting with trees and a clear sky.

Orange Polska Integrated Report 2016

The Orange logo, consisting of an orange square followed by the word "orange" in lowercase white letters and a trademark symbol.

orange™



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01

Introduction

1 Introduction

Our new approach to reporting

Orange Polska is pleased to present its first integrated annual report. This report introduces a new way of communicating with our shareholders and other stakeholders that combines the financial and non-financial aspects of our business. It presents our business model, our value creation story, the economic and social context of our operations, how we implement our strategy, how we are governed and how we influence the environment.

We hope that by reporting in this way we can demonstrate to our investors as well as other stakeholders the wider context of our business activities, and explain our responsible approach to doing business. We create value not only in financial terms but in other forms of value such as trust, reputation, job satisfaction, customer loyalty and good relations with local societies. We encourage you to read the report and share your opinion by sending us your feedback to investors@orange.com.

Scope and boundaries

The content of this report addresses key developments and material matters for the period 1 January to 31 December 2016. It provides insight into our business model, our strategic priorities, and the external and internal environment in which we operate: all factors which determine our strategy. It provides both qualitative commentary and quantitative performance measures. The report's content is driven by materiality, and it sets out to address the most important topics for different groups of our stakeholders. The report also includes information on the indirect impact of Orange Polska in the value chain - building relationships with suppliers, public

administrations, business and social partners. We refer to our impact on the economy, local communities or the environment. For the purposes of this report we have included full consolidated financial statements and most material social and environmental information.

The content and the layout of this report are based on the International Integrated Reporting Council (IIRC) and Global Reporting Initiative (GRI.G4) guidelines, ISO 26 000 and Global Compact Principle. The report also reflects the directions in the EU legislation on disclosures of non-financial and diversity information.





02

About our company

2 About our company

Orange Polska is Poland's leading telecommunication provider, operating in all segments of the Polish telecoms market. The Group owns the largest telecom infrastructure in Poland, rendering voice and data services in fixed and mobile networks. Orange Polska is 50.67% owned by Orange S.A., one of Europe's leading telecom operators.

Orange Polska's success is founded on a portfolio of competitive products, a powerful, proactive sales force and outstanding customer care, supported by a robust infrastructure and highly motivated employees. Co-ordinating our efforts around a lean, agile operating model will ensure that we deliver healthy and sustainable returns to our shareholders.

Orange Polska vision: connect everyone to what is essential in their life.

We aim to provide best in class connectivity and digital services to the Polish society thanks to our unique combination of high speed broadband fixed and mobile networks, our wide presence on the Polish territory, our skilled and customer centric employees and the values of our Orange brand. We want to be the efficient, socially responsible and "human inside" operator of choice for Polish society allowing everyone to connect to what is essential in their life.

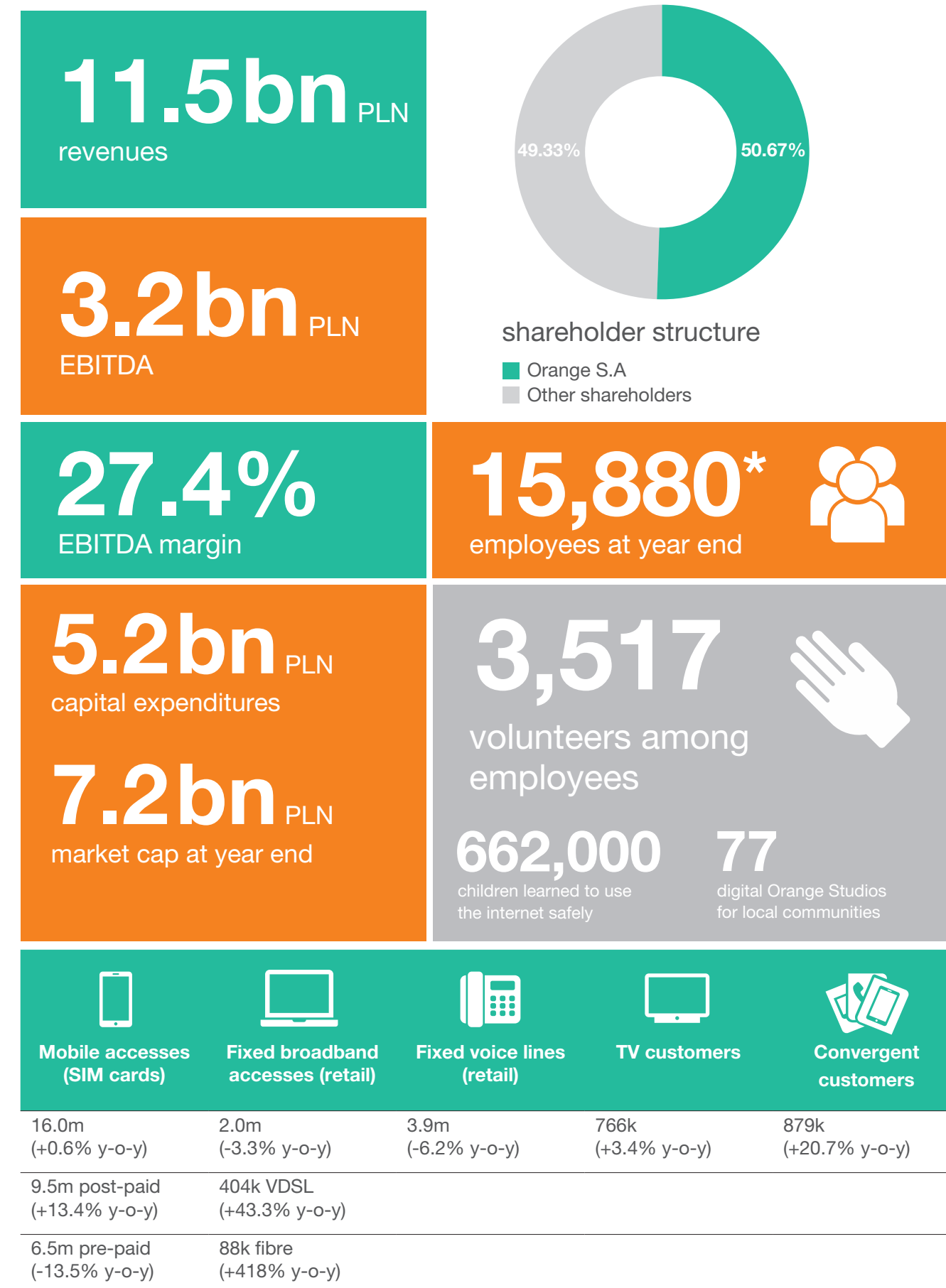
Orange Polska mission: provide to Polish consumers and businesses the best high speed connectivity and an unmatched customer experience.

Orange aims to provide to home and enterprise customers an unmatched daily experience by designing simple digital empowered services on mobile and fibre allowing our customers to be always in touch to connect what's essential in their life.

Orange brand values:

Friendly	Honest	Direct	Inspiring	Dynamic
We treat everyone as an individual and dedicate time for listening. We look forward to working together and sharing successes.	We talk about what we intend to do and we do what we have promised. We have nothing to hide, we are responsible for our actions. We are always transparent and honest.	We always try to speak in a manner understandable to everyone. We are clear in our statements.	Every time we try to view the world from a different perspective, to choose the best course of action. We see things in full colour. We are ready to go beyond the boundaries and take risks.	We are passionate about what we do and what we believe. We want to actively change people's lives. Our optimism is contagious.

Orange Polska in 2016 in numbers



*active full-time positions



03

Our stakeholders

3 Our stakeholders

Dialogue with stakeholders is a process which helps us to better respond to their expectations. Stakeholders have been identified based on the strength of the impact on the Company and the interest and attitude to the Company's activities (positive, neutral, negative). Due to the role of individual stakeholders and the scale of business activity, the frequency of contacts with each group is high - everyday.

	Investors	Customers	Employees		Business Partners	Suppliers	Government and regulators	Communities
Why it is important to engage	As a listed company we take care of our investors and the financial community.	Our customers are vital for the success of our business and we put them at the heart of everything we do.	Engagement of adequately skilled and motivated employees plays a critical role in delivering excellent customer service and increasing long-term value generation.		The possibility of building strategic alliances is important for assuring the better quality of our network and building broader offer portfolio for our customers.	Suppliers and contactors impact on our ability to provide products and deliver services.	As our industry is regulated, it is essential for us to establish and maintain constructive relationships with the regulator.	Empowering local economies strengthens the socioeconomic context in which we operate.
Ways we engage	Providing detailed and transparent communication of financial and operational results; engaging in direct dialogue with investors through participation in roadshows, conferences and meetings; dedicated IR website.	Dialogue with customers: Listening & Responding; customer satisfaction surveys including NPS.	Employee training, and talent development; dialogue with employees: satisfaction survey; dialogue with Trade Unions.		One-on-one business meetings; agreements based on fair rules of cooperation.	Dialogue and building of long-term relations with suppliers; group assessment: opinion surveys; audit.	Maintaining constructive dialogue with regulator; consultation process; dedicated reporting; meetings; participating in industry conferences.	Cooperation with communities; programme partnership with educational and social institutions.
What matters most to them	Transparent financial information; turnaround in revenue, EBITDA and cash flow. Monetisation from network investment. Dividend prospects.	A reliable and resilient network; good coverage; safe services; simple, transparent offers and pricing; good convergent offer; excellent customer service; easy access to services.	Friendly and modern work environment; competitive remuneration levels; safety standards; clear career path and motivation system; possibility of development.		Transparent and fair rules of cooperation	Fair treatment; transparent rules of tenders and cooperation; timely payment; favourable terms.	Licencing and compliance; quality of services and network performance; wider access to broadband; partnership in health and education; investment in disadvantaged communities.	Investment in infrastructure; social investment in communities.



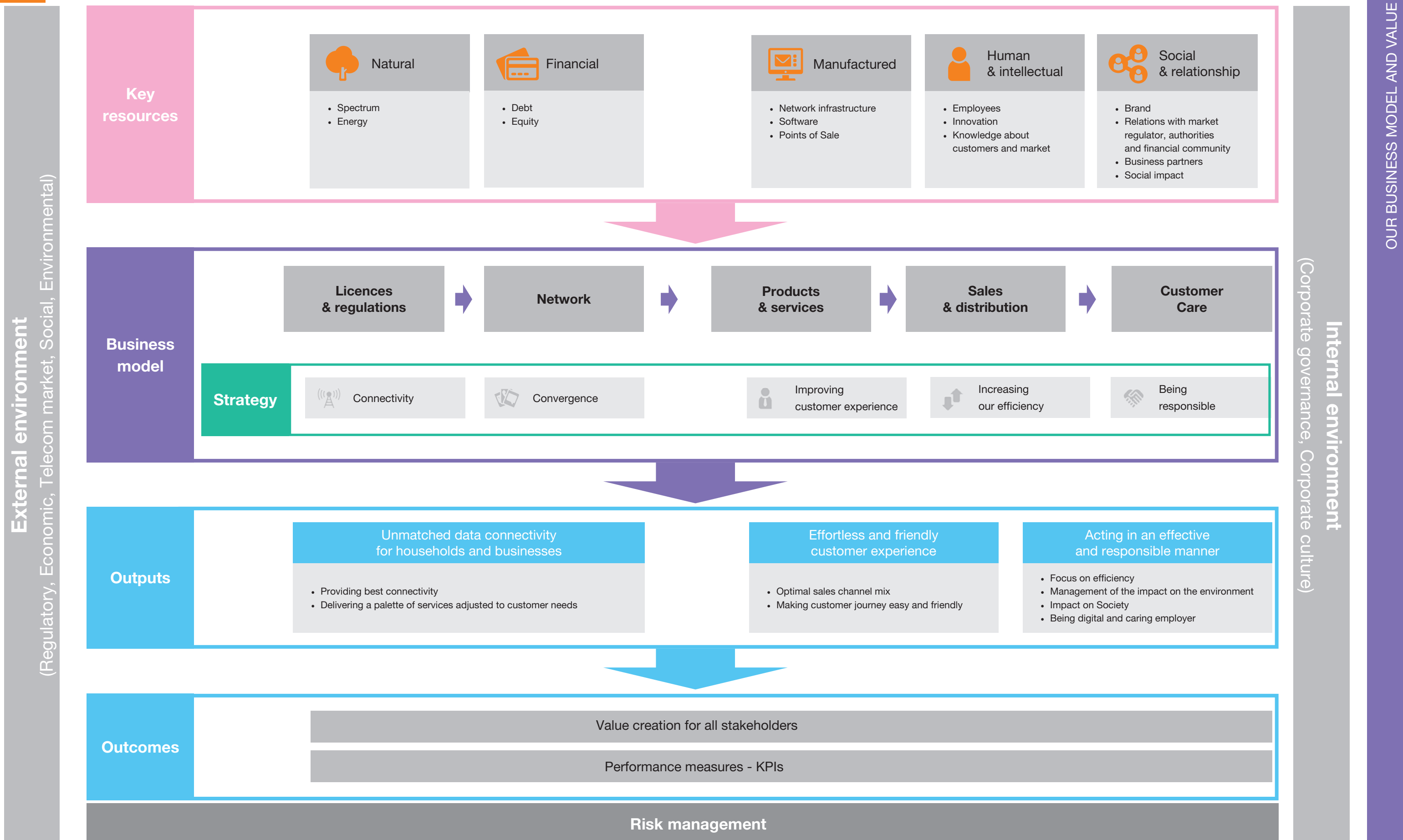
04

Our business model and value creation

4 Our business model and value creation

Orange Polska creates value for its customers by providing a friendly and effortless customer experience. We do this by supplying unmatched connectivity, and by selling a broad portfolio of innovative convergent, mobile and fixed products and services, supported by a proactive sales force, outstanding customer care, and highly motivated employees. Satisfied customers provide the revenues and profits the Company needs to reinvest in the business, ensuring continued value creation for all our stakeholders.

4 Our business model



4.1 Our key resources

Natural

Spectrum

Orange Polska is Poland’s leading telecommunication provider, operating in all segments of the Polish telecom market and holding licences for 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequencies. Spectrum is a scarce and unique natural capital, to which access is regulated at the national and European Union level. Our access to the spectrum required for rendering telco services is at the regulator’s discretion. The amount of spectrum that is at our disposal influences the competitiveness and quality of the services we render.

Energy

Expansion of the telecommunications infrastructure in response to the growing demand for information flow entails higher demand for electrical energy in our industry. We manage natural resources efficiently, monitoring the consumption of energy and other resources, as well as carbon dioxide emissions related to our operations.

Energy consumption (GWh)



CO₂ emission (tonnes)



In order to compensate for this environmentally unfriendly trend, we take steps to optimise energy consumption. We also reduce electricity consumption through replacement of older technical devices with modern energy-efficient ones, modernisation of cooling systems, introduction of energy saving functionalities, and so on.

Financial

Debt and equity

We aim to maintain a responsible capital structure to support business operations and finance capital expenditures. Equity and debt are balanced to remain within the frame of a safe financial structure and good credit standing.

Since 2014, our external funding needs are sourced from our majority shareholder Orange S.A. Such a policy allows for synergies in processes and cost efficiencies, as Orange S.A. is one of the largest telecom companies in Europe with ready access to a broad range of financing sources. The funding is provided on an ‘arm’s length’ basis, supported by market benchmarks.

Almost all of our foreign currency denominated debt is hedged against currency fluctuations (99.5% as of 2016) and more than two thirds of debt is effectively switched into fixed rate debt.

The duration of debt is 3.2 years on average, allowing us to maintain a balance between optimal costs and stable financial structure. The earliest debt will mature in March 2018 (PLN 2 billion Revolving Credit Facility).

Our leverage is closely monitored and the ratio of net financial debt to adjusted EBITDA is a key measure of financial structure and liquidity.

Manufactured

Network Infrastructure

Our mobile and fixed line networks, service platforms and IT systems are the foundations of the products our customers rely on. Maintaining a reliable and fault-free network is critical to our business success. Our activities require significant manufactured capital. We have to respond to changes in technologies and invest in the right mix of technologies - for example, we are currently making significant investments in the roll-out of the fibre network. In our view this is necessary for us to stay competitive in the market and be in a position to offer the best convergent services. Over the last 10 years we have invested above PLN 20 billion in fixed assets.

Software

We run a number of service platforms that combine our network and IT resources to underpin many of the key products we offer. Our internal IT systems enable us to manage our processes, handle customer information and deliver our products and services.

Points of Sale

We reach our customers and sell our products through various distribution channels: traditional points of sale (POS), telesales, active sales, alternative channels and on-line sales. This wide distribution network ensures that everyone has access to our products and services. Our distribution network is constantly evolving in line with changing customer preferences. We optimise traditional shops and open new modern Smart Stores. Online is the fastest growing channel. At the end of 2016 we had 755 points of sale all over Poland. This number included 12 Smart Stores.

Human and intellectual

Employees

Engagement of adequately skilled employees plays a critical role in increasing long term value generation. We invest in our people so they can succeed and contribute effectively to our business. We value diversity, providing equality of opportunities which we believe leads to higher skills-set and higher innovation - diverse workforce fosters greater innovation, helps us to better understand and serve our customers and empowers our people to deliver their best. Orange Polska has 15,880 employees, while outsourced staff number 6,675.

Innovation

We have created Orange Labs to support development of new technologies and innovations. Orange Labs is a part of the international Orange Labs network, which includes over a dozen Orange R&D centres and laboratories. A major element of Orange Labs operations is a process of development, selection and implementation of innovations, which involves co-operation with external partners and undertaking R&D tasks for both Orange Polska and the Orange Group. Any financial settlements between Orange Polska and Orange Group are done on an ‘arm’s length’ basis, informed by market benchmarks. We have been actively involved in the EU Horizon 2020 research and development framework. We spend around PLN 50 million on research and development annually. We consider R&D and co-operation with start-ups to be a major element of our business. We follow the Open Innovation model. As a result, our social impact is not limited to the direct influence of our innovations on the lives of people and communities, but is also reflected in the transfer of know-how to our partners.

■ Knowledge about customers and market

Knowledge about customers and market is crucial to our success. Building trust and loyalty among our customers and giving them what they want is vital to our sustainability in an increasingly competitive industry. The voice of our customers has a major influence on our business decisions. To deliver unmatched experience throughout the customer journey, we engage in active dialogue with our customers on different levels. We conduct comprehensive surveys which compare our offers, products and network quality versus competitors. Our managers are engaged in a “Call Detractor & Promoter” initiative to solve customers’ problems and to better understand our own strengths as well. They also help frontline employees to understand the customer perspective.



■ Social and relationship

■ Brand

Our global and widely recognised “Orange” brand is vital source of competitive advantage. The Orange brand is recognised as one of the most innovative and has one of the highest recognition indices. In the 2016 Millward Brown BrandZ most valuable global brands report, Orange was ranked 53rd and valued at \$18.5bn. The Orange brand is powerful in Poland. According to external market research conducted in December 2016, Orange was considered the first choice brand for Polish consumers with respect to both mobile and fixed broadband. In 2015 we launched a new philosophy and visual identity for Orange in Poland. The brand is now more in tune with the digital world and with our ambitions, which are focused on customer experience. The marketing slogan is “always in touch to connect what’s essential in your life”, and the new guidelines for both the Group’s internal culture and its external actions are based on listening and responding to customer needs. This new approach has changed the way consumers experience our brand through customer care and sales channels.

■ Relations with market regulator, local authorities and the financial community

Good relationships with our key stakeholders are vital to the success of our business. This means to us building trust, readiness for dialogue, and keeping in touch on an ongoing basis. In particular it is essential for us to establish and maintain constructive dialogue with the telecom regulator and local authorities. As a listed company we take care of our investors and the financial community by providing transparent communication of our financial results and engaging in direct dialogue with them.

■ Relations with business partners

Orange Polska is a partner or member of a number of industry, business and social organisations. We want our relations with our suppliers and business partners to be based on transparent long-term relations and principles to abide by ethical standards. We co-operate with both global vendors and local market players. Our activities include both one-off purchases and long-term contracts with over 4,500 suppliers. We follow a competitive and open procurement policy which is ensured by the Procurement Process Rules. The document includes procurement procedures which regulate supplier selection, contracting and confidentiality, and address potential conflicts of interest.

■ Social impact

We believe that digital education, that teaches people how to use new technologies for both their own benefit and that of the community, is as important as the provision of services and technological solutions. Combating digital exclusion requires not only access to new technologies, but also education, particularly of young web users as well as residents of small towns and rural areas.

Through its initiatives the Orange Foundation has been encouraging people to gain knowledge, participate in culture and build communities with skilful use of the internet and technologies. This way they can improve their digital competence and enhance their knowledge of educational resources on the net. This knowledge not only improves quality of life and contributes to society as a whole, but also benefits the long-term development of our business.

Key resources



Natural

- Spectrum
- Energy



Financial

- Debt
- Equity



Manufactured

- Network infrastructure
- Software
- Points of Sale



Human & Intellectual

- Employees
- Innovation
- Knowledge about customers and market

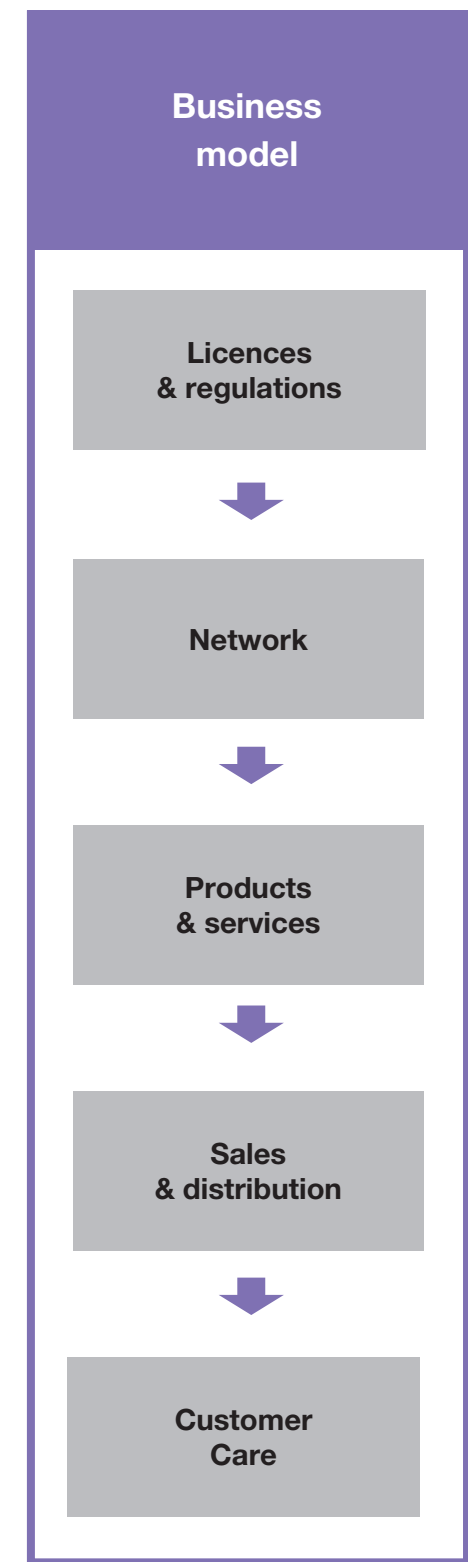


Social & relationship

- Brand
- Relations with market regulator, authorities and financial community
- Business partners
- Social impact



4.2 Business model



Licences and regulations

To be able to render mobile telecom services we require access to radio spectrum. The amount of spectrum that is at our disposal influences the competitiveness and quality of the services we render and ultimately the cus-

tomers experience. This is especially important in the light of huge growth in mobile data consumption.

Our competitive position in radio spectrum significantly improved in 2016 following completion of the relevant auction towards the end of

2015. As a result of the auction we acquired 10MHz spectrum in 800MHz frequency (the maximum that was allowed) and 15MHz spectrum in 2600MHz frequency. Spectrum at our disposal at the moment is used in the most effective way. On top of our own spec-

trum permissions based on the agreement with T-Mobile we also use part of T-Mobile's spectrum in the 1800MHz band and 2.4MHz of T-Mobile's spectrum in the 900MHz band.

The current distribution of frequencies for the 790–2690 MHz bands is presented below:



Details of telecommunications licences:

(PLNm)	Acquisition date	Years to expiration ⁽²⁾	Net book value	
			At 31 December 2016	At 31 December 2015
800 MHz	2016	14.1	2,880	-
900 MHz	2014	12.5	300	324
900 MHz ⁽¹⁾	2013	1.6	20	33
1800 MHz ⁽¹⁾	2013	11.0	175	191
1800 MHz	1997	10.6	-	-
2100 MHz	2000	6.0	574	669
2600 MHz	2016	14.1	111	-
Total telecommunications licences			4,060	1,217

(1) Licences held under agreements with T-Mobile Polska S.A.

(2) Remaining useful life in years as at 31 December 2016.

Over the next 5 years our only licence that will expire in the right to use T-Mobile’s spectrum in 900MHz. It is due to expire in July 2018.

In March 2017 the management decided not to extend the licence for 4.5MHz in 450MHz frequency that expired at the end of 2016. The decisive factor was the price of PLN 115 million set by the regulator. The spectrum in question was used to provide wireless broad-

band services in CDMA technology. We are concentrating on migrating these customers to other technologies.



Network

Network development driven by customer needs

Our activities with respect to network development are driven primarily by the needs of our customers. These needs are evolving along with the growing number of mobile devices, cloud services, high resolution videos, games and streaming services. In addition, our customers increasingly expect secure access to the digital world at home, at work, and on the move, with optimal quality and speed, regardless of technology. We believe that, among other factors, quality of connectivity is a key criterion when customers choose a telecom service provider.

To fulfil these needs, our network has to be widely accessible, reliable and safe. We are the only operator on the market with a converged network infrastructure (combined fixed and mobile networks). That means we can ensure the best network connectivity.

■ The largest network infrastructure in Poland

As the former incumbent operator we have the largest network infrastructure in Poland. Network topology consists of around 14 000 km of fibre in backbone, 75 000 km of fibre in aggregation network and more than 500 000 km of access network. Access network is predominantly built in copper technologies, fibre accounts for around 3 500 km at the moment, however it is growing rapidly, in line with our heavy fibre investment plans. This constitutes the basis for rendering fixed and mobile services.

Fibre is also increasingly used to connect our mobile base stations on one hand to boost capacity to withstand growing data consumption and on the other hand to ensure greater reliability of the network. At the end of 2016, 58% of our mobile base stations were connected to backbone through fibre. Not only cable infrastructure is shared between mobile and fixed network but also higher network layers like core, control and services platforms. Our network is expected to undergo gradual transition to fully IP-based in the years ahead which will require elimination of certain network elements (e.g. PSTN stack).

■ Access network based on technological evolution, local approach and customer demand

To ensure the best connectivity and optimum resource allocation we take into account the specifics of local markets. In cities, we are focusing on the development of Fibre to the home (FTTH) coverage, whereas in less densely populated areas copper-based technologies, supplemented by mobile ones, are the primary broadband access solution.

In the fixed network we stepped up our intensive deployment of fibre. At the end of the year our fibre access network covered almost 1.5 million households in 37 cities.

In the mobile network, thanks to LTE800 rollout based on frequencies purchased in 2016

and earlier Investments in the 1800 MHz layer we were able to ensure almost 100% coverage with our 4G network. In response to the growing demand for high-speed internet access, Orange Polska is also steadily increasing the number of locations supported by LTE Carrier Aggregation technology (4G+), which multiplies available bandwidth.

Network reliability and resilience requires the adoption of self-healing network mechanisms and constant quality monitoring. We are capable of monitoring service quality not only at the statistical level but also from the perspective of an individual customer. We are proactive in our approach and respond before parameters start to deteriorate, preventing network congestion. We want to ensure the same connectivity experience, whether customers use our mobile or fixed networks.

The significant increase of security incidents in the online economy resulted in growing customer demand for cybersecurity. Therefore we set up our Security Operations Center (SOC), serving Orange Polska and Orange Group affiliates. We have introduced security services for individuals (e.g. Cybershield) and business customers. Orange Polska's Computer Emergency Response Team (CERT) operates around the clock, taking care of all cybersecurity issues that impact users who access the internet through the Orange Polska network. CERT Orange Polska is also a part of the national cybersecurity ecosystem.

■ Network efficiency

To increase the efficiency of our infrastructure, legacy technologies and solutions which are mainly voice oriented are being replaced with a converged network capable of handling all types of traffic: voice, data and video. We implement solutions that fully support IP technology, and, thanks to self-healing and dynamic reconfiguration mechanisms, provide for higher service quality while improving cost-effectiveness.

In our efforts to serve customers with the best network in Poland we leverage our own investment by using third party infrastructure and benefiting from EU funds for network construction.

On the mobile side, we co-operated with T-Mobile to set up Networks!, a company responsible for network construction and network operation. We share sites infrastructure (over 10.000 shared sites) and frequency resources (in 1800 MHz band) which enabled the fast introduction of 4G and optimisation of operational costs.

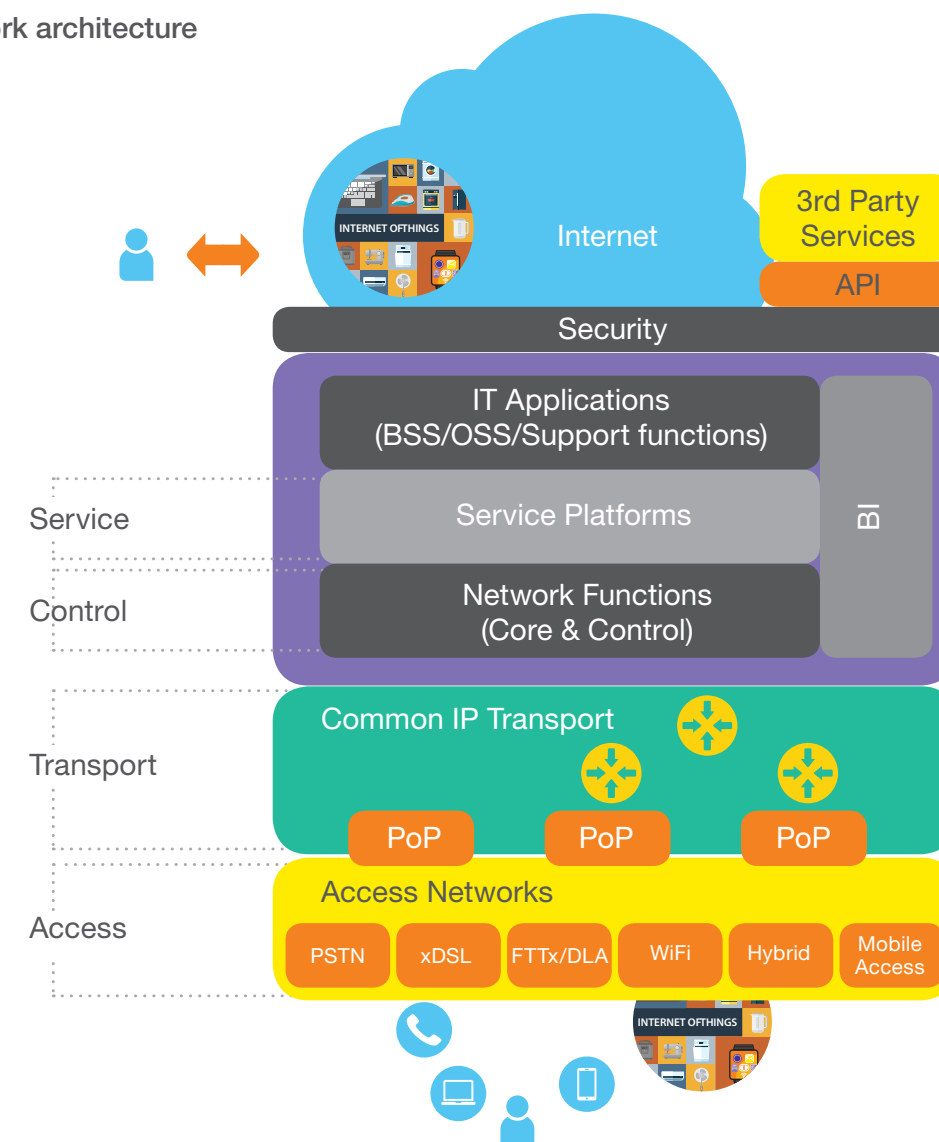
We are also actively looking for opportunities for fibre coverage enhancement.

In areas where we are planning to upgrade

our network to high-speed, besides our investment we are also using modern third party infrastructure, if a reasonable commercial arrangement can be made.

We participate in the national Program Operacyjny Polska Cyfrowa (POPC). From 2014-2020, POPC is implementing EU Digital Agenda objectives in Poland and providing EU funds to support network construction in areas where standalone commercial investment is not profitable. That should allow us to upgrade our network to high-speed capabilities in less populous areas.

Network architecture



Products and services

We aim to meet the needs of our customers by delivering unmatched data connectivity and products and services that matter to them. We want to be the number one operator for Polish households and the trusted partner of choice for businesses, supporting digital transformation. We offer a broad portfolio of telecommunication products and services for individual, business and whole-sale customers. We are the unique fixed-mobile convergent operator in Poland offering fixed connectivity based on different technologies.

Our success as a business depends on delivering value to all our customers, enabling them to fulfil their needs and aspirations. This translates into increased market share on the one hand, and on the other hand into revenues and profits. To achieve success we have to design a palette of services that fit customer needs, are competitive and allow us to differentiate ourselves on the market. Finally, the offer has to be properly communicated.

■ Fitting customer needs

As customers' needs are evolving rapidly and the continued digitisation of society generates a vast increase in demand for data transfer, we have to constantly develop our offer, adjusting it to customers' needs and providing the right products at the right price. Our activities in this respect are different for the mass consumer market and for business customers. Furthermore, the business customer group is not homogenous either. We make a distinction for internal purposes between small businesses, bigger corporate customers and the largest customers (key accounts). An example of a change in customer needs is the trend towards fulfilling the digital needs of entire households, as opposed to the single services contracts that were the market standard a few years ago. Our products are avail-

able to all our customers regardless of their age, ability, skills or place of residence. We conduct an active dialogue with our customers to ensure that our services and products meet the relevant needs and requirements.

■ Competitiveness and differentiation

In order to be successful, our service portfolio must be competitive. So we very closely monitor the activities of our competition and react appropriately. The Polish market is very competitive with a significant number of players in all its segments. The level and dynamics of competition has had a very significant influence on our financial results. We are constantly looking for innovations in our product portfolio and the right balance between features and price. The key differentiator and the source of competitive advantage for us is the ability to offer both mobile and fixed services, which we call convergence. By addressing the household's telecommunication needs in a comprehensive manner and encouraging customers to buy additional services, convergence increases customer satisfaction and reduces churn as compared to single service users. We also develop adjacent services that complete our basic telecom product portfolio for a household, like financial services and energy resale. On the business market a

good example of differentiation strategy is our development of competencies in ICT, which in a lot of cases helps us to win business in our core services. Our global and widely rec-

ognised "Orange" brand is a vital source of competitive advantage and allows us to differentiate.

Sales and distribution

We aim to make it easy for our customers to access our products and services. We use different channels of contact with a customer, including: traditional points of sale (our own or our agents'), independent distribution chain outlets (e.g. stores with consumer electronics), on-line, telesales and door-to-door. To maximise value generation we must ensure the right mix of distribution channels, reflecting market evolution, local specifics, customer needs, competition and the range of services we offer.

■ More effective selling with a local approach

The Polish telecom market is not homogenous, with households divided fairly equally between big cities, small and medium cities, and rural areas. Each of these three zones is different with respect to factors like competitive environment, our market shares in particular segments, connectivity options and customer needs. As such we have implemented the 'Macro2Micro' model, dividing sales into 10 regions and 80 districts. This decentralised structure allows us to diversify our sales approach to match local expectations and customer needs. It also allows us to better recognise the potential of these markets and more effectively plan our network investments adjusted to local demand.

■ Digitalisation and cross-channel

Our strategy with respect to the right mix of sales channels is driven mainly by evolving customer purchasing preferences and internal efficiency. We carefully monitor costs to revenue ratios. An obvious trend

is growing importance of online sales. Already around 25% of customers begin their experience with Orange on the internet and that ratio is increasing. Another trend is the desire to have the same experience regardless of distribution channel, face-to-face, by phone or online. To address this we have developed an omnichannel approach. Despite the trend towards online we do not expect traditional points of sale to lose their importance. We have seen a trend towards synergy between these channels: customers start a transaction on-line but finalise it in the shop, or vice-versa. At the same time we actively manage our network of points of sale. This includes closures of non-profitable locations, relocations, modernisations and upgrades. To encourage customers to explore new solutions, in 2016 we continued to open Smart Stores, interactive outlets designed in line with the latest trends, where our customers can test all our services and products.

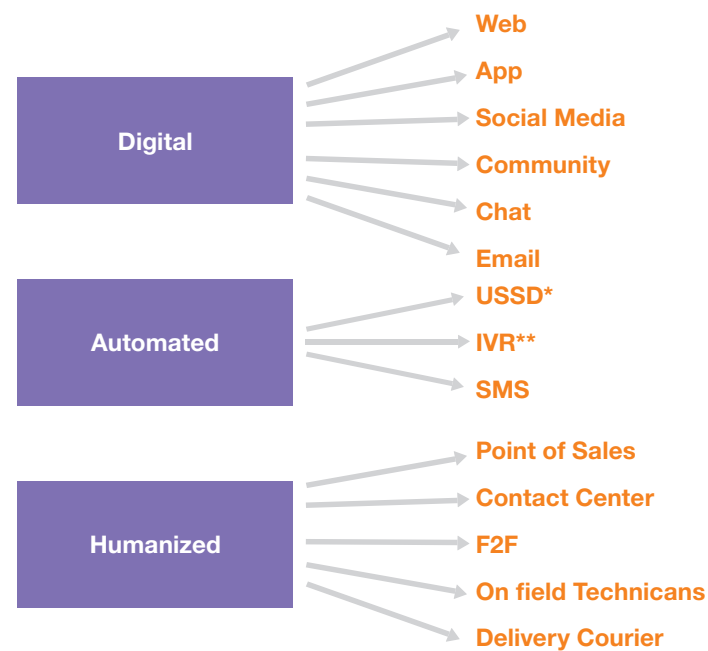
Customer care

Our primary task is to deliver an exceptional customer care and across all channels of communication with Orange. Therefore, we have been constantly adapting our operating models to the changing needs of customers from various segments. Orange customers are offered: easy access to services; best connectivity; user-friendly and customised care; various means of contact, from traditional to modern ones (mobile apps, social media, chat).

Friendly contact channels mix

We provide highly cost-effective and top quality channel mix (digital, automated, humanized) which are adjusted to customer needs:

Customer Contact channels mix



*USSD - Unstructured Supplementary Service Data. After choosing the selected menu on the handset screen, the customer is activating another menu that includes information he needs. The menu is visualized (available on the phone screen)

**IVR - Interactive Voice Response. System allowing the interactive caller support. The calling person, after hearing the recorded messages, selects the chosen items from the menu.

Orange Polska is the only telecom provider in Poland to hold the prestigious international COPC (Customer Operations Performance Center) certificate. It attests to the highest standards in customer care management. In all our contact centres we have implemented the relevant global management

standards, which concern efficiency monitoring, quality, employee recruitment and development, etc. We currently have 22 contact centres, in which we employ more than 5200 employees both permanent and outsourced, as of December 2016.

Customer care at Orange Polska is increasingly handled through the newer contact channels, like social media platforms or mobile apps. For five years we have been Poland's leader in using Facebook for customer care, and Orange is among TOP 10 in the worldwide list of Socially Devoted Brands. The 'My Orange' mobile app and portal is regularly used by 2 560 000 of our customers. It enables them to quickly and easily check their credit balance, activate or deactivate services, review details of fees and charges or pay invoice.

E-invoice share as a proof of possibility of contacts digitization (over 68%).

Customised Service

We offer our customers solutions tailored to their lifestyles and needs. In particular, we have implemented dedicated customer service for the following groups:

- Young people (of less than 24 years): We have offered them a more casual manner of conversation and encouraged them to use the 'My Orange' app and other digital channels;
- Senior citizens (of more than 65 years):

As the sole telecommunications company in Poland we have obtained the 'OK Senior' certificate for our dedicated infoline;

- Deaf persons: We have provided them with sign language interpreter's services on our website to assist in contact with infoline consultants;
- Premium customers (subscribing to at least seven services): They have designated and personalized customer care;
- Fibre service customers: A dedicated team of experts handles all customer matters on a comprehensive basis (95% of cases are resolved within 24 hours). As the sole operator in Poland we offer fibre customers a modern 4K TV decoder;
- Most business customers: Operational care designated specifically for 3 segments (small businesses, bigger corporate customers and key accounts). They provide dedicated handling of cases from the beginning to end and offer customised solutions as well as expert customer care in our sales outlets.



4.3 External environment

Regulatory

■ General rules

The Polish Telecommunications market is subject to sector regulation established at EU level and transposed to national legislation. It is supervised by the National Regulatory Authority - Office of Electronic Communication (UKE). As a general rule the telecom market is divided into separate markets of wholesale and retail services (so-called "relevant markets"). UKE analyses the level of competition within each of these markets and, based on this analysis, decides on the necessary level of regulations. As an incumbent operator on the fixed services market, Orange Polska is designated an entity with significant market power and is subject to regulations in certain market segments. As such, this regulatory regime has significant impact on some of the services we provide. On the mobile market, regulations are equal for Orange Polska and other big market players.

As our services are provided to millions of customers, our activities are monitored by the Office of Competition and Consumer Protection (UOKiK), mainly with respect to adequate protection of customer rights.

■ Core regulations

We consider the following regulations to be the most important for our business at the moment:

- Regulation of call termination services in fixed network – Orange Polska is not the only operator subject to these regulations but, because it has the most market power, its regulation is the most restrictive in terms of termination rate and wholesale access conditions.

Additionally, fixed termination rates applied to Orange Polska and other operators are asymmetrical.

- Regulation of wholesale broadband services (so called BSA) and physical access to last mile infrastructure (LLU) belonging to Orange Polska, including ducts, is mandatory in the whole area of the country under cost orientation limitation and non-discrimination requirements, and covers both fibre and copper lines. Bitstream access (BSA) to Orange Polska fibre and copper infrastructure is not mandatory in the 76 municipalities which are deregulated.
- Regulation of retail and wholesale access markets for fixed telephony – Orange Polska is the only operator which is regulated in terms of retail and wholesale access fees (call services are already deregulated). These regulations can limit price flexibility in retail offer creation.
- European regulations regarding roaming prices in the European Union – According to these regulations, between 30 April 2016 and 14 June 2017 retail prices of roaming consist of local prices and specified surcharges. Since 15 June 2017 the prices of retail services in roaming will become equal to retail domestic prices. Operators will be protected against abusive use of roaming through the "fair use" policy.

Obviously as a business entity we must also comply with administrative decisions and general regulations. Recently the legal environment has been changing dynamically.

For example, a change in the law that was originated outside of telecom sector and which has significant impact on our market was introduction of registration of pre-paid SIM cards in 2016.

■ Recent trends in regulatory environment

The regulatory regime over the past few years has been evolving toward policy of balanced intervention. This is mainly related to changes in the structure of the overall telecom market in Poland and a much higher degree of competition in particular segments (e.g. emergence of cable operators as important players in retail fixed broadband). For example, in October 2014 UKE removed BSA regulations in 76 municipalities (mainly big cities), which corresponds to around one-third of the total fixed broadband market. New market analysis of wholesale broadband access (BSA and LLU) is expected this year. Also, at the beginning of 2017 UKE decided to deregulate SMS termination services.

At the same time UKE more often supports regulatory policy that favours an investment environment, moving from ex-ante regulations to ex-post verification, if a competitive environment already exists. The potential change in the regulatory framework that could be expected is a change in Fixed Termination Rate (FTR) calculation. UKE is working on a new FTR costing model in order to implement the European Commission recommendation. When it is implemented, it will have a material negative impact on the revenue of Orange Polska.

The changes to the roaming price regulations have a negative impact on both revenue and profitability of Orange Polska. This impact was already visible in 2016 and will have further effects in 2017 and 2018.

Economic

Changes in the economy, such as GDP growth, inflation, unemployment levels, interest rates or foreign exchange rates, can influence our ability to create value. Whilst outside of our direct control, we can mitigate some of the potential adverse impact associated with market movements, such as interest rates and foreign exchange rates, through our hedging strategies.

■ GDP Growth

In 2016, the Polish economy continued to grow, though at a slower pace than in 2015. GDP grew at a rate of 2.8%. The positive economic conditions resulted mainly from stable growth in private consumption, while slightly less favourable trends were reported in exports and investments. All these three growth engines should support the economy even better in subsequent years. Improvement in the labour market, growing wages, additional social transfers (especially the '500+' programme) and low interest rates will stimulate an increase in household expenditure, while export, which slightly slowed down in the second half of 2016, should rebound owing to recovery in the Eurozone. Poland's economic outlook depends on the condition of other European economies and the economic climate in global markets. According to economists mean consensus published in Bloomberg Poland's GDP is expected to grow 3.3 % both in 2017 and in 2018.

■ Inflation

Average annual CPI reached -0.6% in 2016, which was well below the inflation target (2.5%). Deflation, which took hold in the middle of 2015, resulted primarily from lower food, raw materials and fuel prices, which in can be attributed mainly to external factors. Russian sanctions on EU food exports lowered demand for domestic food products, while a slump in oil prices in international markets contributed to a rapid decrease in fuel prices. Throughout the year, the Monetary Policy Council kept the reference interest rate at the record low of 1.5% (set in March 2015), upholding an opinion that the current stable economic growth limited the risk of inflation remaining below the target in the medium term. The expected increase in inflation will result from depreciation of the Polish zloty in case of a significant increase in risk aversion in global financial markets.

■ Unemployment and Labour Costs

The labour market has been positively affected by the general macroeconomic climate, which was reflected in an increase in employment and a decrease in unemployment to 8.3% (-1.4 pp y-o-y) at the end of 2016. At the same time, an increase in wages in the enterprise sector was reported. Between January and December 2016, these wages were up 3.8% in nominal terms. A further improvement in the labour market, driven by growing GDP, enhanced the mood in the enterprise sector. Growing investments and inflow of EU funds can be expected in 2017.

■ Interest Rates

2016 did not bring any changes in the Central Bank's policy and interest rates remained stable at a historically low level. It is expected that the reference interest rate will not change from the current level of 1.5% in 2017. However, a potential increase in interest rates should not have any major influence on the Group's debt service costs, due to the high hedging ratio.

■ Foreign Exchange Rates

Foreign exchange rate fluctuations affect Orange Polska's obligations denominated in foreign currencies and settlements with foreign operators. However, this influence is greatly contained by a portfolio of hedging instruments held by Orange Polska. In 2016, the Polish zloty lost 3.0% against the Euro and 6.4% against the US dollar. Polish currency fluctuations were caused by both internal and external factors. Due to outflow of capital from emerging markets and higher volatility in the currency market, it is not possible to clearly predict the Polish zloty trend in 2017. There is also considerable uncertainty as to changes in the economic policy seen in 2016. In the reported period, the exchange rate of zloty against euro was in the 4.2355–4.5035 bracket, while its exchange rate against the US dollar oscillated between 3.7193 and 4.2493. The National Bank of Poland's (NBP) mean exchange rates of PLN against the US dollar and euro were 3.9495 and 4.3637, respectively, in 2016.

■ Telecom market

The Polish telecom market is characterised by high levels of competition and relative fragmentation of players. It is mainly driven by mobile services and a high degree of fixed to mobile substitution in both voice and broadband. These factors have had a critical impact on the overall performance of the market in the past.

■ Declining Polish telecom market

According to our estimates, between 2012 and 2016 value of the total telecom market was declining at a pace of around 2% per year. Retail mobile service is by far the largest market segment with more than 50% share.

The key factors that have influenced market performance in the recent years include:

- Very high level of price competition in mobile services, exacerbated by few price wars in both B2C and B2B segments. The key disruptor was Play, a latecomer to the market, which by the end of 2012 was taking advantage of MTR asymmetry and pursued an aggressive strategy of gaining market share.
- Structural decline of fixed voice services which was influenced mainly by 1/ very fast proliferation of mobile at affordable price, 2/ partial regulation of this segment, 3/ unfavourable demographic trends.
- Weak fixed broadband infrastructure, especially outside of big cities, which in combination with fast development of mobile services and strategies of mobile-only market players resulted in partial fixed to mobile substitution. Penetration of mobile broadband positioned as home internet access is much higher in Poland versus EU average.
- Pay-TV market being negatively affected by development of strong free digital terrestrial television.

Orange Polska has been affected by these trends relatively more than the overall market, which has been reflected in falling revenue. This was mainly due to:

- Necessity to adjust to high price competition on mobile to defend market shares in both B2C and B2B segments.
- As an incumbent operator, very significant exposure to fixed voice.
- Worse than overall market performance in fixed broadband due to regulations and weak infrastructure in big cities, resulting in the loss of market share in favour of cable operators.
- No significant exposure to pay-TV market.

■ Expected future market trends

We see the following key trends to drive the market in the years ahead:

- There are certain arguments to expect a more benign situation on the mobile market going forward. Unlimited allnet voice tariffs have become a market standard. In addition the market shares of the four main players have more or less equalised. However even though the prices are already very low the market continues to be very competitive and the recovery so far has been rather slow. Operators increasingly compete for household incomes offering very favourable rates for incremental services.
- Data consumption should further surge spurred by proliferation of mobile devices and very fast growth of data per customer. We foresee that data consumption will continue to grow at the current pace at least for the next few years while the smartphone revolution continues in Poland.
- Significant high investments in high-speed broadband infrastructure, from Orange Polska but also other market players as well the government POPC programme. Better infrastructure combined with growing data needs will drive the migration towards high-speed internet.
- Fixed voice will further decline, but as time goes on this has less and less impact on the overall market performance.
- Pay-TV market should be rather stable. Poland still has very strong linear TV. Of course OTT content is growing fast but it should be rather an add-on to linear TV than a significant substitution factor.
- We expect the gradual adoption of eSIMs on the market, starting with wearables, but we see limited impact on the smartphone market by 2020.

We believe that the strategy adopted by Orange Polska makes it better equipped to capture positive trends than it was in the past.

There are two key aspects:

- Fibre network rollout: Our significant deployment of fibre network is gradually closing the technological gap with cable operators, and is intended to put us back to the growth path in fixed broadband
- Convergence: Orange Polska is a unique convergent operator in Poland and is pursuing this strategy mainly against cable operators, who so far have not yet adopted mobile services on a meaningful scale

On the other hand we will be under further pressure from negative trends in legacy services and old technologies in fixed broadband.

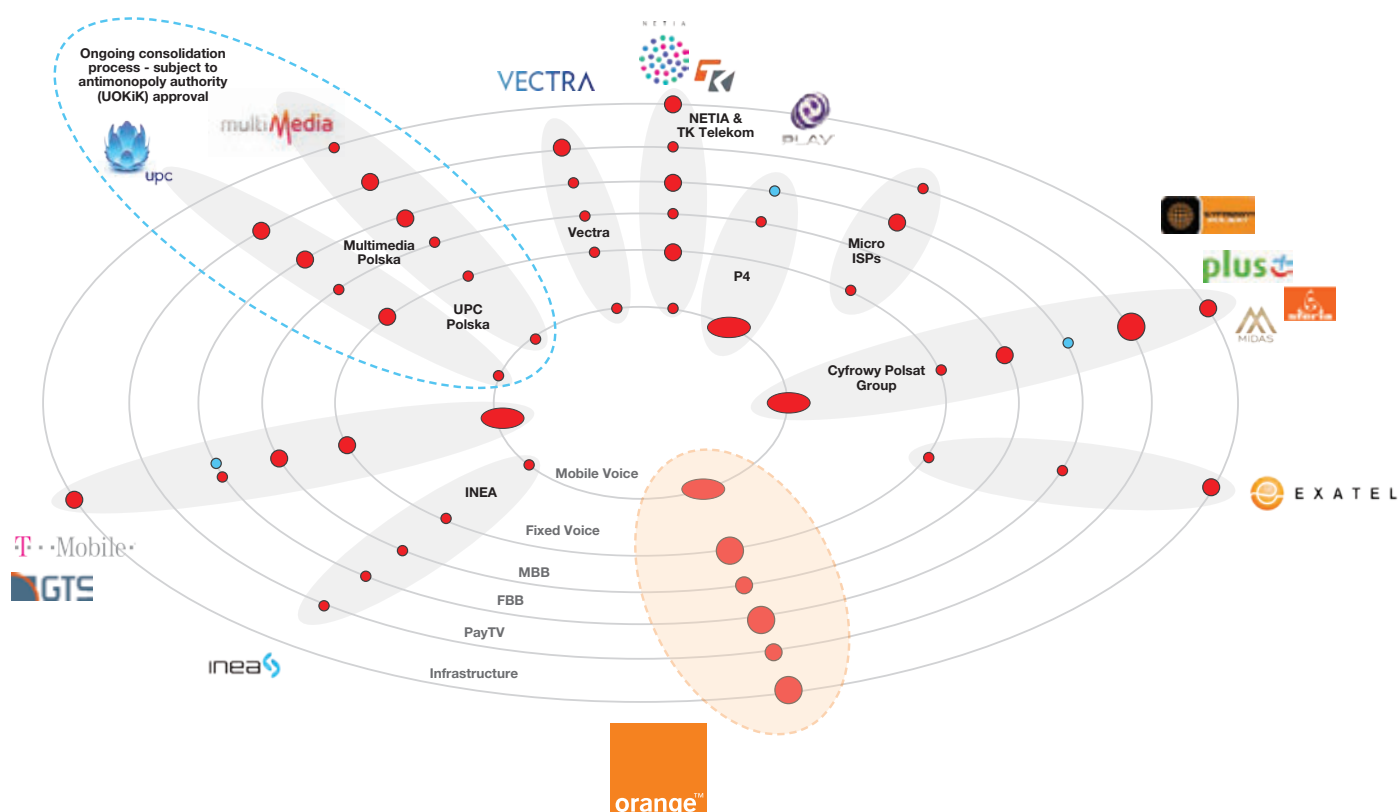
More details on our strategy are presented in strategy section on page 45.

Orange Polska: a key market player in all market segments

The Polish telecom market is fragmented both in mobile and fixed segments. So far, most consolidation is only taking place in fixed. Over the past five years the most notable transaction was the acquisition of mobile operators Polkomtel by media group Cyfrowy Polsat in 2013. This created a media-telecom group focused mainly on bundling pay-TV and mobile services. Another major transaction – the acquisition of Multimedia (number 3 cable operator) by UPC (number 1 cable operator) – is currently in the approval process from the Office for Competition and Consumer Protection. If the transaction is finalised UPC's household coverage will jump by around 50%, which may encourage launch of convergent services in the future.

Orange Polska is the largest player present in all segments of the market and the volume and value leader in retail mobile services, fixed broadband and fixed voice.

Main Players on Polish Teleco Market



Social

The standard of living and the rate of employment in Poland have moved significantly closer to the EU average, but there is still a number of difficulties. Despite considerable successes, Poland's rate of employment at 56.3% is still lower than the EU average.

The rate of unemployment has continued to fall, reaching 8.6% in January 2017. However, Poland is still facing the problems of rapid ageing of its population and high emigration. The unfavourable demographic trends are already reflected in a decline in the working-age population. The percentage of elderly people in the entire population is expected to grow from 20.9% in 2010 to 58% in 2050 according to European Commission's Country Report Poland 2016.

There have been much progress in addressing inequality and poverty recently. The number of individuals affected by poverty or social exclusion has steadily decreased since 2008. However, Poland's social welfare spending has been amongst the lowest in the European Union, and social benefits, social insurance premiums and direct taxes have only slightly contributed to reducing poverty.

Digital exclusion is one of the factors leading to social exclusion. Internet access is nowadays not only a convenience, but often a precondition of full participation in the social, cultural and professional life. According to the Central Statistical Office (GUS), 80.4% of Polish households had access to the Internet (and 75.7% had broadband connection) in 2016.

According to the latest Social Diagnosis, the key barrier in spreading the Internet use is lack of motivation as well as lack of the relevant skills. Financial barriers are indicated as the reason for lack of the Internet access by about 5% of households, while lack of technical opportunities at the place of residence is cited by just 0.5%. Thus, hard barriers (of financial or infrastructure-related nature) have decreased in importance. Finally, 15% of households believe that they do not need the Internet.

The use of the Internet and modern technologies varies with social and demographic factors, especially age and education. The Internet is used by a great majority of young people and very few seniors. The use of the Internet is also related to wealth and the size of town, though the role of this factor has been declining.

4.4 Internal environment

Environmental

Orange Polska is sensitive to global challenges related to the natural environment and natural resources. As a provider of telecommunication services we can significantly contribute to reducing the negative impact of business on the environment, so we incorporate initiatives to raise environmental awareness and respect for the environment into our business activities. Within environmental protection policy we supervise compliance of our operations with the law and other regulations regarding ecology.

We promote environmentally friendly solutions, which help to reduce greenhouse gas emissions through offering services that can replace traditional communications or written documents. Thanks to tele- and video-conferences, electronic document flow, online shopping, e-services, e-invoices and com-

prehensive ICT systems for business and administration, we make environmental protection part of everyday life. By the end of 2016, e-invoices had been adopted by over 5 million of our customers. In 2016, we saved 745 tonnes of paper by using e-invoices, thus saving 12 676 trees (or 26 hectares of forest). Our business activities influence the natural environment through generation of industrial waste such as electronic and electrical equipment, batteries and storage cells, cables and telegraph poles. The disposal thereof is closely controlled.

Corporate governance

Corporate Governance in Orange Polska is designed to provide responsible company management and supervision in order to achieve the strategic goals and value enhancement. We have created a strong corporate governance framework which consists of mechanisms that help achieve company's strategic goals. Those mechanisms consist of structures, processes and controls which help us to operate more efficiently and mitigate risk. The capability of the company to create value is ensured by having capable governing bodies with a proper division of duties and optimal representation of experience, skills and education. The sustainability of the company is secured by the ability to allocate fairly and sustainably the created value which is necessary to company's long-term success.

The details of Orange Polska's corporate governance are described in the Corporate Governance Chapter of this report. on page 89.

Corporate culture

Orange Polska attaches great importance to ensuring equal treatment, clear evaluation and promotion criteria, professional and personal development opportunities, as well as good and safe working conditions. We aim to create a culture of co-operation, in which all employees feel respected and can freely pursue their professional goals and life passions. Orange Polska conducts regular employee surveys and engages in dialogue with trade unions. We create the foundations that help create a friendly workplace. We take care of employees' safety, health and decent retirement. We provide preventative healthcare, promote sports activity among employees and offer help and support in difficult life situations. We value diversity and believe that skilful diversity management in a workplace creates new opportunities. It is essential for us to foster an organisational culture based on mutual respect for the differences between us.

The details of Orange Polska's corporate culture are described in the "Being digital and caring employer" section on page 74.





05

Our strategy

5 Q&A with Jean-François Fallacher Orange Polska CEO



5.1 Q&A with Jean-François Fallacher Orange Polska CEO

■ **You came to Poland almost a year ago. How do you find the Polish telecom market?**

The Polish market is very interesting and challenging. Consumers are very open to new technologies and quick to adopt the latest. There is a high level of competition, which so far has mainly been price oriented, and relative fragmentation of players. It is mainly driven by mobile services and a high degree of fixed to mobile substitution in both voice and broadband. These factors had a major impact on the overall performance of the market, and this is also reflected in Orange Polska's results.

■ **What were your first priorities?**

Through 2016 I mainly concentrated on learning the market, understanding the situation inside the company and focusing on short-term operational fundamentals. These included, chiefly: improving execution on fibre customers take-up; pre-paid registration; changes to our TV offer; organisational changes in the company; and preparing our new convergent offer Orange Love which we launched at the beginning of February 2017.

■ **You have introduced some important changes in the organisational structure. Could you please comment on that?**

In my opinion the structure of the company was too complex and required some simplification to better serve our customers and our goals. I created a new position of executive director in charge of the network. As data flow in our mobile networks doubles every year and we heavily invest in fibre connectivity, the network requires special care and attention. Secondly, I decided to strengthen the strat-

egy-innovation team headed by deputy CEO Piotr Muszyński, which will lead and enforce our transformation. Finally, since the beginning of 2017 we have a new structure for consumer and business markets. I am convinced these changes will simplify our internal structure and improve execution of our strategy for both customer groups.

■ **What is your opinion of Orange Polska's strategy? Is there anything that needs to be changed?**

Our strategy is based on: data connectivity, both mobile and fixed, which is absolutely the top priority for our customers; convergence, which is our unique feature and source of competitive advantage; and increasing efficiency, which is a must in such competitive environment and in the light of constant pressure on our revenues. These pillars are absolutely right: I fully endorse them. What we would like to change and improve is execution, which is not as fast as we would like.

■ **How has Orange Polska been implementing the idea of corporate social responsibility?**

Corporate social responsibility is a major element of our presence in the Polish market. Based on a process of broad public consultation, we have developed our CSR strategy, which covers a number of important social issues, such as digital inclusion, particularly access of people with disabilities to telecommunications services and the education of the young generation how to use the net wisely, safety on the web, including protection of children and teenagers, environmental issues or employee care.

Today, we can talk not only about social responsibility of Orange Polska, but its actual social influence. We know that owing to the long presence and history of our company in the Polish market, the type of our industry and the size of operations, our impact on the economic growth, development of innovations, market standards, local communities or natural environment has been significant.

■ **What are your priorities for 2017?**

In 2017 we want to concentrate on fine-tuning our strategy and improving execution, as I mentioned. We are working on an update of our mid-term plans, which we intend to announce later in the year. We should move towards simplification both of internal processes and our customer proposition, and show stronger focus on cost saving initiatives. Our execution should improve following recent organisational changes and the initial push of our new convergent offer Orange Love – which is our clear market differentiator, and which has become our flagship proposal for Polish households. As far as fibre is concerned we have very ambitious plans for the extension of our network and we also want to shorten service delivery time. We want to at least double our fibre customer base in 2017. We are making big changes in the way we manage the customer experience. Our approach going forward will be driven by customer journeys (different types of experience, such as purchase, payment, termination or help) instead of distribution channels. This will allow us to provide a standardised and coherent quality of service across all customer touchpoints and further improve our Net Promoters' Score (NPS).

■ **How do you see the Polish market and Orange Polska a few years down the road?**

Orange Polska is in transition from a legacy to a modern telecom operator. We are rapidly improving connectivity, pushing convergence, transforming our distribution channels, improving customer care. All this is done to facilitate our goal, which is financial turnaround and return to a growth path. I strongly believe this is achievable, but it requires patience, proper execution and also short-term sacrifices.

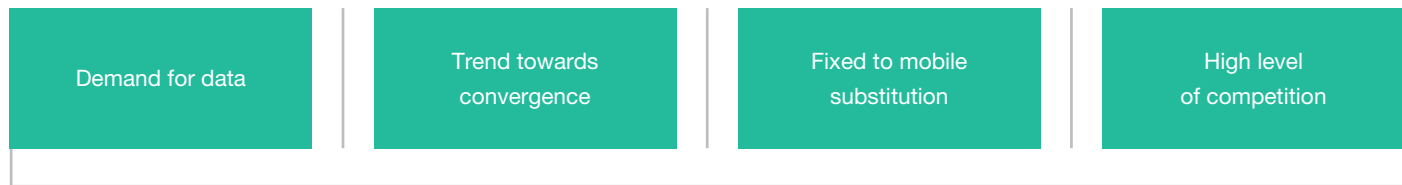
It is quite obvious that the Polish telecom market, similarly to other countries, will be driven by the gradual digitalisation of all aspects of our lives. I think that it will eventually consolidate, as it is quite fragmented. There will be probably fewer players but more integrated and converged. As the prices are already very low, rather than further competing mainly on price, operators will focus more on quality of products and customer care which will translate into higher customer loyalty.

5.2 Our strategy

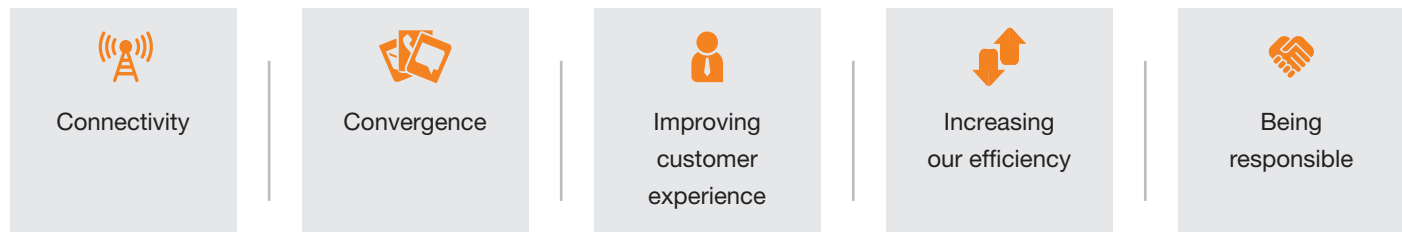
Our key strategic goals are:

- Return to growth of revenue and profits
- Growth of shareholder value

Key trends to shape our business:



As a result our strategy focuses on:



At the beginning of 2016 we presented a three year strategy running from 2016 to 2018. During the next annual strategy review we noticed that monetisation of certain areas of this strategy was slower than expected and that we needed

to improve execution to bring the turnaround. We are currently conducting a strategic review and analysis of various new initiatives. The outcome of this process will be presented later in 2017.



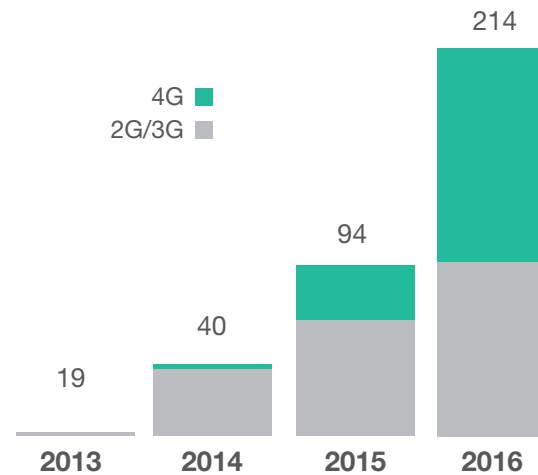
 **Connectivity – best for fixed and mobile**

It's all about data

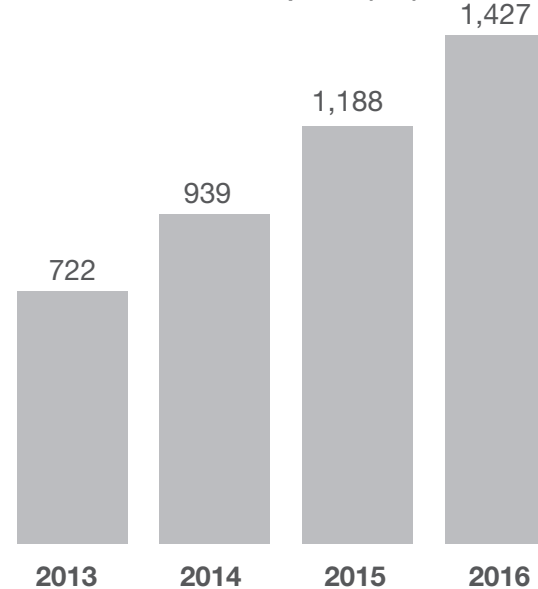
While voice and messaging continue to be very important for our business, it is quality of data connectivity that has become the key criterion in selecting a telecom service provider. This is because as the world is becoming more and more digital, customer needs are evolving and the number of smartphones and other connected devices is rapidly rising. As a consequence mobile but also fixed data consumption continues to grow very fast and that trend is expected to continue in the years ahead.

Fixed and mobile data consumption

Mobile data consumption (PB)



Fixed data consumption (PB)



Convergent network

Customers want fast, reliable and safe broadband access, and from their point of view the technology by which the service is delivered is less important. It is our strongly-held opinion that fulfilling customer needs requires both first class mobile and fixed connectivity. Mobile only will not be sufficient. Fast fixed broadband is necessary to digest future demand for data driven by heavier and heavier traffic and demand for streaming, and at the same time to provide a desirable customer experience on mobile network. In addition, a substantial part of our operations is dedicated to business customers who specifically cannot rely only on mobile technology.

Local approach

Our connectivity strategy takes careful account of differences in local markets. Polish households are split roughly equally between big cities, small cities and rural areas. Each of these zones is different, mainly with respect to the competitive environment, our market shares in particular segment and connectivity options. In big cities our connectivity strategy will be concentrated around fixed, where our market shares have eroded in the past years and where our approach has to be offensive. In rural areas, the main connectivity option is mobile technology. Fixed technologies will be developed more opportunistically. A good example will be the deployment of fibre technology using EU subsidies in government POPC programme. In small cities, the situation is much less homogenous, and connectivity development is based on the mix of fixed and mobile.

Fixed – from legacy to future-proof fibre

The majority of our fixed broadband network is based on ADSL technology, which does not provide a desirable customer experience and therefore is not competitive. For the past few years we have been developing VDSL technology, but this alone is not sufficient to close the technology gap to cable companies, our key competitors in the fixed broadband market. To change that in 2015 we made a strategic decision to invest on a large scale in the deployment of a fibre to the home (FTTH) network, which will structurally improve our competitive position and give us the leverage to win back market share in densely populated areas. This investment is concentrated largely in big cities but

Customer Experience issues are discussed on an ongoing basis. At Orange Polska we have a dedicated Customer Experience Committee within our Management Board and Executive Directors which is devoted to Customer Experience improvement. This committee meets on a monthly basis to reinforce the focus on customers. Key directors (reporting directly to Management Board or Executive Directors) meet on a weekly basis. Our Management Board includes a member responsible for Customer Care and Customer Excellence.

Approach driven by customer journeys

Our goal is to make all customer journeys as simple as possible by eliminating unnecessary pain-points and procedures – a goal that depends not only on big initiatives but mostly on the implementation of numerous small actions. Over the past two years we made big progress in improving our net promoter score (NPS). At the end of 2016 it reached an all-time high as a result of significant improvements in satisfaction among our mobile customers, on both B2C and B2B markets. We want to make further gains in this direction in 2017. Right now, we are making big changes in the way we manage the customer experience. Our approach going forward will be driven by customer journeys (different types of experience, such as purchase, payment, termination or help) instead of distribution channels. This will allow us to provide a standardised and coherent quality of service across all customer touchpoints.



Increasing our efficiency

Facing very high competition, ongoing pressure on our top line and the still significant burden of our legacy, our strategy puts a lot of emphasis on improving our efficiency on the cost and capital expenditures side. We aim to become a simpler and more focused company. The measures we take to achieve this are both short term and long term.

Every year we undertake numerous actions to save operating costs in all parts of our business. For a number of years we have been delivering PLN 200-300 million of sustainable costs savings per annum and our aim is to continue this in the years ahead. The most important source of the savings is labour. We optimise employment on a continuous basis. Over the past three years we reduced our headcount by around 20%. The scale of reductions is always negotiated with our social partners (there are 17 trade unions at Orange Polska). The social plan currently in effect covers the years 2016-2017. Based on this plan we released around 1000 employees in 2016 and a roughly similar number is expected to leave in 2017. We see room for further employment optimisations and we plan to negotiate new social plans. Apart from labour, we optimise spending on IT services, network maintenance, property expenses, promotion and marketing and general expenses.

As a part of the strategic review that is currently ongoing we are analysing new initiatives that are expected to boost our efficiency and make us a more efficient organisation. These initiatives will focus on better reallocation of resources to growth pillars and priority areas on one hand. On the other hand, they will prioritise the simplification of internal processes including, among others, a reduction in the number of processes and their variants, automation, digitisation and more agile IT.



Being responsible

In Orange Polska, we have been successfully implementing a policy of corporate business responsibility in all areas of our business for several years now. Our CSR strategy accounts for the company's business objectives and fits into their implementation.

The conclusions from a dialogue with stakeholders as well as market trends and social challenges for our industry in Poland and abroad have been key elements in its development.

For us, social responsibility means an organisational culture which takes account of the expectations of employees and other stakeholder groups – customers, investors, suppliers, business and social partners as well as the environment – in creating and implementing our business strategy.

We believe that such an approach generates benefits for the company and its environment, leads to long-term development and contributes to the improvement of everyone's lives. Therefore, in Orange Polska we have created a social responsibility strategy which focuses on five areas which are of key importance from the point of view of our sector

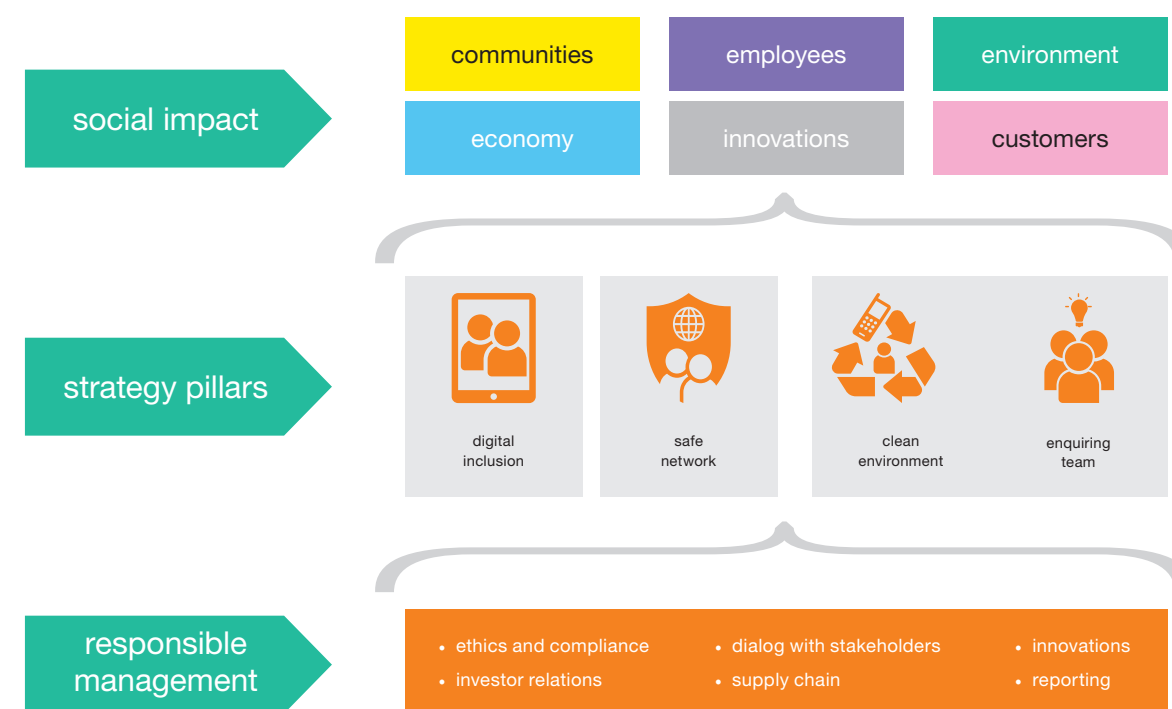
and our operations on the Polish market. In 2016 we launched the new CSR strategy for 2016-2020. A strong foundation of this strategy is responsible management – our values, ethics and compliance and our dialogue with stakeholders as a tool for understanding their expectations.

On this foundation are based four pillars of our CSR strategy:

- Digital inclusion- for everyone, regardless of their skills, residence, age or ability, to be able to make use of the opportunities offered by the digital world
- Safe network- for the use of the latest technologies to be easy and risk-free
- Clean environment - to pursue our business objectives with respect for ecological principles and in harmony with the environment
- Enquiring team - to create a culture of co-operation, in which all employees feel respected and can freely pursue their professional goals and life passions.

Responsible management and actions within these four pillars account for our social impact, which is analysed in 6 areas: economy, innovations, customers, environment, communities and employees.

Corporate social responsibility strategy:





06

Outputs & outcomes

6 Q&A with Maciej Nowohoński Orange Polska CFO



6.1

Q&A with Maciej Nowohoński Orange Polska CFO

■ **What were the key achievements and main challenges in 2016 from your perspective?**

We delivered on our 2016 commitments, which we set out a year ago, with respect to the level of EBITDA, financial leverage and the capex. As such I can say that the year was in line with our expectations.

We were very satisfied with our commercial performance on the mobile market. We coped very well with the pre-paid registration obligation - an unexpected new development in 2016. More than 96% of our active customer base registered their SIM cards. In post-paid, growth of the SIM card base was spectacular owing to the great success of our family offers, increased migration from pre-paid and also the growing popularity of mobile broadband.

In fixed broadband, net customer losses were much smaller than in 2015, mainly as a result of our expansion in fibre. High-speed broadband already constitutes a quarter of our entire broadband customer base.

We significantly improved connectivity for customers. Our fibre network has coverage of almost 1.5 million households while our mobile broadband network is ranked the fastest in Poland for many months.

Turning to challenges: our ongoing challenge is the legacy business, so mainly traditional fixed voice, retail and wholesale. We lose a significant portion of revenues from these services every year due to substitution from mobile and unfavourable demographic trends. Also the Polish market is very competitive, which is visible in our financial results both on mobile and fixed side.

■ **Why did the management decide to make an asset impairment?**

During the annual review of our strategic plans and analysis of market trends, we decided to use more conservative assumptions than previously, mainly with respect to the future evolution of ARPU on mobile and the development of fixed broadband based on ADSL technology. As a result, the difference between the value of our net assets and discounted future cash flows got much smaller. Also, after discussions with our auditors, we decided to increase the discount rate to reflect certain business risks, like for example the new pre-paid market outlook following registration.

■ **Why did the management recommend not to pay any dividend in 2017?**

We cannot deny that the monetisation of the strategy that we announced last year is a bit slower than we had anticipated and we have to improve execution to facilitate our strategic goal of financial turnaround. We decided to make fibre network deployment our top priority as a necessary condition for our transformation from legacy to a modern telecom company. In addition, we have to remember than most likely we will have to pay a European Commission fine in 2017 which will further stretch our balance sheet. So taking all this into consideration, the management has decided not paying any dividend in 2017. It was a very tough decision for us to make as we are aware that a lot of investors hold our shares for the dividend. However in our view it is the right decision, taken for the long-term interest of our shareholders, accounting for the circumstances that I just described.

■ **What is the outlook for 2017?**

2017 will be mainly marked by acceleration of fibre network deployment and a new convergence approach.

We intend to extend our fibre network by more than 1 million additional households this year, much more than in 2016. This constitutes a big investment and organisational challenge for us. Please note that despite spending much more on fibre, our total capex for 2017 is expected to be similar. This means that we are heavily optimising all other areas of investment, giving full priority to fibre.

We launched Orange Love, our new convergent offer, in February 2017; it is a simple and attractive proposal for our customers. Convergence is our unique feature, a source of competitive advantage and at the same time a good customer loyalty tool. We made Orange Love our flagship offer and expect it to translate into improved commercial and financial results.

From a financial perspective we expect further EBITDA erosion in 2017. We foresee it in the range of PLN 2.8-3.0bn. It will mainly reflect pressure on high margin revenues, legacy services and roaming. Remember that from June this year, roaming rates are scheduled to become similar to domestic rates. We also plan to keep a high level of commercial expenses. The relatively wide range of the EBITDA guidance mainly reflects some uncertainty around the pre-paid market, and risks related to real estate disposals.

■ **What are you doing to counteract negative business trends?**

Our main problem is the fixed business, where we see pressure on legacy services and the ADSL broadband customer base. As far as

legacy business is concerned the trend is difficult to stop. We try to diminish it as much as possible through proper pricing and bundling. In fixed broadband we suffer from a technological gap between Orange Polska and cable operators, and that is one of the reasons we are investing heavily in fibre.

We also undertake numerous initiatives on the costs side. We generate PLN 200-300 million of sustainable cost savings every year. We have high ambitions in this respect going forward.

■ **Why do you think the Orange Polska share price is so low?**

We do not comment on our share price. However, some analysts believe that it mainly reflects the short-term outlook, which is not favourable, and the lack of dividend this year. We are concentrated on long-term goals in order to facilitate turnaround. This approach requires us to invest. We are still at the beginning of this investment cycle when we see mainly costs and not yet all the benefits. Our key challenge is now fast commercialisation of these investments, which will positively impact our margin in the mid-term.

6.2

Outputs & outcomes

By following our business model and fulfilling our strategic objectives we deliver unmatched data connectivity for households and businesses and a palette of services adjusted to our customers' needs. We aim to deliver an effortless and friendly customer experience across all customer touchpoints. Simultaneously we aim to be an agile and flexible company with a proven ability to find efficiency savings. Orange Polska is sensitive to the global challenges related to the natural environment and natural resources. We implement our business goals with respect for the rules of ecology and in harmony with the environment.

Unmatched data connectivity for households and businesses

- **Providing best connectivity:**
 - reliable and resilient network
 - best connectivity regardless of the customer's location
- **Delivering a palette of services adjusted to customer needs:**
 - broad portfolio of competitive, telco services, enriched by non-telco products
 - convergent services
 - the right products at the right price

Effortless and friendly customer experience

- **Optimal sales channel mix**
 - optimisation and enhancement of remote sales channels
- **Making customer journey easy and friendly**
 - simplified procedures and elimination of needless procedures and pain points
 - problems solved during one contact
 - high NPS ratio
 - services accessible to all

Acting in an effective and responsible manner

- **Focus on efficiency**
 - an agile and flexible company with proven ability to find efficiency savings
 - constant transformation of indirect costs
 - process optimisation and automation
- **Management of impact on the environment**
 - business goals implemented with respect for the rules of ecology and in harmony with the environment
- **Impact on society**
 - social investment programmes
- **Being digital and caring employer**
 - investing in employees development

To help measure our progress on how well we are adding value for our stakeholders and delivering the outputs described above, we use KPIs and success measures presented in this chapter.

Unmatched data connectivity for households and businesses

KPI	Our commitment	Performance
Providing best connectivity:		
Number of HH connectable within of our fibre network	To offer best connectivity, both in mobile and fixed, regardless of geography of customers	Number of HH connectable: 2015 0.7m 2016 1.5m
Number of HH connectable within of our VDSL network		Number of HH connectable: 2015 4.7m 2016 4.8m
4G coverage		Outdoor: 2015 84% 2016 99% Indoor: 2015 65% 2016 87%
800MHz coverage	To connect up to 0.8 million of households to our fibre network in 2016 To further develop our LTE coverage based on the newly purchased spectrum and provide best connectivity experience on LTE	Outdoor: 2015 n/a 2016 82% Indoor: 2015 n/a 2016 42%
Delivering a palette of services adjusted to customer needs:		
Number of Convergent Customers	To offer a full palette of services, enriched by non-telco products, to strengthen our position as the unique convergent player in Poland	2014 539,000 2015 728,000 2016 879,000
Number of mobile SIM cards		2014 15,629,000 2015 15,906,000 2016 15,990,000
Number of mobile post-paid SIM cards		2014 7,679,000 2015 8,361,000 2016 9,453,000
Number of mobile pre-paid SIM cards		2014 7,950,000 2015 7,545,000 2016 6,537,000
Number of fixed retail broadband customers		2014 2,241,000 2015 2,105,000 2016 2,015,000
Number of fibre customers		2014 2,000 2015 17,000 2016 88,000
Number of LTE for Fixed customers		2015 39,000 2016 191,000
Number of fixed voice customers		2014 4,512,000 2015 4,194,000 2016 3,932,000

Delivery on our commitments in 2016

Providing best connectivity:

Connectivity is a vital pillar of our strategy. Investing in the right spread of technologies and maintaining and upgrading our network infrastructure helps to ensure that Orange can continue to attract customers with the promise of fast and reliable services, as the demand grows for greater quantities of data and higher speeds of transmission. In 2016 we concentrated our efforts on fibre technology to keep pace with the demand for high-speed broadband, and we expanded our mobile 4G/LTE network to accommodate the explosive growth of mobile data traffic.

Fixed

In 2016, we continued massive development of fibre lines. In effect, at the end of 2016, almost 1.5 million households in 37 Polish cities were connectable with the fibre network. The number of households connectable to VDSL stood at approximately 4.8 million at the end of 2016. The VDSL range did not change significantly in 2016, mainly because we prioritised the fibre network.

The strategy of development of services based on FTTH lines provides not only for the construction of the company's own infrastructure but also for wholesale agreements with other fibre network operators, wherever it is technically possible and economically viable. Such agreements were put in place in 2016. The main benefits include quicker access to the FTTH access network and more

efficient use of the existing fibre infrastructure in the relevant locations. This is in line with the aims of the Cost Directive of the European Commission by avoiding duplication of existing facilities. In 2016, Orange Polska signed two such agreements, namely with Telefonía Dialog (a wholly-owned subsidiary of Netia S.A.) and Inea. Under the agreement with Telefonía Dialog, we will gain potential access to approximately 114,000 households in the Łódź Region of Poland, while in case of Inea, it is approximately 110,000 households located mainly in Poznań (over 80% of the coverage) as well as Konin, Szamotuły and Środa Wielkopolska. Both agreements will be gradually implemented in 2017.

Mobile

The most important development in the mobile network was the assignment of radio frequencies from the 800 MHz and 2600 MHz bands by UKE following completion of the relevant auction towards the end of 2015. Thanks to these investments in spectrum, our 4G coverage for all the bands exceeded 99% of population and more than 90% of Poland's territory. LTE services were provided by Orange Polska via over 8,500 base stations. In an effort to optimise mobile infrastructure development, Orange Polska has been co-operating with T-Mobile. In 2016, the existing co-operation was expanded to include equipment operating on the 800 MHz and 2600 MHz bands. The purchase of new spectrum has significantly improved the market position of Orange Polska. According to an independent survey by speedtest.pl, Orange was the fastest mobile broadband network in Poland.

In the fourth quarter of 2016, Orange Polska became the first operator in Poland to launch VoLTE on its network. This enables a higher quality of voice calls on mobile networks. The service can be used with selected handset models, the list of which will be gradually expanded.

Delivering a palette of services adjusted to customer needs:

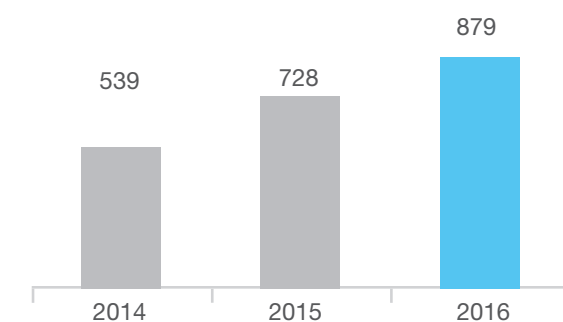
Last year was very successful for us with respect to commercial activity on all fronts. We continued to pursue our convergence strategy as our market differentiator. For mobile post-paid the year was particularly positive, on the back of family offers and migration from pre-paid. In fixed broadband, we managed to trim customer losses mainly due to expansion in fibre.

Convergent services: strong commercial momentum maintained with 151,000 net additions

One of the key strategic objectives of Orange Polska is to be the convergence leader, providing mobile and fixed line service bundles. In 2016, the convergent offer push was one of the pillars of our marketing activity both in the consumer market and among business customers (small to medium enterprises). Major elements contributing to the scope and attractiveness of convergent offers included fibre network rollout and development of a TV offer based on our own content aggregation, using IPTV technology.

At the end of 2016 our convergent customer base reached 879,000, which is an increase of 151,000 (or 21%) compared to the end of December 2015. The total number of services provided in the convergence scheme was almost four million. On average, each convergent customer uses more than four Orange services.

Convergent base ('000)



■ **Post-paid mobile: the highest net additions in many years driven by Family offers, mobile broadband and increased migration from pre-paid**

In line with the strategic medium term action plan announced in February 2016, we were very active in customer acquisition and retention in 2016, carrying out a strong marketing push with respect to mobile voice and data services.

As at the end of 2016, we had a mobile services base of 16 million, which is an increase of 96,000 or 0.6% vs. end of 2015. The slight growth resulted from a combination of two opposite trends. On the one hand, the post-paid base experienced spectacular growth of over 1.1 million (or over 13%), which was the highest in many years. On the other hand, there was a rapid decline in pre-paid SIM cards in the second half of the year. This was almost exclusively due to the registration obligation that was introduced at the end of July 2016.

The growth in post-paid (in both voice and mobile broadband) was based mainly on the offers introduced in 2015 and supported by effective marketing. This impressive growth was mainly fuelled by two market trends: the success of our multi-SIM family offers, and much higher popularity of mobile broadband for use in the home (we call it LTE for Fixed). Family offers are a powerful market tool to win households who use more and more mobile devices. LTE for Fixed is gaining traction as a substitute for fixed broadband, especially in suburban areas, as a consequence of much better mobile connectivity. Another contributing factor to growth in post-paid was increased migration from pre-paid following a regulatory change that obliged users to register their pre-paid SIM cards. Net additions were well balanced between business customers, consumers and machine-to-machine (M2M). Anti-churn initiatives also proved successful. As a result, quarterly churn rate in the post-paid segment decreased to less than 3%, a many years' low. We performed very well in number transfers from the competition. In post-paid, we

had a net portability balance of over 150,000 in 2016, a major improvement versus 2015 (88,000).

In the pre-paid segment, the introduction of obligatory registration resulted in much lower new card activations. In addition, card registration by customers accelerated migration to post-paid. However, as the vast majority of new pre-paid activations are low usage one-time activations, the reduction, although very significant, did not affect our financial performance in a material way.

■ **Fixed line broadband services: customer losses trimmed due to strong fibre take-up**

In fixed retail broadband, the number of services continued to fall, though at a much lower rate than in 2015: customer losses totalled 68,000 in 2016 vs. 136,000 in 2015. The decline slowdown can be attributed almost entirely to an increase in high-speed broadband, where the customer base grew by more than 50%. Major investments in the fibre network began to bear fruit. It is the key to reversing negative broadband trends in the future. High-speed internet take-up was further stimulated by migration from ADSL technology, which is getting increasingly less competitive. As a result, the share of high-speed services grew to approximately 25% (from 15% at the end of 2015).

In 2016, we continued the rollout of the fibre access network. As the fibre service is a novelty in the Polish market and has low awareness among consumers, our marketing efforts were aimed at raising this awareness and creating demand for the service. The number of fibre customers at year end stood at 88,000. The take-up rate improved as the year progressed: 31,000 in 4Q vs 18,000 in 3Q, 12,000 in 2Q and 10,000 in 1Q.

A major factor in competing for fixed broadband customers is the quality of the TV offer. To enhance the competitiveness of our offer in terms of TV content, since February 2016 our TV offer available to customers using the IPTV

platform has been based on content aggregated by Orange Polska. Content aggregation means that Orange Polska has been buying rights to TV channels directly from broadcasters. Before, our offer used to be based on content reselling. This shift in approach, from resale to independent content aggregation, enables greater flexibility in adjusting our TV portfolio to the needs of customers as well as development of additional services, such as catch-up TV, multiroom and multiscreen. Towards the end of 2016, a change in our offer was introduced for the satellite technology. In this case, however, our offer is based on partnership with the nc+ platform. Currently, our TV

offer is the same regardless of the distribution technology. At the end of 2016 we had 766,000 customers of our TV offering.

■ **Fixed line voice services continued to be affected by unfavourable trends**

Performance of PSTN continues to be affected by unfavourable demographic trends, partial regulation and mobile substitution. Nevertheless, structural decline slowed down with net loss of lines at 259,000 versus 318,000 in the previous year.

Effortless and friendly customer experience

KPI	Our commitment	Performance								
Optimal sales channel mix										
Number of POS	To make it easy for our all customers to access our products and services through different channels of contact	2015 <div>794</div>								
		2016 <div>755</div>								
Number of POS adjusted to customers with disabilities		2015 <div>157</div>								
		2016 <div>157</div>								
Number of Smart Stores		2015 <div>8</div>								
		2016 <div>12</div>								
Making the customer journey easy and friendly										
NPS position	To improve the customer experience by offering attractive products and services, accompanied by improvements in customer service and sales channels, both traditional and online To be innovative and flexible in responding to our competitors' moves	Evolution of NPS position <table><tr><th>2013</th><th>2014</th><th>2015</th><th>2016</th></tr><tr><td>6</td><td>4</td><td>3</td><td>3</td></tr></table>	2013	2014	2015	2016	6	4	3	3
2013	2014	2015	2016							
6	4	3	3							
Numbers of activations of our safety solutions	Guarantee of security for internet users at Orange Polska network	250,000 CyberShield activations in 2016								

Delivery on our commitments in 2016

Optimal sales channel mix

■ Optimisation and enhancement of remote sales channels

Our key objectives include further development of our on-line sales channel and cross-channel initiatives as well as the optimisation and modernisation of our sales outlets to align with market and consumer trends, as this is directly reflected in customer satisfaction and further efficiency gains.

We continued the process of closing under-performing points of sale last year. As a result, the total number of points of sale, either our own or operated by agents, was reduced by 39 to 755 at the end of 2016. Furthermore, we have been gradually modernising our points of sale. We continued adding Smart Stores to provide customers with convenient, friendly and innovative spaces for settling any matters related to our telecommunication services. There were 12 of them at the end of 2016.

In addition, we have invested in a new store format: Fibre Shops. These are stores located close to housing estates within the FTTH network reach, which combine image-building and sales functions and are dedicated to our fibre offer. We operated 38 such stores as of the end of 2016.

The total number of traditional stores is greatly expanded by chains of independent distributors, such as Media Markt, Saturn and Neonet. Through this co-operation we are present in 740 additional points of sale, offering a complementary service to consumers interested in buying a device.

In line with market trends, our on-line sales are a rapidly growing channel. In connection with our fibre offer, we have introduced an option to check the network reach and shortened the purchase process. Owing to gradually implemented cross-channel solutions, the co-operation between all our contact channels ensures a uniform, seamless customer experience at any time and any place.

The telesales channel is also used to contact customers (mainly for retention and cross-selling), while the product and agreement are subsequently delivered by courier free of charge or picked up in store. However, currently telesales are used mainly to support online sales conversion. In addition, following our considerable investments in the FTTH network rollout we have continued to develop our door-to-door sales channel, which is the most effective way to compete with cable operators and sell our fibre services.

Making the customer journey easy and friendly

■ Focus on improving customer satisfaction

We strive to build long-standing relationships with our customers. We focus on improving customer satisfaction in order to enhance their loyalty and trust, mitigate churn and increase revenue. Already in 2016 over 90% of customers are satisfied with our customer care and over 72% of customers would recommend our services.

■ Uniform standards

For another year in a row, we maintained the prestigious international COPC certificate, which confirmed our high efficiency and top standards in customer care management. Over the last three years, the implementation of these uniform standards has brought us tangible business benefits: an increase in satisfaction from customer service by 11 pp, and an increase in first contact resolution (FCR) by 15 pp.

In our customer communications we follow the "Listen & Respond" approach based on listening to and understanding the customer needs:

- we write in a more friendly manner
- we respond in a simple language, understandable to any customer
- we educate customers about our services and self-management
- we resolve problems at once: 9 out of 10 issues are resolved at first contact.

■ User-friendly contact channels






We provide highly cost-effective and top quality contact channels, which are adjusted to customer needs. As part of constant improvement of our contact channels, last year:

- We simplified and shortened IVR on all our customer service infolines, with dedicated services path for senior clients and facilities for clients with disabilities.
- In using Facebook for customer care, for the fifth year in a row we remained Poland's leader and within top ten worldwide (according to Socialbakers' list of the most socially devoted brands);
- We implemented the 'Our Orange' social platform based on cutting-edge technology, and it was visited by over half a million users in the first six months.
- We regularly upgraded the 'My Orange' mobile app, which in addition to self-service offers free contact with consultants with a single click (Click-2-Call and Click-2-Chat functionalities).
- We expanded the 'My Orange' section of our website, through which customers can quickly and easily manage accounts, pay invoices or activate additional services themselves without the need to contact an advisor.

■ Modern CRM systems

Our frontline sales and customer care employees have been provided with a single, common tool for customer relationship management (CRM), the Omni system. It will ultimately replace all the existing sales and customer service systems. When using Omni, sales and customer care staff can carry out processes in the same manner as customers logged to 'My Orange' do. The new tool will facilitate and accelerate a number of customer service operations which have hitherto required the simultaneous use of several systems. Ultimately, this tool will be made available to our customers as well. Last year we completed the 'Convergent Offer Tool' project, which involved the imple-

mentation of Europe's largest billing solution, the Oracle Billing and Revenue Management (OB RM) system. Three million customers have already been migrated onto this system. The billing system optimisation has had a positive impact on quality, billing time and invoice delivery (including convergent distribution) as well as the receivables turnover ratio. The change will also reduce the system maintenance costs.

 <p>POS</p>	<p>Showrooming</p> <ul style="list-style-type: none"> Try or test products Buy products and services Obtaining information Pick up order Customer care
 <p>ONLINE</p>	<ul style="list-style-type: none"> Product reviews and comparisons Price and availability Discover new products Offers and promotions Customer care
 <p>MOBILE</p>	<ul style="list-style-type: none"> Price and availability Offers and promotions Mobile applications Location based services Customer care
 <p>CALL CENTER</p>	<ul style="list-style-type: none"> Product reviews and comparisons Price and availability Discover new products Offers and promotions Customer care
 <p>SOCIAL MEDIA</p>	<ul style="list-style-type: none"> Product and services information Share experience Demand information Customer support (not related with account details) Demand opinions

Acting in an effective and responsible manner

KPI	Our commitment	Performance
Focus on efficiency		
Indirect costs	To be an agile and flexible company with proven ability to find efficiency savings; constant transformation of indirect costs Process optimisation and automation, IT spending optimisation as well as facilitation of commercial initiatives, especially in convergence	Indirect costs (PLNm) 2014 4,577 2015 4,201 2016 4,007 GRI ✓
Management of our impact on the environment		
Energy consumption CO ₂ emission		Energy consumption (GWh) 2014 623 2015 635 2016 588 GRI ✓ CO ₂ emission (tones) 2014 493,000 2015 505,000 2016 475,000 GRI ✓
Certification of the ecological management system	To implement business goals with respect for the rules of ecology and in harmony with the environment: optimization of energy use in the following areas: real estate, infrastructure and network, Data Center, supervision over Orange Polska's impact on the environment; increase in number of recycled, re-use and refurbished devices	Maintaining ISO 14001 in the mobile segment
Number of recycled, re-use and refurbished devices		collected and re-use recycled phones 2015 63,589 2016 77,524 refurbished and relaunched phones 2015 9,318 2016 11,839 GRI ✓ refurbished and relaunched devices 2014 437,558 2015 437,629 2016 416,516 GRI ✓
Impact on Society		
Number of participants (residents of small towns and villages) in educational activities	To expand access to new technologies for residents of small towns - digital development of local communities	77 Orange Studios in villages and small town for 600,000 residents
Number of participants (schools, children) in educational programmes	To develop digital competencies among children and schools	350 schools and 6,750 children in MegaMission Programme 35 schools and 800 children in #SuperCoders program
Number of participants (children and parents) in Safety Here and There programme	To provide and support education on children's online safety in schools and kindergartens all around Poland with the Safety Here and There programme	662, 000 children using education materials 33,000 users of the on-line cours for parents

Being digital and caring employer		
Number of employees		Number of employees 2014 18,442 2015 16,967 2016 15,880 GRI ✓
Share of women among managers	To create culture of co-operation in which all employees feel respected and freely pursue their professional goals and life passions	% of women among managers 2014 28% 2015 29.2% 2016 28.5% GRI ✓
Number of training hours per year per employee	To offer better working conditions, constant enhancement of the work environment and focus on talent development	training hours per employee 2014 30,6 2015 44,8 2016 35,46 GRI ✓
Employees satisfaction ratio (International Social Barometr)	To continue workforce optimisation in cooperation with trade unions	Employees satisfaction ratio 2014 26,3* 2015 33,2 2016 26,3 GRI ✓
(*on a scale from -100 to +100)		



Delivery on our commitments in 2016

Focus on efficiency

In Orange Polska we focus on the process of optimising the company to adapt to a more demanding telecom market. Our ambition is to be an agile company, digital and flexible, with a strong online presence and highly automated processes, as well as a proven ability to cut indirect costs and find efficiency savings.

Our strategy assumes maintaining high level of direct costs, which encompass mainly expenses related to customer acquisitions and retentions as well as interconnect costs related to customers activity, and a decrease in indirect costs – that include all labour costs, IT, network and all sorts of general expenses. Our 2016 cost evolution reflected this approach: our indirect costs were down 4% and our direct costs were up 6%. The most significant implemented cost saving initiative was related to realisation of the Social Agreement for the years that was concluded in December 2015. Pursuant to the Agreement a total of 1,030 employees left the Group in 2016, 94% of whom under the voluntary departure programme.

Other important efficiency initiatives introduced in 2016 include:

- Energy consumption optimisation project
- Car fleet optimisation including cars reduction, lower rental costs and lower maintenance costs
- Postal costs optimisation through diversification of services providers and rising e-invoice dispatch
- Optimisation of technical partners costs.

Management of the impact on the environment

Use of new technologies is a huge opportunity on the one hand, in terms of the development of social or economic life and for finding more eco-friendly solutions; on the other hand, it presents a challenge when it comes to the rapid outdateding of products and increased demand for energy. It poses a problem of util-

isation of devices that are no longer wanted and provokes us to think about eco-efficiency inside the company as well as relations with our suppliers. It also means educating customers and encouraging them to return ICT devices they no longer use.

We try to maximise our positive impact on the environment and minimise our negative influence. Within environmental protection policy we supervise compliance of our operations with the law and other regulations regarding ecology, we control negative impact of our processes on the environment and we plan actions that enable its reduction.

All our energy saving initiatives, including some designed by our own employees, have been combined into a single programme, 'Energy Optimisation'. To date, Orange Polska has launched almost 100 such initiatives, which generated total energy savings of 145.0 GWh between 2014 and 2016 (and will generate savings of 96 GWh annually after all the projects are completed). It means an overall reduction of 118,802 tonnes in carbon dioxide emissions. As a result of these actions, the company's total electricity consumption decreased by 6% in 2014- 2016, despite new investments related to the development of our services.

We try to reduce the amount of materials we use in our operations and to reuse them rather than dispose of them. We encourage our customers to recycle old mobile devices: a buy-back programme for unwanted mobile phones is one of our key environmental initiatives. It is also possible to get rid of old mobile phones and accessories, free of charge, in Orange stores.

Multimedia devices, such as modems, set-top-boxes are leased to customers for the term of their telecommunication service agreements. Thanks to that, products which are not yet at the end of their life cycle, are re-launched, while avoiding the need to purchase new ones.

Orange Polska refurbishes returned devices which have not reached the end of service life, putting them back on the market. 416,516

handsets, notebooks and tablets refurbished and reintroduced onto the market, accounts

- GRI ✓ for ca 48% of the total distribution for Romania
- GRI ✓ and Polska. 182 267 were refurbished for
- GRI ✓ OPL's needs, which constitutes 28% of broadband distribution in Poland.

Appropriate supervision over our operations is ensured by our Environmental Management System, which is consistent with the ISO 14001 standard for mobile telephony services.

Impact on Society

Universal internet access contributes to equal opportunities and helps people from disadvantaged social groups to reach their full potential. But first we need to eliminate the social barriers that restrict people's access to knowledge, culture and education through digital technology.

Orange Studios

In order to facilitate access to information, knowledge and technology among local communities, we have developed Orange Studios. Orange Studios are public multimedia studios in small towns and villages, which we create and help to manage. The purpose is to provide members of local communities with access to new technologies, courses and workshops. Leaders of the studios are provided with professional training and financial aid to help them manage these modern and attractive meeting places. 77 studios have been created across the country up to now. In addition, we have launched an online knowledge-sharing platform for Orange Studio users. It features a portfolio of ready-to-implement projects and a gamification module that uses game mechanisms to foster social competence and motivate residents to work for the benefit of their neighborhoods. The initiatives are aimed at different target groups: children and youth, people with disabilities, young mothers and senior citizens. We estimate that 600,000 people use Orange Studios per annum. In 2017 we plan to open 25 new studios.

Digital Education

We want the youngest children to be safe and conscious users of multimedia and we want teachers to have access to quality materials enabling them to conduct modern classes after school. Therefore we have launched MegaMission, a nationwide educational programme for primary schools offering after-school care. It is addressed to teachers and kids aged 6 to 10, who spend time in after-school facilities. Through this programme we expand educators' knowledge about the ten key areas of development of media, digital and IT competence. While analysing social needs, we were looking for space in schools that would enable digital education of children in an innovative form outside regular lessons to supplement the core curriculum recommended by the Ministry of National Education. We have identified such space in after-school clubs, where kids spend time before and after their lessons. 350 schools and 6,750 children participated in the MegaMission classes in 2016.

In 2016 we launched a pilot of #SuperCoders, an education programme to teach coding, aimed at primary schools and students aged 9-12. The pilot was conducted in 35 schools from all over Poland. We plan a full edition of the programme in 2017 with 100 schools involved.

One of the most important issues for us is the safety of children and young people on the internet and the preparation of young people for the conscious use of new media. These activities are carried out under the programme Safety Here and There, which combines the educational activities of the Orange Foundation with all our services related to customer safety. This programme provides and supports education on children's online safety in schools and kindergartens all around Poland. Every year within the programme the Orange Foundation in cooperation with Empowering Children Foundation offers many educational tools and materials such as e-learning and educational websites, online brochures and



guidelines for pupils, parents and teachers. In 2016 our educational materials reached 662,000 children. Adults (especially educators and specialists) can participate in conferences, seminars and workshops. We created a special online interactive guide for parents and guardians teaching them how to protect their children online and better understand their fascination with digital technologies. In 2016 it had 33,000 users.

Being digital and caring employer

At Orange Polska we believe that the investment we make in our people is fundamental to our business activity, achieving our strategy and improving our competitive edge. Employee engagement and development is essential to ensure that we deliver the best customer experience and increase our business performance. In Orange Polska we want to create a culture of co-operation in which all employees feel respected and freely pursue their professional goals and life passions.

Orange Polska again among top employers

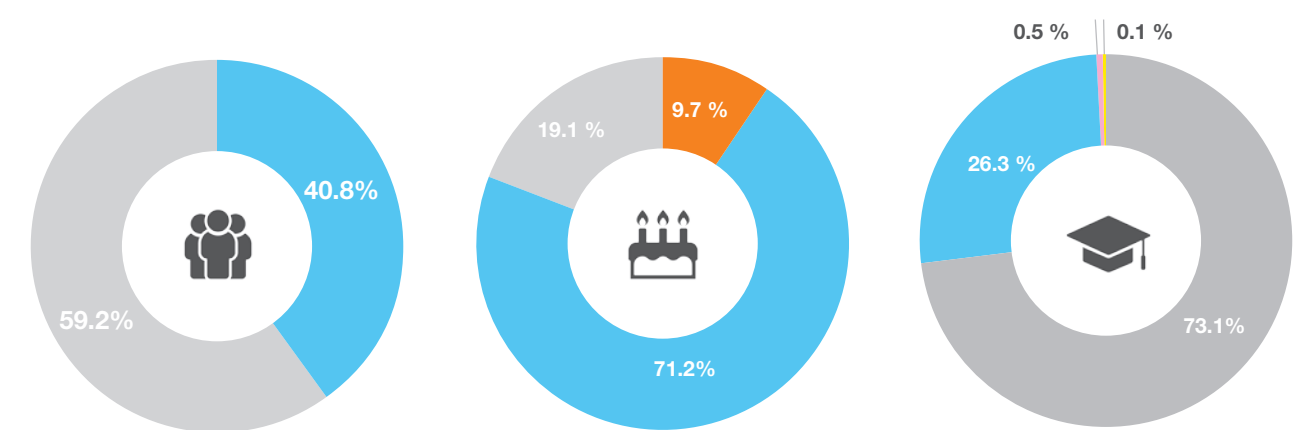
In 2016 we focused on building Orange Polska's image as one of the best employers in Poland. We received several awards in 2016, including the Top Employers Polska certification and Top Employers Europe title. Our high ranking among Polish companies reflects our commitment to better working conditions,

constant enhancement of the work environment and our focus on talent development. Satisfaction surveys among our employees only confirm this status. In 2016, the score for being proud of working for Orange was 46.8 (on a scale from -100 to +100) and the score for recommending Orange as a good place to work was 36.9.

Diversity management

Adoption of clear employee evaluation criteria and implementation of equal opportunities principles are among the key conditions for the functioning of a socially responsible company. In September 2016 Orange Polska adopted a Diversity Management Policy. Our Diversity Management Policy supports the achievement of our business objectives, addresses changes in the labour market and responds to the expectations of our employees. The key diversity dimensions in Orange Polska identified in its Diversity Management Policy are as follows: gender; age; competence / expertise / experience / way of thinking; psychophysical skills – (dis)abilities; parental status. Other diagnosed dimensions include: religion / beliefs; workplace location (HQ vs. region); type of employment; nationality / ethnic origin.

With respect to administering, managing and supervising bodies, the rules specified in the Policy include proper selection of employees and leadership. In the recruitment process,



Total employees by:

Gender:

Female ■
Male ■

Age:

Less than 30 years ■
31-50 years ■
More than 50 years ■

Education*:

Higher ■
Secondary ■
Basic vocational ■
Primary ■
*(only for Orange Polska)

we follow transparent rules and criteria of candidate selection. Decisions to recruit particular employees are based on their qualifications and professional experience. We ensure that candidates represent diverse communities. In terms of leadership, the diversity requirements include care for the diversity of decision-making bodies within the Company. In complementary action plans to the Policy, we have assumed a requirement for analysis of management and supervisory bodies in terms of diversity with respect to such aspects as age, gender, education or professional experience.

Training

We have a number of training programmes, which aim to develop competence and prepare employees to face strategic challenges. Our employees increase their qualifications and language skills, and are eligible for financing of graduate or postgraduate studies, including MBA. We have Professional Schools in different areas that offer opportunities for professional improvement and development. Employees are taught by company experts. Currently there are seven Professional Schools in areas such as sales, operations or marketing. We promote knowledge sharing programmes, such as Knowledge Highway, which supports the development of a know-how sharing culture among Orange Polska's internal experts. 80 experts are involved in the programme. They

prepare their own development plans and conduct classroom and e-learning training courses, inspiration sessions and specialist lectures in technology, telecommunications and project management.

We have a programme that identifies and develops managerial talents. It supports people with initiative, concrete achievements and management potential, who develop constructive relations with other people, act in accordance with Orange values and who are committed and willing to take on new challenges. People from the Talent Group are taken into account at the first stage of recruitment for managerial positions. They may be covered by dedicated development programmes. They also have an opportunity to participate in projects that are critical for the company.

We have launched an international development programme, to promote uniform management standards across the Orange Group. It is offered to all managers in the Group. It has been based on a development model that involves sharing experience. Orange Campus has three international training centres in Poland, France and Spain. 91% of Orange Polska managers have already participated in at least one such training course. So far, Orange Campus training sessions have been attended by more than 5,500 participants.

Sustainable development

The company follows the employee Development & Assessment (D&A) process, which combines annual evaluation results with the employee's career development plans; it also involves progress monitoring throughout the year and accounts for Orange values in the employee assessment.

- GRI ✓ 97.2 % of employees evaluated
- GRI ✓ 81.3 % of employees with individual development plans
- GRI ✓ 21,946 development activities scheduled
- GRI ✓ The same process also covers 3 101 of our outsourced staff. 99.8% of them completed the process and for 75.4% of them obtained a development plan.

A bonus is a variable remuneration component that depends on the work results. All employees are eligible to variable bonus. Individual groups of employees, depending on their responsibility, are subject to the relevant rules of the bonus system. The bonus goals for the employees depending on the group they are located in are set and settled in one of the following periods: monthly, quarterly, semiannually.

Continuing workforce optimisation through social dialogue

We respect the employees' right to associate and we run regular broad dialogue with our social partners. The most important issue for discussion with trade unions is the Social Agreement. This document regulates, among others, the rules for concluding and terminating job contracts, working hours, holiday entitlement, rules of remuneration and obtaining extra benefits connected with work, occupational safety and health issues, training, social care and health care.

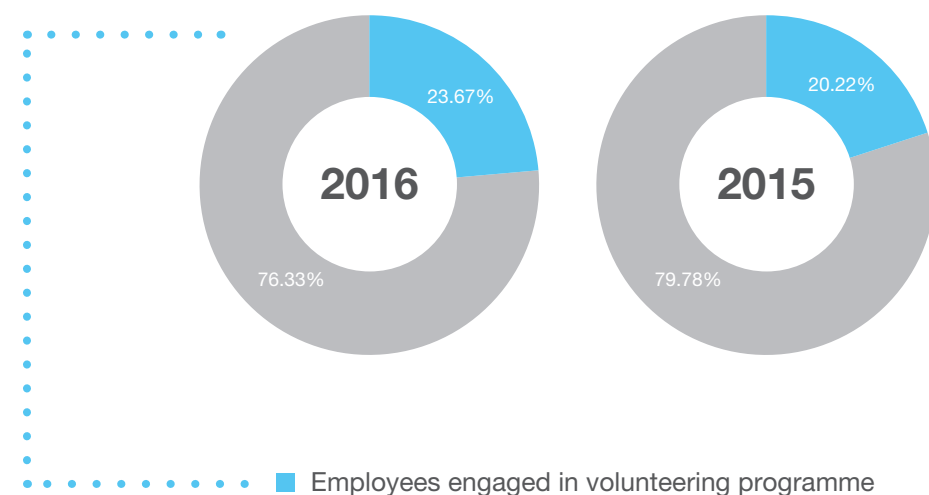
2016 was the first year of implementation of an agreement with trade unions, signed in December 2015, which allowed for 2,050 voluntary departures in 2016–2017. We have a long track record of successfully adapting to market conditions: from over 68,000 full time employees in 2001 – the legacy of our former role as the state-owned national telecom provider – we have completely realigned our

workforce to the realities of the telecom market in 2016 and beyond.

Volunteering programme allows socially conscious people to share their knowledge and positive energy with others

In Orange Polska we have the biggest employee volunteering programme in Poland. It has been running for 14 years. It is organised by Orange Foundation in cooperation with Orange Polska and engages about 3000 volunteers each year. The programme is based on Competence volunteering. Our employees share their knowledge, skills and experience and teach children and seniors how to use the internet safely and wisely. Moreover, Orange volunteers create Fairy Tale Corners for children: colourful and friendly spaces to learn and play in places such as hospitals, hospices and single mothers' homes. Every year around Christmas our volunteers play Santa and visit kids in hospitals and orphanages. Our employees take part in important social actions and in events organised by Orange Polska (e.g. Orange Warsaw Festival). Orange volunteers may develop their own volunteering project and apply for a grant for its implementation. Every year we award grants to approximately 100 local projects.

Volunteering programme



6.3

Financial review in 2016

Financial KPIs

To illustrate Orange Polska performance we use financial and operational KPIs. We present them in a table below.

KPI	2016 Outlook and guidance	Performance	2017 Outlook and guidance
Adjusted* Revenue	Revenue to be under pressure – relatively benign outlook for mobile likely to be offset by ongoing negative trends in fixed and lack of infrastructure projects	<div><div>(PLNm)</div><div><div>12,786</div><div>12,191</div><div>11,826</div><div>11,538</div></div><div><div>Mobile revenue</div><div>6,259</div><div>6,120</div><div>6,119</div><div>6,421</div></div><div><div>Fixed revenue</div><div>6,057</div><div>5,535</div><div>5,091</div><div>4,662</div></div><div><div>Other revenue</div><div>470</div><div>536</div><div>616</div><div>455</div></div><div><div>2013</div><div>2014</div><div>2015</div><div>2016</div></div></div>	Mobile service impacted by new roaming regulations and uncertainty on pre-paid Slower growth of mobile equipment sales Legacy revenue (PSTN, wholesale) in continued structural decline
Adjusted* EBITDA	PLN 3.15bn – PLN 3.30bn	<div><div>Adjusted EBITDA margin</div><div>31,6%</div><div>32,1%</div><div>29,7%</div><div>27,4%</div></div> <div><div>(PLNm)</div><div>4,046</div><div>3,916</div><div>3,517</div><div>3,163</div></div> <div><div>2013</div><div>2014</div><div>2015</div><div>2016</div></div>	PLN 2.8-3.0bn
Adjusted* CAPEX	Around PLN 2bn, including up to PLN 600m on fibre rollout (excluding any spectrum licences)	<div><div>% of revenue</div><div>15,0%</div><div>14,6%</div><div>16,9%</div><div>17,3%</div></div> <div><div>(PLNm)</div><div>1,916</div><div>1,775</div><div>1,998</div><div>2,001</div></div> <div><div>2013</div><div>2014</div><div>2015</div><div>2016</div></div>	Around PLN 2bn, including around 0.8bn on fibre rollout (>1m new households connectable in fibre)
Adjusted* OCF	–	<div><div>(PLNm)</div><div>2013</div><div>1 105</div><div>2014</div><div>1 149</div><div>2015</div><div>962</div><div>2016</div><div>620</div></div>	–
Net debt/adjusted* EBITDA evolution	Not higher than 2.2x	<div><div>1.1</div><div>1.1</div><div>1.1</div><div>2.1</div></div> <div><div>2013</div><div>2014</div><div>2015</div><div>2016</div></div>	Not higher than 2.6x including potential EC fine payment
DPS	0.25 PLN to be paid in 2016	<div><div>(PLN)</div><div>0.5</div><div>0.5</div><div>0.5</div><div>0.25</div></div> <div><div>2013</div><div>2014</div><div>2015</div><div>2016</div></div>	Management has decided to maximise cash allocation to strategic investment projects and therefore will recommend not paying any dividend in 2017*

*please refer to adjustment table on p. 200

Revenue evolution reflects pressure of legacy and high competition

Adjusted revenue totalled PLN 11,538 million in 2016 and was down PLN 288 million (or - 2.4%) year-on-year. The decline was slightly lower than a year before (- 2.9%).

The decrease resulted from fixed line revenue erosion and much lower other revenue. In the fixed line segment, the decline affected mainly voice and wholesale services, which as legacy services are influenced by negative structural factors. Fixed broadband revenues were also down (by nearly 7%) due to a decline in both customer base and average revenue per user (ARPU). A 26% decrease in other revenue was mainly a consequence of the completion of broadband infrastructure projects, which in 2015 generated revenues of PLN 127 million.

These negatives were partially offset by an increase in mobile revenues. This was supported by dynamic growth of mobile equipment sales (by nearly 70%), resulting from a strategic decision to focus on instalment sales in customer acquisition, while considerably reducing sales of traditional subsidised offers. On the one hand it stimulated rapid growth in equipment sales, but on the other hand it negatively affected retail revenues from mobile services (in the instalment scheme, a portion of revenue corresponding to the handset is reported as revenue from equipment sales rather than revenue from services).

Blended ARPU amounted to PLN 28.4 in 2016 and was approximately 6% down year-on-year. The erosion was higher than in 2015 (4%). The trend slightly deteriorated in both post-paid and pre-paid services.

The ARPU decline in 2016 can be attributed to the following factors:

- popularity of family offers, in which customers get several SIM cards
- growing take-up of SIM-only offers
- focus on instalment sales in customer acquisition, while gradually reducing sales of

traditional subsidised offers (in the instalment scheme, a portion of revenue corresponding to the handset is reported as revenue from equipment sales rather than revenue from services, which is the basis for ARPU calculation)

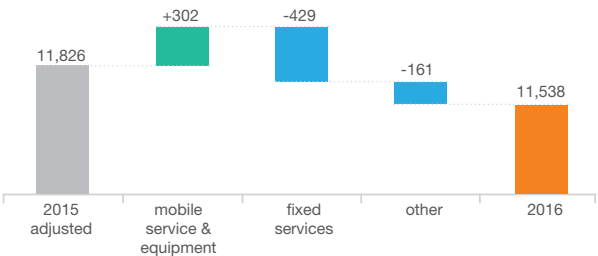
- discounts granted to customers subscribing to convergent services
- ongoing pricing pressure, mainly in the B2B segment
- lower incoming traffic growth than in 2015

However, it should be noted that a number of these factors have a dilutive effect on ARPU and do not result directly from intensified price competition.

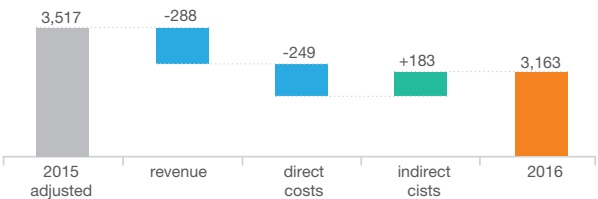
EBITDA reflects lower margin revenue mix and high commercial costs

Total operating costs (determined as adjusted EBITDA less adjusted revenues) increased by less than 1% in 2016. As a result, the EBITDA erosion slightly outpaced the revenue erosion. Adjusted EBITDA margin decreased

Adjusted revenue evolution (PLNm)



Adjusted EBITDA evolution (PLNm)



by 2.3 percentage points year-on-year and stood at 27.4%.

Cost evolution reflected the approach presented in the strategic action plan: an increase in direct costs (up 6%) and further optimisation with respect to indirect costs (down 4%). Cost evolution can be attributed mainly to the following factors:

- 4% decrease year-on-year in labour costs, mainly owing to workforce optimisation (in line with the Social Plan announced in December 2015)
- increase in interconnect costs by nearly 12% due to growth in retail and wholesale traffic, owing to a much higher customer base and higher usage per customer (particularly resulting from higher popularity of unlimited tariffs)
- decrease of approximately 9% in network and IT expenses, resulting from revenue decline and optimisation initiatives
- increase of over 3% in commercial expenses. Despite a decrease in handset transactions (owing to growing popularity of SIM-only offers), the total costs actually increased due to a more expensive mix of handsets sold (a larger share of smartphones and expensive smartphones). In addition, these costs remained under slight pressure due to PLN depreciation against EUR.

To a large extent, the margin decline resulted from negative structural trends in high-margin traditional fixed line services (mainly fixed line

voice, wholesale and business data services); the decrease in these services was almost entirely reflected in profit erosion.

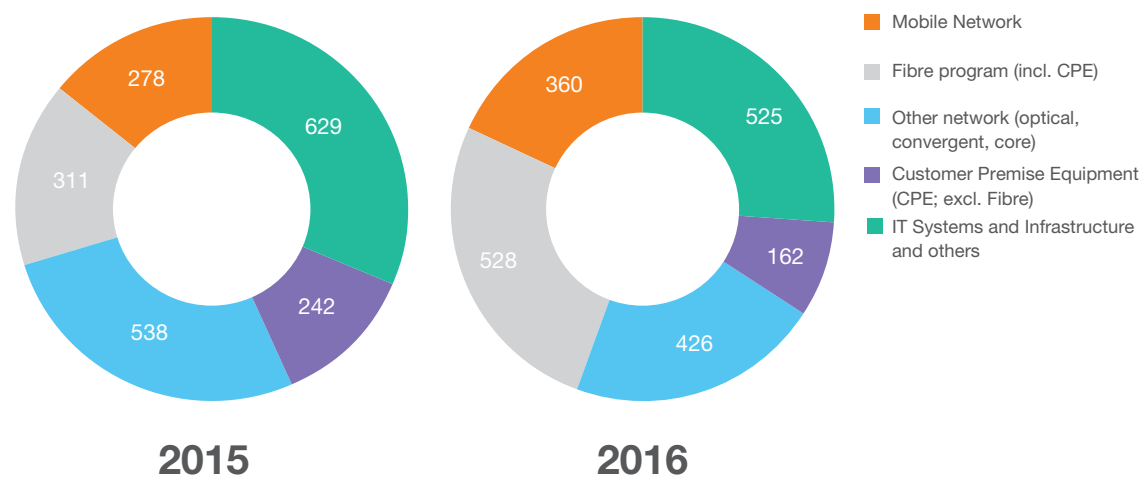
Bottom line affected by asset impairment loss

Our bottom line for 2016 stood at PLN -1,746 million versus PLN 254 million in 2015. It was heavily affected by PLN 1,793m non-cash asset impairment loss due to reassessment of future projected cash flows coupled with an increase in the discount rate to reflect higher business risk. Lower future cash flows are mainly a consequence of more conservative assumptions regarding performance on the mobile market, uncertainty in pre-paid, continuous deterioration in the legacy business and falling competitiveness of ADSL. It was also impacted by lower EBITDA and higher net financial costs (PLN 68 million above 2015), mainly as a result of higher debt.

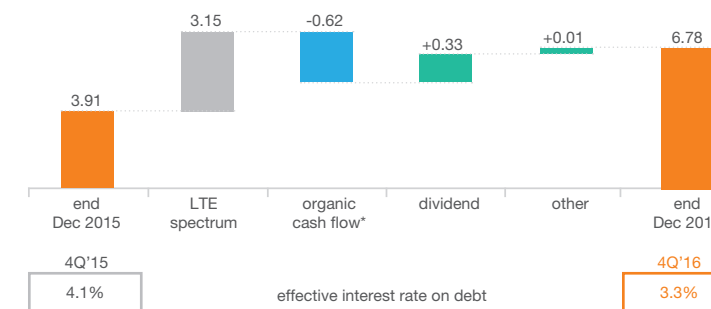
Capex reflects investments in connectivity and optimisations on other areas

Our adjusted capital expenditures in 2016 (amounts excluding spectrum payments) amounted to PLN 2,001 million and were almost the same as in 2015. The only two growing capex categories are those related to investments in connectivity: mobile network and fibre network. Capex in all other areas was optimised to give clear priority to the key strategic projects.

Investment areas (PLNm)



Net debt evolution (PLNm)



Organic cash flow reflects lower EBITDA, high capex and working capital optimisation

Our adjusted organic cash flow for 2016 came in at PLN 620 million versus PLN 962 million in 2015. Net cash from operating activities (before income tax and change in working capital) was down PLN 365 million, mainly as a result of lower EBITDA. Capital expenditure cash outflows were higher by PLN 320 million, mainly as a consequence of payments to capex vendors, while proceeds from asset disposals were lower by PLN 24 million. These negatives were partly offset by PLN 323 million lower requirement for working capital as growing receivables (due to instalment effect) were largely compensated by supply chain optimisation.

Leverage ratio reflects payment for spectrum

Our net debt in 2016 increased by around PLN 2.9 billion, to PLN 6.8 billion due to the PLN 3.15 billion payment for mobile spectrum. As a result

of this, combined with lower EBITDA, we finished the year with a leverage ratio of 2.1x. Our debt was fully hedged against currency movements and was 70% based on the fixed interest rate.

Management proposed not to pay dividend in 2017

We are aware how important sustainable returns are for our shareholders and consequently we have been remunerating our shareholders for several years in a row. However, taking into consideration pressure on cash generation in 2017 and potential payment of EC fine, Management Board has decided that in the best interest of our shareholders we should allocate all financial resources into our transformation plan, specifically in fibre, and therefore will recommend not paying any dividend in 2017.



07

Risk management framework in Orange Polska

Orange Polska is exposed to a range of external and internal risks of varying types which can impact the achievement of its objectives. As a result, Orange Polska maintains the risk management framework to identify, assess and manage risks. This framework has been based on the ISO 31000:2009 standard. Leaders within the Group's individual busi-

ness areas and functions are responsible for the assessment and management of risks including the identification and escalation of new/emerging circumstances and monitoring and reporting on the risks and control effectiveness. Events are considered in the context of their potential impact on the delivery of our business objectives.

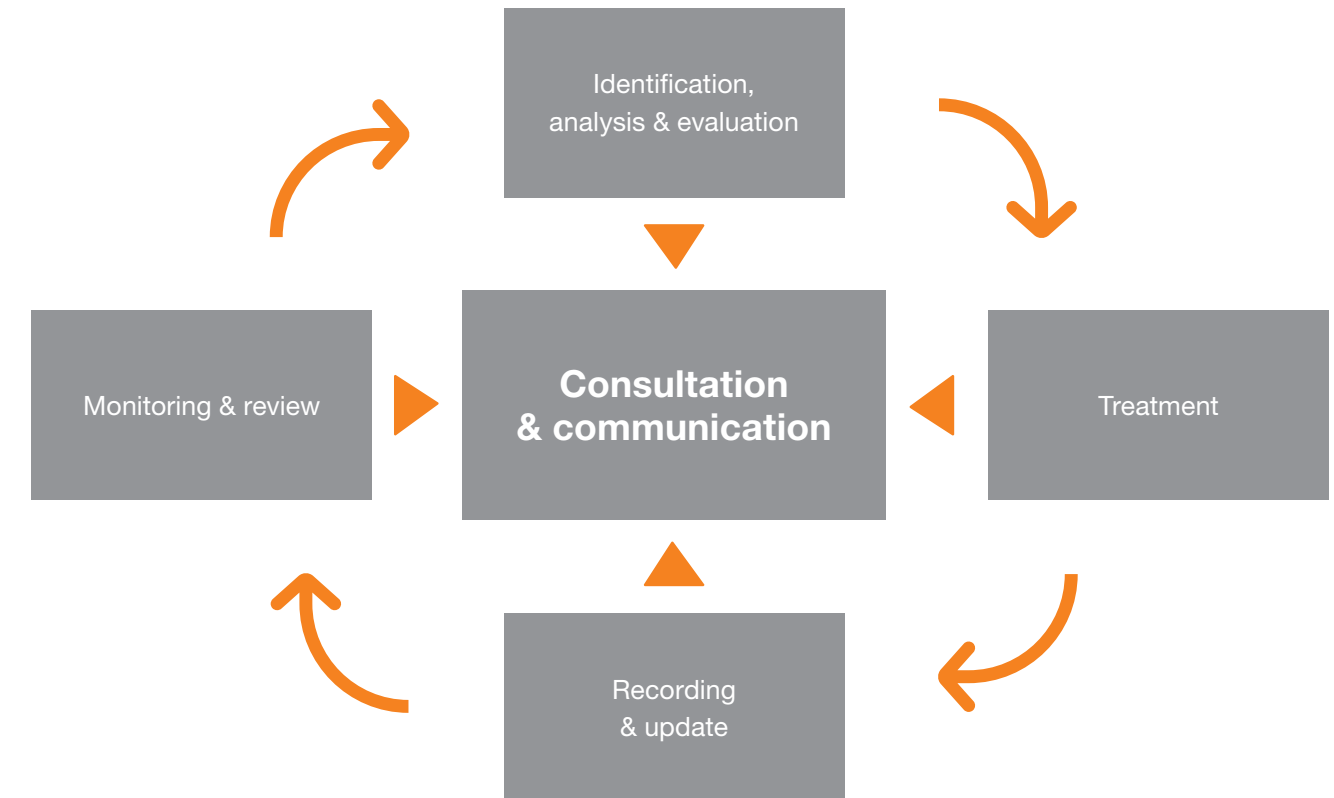
Orange Polska's governance and reporting structure for risk management.



Event-based risks are subject to assessment based on their probability and impact in terms of financial, reputational, business continuity and human loss. Indicative heat maps are

used to report and evaluate risks. Results of assessment of top risks are reported to the Supervisory Board annually.

Orange Polska's risk management process.



TOP risks

The TOP risks (aggregated clusters of event-based risks), which are set out in the table on pages 86 and 87 reflect the categories of risks that define business activity or contributing factors where val-

ue can be lost or gained and could have a material impact on the business model, future performance, solvency or liquidity of the group. In each case the extent to which management can mitigate the risk is highlighted.



Risk area	Main business objective	Key risks, issues or areas of uncertainty	Potential impact	Management approach and mitigation
Telecommunications services. The inability to provide secure and adjusted to customer needs telecommunications services.	Effortless and friendly customer experience Unmatched data connectivity for household and business	<ul style="list-style-type: none">quality and timely delivery of our services to customers,dependence on external partners,interruption of Orange Polska IT&N infrastructure and services	Operational performance problems or service or asset failures can lead to additional operating or capital expenditure and/or increased regulatory scrutiny and regulatory penalties. In more extreme situations the Group could also be fined for breaches of statutory obligations, be subject to enforcement action, be held liable to third parties and sustain reputational damage.	Orange Polska continuously invests in improving its customer services. The results are measured using Net Promoter Score on a regular basis. The risk of network and IT breakdown is mitigated by proper development planning, preventive maintenance, implementation of business continuity and crisis management plans and insurance schemes. Orange Polska has been continually investing in the development of disaster recovery solutions. Orange Polska has become the first telecom operator in Poland to obtain an ISO 22301:2012 Certificate for its Business Continuity Management System in the scope of provision of telecommunication and ICT services.
Security The inability to protect people, information and assets from malicious or accidental activity	Acting in effective and responsible manner Effortless and friendly customer experience	<ul style="list-style-type: none">cybersecurityterrorismdata protectionfraud and revenue leakage	Our resources, assets and infrastructure are exposed to various threats (malicious or accidental) which could impact the provision of services and/or harm people or commercial businesses.	Physical and technological security measures combined with strong governance and inspection regimes aim to protect infrastructure, assets and operational capability. We maintain robust incident response, business continuity and disaster recovery procedures. We also maintain insurance cover for acts of terrorism and sabotage.
Health, safety and environmental Potential harm to employees, contractors, the public or the environment	Acting in effective and responsible manner	<ul style="list-style-type: none">exposure to electromagnetic fieldscollection of electric and electronic equipment waste	Exposure to electromagnetic fields (EMF) from mobile networks raises concerns about possible adverse health effects. Although the Polish EMF limit is much more restrictive than in most of other countries, concerns have been raised regarding the possible health risks linked to exposure to electromagnetic fields from telecommunications equipment (primarily mobile handsets, base stations and WiFi).	Management carries out ongoing supervision regarding regulatory compliance, emission levels, as well as to meet other legal requirements in the area of environmental protection. In addition, Orange Polska has implemented an Environmental Management System with respect to mobile voice services provided, which is subject to ISO 14001 certification on an annual basis.
Revenues and profits. The inability to execute and monetise the strategy that would lead to loss of revenues and profits.	Unmatched data connectivity for households and businesses	<ul style="list-style-type: none">implementation of the Group's strategycompetition pressure on services and prices,fixed/mobile voice and data substitutionOperational Programme "Digital Poland" and fibre infrastructure development in Polandimplementation of eSIM technology	Poor customer service, and strong competition performed by other market players may prevent us from achieving the revenues and margins stipulated in our strategic plan. Failure to deliver change programmes against relevant time, cost or quality measures could result in a failure to secure competitive advantage or operating performance efficiency and cost benefits.	One of our key strategic objectives is to be the convergence leader, providing mobile and fixed line service bundles. By addressing the household telecommunication needs in a comprehensive manner and encouraging customers to buy additional services, convergence increases customer satisfaction and reduces churn. As a customer-centric organisation, we strive to maintain and develop our on-line sales channel and cross-channel initiatives. We also optimise and modernise our sales outlets to align with the market and consumer trends, as this is directly reflected in customer satisfaction and further efficiency gains.
Financial risk The inability to appropriately finance the business due to capital, credit, market, funding, liquidity or tax-related risk	Acting in effective and responsible manner	<ul style="list-style-type: none">interest ratesforeign exchange ratescredit controlfuture level of investments	Orange Polska is exposed to financial risks arising mainly from financial instruments that are issued or held as part of its operating and financing activities. That exposure can be principally classified as market risk (encompassing currency risk and interest rate risk), liquidity risk and credit risk.	We manage financial risks with the objective to limit our exposure to adverse changes in foreign exchange rates and interest rates, to stabilise cash flows and to ensure an adequate level of financial liquidity and flexibility.
Regulatory environment and framework Potential changes in the regulatory environment and/or frameworks	Acting in effective and responsible manner	<ul style="list-style-type: none">retail roaming charges (Roam Like At Home),allocation of the 700 MHz Band to telecommunications servicesproceedings by UOKiK and European Commission related to network sharingremuneration for the use of third parties' land for Orange Polska's fixed infrastructure	Regulatory decisions and changes in the regulatory environment may have an adverse effect on our performance, in particular increasing costs of administration, reducing income and margin.	We engage in relevant government and regulatory consultations which may affect policy and regulation in the sectors where we operate. We also consult with customers to understand their requirements and proactively consider all the opportunities and threats associated with any potential change, exploiting opportunities and mitigating risks where appropriate.
Corporate governance and legal compliance Failure to meet all legal and regulatory obligations and responsibilities	Acting in effective and responsible manner	<ul style="list-style-type: none">competition and consumer protection lawchanges in tax regulationscurrent material litigationEU General Data Protection Regulation	We must comply with various regulatory obligations governing the provision of services and products, also relating to obtaining and renewing licences. Certain regulatory obligations result also from the significant market power of Orange Polska on the relevant markets. If Group companies are unable to satisfy the imposed regulatory requirements or fail to meet the requirements imposed by national or community regulations, there is a risk of administrative fines imposed by Polish or EU bodies.	Legislative and regulatory developments are continually monitored. Risk-based training of employees is undertaken and we participate in consultations to influence legislative and regulatory developments



08

Corporate governance

GLOSSARY OF TELECOM TERMS

4G – fourth generation of mobile technology, sometimes called LTE (Long Term Evolution)

Access Fee – revenues from monthly fee from New Tariff Plans (incl. Free minutes)

API – Application Program Interface

ARPU – Average Revenues per User

AUPU – Average Usage per User

BI – Business Intelligence

BSA – Bitstream Access Offer

CATV – Cable Television

CDMA – Code Division Multiple Access, second generation wireless mobile network used also as a wireless local loop for locations where cable access is not economically justified

DLA – Drop-Line Agnostic

EBITDA – Operating income + depreciation and amortisation + impairment of goodwill + impairment of non-current assets

F2M – Fixed to Mobile Calls

FBB – Fixed Broadband

FTE – Full time equivalent

FTTH – Fibre To The Home

FVNO – Fixed Virtual Network Operator

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

Liquidity Ratio – Cash and unused credit lines divided by debt to be repaid in the next 18 months

LLU – Local Loop Unbundling

LTE – Long Term Evolution, standard of data transmission on mobile networks (4G)

M2M – Machine to Machine, telemetry

MTR – Mobile Termination Rates

MVNO – Mobile Virtual Network Operator

Net Gearing – net gearing after hedging ratio = net debt after hedging / (net debt after hedging + shareholders’ equity)

Organic Cash Flow – Organic Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables) + proceeds from sale of assets

PoP – Point of Presence

RAN agreement – agreement on reciprocal use of radio access networks

RIO – Reference Interconnection Offer

SAC – Subscriber Acquisition Costs

SIMO – mobile SIM only offers without devices

SMP – Significant Market Power

SRC – Subscriber Retention Cost

UKE – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

UOKiK – Urząd Ochrony Konkurencji i Konsumentów (Office for Competition and Consumer Protection)

USO – Universal Service Obligation

VDSL – Very-high-bit-rate Digital Subscriber Line

VHBB – Very high speed broadband, above 30 Mbps

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental

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8 Corporate governance

Profiles of Management Board members



Jean-François Fallacher
(born in 1967)

Responsibilities:
CEO and President of the Management Board

Appointment to the board:
May 2016

Qualifications:
He obtained engineering degrees from École Polytechnique, École Nationale Supérieure des Télécommunications in Paris, and completed the International Business Development program at ESSEC Business School.

Career experience:
In years 2011-2016 he was the CEO of Orange Romania, responsible for running Romanian leading mobile telco company. Prior to Orange Romania, Jean-François served in key leadership roles within

Orange Group for 20 years, most recently as the CEO of Sofrecom, the Group's international consulting company, and in the Netherlands as COO of the internet provider Wanadoo and as Marketing Manager B2B for EuroNet Internet.

Jean-François has an extensive professional know-how in the telecom market, in both business and residential sectors, gained in various European markets.



Mariusz Gaca (born in 1973)

Responsibilities: Vice-President of the Management Board in charge of Consumer Market (B2C)

Qualifications: He is a graduate of Academy of Agriculture and Technology in Bydgoszcz and Warsaw University. He also holds an MBA from the University of Illinois at Urbana Champaign and is a graduate of the Advanced Management Program (AMP) at INSEAD.

Appointment to the board: February 2014

Career experience:
He began his professional career in the Elektrim Group, where he co-created business plans for local telecommunication operators, between 1995 and 2000. From 2001 he worked at TP Group (Telekomunikacja Polska) as Director of Multimedia and was responsible for the development of internet access for the mass market. Between 2005 and 2009 he was responsible for the TP Group business market. From 2009 he was TP Group Executive Director in charge of Sales and Customer Service and President of the Management Board of PTK Centertel (TP Group mobile telecommunication operator) - a position which he held until the merger of PTK Centertel with Telekomunikacja Polska in 2013. In 2014-2016 he was Orange Polska Vice President responsible for B2B Market.

Since January 2017 he is Vice-President of the Orange Polska Management Board in charge of Consumer Market. He is also Chairman of the Orange Polska Ethics Committee since 2016, Vice President of Employers of Poland and Chairman of the Polish Section of Business and Industry Advisory Committee to the OECD (BIAC) since 2011. A member of Executive Volunteers Coalition since 2013, where he is active in voluntary work and promotes the principles of corporate social responsibility.



Bożena Leśniewska (born in 1965)

Responsibilities: Vice-President of the Management Board in charge of Business Market

Qualifications: She is a graduate of the Faculty of Philology at the Jagiellonian University, the Academy of Leadership Psychology at Warsaw University of Technology Business School, the Open Academy of Mentoring and Advanced Management Programme at INSEAD.

Appointment to the board: October 2015

Career experience:
For over 20 years related to the telecommunications sector. She was performing the management functions in Polkomtel S.A., PTK Centertel Sp. z o.o. and Telekomunikacja Polska S.A. She joined Orange Polska team in 2006 as Deputy Director of Sales for Business Market. One year later she became Business Market Sales Director. Since 2008 she has worked as Director in charge of Business Market and later as Sales Director in both PTK Centertel Sp. z o.o. and Telekomunikacja Polska S.A. In 2013, she became Executive Director in charge of Sales Orange Polska and two years later she was appointed a Member of Management Board in charge of Sales and Commercial Digitisation. Since January 2017 Bożena Leśniewska holds position of VP in charge of Business Market.

The Chairman of the Board of Supervisors of Orange Retail S.A, the Member of European Network for Women in Leadership and the Member of the Board of Experts THINKTANK. She also participates in the activities of Programme Council of PNSA.

In 2016, she was recognized by the Institute of Innovative Economy as one of TOP TEN most influential women in Polish institutions operating in the field of ICT.



Piotr Muszyński (born in 1963)

Responsibilities: Vice-President of the Management Board in charge of Strategy and Transformation

Qualifications: Graduated from the Faculty of Law and Administration at the University of Wrocław (MA degree in law) and the Advanced Management Programme organized by IESE Business School / University of Navarra.

Appointment to the board: September 2008

In September 2008 he was appointed Member of the Management Board in charge of Operations, in November 2009 - Vice President in charge of Operations. Since 2016 he is Vice-President of the Management Board in charge of Strategy and Transformation in Orange Polska.

Career experience:

In Orange Polska (former Telekomunikacja Polska) since 2001, initially as Director of Customer Care; 2005-2006 as Director of Sales & Services; 2006-2008 as TP Group Executive Director in charge of Sales & Services. In recognition of his career achievements he was awarded, among others: as the Manager of the Year in 2010 and 2011 with the Golden Antenna Award of the World of Telecommunication; with the Gold Cyborg award during the National Symposium on Telecommunications and ICT in 2011 – for his outstanding contribution to the development of information society.

He acts also as Advisory Board President of CIONET Poland, member of Council of Foundation for the Development of Radiocommunication and Multimedia Technologies at Warsaw University of Technology, member of The Committee on Electronics and Telecommunication at the Polish Academy of Sciences (PAN), as well as member of the Council at The Polish Chamber of Information Technology and Telecommunications (PIIT).



Jolanta Dudek (born in 1964)

Responsibilities: Management Board Member in charge of Customer Care and Customer Excellence

Qualifications: She is a graduate of the Faculty of Philology at the University of Silesia and postgraduate studies in European Economy Management with a diploma from French Ecole des Hautes Etudes Commerciales (HEC), Jouy-en-Josas and Warsaw School of Economics. She is also a graduate of postgraduate studies at the Academy of Leadership Psychology of Warsaw University of Technology Business

School. She is also experienced Lead Auditor of Quality Management System ISO 2002 (BSI) and Global Contact Center Excellence (COPC®) Coordinator. In 2015 she graduated from School of Mentors at the Warsaw University of Technology Business School.

Appointment to the board: October 2015

Career experience:

She began her career in telecommunication industry in 2000 in PTK Centertel holding managerial positions related to Individual Customers Care and taking part in the development of the “Idea” mobile network customer service. Between 2004 and 2010 she served as Director of Business Clients Service at Orange. In October 2010 she was appointed Director of Mobile Business Client Service in Orange Customer Service and PTK Centertel. She was responsible for the strategy, transformation and operational launch of complex customer care for B2B clients of TP Group in the terms of processes and operational models in a wide range of mobile, fixed and internet telephony.

Since November 2013, until incorporation area Customer Service 2016 into structure OPL served as CEO of Orange Customer Service.



Jacek Kowalski (born in 1964)

Responsibilities: Management Board Member in charge of Human Resources

Qualifications: He is a graduate of the Faculty of History at the University of Warsaw and a postgraduate studies for Local Government and Non-Governmental Organizations Management also at the University of Warsaw.

Appointment to the board: January 2011

Career experience:

He started his career in Orange Polska Group (previously TP Group) in 2001 as Manager of Human Resources in Sales & Marketing at PTK Centertel. Between 2005-2009 he was Director of Employee Competence and Development Management Branch. Before joining the management board, Jacek was Executive Director in charge of Human Resources at Telekomunikacja Polska (now Orange Polska). He has been working at the company for over 15 years.

Prior to that he worked as a Director of the Entrepreneurship and Human Resources School in Infor Training (Infor Media Group) and Director of the National In-Service Teachers Training Center, responsible for implementation of training programs supporting the development of education in Poland.

He is a member of the Program Board of Polish Human Resources Management Association, PTE and a member of Human Explorers - informal group.



Maciej Nowohoński (born in 1973)

Responsibilities: Management Board Member in charge of Finance

Qualifications: He is a graduate of Foreign Trade at the Economic University of Poznań and from the Dutch HAN University of Applied Sciences in Nijmegen.

Appointment to the board: March 2014

Career experience:

Since March 2014 he is Member of the Management Board in charge of Finance at Orange Polska. Maciej Nowohoński is a Supervisory Board Member of Stowarzyszenie Emitentów Giełdowych (Association of Listed Companies). He also sits on the supervisory boards of selected subsidiaries of Orange Polska.

He has been with Orange Polska since 2003 and held several positions in finance, including Orange Polska Group Controller in 2006-2014.

In 2010-2011 he was the Management Board Member at Emitel and in 2011-2013 the Management Board Member in charge of Finance at PTK Centertel. Prior to joining the Orange team, he worked for Arthur Andersen & Andersen Business Consulting.

Profiles of Executive Directors



Bruno Chomel (born in 1968)

Responsibilities: Since September 2016 he is Executive Director in charge of information technology. He is responsible for strategic plans, policies, programs and schedules for OPL businesses to accomplish corporate goals and objectives. He also ensures day to day improvement and quality of related applications.

Qualifications: Bruno graduated from ENSEEIHT (French Computer science “Grande Ecole”).

Career experience:

Bruno has over 20 years of professional experience on Information Systems & Digital transformation high level managerial positions in Telecoms, E-commerce & Media.

He had a proven track record in continuing his professional career mainly in Telecom (CTO / Board Member in AOL France and Director digital transformation in Vimpelcom) and e-commerce (CIO/Board Member in La Redoute and Deputy CIO mainly co-leading a massive Mainframe decommissioning program at 3SI - OTTO group).

He started his carrier with France-Telecom in 1994 working in area of R&D then he joined Wanadoo France as Billing manager in 1996 (Creation of Wanadoo). He has then been appointed in the Netherlands as CIO in Wanadoo then Solutions Director in Orange (Mobile). He moved then to UK as Wandadoo CIO.



Witold Drożdż (born in 1974)

Responsibilities: Since 2012 Executive Director in charge of Corporate Affairs at Orange Polska

Qualifications: He is a graduate of Law and International Relations at the University of Warsaw and has completed Stanford Executive Program at Stanford University.

Career experience:

In 2010–2012 he was Vice-President of the Management Board and then acting President of the Management Board of PGE Energia Jądrowa S.A.

In 2007-2010 he was Deputy Minister of the Interior and Administration, responsible for the development of information society, ICT and public records, as well as Chairman of the government committee “Digital Poland”, and member of the government committee in charge of Energy Safety and the interministerial committee of Digital TV and Radio Broadcasting.

He was awarded Info-Star (2009), INFOSTAT (2009) and Electronic Economy Ambassador (2008) awards. He is a member of the Board of Orange Foundation.



Magdalena Hauptman (born in 1968)

Responsibilities: Since November 2013 Executive Director in charge of Effectiveness

Qualifications: She graduated from the Warsaw School of Economics, Management and Marketing Department and from the Warsaw University, Musicology Department.

She has the International Coaching Community certificate (2010) and International Coaching Federation certificate (2013). She uses her knowledge in this area conducting coaching processes for the managers of Orange Polska.

Career experience:

A member of the Orange Polska team since 1994. At the beginning of her employment at PTK Centertel she was the Manager for Internal Procedures and Standards at the Administration Division and then, in the years 1998-2001, the Budget Controller for the areas of Network and IT. In 2001 she had transferred to Telekomunikacja Polska S.A. where, as the Sourcing Director, she was responsible for creation and development of Sourcing Organization working within the France Telecom Group. As the Property Director in the years 2010-2013 she coordinated the development of the concept and construction of the Miasteczko Orange (Orange Town) facility. At the same time she supervised the sale of property of Orange Polska.



Piotr Jaworski (born in 1961)

Responsibilities: Since September 2016 Executive Director in charge of Network and Technology in OPL. Member of Orange Network Experts Committee as well as Orange Ethics Committee. Chairman of TP Teltech Supervisory Board.

Qualifications: Graduated in electronic engineering from the Warsaw University of Technology and in MBA from the University of Gdańsk and the University of Strathclyde in Glasgow.

Career experience:

In Orange Polska (former Telekomunikacja Polska) since 1991, initially as the Technical Manager in the Białystok Technical Unit, then, in the TP Headquarters, as the Director of the Business Customer Relations Department and the Regional Executive Director (for South and Central Regions). Between 2007 and 2013, he was the Technical Customer Service Director. Then, until 2016, he worked as the Service Delivery and Maintenance Director, responsible for technical processes of service provision and maintenance (for both Orange customers and alternative operators), network investments (including VHHB FTTH roll-out) and active network maintenance. Piotr has been the leader of several projects in customer experience development. He has been involved in charity work for years.



Jarosław Starczewski (born in 1972)

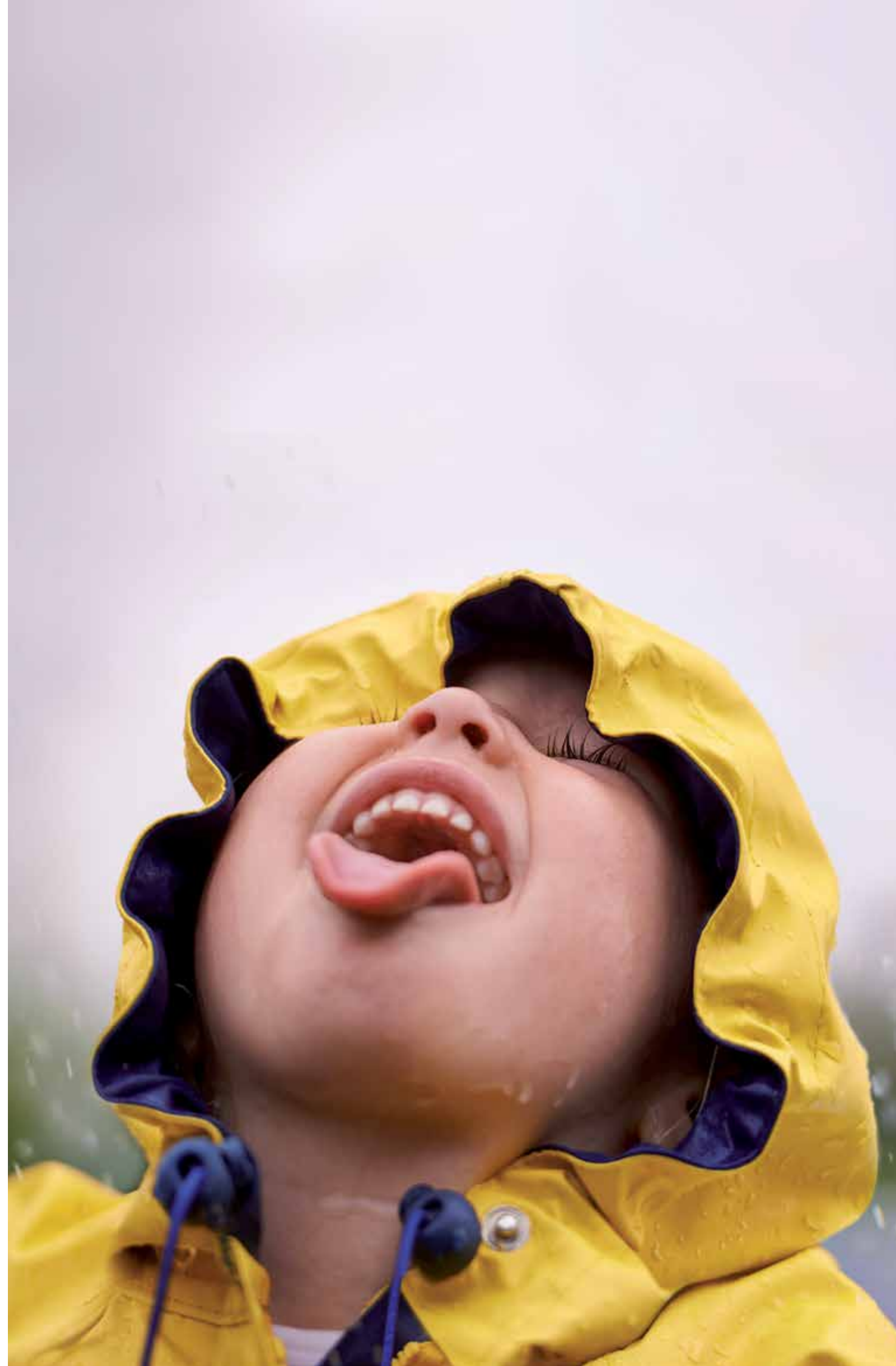
Responsibilities: Since 2013 he is Executive Director in charge of Carriers Market of Orange Polska.

Qualifications: He graduated from Telecommunication Institute of Warsaw Technical University. He also holds an MBA from the University of Illinois at Urbana-Champaign.

Career experience:

He has over 14 years of experience in working as a manager for telecom carriers in international environment. Throughout his career he held a number of executive as well as supervisory positions and roles, including with the Capital Group Polish Energy Networks, where he was Chairman of the Board of Exatel SA and of NOM Sp. z o.o.

Since 2007 he has been engaged with Orange Group as the manager responsible for wholesale sales and whole-sale products portfolio.



8.1 Our approach to corporate governance

Letter from the Chairman of the Supervisory Board



The Members of the Supervisory Board fully support the strategic direction of the Orange Polska Group and the investment policy for 2017 and the following years

Dear Shareholders,

The implementation of the medium term action plan, investments in fixed and mobile connectivity, customer satisfaction, organisational changes, and the supervision of the financial results: these were the main priorities for the Supervisory Board in 2016.

The intensive phase of construction which doubled the volume of the Group's fibre network in 2016 is a response to customer demand for fast internet. The Supervisory Board believes that future investments will provide a foundation for the growth of Orange Polska's market shares. Plans for 2017 assume that the fibre network will cover at least 2.5 million households.

The new frequency bands purchased in 2016 were fundamental to improving the quality of Orange Polska's mobile network. These improvements are crucial, because data transmission on the mobile network is growing continuously. Nowadays, almost everyone in Poland can benefit from 4G/LTE coverage. Additionally, the Orange network has been named the fastest in Poland.

In 2016 Orange Polska proved its efficiency in the sales of convergent services (including bundled family offers with several SIM cards) and noted a significant increase in the popularity of mobile internet for use in the home. Another very important development for all telco operators was pre-paid card registration. Orange Polska began this process in 2016, in consultation with and monitored by the Supervisory Board. It was a great success – 96% of our active pre-paid customers registered their SIM cards, and the rule change also helped to increase the company's post-paid base.

All these actions, as well as the company's continuing efforts to respond more accurately to clients' needs, helped Orange Polska to improve its NPS (Net Promoter Score) performance indicator.

The Orange Polska Group's financial results in 2016 were in line with expectations. Revenue of PLN 11,538 million represented a small drop compared to the previous year (adjusted revenue fell -2.4% vs -2.9% in 2015). The net result shows the impact of a write-down on assets of PLN 1,793 million, resulting from over-calculation of future cash flow together with an increase to the discount rate to reflect greater economic risk. The profit EBITDA of PLN 3,163 million is at the level we expected. Cash flow decreased in volume as a result of lower EBITDA and higher capital expenditure cash outflows.

We believe good corporate governance is essential for the stability of business practices and prevents many risks. On January 1, 2016, a new Best Practice for Warsaw Stock Exchange (WSE) Listed Companies came into force with which Orange Polska, as an issuer of securities, is obliged to comply. In 2016, the company complied with the corporate governance best practice referred to above. In the Supervisory Board's opinion Orange Polska meets the highest standards of ethics, customer care and business integrity.

Finally, I would like to emphasise that Supervisory Board Members, including Independent Directors, and Management Board Members fully support the Group's strategic direction and the investment policy planned for 2017 and following years, which assumes the continued development of the fibre network and continuous improvement of services. The Supervisory Board hopes that all these actions will result in the strengthening of Orange Polska's position as a leader with the most modern telecommunication services in Poland.

Maciej Witucki
Chairman of the Supervisory Board

Role of shareholders

Orange Polska encourages shareholders to play an active role in the Company's corporate governance. Shareholder consent is required for key decisions, including: the review and approval of the financial statements and Management Board Report on Activities; the review and approval of the Management Board's recommendations on dividend payments or coverage of losses; the review and approval of the Supervisory Board Assessment of the Group's situation; the election of the members of the Supervisory Board (and, if necessary, their dismissal); amendments to the Company's Articles of Association; increase and reduction of the share capital; and the buy-back of shares. At the Company's General Meetings, each share in Orange Polska entitles its owner to one vote. In addition to their participation in General Meetings, members of the Company's Management

Board and senior executives engage in active dialogue with the Company's shareholders. To ensure that investors receive a balanced view of the Company's performance, Management Board members – led by the President of the Management Board and the Chief Financial Officer – also make regular presentations to institutional investors and representatives of the domestic and international financial community.

Orange Polska Investor Relations

Orange Polska's activity in the area of investor relations focuses primarily on ensuring transparent and proactive communication with capital markets through active co-operation with investors and analysts as well as performance of disclosure obligations under the existing legal framework. Orange Polska's Investor Relations together with Company's representatives regularly meet with investors

and analysts in Poland and abroad and participate in the majority of regional and telecom industry investor conferences.

Orange Polska Group's financial results are presented quarterly during conferences which are available also via a live webcast. In 2016, the Company held four results presentations and over 200 meetings with investors and analysts in Poland and a number of other countries.

Orange Polska's activity and performance are monitored by analysts representing both Polish and international financial institutions on a current basis. In 2016, 21 financial institutions published their reports and recommendations concerning the Company.

On March 2, 2016, CFO of Orange Polska answered retail investors' questions during an investor chat held by the Association of Individual Investors (SII). Over 35 individual investors asked their questions during the chat.

The key purpose of all efforts of the Investor Relations towards investors is to enable a reliable assessment of the Company's financial standing, its market position and the effectiveness of its business model, taking into account the strategic development priorities in the context of the telecom market and the Polish and international macroeconomic environment.

Orange Polska operates a website dedicated to investors and analysts at www.orange-ir.pl.

■ Orange Polska's commitment to excel in corporate governance

Corporate Governance in Orange Polska is designed to provide responsible company management and supervision in order to achieve the company's strategic goals and enhance its value. We have created a strong corporate governance framework which consists of mechanisms that help achieve growth. Those mechanisms consist of structures, processes and controls which enable the company to operate more efficiently and mitigate risk. The ability of the company to create value is ensured by having capable governing bodies with a proper division of du-

ties and optimal representation of experience, skills and education. The sustainability of the company is secured by the ability to allocate fairly and sustainably the created value which is necessary to the company's long-term success.

The Management Board provides the leadership necessary to steer the company to its strategic goals. It introduces policies and rules for maintaining the internal cohesiveness of the organisation. All members of the Management Board act as executives, while the members of the Supervisory Board play an oversight role. These two roles are separable and strictly assigned to these governing bodies. The Supervisory Board consists of shareholders' representatives, elected by the General Assembly. In order to exercise its obligations the Supervisory Board may at any time examine any documents of the company, may demand from the Management Board and employees any reports and explanations and may check the financial standing of the company. When necessary the Supervisory Board may oblige the Management Board to commission experts to draw up an expert opinion for its use if a matter requires specialised knowledge or qualifications.

In order to ensure quality decision-making, the Supervisory Board uses its committees as advisory bodies. The members of each committee are experts in their field of expertise who provide the Supervisory Board with advice on issues requiring more detailed analysis. The Audit Committee provides the Supervisory Board with wide expertise on finance, accounting and audit. The Remuneration Committee deals with general remuneration policy and recommends appointments of Management Board members. The Strategy Committee is responsible for delivering recommendations on strategic plans and planning processes set up by the Management Board.

The aim of the corporate governance model described above is to properly distribute responsibilities within the company and establish the roles of the key governing bodies,

which in turn enhance the decision making process. Its structural elements, and the relationships between them, guarantee the transparency of key management decisions.

Orange Polska is fully accountable to its stakeholders, and is committed to communicating its progress towards its business goals and the fulfilment of its responsibilities. We do this to increase confidence about our company among investors, customers, suppliers, employees, governmental bodies and the general public. We have paid the utmost attention to constructing a corporate governance system which promotes ethical, responsible and transparent practices. By introducing these rules we are demonstrating the company's commitment to the highest standards of governance, and ensuring that these standards will continue to stand up to scrutiny by internal and external stakeholders.

■ Compliance with Warsaw Stock Exchange Best Practice

Orange Polska S.A., as an issuer of securities listed on the Warsaw Stock Exchange, is obliged to comply with the corporate governance practices set out in the guidelines, Best Practice for WSE Listed Companies 2016.

In 2016, the company complied with this corporate governance best practice. However,

referring to the Recommendation IV.R.2 of the Best Practice guidelines, the company provides a live broadcast of the General Meeting but it provides neither real-time bilateral communication nor the possibility to exercise the right to vote for shareholders taking part in a meeting from a location other than the general meeting, due to legal risks involved in providing such electronic means of communication. The full text of our Statement on the company's compliance with the corporate governance recommendations and principles contained in Best Practice for GPW Listed Companies 2016 is available at <http://orange-ir.pl/corporate-governance/best-practices>

■ Governing bodies diversity

We are convinced that diversity of a company's governing bodies is beneficial to the company's development. That is why we make sure that our Supervisory Board and the Management Board consists of people who are diverse in terms of age, sex, education and professional experience. Because they come from different environments and have a diversity of knowledge and skills, they can look from different perspectives at the management of the company and its efficient functioning in its markets.



8.2 Our governance structure

Orange Polska has three **governing bodies**:

1. General Assembly
2. Supervisory Board
3. Management Board

The highest of the governing bodies is **the General Assembly** which is responsible for the following duties (among others):

- review and approval of the financial statement and report on the company's activity in the previous financial year
- distribution of profits or coverage of losses
- confirming the proper execution of duties by the members of the Supervisory Board and the Management Board
- amendments to the Articles of Association, including an increase or reduction of the share capital
- merger or change of the legal form of the company
- issuance of convertible bonds or first option bonds
- appointment and removal of the members of the Supervisory Board
- determining the remuneration of the members of the Supervisory Board

Full details of the matters reserved for the General Assembly's decision making can be found on our website at <http://orange-ir.pl/corporate-governance>

The Supervisory Board is responsible for supervision over the company's activities (including the activities of its controlled subsidiaries) and represents the company in concluding any agreements between Orange Polska and members of the Management

Board or in the event of any disputes between the company and members of the Management Board. It is also obliged to ensure that the financial statements and reports on the company's activities meet the requirements of the provisions of accountancy law.

The main duties of the Supervisory Board are:

- evaluation of annual financial statements
 - evaluation of the Management Board's report on company's activities and motions of the Management Board regarding distribution of profits or covering of losses as well as submitting a written report on the results of the above mentioned evaluations to the General Assembly
 - appointing, dismissing and suspending for important reasons a member of the Management Board or the entire Management Board as well as determining the terms of their remuneration and fixing their the remuneration
 - appointing an auditor to examine or inspect financial statements
 - stating an opinion on annual and long-term strategies and business plans and annual budget
 - stating an opinion on incurring liabilities in excess of the equivalent of EURO 100,000,000 as well as on disposal of the assets in excess of the equivalent of EURO 100,000,000
 - submitting a concise evaluation of the company's standing to the General Assembly
- Full details of the matters reserved for the Supervisory Board's decision making can be found on our website at <http://orange-ir.pl/corporate-governance>

Criteria for independent Supervisory Board members

- The independent members of Orange Polska Supervisory Board satisfy the following conditions:
- not to be, or have been for the previous five years a member of the Management Board of Orange Polska, or its dominant or subsidiary company and not to belong to senior management of such entities,
- not to be, or have been within the previous five years an employee of Orange Polska, or its dominant or subsidiary company
- not to receive, or have received, significant additional remuneration or any pecuniary performance from Orange Polska, or its dominant or subsidiary company apart from a fee received as a member of the Supervisory Board
- not to be or to represent in any way, particularly as a management board member, a supervisory board member or senior employee, a dominant shareholder
- not to have, or have had within the previous year, a significant business relationship (as a significant supplier of goods or services, including financial, legal, advisory or consulting services, or significant customer) with Orange Polska or an associated company, either directly or as a partner, significant shareholder, director or senior employee of an entity having such a relationship
- not to be, or have been within the previous three years an external auditor of Orange Polska, or its dominant or subsidiary company or an employee of such auditor
- not to be a member of a management board in a company in which a member of the Management Board of Orange Polska is a member of the supervisory board
- not to have served on the Supervisory Board of Orange Polska for more than twelve years from the date of the first appointment
- not to have, or have had family connections with a member of the Management Board of the company, senior employee of the company, or a dominant shareholder

Regulating conflicts of interest

Each Management Board member is obliged to promptly inform the Company about all the conflicts of interests which make impossible or limit his ability to perform any function of a Board member.

Each Supervisory Board member is obliged to inform the Company immediately about the existence of their relationship with any shareholder who holds shares representing not less than 5% of all votes at the General Assembly of the company and to provide the company with a quarterly summary on such relationships. This concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board. Supervisory and Management Board members are obliged to submit quarterly statements including additional information required by law and regulations related to the listing of shares on the regulated markets and

aimed at the Company getting knowledge about potential conflict of interest.

In case of a conflict between the interests of the Company and the personal interests of a Supervisory or Management Board member, his/her descendants or relatives up to the second degree, a Board member shall abstain from participation in resolving such cases.

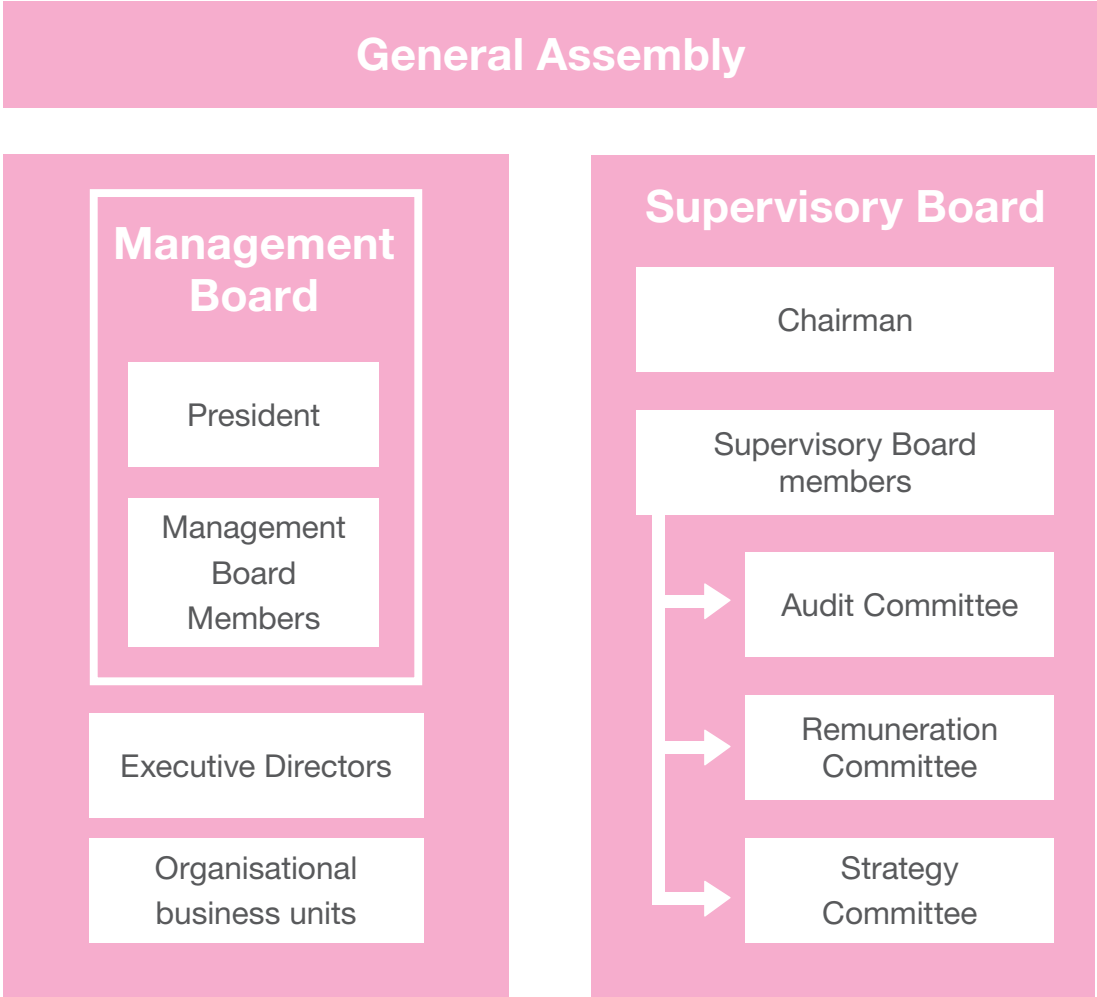
The Audit Committee reviews and provides an opinion to the company's Management Board and/or the Supervisory Board on significant transactions with related parties as defined by the corporate rules. Orange SA's nominees are excluded from voting on Supervisory Board meetings and Audit Committee meetings on transactions involving Orange SA or its subsidiaries. Also other members of the Supervisory Board performing functions in other companies which enter into transactions with the Company are excluded from voting on matters relating to such transactions.

The Management Board manages Orange Polska affairs, administers its assets and represents the company towards third parties. It is responsible for any matters relating to the company's affairs which, under the Commercial Companies Code or the company's Articles of Association, do not fall within the competence of the General Assembly or the Supervisory Board. The Management Board implements resolutions of the General Meeting and the Supervisory Board as well as its own resolutions, and is responsible for their execution.

Full details of the matters reserved for the Management Board's decision making can be found on our website at <http://orange-ir.pl/corporate-governance>

Executive Directors are responsible for management of specific functions within the company. The task areas of their responsibilities are described in the Orange Polska S.A. Organisational Regulations.

Orange Polska Corporate Governance structure





8.3 Orange Polska governing bodies' activities in 2016

General Assembly activities in 2016

The Annual General Assembly took place on April 12, 2016 in Warsaw. The Assembly adopted, among others, resolutions on:

- approval of the Management Board's report on Orange Polska's activity in 2015
- approval of the company's IFRS financial statements for 2015
- distribution of the company's profit for 2015 and use of part of the financial means from the supplementary capital for distribution of the dividend
- approval of the Management Board report on the activity of Orange Polska Group in the 2015 financial year
- approval of the IFRS consolidated financial statements for 2015

The General Assembly also adopted resolutions granting approval of the performance of duties by the Supervisory Board members and Management Board members, including the President as well as on the appointment of the Supervisory Board members Jean-Marie Culpin, Eric Debroeck, Michał Kleiber, Gervais Pellissier, Marc Ricau and Maciej Witucki.

An Extraordinary General Assembly took place on July 21, 2016 in Warsaw. The Assembly adopted among others resolutions on:

- the merger of Orange Polska S.A. with Orange Customer Service sp. z o.o. and TP Invest sp. z o.o.
- amending the Articles of Association

General Assembly at a glance

The Annual General Assembly is convened by the Management Board (or by the Supervisory Board if the Management Board fails to convene it within the period set out by the law) and it is held within six months after the end of each financial year. The General Assembly is valid regardless of the number of shares being represented. The agenda of the General Assembly is determined by the body that has convened it. Any matters to be resolved by the General Assembly should first be presented by the Management Board to the Supervisory Board for its opinion. The resolutions are adopted by a simple majority of votes cast, unless the Commercial Companies Code or the Articles of Association provide otherwise. Voting at the General Assembly is open. A secret ballot is used at elections or upon motions for removal of the members of the company's Boards or liquidators, or calling them to account for their actions, or in personal matters. A secret ballot is also used whenever requested by at least one of the Shareholders or their representatives present at the General Assembly.

An Extraordinary General Assembly is convened by:

- the Management Board, upon its own initiative or upon a written motion of the Supervisory Board or shareholder(s) representing at least 5% of the share capital. In such a situation the Management Board includes on the agenda the matters indicated by the shareholders requesting the meeting.
- the Supervisory Board, if it is necessary in its opinion
- shareholders representing at least half of the share capital or at least half of total votes in the company

The Supervisory Board or the shareholders representing at least 5% of the share capital may request that particular matters be included on the agenda of the next General Assembly.

The shareholders have the following rights:

- They may take part in the General Assembly and exercise the right to vote in person or by attorneys-in-fact (other representatives).
- Each shareholder has the right to candidature for the Chairman of the General Assembly or to put forward one candidate for the position of the Chairman of the General Assembly to the minutes.
- For each point on the agenda, each shareholder has the right to one speech of five minutes and a reply of five minutes.
- Each shareholder has the right to ask questions on any matters on the agenda.
- Each shareholder has the right to object to a decision by the Chairman of the General Assembly. The General Assembly decides in a resolution whether the decision of the Chairman be upheld or reversed.
- Each shareholder has the right to suggest amendments or additions to draft resolutions which are covered by the agenda of the General Assembly. Such suggestions must be raised before the close of discussions on the relevant agenda item.

Supervisory Board's activities in 2016

Supervisory Board Members

- | | |
|---------------------------------|---|
| 1. Maciej Witucki | Chairman of the Supervisory Board |
| 2. Gervais Pellissier | Deputy Chairman and Chairman of the Strategy Committee |
| 3. Marc Ricau | Board Member and Secretary |
| 4. Dr. Henryka Bochniarz | Independent Board Member |
| 5. Federico Colom Artola | Board Member |
| 6. Jean-Marie Culpin | Board Member |
| 7. Eric Debroeck | Board Member |
| 8. Ramon Fernandez | Board Member |
| 9. Russ Houlden | Independent Board Member and Chairman of the Audit Committee |
| 10. Prof. Michał Kleiber | Independent Board Member |
| 11. Patrice Lambert-de Diesbach | Board Member |
| 12. Dr. Maria Pasło-Wiśniewska | Independent Board Member |
| 13. Dr. Wiesław Rożłucki | Independent Board Member and Chairman of the Remuneration Committee |
| 14. Valérie Thérond | Board Member |

Orange Polska has five independent members on the Supervisory Board: Dr. Henryka Bochniarz, Russ Houlden, Prof. Michał Kleiber, Dr. Maria Pasło-Wiśniewska and Dr. Wiesław Rożłucki.

Profiles of the Supervisory Board Members can be found on our website at <http://www.orange-ir.pl/corporate-governance/supervisory-board>

Supervisory Board attendance register

	SUPERVISORY BOARD	AUDIT COMMITTEE	STRATEGY COMMITTEE	REMUNERATION COMMITTEE
Maciej Witucki	5/5			
Gervais Pellissier	5/5		3/3	
Marc Ricau	5/5	7/7		7/7
Henryka Bochniarz	5/5		3/3	
Federico Colom Artola	2/2	3/3		
Jean-Marie Culpin	5/5		1/3	
Eric Debroeck	5/5		3/3	
Ramon Fernandez	3/5			
Russ Houlden	5/5	7/7		
Michał Kleiber	3/3		2/2	
Patrice Lambert-de Diesbach	2/2		2/2	
Maria Pasło-Wiśniewska	5/5	7/7	3/3	4/4
Wiesław Rożłucki	5/5			7/7
Valérie Thérond	4/5			5/7

■ Actual number of meetings attended

■ Maximum number of scheduled meetings which the directors could have attended

Changes to the membership of the Supervisory Board in 2016

Prof. Andrzej K. Koźmiński, Mr. Gérard Ries and Ms. Marie-Christine Lambert resigned from their positions as members of the Supervisory Board in 2016.

The mandates of Messrs. Jean-Marie Culpin, Eric Debroeck, Mirosław Gronicki, Gervais Pellissier, Marc Ricau and Maciej Witucki expired on April 12, 2016. On the same day, Jean-Marie Culpin, Eric Debroeck, Gervais Pellissier, Marc Ricau and Maciej Witucki were re-appointed by the Annual General Assembly as Members of the Supervisory Board and Prof. Michał Kleiber was appointed as the Member of the Supervisory Board. Messrs. Federico Colom Artola and Patrice Lambert-de Diesbach were appointed by the Supervisory Board as members in July 2016

Rules for appointing a Supervisory Board member and the term of office

A member of the Orange Polska Supervisory Board should have the relevant education, professional and practical experience and high moral standing. They should also be able to devote the time required to properly per-

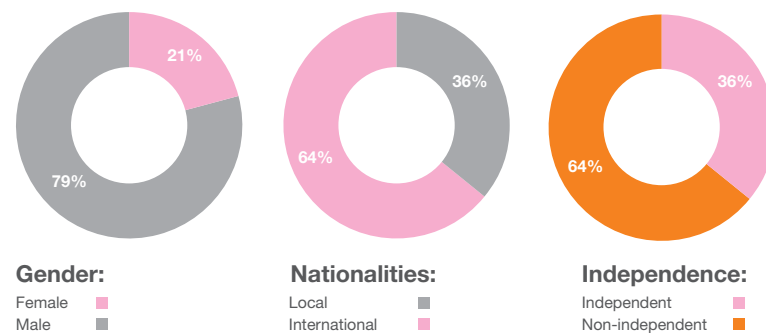
form their role on the Supervisory Board.

Members of the Supervisory Board are appointed by the General Assembly. Each shareholder has a right to put forward potential candidates to be Supervisory Board members, and the eventual members are appointed at the General Assembly by a simple majority of votes cast.

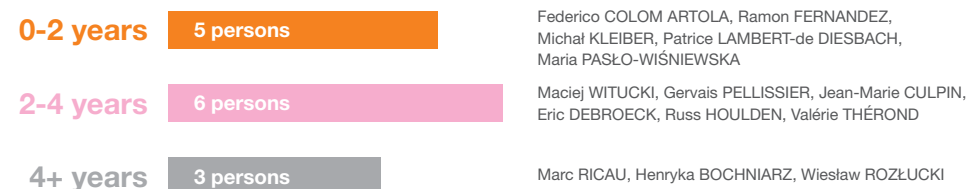
In case the mandate of a member of the Supervisory Board expires for reasons other than end of the term of office or dismissal from the Supervisory Board, the rest of the members of the Supervisory Board may appoint, by a majority of two thirds of the votes cast, a new member of the Supervisory Board. The mandate of any such newly appointed member expires on the date of the next General Meeting held not earlier than five weeks after the appointment.

The term of office of Supervisory Board members is three years. Mandates of the Supervisory Board members expire on the day of the Annual General Assembly approving financial statements for the second full accounting year of their term in office (also as a result of death, resignation or dismissal).

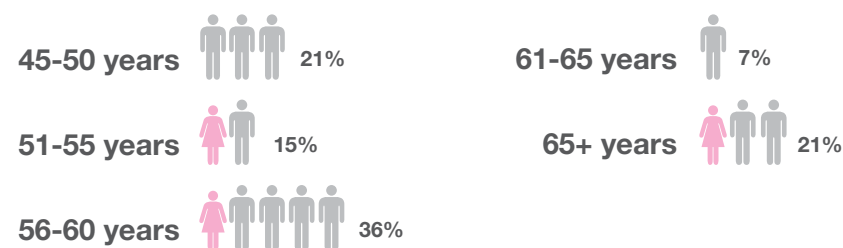
Supervisory Board diversity



Length of tenure:



Age profile:



Supervisory Board skills matrix

	Economics and Finance	Management and Strategy	Law and administration	Engineering and Technology	Psychology and Humanities	Sales and Marketing	Public administration	Scientific activity
Maciej Witucki	✓	✓		✓				
Gervais Pellissier	✓	✓	✓					
Marc Ricau	✓	✓		✓				
Henryka Bochniarz	✓	✓			✓		✓	✓
Federico Colom Artola	✓	✓				✓		
Jean-Marie Culpin		✓		✓		✓		
Eric Debroeck		✓	✓	✓				
Ramon Fernandez	✓	✓	✓				✓	
Russ Houlden	✓	✓					✓	
Michał Kleiber	✓	✓		✓			✓	✓
Patrice Lambert-de Diesbach	✓	✓	✓					
Maria Pasło-Wiśniewska	✓	✓			✓		✓	✓
Wiesław Rozłucki	✓	✓	✓				✓	
Valérie Théron	✓	✓						

On the Supervisory Board's agenda for 2016

Throughout 2016, the Supervisory Board focused on the following issues:

Implementation of the medium term action plan for 2016–2018

In February 2016, the Supervisory Board accepted the new 2016-18 strategic plan for Orange Polska S.A. and Orange Polska Capital Group, focused on increasing market share. It is a proactive plan built around four strategic priorities: leadership in connectivity and in convergence, best customer experience, and agility. In the years ahead we expect strong growth in demand for telecom services, fuelled by a surge in data consumption and increasing adoption by Polish households of a convergent approach.

Investments in the rollout of the fibre network

Good connectivity, both fixed and mobile, is the key to the success of our strategy. The Group's adjusted capital expenditures in 2016 reached PLN 2 billion (excluding spectrum payments) and were almost similar to 2015 but the Group significantly increased investments in the rollout of the fibre network. Plans for the year 2017 assume that the fibre network will cover at least 2.5 million households.

Launch of LTE services on the newly purchased mobile spectrum

The successful purchase at auction of new frequency bands at the beginning of 2016 year was a milestone event in our continuing efforts to improve the quality of our mobile network, and greatly improved the company's competitive position in terms of mobile spectrum resources. Nowadays, almost all Polish residents can benefit from 4G/LTE coverage. Additionally, the Orange network is the fastest in Poland (according to independent source speedtest.pl).

The Group's financial results and performance in comparison to the budget; delivering market guidance for EBITDA and leverage

Considering the increase in investment and very strong competition, the Supervisory Board paid a great deal of attention to the financial results, which were in line with expectations in 2016. Revenue of PLN 11,538 million were slightly down in comparison to the previous year (-2.4% vs -2.9% in 2015). On the net result, we can see the impact of the write-down on non-financial assets of PLN 1,793 million, resulting from over-calculation of future cash flow together with an increase of the discount rate in order to reflect greater economic risk. Adjusted EBITDA of PLN 3,163 million is at the expected level. Cash flow decreased in volume as a result of lower EBITDA and higher capital expenditure cash outflows.

Customer satisfaction – the customer excellence programme

The Supervisory Board is satisfied with the further improvements in customer satisfaction, which included achieving the best Net Promoter Score (NPS) in both B2C and B2B markets. Exploration of convergent opportunities
One of the key strategic objectives of Orange Polska is to be the convergence leader, providing mobile and fixed line service bundles. In 2016 Orange Polska proved its efficiency in the sales of convergent services (including family offers with several SIM cards) and noted a significant increase of the popularity of mobile internet for the home.

Organisational changes in the company and others

On February 4, 2016 the Supervisory Board approved a new Management Board President as of 1 May, when Bruno Duthoit was replaced by Jean-François Fallacher.

On September 30, 2016, Orange Polska merged with its subsidiaries by transferring all assets of Orange Customer Service and TP Invest to Orange Polska. The main purpose of the merger was to increase operational efficiency within the Orange Polska Group, as well as integrating and simplifying processes in the merged companies.

Assessment of Orange Polska Group's Standing by the Supervisory Board

The Supervisory Board, through the work of its committees and all its members (including five independent members), was actively engaged in the process of evaluation of the most important initiatives, having in mind the interest of all the Group's stakeholders, including shareholders. In addition, it maintained oversight of the Group's operational and financial goals through management reporting at its quarterly meetings and was able, through the Audit Committee, to review and challenge the control, risk management and budgeting functions performed by the Management.

Group Operational Review

In 2016 Orange Polska's business continued to develop in line with the priorities that were set a year ago: investments in connectivity and very proactive customer acquisition on all fronts.

In 2016 Orange Polska continued to make significant investments in fibre network rollout. This strategic priority will differentiate the company's offer on the market and is a key factor in its ongoing transition from a legacy to a modern telecom company. The size of the fibre network doubled last year to close to 1.5 million households. The company has the largest fibre network in Poland, available in 37 cities. As this technology is still new in Poland, the company put a lot of effort into marketing communications through the year to build customer awareness. Customer take-up increased in every quarter and reached 31,000 in Q4. Almost 80% of customers acquired in Q4 were new to Orange Polska – evidence that Orange Polska is winning market share from the competition. Facing a continuing surge in data consumption, Orange Polska continued to improve mobile connectivity based on the newly acquired spectrum, resulting in mobile 4G/LTE network coverage of almost the entire population and serving more than 60% of Poland's mobile data traffic. The volume of data transferred in the network increased by c.130% due to the growing number of customers and much higher traffic per

customer, driven by increasing smartphone penetration and evolving customer needs.

In 2016 the number of mobile post-paid SIM cards increased by more than 1 million or 13% year-on-year, the best achievement in many years. Orange Polska held on to second place on the market in terms of mobile number portability, with a much better net result in post-paid (+152,000) than the year before. This impressive growth was mainly fuelled by two market trends: the success of multi-SIM family offers, and much higher popularity of mobile broadband for use in the home (called LTE for Fixed). Family offers are a powerful market tool to win households who use more and more mobile devices. LTE for Fixed is gaining traction as a substitute for fixed broadband, especially in suburban areas, as a consequence of much better mobile connectivity. Another contributing factor to growth in post-paid was increased migration from pre-paid following a regulatory change that obliged users to register their pre-paid SIM cards.

The unexpected introduction during 2016 of mandatory registration of pre-paid SIM cards constituted a new challenge. Handling this challenge required a lot of effort in terms of adjusting our IT systems, redefining relations with distributors, customer education and marketing initiatives. By 1 February 2017 (the deadline for registration of existing cards to avoid disconnection), around 96% of active customers had registered their SIM cards, which we deem a success and evidence that we handled this transition well.

In 2016 the Group continued efforts to engage in active dialogue with our customers in line with the new "listening and responding" approach launched in 2015. In 2016 Net Promoter Score (NPS) was once again improved and reached an all-time high as a result of significant improvements in satisfaction among our mobile customers, on both B2C and B2B markets.

Group's Financial Overview

Orange Polska Group's key goals in 2016 were to:

- further extend coverage of LTE technology

and launch services on newly purchased mobile spectrum

- continue fibre network rollout to cover up to 800,000 new households connectable
- develop commercial strategy aimed mainly at monetisation of new mobile spectrum, commercialisation of fibre network and actions to strengthen the company's position in all of its markets of operation
- use the Group's unique resources to fully utilise the benefits of convergent opportunities
- increase customer satisfaction and loyalty and continue implementation of the customer excellence program
- further optimise the Group's assets, including disposal of unused properties
- develop new cost optimisation initiatives to mitigate impact of revenue pressure
- maintain financial stability and monitor closely the level of debt ratios (net debt-to-adjusted EBITDA not to exceed 2.2)
- deliver adjusted EBITDA in the guidance range of PLN 3.15-3.30 billion
- monitor and analyse any acquisition opportunities on the market
- remunerate shareholders at a reasonable level, taking into consideration the Group's financial structure and future capital requirements

Adjusted revenue totalled PLN 11,538 million in 2016, down -2.4% or PLN 288 million year-on-year. The decline resulted mainly from a fall in fixed services and lower other revenues. Evolution of fixed services reflects primarily structural erosion of legacy business, which impacted fixed voice and wholesale revenue. Fixed broadband revenue were also down as consequence of falling ADSL base and lower ARPU. A decrease in other revenue resulted from completion of infrastructure projects (that generated PLN 127 million revenue in 2015), and lower ICT revenue. These negatives were partially offset by an increase in mobile revenue, which were driven up by post-paid customer base growth and a shift towards instalment offers.

Adjusted EBITDA for the full year amounted to PLN 3,163 million, down by PLN 354 million or 10.1% year-on-year. Adjusted EBITDA margin

stood at 27.4%, down by 2.3 pp year-on-year. Its evolution reflects a fall in revenue, an increase in direct costs (by PLN 249 million) and further optimisation of indirect costs (a fall by PLN 183 million). Direct cost year-on-year evolution was mainly affected by higher interconnect costs as well as growing commercial costs, due in large part to a change in the mix of handsets and unfavourable FX impact (weaker PLN to EURO). These negatives were partly compensated by the improvement in indirect costs, mainly due to ongoing optimisation in the network & IT areas and a headcount decrease following implementation of the social plan.

Net loss for 2016 amounted to PLN 1,746 million versus net income of PLN 254 million in 2015. It was heavily affected by PLN 1,793 million non-financial assets impairment loss due to reassessment of future projected cash flows coupled with an increase in the discount rate to reflect higher business risk. It was also impacted by lower EBITDA and higher net financial costs (PLN 68 million above 2015), mainly as a result of higher debt.

Adjusted organic cash flow for 2016 came in at PLN 620 million versus PLN 962 million in 2015. It was mainly as a result of lower EBITDA and higher capital expenditure cash outflows. These were partly offset by much lower requirement for working capital as growing receivables (due to instalment effect) were largely compensated by supply chain optimisation.

In 2016, the Group paid a dividend of PLN 328 million, an equivalent of PLN 0.25 per share, payable in cash.

Conclusions and 2017 recommendations

In 2016 Orange Polska enhanced its commercial position on the Polish telecom market, especially in mobile post-paid and high-speed fixed broadband. Customers' perception of Orange services further improved. Financial results were in line with objectives. In 2017 key priorities should not change but the focus will be more on improving the execution of commercial actions and investment process. Monetisation of the strategy that was announced a year ago is proving slower than anticipated, mainly due

to slower than previously expected recovery of the mobile market, high competition in fixed broadband putting pressure on ADSL customers, continued pressure on legacy businesses (PSTN and wholesale) and the new situation on the pre-paid market. As such, new actions are required to facilitate the strategic goal, which is turnaround.

The Supervisory Board's opinion is that in 2017 the Group should focus, in particular, on the following key aspects:

- drawing benefits from the recent organisational changes in the company
- maximising market opportunities from the newly launched convergence offer Orange Love
- working out new actions that will improve monetisation of the strategy and business transformation, including new cost cutting initiatives
- considering initiatives to deleverage the balance sheet
- providing during the year an update regarding mid-term strategic and financial outlook
- continuing fibre network rollout to cover more than 1 million new households connectable
- closely monitoring the commercial strategy, particularly with the aim of monetising the fibre network, and developing further actions to strengthen the company's position in all its markets of operation
- implementing further improvements in the customer management experience to continue to increase customer satisfaction and loyalty
- participating in the POPC program
- delivering adjusted EBITDA in the guidance range of PLN 2.8-3.0 billion
- maintaining financial stability and closely monitoring the level of debt ratios (net debt-to-adjusted EBITDA not to exceed 2.6)

Supervisory Board at a glance

The Supervisory Board consists of between nine and 16 members, at least one third of whom should be independent members. The Supervisory Board should hold meetings at least once a quarter. The Supervisory Board appoints and removes the Management Board President and other members of the Management Board. Unless otherwise provided for in the Articles of Association the Supervisory Board adopts resolutions in an open vote with a simple majority of votes cast and in the presence of at least a half of all members of the Supervisory Board.

The Supervisory Board elects from among its members the Chairman who convenes and chairs the meetings of the Supervisory Board. In case of a tied vote, the Chairman has the casting vote. The Supervisory Board has established three committees which are its advisory bodies:

- Audit Committee
- Remuneration Committee
- Strategy Committee

Only a member of the Supervisory Board can be a member of any of its committees. The Committees make decisions by an ordinary majority of votes. The chairmen of the Committees are appointed by the Supervisory Board. They manage the Committees work, convene meetings and in the case of a tied vote, they have the casting vote.

Orange Polska adheres to the rules detailed in the Annex I to the European Commission Recommendation of February 15, 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board [Official Journal of the European Union L. 52/51, dated 25.2.2005]

Audit Committee activities in 2016

Audit Committee members

1. Russ Houlden – Chairman
2. Federico Colom Artola
3. Dr. Maria Pasło-Wiśniewska
4. Marc Ricau

The Audit Committee is chaired by Mr. Russ Houlden, an independent Member of the Supervisory Board having qualifications in accounting and treasury and relevant experience in audit and finance.



One of the main responsibilities of the Audit Committee is to ensure proper financial reporting by the Company and Group. As part of this, we review all significant accounting judgements and estimates proposed by Management.

Letter from the Chairman of the Audit Committee

Dear Shareholders,

I am pleased to attach my report on the activities of the Audit Committee over the past 12 months.

One of the main responsibilities of the Audit Committee is to ensure proper financial reporting by the company and Group. As part of this, we review all significant accounting judgements and estimates proposed by Management.

The most significant judgement this year related to the value of goodwill and whether it continued to be supported by the expected future cash flows of the business taking into account recent performance, future strategy and current and expected market conditions. This review, technically called an impairment test, is something we do each year but this year Management recommended, and we agreed, that an impairment of PLN 1,793 million of the goodwill in the consolidated financial statements should be made. While that decision may not have been expected by some shareholders, I believe it was the right decision in the circumstances.

The second most significant judgement related to asset lives. Again, this is something we review each year. This year, Management provided clear evidence that certain assets had longer useful economic lives than previously assumed and we therefore concurred with their recommendation to extend certain asset lives, resulting in a reduction in depreciation in 2017 of around PLN 150m.

The Audit Committee also monitors the evolution of accounting standards and expected changes in relevant legislation. There are a few changes to the International Accounting Standards which are upcoming. We intend to apply IFRS9 (Financial Instruments) and IFRS15 (Revenue) for the first time in the year ending 31 December 2018 and will probably apply IFRS16 (Leasing) for the first time in the year ending 31 December 2019. Management has made significant progress on preparing for implementation and the Committee reviewed the progress made and was satisfied that the company will be ready in time for the respective implementation dates.

The Audit Committee has also been involved in the reviewing internal control and compliance, the risk management processes and the external audit of the company and Group financial statements. In particular, the Committee works to ensure the independence of both the external auditor and internal audit team and had private meetings with the external auditor and the head of the company's internal audit team to give them an opportunity to discuss any issues which may have arisen in their work with Management.

Last, but not least, the independent members of the Audit Committee reviewed and, when necessary, challenged the terms of significant transactions with related parties including, in particular, the majority shareholder, Orange S.A.

A more detailed summary of the activities of the Audit Committee is presented below.

Russ Houlden
Chairman of the Audit Committee

On the Audit Committee's agenda for 2016

The Audit Committee held seven regular meetings in 2016. The AC performed in particular the following activities:

Monitoring the financial reporting process, budgetary planning along with its realisation

The Committee, on behalf of the Supervisory Board, has monitored the process of the financial reporting. Committee members reviewed the quarterly and yearly financial statements along with reports from the management on financial performance, accounting policies and approaches, one-offs, estimates and judgments.

The Committee also reviewed the Group's budget and addressed recommendations on it to the Supervisory Board; in addition, the Committee looked at the Group's per-

formance against the budget, as presented in periodical reports from the management.

Monitoring of statutory auditor's performance and independence

Reviewing the scope and the results of the external auditor, its independence and objectivity, was a significant part of the Audit Committee's duties and activities.

All non-audit services provided by external auditors were approved in advance by the Chairman of the Committee. In addition, the Committee reviewed the external auditors' proposed audit plan, including the materiality level set for audit testing. The Committee also monitored the Group's responsiveness to the recommendations from the external auditor. In addition, the Committee met privately with the lead partner of the statutory audit firm.

Recommendation on the appointment of the statutory auditor

The Committee reviewed the prior year performance of the external auditor and recommended to the Supervisory Board on the reappointment of Ernst & Young as the statutory auditor for 2016. The terms of reappointment included the auditor's remuneration, terms of engagement, audit plan and the materiality level set for audit conclusions.

Monitoring the effectiveness of internal audit, internal control systems and risk management

The Audit Committee reviewed the annual plan of Internal Audit, its budget and progress reports. The Committee monitored the periodic reporting on internal audit actions and findings. The Committee observed the responsiveness of management to Internal Audit findings and recommendations. In addition, the Committee met privately with the director of the Internal Audit and reviewed the independence of the Internal Audit process.

The Committee kept reviewing the efficiency of the internal control and risk management system. Its members received reports from the management on the system, and monitored the appropriateness of "control culture" as well as the way risks were identified, managed and disclosed. The Committee also reviewed reports from the management on action plan's implementation in response to comments on inter-

nal controls from the internal and external auditors. The Committee also reviewed the Group's compliance system in areas such as: overall compliance with laws and regulations; ethics; anti-fraud; security; anti-corruption; and monitored the operations of the Ethics Committee, as well as the results of investigations initiated by whistle-blowing.

Monitoring changes in the legal environment, including changes in accounting standards

Changes in the legal environment, together with updates to accounting standards and recommendations from bodies safeguarding financial systems, were of interest of the Audit Committee, as well as the question of how Orange Polska Group approached and implemented them. The Committee also reviewed the improvement of non-GAAP measures disclosure in line with ESMA guidelines.

Other areas of interest

The Committee reviewed and issued opinions on significant transactions with related parties, in line with internal regulations and best practices of corporate governance. Orange SA's nominees are excluded from voting on Supervisory Board meetings and Audit Committee meetings on transactions involving Orange SA or its subsidiaries. The Committee reviewed other matters of interest, including but not limited to revenue assurance, hedging and insurance.



Audit Committee at a glance

The Audit Committee meets at least on a quarterly basis before the publication of the financial statements. The Audit Committee is chaired by Mr. Russ Houlden, an independent Member of the Supervisory Board having qualifications in accounting and treasury and relevant experience in audit and finance.. The key functions of the Audit Committee include:

- monitoring the integrity of the financial information provided by the company
- reviewing at least annually the Orange Polska Capital Group's system of internal control and risk management systems
- reviewing annually the Internal Audit programme
- analysing reports of the company's Internal Audit and major findings of any other internal investigations
- reviewing and providing an opinion to the company's Management Board and/or the SVB on significant transactions with related parties as defined by the corporate rules
- giving opinion on the appointment of the external auditor, its scope of work and fees
- monitoring the independence and objectivity of the company's external auditors and presentation of recommendations to the Supervisory Board with regard to selection and remuneration of the company's auditors
- reviewing the issues giving rise to the resignation of the external auditor
- reviewing the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor

In addition to the role performed by the Audit Committee, the management of the Company undertook the following measures to ensure overall compliance and the highest standards of conducting business activity.

Compliance mechanisms

Orange Polska operates in an increasingly competitive market. This market demands that we apply high standards and rules not only when it comes to the quality and innovation of our services, but also our way of doing business and maintaining business relationships. Therefore, as part of our Corporate Governance we introduced a Compliance Management Program and appointed a Chief Compliance Officer for Orange Polska (CCO OPL) as part of that program. CCO OPL acts with the support of the Compliance Officer for Orange Polska (CO OPL) who is also the Director of the Compliance Management Office.

An important responsibility of the Compliance function is our Anti-Corruption Pol-

icy. It takes a zero-tolerance approach towards corruption, and must be followed by all employees, co-workers and business partners who act on our behalf. To support the Compliance Management Program, we are in the process of implementation of a new risk-based due diligence process. That initiative was created to optimise and harmonise the due diligence procedures relating to compliance and fraud. Its goal is to thoroughly screen our partners for risks of corruption, fraud, non-compliance with economic sanctions, money laundering and terrorism financing. Another responsibility of the Compliance function is a cyclic review of corruption risks. This process identifies and evaluates new risks and reviews current risks and controls mechanisms. Another tool that actively promotes compliance culture is an obligatory e-training module on anti-corruption for all of Orange Polska's employees. It covers issues such as the correct actions to take if a bribe is offered.

Orange Polska employees and stakehold-

ers may use dedicated channels to report their concerns or ask for advice if they suspect a conflict of interests, bribery, or any infringement of either the Orange Polska regulations (including the Anti-corruption Policy) or the law of the land. When doing so, they should not be afraid of any repressive measures, acts of discrimination or disciplinary proceedings. Reports are confidential and are examined with proper care. Matters related to Compliance are reported to the Audit Committee of the Supervisory Board in the following areas: ethics, general compliance with laws and regulations, anti-fraud, security and anti-corruption. The activities of the Compliance Management function, the results of planned inspections, as well as the results of inspections initiated by notification of irregularities (whistle-blowing) are monitored by the Audit Committee on the basis of periodic reports. Applied actions and mechanisms ensure the effectiveness of the Orange Polska Group's Compliance function.

Internal Audit

The Internal Audit function provides the Audit Committee, the Management Board and senior management with independent and objective assurance and advice on governance, risk management and internal control. It assists the organisation in reaching its objectives by systematically and methodically evaluating its processes, risk management and internal control system, and suggesting changes which would increase their effectiveness. Internal Audit responsibilities are clearly defined and approved as stated in the internal audit charter, which is reviewed annually by the Audit Committee. The Internal Audit function acts in conformity with the Standards for the professional practice of Internal Auditing and the Code of Ethics issued by the Institute of Internal Auditors (IIA).

Internal Audit plans are drawn up annually and take account of risk assessment, changing business needs and issues raised by management, follow-up on prior audit findings and cyclical review planning. The approach also builds reserved hours into the plan for ad-hoc, specially requested audits, and for urgent audit issues that arise throughout the year. The annual Internal Audit plan is submitted for review and opinion to the Management Board President and the Audit Committee. Once executed, the Internal Audit makes recommendations to address any key issues and improve processes. Progress on their implementation by management, as well as progress against the annual Internal Audit plan, is monitored and regularly reported to the Audit Committee. In the course of its work, the Internal Audit function also liaises with the statutory auditor, mainly assisting them in internal control testing which ultimately supports the assurance provided to the Audit Committee and management.

The effectiveness of the Internal Audit is monitored using the quality assurance and improvement program which is composed of internal assessment activities and annual external assessment by IFACI - l'Institut Francais de l'Audit et du Controle Interne (the French Chapter of the IIA). Following the assessment carried out in 2016, Orange Polska's Internal Audit maintained its IIA certification from IFACI.

Internal Audit covers all of Orange Polska Group's activities, and reports to the Audit Committee, functionally to the Management Board President and administratively to the Vice President of Strategy and Transformation. The Director of Internal Audit attends all scheduled meetings of the Audit Committee, and also has the power to raise any matters with the members of the Committee without the presence of management.

Ethics in Orange Polska

Ethics in Orange Polska arise from the very basic need to maintain ethical standards in daily business activity. The standards and values implemented within the company guide people in their mutual relations (both personal and business), helping them to support the company's business objectives and build the best possible relationship with the environment. Ethical standards are included in the Orange Polska Code of Ethics, which provides our employees with a roadmap of the ethical behaviour expected by our shareholders, customers and business partners. The Orange Polska Code of Ethics shares the same ethical standards as other companies within the Orange Group.

Internal control

As a response to operational and financial reporting risks, the Management implements internal controls at various levels of the organisation. The scope of these controls starts from, but is not limited to, transactional level controls, line managers' or corporate reviews, trend analysis, reconciliation controls and goes up to the entity level controls. The aim is to provide reasonable assurance in safeguarding assets, detecting errors, the accuracy and completeness of accounting records, and the overall reliability of the financial statements.

The Management continuously monitors the evolution of the control environment. It ensures that all significant changes are sufficiently controlled and any identified

deficiencies in the internal control system are addressed with action plans.

On a quarterly basis, Senior Managers certify the effectiveness of the internal controls in their areas of responsibility. On a yearly basis, the controls are subject to testing by the Internal Control team, Internal and External Auditors.

In 2016, the Management once again completed a comprehensive assessment of the Group's internal controls over financial reporting. Any deficiencies identified were corrected or appropriate action points have been adopted. The Management concluded that there were no weaknesses that would materially impact internal control over financial reporting at December 31, 2016.

Role of the Orange Polska Ethics Committee

The Orange Polska Ethics Committee is an advisory body which acts as the guardian of ethical standards in the company. It analyses any accusation of non-ethical behaviour that might arise from day to day, as well as educating employees to strengthen their understanding of ethical principles in the workplace. It also increases employees' knowledge and awareness of the everyday ethical fundamentals via e-training that identifies possible situations employees might encounter, with examples of proper ethical behaviour.

Orange Polska employees can easily contact the Ethics Committee in a situation where they have a question on ethical behaviour and standards or when they suspect a breach of ethics, either electronically (*Zapytaj_etyka via the anonymous contact form on our intranet site) or by mail. It is also possible to send a letter or email directly to the Chairman of the Audit Committee. All inquiries are conducted in complete confidentiality.

Having ethical behaviour as a core element of our culture underpins Orange Polska's good relations with its business partners and the market as a whole.

Strategy Committee activities in 2016



Providing the Supervisory Board and Management Board of Orange Polska with recommendations on the company's strategic development plans and projects, in order to support sustainable growth

Letter from the Chairman of the Strategy Committee

Dear Shareholders,

The role of the Strategy Committee is to provide the Company's Supervisory and Management Boards with views and recommendations regarding strategic plans and projects related to the development and sustainable growth of Orange Polska. Throughout 2016 the Committee held three ordinary sessions during which a variety of key issues for Orange Polska were deliberated.

The key elements of the customer relationship & care strategy as well as its competitive importance were discussed by the Committee. Those included current and targeted Orange competitive positioning as well as the Customer Experience Excellence roadmap. CSR strategy and the role of CSR in communication with stakeholders, as well as its impact on the company's image, were also debated.

The current shape and possible future developments of the Polish telecommunication markets were considered and benchmarked to other European markets. Scenarios for FTTH network development by Orange Polska were analysed and talked over from a variety of angles, including regulatory and European perspectives. The TV content market and Orange Polska's approach to securing key content were a prominent topic for our discussions as well as different aspects of all-IP migration (including technological and financial aspects).

The concept and conditions of the Digital Poland Operational Programme (a governmental, subsidised programme to provide fast broadband internet access to households) were presented and examined, especially with reference to its second phase designed to attract major operators.

Last, but not least, a broad array of factors influencing the company's share valuation on the Warsaw Stock Exchange was covered in the Committee's works and analysed in connection with the micro- and macro-environments of the Company.

Members of the Supervisory Board and invited members of the Management Board as well as external guests participated in the Committee's activities to provide multi-faceted, holistic viewpoints that could be provided along with the Committee's recommendations and insights to the Boards.

Gervais Pellissier
Chairman of the Strategy Committee

Strategy Committee members

1. Gervais Pellissier – Chairman
2. Dr. Henryka Bochniarz
3. Jean-Marie Culpin
4. Eric Debroeck
5. Prof. Michał Kleiber
6. Patrice Lambert-de Diesbach
7. Dr. Maria Pasło-Wisniewska

Mr. Maciej Witucki, Chairman of the Supervisory Board, and Mr. Russ Houlden, Independent Board Member and Chairman of the Audit Committee, participate in the meetings of the Strategy Committee on a permanent basis.

On the Strategy Committee's agenda for 2016

Customer care strategy

The Committee discussed the key elements of the Customer Relationship & Care Strategy. Improvement in customer care has been noted as a positive development, as future competition on the market would depend mainly on customer care. It highlighted the growing importance of such activities as simplicity, standardisation, the company's digitalisation and efficiency improvement. The growing share of digital channels in interactions with Orange Polska's customers was also mentioned.

CSR strategy

The Committee reviewed the CSR strategy and discussed the role of CSR in communication with stakeholders and its impact on company's image has been discussed.

OPL valuation

The Committee discussed the broad context of factors influencing the price of the shares on the Warsaw Stock Exchange, including Orange Polska's. It was agreed that Orange Polska's situation is connected to Poland's macroeconomic situation and it is essential to work on company's strengths and concentrate on the FTTH investment as

it is critical to Orange Polska's success. The company must commit to the shift towards customer experience.

External vision on potential market consolidation moves

The Committee outlined the key elements of its view on future trends in market consolidation. Over the next three to four years, it sees two or three groups of operators providing fully convergent offers; in the longer term, the market for fully convergent offers is likely to consolidate down to two main operators, including Orange. The Committee also discussed potential scenarios for the whole market and Orange Polska, including international benchmarks (Belgium, Spain).

Alternative scenarios for OPL FTTH network development

Alternative scenarios for Orange Polska FTTH network development were presented and discussed. Such alternatives would not only accelerate the deployment of FTTH but also provide Orange Polska with additional coverage in a shorter time. From the point of view of the regulatory authorities as well as Orange Polska's market position

this could be a positive step, taking into account that Orange Polska has the most extensive FTTH coverage in Poland. The role of different investment projects co-financed by European funds has been mentioned as both potential opportunity but also a threat for Orange Polska.

POPC – program conditions and OPL approach

The Committee discussed the progress of POPC. The program priority is to connect all schools in white zone areas and additionally to provide fast internet connections to residential customers. The Committee highlighted the commercial need for Orange Polska to be ready to use the network regardless of who builds it (in a wholesale access), to support migration of Orange Polska's customers to VHBB.

OPL approach to TV content

The Committee reviewed the details of Orange Polska partnerships with special focus on the strategic value of access to TV content from the perspective of Polish market. Cost efficiency was emphasized, along with the impact of the new partnerships on enhancement and simplification of Orange Polska's offer.

All-IP program

Different aspects of all-IP migration were discussed, with particular emphasis on financial impact on Orange Polska's financial situation; correlation with others ongoing important projects (e.g. broadband migration from ATM to IP technology, FTTH investment, migration to VDSL); any potential synergies; and the pace at which clients migrate to all-IP based services.

Strategy Committee at a glance

The Strategy Committee should meet at least twice a year. The Committee gives its opinions and recommendations to the Supervisory Board on the strategic plans set out by the Management Board, as well as any further suggestions to strategic plans made by the Supervisory Board, in particular concerning key strategic directions. The Strategy Committee may also provide recommendations to the Supervisory Board regarding Management's planning processes. The Committee is consulted on all strategic projects related to the development of Orange Polska Group, the monitoring of the evolution of industrial partnerships within the Orange Polska Group and projects involving strategic agreements for Orange Polska Group. It then reports and makes recommendations on each of these projects to the Supervisory Board.

In particular, the Committee is invited to consider projects such as:

- strategic agreements, alliances, and technological and industrial cooperation agreements, including aspects of the strategic partnership between Orange Group and Orange Polska Group
- significant acquisitions and sales of assets

The issues submitted to the Strategy Committee contain, in particular, the information necessary for assessing the risks involved in these operations.

Given the potential impact of these risks on the company's accounts, the Chairman of the Audit Committee is entitled to attend the Strategy Committee meetings as permanent guest, along with the Chairman of the Supervisory Board.

Remuneration Committee activities in 2016



The main remit of the Remuneration Committee is to advise the Supervisory Board and Management Board on general remuneration policy of Orange Polska Capital Group and to make recommendations on appointments to the Management Board.

Letter from the Chairman of the Remuneration Committee

It is my pleasure to present on behalf of the Remuneration Committee the annual report on the activity of the Remuneration Committee for the year ended 31 December 2016, and the report on the Remuneration Policy of Orange Polska.

Remuneration policy, as one of the key components of the company's human resources strategy, supports Orange Polska in achieving increases in revenue, adjusted EBITDA, NPS and other business indicators. The mechanisms and solutions in Orange Polska's motivation systems are built to engage all employees to sell FTTH and to widely promote convergent offers. Through the appropriate remuneration policy, Orange Polska motivates executives, key managers and employees to support the business in digital transformation. Remuneration policy also contributes to maintaining good relations between the company and its employees in order to further our sustainable development goals. Thanks in part to the remuneration policy including a wide spectrum of HR solutions, Orange Polska was awarded a Top Employer Polska 2016 certificate and was included in the Top Employer Europe 2016 and Top Employer Global 2016 rankings.

One of the Committee's activities in 2016 was the process of positive recommendation to the Supervisory Board of the nomination of Jean-François Fallacher as the next President of Orange Polska from the start of May 2016, and his employment contract conditions. We also approved the organisational changes in Orange Polska which came into force on 1 January 2017. The changes are aimed mainly at consolidating Orange Polska's management of the consumer market, joining sales, marketing and communication under one leadership to simplify the internal structure and to improve execution of the company's strategy in both B2C and B2B functions.

In addition, we worked out the remuneration policy of Orange Polska and approved a new model of the Management Board's Report on the Activity of Orange Polska S.A. in 2016, in accordance with "Best Practice of Warsaw Stock Exchange Listed Companies 2016". This new model of the Management Board's Report on the Activity of Orange Polska S.A. for the year ended 31 December 2016 was published on 13 February 2017.

I wish to thank the executive management, key managers and all employees for the effort and cooperation in 2016.

Wiesław Rożłucki
Chairman of the Remuneration Committee

Remuneration Committee members

1. Dr. Wiesław Rożłucki – Chairman
2. Marc Ricau
3. Dr. Maria Pasło-Wiśniewska
4. Valérie Thérond

On the Remuneration Committee's agenda for 2016

In 2016, the Remuneration Committee held 7 meetings and in particular developed recommendations for Supervisory Board consideration focused on the following remuneration-related issues:

- accepted the Remuneration Committee's Annual Report 2015
- positively recommended to the Supervisory Board the remuneration change for the Management Board Member in charge of Finance.
- positively recommended to the Supervisory Board the employment contract conditions for the President of Management Board until 30.04.2016.
- accepted the remuneration changes for the Executive Director in charge of Corporate Affairs and for the Executive Director in charge of Brand and Marketing Communication.
- positively recommended to the Supervisory Board the nomination of Jean-François Fallacher as the next Management Board President from 01.05.2016 and his employment contract conditions.
- reviewed the modified model MBO goals implemented from H2 2016
- was informed about the employment conditions of the acting Marketing B2C Director.
- was informed about the merger of Orange Polska S.A. with Orange Customer Service sp. z o.o. from 01.10.2016 and about the employment conditions of Jolanta Dudek, the Management Board Member in charge of Customer Care and Customer Excel-

lence as a one-to-one merge of the present conditions.

- positively acknowledged the information about the organisational changes in Orange Polska S.A. from September 2016.
- positively acknowledged the candidatures and the employment conditions of the Executive Director in charge of IT and the Executive Director in charge of Network.
- positively recommended to the Supervisory Board the appointment of the Vice-President of the Management Board in charge of Strategy and Transformation for a new term of office valid from April 2017.
- approved the allocation of management roles to Bożena Leśniewska and Mariusz Gaca, and positively recommended to the Supervisory Board the employment contract conditions for Mariusz Gaca as the Vice-president of the Management Board in charge of Consumer Market and for Bożena Leśniewska as the Vice-president of the Management Board in charge of Business Market.
- discussed the section of the Management Board's Report on the Activity of Orange Polska S.A. in 2016 including the company's remuneration policy, in accordance with Best Practice for GPW Listed Companies 2016.
- evaluated the MBO goals for the Management Board Members for H2 2015, established goals for the Management Board Members for H1 2016 and evaluated the same, and established goals for the Management Board Members for H2 2016.

Remuneration Committee at a glance

The Remuneration Committee should meet at least four times a year. The task of the Committee is to advise the Supervisory Board and Management Board on the general remuneration policy of Orange Polska Group and to make recommendations on appointments to the Management Board. The Committee's detailed tasks include:

- determining the conditions of employment and remuneration of the Members of Management Board
- considering proposals made by the President or the Supervisory Board concerning new appointments to the Management Board; taking part in the final stage of the interviewing process and making appropriate recommendations to the Supervisory Board about candidates
- considering proposals made by the President or the Supervisory Board regarding dismissal or reports regarding resignations of any members of the Management Board and making if necessary a relevant recommendation to the Supervisory Board
- giving recommendations to the Supervisory Board regarding the amounts of bonuses for the members of the Management Board
- providing an opinion on remuneration policy for most senior executives, and on the general policy for the wider Orange Polska Capital Group: in both cases having regard to the relative positioning on the market of Orange Polska Group's terms of engagement and remuneration levels

Remuneration Policy of Orange Polska S.A.

Orange Polska S.A.'s strategy is based on building and maintaining high levels of customer satisfaction, while providing a full range of the best quality telecommunication, multimedia and specialised ICT services to suit both household and business needs, as well as offering extensive connectivity and high standards of customer relationship.

The Remuneration Policy contributes to implementing the Company's comprehensive strategy. By enabling the recruitment, retention and motivation of the best managers and professionals in the specialised areas that exist in Orange Polska S.A. it provides workforce ready and able to achieve the Company's strategic goals. of.

Recognising that employees are a key asset of the Company, the Policy supports the creation of favourable conditions in the digital work environment. It promotes commitment to the Company's objectives, employee development and the use of flexible work methods.

Remunerations within Orange Polska S.A. are compared to those offered by peer companies in the market. The remuneration level depends on the Company's financial results, and on the employee's individual contribution and performance.

Remunerations are determined in a manner ensuring balance and consistency across the Orange Group. Our Remuneration Policy complies with the labour law and corporate governance regulations.

The remuneration system consists of the following components:

1. Basic salary
2. Performance bonus
3. Discretionary bonuses
4. Benefits

Employees leaving the Company under the voluntary departure programme are offered severance pay. The terms of severance pay for employees are determined in a separate agreement with trade unions in compliance

with the law, whereas the terms of severance pay for those managers excluded from the Group Collective Labour Agreement are settled in individual agreements and codified in their employment contracts.

Terms of remuneration for Orange Polska S.A.'s employees covered by the Group Collective Labour Agreement are determined in co-operation with trade unions.

1. Basic salary

Basic salary terms take into account the job remuneration standards related to the scope of tasks assigned to a particular job position as well as the market value of the work performed.

Orange Polska S.A. monitors the remuneration market by comparing, at least annually, the Company's salaries and remuneration practices to those adopted by the Polish market leaders, particularly ICT companies.

The company also ensures the consistency of remuneration between job positions by taking into account the managerial and expert skills involved as well as job comparability between various parts of the organisation.

Orange Polska S.A. develops remuneration terms based on non-discrimination, particularly on the grounds of gender, age, disability, race, religion, nationality, political opinion, trade union membership, ethnic origin and sexual orientation.

Individual basic salaries are determined by taking following into consideration:

- annual remuneration reviews, taking into account the evolving work standards of various professional groups and each employee's contribution to the achievement of goals
- promotions
- recruitment arrangements for candidates assuming their duties in a new professional area
- management of the risk of attrition of the most qualified employees leaving for the competition

Management Board Members and Executive Directors

The Remuneration Committee of the Supervisory Board recommends the terms of employment, including the amount of basic salary, while taking into account the following aspects:

- scope of responsibilities and complexity of the particular job position
- equality (employees with similar responsibilities, competence, experience and previous performance receive comparable remuneration)
- market competitiveness
- individual contribution

Based on the Remuneration Committee's recommendations, the Supervisory Board determines the basic salary of the Management Board Members, while the Management Board determines the basic salary of the Executive Directors.

2. Performance bonus

The purpose of the bonus system is to motivate employees to achieve high performance by attaining predefined and agreed goals which support the implementation of the Company's strategy and growth of customer satisfaction. The system of goals stimulates co-operation among employees and business units by setting some solidarity goals in addition to individual ones.

Orange Polska S.A.'s bonus system is aligned with the specifics of the tasks performed by particular functions, which results in different levels of bonuses:

- Senior managers have a high share of bonuses in their total remuneration
- Employees with sales goals have higher bonus or commission levels in the total remuneration than those without such goals.

For key managers, the bonus is more related to the Company's performance, and depends more on the achievement of solidarity goals shared by all, whereas for experts/line managers, the bonus is related to their

individual performance and depends less on the solidarity components shared by the particular function or the entire Company.

The goals and bonuses are set for periods closely linked to the budgeting cycle.

All senior managers and line managers in support functions receive bonuses on a semi-annual basis. Employees in support functions, sales line managers and sales employees receive bonuses/commissions on a quarterly or monthly basis.

The detailed bonus terms are defined in the relevant Bonus Regulations.

Management Board Members and Executive Directors

Bonuses for the Management Board Members and Executive Directors depend on the attainment of goals based on the Company's long-term strategy and on financial performance. Solidarity goals delegated to managers are related to EBITDA and revenue ratios for the whole Company or particular segments of its activity as well as customer satisfaction from Orange services. Individual goals are related to functional performance and management quality.

The performance and bonuses of individual Management Board Members and Executive Directors are monitored directly by the Remuneration Committee of the Supervisory Board. The share ownership sharing programmes dedicated to senior managers are a special incentive to achieve long-term objectives. These programmes lead to managers' greater commitment to increasing the Company's value. The Incentive Programme for Senior Managers of the Group will be closed in October 2017. A new long-term incentive programme for this group of managers is currently under development.

3. Discretionary bonuses

Orange Polska S.A.'s long-term strategy relies on innovation and commitment to outstanding performance.

Discretionary bonuses encourage employees to get involved in the development of innovative solutions, implementation of strategic projects and cross-functional co-operation. Owing to this scheme, employees can be rewarded for achievements which exceed the expectations defined in their periodic goals.

Discretionary bonuses are awarded twice a year by the CEO or other Board Members or Executive Directors for outstanding achievements.

4. Benefits

In order to improve the quality of life and promote employee integration, Orange Polska S.A. provides a broad package of market-competitive benefits to its employees, building a valuable offer which supports employee recruitment and retention.

A unique benefit for employees is their eligibility for the Employee Pension Fund, which is financed by the company.

The programme is an employee pension scheme (Orange Polska S.A. Employee Pension Fund).

Orange Polska S.A.'s benefit schemes influence the following key areas:

- health and physical activity/financial stability
- improved quality of life
- employee development

Orange Polska S.A. wants all its employees to be the ambassadors of the Orange brand; therefore, it provides them with access to its own products and services.

The Remuneration Policy shall not constitute the basis for any claims by the Company's employees or members of the Company's governing bodies. The detailed terms of remuneration are regulated by individual employment contracts and the Company's by-laws.

Management Board and Supervisory Board Compensation

Persons that were Members of the Management Board of the Company as at 31 December 2015:

(in PLN thousands)	12 months ended 31 December 2015			
	Fixed compensation expense in 2015	Variable compensation expense in 2015 ¹	Total compensation expense in 2015	additionally: Variable compensation expense in 2014, paid in 2015
Bruno Duthoit	2 514	626	3 140	268
Mariusz Gaca	1 496	652	2 148	294
Piotr Muszyński	1 708	768	2 476	324
Jolanta Dudek ^{2, 3}	194	98	292	-
from Orange Polska S.A.	98	49	147	-
from Orange Customer Service Sp. z o.o.	96	49	145	-
Jacek Kowalski	1 192	533	1 725	246
Bożena Leśniewska ²	226	101	327	-
Maciej Nowohoński	1 099	508	1 607	203
Michał Paschalis-Jakubowicz ²	239	101	340	-
Total	8 668	3 387	12 055	1 335

¹ Includes bonuses accrued in 2015 and paid in 2016, excludes bonuses accrued in 2014 and paid in 2015.

² from the date of appointment as the Member of the Management Board of OPL

³ Mrs. Jolanta Dudek is the Member of Management Board of Orange Polska S.A. and she was also the Member of Management Board of Orange Customer Service Sp. z o.o. until the merger of Orange Customer Service Sp. z o.o. with Orange Polska S.A.

(in PLN thousands)	12 months ended 31 December 2016			
	Fixed compensation expense in 2016	Variable compensation expense in 2016 ¹	Total compensation expense in 2016	additionally: Variable compensation expense in 2015, paid in 2016
Jean-François Fallacher ²	1 521	468	1 989	-
Mariusz Gaca	1 550	636	2 186	329
Piotr Muszyński	1 778	665	2 443	351
Jolanta Dudek ³	899	373	1 272	98
from Orange Polska S.A.	572	234	806	49
from Orange Customer Service Sp. z o.o.	327	139	466	49
Jacek Kowalski	1 234	495	1 729	267
Bożena Leśniewska	1 031	418	1 449	101
Maciej Nowohoński	1 230	466	1 696	235
Total	9 243	3 521	12 764	1 381

¹ Includes bonuses accrued in 2016 and paid in 2017, excludes bonuses accrued in 2015 and paid in 2016.

² from the date of appointment as the President of the Management Board of OPL

³ Mrs. Jolanta Dudek is the Member of Management Board of Orange Polska S.A. and she was also the Member of Management Board of Orange Customer Service Sp. z o.o. until the merger of Orange Customer Service Sp. z o.o. with Orange Polska S.A.

Persons that were Members of the Management Board of Company in 2016 and in previous years:

(in PLN thousands)	12 months ended 31 December 2016			
	Fixed compensation expense in 2016	Variable compensation expense in 2016 ¹	Total compensation expense in 2016	additionally: Variable compensation expense in 2015, paid in 2016
Bruno Duthoit ²	2 930	193	3 123	276
Michał Paschalis-Jakubowicz ²	2 036	179	2 215	101
Total	4 966	372	5 338	377

¹ Includes bonuses accrued in 2016 and paid in 2017, excludes bonuses accrued in 2015 and paid in 2016.

² Compensation until the termination date (including post-employment benefits)

Supervisory Board compensation was as follows:

(in PLN thousands)	12 months ended 31 December 2016	12 months ended 31 December 2015
Maciej Witucki	420	419
Gervais Pellissier ¹	-	-
Marc Ricau ¹	-	-
Dr. Henryka Bochniarz	218	209
Federico Colom Artola ¹	-	-
Jean-Marie Culpin ¹	-	-
Eric Debroeck ¹	-	-
Ramon Fernandez ¹	-	-
Russ Houlden	394	390
Prof. Michał Kleiber	139	-
Patrice Lambert-de Diesbach ¹	-	-
Dr. Maria Pasło-Wiśniewska	210	135
Dr. Wiesław Rozłucki	321	314
Valérie Théron ¹	-	-
Dr. Mirosław Gronicki ²	77	216
Prof. Andrzej K. Koźmiński ²	154	392
Sławomir Lachowski ²	-	77
Marie-Christine Lambert ^{1,2}	-	-
Mr. Gérard Ries ^{1,2}	-	-
Total	1 933	2 152

¹ Persons appointed to the Supervisory Board of the Company employed by Orange S.A. do not receive remuneration for the function performed.

² Persons that were not Members of the Supervisory Board of the Company as at 31 December 2016 but were Members of the Supervisory Board of OPL S.A. in 2016 or previous periods

The Management Board Members and Executive Directors are entitled to a variable remuneration component equal to 50% of their annual basic salary in case of 100% goal achievement. In some cases, if performance is higher than 100%, the variable remuneration component may exceed 50% of the annual basic salary. The variable remuneration component is based on the achievement of targets for Revenues, adjusted EBITDA and specific telco indicators. As regards termination of employment, the termination notice period for Management Board Members is 6 months and they receive basic salary during that period.

In addition, they are entitled to one-off severance pay equal to 6 months' basic salary. All Management Board Members shall restrain from any competitive activity for 12 months after the termination of employment, and they are entitled to compensation for this ban equal to 6 months' basic salary.

In addition, the President of the Management Board is entitled to a Stretch Bonus based on the adjusted EBITDA as a financial trigger. Furthermore, those Management Board Members and Executive Directors who are expatriates are eligible for benefits connected with staying in Poland as foreigners, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.

Non-financial Remuneration Components for Management Board Members and Key Managers

The Management Board Members and Executive Directors are entitled to the following non-financial remuneration components: health care package, life insurance, company car, legal indemnity in the event of personal liability, and access to Orange services in line

with the relevant policies. In addition, Management Board Members and Executive Directors, who have worked at Orange Polska for more than 6 months, are eligible for the Employee Pension Programme (PPE).

The key managers other than Executive Directors are entitled to health care package, company car and an access to Orange services in line with the relevant OPL's policies. In addition, all key managers, having worked at OPL for more than 6 months, are eligible for the Employee Pension Programme (PPE).

After enrolment to the Employee Pension Programme (PPE), the PPE contribution for all participants is paid by Orange Polska S.A. In addition, French key managers are eligible for benefits connected with staying in Poland as foreigners, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.



Management Board composition as of 1 January 2017

1. Jean-François Fallacher	President of the Management Board
2. Mariusz Gaca	Vice-President of the Management Board
3. Bożena Leśniewska	Vice-President of the Management Board
4. Piotr Muszyński	Vice-President of the Management Board
5. Jolanta Dudek	Management Board Member
6. Jacek Kowalski	Management Board Member
7. Maciej Nowohoński	Management Board Member



Management Board members' term of office

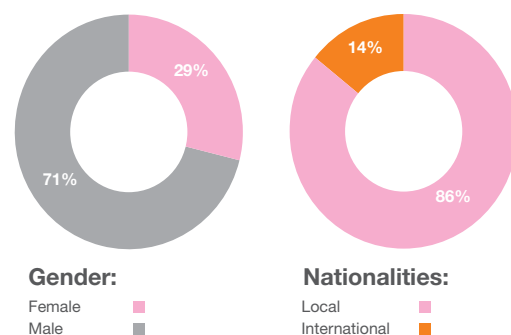
The term of office of each member of the Management Board is three years. The President and other members of the Management Board are appointed and removed by the Supervisory Board. The resolutions of the Supervisory Board regarding the appointment or re-appointment of the President or other members of the Management Board are adopted by a simple majority of the votes cast. The mandates of Management Board members expire at the latest on the date of the General Assembly which approves the financial statements for the second full financial year of his/ her service as a member of the Management Board. Members of the Management Board may be at any time removed or suspended for important reasons by the Supervisory Board before the expiration of their term of office.

Changes to the membership of the Management Board

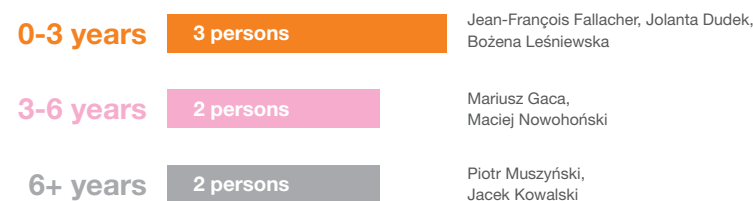
The Supervisory Board, in view of the Management Board President Bruno Duthoit's mandate expiring on 12 April 2016, decided to re-appoint Bruno Duthoit for the next term of office. At the same time Bruno Duthoit informed Orange Polska that he had decided to accept the Orange Group's proposal to take the position of Deputy Orange Group Executive Director for Europe responsible for Central Europe. Therefore, Bruno Duthoit resigned from the position of CEO and President of the Management Board for Orange Polska. Subsequently the Supervisory Board of Orange Polska appointed Jean-François Fallacher as

the President of the Management Board effective as of May 1, 2016. Michał Paschalis-Jakubowicz, Member of the Management Board in charge of Marketing resigned from his position due to personal reasons with immediate effect on July 4, 2016. During the transition period Jean-François Fallacher has taken over management responsibilities in the area of marketing. On October 12, 2016, Piotr Muszyński was reappointed as a Member of the Management Board for the next term of office. The re-appointment was made before the expiration of the current term of office. The new term of office starts on the day of the next Annual General Meeting that will accept the financial statements of Orange Polska for 2016, for a period of three years. He will hold the position of Vice-President of the Orange Polska Management Board in charge of Strategy and Transformation. On December 20, 2016, the Management Board decided on some organisational changes coming into effect on January 1, 2017. Mariusz Gaca, who was the Deputy CEO in charge of the Business Market, took a newly formed position of Deputy CEO in charge of Consumer Market. This combined responsibility for three areas that had been managed separately: Sales & Commercial Digitisation, B2C Marketing and Brand & Marketing Communication. At the same time, Bożena Leśniewska, who was the Management Board Member in charge of Sales and Commercial Digitisation, was appointed the Deputy CEO in charge of the Business Market.

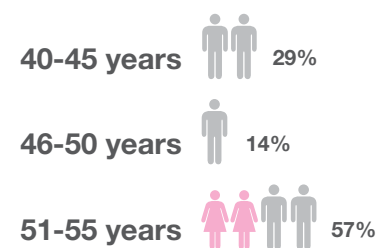
Management Board diversity



Length of tenure:



Age profile:



Management Board skill matrix

	Economics and Finance	Management and Strategy	Law and administration	Engineering and Technology	Psychology and Humanities	Sales and Marketing
Jean-François Fallacher	✓	✓		✓		✓
Mariusz Gaca		✓		✓		✓
Bożena Leśniewska		✓			✓	✓
Piotr Muszyński		✓	✓	✓		✓
Jolanta Dudek		✓			✓	✓
Jacek Kowalski		✓			✓	
Maciej Nowohoński	✓	✓				

On the Management Board's agenda for 2016

The Management Board managed the company's internal business from an operational and strategic point of view, and to implement the company's objectives in core areas such as Consumer Market, Business Market, Strategy and Transformation, Customer Care and Customer Excellence and Human Resources. Besides internal management, it also monitored the external environment and factors that might affect the company's proper development and market growth.

The Management Board implemented the company's strategy and fulfilled its long-term objectives as well as applying principles and policies for its operational activities. It also coordinated and managed the most important activities, taking decisions on critical matters. In 2016, one of Orange Polska's key strategic objectives was to increase customer satisfac-

tion by improving customer experience and to maintain the leading position in the telecommunications market. We were focused on providing our customers with the highest quality of service, improving the coverage and quality of fibre optic networks, expanding the 4G/LTE mobile network and providing the fastest mobile internet in Poland.

The second very important focus for the Management Board for 2016 was the company's continuing partnership in the Polish Government's projects, such as Operational Programme Digital Poland 2014-2020 (POPC). This programme aims at strengthening the foundations of digital development of our country through providing access to high-speed internet, enabling "e-public services", and raising the level of competence of Poland's "digital society".

Management board at a glance

The President of the Management Board acts as chairman and manages the activities of the Board and other Board Members. Board Members report to the President on the execution of their duties, while he monitors and evaluates the results of their work.

Members of the Management Board manage the company's affairs directly, according to the division of duties defined in Organisational Regulations of Orange Polska. The Management meets on a weekly basis. Participation of the Management Board Members in meetings is obligatory and each Management Board Member may place matters on the agenda of the meeting. Participation of other persons in meetings is at the discretion of the President of the Management Board, who presides at meetings. Resolutions of the Management Board are adopted by absolute majority of votes of all members present. A resolution can also be adopted outside the meeting by circulation, but only if all the members sign it.



09

Financial statements

ORANGE POLSKA GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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CONSOLIDATED INCOME STATEMENT

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

	Note	12 months ended	
		31 December 2016	31 December 2015
Revenue	5	11,538	11,840
External purchases	6.1	(6,432)	(6,271)
Labour expense	6.2	(1,636)	(1,713)
Other operating expense	6.3	(587)	(613)
Other operating income	6.3	210	246
Gains on disposal of assets	7	70	71
Employment termination expense	13	–	(129)
Depreciation and amortisation	10, 11	(2,725)	(2,871)
(Impairment)/reversal of impairment of non-current assets	8.1, 8.2	(1,792)	12
Operating income/(loss)		(1,354)	572
Interest income	16	22	17
Interest expense and other financial charges	16	(282)	(216)
Discounting expense	16	(99)	(92)
Finance costs, net		(359)	(291)
Income tax	23.1	(33)	(27)
Consolidated net income/(loss)		(1,746)	254
Net income/(loss) attributable to owners of Orange Polska S.A.		(1,746)	254
Net income/(loss) attributable to non-controlling interests		–	–
Earnings/(loss) per share (in PLN) (basic and diluted)	30.5	(1.33)	0.19
Weighted average number of shares (in millions) (basic and diluted)	30.5	1,312	1,312

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)

	Note	12 months ended	
		31 December 2016	31 December 2015
Consolidated net income/(loss)		(1,746)	254
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on post-employment benefits	15	(1)	9
Income tax relating to items not to be reclassified		–	(2)
Items that may be reclassified subsequently to profit or loss			
Gains on cash flow hedges	20	92	23
Income tax relating to items that may be reclassified		(17)	(4)
Other comprehensive income, net of tax		74	26
Total comprehensive income/(loss)		(1,672)	280
Total comprehensive income/(loss) attributable to owners of Orange Polska S.A.		(1,672)	280
Total comprehensive income/(loss) attributable to non-controlling interests		–	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)

(in PLN millions)		At 31 December 2016	At 31 December 2015 (see Note 30.5)
	Note		
ASSETS			
Goodwill	9	2,147	3,940
Other intangible assets	10	5,722	3,010
Property, plant and equipment	11	10,678	11,025
Trade receivables	12	433	215
Derivatives	20	206	89
Other assets		55	52
Deferred tax assets	23.2	929	991
Total non-current assets		20,170	19,322
Inventories		163	228
Trade receivables	12	1,827	1,600
Derivatives	20	36	33
Income tax assets		5	2
Other assets		45	117
Prepaid expenses		80	84
Cash and cash equivalents	19	262	266
Total current assets		2,418	2,330
TOTAL ASSETS		22,588	21,652
EQUITY AND LIABILITIES			
Share capital	24.1	3,937	3,937
Share premium		832	832
Other reserves		(29)	(103)
Retained earnings		5,267	7,309
Equity attributable to owners of Orange Polska S.A.		10,007	11,975
Non-controlling interests		2	2
Total equity		10,009	11,977
Trade payables	14.1	682	767
Loans from related party	18.1	7,087	2,849
Other financial liabilities at amortised cost	18.2	66	81
Derivatives	20	76	125
Employee benefits	15	144	251
Provisions	13	280	358
Other liabilities	14.2	15	-
Deferred income	14.3	81	59
Total non-current liabilities		8,431	4,490
Trade payables	14.1	2,433	2,130
Loans from related party	18.1	5	1,273
Other financial liabilities at amortised cost	18.2	36	45
Derivatives	20	-	9
Employee benefits	15	188	188
Provisions	13	850	803
Income tax liabilities		24	60
Other liabilities	14.2	132	191
Deferred income	14.3	480	486
Total current liabilities		4,148	5,185
TOTAL EQUITY AND LIABILITIES		22,588	21,652

(in PLN millions)	Share capital	Share premium	Other reserves				Retained earnings	Equity attributable to owners of OPL S.A.	Non-controlling interests	Total equity
			Gains/(losses) on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments				
Balance at 1 January 2016	3,937	832	(83)	(43)	23	-	7,309	11,975	2	11,977
Total comprehensive loss for the 12 months ended 31 December 2016	-	-	92	(1)	(17)	-	(1,746)	(1,672)	-	(1,672)
Dividend (see Note 24.2)	-	-	-	-	-	-	(328)	(328)	-	(328)
Other movements (see Note 24.3)	-	-	-	-	-	-	32	32	-	32
Balance at 31 December 2016	3,937	832	9	(44)	6	-	5,267	10,007	2	10,009
Balance at 1 January 2015	3,937	832	(106)	(137)	45	79	7,746	12,396	2	12,398
Total comprehensive income for the 12 months ended 31 December 2015	-	-	23	9	(6)	-	254	280	-	280
Dividend (see Note 24.2)	-	-	-	-	-	-	(656)	(656)	-	(656)
Transfer to retained earnings (see Note 24.3)	-	-	-	85	(16)	(79)	10	-	-	-
Other movements (see Note 24.3)	-	-	-	-	-	-	(45)	(45)	-	(45)
Balance at 31 December 2015	3,937	832	(83)	(43)	23	-	7,309	11,975	2	11,977

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)		12 months ended	
	Note	31 December 2016	31 December 2015 (see Note 30.5)
OPERATING ACTIVITIES			
Consolidated net income/(loss)		(1,746)	254
<i>Adjustments to reconcile net income/(loss) to cash from operating activities</i>			
Gains on disposal of assets	7	(70)	(71)
Depreciation and amortisation	10,11	2,725	2,871
Impairment/(reversal of impairment) of non-current assets	8	1,792	(12)
Finance costs, net		359	291
Income tax	23.1	33	27
Change in provisions and allowances		(126)	(88)
Operational foreign exchange and derivatives gains, net		(10)	(3)
Change in working capital			
(Increase)/decrease in inventories, gross		54	(21)
Increase in trade receivables, gross		(430)	(288)
Increase/(decrease) in trade payables		292	(154)
(Increase)/decrease in prepaid expenses and other receivables		58	(49)
Increase/(decrease) in deferred income and other payables		(29)	134
Interest received		22	17
Interest paid and interest rate effect paid on derivatives, net		(353)	(289)
Exchange rate effect received on derivatives, net		10	4
Income tax paid		(32)	(76)
Net cash provided by operating activities		2,549	2,547
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	10,11	(5,169)	(1,998)
Increase/(decrease) in amounts due to fixed assets suppliers		(42)	262
Exchange rate effect received on derivatives economically hedging capital expenditures, net		15	8
Proceeds from sale of property, plant and equipment and intangible assets		119	143
Proceeds from sale of subsidiaries, net of cash and transaction costs	4	-	8
(Increase)/decrease in other financial instruments		3	(3)
Net cash used in investing activities		(5,074)	(1,580)
FINANCING ACTIVITIES			
Issuance of long-term debt		2,702	775
Repayment of long-term debt		(1,225)	(62)
Increase/(decrease) in revolving credit line and short-term debt		1,355	(1,011)
Exchange rate effect received on derivatives hedging debt, net		17	5
Dividend paid	24.2	(328)	(656)
Net cash provided by/(used in) financing activities		2,521	(949)
Net change in cash and cash equivalents		(4)	18
Cash and cash equivalents at the beginning of the period		266	248
Cash and cash equivalents at the end of the period		262	266

1. Corporate information

1.1. The Orange Polska Group

Orange Polska S.A. (“Orange Polska” or “the Company” or “OPL S.A.”), a joint stock company, was incorporated and commenced its operations on 4 December 1991. The Orange Polska Group (“the Group”) comprises Orange Polska and its subsidiaries. Orange Polska shares are listed on the Warsaw Stock Exchange.

The Group is the principal provider of telecommunications services in Poland. The Group provides mobile and fixed telecommunications services, including calls, messaging, content, access to the Internet and TV. In addition, the Group provides ICT (Information and Communications Technology) services, leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, constructs telecommunications infrastructure, sells electrical energy and financial services.

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

The Group’s telecommunications operations are subject to the supervision of Office of Electronic Communication (“UKE”). Under the Telecommunication Act, UKE can impose certain obligations on telecommunications companies that have a significant market power on a relevant market. Orange Polska S.A. is deemed to have a significant market power on certain relevant markets.

1.2. Entities of the Group

The Group comprises Orange Polska and the following subsidiaries:

Entity	Location	Scope of activities	Share capital owned by the Group	
			31 December 2016	31 December 2015
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100%	100%
TP TelTech Sp. z o.o.	Łódź, Poland	Design and development of telecommunications systems, servicing telecommunications network, monitoring of alarm signals.	100%	100%
Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	89.27%	89.27%
Orange Retail S.A.	Modlnica, Poland	Distributor of OPL S.A. products on mass and business market.	100%	100%
Orange Real Estate Sp. z o.o.	Warsaw, Poland	Facilities management and maintenance.	100%	100%
Orange Szkolenia Sp. z o.o.	Warsaw, Poland	Training and hotel services, insurance agent.	100%	100%
Pracownice Towarzystwo Emerytalne Orange Polska S.A.	Warsaw, Poland	Management of employee pension fund.	100%	100%
Fundacja Orange	Warsaw, Poland	Charity foundation.	100%	100%
Telekomunikacja Polska Sp. z o.o.	Warsaw, Poland	No operational activity.	100%	100%
Orange Customer Service Sp. z o.o. ⁽¹⁾	Warsaw, Poland	Post-sale services for OPL S.A. customers.	-	100%
TP Invest Sp. z o.o. ⁽¹⁾	Warsaw, Poland	Corporate governance over non-core subsidiaries of Orange Polska.	-	100%
TPSA Eurofinance France S.A. ⁽²⁾	Paris, France	No operational activity.	-	99.99%

⁽¹⁾ Companies merged with Orange Polska S.A. in 2016 (see Note 4).

⁽²⁾ The company was liquidated in 2016.

Additionally, the Group and T-Mobile Polska S.A. hold a 50% interest each in NetWorkS! Sp. z o.o., located in Warsaw. This company was classified as a joint operation as its scope of activities comprises management, development and maintenance of networks owned by the Group and T-Mobile Polska S.A. NetWorkS! Sp. z o.o. was incorporated following the agreement on reciprocal use of mobile access networks between both operators.

This agreement was signed in 2011 for 15 years with an option to extend it and is also classified as a joint operation for accounting purpose.

During the 12 months ended 31 December 2016 and 2015, the voting power held by the Group was equal to the Group’s interest in the share capital of its subsidiaries. Main acquisitions, disposals and changes in scope of consolidation are described in Note 4.

1.3. The Management Board and the Supervisory Board of the Company

The Management Board of the Company at the date of the authorisation of these Consolidated Financial Statements was as follows:

Jean-François Fallacher – President of the Management Board,
Mariusz Gaca – Vice President in charge of Consumer Market,
Bożena Leśniewska – Vice President in charge of Business Market,
Piotr Muszyński – Vice President in charge of Strategy and Transformation,
Jolanta Dudek – Board Member in charge of Customer Care and Customer Excellence,
Jacek Kowalski – Board Member in charge of Human Resources,
Maciej Nowohoński – Board Member in charge of Finance.

The Supervisory Board of the Company at the date of the authorisation of these Consolidated Financial Statements was as follows:

Maciej Witucki – Chairman of the Supervisory Board,
Gervais Pellissier – Deputy Chairman of the Supervisory Board,
Marc Ricau – Secretary of the Supervisory Board,
Dr. Henryka Bochniarz – Independent Member of the Supervisory Board,
Federico Colom Artola – Member of the Supervisory Board,
Jean-Marie Culpin – Member of the Supervisory Board,
Eric Debroeck – Member of the Supervisory Board,
Ramon Fernandez – Member of the Supervisory Board,
Russ Houlden – Independent Member of the Supervisory Board,
prof. Michał Kleiber – Independent Member of the Supervisory Board,
Patrice Lambert – Member of the Supervisory Board,
Maria Pasło-Wiśniewska – Independent Member of the Supervisory Board,
Dr. Wiesław Rożucki – Independent Member of the Supervisory Board,
Valérie Théron – Member of the Supervisory Board.

The following changes occurred in the Management Board of the Company in the year ended 31 December 2016 and in the year 2017 until the date of the authorisation of these Consolidated Financial Statements:

On 4 February 2016, Mr Bruno Duthoit submitted his resignation as the President and Member of the Management Board of OPL S.A. with effect on 30 April 2016. On the same day, the Supervisory Board of OPL S.A. appointed Mr Jean-François Fallacher as the President of the Management Board of OPL S.A. with effect on 1 May 2016.

On 4 July 2016, Mr Michał Paschalis-Jakubowicz submitted his resignation as the Member of the Management Board of OPL S.A. with immediate effect.

The following changes occurred in the Supervisory Board of the Company in the year ended 31 December 2016 and in the year 2017 until the date of the authorisation of these Consolidated Financial Statements:

On 3 February 2016, prof. Andrzej K. Koźmiński submitted his resignation as the Deputy Chairman and Member of the Supervisory Board of OPL S.A. with effect on 12 April 2016.

On 7 April 2016, Mr Gérard Ries submitted his resignation as the Member of the Supervisory Board of OPL S.A. with effect on the same day.

On 12 April 2016, OPL S.A. Supervisory Board Member’s mandate of dr. Mirosław Gronicki expired and was not renewed. On the same day the General Meeting of OPL S.A. appointed prof. Michał Kleiber as the Member of the Supervisory Board of OPL S.A.

On 28 June 2016, Ms Marie-Christine Lambert submitted her resignation as the Member of the Supervisory Board of OPL S.A. with effect on 30 June 2016.

On 13 July 2016, the Supervisory Board of OPL S.A. appointed Mr Patrice Lambert and Mr Federico Colom Artola as the Members of the Supervisory Board of OPL S.A.

2. Statement of compliance and basis of preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. IFRSs comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”).

These Consolidated Financial Statements are prepared in millions of Polish złoty (“PLN”). Comparative amounts for the year ended 31 December 2015 have been compiled using the same basis of preparation.

The Consolidated Financial Statements have been prepared under the historical cost convention, except for the fair value applied to derivative financial instruments.

The Consolidated Financial Statements have been prepared on the going concern basis.

The financial data of all entities constituting the Group included in these Consolidated Financial Statements were prepared using uniform group accounting policies.

These Consolidated Financial Statements were authorised for issuance by the Management Board on 13 February 2017 and are subject to approval at the General Meeting of Orange Polska S.A.

The principles applied to prepare financial data relating to the year ended 31 December 2016 are described in Note 30 and are based on:

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2016,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2016 but for which the Group has opted for earlier application,
- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of International Accounting Standard (“IAS”) 8 (Use of judgements).

3. Segment information

The Group reports a single operating segment as decisions about resources to be allocated and assessment of performance are made on consolidated basis. Segment performance is evaluated by the Management Board mainly based on consolidated revenue, consolidated EBITDA, consolidated net income/loss, consolidated organic cash flows, consolidated capital expenditures and consolidated net financial debt / adjusted EBITDA ratio based on cumulative adjusted EBITDA for the last four quarters. To give a better representation of underlying performance, the above measures are adjusted as specified below. Previously, the term “restated” was used in this context.

Revenue from the Group’s activities is adjusted for the impact of changes in the scope of consolidation. Adjustments for the 12 months ended 31 December 2016 and 2015 are presented in the table below.

EBITDA is the key measure of operating profitability used by the Management Board and corresponds to operating income/loss before depreciation and amortisation expense and impairment of non-current assets. To give a better representation of underlying performance, EBITDA is adjusted for the impact of changes in the scope of consolidation, employment termination programs, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items. Adjustments for the 12 months ended 31 December 2016 and 2015 are presented in the table below.

Organic cash flows are the key measure of cash flow generation used by the Management Board and correspond to net cash provided by operating activities decreased by purchases of property, plant and equipment and intangible assets, changes in amounts due to fixed assets suppliers, impact of net exchange rate effect paid/received on derivatives economically hedging capital expenditures and increased by proceeds from sale of property, plant and equipment and intangible assets. To give a better representation of underlying performance, organic cash flows are adjusted for the payments for acquisition of telecommunications licences and payments relating to significant claims, litigation and other risks. Adjustments for the 12 months ended 31 December 2016 and 2015 are presented in the table below.

Capital expenditures are the key measure of resources allocation used by the Management Board and represent acquisitions of property, plant and equipment and intangible assets. To give a better representation of underlying performance, capital expenditures are adjusted for the impact of acquisition of telecommunications licences. Adjustments for the 12 months ended 31 December 2016 and 2015 are presented in the table below.

Net financial debt / adjusted EBITDA ratio is the key measure of financial structure and liquidity used by the Management Board. The Management Board believes that this ratio is the most relevant measure and therefore net gearing ratio is no longer used. The calculation of net financial debt is presented in the Note 17.

Basic financial data of the operating segment is presented below:

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
Adjusted revenue	11,538	11,826
Adjusted EBITDA	3,163	3,517
Net income/(loss) as per consolidated income statement	(1,746)	254
Adjusted organic cash flows	620	962
Adjusted capital expenditures	2,001	1,998
	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Net financial debt / adjusted EBITDA ratio	2.1	1.1

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

(in PLN millions)	12 months ended 31 December 2016	12 months ended 31 December 2015
Revenue	11,538	11,840
– adjustment for data of Contact Center Sp. z o.o. ⁽¹⁾	-	(14)
Adjusted revenue	11,538	11,826
EBITDA	3,163	3,431
– adjustment for data of Contact Center Sp. z o.o. ⁽¹⁾	-	(4)
– adjustment for employment termination expense (see Note 13) net of related curtailment of long-term employee benefits (see Note 15)	-	90
Adjusted EBITDA	3,163	3,517
Organic cash flows	(2,528)	962
– adjustment for payments for acquisition of telecommunications licences (see Note 10)	3,148	-
Adjusted organic cash flows	620	962
Capital expenditures	5,169	1,998
– adjustment for expenditures on acquisition of telecommunications licences (see Note 10)	(3,168)	-
Adjusted capital expenditures	2,001	1,998

⁽¹⁾ Adjusted revenue and adjusted EBITDA for the 12 months ended 31 December 2015 do not include data of Contact Center Sp. z o.o. (a subsidiary disposed of in August 2015). Additionally, adjusted EBITDA does not include the gain on disposal of this subsidiary amounting to PLN 3 million.

4. Main acquisitions, disposals and changes in scope of consolidation

On 30 September 2016, the merger of Orange Polska S.A. and its fully owned subsidiaries – Orange Customer Service Sp. z o.o. and TP Invest Sp. z o.o. – was registered in the Commercial Court. The merger was effected by transferring all assets and liabilities of these subsidiaries to OPL S.A.

On 17 June 2016, the Group liquidated TPSA Eurofinance France S.A., a fully owned subsidiary.

On 30 November 2015, TP Edukacja i Wypoczynek Sp. z o.o. merged with Orange Szkolenia Sp. z o.o.

On 25 August 2015, the Group finalised a share sale agreement concluded on 6 July 2015 under which the 100% shareholding in Contact Center Sp. z o.o. was disposed for a total consideration amounting to PLN 9 million. Gain on the disposal amounted to PLN 3 million and is included in gains on disposal of assets.

On 29 May 2015, the Group liquidated Telefon 2000 Sp. z o.o., a fully owned subsidiary.

5. Revenue

(in PLN millions)	12 months ended 31 December 2016	12 months ended 31 December 2015
Mobile revenue	6,421	6,141
Retail revenue	4,296	4,589
Wholesale revenue (including interconnect)	1,037	909
Mobile equipment sales	1,088	643
Fixed services	4,662	5,083
Fixed narrowband	1,527	1,746
Fixed broadband, TV and VoIP (Voice over Internet Protocol)	1,490	1,601
Enterprise solutions and networks	892	916
Wholesale revenue (including interconnect)	753	820
Other revenue	455	616
Total revenue	11,538	11,840

Other revenue includes mainly sales of equipment used in ICT (Information and Communications Technology) projects, property rental and research and development services.

Revenue is generated mainly in the territory of Poland. Approximately 3.2% and 2.8% of the total revenue for the 12 months ended 31 December 2016 and 2015, respectively, was earned from entities which are not domiciled in Poland, mostly from interconnect services.

From 2016, mobile voice traffic revenue and revenue from data, messaging, content and M2M (machine-to-machine) are presented together as retail revenue. Additionally, revenue from mobile equipment sales is included in mobile revenue line.

6. Operating expense and income

6.1. External purchases

(in PLN millions)	12 months ended 31 December 2016	12 months ended 31 December 2015
Commercial expenses	(2,839)	(2,745)
– cost of handsets and other equipment sold	(1,901)	(1,829)
– commissions, advertising, sponsoring costs and other	(938)	(916)
Interconnect expenses	(1,513)	(1,345)
Network and IT expenses	(670)	(734)
Other external purchases	(1,410)	(1,447)
Total external purchases	(6,432)	(6,271)

Other external purchases include mainly rental costs, real estate operating and maintenance costs, customer support and management services, costs of content, costs of temporary staff, subcontracting fees and postage costs.

6.2. Labour expense

(in PLN millions)	12 months ended 31 December 2016	12 months ended 31 December 2015
Average number of active employees (full time equivalent)	16,424	17,703
Wages and salaries	(1,528)	(1,580)
Social security and other charges	(350)	(362)
Long-term employee benefits (see Note 15)	82	74
Capitalised personnel costs	205	199
Other employee benefits	(45)	(44)
Total labour expense	(1,636)	(1,713)

6.3. Other operating expense and income

(in PLN millions)	12 months ended 31 December 2016	12 months ended 31 December 2015
Taxes other than income tax	(304)	(301)
Orange brand fee (see Note 28.2)	(127)	(134)
Impairment losses on trade and other receivables, net	(89)	(98)
Other expense and changes in provisions, net	(67)	(80)
Total other operating expense	(587)	(613)
Total other operating income	210	246

Other operating income includes mainly income from the Orange Group resulting from shared resources, income from compensation, late payment interest on trade receivables and scrapped assets.

6.4. Research and development

During the 12 months ended 31 December 2016 and 2015, research and development costs expensed in the consolidated income statement amounted to PLN 48 million and PLN 52 million, respectively.

7. Gains on disposal of assets

During the 12 months ended 31 December 2016 and 2015, gains on disposal of assets amounted to PLN 70 million and PLN 71 million, respectively, and included mainly gains on disposal of properties.

8. Impairment

8.1. Cash Generating Unit

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

The Group considers certain indicators, including regulatory and economic changes in the Polish telecommunications market, in assessing whether there is any indication that an asset may be impaired. As at 31 December 2016 and 2015 the Group performed impairment tests of the CGU (including goodwill).

In the year 2016 impairment loss amounting to PLN 1,793 million was recognised in the consolidated income statement and allocated solely to goodwill, as required by International Accounting Standard 36. The impairment loss was driven by lower projected cash flows within the business plan resulting from the reassessment of expected further business performance in light of current market conditions and technological advancements coupled with an increase in the post-tax discount rate.

No impairment loss was recognised in the year 2015.

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

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

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

Telecom operator CGU		
	At 31 December 2016	At 31 December 2015
Basis of recoverable amount	Value in use	Value in use
Sources used	Business plan 5 years cash flow projections	Business plan 5 years cash flow projections
Perpetuity growth rate	1%	1%
Post-tax discount rate	9.25%	8.5%
Pre-tax discount rate ⁽¹⁾	10.7%	9.9%

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

Sensitivity of recoverable amount

Recognition of impairment loss of PLN 1.8 billion decreased the carrying value of the telecom operator CGU to its value in use amounting to PLN 17 billion as at 31 December 2016.

The table below shows impact of hypothetical changes in key assumptions on the telecom operator CGU value in use:

(in PLN billions)	Sensitivity as at 31 December 2016					
	Projected cash flows after fifth year		Perpetuity growth rate		Post-tax discount rate	
	+10%	-10%	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.	-0.5 p.p.
Telecom operator CGU value in use	1.6	(1.6)	0.8	(0.7)	(1.0)	1.1

8.2. Other property, plant and equipment and intangible assets

During the 12 months ended 31 December 2016 and 2015, the reversal of impairment loss on property, plant and equipment and intangible assets included in the consolidated income statement amounted to PLN 1 million and PLN 12 million, respectively, primarily as a result of a review of certain of the Group's properties.

9. Goodwill

(in PLN millions)	At 31 December 2016			At 31 December 2015		
	Cost	Accumulated impairment ⁽¹⁾	Net	Cost	Accumulated impairment	Net
Telecom operator	3,940	(1,793)	2,147	3,940	-	3,940
Total goodwill	3,940	(1,793)	2,147	3,940	-	3,940

⁽¹⁾ See Note 8.1.

The goodwill of PLN 3,909 million arose in 2005 on acquisition of the remaining 34% of non-controlling interest in the mobile business controlled by OPL S.A. and corresponds to the difference between the cost of acquisition of the non-controlling interest and the non-controlling interest in the net book value of the underlying net assets. This approach was allowed under IAS 27 effective in 2005 (i.e. before the effective date of IAS 27 Revised which requires treating the acquisition of non-controlling interest as an equity transaction). The remaining balance of goodwill of PLN 31 million arose on acquisition of certain subsidiaries.

10. Other intangible assets

(in PLN millions)	At 31 December 2016			
	Cost	Accumulated amortisation	Accumulated impairment	Net
Telecommunications licences	5,785	(1,725)	-	4,060
Software	5,521	(3,922)	-	1,599
Other intangibles	217	(142)	(12)	63
Total other intangible assets	11,523	(5,789)	(12)	5,722

(in PLN millions)	At 31 December 2015			
	Cost	Accumulated amortisation	Accumulated impairment	Net
Telecommunications licences	2,617	(1,400)	-	1,217
Software	7,052	(5,323)	-	1,729
Other intangibles	207	(131)	(12)	64
Total other intangible assets	9,876	(6,854)	(12)	3,010

Details of telecommunications licences are as follows:

(in PLN millions)	Acquisition date	Years to expiration ⁽³⁾	Net book value	
			At 31 December 2016	At 31 December 2015
450 MHz ⁽¹⁾	1991	-	-	-
800 MHz	2016	14.1	2,880	-
900 MHz	2014	12.5	300	324
900 MHz ⁽²⁾	2013	1.6	20	33
1800 MHz ⁽²⁾	2013	11.0	175	191
1800 MHz	1997	10.6	-	-
2100 MHz	2000	6.0	574	669
2600 MHz	2016	14.1	111	-
Total telecommunications licences			4,060	1,217

⁽¹⁾ The 450 MHz telecommunication licence expired at the end of 2016. Upon Orange Polska's application for renewal, on 13 January 2017, the President of UKE issued a decision assigning the spectrum for further fifteen years. Based on an expert appraisal, the President of UKE set the assignment fee at PLN 115 million. Orange Polska has appealed against the frequency assignment decision.

⁽²⁾ Licences held under agreements with T-Mobile Polska S.A.

⁽³⁾ Remaining useful life in years as at 31 December 2016.

On 25 January 2016, the Group received decisions in which the President of UKE granted Orange Polska the frequencies in the 800 MHz and 2600 MHz bands for a total amount of PLN 3,168 million declared in the auction. On the basis of these decisions, Orange Polska received the licenses for two blocks of 2x5 MHz each in the 800 MHz band and licenses for three blocks of 2x5 MHz each in the 2600 MHz band. The licenses are valid for 15 years from the date of receipt of the decisions. In February 2016, Orange Polska paid the whole amount less PLN 20 million of deposit paid in 2014 before the auction. The amortisation of the above-mentioned frequencies began on 1 March 2016 and the amortisation charge amounted to PLN 177 million in the 12 months ended 31 December 2016.

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2016 were as follows:

(in PLN millions)	Telecommunica-tions licences	Software	Other intangibles	Total other intangible assets
Opening balance net of accumulated amortisation and impairment	1,217	1,729	64	3,010
Acquisitions of intangible assets	3,168	438	15	3,621
Amortisation	(325)	(568)	(15)	(908)
Reclassifications and other, net	-	-	(1)	(1)
Closing balance	4,060	1,599	63	5,722

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2015 were as follows:

(in PLN millions)	Telecommunica-tions licences	Software	Other intangibles	Total other intangible assets
Opening balance net of accumulated amortisation and impairment	1,365	1,778	72	3,215
Acquisitions of intangible assets	-	455	21	476
Amortisation	(148)	(501)	(24)	(673)
Reclassifications and other, net	-	(3)	(5)	(8)
Closing balance	1,217	1,729	64	3,010

11. Property, plant and equipment

(in PLN millions)	At 31 December 2016			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land and buildings	3,060	(1,833)	(31)	1,196
Network	37,499	(29,025)	-	8,474
Terminals	2,126	(1,552)	-	574
Other IT equipment	1,486	(1,149)	-	337
Other	277	(178)	(2)	97
Total property, plant and equipment	44,448	(33,737)	(33)	10,678

(in PLN millions)	At 31 December 2015			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land and buildings	3,133	(1,775)	(36)	1,322
Network	37,737	(29,089)	-	8,648
Terminals	2,108	(1,536)	-	572
Other IT equipment	1,525	(1,151)	-	374
Other	289	(178)	(2)	109
Total property, plant and equipment	44,792	(33,729)	(38)	11,025

As at 31 December 2016 and 2015, the amount of expenditures recognised in the carrying amount of items of property, plant and equipment in the course of their construction amounted to PLN 1,061 million and PLN 937 million, respectively.

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2016 were as follows:

(in PLN millions)	Land and buildings	Network	Terminals	Other IT equipment	Other	Total property, plant and equipment
Opening balance net of accumulated amortisation and impairment	1,322	8,648	572	374	109	11,025
Acquisitions of property, plant and equipment	41	1,161	231	88	27	1,548
Disposals and liquidations	(48)	(5)	-	-	-	(53)
Depreciation	(120)	(1,309)	(233)	(123)	(32)	(1,817)
Impairment	1	-	-	-	-	1
Dismantling costs, reclassifications and other, net	-	(21)	4	(2)	(7)	(26)
Closing balance	1,196	8,474	574	337	97	10,678

On the basis of an annual review of estimated useful lives of fixed assets, the Group decided to extend useful lives for cables and ducts used in fixed line network from 2016. Lives of these assets were verified in light of the launch of FTTH (Fiber To The Home) project and other forecasted technological developments. As a result of the extension of the estimated useful lives, the depreciation expense was lower by PLN 301 million in the 12 months ended 31 December 2016.

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2015 were as follows:

(in PLN millions)	Land and buildings	Network	Terminals	Other IT equipment	Other	Total property, plant and equipment
Opening balance net of accumulated amortisation and impairment	1,441	9,279	525	359	111	11,715
Acquisitions of property, plant and equipment	61	1,043	249	129	40	1,522
Disposals and liquidations	(65)	(11)	-	-	-	(76)
Depreciation	(127)	(1,674)	(244)	(123)	(30)	(2,198)
Impairment	12	-	-	-	-	12
Dismantling costs, reclassifications and other, net	-	11	42	9	(12)	50
Closing balance	1,322	8,648	572	374	109	11,025

The carrying value of equipment held under finance leases as at 31 December 2016 and 2015 amounted to PLN 58 million and PLN 64 million, respectively. Leased assets cannot be sold, donated, transferred by title or pledged and are a collateral for the related finance lease liability.

12. Trade receivables

(in PLN millions)	At 31 December 2016	At 31 December 2015 (see Note 30.5)
Non-current trade receivables, net	433	215
Current trade receivables, net	1,827	1,600
Trade receivables, net	2,260	1,815

The Group considers there is no concentration of credit risk with respect to trade receivables due to its large and diverse customer base consisting of individual and business customers. The Group's maximum exposure to credit risk at the reporting date is represented by the carrying amounts of receivables recognised in the statement of financial position. Non-current trade receivables relate mainly to sales of mobile handsets in instalments.

Movement in the impairment of trade receivables during the 12 months ended 31 December 2016 and 2015 is presented below:

(in PLN millions)	12 months ended 31 December 2016	12 months ended 31 December 2015
Beginning of period	138	143
Impairment losses, net	87	92
Utilisation of impairment for receivables sold or written-off	(66)	(97)
End of period	159	138

The analysis of the age of net trade receivables is as follows:

(in PLN millions)	At 31 December 2016	At 31 December 2015 (see Note 30.5)
Trade receivables collectively analysed for impairment, net:		
Not past due	1,501	1,058
Past due less than 180 days	281	282
Past due between 180 and 360 days	8	34
Past due more than 360 days	7	4
Total trade receivables collectively analysed for impairment, net	1,797	1,378
Trade receivables individually analysed for impairment, net:⁽¹⁾		
Not past due	374	303
Past due	89	134
Total trade receivables individually analysed for impairment, net	463	437
Total trade receivables, net	2,260	1,815

⁽¹⁾ Mainly includes receivables from related parties (see Note 28.2), telecommunications companies and disputed receivables.

13. Provisions

Movements of provisions for the 12 months ended 31 December 2016 were as follows:

<i>(in PLN millions)</i>	<i>Provisions for claims and litigation, risks and other charges</i>	<i>Provisions for employment termination expense</i>	<i>Dismantling provisions</i>	<i>Total provisions</i>
At 1 January 2016	728	132	301	1,161
Increases	43	-	5	48
Reversals (utilisations)	(10)	(71)	(10)	(91)
Reversals (releases)	(7)	-	(32)	(39)
Foreign exchange effect	21	-	-	21
Discounting effect	18	1	11	30
At 31 December 2016	793	62	275	1,130
Current	780	62	8	850
Non-current	13	-	267	280

Movements of provisions for the 12 months ended 31 December 2015 were as follows:

<i>(in PLN millions)</i>	<i>Provisions for claims and litigation, risks and other charges</i>	<i>Provisions for employment termination expense</i>	<i>Dismantling provisions</i>	<i>Total provisions</i>
At 1 January 2015	697	89	307	1,093
Increases	28	132	7	167
Reversals (utilisations)	(2)	(87)	(22)	(111)
Reversals (releases)	(11)	(3)	-	(14)
Discounting effect	16	1	9	26
At 31 December 2015	728	132	301	1,161
Current	728	68	7	803
Non-current	-	64	294	358

The discount rate used to calculate the present value of provisions amounted to 1.75% - 3.73% as at 31 December 2016 and 1.72% - 2.98% as at 31 December 2015.

Provisions for claims and litigation, risks and other charges

These provisions relate mainly to claims and litigation described in the Note 27. As a rule, provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management, such disclosure could prejudice the outcome of the pending cases.

Provisions for employment termination expense

Provisions for employment termination expense as at 31 December 2016 and 2015 consisted of the estimated amount of termination benefits for Group employees scheduled to terminate employment under the 2016 - 2017 Social Agreement. Other movements of these provisions during the 12 months ended 31 December 2015 related mainly to the 2014 - 2015 Social Agreement.

On 2 December 2015, OPL S.A. and Orange Customer Service Sp. z o.o. concluded with Trade Unions the Social Agreement under which up to 2,050 employees were entitled to take advantage of the voluntary departure package in years 2016 - 2017. The value of voluntary departure package varies depending on individual salary, employment duration and year of resignation. The basis for calculation of the provision for employment termination expense is the estimated number, remuneration and service period of employees who will accept the voluntary termination until the end of 2017.

Dismantling provisions

The dismantling provisions relate to dismantling or removal of items of property, plant and equipment (mainly telecommunications poles and items of mobile access network) and restoring the site on which they are located. Based on environmental regulations in Poland, items of property, plant and equipment which may contain hazardous materials should be dismantled and utilised by the end of their useful lives by entities licensed by the State for this purpose.

The amount of dismantling provisions is based on the estimated number of items that should be utilised/sites to be restored, time to their liquidation/restoration, current utilisation/restoration cost and inflation.

14. Trade payables, other liabilities and deferred income

14.1. Trade payables

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Trade payables	1,437	1,138
Fixed assets payables	841	841
Telecommunications licence payables	837	918
Total trade payables	3,115	2,897
Current	2,433	2,130
Non-current ⁽¹⁾	682	767

⁽¹⁾ Includes telecommunications licence payables only.

As at 31 December 2016 and 2015, trade payables subject to reverse factoring amounted to PLN 132 million and PLN 15 million, respectively. 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.

14.2. Other liabilities

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
VAT payables	53	113
Other taxes payables	22	20
Other	72	58
Total other liabilities	147	191
Current	132	191
Non-current	15	-

14.3. Deferred income

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Subscription (including unused balances in post-paid system)	194	189
Unused balances in pre-paid system	206	221
Connection fees	62	47
Other	99	88
Total deferred income	561	545
Current	480	486
Non-current	81	59

15. Employee benefits

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Jubilee awards	104	131
Retirement bonuses and other post-employment benefits	52	118
Salaries and other employee-related payables	176	190
Total employee benefits	332	439
Current	188	188
Non-current	144	251

Certain employees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 30.21). These benefits are not funded.

Changes in the present and carrying value of obligations related to long-term employee benefits for the 12 months ended 31 December 2016 and 2015 are detailed below:

(in PLN millions)	12 months ended 31 December 2016			
	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Present/carrying value of obligation at the beginning of the period	131	115	3	249
Current service cost ⁽¹⁾	7	3	-	10
Past service cost ⁽¹⁾	(28) ⁽²⁾	(66) ⁽²⁾	(3)	(97)
Interest cost ⁽³⁾	3	1	-	4
Benefits paid	(14)	(2)	-	(16)
Actuarial losses for the period	5 ⁽¹⁾	1 ⁽⁴⁾	-	6
Present/carrying value of obligation at the end of the period	104	52	-	156
Weighted average duration (in years)	7	11	-	8

⁽¹⁾ Recognised under labour expense in the consolidated income statement.

⁽²⁾ Impact of agreements with Trade Unions (see below).

⁽³⁾ Recognised under discounting expense in the consolidated income statement.

⁽⁴⁾ Recognised under actuarial gains/losses on post-employment benefits in the consolidated statement of comprehensive income.

In the first quarter of 2016, the Group signed with Trade Unions agreements that amended the value of retirement bonuses and jubilee awards paid to employees. Employees are no longer entitled to retirement bonuses higher than those set out in the Polish labour law if the retirement takes place after 31 December 2017. The agreements reduce also an average value of a jubilee award paid to employees upon completion of a certain number of years of service – for payments due after 2020. As a result, a credit of PLN 94 million was recognised in labour expense in the first quarter of 2016 with a corresponding release of the liabilities relating to long-term employee benefits.

(in PLN millions)	12 months ended 31 December 2015			
	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Present/carrying value of obligation at the beginning of the period	145	135	86	366
Current service cost ⁽¹⁾	11	7	-	18
Past service cost ⁽¹⁾	(18) ⁽²⁾	(21) ⁽²⁾	(58) ⁽³⁾	(97)
Interest cost ⁽⁴⁾	3	4	-	7
Benefits paid	(15)	(2)	-	(17)
Settlement ⁽³⁾	-	-	(24)	(24)
Actuarial (gains)/losses for the period	5 ⁽¹⁾	(8) ⁽⁵⁾	(1) ⁽⁵⁾	(4)
Present/carrying value of obligation at the end of the period	131	115	3	249
Weighted average duration (in years)	8	17	27	12

⁽¹⁾ Recognised under labour expense in the consolidated income statement.

⁽²⁾ Curtailment resulting from the Social Agreement concluded on 2 December 2015 (see Note 13).

⁽³⁾ Impact of agreements with Trade Unions (see below).

⁽⁴⁾ Recognised under discounting expense in the consolidated income statement.

⁽⁵⁾ Recognised under actuarial gains/losses on post-employment benefits in the consolidated statement of comprehensive income.

In the first quarter of 2015, the Group signed with Trade Unions agreements which curtailed other post-employment benefits for retirees of the Group and agreed additional contributions totalling PLN 24 million to the social fund for the years 2015-2017. As a result, in the first quarter of 2015, a credit of PLN 58 million was recognised in labour expense as the net effect of PLN 82 million of released provision for post-employment benefits and PLN 24 million of the recognised liability relating to the additional contributions to the social fund.

The valuation of obligations as at 31 December 2016 and 2015 was performed using the following assumptions:

	At 31 December 2016	At 31 December 2015
Discount rate	3.5%	3.1% – 3.5%
Wage increase rate	2.5%	2.0% – 2.5%

A change of the discount rate by 0.5 p.p. would increase or decrease by PLN 6 million the present/carrying value of obligations related to long-term employee benefits as at 31 December 2016.

16. Finance income and expense

(in PLN millions)	12 months ended 31 December 2016							
	Finance costs, net					Operating loss		
	Interest expense and other financial charges							
	Interest income	Interest expense	Foreign exchange gains / (losses)	Discounting expense	Finance income / (costs), net	Interest income	Impairment losses	Foreign exchange gains / (losses)
Loans and receivables	22	-	1	-	23	11	(89)	2
– including trade receivables	18	-	-	-	18	11 ⁽¹⁾	(87)	2
Financial liabilities at amortised cost	-	(134) ⁽²⁾	(106)	(68)	(308)	-	-	(12)
Derivatives	-	(150)	107	5	(38)	-	-	41
– hedging derivatives	-	(117)	105	-	(12)	-	-	-
– derivatives held for trading ⁽³⁾	-	(33)	2	5	(26)	-	-	41
Non-financial items ⁽⁴⁾	-	-	-	(36)	(36)	-	-	(21)
Total	22	(284)	2	(99)	(359)	11	(89)	10

⁽¹⁾ Late payment interest on trade receivables.

⁽²⁾ Includes mainly interest expense on loans from related party.

⁽³⁾ Derivatives economically hedging commercial or financial transactions.

⁽⁴⁾ Includes mainly provisions and employee benefits.

(in PLN millions)	12 months ended 31 December 2015							
	Finance costs, net					Operating income		
	Interest expense and other financial charges							
	Interest income	Interest expense	Foreign exchange gains / (losses)	Discounting expense	Finance income / (costs), net	Interest income	Impairment losses	Foreign exchange gains / (losses)
Loans and receivables	17	-	-	-	17	14	(92)	(1)
– including trade receivables	10	-	-	-	10	14 ⁽¹⁾	(92)	(1)
Financial liabilities at amortised cost	-	(77) ⁽²⁾	(44)	(59)	(180)	-	-	3
Derivatives	-	(139)	44	-	(95)	-	-	1
– hedging derivatives	-	(99)	28	-	(71)	-	-	-
– derivatives held for trading ⁽³⁾	-	(40)	16	-	(24)	-	-	1
Non-financial items ⁽⁴⁾	-	-	-	(33)	(33)	-	-	-
Total	17	(216)	-	(92)	(291)	14	(92)	3

⁽¹⁾ Late payment interest on trade receivables.

⁽²⁾ Includes mainly interest expense on loans from related party and bank borrowings.

⁽³⁾ Derivatives economically hedging commercial or financial transactions.

⁽⁴⁾ Includes mainly provisions and employee benefits.

During the 12 months ended 31 December 2016 and 2015, there was no significant ineffectiveness on cash flow hedges.

17. Net financial debt

Net financial debt corresponds to the total gross financial debt (converted at the period-end exchange rate), after net derivative instruments (liabilities less assets), less cash and cash equivalents and including the impact of the effective portion of cash flow hedges.

The table below provides an analysis of net financial debt:

(in PLN millions)	Note	At 31 December 2016	At 31 December 2015
Loans from related party	18.1	7,092	4,122
Other financial debt	18.2	102	126
Derivatives – net (liabilities less assets)	20	(166)	12
Gross financial debt after derivatives		7,028	4,260
Cash and cash equivalents	19	(262)	(266)
Effective portion of cash flow hedges		9	(83)
Net financial debt		6,775	3,911

18. Financial liabilities at amortised cost excluding trade payables

18.1. Loans from related party

(in millions of currency)		Amount outstanding at ⁽¹⁾			
Creditor	Repayment date	31 December 2016		31 December 2015	
		Currency	PLN	Currency	PLN
Floating rate					
Atlas Services Belgium S.A. (EUR)	31 March 2016	-	-	280	1,193
Atlas Services Belgium S.A. (EUR)	20 May 2019	480	2,119	480	2,043
Atlas Services Belgium S.A. (EUR)	20 May 2021	190	840	190	809
Atlas Services Belgium S.A. (PLN)	20 June 2021	2,695	2,695	-	-
Atlas Services Belgium S.A. (PLN) ⁽²⁾	30 March 2018	1,438	1,438	77	77
Total loans from related party			7,092		4,122
Current			5		1,273
Non-current			7,087		2,849

⁽¹⁾ Includes accrued interest and arrangement fees.

⁽²⁾ Revolving credit line is presented in long-term loans from related party as at 31 December 2016 (as at 31 December 2015 it was presented as short-term).

The weighted average effective interest rate on loans from related party, before and after swaps, amounted respectively to 1.87% and 3.36% as at 31 December 2016 (1.21% and 4.16% as at 31 December 2015).

18.2. Other financial debt

(in PLN millions)	At 31 December 2016	At 31 December 2015
Finance lease liabilities	58	64
Bank borrowings and other	44	62
Total other financial debt	102	126
Current	36	45
Non-current	66	81

19. Cash and cash equivalents

(in PLN millions)	At 31 December 2016	At 31 December 2015
Current bank accounts, overnight deposits and cash on hand	151	178
Deposits with Orange S.A.	106	87
Bank deposits up to 3 months	5	1
Total cash and cash equivalents	262	266

The Group's cash surplus is invested into short-term highly-liquid financial instruments - mainly bank deposits and deposits with Orange S.A. under the Cash Management Treasury Agreement. Short-term deposits are made for varying periods of between one day and three months. The instruments earn interest which depends on the current money market rates and the term of investment.

The Group's maximum exposure to credit risk at the reporting date is represented by carrying amounts of cash and cash equivalents. The Group deposits its cash and cash equivalents with Orange S.A. and leading financial institutions with investment grade. Limits are applied to monitor the level of exposure to credit risk on the counterparties. In case the counterparty's financial soundness is deteriorating, the Group applies the appropriate measures mitigating the default risk.

20. Derivatives

As at 31 December 2016 and 2015, the Group's derivatives portfolio constituted financial instruments for which there was no active market (over-the-counter derivatives), mainly interest rate swaps, currency swaps and non-deliverable forwards. To price these instruments the Group applies standard valuation techniques, where the applicable market interest rate curves constitute the base for calculation of discounting factors. The fair value of swap/forward transaction represents discounted future cash flows, converted into PLN at the National Bank of Poland period-end average exchange rate and adjusted by counterparty (credit valuation adjustment - "CVA") or own (debit valuation adjustment - "DVA") credit risk. CVA and DVA estimates were not material compared to the total fair value of the related derivatives.

The derivative financial instruments used by the Group are presented below:

(in PLN millions)					Fair value	
Type of instrument ⁽¹⁾	Hedged risk	Hedged item	Nominal amount (in millions of currency)	Maturity	Financial Asset	Financial Liability
At 31 December 2016						
Derivative instruments - cash flow hedge						
CCIRS	Currency and interest rate risk	Loans from related party	667 EUR	2019-2021	193	-
IRS	Interest rate risk	Loans from related party	4,750 PLN	2019-2021	12	(76)
NDF	Currency risk	Commercial transactions	121 EUR	2017	10	-
NDF	Currency risk	Commercial transactions	6 USD	2017	2	-
Total cash flow hedges					217	(76)
Derivative instruments - held for trading⁽²⁾						
CCIRS	Currency and interest rate risk	Loans from related party	3 EUR	2021	1	-
NDF	Currency risk	2100 MHz licence payable	73 EUR	2017	7	-
NDF	Currency risk	Commercial transactions	35 EUR	2017	3	-
NDF	Currency risk	EC proceedings provision	120 EUR	2017	11	-
NDF	Currency risk	Bank borrowing	6 USD	2017	1	-
NDF	Currency risk	Commercial transactions	6 USD	2017	2	-
Total derivatives held for trading					25	-
Total derivative instruments					242	(76)
Current					36	-
Non-current					206	(76)

⁽¹⁾ CCIRS – cross currency interest rate swap, IRS – interest rate swap, NDF – non-deliverable forward.

⁽²⁾ Derivatives economically hedging commercial or financial transactions.

(in PLN millions)					Fair value	
Type of instrument ⁽¹⁾	Hedged risk	Hedged item	Nominal amount (in millions of currency)	Maturity	Financial Asset	Financial Liability
At 31 December 2015						
Derivative instruments - cash flow hedge						
CCIRS	Currency and interest rate risk	Loans from related party	867 EUR	2016-2021	107	-
IRS	Interest rate risk	Loans from related party	3,550 PLN	2016-2021	-	(126)
NDF	Currency risk	Commercial transactions	102 EUR	2016	1	(3)
NDF	Currency risk	Commercial transactions	3 USD	2016	-	-
Option strategy	Currency risk	Commercial transactions	8 EUR	2016	-	-
Total cash flow hedges					108	(129)
Derivative instruments - held for trading⁽²⁾						
CCIRS	Currency and interest rate risk	Loans from related party	83 EUR	2016-2021	1	-
IRS	Interest rate risk	Forecast loan from related party	800 PLN	2021	2	(2)
NDF	Currency risk	2100 MHz licence payable	76 EUR	2016	5	(1)
NDF	Currency risk	Commercial transactions	35 EUR	2016	1	-
NDF	Currency risk	EC proceedings provision	105 EUR	2016	3	(1)
NDF	Currency risk	Bank borrowing	9 USD	2016	1	-
NDF	Currency risk	Commercial transactions	19 USD	2016	1	(1)
Option strategy	Currency risk	Commercial transactions	3 EUR	2016	-	-
Total derivatives held for trading					14	(5)
Total derivative instruments					122	(134)
Current					33	(9)
Non-current					89	(125)

⁽¹⁾ CCIRS – cross currency interest rate swap, IRS – interest rate swap, NDF – non-deliverable forward, Option strategy – purchased call options and written put options.

⁽²⁾ Derivatives economically hedging commercial or financial transactions.

The Group's maximum exposure to credit risk is represented by the carrying amounts of derivatives. The Group enters into derivatives contracts with Orange S.A. and leading financial institutions. Limits are applied to monitor the level of exposure to credit risk on the counterparties. Limits are based on each institution's rating. In case the counterparty's financial soundness is deteriorating, the Group applies the appropriate measures mitigating the default risk.

The change in fair value of cash flow hedges recognised in other comprehensive income is presented below:

(in PLN millions)			12 months ended 31 December 2016			12 months ended 31 December 2015		
	Before tax	Tax	After tax		Before tax	Tax	After tax	
Effective part of gains/(losses) on hedging instrument	109	(21)	88		(46)	9	(37)	
Reclassification to the income statement, adjusting:	(7)	2	(5)		71	(13)	58	
– interest expense presented in finance costs, net	97	(18)	79		100	(19)	81	
– foreign exchange differences presented in finance costs, net	(105)	20	(85)		(28)	6	(22)	
– external purchases	1	-	1		(1)	-	(1)	
Transfer to the initial carrying amount of the hedged item	(10)	2	(8)		(2)	-	(2)	
Total gains on cash flow hedges	92	(17)	75		23	(4)	19	

Gains on cash flow hedges cumulated in other reserves as at 31 December 2016 are expected to mature and affect the income statement in years 2017 - 2021.

21. Fair value of financial instruments

21.1. Fair value measurements

For the financial instruments measured subsequent to their initial recognition at fair value, the Group classifies fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices),
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Group’s financial assets and liabilities that are measured subsequent to their initial recognition at fair value comprise derivative instruments presented in Note 20. The Group classifies derivatives to Level 2 fair value measurements.

21.2. Comparison of fair values and carrying amounts of financial instruments

As at 31 December 2016 and 2015, the carrying amount of cash and cash equivalents, trade receivables, current trade payables and current financial liabilities at amortised cost approximated their fair value due to relatively short term maturity of those instruments, cash nature or immaterial difference between the original effective interest rates and current market rates.

As at 31 December 2016 and 2015, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximated their fair value.

A comparison by classes of carrying amounts and fair values of those Group's financial instruments, for which the estimated fair value differs from the book value due to significant change between the original effective interest rates and current market rates, is presented below:

(in PLN millions)					
	Note	At 31 December 2016		At 31 December 2015	
		Carrying amount	Estimated fair value Level 2	Carrying amount	Estimated fair value Level 2
Telecommunications licence payables	14.1	837	989	918	1,100

The fair value of financial instruments is calculated by discounting expected future cash flows at the prevailing market interest rates for a given currency. Fair value amounts are translated to PLN at the National Bank of Poland period-end average exchange rate and adjusted by own credit risk. DVA estimates were not material compared to the total fair value of the related financial instruments.

22. Objectives and policies of financial risk management

22.1. Principles of financial risk management

The Group is exposed to financial risks arising mainly from financial instruments that are issued or held as part of its operating and financing activities. That exposure can be principally classified as market risk (encompassing currency risk and interest rate risk), liquidity risk and credit risk. The Group manages the financial risks with the objective to limit its exposure to adverse changes in foreign exchange rates and interest rates, to stabilise cash flows and to ensure an adequate level of financial liquidity and flexibility.

The principles of the Group Financial Risk Management Policy have been approved by the Management Board. Financial risk management is conducted according to developed strategies confirmed by the Treasury Committee under the direct control of the Board Member in charge of Finance.

Financial Risk Management Policy defines principles and responsibilities within the context of an overall financial risk management and covers the following areas:

- risk measures used to identify and evaluate the exposure to financial risks,
- selection of appropriate instruments to hedge against identified risks,
- valuation methodology used to determine the fair value of financial instruments,
- transaction limits for and credit ratings of counterparties with which the Group concludes hedging transactions.

22.2. Hedge accounting

The Group has entered into numerous derivative transactions to hedge exposure to currency risk and interest rate risk. The derivatives used by the Group include: cross currency interest rate swaps, cross currency swaps, interest rate swaps, currency options, currency forwards and non-deliverable forwards.

Certain derivative instruments are classified as cash flow hedges and the Group applies hedge accounting principles as stated in IAS 39 (see Note 30.17). The cash flow hedges are used to hedge the variability of future cash flows that is attributable to particular risk and could affect the income statement.

Derivatives are used for hedging activities and it is the Group's policy that derivative financial instruments are not used for trading (speculative) purposes. However, certain derivatives held by the Group are not designated as hedging instruments as set out in IAS 39 and hedge accounting principles are not applied to those instruments. The Group considers those derivatives as economic hedges because they, in substance, protect the Group against currency risk and interest rate risk.

Detailed information on derivative financial instruments, including hedging relationship, that are used by the Group is presented in Note 20.

22.3. Currency risk

The Group is exposed to foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies, mainly loans from related party, bank borrowing (see Note 18), 2100 MHz licence payable and provision for the proceedings by the European Commission (see Note 27.b).

The Group's hedging strategy, minimising the impact of fluctuations in exchange rates, is reviewed on a regular basis. The acceptable exposure to a selected currency is a result of the risk analysis in relation to an open position in that currency, given the financial markets’ expectations of foreign exchange rates movements during a specific time horizon.

Within the scope of the hedging policy, the Group hedges its exposure entering mainly into cross currency interest rate swaps, cross currency swaps and forward currency contracts, under which the Group agrees to exchange a notional amount denominated in a foreign currency into PLN. As a result, the gains/losses generated by derivative instruments compensate the foreign exchange losses/gains on the hedged items. Therefore, the variability of the foreign exchange rates has a limited impact on the consolidated income statement.

The table below presents the hedge ratio of the Group’s major currency exposures. The ratio compares the hedged value of a currency exposure to the total value of the exposure.

Currency exposure	Hedge ratio	
	At 31 December 2016	At 31 December 2015
Loans from related party and bank borrowing	99.5%	99.7%
2100 MHz licence payable	51.5%	47.3%
EC proceedings provision (see Note 27.b)	82.2%	73.7%

The Group is also actively hedging the exposure to foreign exchange risk generated by operating and capital expenditures.

The Group uses the sensitivity analysis described below to measure currency risk.

The Group's major exposures to foreign exchange risk (net of hedging activities) and potential foreign exchange gains/losses on these exposures resulting from a hypothetical 10% appreciation/depreciation of the PLN against other currencies are presented in the following table.

(in millions of currency)	Effective exposure after hedging				Sensitivity to a change of the PLN against other currencies impacting consolidated income statement			
	At 31 December 2016		At 31 December 2015		At 31 December 2016		At 31 December 2015	
					+10%	-10%	+10%	-10%
Currency exposure	Currency	PLN	Currency	PLN	PLN	PLN	PLN	PLN
2100 MHz licence payable (EUR)	69	304	85	361	30	(30)	36	(36)
EC proceedings provision (EUR) (see Note 27.b)	26	115	38	160	12	(12)	16	(16)
Bank borrowing (USD)	3	14	3	13	1	(1)	1	(1)
Total		433		534	43	(43)	53	(53)

The sensitivity analysis presented above is based on the following principles:

- unhedged portion of the discounted amount of liabilities is exposed to foreign exchange risk (effective exposure),
- derivatives designated as hedging instruments and those classified as economic hedges are treated as risk-mitigation transactions,
- cash and cash equivalents are excluded from the analysis.

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect other reserves. The sensitivity analysis prepared by the Group indicated that the potential gains/(losses) impacting other reserves resulting from a hypothetical 10% depreciation/appreciation of the PLN against other currencies would amount to PLN 56/(56) million and PLN 45/(45) million as at 31 December 2016 and 2015, respectively.

22.4. Interest rate risk

The interest rate risk is a risk that the fair value or future cash flows of the financial instrument will change due to interest rates changes. The Group has interest bearing financial liabilities consisting mainly of loans from related party and bank borrowings (see Note 18).

The Group's interest rate hedging strategy, limiting exposure to unfavourable movements of interest rates, is reviewed on a regular basis. The preferable split between fixed and floating rate debt is the result of the analysis indicating the impact of the potential interest rates evolution on the financial costs.

According to the hedging strategy, the Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As a result of the hedge the structure of the liabilities changes to the desired one, as liabilities based on the floating/fixed interest rates are effectively converted into fixed/floating obligations.

As at 31 December 2016 and 2015, the Group's proportion between fixed/floating rate debt (after hedging activities) was 69/31 % and 88/12%, respectively.

The Group uses the sensitivity analysis described below to measure interest rate risk.

The table below provides the Group's sensitivity analysis for interest rate risk (net of hedging activities) assuming a hypothetical increase/decrease in the interest rates by 1 p.p.

(in PLN millions)	Sensitivity to 1 p.p. change of interest rates							
	At 31 December 2016				At 31 December 2015			
	WIBOR		EURIBOR		WIBOR		EURIBOR	
	+1 p.p.	-1 p.p.	+1 p.p.	-1 p.p.	+1 p.p.	-1 p.p.	+1 p.p.	-1 p.p.
Finance costs, net	(20)	20	(2)	2	37	(39)	(3)	4
Other reserves	156	(161)	(14)	13	107	(110)	(15)	17

The sensitivity analysis presented above is based on the following principles:

- finance costs, net include the following items exposed to interest rate risk: a) interest cost on financial debt based on floating rate (after hedging), b) the change in the fair value of derivatives not designated as hedging instruments and classified as held for trading (see Note 20),
- other reserves include the change in the fair value of derivatives that is determined as effective cash flow hedge (see Note 20),
- as at 31 December 2016, the gross financial debt based on floating rate (after hedging) amounted to PLN 2,172 million (as at 31 December 2015, PLN 487 million).

22.5. Liquidity risk

The liquidity risk is a risk of encountering difficulties in meeting obligations associated with financial liabilities. The Group's liquidity risk management involves forecasting future cash flows, analysing the level of liquid assets in relation to cash flows, monitoring statement of financial position liquidity and maintaining a diverse range of funding sources and back-up facilities.

In order to increase efficiency, the liquidity management process is optimised through a centralised treasury function of the Group, as liquid asset surpluses generated by the Group entities are invested and managed by the central treasury. The Group's cash surplus is invested into short-term highly-liquid financial instruments – mainly bank deposits. Additionally, in 2013 the Group concluded a Cash Management Treasury Agreement with Orange S.A. enabling the Group to deposit its cash surpluses with Orange S.A.

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. The above-mentioned Cash Management Treasury Agreement with Orange S.A. gives the Group access to back-up liquidity funding with headroom of up to PLN 1,750 million. No drawdown was made on this facility as at 31 December 2016. The Group also has a revolving credit line from the Orange Group for up to EUR 480 million and other credit lines for up to PLN 8 million, of which PLN 1,442 million was used as at 31 December 2016.

Therefore, as at 31 December 2016, the Group had unused credit facilities amounting to PLN 2,435 million (as at 31 December 2015, PLN 3,717 million). These credit lines are sufficient to cover the excess of current liabilities over current assets of PLN 1,730 million as at 31 December 2016.

Liquidity risk is measured by applying following ratios calculated and monitored by the Group regularly:

- liquidity ratios,
- maturity analysis of undiscounted contractual cash flows resulting from the Group's financial liabilities,
- average debt duration.

The liquidity ratio (representing the relation between available financing sources, i.e. cash and credit facilities, and debt repayments during next 12 and 18 months) and current liquidity ratio (representing the relation between unused credit facilities, current assets and current liabilities) are presented in the following table:

(in PLN millions)	Liquidity ratios	
	At 31 December 2016	At 31 December 2015
Liquidity ratio (incl. derivatives) - next 12 months	1.332%	288%
Unused credit facilities	2,435	3,717
Cash and cash equivalents	262	266
Debt repayments ⁽¹⁾	134	1,313
Derivatives repayments ⁽²⁾	69	71
Liquidity ratio (incl. derivatives) - next 18 months	154%	276%
Unused credit facilities	2,435	3,717
Cash and cash equivalents	262	266
Debt repayments ⁽¹⁾	1,633	1,329
Derivatives repayments ⁽²⁾	115	113
Current liquidity ratio (incl. unused credit facilities)	117%	117%
Unused credit facilities	2,435	3,717
Total current assets	2,418	2,330
Total current liabilities	4,148	5,185

⁽¹⁾ Undiscounted contractual cash flows on loans from related party and bank borrowings.

⁽²⁾ Undiscounted contractual cash flows on derivatives.

The maturity analysis for the contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2016 and 2015 is presented below.

As at 31 December 2016 and 2015, amounts in foreign currency were translated at the National Bank of Poland period-end average exchange rates. The variable interest payments arising from the financial instruments were calculated using the interest rates applicable as at 31 December 2016 and 2015, respectively.

(in PLN millions)	At 31 December 2016									
	Undiscounted contractual cash flows ⁽¹⁾									
	Non-current									
	Note	Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total non-current	Total
Loans from related party	18.1	7,092	125	1,546	2,224	102	3,594	-	7,466	7,591
Other financial debt	18.2	102	39	32	20	10	4	-	66	105
– including finance lease liabilities		58	21	20	14	4	1	-	39	60
Derivative assets	20	(242)	31	59	(78)	10	(70)	-	(79)	(48)
Derivative liabilities	20	76	38	33	13	(3)	(2)	-	41	79
Gross financial debt after derivatives		7,028	233	1,670	2,179	119	3,526	-	7,494	7,727
Trade payables	14.1	3,115	2,439	157	148	148	148	281	882	3,321
Total financial liabilities (including derivative assets)		10,143	2,672	1,827	2,327	267	3,674	281	8,376	11,048

⁽¹⁾ Includes both nominal and interest payments.

(in PLN millions)	At 31 December 2015									
	Undiscounted contractual cash flows ⁽¹⁾									
	Non-current									
	Note	Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total non-current	Total
Loans from related party	18.1	4,122	1,301	26	33	2,069	9	815	2,952	4,253
Other financial debt	18.2	126	48	31	27	16	7	3	84	132
– including finance lease liabilities		64	22	18	17	10	1	-	46	68
Derivative assets	20	(122)	23	47	47	(7)	11	(36)	62	85
Derivative liabilities	20	134	48	37	29	12	(3)	(2)	73	121
Gross financial debt after derivatives		4,260	1,420	141	136	2,090	24	780	3,171	4,591
Trade payables	14.1	2,897	2,136	157	151	143	143	417	1,011	3,147
Total financial liabilities (including derivative assets)		7,157	3,556	298	287	2,233	167	1,197	4,182	7,738

⁽¹⁾ Includes both nominal and interest payments.

The average duration for the existing debt portfolio as at 31 December 2016 was 3.2 years (2.8 years as at 31 December 2015).

22.6. Credit risk

The Group's credit risk management objective is defined as supporting business growth while minimising financial risks by ensuring that customers and partners are always in a position to pay amounts due to the Group.

The main function of the Credit Committee under the control of the Board Member in charge of Finance is to coordinate and consolidate credit risk management activities across the Group, which involve:

- clients' risk assessment,
- monitoring clients' business and financial standing,
- managing accounts receivable and bad debts.

The policies and rules regarding consolidated credit risk management for the Group were approved by the Credit Committee.

There is no significant concentration of credit risk within the Group.

Further information on credit risk is discussed in Notes 12, 19, 20.

23. Income tax

23.1. Income tax

(in PLN millions)	12 months ended 31 December 2016	12 months ended 31 December 2015
Current income tax	12	(80)
Deferred tax	(45)	53
Total income tax	(33)	(27)

The reconciliation between the income tax expense and the theoretical tax calculated based on the Polish statutory tax rate is as follows:

(in PLN millions)	12 months ended 31 December 2016	12 months ended 31 December 2015
Consolidated net income/(loss) before tax	(1,713)	281
Less: Impairment of goodwill ⁽¹⁾	1,793	-
Net income before tax, adjusted	80	281
Statutory tax rate	19%	19%
Theoretical tax	(15)	(53)
Tax relief on new technologies	6	39
Not deductible interest expense on intragroup loan	(22)	(2)
Other expense not deductible for tax purposes	(2)	(11)
Total income tax	(33)	(27)

⁽¹⁾ See Note 8.1.

Expenses not deductible for tax purposes consist of cost items, which, under Polish tax law, are specifically determined as non-deductible.

During the 12 months ended 31 December 2015, OPL S.A., TP Invest Sp. z o.o. and Orange Customer Service Sp. z o.o. comprised the Tax Capital Group.

23.2. Deferred tax

(in PLN millions)	Consolidated statement of financial position		Consolidated income statement	
	At 31 December 2016	At 31 December 2015	12 months ended 31 December 2016	12 months ended 31 December 2015
Property, plant and equipment and intangible assets	464	537	(73)	24
Unused tax losses	124	4	120	3
Receivables and payables recognised on accrual basis	80	150	(70)	28
Deferred income	94	90	4	3
Employee benefit plans	53	72	(19)	(16)
Provisions	84	96	(12)	11
Net financial debt	5	22	-	4
Accumulated impairment losses on financial assets	34	29	5	(1)
Other	(9)	(9)	-	(3)
Deferred tax assets, net⁽¹⁾	929	991		
Total deferred tax			(45)	53
Amount expected to be recovered within 12 months after the end of the reporting period	248	311		

⁽¹⁾ During the 12 months ended 31 December 2016 and 2015, PLN (17) million and PLN (6) million of change in deferred tax assets was recognised in the consolidated statement of comprehensive income, respectively. Additionally, during the 12 months ended 31 December 2015, PLN 10 million of change in deferred tax asset was recognised directly in retained earnings (see Note 24.3).

Deferred tax assets are recognised in the amounts which are expected to be utilised using future taxable profits estimated on the basis of the business plan approved by the Management Board of Orange Polska and used to determine the value in use of the telecom operator CGU (key assumptions are described in Note 8.1).

Unrecognised deferred tax assets relate mainly to those tax losses, which are expected to expire rather than to be realised. As at 31 December 2016 there were no tax losses, for which no deferred tax asset was recognised. As at 31 December 2015, tax losses, for which no deferred tax asset was recognised, amounted to PLN 20 million gross.

24. Equity

24.1. Share capital

As at 31 December 2016 and 2015, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital as at 31 December 2016 and 2015 was as follows:

(in PLN millions)	At 31 December 2016			At 31 December 2015		
	% of votes	% of shares	Nominal value	% of votes	% of shares	Nominal value
Orange S.A.	50.67	50.67	1,995	50.67	50.67	1,995
Other shareholders	49.33	49.33	1,942	49.33	49.33	1,942
Total	100.00	100.00	3,937	100.00	100.00	3,937

24.2. Dividend

On 12 April 2016, the General Meeting of Orange Polska S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.25 per share from the 2015 profit and retained earnings from previous years. The total dividend, paid on 7 July 2016, amounted to PLN 328 million.

On 9 April 2015, the General Meeting of Orange Polska S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from the 2014 profit and retained earnings from previous years. The total dividend, paid on 9 July 2015, amounted to PLN 656 million.

OPL S.A.'s retained earnings available for dividend payments to the Group's shareholders amounted to PLN 2.8 billion as at 31 December 2016. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 0.1 billion of OPL S.A.'s subsidiaries retained earnings as at 31 December 2016 was available for dividend payments by subsidiaries to OPL S.A.

On 13 February 2017, the Management Board of Orange Polska S.A. adopted a resolution not to recommend payment of any dividend in 2017.

24.3. Other changes in retained earnings

Certain corrections resulting from immaterial errors in prior periods were recognised by the Group directly in retained earnings and presented as other movements in the consolidated statement of changes in equity. The correction of PLN 32 million (net of PLN (2) million of current income tax) in 2016 relates to recognition of trade receivables. The correction of PLN (45) million (net of PLN 10 million of deferred tax) in 2015 relates to pre-paid revenue recognised in prior periods.

Additionally, PLN 10 million of other reserves was transferred to retained earnings in 2015. This amount consisted of PLN 79 million of share-based payments recognised in previous years, PLN (85) million of accumulated actuarial losses on other post-employment benefits for retirees of the Group curtailed in 2015 and PLN 16 million of related deferred tax.

25. Management of capital

The Group manages its capital through a balanced financial policy, which aims at providing both relevant funding capabilities for business development and at securing a relevant financial structure and liquidity.

The Group's capital management policy takes into consideration the following key elements:

- business performance together with applicable investments and development plans,
- debt repayment schedule,
- financial market environment,
- distribution policy to the Group's shareholders.

In order to combine these factors the Group periodically establishes a framework for the financial structure. The Group believes that net financial debt to adjusted EBITDA ratio is the most relevant measure of financial structure and therefore net gearing ratio is no longer used. Management expects that net financial debt to adjusted EBITDA ratio will not exceed 2.6 for the full year 2017.

The Group regards capital as the total of equity and net financial debt. The table below presents the sources of capital and provides net financial debt to adjusted EBITDA ratio monitored by the Group.

(in PLN millions)		At 31 December 2016	At 31 December 2015
	Note		
Net financial debt	17	6,775	3,911
Total equity		10,009	11,977
Total equity and Net financial debt		16,784	15,888
Adjusted EBITDA	3	3,163	3,517
Net financial debt / adjusted EBITDA ratio		2.1	1.1

The above policy imposes financial discipline, providing appropriate flexibility needed to sustain profitable development and the Group's cash distribution policy as set on an annual basis with a focus on delivering a reasonable remuneration to the Group's shareholders.

26. Unrecognised contractual obligations

26.1. Commitments related to operating leases

When considering the Group as a lessee, operating lease commitments relate mainly to the lease of buildings and land. Lease costs recognised in the consolidated income statement for the years ended 31 December 2016 and 2015 amounted to PLN 374 million and PLN 372 million, respectively. Most of the agreements are denominated in foreign currencies and some of them are indexed with price indices applicable for a given currency. Some of the agreements can be extended.

Future minimum lease payments under non-cancellable operating leases, as at 31 December 2016 and 2015, were as follows:

(in PLN millions)	At 31 December 2016	At 31 December 2015
Within one year	218	205
After one year but not more than five years	474	419
More than five years	145	199
Total minimum future lease payments	837	823

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2016 and 2015 amounted to PLN 81 million.

26.2. Investment commitments

Investment commitments contracted for at the end of the reporting period but not recognised in the financial statements were as follows:

(in PLN millions)	At 31 December 2016	At 31 December 2015
Property, plant and equipment	152	102
Intangibles	100	161
Total investment commitments	252	263
Amounts contracted to be payable within 12 months after the end of the reporting period	231	190

Investment commitments represent mainly purchases of telecommunications network equipment, IT systems and other software.

27. Litigation, claims and contingent liabilities

a. Proceedings by UOKiK and claims connected with them

According to the Telecommunications Act, the President of UKE may impose on a telecommunications operator a penalty of up to a maximum amount of 3% of the operator's prior year's tax revenue, if the operator does not fulfil certain requirements of the Telecommunications Act. According to the Act on Competition and Consumer Protection, in case of non-compliance with its regulations, the President of the Office of Competition and Consumer Protection ("UOKiK") is empowered to impose on an entity penalties of up to a maximum amount of EUR 50 million for refusal to provide requested information or up to a maximum amount of 10% of an entity's revenue for the year prior to the year of fine imposition for a breach of the law.

Proceedings by UOKiK related to pre-paid offers

In September 2016, UOKiK commenced proceedings against Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. claiming that rules on the Polish market applied to pre-paid offers, according to which top-ups are annulled in so-called "passive period", may violate consumers rights.

In the opinion of the Management, Orange Polska did not violate the law and offers are in line with rules which are applied also by other sectors having pre-paid offers.

Proceedings by UOKiK related to retail prices of calls to Play

On 18 March 2013, UOKiK commenced competition proceedings against Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. claiming that they abused collective dominant position in the domestic retail market of mobile telephony. UOKiK alleges that the retail prices of calls made by individual users from the network of each

of the three operators to the network of P4 Sp. z o.o. (“P4”), operator Play, were relatively higher than the prices for such calls to the networks of the three operators and determined without sufficient consideration of the differentiation of the asymmetric wholesale termination rates determined by UKE. In the view of UOKiK, the applied prices could result in restricting the development of competition on the retail domestic mobile telephony market.

Orange Polska, on request of UOKiK, provided detailed data relating to its offers and retail prices. UOKiK informed the Company that it further prolonged the proceedings. The indicated date of prolongation is 31 March 2017.

In addition, in May 2015, Orange Polska received a request for settlement filed by P4 with the Court under which P4 raised claims in the amount of PLN 258 million relating to the retail mobile prices for a period between April 2012 and 31 December 2014. On 2 July 2015, at the court session, the parties did not reach an agreement. In September 2015, Orange Polska also received a lawsuit filed by P4 with the Court under which P4 claims for damages, in the amount of PLN 316 million including interest in the amount of PLN 85 million, relating to the retail mobile prices for a period between July 2009 and March 2012. P4 raised both claims jointly and severally towards Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A.

In the opinion of the Management, Orange Polska has not performed activities that would restrict competition and, in the period covered by the proceedings, the level of the competition on the retail domestic mobile telephony market had been constantly increasing.

Proceedings by UOKiK related to tenders for mobile services

On 20 December 2013, UOKiK commenced competition proceedings against Orange Polska and two other offerers in tenders for mobile services of data transmission conducted in 2012. UOKiK’s proceedings relate to the assertion that the offerers agreed the terms of offers they made. UOKiK informed the Company that it further prolonged the proceedings. The indicated date of prolongation is 28 February 2017.

The Management Board of Orange Polska notes that they did not agree the terms of offers with the other companies.

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

In 2011, UOKiK determined that Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. concluded an agreement restricting competition on the domestic retail and wholesale market for mobile television based on DVB-H technology. By its decision, UOKiK also imposed fines on the four companies (on Orange Polska PLN 35 million). Orange Polska appealed the decision of UOKiK. SOKiK repealed the decision, UOKiK appealed SOKiK verdict and the case is currently examined by the Appeal Court. In connection with the decision of UOKiK, Magna Polonia S.A. filed, in December 2013, a motion with a court for calling the four operators to conclude amicable settlements. Magna Polonia S.A. is the former owner of Info TV FM Sp. z o.o., a telecommunications operator that offered provision of wholesale services of mobile television DVB-H to Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. None of them decided to introduce mobile television services to its customers.

Magna Polonia demanded that Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. pay jointly and severally PLN 618 million to it. Magna Polonia asserted that its claim resulted from lost profits of Magna because DVB-H television was not launched (including lower value of its shares in Info TV FM) and costs of financing Info TV FM. In the Orange Polska Management's opinion, Magna Polonia's motion did not constitute any reasonable grounds on which to assess whether or not Magna Polonia suffered any damage. On 11 December 2013, at the session held at the Court the parties did not reach an agreement.

On 26 November 2016, Magna Polonia filed with the court a statement of claim against the four operators based in principle on the same grounds as the action of 2013 and for payment of the same amount. Magna Polonia applied to the court for staying of the proceedings until the proceedings regarding PLN 35 million fine imposed by UOKiK are concluded (the Appeal Court scheduled a hearing in those proceedings for 15 March 2017).

The Management Board of Orange Polska did not agree on common actions with the other companies aimed at restricting the introduction of DVB-H service based on the offer of Info TV FM Sp. z o.o. It decided not to introduce mobile television services due to the market situation and for commercial reasons.

As at 31 December 2016, the Group recognised provisions for known and quantifiable risks related to proceedings against the Group initiated by UKE and UOKiK, which represent the Group’s best estimate of the amounts, which are more likely than

not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed as, in the opinion of the Company’s Management, such disclosure could prejudice the outcome of the pending cases.

b. Proceedings by the European Commission related to broadband access

On 22 June 2011, the European Commission imposed on Orange Polska a EUR 127.6 million fine (approximately PLN 508 million) for abuse of dominant position on the wholesale broadband access market, before October 2009. Orange Polska has recorded a provision for the whole amount of the fine and accrued interest. In accordance with the decision the fine could have been provisionally paid or secured by a bank guarantee. On 27 September 2011, Orange Polska provided the bank guarantee to the European Commission.

The Company strongly disagrees with the decision and the disproportionate level of the fine, particularly as it believes that the European Commission did not take into account several important factors. The situation on the wholesale broadband market has been systematically improving since 2007. By constructing and providing fixed broadband infrastructure, the Company has been effectively remedying the difficulties on the Polish broadband market and it has been increasing the penetration rate of the broadband services. The irregularities pointed out by the European Commission were voluntarily removed by the Company in the past.

Orange Polska appealed against the decision of the European Commission to the General Court of the European Union on 2 September 2011. On 17 December 2015, the General Court issued a verdict dismissing Orange Polska’s appeal from the decision of the European Commission. On 27 February 2016, Orange Polska appealed that verdict of the General Court to the Court of Justice.

c. Tax contingent liability

Tax settlements are subject to review and investigation by a number of authorities, which are entitled to impose fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes, such as the introduction of the General Anti-Abuse Rule in 2016. These changes often lead to the lack of system stability. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts.

Tax authorities may examine accounting records up to five years after the end of the year in which the tax becomes due. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. Orange Polska and certain of its subsidiaries were subject to audits by the tax office in respect of taxes paid. Certain of these audits have not yet been finalised. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard.

d. Proceedings by the tax authorities

The Fiscal Audit Office completed control proceedings relating to OPL S.A.’s year 2009 and, on 31 March 2014, delivered results of the control. Results of the control ended the audit proceedings in front of the Fiscal Audit Office and confirmed the correctness of the Company’s VAT tax settlements. The results also raised certain questions concerning other tax settlements made, but did not decide on the obligations of the Company. The Company believes that the issues raised by the Fiscal Audit Office as regards these tax settlements are without merit and the possibility of ultimate outflows of resources is low. This opinion is supported by external tax advisors.

e. Issues related to the incorporation of Orange Polska

Orange Polska was established as a result of the transformation of the state-owned organisation Poczta Polska Telegraf i Telefon ("PPTiT") into two entities – the Polish Post Office and Orange Polska. The share premium in the equity of Orange Polska includes an amount of PLN 713 million which, in accordance with the Notary Deed dated 4 December 1991, relates to the contribution of the telecommunication business of PPTiT to the Company. During the transformation process and transfer of ownership rights to the new entities, certain properties and other assets that are currently under Orange Polska's control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that Orange Polska's rights to certain properties and other non-current assets may be questioned and, as a result, the share premium balance may be subject to changes.

f. Other contingent liabilities and provisions

Apart from the above-mentioned, operational activities of the Group are subject to legal, social and administrative regulations a breach of which, even unintentional, may result in sanctions imposed on the Group. In addition to fines which may be imposed by UOKiK and UKE described in the note 27.a also the President of Energy Regulatory Office may impose a penalty of up to a maximum amount of 15% of the revenues gained in the previous tax year among others for an infringement of certain provisions of Energy Law, a failure in fulfilment of obligations determined by the concession, a refusal to provide information.

The Group is a party to a number of legal proceedings and commercial contracts related to its operational activities. Some regulatory decisions can be detrimental to the Group and court verdicts within appeal proceedings against such decisions can have potential 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.

28. Related party transactions

28.1. Management Board and Supervisory Board compensation

Compensation (remuneration, bonuses, post-employment and other long-term benefits and termination indemnities - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board Members is presented below.

(in PLN thousands)	12 months ended 31 December 2016		
	Fixed compensation expense	Variable compensation expense ⁽¹⁾	Total compensation expense
Short-term benefits excluding employer social security payments	11,887	3,893	15,780
Post-employment benefits	4,255	-	4,255
Total	16,142	3,893	20,035

⁽¹⁾ Includes bonuses accrued in 2016 to be paid in 2017, excludes bonuses accrued in 2015 and paid in 2016.

(in PLN thousands)	12 months ended 31 December 2015		
	Fixed compensation expense	Variable compensation expense ⁽¹⁾	Total compensation expense
Short-term benefits excluding employer social security payments	10,820	3,387	14,207
Post-employment benefits	-	-	-
Total	10,820	3,387	14,207

⁽¹⁾ Includes bonuses accrued in 2015 and paid in 2016, excludes bonuses accrued in 2014 and paid in 2015.

The increase of compensation expense in 2016 in comparison to 2015 results from an increase of the number of the Members of the Management Board of OPL S.A. and payment of post-employment benefits to Mr Bruno Duthoit and Mr Michał Paschalis-Jakubowicz after their resignation as Members of the Management Board of OPL S.A.

From 2016, section 10.3 of the Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. includes the Remuneration Report, where more details on Management Board and Supervisory Board compensation can be found. As a result, the compensation of individuals is no longer presented in the IFRS financial statements. Additionally, from 2016 bonuses are included in compensation in the period when they are accrued only. Consequently, total compensation in comparative data for 2015 was amended to exclude PLN 1,335 thousand of bonuses accrued in 2014 and paid in 2015.

28.2. Related party transactions

As at 31 December 2016, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board.

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

Orange Polska S.A. operates under the Orange brand pursuant to a licence agreement concluded with Orange S.A. and Orange Brand Services Limited (hereinafter referred to as "OBSL"). The brand licence agreement provides that OBSL receives a fee of up to 1.6% of the Company's operating revenue earned under the Orange brand. The agreement is valid until 24 July 2018 with the possibility of renewal.

The Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded loan agreements for EUR 670 million, PLN 2,700 million and Revolving Credit Facility Agreement for up to EUR 480 million (see Note 18.1). Additionally, the Group concluded an agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk related to the financing from Atlas Services Belgium S.A. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2016 was EUR 670 million and PLN 4,750 million with a total fair value of PLN 130 million (as at 31 December 2015, nominal amount of EUR 950 million and PLN 4,350 million with a total negative fair value of PLN 18 million).

Financial receivables, payables, financial costs, net and other comprehensive income concerning transactions with the Orange Group relate mainly to the above-mentioned agreements. Cash and cash equivalents deposited with Orange S.A. relate to the Cash Management Treasury Agreement (see Note 22.5).

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
Sales of goods and services and other income:	208	205
Orange S.A. (parent)	124	113
Orange Group (excluding parent)	84	92
Purchases of goods (including inventories, tangible and intangible assets) and services:	(258)	(265)
Orange S.A. (parent)	(91)	(84)
Orange Group (excluding parent)	(167)	(181)
– including Orange Brand Services Limited (brand licence agreement)	(127)	(134)
Financial costs, net:	(246)	(185)
Orange S.A. (parent)	(11)	(72)
Orange Group (excluding parent)	(235)	(113)
Other comprehensive income:	76	30
Orange S.A. (parent)	76	30
Dividend paid:	166	332
Orange S.A. (parent)	166	332

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Receivables:	47	44
Orange S.A. (parent)	29	29
Orange Group (excluding parent)	18	15
Payables:	68	81
Orange S.A. (parent)	32	32
Orange Group (excluding parent)	36	49
Financial receivables:	206	110
Orange S.A. (parent)	206	110
Cash and cash equivalents deposited with:	106	87
Orange S.A. (parent)	106	87
Financial payables:	7,168	4,250
Orange S.A. (parent)	76	128
Orange Group (excluding parent)	7,092	4,122

29. Subsequent events

On the basis of an annual review of estimated useful lives of fixed assets, the Group decided to extend from 2017 the estimated useful lives for certain terminals, network assets and items of software. As a result, depreciation and amortisation expense in 2017 relating to these assets is expected to be lower by approximately PLN 150 million.

30. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2016.

30.1. Use of estimates and judgement

In preparing the Group's accounts, the Company's management is required to make estimates, because many elements included in the financial statements cannot be measured with precision. Management reviews these estimates if the circumstances on which they were based evolve, or in the light of new information or experience. Consequently, estimates made as at 31 December 2016 may be subsequently changed. The main estimates and judgements made are described in the following notes:

<i>Note</i>		<i>Estimates and judgements</i>
5, 14.3, 30.9	Revenue	Allocation of revenue between each separable component of a packaged offer based on its relative fair value. Estimating fair value of components. Straight-line recognition of revenue relating to service connection fees. Reporting revenue on a net versus gross basis (analysis of Group's involvement acting as principal versus agent). Fair value of early termination fees charged to customers.
8, 30.16	Impairment of cash generating unit and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
10, 11, 30.13, 30.14	Useful lives of tangible and intangible assets	The useful lives and the method of depreciation and amortisation.
12, 30.17	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
13, 27, 30.20	Provisions	The assumptions underlying the measurement of provisions for claims and litigation. Provisions for employment termination expense: discount rates, number of employees, employment duration, individual salary and other assumptions.
13	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
15, 30.21	Employee benefits	Discount rates, salary increases, retirement age, staff turnover rates and other.
20, 21, 30.17	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
23, 30.19	Income tax	Assumptions used for recognition of deferred tax assets.
30.18	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

The Group considers that the most significant adjustments to the carrying amounts of assets and liabilities could result from changes in estimates and judgements relating to impairment (see Note 8) and provisions for claims, litigation and risks (see Notes 13 and 27).

Where a specific transaction is not dealt with in any standard or interpretation, management uses its judgment in developing and applying an accounting policy that results in information that is relevant and reliable, in that the financial statements:

- represent faithfully the Group's financial position, financial performance and cash flows,
- reflect the economic substance of transactions,

- are neutral,
- are prudent and
- are complete in all material respects.

30.2. Application of new standards and interpretations

Adoption of standards or interpretations in 2016

No new standards or interpretations were adopted by the Group since 1 January 2016.

Standards and interpretations issued but not yet adopted

– IFRS 9 “Financial Instruments”. The aim of IFRS 9 is to supersede IAS 39 “Financial Instruments: Recognition and Measurement”. The standard was issued on 24 July 2014 and will be effective for annual periods beginning on or after 1 January 2018. This standard has been endorsed by the European Union on 22 November 2016. In general (besides some limited exemptions), the standard is applicable on a retrospective basis in case of classification, measurement and impairment and prospectively in case of hedge accounting. IFRS 9 modifies the recognition criteria for hedging transactions and main financial assets and liabilities categories: given the nature of the Group’s transactions, no major change is expected. IFRS 9 requires also the change in the credit risk recognition using the expected losses approach versus the incurred losses one. For the Group, this would imply impairment of non-matured receivables. The Management estimates that the application of the standard will have no material impact on the financial statements.

– IFRS 15 “Revenue from Contracts with Customers”. This standard was issued on 28 May 2014 and will be effective for annual periods beginning on or after 1 January 2018. This standard has been endorsed by the European Union on 22 September 2016.

This standard relates to revenue recognition and is applicable on a retrospective basis either limited to the cumulative effect of the new method at the opening date of the annual reporting period that includes the date of initial application (1 January 2018) or by adjusting the reported comparative periods.

For the Group, this standard would mainly impact the accounting for bundled offers which include a handset component with a discounted price and a communication service component: the cumulative revenue during the contract with customer will not change but its allocation between the handset sold and the communication service will change (more equipment revenue and less service revenue). The acceleration of the revenue recognition would lead to the recognition of a contract asset in the statement of financial position which would be settled against an asset receivable as the communication service is provided.

In addition, some incremental subscriber acquisition and retention costs (i.e. payments to distributors directly attributable to a contract, excluding subsidies) will be recognized over the duration of the bundled offer. The effects of implementation of IFRS 15 is being analysed as part of the project implementing the new standard.

–IFRS 16 “Leases” was issued on 13 January 2016 and has not yet been endorsed by the European Union. This standard relates to the accounting for leases and will be compulsory applicable from 1 January 2019 or on a retrospective basis from 1 January 2018 together with IFRS 15. It is retrospective either at the first application date or at the opening date of the reported comparative period. Assuming that the standard will be endorsed by the European Union, the Group is going to apply this standard from 1 January 2019 and is still analysing the retrospective application provisions. The standard introduces a new basis for splitting supplier arrangements based on a new accounting definition of a lease and a service arrangement.

It will mainly change the lease accounting for lessees with the recognition of an asset which represents the right of use at the delivery date granted by the lessor against a financial liability.

It will also impact the presentation of the income statement (depreciation and interest expense instead of operating

expense) and the statement of cash flows (interest expense will only impact the operating cash flows whereas the debt repayment will affect the financing cash flows in accordance with Group’s policy). In the statement of financial position, the net equity will be reduced at the beginning of the arrangement (due to the acceleration of expenses attributable to the interest component) and the intangible and tangible assets as well as the lease liability will increase. The effects of implementation of IFRS 16 is being analysed as part of the project implementing this new standard.

–IFRIC Interpretation 22 „Foreign Currency Transactions and Advance Consideration”. This interpretation was issued on 8 December 2016 and will be effective for annual periods beginning on or after 1 January 2018.

The interpretation has not yet been endorsed by the European Union.

IFRIC 22 clarifies that in the case of receipt or payment of advance consideration in a foreign currency the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. The impact of interpretation is currently being analysed by the Management.

30.3. Accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of IAS 8 ”Accounting Policies, Changes in Accounting Estimates and Errors”

The accounting position described below is not specifically (or is only partially) dealt with by any IFRS standards or interpretations endorsed by the European Union. The Group has adopted accounting policies which it believes best reflect the substance of the transactions concerned.

Multiple-elements arrangements

When accounting for multiple-elements arrangements (bundled offers) the Group has adopted the provisions of Generally Accepted Accounting Principles in the United States, Accounting Standards Codification 605-25 „Revenue Recognition – Multiple Element Agreements” (see Note 30.9 Separable components of packaged and bundled offers).

30.4. Options available under IFRSs and used by the Group

Certain IFRSs offer alternative methods of measuring and recognising assets and liabilities. In this respect, the Group has chosen:

Standards		Option used
IAS 2	Inventories	Recognition of inventories at their original cost determined by the weighted average unit cost method.
IAS 16	Property, plant and equipment	Property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.
IAS 20	Government grants and disclosure of government assistance	Non-repayable government grants related to assets decrease the carrying amount of the assets. Government grants related to income are deducted from the related expenses.

30.5. Presentation of the financial statements

Presentation of the statement of financial position

In accordance with IAS 1 “Presentation of financial statements”, assets and liabilities are presented in the statement of financial position as current and non-current.

Presentation of the income statement

As allowed by IAS 1 “Presentation of financial statements”, expenses are presented by nature in the consolidated income statement.

Earnings/loss per share

The net income/loss per share for each period is calculated by dividing the net income/loss for the period attributable to the equity holders of the Company by the weighted average number of shares outstanding during that period. The weighted average number of shares outstanding is after taking account of treasury shares.

Changes in presentation of the statement of financial position and the statement of cash flows

From the second quarter of 2016, the Group classifies finance lease receivables as trade receivables and cash inflows from finance lease are presented as net cash provided by operating activities. As a result, PLN 14 million was reclassified from other assets to trade receivables in the consolidated statement of financial position as at 31 December 2015. The comparative amounts in the consolidated statement of cash flows were adjusted accordingly: cash inflows from finance lease repaid by a lessee were reclassified from net cash used in investing activities to the line presenting increase/decrease in trade receivables, gross in net cash provided by operating activities.

30.6. Consolidation rules

Subsidiaries that are controlled by Orange Polska, directly or indirectly, are fully consolidated. Control is deemed to exist when Orange Polska or its subsidiary is exposed, or has rights, to variable returns from the involvement with the investee and has the ability to affect those returns through its power over the investee.

In order to have control over an investee, all the following criteria must be met:

- the Group has the power over the investee;
- the Group has exposure, or rights, to variable returns from its involvement with the investee;
- the Group has the ability to use its power over the investee to affect the amount of the investor’s returns.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which the Group loses control over the subsidiary.

Intercompany transactions and balances are eliminated on consolidation.

30.7. Investments in joint arrangements

A joint arrangement is either a joint venture or a joint operation. The Group is involved in a joint operation. The Group recognises in relation to its interests in a joint operation its assets, liabilities, revenue and expenses, including its respective shares in the above.

30.8. Effect of changes in foreign exchange rates

The functional currency of Orange Polska is the Polish zloty.

Transactions in foreign currencies

Transactions in foreign currencies are converted into Polish zloty at the spot exchange rate prevailing as at the transaction date. Monetary assets and liabilities which are denominated in foreign currencies are re-measured at the end of the reporting period using the period-end exchange rate quoted by National Bank of Poland and the resulting translation differences are recorded in the income statement:

- in other operating income and expense for commercial transactions,
- in financial income or finance costs for financial transactions.

30.9. Revenue

Revenue from the Group’s activities is recognised and presented in accordance with IAS 18 “Revenue”. Revenue comprises the fair value of the consideration received or receivable for the sale of services and goods in the ordinary course of the Group’s activities. When the inflow of cash and cash equivalents is deferred the fair value of the consideration may be less than the nominal amount of cash received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with IAS 39. Revenue is recorded net of value-added tax and discounts.

Separable components of packaged and bundled offers

For the sale of multiple products or services, the Group evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting. A delivered item is considered a separate unit of accounting if (i) it has value to the customer on a standalone basis and (ii) there is objective and reliable evidence of the fair value of the undelivered item(s). The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on its relative fair value. However, when an amount allocated to a delivered item is contingent upon the delivery of additional items or meeting specified performance conditions, the amount allocated to that delivered item is limited to the non contingent amount. This case arises e.g. in the mobile business for sales of bundled offers including a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount allocable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue recognised for the handset sale is generally limited to the amount that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.

For offers that cannot be separated into identifiable components, revenues are recognised in full over the life of the contract. The main example is connection to the service: this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognised over the average expected life of the contractual relationship.

Equipment sales

Revenue from equipment sales is recognised when the significant risks and rewards of ownership are transferred to the buyer (see also paragraph “Separable components of packaged and bundled offers”). When equipment is sold in instalments the Group accounts for revenue in the amount of future instalments discounted by imputed interest rate.

When equipment associated with the subscription of telecommunication services is sold by a third-party retailer who purchases it from the Group, the related revenue is recognised when the equipment is sold to the end-customer.

Equipment leases

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

Revenues from the sale or supply of content

The accounting for revenue from the sale or supply of content (audio, video, games, etc.) depends on the analysis of the facts and circumstances surrounding these transactions. To determine if the revenue must be recognised on a gross or a net basis, an analysis is performed using the following criteria:

- if the Group has the primary responsibility for providing services desired by the customer;
- if the Group has inventory risk (the Group purchases content in advance);
- if the Group has discretion in establishing prices directly or indirectly, such as by providing additional services;
- if the Group has credit risk.

Revenue is recognised when the content is delivered to the customer.

Service revenue

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

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

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

Promotional offers

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

Discounts for poor quality of services or for breaks in service rendering

The Group's commercial contracts may contain service level commitments (such as delivery time, service reinstatement time). If the Group fails to comply with these commitments, it is obliged to grant a discount to the end-customer. Such discounts reduce revenue. Discounts are recorded when it becomes probable that they will be due based on the non-achievement of contractual terms.

Barter transactions

When goods or services are exchanged for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. The revenue from barter transactions involving advertising is measured in accordance with Interpretation 31 of the Standing Interpretations Committee “Revenue – Barter Transactions Involving Advertising Services”.

30.10. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs are recognised as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred.

30.11. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. In the Group's assessment, the network roll-out does not generally require a substantial period of time.

30.12. Goodwill

Goodwill recognised as an asset in the statement of financial position for business combination before 1 January 2010 comprises:

- goodwill as the excess of the cost of the business combination over the acquirer's interest in the acquiree's identifiable net assets measured at fair value at the acquisition-date; and
- goodwill relating to any additional purchase of non-controlling interests with no purchase price allocation.

For business combination after 1 January 2010 goodwill recognised as an asset in the statement of financial position is the excess of (a) over (b) below:

- (a) the aggregate of:
 - (i) the consideration transferred, measured at acquisition-date fair value;
 - (ii) the amount of any non-controlling interest in the acquiree, measured either at its fair value or at its proportionate interest in the net identifiable assets;
 - (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at fair value, apart from limited exceptions provided in IFRS 3.

Goodwill represents a payment made in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised.

30.13. Intangible assets (excluding goodwill)

Intangible assets, consisting mainly of telecommunications licences, software and development costs, are initially stated at acquisition or production cost comprising its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any directly attributable costs of preparing the assets for their intended use, and, if applicable, attributable borrowing costs.

Internally developed trademarks and subscriber bases are not recognised as intangible assets.

Telecommunications licences

Expenditures regarding telecommunications licences are amortised on a straight-line basis over the reservation period from the date when the network is technically ready and the service can be marketed.

Research and development costs

Development costs are recognised as an intangible asset if and only if the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use,
- the intention to complete the intangible asset and use or sell it and the availability of adequate technical, financial and other resources for this purpose,
- the ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits for the Group,
- the Group's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs not fulfilling the above criteria and research costs are expensed as incurred. The Group's research and development projects mainly concern:

- upgrading the network architecture or functionality;
- developing service platforms aimed at offering new services to the Group's customers.

Development costs recognised as an intangible asset are amortised on a straight-line basis over their estimated useful life, generally not exceeding four years.

Software

Software is amortised on a straight-line basis over the expected useful life, not exceeding five years.

Useful lives of intangible assets are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognised prospectively.

30.14. Property, plant and equipment

The cost of tangible assets corresponds to their purchase or production cost or price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, as well as including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including labour costs, and, if applicable, attributable borrowing costs.

The cost includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, representing the obligation incurred by the Group.

The cost of network includes design and construction costs, as well as capacity improvement costs. The total cost of an asset is allocated among its different components and each component is accounted for separately when the components have different useful lives or when the pattern in which their future economic benefits are expected to be consumed by the entity varies. Depreciation is established for each component accordingly.

Maintenance and repair costs (day to day costs of servicing) are expensed as incurred.

Investment grants

The Group may receive grants from the government or the European Union for funding of capital projects. These grants are deducted from the cost of the related assets and recognised in the income statement, as a reduction of depreciation, based on the pattern in which the related asset's expected future economic benefits are consumed.

Finance leases

Assets acquired under leases that transfer substantially all risks and rewards of ownership to the Group are recorded as assets and an obligation in the same amount is recorded in liabilities. Normally, the risks and rewards of ownership are considered as having been transferred to the Group when at least one condition is met:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the estimated economic life of the leased asset,
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Assets leased by the Group as lessor under leases that transfer substantially risks and rewards of ownership to the lessee are treated as having been sold.

Derecognition

An item of property, plant and equipment is derecognised on its disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in operating income/loss and equals the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation

Items of property, plant and equipment are depreciated to write off their cost, less any estimated residual value on a basis that reflects the pattern in which their future economic benefits are expected to be consumed. Therefore, the straight-line basis is usually applied over the following estimated useful lives:

Buildings	10 to 30 years
Network	3 to 40 years
Terminals	2 to 10 years
Other IT equipment	3 to 5 years
Other	2 to 10 years

Land is not depreciated. Perpetual usufruct rights are amortised over the period for which the right was granted, not exceeding 99 years.

These useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognised prospectively.

30.15. Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. Those assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets and the sale is highly probable.

Non-current assets held for sale are measured at the lower of carrying amount and estimated fair value less costs to sell and are presented in a separate line in the statement of financial position if IFRS 5 requirements are met.

Those assets are no longer depreciated. If fair value less costs to sell is less than its carrying amount, an impairment loss is recognised in the amount of the difference. In subsequent periods, if fair value less costs to sell increases the impairment loss is reversed up to the amount of losses previously recognised.

30.16. Impairment tests and Cash Generating Units

Given the nature of Group’s assets and operations, most of its individual assets do not generate cash inflows independently from other assets. As at 31 December 2016 the Group identified a single major CGU (see Note 8.1). For the purpose of impairment testing the Group allocates the whole goodwill to this CGU.

In accordance with IFRS 3 “Business Combinations”, goodwill is not amortised but is tested for impairment at least once a year or more frequently when there is an indication that it may be impaired. IAS 36 “Impairment of Assets” requires these tests to be performed at the level of the cash generating unit (CGU).

Recoverable amount

To determine whether an impairment loss should be recognised, the carrying value of the assets and liabilities of the CGU, including allocated goodwill, is compared to its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is the best estimate of the amount realisable from the sale of a CGU in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal. This estimate is determined on the basis of available market information taking into account specific circumstances.

Value in use is the present value of the future cash flows expected to be derived from the CGU, including goodwill. Cash flow projections are based on economic and regulatory assumptions, telecommunications licences renewal assumptions and forecast trading conditions drawn up by the Group management, as follows:

- cash flow projections are based on the business plan and its extrapolation to perpetuity by applying a growth rate reflecting the expected long-term trend in the market,
- the cash flows obtained are discounted using appropriate rates for the type of business concerned.

If the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the amount of the difference. The impairment loss is firstly allocated to reduce the carrying amount of goodwill and then to the other assets of CGUs.

Goodwill impairment losses are recorded in the income statement as a deduction from operating income/loss and are not reversed.

30.17. Financial assets and liabilities

Financial assets are classified as assets at fair value through profit or loss, hedging derivative instruments and loans and receivables.

Financial liabilities are classified as financial liabilities at amortised cost, liabilities at fair value through profit or loss and hedging derivative instruments.

Financial assets and liabilities are recognised and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Recognition and measurement of financial assets

When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A regular way purchase or sale of financial assets is recognised using settlement date accounting.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables and cash and cash equivalents. They are carried in the statement of financial position under “Trade receivables” and “Cash and cash equivalents”.

Cash and cash equivalents consist of cash in bank and on hand, cash deposits with Orange S.A. under the Cash Management Treasury Agreement and other highly-liquid instruments that are readily convertible into known amounts of cash and are subject to insignificant changes in value.

Loans and receivables are recognised initially at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

At the end of the reporting period, the Group assesses whether there is any objective evidence that loans or receivables are impaired. If any such evidence exists, the asset's recoverable amount is calculated. If the recoverable amount is less than the asset's book value, an impairment loss is recognised in the income statement. Trade receivables that are homogenous and share similar credit risk characteristics are tested for impairment collectively. When estimating the expected credit risk the Group uses historical data as a measure for a decrease in the estimated future cash flows from the group of assets since the initial recognition. In calculating the recoverable amount of receivables that are individually material and not homogenous, significant financial difficulties of the debtor or probability that the debtor will enter bankruptcy or financial reorganisation are taken into account.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include derivative assets not designated as hedging instruments as set out in IAS 39. Financial assets classified in this category are measured at fair value.

Recognition and measurement of financial liabilities

Financial liabilities at amortised cost

Financial liabilities measured at amortised cost include borrowings, trade payables and fixed assets payables, including the telecommunications licence payables and are carried in the statement of financial position under “Trade payables”, “Loans from related party” and “Other financial liabilities at amortised cost”.

Borrowings and other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Certain borrowings may be designated as being hedged by fair value hedges. Gain or loss on hedged borrowing attributable to a hedged risk adjusts the carrying amount of a borrowing and is recognised in the income statement.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities not designated as hedging instruments as set out in IAS 39. Financial liabilities classified in this category are measured at fair value.

Recognition and measurement of derivative instruments

Derivative instruments are measured at fair value and presented in the statement of financial position as current or non-current according to their maturity. Derivatives are classified as financial assets and liabilities at fair value through profit or loss or as hedging derivatives.

Derivatives classified as financial assets and liabilities at fair value through profit or loss

Except for gains and losses on hedging instruments (as explained below), gains and losses arising from changes in fair value of derivatives are immediately recognised in the income statement. The interest rate component and credit risk adjustment of derivatives held for trading are presented under interest expense and other financial charges within finance costs. The foreign exchange component of derivatives held for trading that economically hedge commercial or financial transactions is presented under foreign exchange gains or losses within other operating income / expense or finance costs, respectively, depending on the nature of the underlying transaction.

Hedging derivatives

Derivative instruments may be designated as fair value hedges or cash flow hedges:

- a fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an identified portion of the asset or liability, that is attributable to a particular risk – notably interest rate and currency risks – and could affect profit or loss,
- a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (such as a future purchase or sale) and could affect profit or loss.

The effects of applying hedge accounting are as follows:

- for fair value hedges of existing assets and liabilities, the change in fair value of the hedged portion of the asset or liability attributable to the hedged risk adjusts the carrying amount of the asset or liability in the statement of financial position. The gain or loss from the changes in fair value of the hedged item and loss or gain from re-measuring the hedging instrument at fair value are recognised in profit or loss. The adjustment to the hedged item is amortised fully by maturity of the hedged item starting from the date when a hedged item ceases to be adjusted by a change in fair value of the hedged portion of liability attributable to the risk hedged,
- for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. Amounts recognised directly in other comprehensive income are subsequently recognised in profit or loss in the same period or periods during which the hedged item affects profit or loss. If a hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability.

30.18. Inventories

Inventories are stated at the lower of cost and net realisable value, except for mobile handsets or other terminals sold in promotional offers. Inventories sold in promotional offers are stated at the lower of cost or net realisable value, taking into account future revenue expected from subscriptions. The Group provides for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans.

Cost corresponds to purchase or production cost determined by the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

30.19. Income tax

The tax expense comprises current and deferred tax.

Current tax

The current income tax charge is determined in accordance with the relevant tax law regulations in respect of the taxable profit. Income tax liabilities/assets represent the amounts expected to be paid to/received from the tax authorities at the end of the reporting period.

Deferred taxes

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. Deferred tax assets are recognised only when their recovery is considered probable. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred tax assets and liabilities are not discounted. Deferred income tax is calculated using the enacted or substantially enacted tax rates at the end of the reporting period.

30.20. Provisions

A provision is recognised when the Group has a present obligation towards a third party, which amount can be reliably estimated and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Group's actions.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Group to settle its obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded and the obligation is deemed to be a “contingent liability”.

Contingent liabilities – corresponding to (i) possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control, or (ii) to present obligations arising from past events that for which it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability – are not recognised but disclosed where appropriate in the notes to the Consolidated Financial Statements.

Provisions for dismantling and restoring sites

The Group is required to dismantle equipment and restore sites. In accordance with paragraphs 36 and 37 of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, the provision is based on the best estimate of the amount required to settle the obligation. It is discounted by applying a discount rate that reflects the passage of time and the risk specific to the liability. The amount of the provision is revised periodically and adjusted where appropriate, with a corresponding entry to the asset to which it relates.

INDEPENDENT AUDITOR’S REPORT

To the General Meeting and Supervisory Board of Orange Polska S.A.

Opinion

We have audited the accompanying consolidated financial statements of Orange Polska Group (the “Group”) for the year ended 31 December 2016, in which the parent company is Orange Polska S.A. (the “Company”) located in Warsaw at Al. Jerozolimskie 160, containing the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 January 2016 to 31 December 2016 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the “accompanying consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission (“International Financial Reporting Standards as adopted by the EU”, “IFRS”), and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the preparation of consolidated financial statements.

Basis for Opinion

We conducted our audit in accordance with chapter 7 of the Accounting Act dated 29 September 1994 (the “Accounting Act”), National Auditing Standards in the form of the International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments and International Standards on Auditing (jointly: the “Standards”). Our responsibilities under these standards are further described in the *Auditor’s Responsibilities* section of our report. We are independent of the Group in accordance with article 56 paragraph 3 and 4 of Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight dated 7 May 2009 and Code of Ethics for Professional Accountants (the “IFAC Code”) as stated in Communiqué no 4249/60/2011 of National Council of Statutory Auditors dated 13 June 2011 regarding the rules of professional ethics for Statutory Auditors, and we have fulfilled our other ethical responsibilities in accordance with the IFAC Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Goodwill impairment analysis

Why the matter was determined to be a key audit matter

Under IFRS, the Group is required to annually test the amount of goodwill for impairment.

This annual impairment test was significant to our audit because of the balance of goodwill, which is significant to the financial statements. Management assessment process is based on significant judgments, assumptions and estimates such as those underlying Group’s strategy, future revenue streams, costs and operating cash flows, WACC and perpetuity growth rate (PGR), which are affected by expected future market or economic conditions.

In 2016, the Group has updated its strategic plan and its financial forecasts. As a result of the decrease of the planned future cash flows and the adoption of a higher discount rate, an impairment charge of 1.8 billion zlotys was recognized. The impairment charge was fully allocated towards goodwill, which decreased its value as presented in the statement of financial position from 3.9 billion zlotys to 2.1 billion zlotys.

Reference to related disclosures in the financial statements

The Group’s disclosures about identification of CGU and goodwill impairment test are included in Note 8. “Impairment”, which specifically explains the main assumptions and results of the test together with a sensitivity analysis.

How the key audit matter was addressed in the audit

We have gained understanding of the goodwill impairment calculation process, performed a walkthrough of the process and we evaluated the management’s identification of the CGU and reviewed the impairment test.

Our procedures included challenging management on the suitability of the impairment model and its assumptions, with particular attention paid to the following:

- benchmarking key assumptions in management’s valuation models with industry range and market expectations including revenue, cost and margin trends, capital expenditure on network assets and spectrum, market share and customer churn and discount rates, against external data, where available;
- testing the mathematical accuracy of the cash flow models and agreeing relevant data to Board approved forecasts;
- assessing the reliability of management’s forecast through a review of actual performance against previous forecasts;
- comparing both the WACC and PGR applied to the market range and discussing those with our valuation specialists;
- assessing the sufficiency of the sensitivity analysis performed by the management and performing further sensitivity analyses, primarily focused on changes in operating cash flows;
- assessing the sufficiency of the disclosures made in the financial statements describing the impairment test and sensitivity analysis.

2. Deferred tax assets

Why the matter was determined to be a key audit matter

The Group performed detailed analysis of the deferred tax assets (“DTA”) recoverability as at 31 December 2016. This matter was significant to our audit because the balance of the DTA of PLN 929 million as of 31 December 2016 is significant to the financial statements. In addition, management’s assessment process is based on assumptions, specifically the timing and amount of the future taxable profits, against which deductible temporary differences and tax losses carried forward can be utilized.

Reference to related disclosures in the financial statements

The Group’s disclosures on deferred tax and related significant assumptions are included in Note 23.2 “Deferred tax”.

How the key audit matter was addressed in the audit

We have gained understanding of the deferred tax calculation process, performed a walkthrough of the process and evaluated the design of, and tested the controls over, the process relating to deferred tax calculation.

We have analyzed the assumptions underlying the recognition and measurement of deferred tax assets.

Our procedures included the review of the deferred tax assets utilization model and have been aligned with our analysis of impairment test, as the deferred tax assets recoverability depends mainly on successful realization of the Board approved forecasts.

<p>3. Litigations, claims and contingent liabilities</p> <p><i>Why the matter was determined to be a key audit matter</i></p> <p>The Group is subject to number of significant claims and litigations. Major risk identified by the Group in that area relate to anti-monopoly proceedings, compliance with regulatory requirements or customer protection. The amounts of claims may be significant and estimates of the amounts of provisions or contingent liabilities are subject to significant management judgement.</p> <p><i>Reference to related disclosures in the financial statements</i></p> <p>The Group's disclosures on the status of claims and proceedings are included in Note 27. "Litigations, claims and contingent liabilities".</p>	<p><i>How the key audit matter was addressed in the audit</i></p> <p>We have performed the following audit procedures to be responsive to this area:</p> <ul style="list-style-type: none"> • we have gained understanding of the litigation, claims and contingent liabilities process, performed a walkthrough of the process and evaluated the design of, and tested the controls over the process relating to provisions; • we have analysed with the Company's Legal Department material legal cases; • circularisation of legal letters to relevant third party legal representatives and an analysis of obtained responses to the inquiries; • discussing with EY independent legal specialist regarding selected legal cases; • our audit procedures included analysis of assessment of contingent liabilities and changes in provisions for claims and litigations which are on a quarterly basis submitted to the Audit Committee for review.
<p>4. Accuracy of revenue recognition</p> <p><i>Why the matter was determined to be a key audit matter</i></p> <p>The accuracy of revenue amounts recorded is an inherent industry risk. This is because telecoms billing systems are complex and process large volumes of data with a combination of different products sold and price changes in the year, through a number of different systems.</p> <p>Furthermore, the application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates.</p> <p><i>Reference to related disclosures in the financial statements</i></p> <p>The Group's disclosures on revenue are included in Note 5 "Revenue".</p>	<p><i>How the key audit matter was addressed in the audit</i></p> <p>We have gained an understanding of the revenue recognition process, performed a walkthrough of the process and evaluated the design of, and tested the controls over the process relating to revenue recognition process.</p> <p>Our approach included both controls testing and substantive procedures covering, among others:</p> <ul style="list-style-type: none"> • review of the revenue recognition accounting policies, significant judgments and estimates; • evaluation of relevant IT systems; • capture and recording of revenue transactions; • authorisation of rate changes and the input of this information to the billing systems; • comparing revenue to the billing data; • comparing the revenue accruals to actual data traffic available after month closing; • we also tested a sample of customer bills and checked these to cash received from customers. <p>Our testing included customer bills for consumers, corporate and wholesale customers.</p>

<p>5. Estimated economic useful life for certain network assets</p> <p><i>Why the matter was determined to be a key audit matter</i></p> <p>The useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. The Group extended the estimated useful lives for certain network assets in 2016. As a result, depreciation expense in 2016 relating to these assets is lower by PLN 301 million than in 2015.</p> <p>These matters were significant to our audit since they involve material amounts and significant management judgement.</p> <p><i>Reference to related disclosures in the financial statements</i></p> <p>The Group's disclosures on the EUL change made is included in Note 11 "Property, plant and equipment".</p>	<p><i>How the key audit matter was addressed in the audit</i></p> <p>We have gained an understanding of the intangible and tangible fixed assets process, performed a walkthrough of the process and evaluated the design of, and tested the controls over the process relating to intangible and tangible fixed assets.</p> <p>We have discussed and evaluated the change in EUL and confirmed with the Company's Management that the analysis and the assessment of extended useful lives for certain items of fixed assets represents the Management's best estimate in that respect and that based on the analysis, the technical condition of fixed assets justifies the extension of their economic useful lives.</p> <p>We also found that the revised asset lives are consistent with those commonly used in the industry and that the economic circumstances, including the impact of the forecasted technological developments, exist that justify their current economic useful life by considering our knowledge of the business and practice in the wider telecoms industry.</p> <p>We also tested whether approved EUL were appropriately recognised in the fixed asset register.</p>
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Responsibilities of the Company's Management and members of the Supervisory Board for the consolidated financial statements

The Company's Management is responsible, in accordance with the Accounting Act and regulations issued on the basis of the Accounting Act, for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and other applicable laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Company's Management and the members of the Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

In preparing the consolidated financial statements, the Company's Management is responsible for assessing of the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The members of the Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities

We are responsible for the expressing of an opinion on the accompanying consolidated financial statements based on the performed audit.

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management.
- Conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence in relation to the financial information of the entities comprising the Group in order to express an opinion on the consolidated financial statements. We are responsible for the management, oversight and execution of the audit of the Group. We are fully responsible for our audit opinion.

We communicate with the members of the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the members of the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the members of the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In accordance with ISA 320.5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions/statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with ISAs and auditor's professional judgement.

Report on Other Legal and Regulatory Requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Supervisory Board are required to ensure that the Directors' Report of the Orange Polska Capital Group and of the Company (the "Director's Report") meets the requirements of the Accounting Act.

In connection with the audit of the consolidated financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the "decree on current and periodic information"), and whether they are consistent with the information contained in the accompanying consolidated financial statements. Our responsibility was also to consider, based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the decree on current and periodic information and that the information derived from the accompanying financial statements reconciles with the Directors' Report. Based on our knowledge of the Group and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the consolidated financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies or in the regulations issued based on art. 61 of this act. This information is, in all material respects, in accordance with applicable regulations and with the information included in the consolidated financial statements.

on behalf of: Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. Rondo ONZ 1, 00-124 Warsaw Reg. No 130	
Key Certified Auditor	Partner
Łukasz Piotrowski certified auditor No. 12390	Mikołaj Rytel

Warsaw, 13 February 2017



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Adjustments and revisions

10 Adjustments and revisions

Adjustments and revisions

(in PLN millions)	FY'15	FY'16
Revenue	11,840	11,538
– Revenue of Contact Center	-14	-
Adjusted revenue	11,826	11,538
EBITDA	3,431	3,163
– EBITDA of Contact Center	-4	-
– Employment termination expense net of related curtailment of long-term employee benefits	90	-
Adjusted EBITDA	3,517	3,163
Capital expenditures	1,998	5,169
– acquisition of telecommunications licences	-	-3,168
Adjusted capital expenditures	1,998	2,001
Organic cash flow	962	-2,528
– LTE auction deposits / Acquisition of LTE spectrum	-	3,148
Adjusted organic cash flow	962	620

Impact of customer base revision (as reported along with 3Q 2016 results)

Customer base revision resulted from internal audit of the accuracy of the reporting processes. These processes have been amended to ensure the correctness of the reporting going forward. This revision has no impact on revenues.

customer base (in thousands)	2Q2016	effect of base revision	net change of customers in 3Q	3Q2016
Convergent customers	799	0	38	837
Fixed telephony accesses				
POTS, ISDN & WLL	3,415	-1	-77	3,337
VoIP	644	-2	9	651
Total retail main lines	4,059	-3	-68	3,988
Fixed broadband access				
ADSL	1,613	-5	-46	1,562
VHBB (VDSL+Fibre)	409	-17	44	436
o/w VDSL	370	-17	26	379
o/w Fibre	39	0	18	57
CDMA	35	0	-8	27
Retail broadband - total	2,057	-22	-10	2,025
TV client base				
IPTV	213	-15	16	214
DTH (TV over Satellite)	590	-32	-10	548
TV client base - total	803	-46	4	761
-o/w 'nc+' packages	194	0	0	194
3P services (TV+FBB+VoIP)	547	-34	14	527
Mobile accesses				
Post-paid	8,798	-22	309	9,085
-o/w B2B	2,817	0	76	2,893
Pre-paid	7,898	11	-600	7,309
Total	16,696	-12	-290	16,394
– of which dedicated mobile broadband accesses	2,473	0	142	2,615



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GRI table

GRI Index Table				
Disclosure	Title of the disclosure	Reference to other CSR indicators	External assurance	Reference
Strategy and Analysis				
G4-1	A statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability		GRI	pp. 48-49
G4-2	A description of key impacts, risks, and opportunities		GRI	pp. 84-87
Organizational Profile				
G4-3	The name of the organization		GRI	p. 10
G4-4	The primary brands, products, and services		GRI	pp. 23, 32
G4-5	The location of the organization's headquarters		GRI	p. 144
G4-6	The number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report		GRI	p. 10
G4-7	The nature of ownership and legal form		GRI	p. 10-11
G4-8	The markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)		GRI	p. 11
G4-9	The scale of the organization		GRI	p. 11
G4-10	The total number of employees by employment contract and gender, the total number of permanent employees by employment type and gender, the total workforce by employees and supervised workers and by gender, the total workforce by region and gender	UNGC	GRI	Attachment A. Social Data
G4-11	The percentage of total employees covered by collective bargaining agreements	OECD/UNGC	GRI	97.7%
G4-12	The organization's supply chain		GRI	
We want our relations with suppliers and business partners to be based on transparent principles and mutual obligation to abide by ethical standards. We want to build good and long-term relations with our suppliers.				
Supplier Assessment				
We take active part in the implementation of the Orange Group's global supplier assessment programme, QREDIC. The results of the assessment are used in a process of negotiations and selection of suppliers on the global level, e.g. for subscriber devices or network equipment purchases. A definitely negative assessment with respect to compliance with ethical and environmental standards disqualifies the supplier.				
On the global level, Orange has also joined the Joint Audit Cooperation (JAC) with other operators. The initiative aims at ensuring compliance with ethical, environmental and health & safety standards as well as ban on child labour across common suppliers. In 2016, a total of 69 audits were conducted within the JAC framework.				
Local suppliers are required to comply with the compliance clause, which is included in agreements with our company. The clause includes an obligation to comply with ethical and responsible conduct rules, particularly concerning human rights, environmental protection, sustainable development and anti-corruption. In addition, the anti-corruption clause is included in all purchase agreements.				
Building long-standing relations with suppliers				
In 2016, we co-operated with 4,500 suppliers in Poland, mainly, by value of purchases, subscriber and network equipment suppliers, network contractors, IT equipment suppliers, personnel outsourcing agencies and media houses. We strive to build our relations with suppliers on the basis of long-term contracts providing for transparent terms of co-operation. Over 97.9% of purchases (by value) are effected under long-term agreements. We gradually work on effecting all payments to suppliers in due time. The timely payment rate is 89% (up 3 pp. vs. 2015). The standard term of payment to suppliers is up to 30 days.				
Transparent supplier selection process				
We follow a competitive and open procurement policy, which provides for direct electronic placement of orders with suppliers. Currently, over 80% of orders (by volume) are placed in the electronic form. Suppliers who want to co-operate with Orange can register in a database of potential suppliers and thus participate in the procurement processes initiated by Orange.				
Transparency of the supplier selection process is ensured by the Procurement Process Code. It is a set of rules, which should be followed by all procurement organisation employees in their direct and indirect contacts with suppliers. The Code includes procurement procedures which transparently regulate supplier selection, contracting and confidentiality.				
In 2016, we held training for the purchase organisation employees in corporate social responsibility in the procurement process.				
G4-13	Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain		GRI	No significant changes in reporting.
G4-15	The list externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses		GRI	
Broad Alliance on Digital Skills in Poland, Memorandum of Co-operation for Improving Service Quality in the Telecommunications Market, Cell Phone Safety Good Practises, Alliance for Child Safety On-line (www.orange.pl/kodeksy.shtml), Global Compact (www.ungc.org.pl/o-nas/obszary-dzialan/), Partnership for Environment (www.gridw.pl/partnerstwo)				

GRI Index Table				
Disclosure	Title of the disclosure	Reference to other CSR indicators	External assurance	Reference
G4-16	The list memberships of associations (such as industry associations) and national or international advocacy organizations		GRI	
Domestic organisations: - Employers of the Republic of Poland - Polish Confederation Lewiatan - The Polish Chamber of Information Technology and Telecommunications - French-Polish Chamber of Commerce - American Chamber of Commerce - Responsible Business Forum - Business Centre Club - Foundation for the Development of Radiocommunications and Multimedia Technologies - Association of Stock-Exchange Issuers Foreign organisations: - Baltic Sea Cable Maintenance Agreement (BSCMA) - Civil Communications Planning Committee North Atlantic Treaty Organization (CCPC NATO) - Clearcom - European Network Planning Meeting (ENPM) - European Telecommunications Network Operators' Association (ETNO) - Forum for International Irregular Network Access (FIINA) - Global Compact - Global Settlements Carrier Group (GSCG) - Global Signaling and Inter-working Forum - International Cable Protection Committee (ICPC) - International Inbound Services Forum (IISF) - International Telecommunication Union (ITU) - RIPE Network Coordination Centre (RIPE NCC) - TeleManagement Forum (TM Forum) - Forum of Incidents Response and Security Teams (FIRST) - One Stop Shopping/Inter - Carrier Data Services Forum - GSM Association (GSMA) - European Internet Exchange Association (Euro-IX) , Trans-European Research and Education Networking Association (TERENA)				
Identified Material Aspects and Boundaries				
G4-17	List all entities included in the organization's consolidated financial statements or equivalent documents		GRI	p. 6
G4-18	Explain the process for defining the report content and the Aspect Boundaries		GRI	p. 6
G4-19	List all the material Aspects identified in the process for defining report content		GRI	p. 22-25
G4-20	For each material Aspect, report the Aspect Boundary within the organization		GRI	p. 43
G4-21	For each material Aspect, report the Aspect Boundary outside the organization		GRI	p. 36-42
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.		GRI	There were no restatements of information in previous reports.
G4-23	The significant changes from previous reporting periods in the Scope and Aspect Boundaries		GRI	No significant changes
Stakeholder Engagement				
G4-24	Provide a list of stakeholder groups engaged by the organization		GRI	pp. 14-15
G4-25	Report the basis for identification and selection of stakeholders with whom to engage		GRI	pp. 14-15
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process		GRI	pp. 14-15
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns		GRI	pp. 14-15
Report Profile				
G4-28	Period (such as fiscal or calendar year) for information provided		GRI	p. 6
G4-29	Date of most recent previous report (if any)		GRI	p. 6
G4-30	Reporting cycle (such as annual, biennial)		GRI	p. 6
G4-31	Provide the contact point for questions regarding the report or its contents		GRI	p. 221
G4-32	Report the GRI Content Index		GRI	p. 206-212
G4-33	Report the organization's policy and current practice with regard to seeking external assurance for the report.		GRI	p. 216-217
Governance				
G4-34	The governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.		GRI	pp. 108, 112, 119, 126
G4-46	The highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.		GRI	pp. 119, 125, 128

GRI Index Table				
Disclosure	Title of the disclosure	Reference to other CSR indicators	External assurance	Reference
G4-47	The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.		GRI	pp. 114, 115, 120, 126
	Ethics and Integrity			
G4-56	The organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.		GRI	p. 10
G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines.		GRI	p. 120
G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.		GRI	p. 120
	CATEGORY: ECONOMIC			
	Aspect: Economic Performance	OECD		
	DMA: Economic Performance			
G4-EC1	Direct economic value generated and distributed		GRI	↓
In 2016, Orange Polska donated a total of PLN 13.31m for social initiatives. For information about sponsoring policy see the Management Board's Report 2016, p.				
	Aspect: Market Presence			
	DMA: Market Presence			
G4 - EC5	Ratios of standard entry level wage compared to local minimum wage at significant locations of operation		GRI	147% *
* For Orange Polska alone				
	Aspect: Indirect Economic Impacts			
	DMA: Indirect Economic Impacts			
G4-EC7	Development and impact of infrastructure investments and services supported			pp. 72-73
G4-EC8	Significant indirect economic impacts, including the extent of impacts			pp. 72-73
	CATEGORY: ENVIRONMENTAL	OECD/UNGC		
	Aspect: Materials			
	DMA: Materials			
G4-EN1	Materials used by weight or volume		GRI	Attachment B. Environmental Data
	Aspect: Energy			
	DMA: Energy			
G4-EN3	Energy consumption within the organization		GRI	Attachment B. Environmental Data
G4-EN6	Reduction of energy consumption			Attachment B. Environmental Data
G4-EN7	Reductions in energy requirements of products and services			p. 72
	Aspect: Emissions			
	DMA: Emissions			
G4-EN16	Energy indirect greenhouse gas (GHG) emissions		GRI	Attachment B. Environmental Data
G4-EN19	Reduction of greenhouse gas (GHG) emissions			p. 72
	Aspect: Effluents and Waste			
	DMA: Effluents and Waste			
G4-EN23	Total weight of waste by type and disposal method		GRI	Attachment B. Environmental Data
	Aspect: Products and Services			

GRI Index Table				
Disclosure	Title of the disclosure	Reference to other CSR indicators	External assurance	Reference
G4-EN27	Extent of impact mitigation of environmental impacts of products and services		GRI	pp. 70, 72
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category		GRI	pp. 70, 72
	Aspect: Compliance			
	DMA: Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		GRI	↓
No fines for non-compliance with environmental laws and regulations were imposed in 2016.				
	Aspect: Environmental Grievance Mechanisms			
	DMA: Environmental Grievance Mechanism			
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms		GRI	↓
In 2016 no complaints about environmental impact were received by Orange Polska.				
	CATEGORY: SOCIAL			
	LABOR PRACTICES AND DECENT WORK	OECD/UNGC		
	Aspect: Employment			
	DMA: Employment			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region		GRI	Attachment A. Social Data
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation		GRI	↓
<p>Orange Polska ensures safe and friendly working conditions for its employees:</p> <ul style="list-style-type: none"> • Orange Polska employees are offered broad medical services at Lux Med Group and CM LIM clinics and partner medical facilities. • Orange Polska's employees are eligible for participation in the Employee Retirement Plan. • Orange Polska has the Company Social Benefits Fund as a means of social welfare addressed to employees and retired employees in need. • Employees can use the Central Housing/Welfare/Sports, Tourism and Culture Funds. • If the company's aid is insufficient, Orange Polska's employees are eligible for assistance by the Orange Foundation under the 'Support One Another' programme. • Orange Polska's employees and their families are offered discounts by the company's partners as well as discounts for Orange products and services in the 'Offer for You' programme. • Employees are also eligible for financing of sports, tourist and cultural events from the Central Sports, Tourism and Culture Fund. They can also use FitProfit cards. <p>Both full-time and part-time employees are eligible for all the aforementioned benefits. Employees working under a fixed-term employment contract are eligible for health care and promotional offers, but are not eligible for benefits that require long-term commitments, such as the Central Welfare Fund or the Employee Retirement Plan.</p>				
	Aspect: Occupational Health and Safety	OECD		
	DMA: Occupational Health and Safety			
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs		GRI	100%
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender		GRI	Attachment A. Social Data
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation		GRI	↓
There are no positions involving high incidence or high risk of occupation-related diseases.				
G4-LA8	Health and safety topics covered in formal agreements with trade unions		GRI	↓
Health and safety topics have been covered in the Group Collective Labour Agreement.				
	Aspect: Training and Education	OECD		
	DMA: Training and Education			
G4-LA9	Average hours of training per year per employee by gender, and by employee category		GRI	Attachment A. Social Data

GRI Index Table				
Disclosure	Title of the disclosure	Reference to other CSR indicators	External assurance	Reference
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category		GRI	p. 76
	Aspect: Equal Remuneration for Women and Men			
	DMA: Equal Remuneration for Women and Men			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation		GRI	Attachment A. Social Data
	HUMAN RIGHTS	OECD/UNGC		
	Aspect: Investment			
	DMA: Investment (as related to human rights)		GRI	
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained		GRI	↓
In 2016, a total of 280 of Orange Polska's employees, or 1.82% of the total workforce, completed ethical training: "Orange ethics: do you know how to act?" (241 hrs), which included information of human rights policies.				
	Aspect: Non-discrimination	OECD/UNGC		
	DMA: Non-discrimination			
G4-HR3	Total number of incidents of discrimination and corrective actions		GRI	No such incidents were reported to the Ethics Committee in 2016.
	Aspect: Child Labor	OECD/UNGC		
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor		GRI	No such risk was identified.
	Aspect: Human Rights Grievance Mechanisms			
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms		GRI	No human rights grievances were filed.
	SOCIETY			
	Aspect: Local Communities	OECD/UNGC		
	DMA: Local Communities			
G4-SO2	Operations with significant actual or potential negative impacts on local communities		GRI	↓
In case of a telecommunications company, issues related to the safe use of services mean not only the utmost care for meeting security requirements, but also reliable information on the devices and technologies used. In response to inquiries regarding potential negative influence of radio waves emitted by telecommunication devices and other devices that use new technologies, we have prepared a global Orange portal on radio waves, which explains in simple terms how mobile telephony works. It includes sections presenting latest scientific reports and recommendations for use of mobile devices to reduce exposure to radio waves. The portal has been also translated to Polish and it is available at www.ondes-radio.orange.com/pl/ .				
	Aspect: Anti-corruption	OECD/UNGC		
	DMA: Anti-corruption			
G4-SO4	Communication and training on anti-corruption policies and procedures		GRI	A total of 1,022 employees of Orange Polska completed anti-corruption training in 2016.
	Aspect: Public Policy	OECD/UNGC		
	DMA: Public Policy			
G4-SO6	Total value of political contributions by country and recipient/beneficiary		GRI	↓
The company does not finance political parties, politicians or related institutions. Any departures from this rule require specific consent in line with the obligation referred to in the Chapters 8 and 9 of the Orange Polska Anti-corruption Guidelines. In the period from 1 January to 31 December 2016, no consent for financial contributions to political parties or organisations and no consent for offering or granting donations to public officers were granted under Chapters 8 and 9 of the Guidelines.				

GRI Index Table				
Disclosure	Title of the disclosure	Reference to other CSR indicators	External assurance	Reference
	Aspect: Anti-competitive Behavior	OECD		
	DMA: Anti-competitive Behavior			
G4-SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes		GRI	↓
No legal actions for anti-competitive behaviour or anti-trust or monopoly practices were instituted against Orange Polska in 2016.				
	Aspect: Compliance	OECD		
	DMA: Compliance			
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		GRI	↓
No fines were imposed or final and binding rulings concerning significant fines were made in 2016.				
	PRODUCT RESPONSIBILITY	OECD		
	Aspect: Customer Health and Safety	OECD		
	DMA: Customer Health and Safety			
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement		GRI	↓ 100%
All mobile phones in Orange Polska's portfolio meet the emission standards specified by the International Commission on Non-Ionizing Radiation Protection (ICNIRP). We ensure they are thoroughly tested and the safety of their use is verified in the process of examining their conformity with essential requirements. All mobile devices in Orange Polska's portfolio are safe for users' health and are accompanied by information on the Specific Absorption Rate (SAR), which is always lower than the official limits (below 2 W/kg). SAR for mobile phones refers to the maximum level of radio waves that the user can be exposed to during a call. SAR values can be found in the user manual (technical specifications), which is provided by the manufacturer, or in handset descriptions at www.orange.pl .				
Base stations Orange Polska uses proven wireless communication technologies that are safe to all users. The company complies with all European and, much stricter, Polish standards regarding electromagnetic field (EMF) emissions. EMF exposure around all of our base transceiver stations (BTSs) and broadcasting stations does not exceed the limit set forth in Polish regulations, that is 0.1 W/m2 in areas accessible to the public. We comply with All the strictest standards on EMF values around all our base and broadcasting stations. As a result of technical efforts related to protection against EMF emissions by BTSs of radio communication facilities developed or operated on our networks, we can ensure compliance with the standards specified in the Regulation of the Minister of Environment regarding permissible EMF values in the environment and methods of verification thereof (Journal of Law No. 192 of 2003, item 1882/83). This is ensured through the following: • Development of the relevant estimates of EMF impact on the environment at the planning stage of BTS construction or modernisation projects; • EMF measurements vs. permissible limits, which are subsequently reported to the environmental protection bodies, which decide whether to carry out public consultation or not (public consultation and dialogue concerning network facilities are carried out as part of administrative proceedings and initiated and supervised by the relevant government agencies).				
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes		GRI	↓
No incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle were reported in 2016.				
	Aspect: Product and Service Labeling			
	DMA: Product and Service Labeling			
G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements		GRI	↓
All products in Orange Polska's portfolio have the relevant labelling, namely: - name and address of the manufacturer and operation manual in Polish; - CE marking pursuant to the Regulation of the Minister of Infrastructure of 15 April 2004 on the assessment of compliance of telecommunication terminal devices to be connected to public network terminating segments and radio devices with the essential requirements and on marking thereof; - the 'basket' icon pursuant to the Act of 29 July 2005 on waste electrical and electronic equipment; - Declaration of Conformity (DoC) pursuant to the Regulation of the Minister of Transport and Construction of 3 February 2006; - Specific Absorption Rate (SAR) information pursuant to the Regulation of the Minister of Transport and Construction of 3 February 2006.				

GRI Index Table				
Disclosure	Title of the disclosure	Reference to other CSR indicators	External assurance	Reference
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes		GRI <input checked="" type="checkbox"/>	↓
No incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling were reported in 2016.				
G4-PR5	Results of surveys measuring customer satisfaction		GRI <input checked="" type="checkbox"/>	p. 67
	Aspect: Marketing Communications			
	DMA: Marketing Communications			
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes		GRI <input checked="" type="checkbox"/>	↓
No fines were imposed on Orange Polska for non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, in 2016. In 2016, the Advertising Ethics Committee decided that one of our advertisements violated the Advertising Code of Ethics; the advertisement was changed or withdrawn.				
	Aspect: Customer Privacy			
	DMA: Aspect: Customer Privacy			
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		GRI <input checked="" type="checkbox"/>	↓
Our customers filed 22 complaints with the Inspector General for Personal Data Protection (GIODO) in 2016. All GIODO's decisions made with respect to these complaints in the reported period confirmed the compliance of personal data processing by Orange Polska with the relevant requirements. No fines were imposed on the company for breach of personal data protection regulations in 2016. At each stage of data collecting and processing, we ensure that customers are informed about the purpose and scope of data processing, as well as the right to access and rectify their personal data.				
	Aspect: Compliance			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services		GRI <input checked="" type="checkbox"/>	↓
In 2016, the Office for Competition and Consumer Protection (UOKiK) imposed a fine of PLN 28.6 mn on the company. Final and binding rulings were made with respect to two fines totalling PLN 8.9 mn.				

ATTACHMENT A: SOCIAL DATA

		2014	2015	2016
GRI	Employment			
G4-10	Total workforce	18 582.5	16 997	GRI <input checked="" type="checkbox"/> 15 915.5
	gender			
	men	10 736	9 990	GRI <input checked="" type="checkbox"/> 9 521
	women	7 847	7 007	GRI <input checked="" type="checkbox"/> 6 395
	% of women in the workforce	42.2%	41.2%	GRI <input checked="" type="checkbox"/> 40.2%
	age			
	up to 30 years of age	1 848	1 814	GRI <input checked="" type="checkbox"/> 1 544
	31-50 years of age	13 015	12 059	GRI <input checked="" type="checkbox"/> 11 326
	over 50 years of age	3 720	3 124	GRI <input checked="" type="checkbox"/> 3 046
	Regular employees (active full-time positions)	18 442	16 955	GRI <input checked="" type="checkbox"/> 15 880
	men	10 703	9 974	GRI <input checked="" type="checkbox"/> 9 507
	women	7 739	6 981	GRI <input checked="" type="checkbox"/> 6 373
	Full-time employees	18 214	16 866	GRI <input checked="" type="checkbox"/> 15 798
	men	10 660	9 953	GRI <input checked="" type="checkbox"/> 9 491
	women	7 554	6 913	GRI <input checked="" type="checkbox"/> 6 307
	Part-time employees	396	131	GRI <input checked="" type="checkbox"/> 118
	men	75	36	GRI <input checked="" type="checkbox"/> 30
	women	294	95	GRI <input checked="" type="checkbox"/> 88
	Outsourced employees (full-time positions)*	6 552.21	6 813.49	GRI <input checked="" type="checkbox"/> 6 678
	men	Indicator reported from 2016		GRI <input checked="" type="checkbox"/> 4 000
	women			GRI <input checked="" type="checkbox"/> 2 678
	Employees in managerial positions	3 560	3 369	GRI <input checked="" type="checkbox"/> 3 245
	men	2 563	2 386	GRI <input checked="" type="checkbox"/> 2 319
	women	997	983	GRI <input checked="" type="checkbox"/> 926
	% of women in managerial positions	28.0%	29.2%	GRI <input checked="" type="checkbox"/> 28.5%
G4-LA13	Ratio of basic salary of women to men by employee position (men's salary = 100%)*			
	general	77.4%	77.9%	GRI <input checked="" type="checkbox"/> 79%
	non-managerial positions	84.7%	83.9%	GRI <input checked="" type="checkbox"/> 85%
	managerial positions	95.2%	94.2%	GRI <input checked="" type="checkbox"/> 95%
	* For Orange Polska alone			
G4-LA9	Development and education			
	total employees trained (in '000)	17.4	16.24	GRI <input checked="" type="checkbox"/> 15.29
	total hours of training (in '000)	533.6	727.64	GRI <input checked="" type="checkbox"/> 542.36
	average number of training hours per employee per year	30.6	44.8	GRI <input checked="" type="checkbox"/> 35.46
	gender			
	men	29	41.6	GRI <input checked="" type="checkbox"/> 35.07
	women	33	45.7	GRI <input checked="" type="checkbox"/> 35.39
	position			
	managers	38	54.91	GRI <input checked="" type="checkbox"/> 36.26
	non-managers	29	39.71	GRI <input checked="" type="checkbox"/> 35.21
G4-LA 1	Professional mobility			
	Total number of new employee hires	616	623	GRI <input checked="" type="checkbox"/> 548
	gender			
	men	Indicator reported from 2016		GRI <input checked="" type="checkbox"/> 315
	women			GRI <input checked="" type="checkbox"/> 233

ATTACHMENT B: ENVIRONMENTAL DATA*

	Social Data	2014	2015	2016
G4-LA 1	age			
	up to 30 years of age	Indicator reported from 2016		GRI ✓ 308
	31-50 years of age			GRI ✓ 232
	over 50 years of age			GRI ✓ 8
	Departures – total*	1 798	1 578	GRI ✓ 1 261
	gender			
	men	834	886	GRI ✓ 699
	women	964	692	GRI ✓ 562
	age			
	up to 30 years of age	328	196	GRI ✓ 155
	31-50 years of age	1 039	912	GRI ✓ 766
	over 50 years of age	431	470	GRI ✓ 340
	Turnover*	3.26%	3.53%	GRI ✓ 2.35%
	gender			
	men	2.99%	3.2%	GRI ✓ 2.73%
	women	3.65%	4.01%	GRI ✓ 1.77%
	age			
	up to 30 years of age	13.55%	17.02%	GRI ✓ 9.73%
	31-50 years of age	2.45%	2.61%	GRI ✓ 2.09%
	over 50 years of age	0.61%	0.64%	GRI ✓ 0.32%
	* Total number of employees leaving, excluding voluntary departures (at employee's initiative) and departures at the employer's initiative as well as intra-group transfers (e.g. an Orange Polska employee departing for OCS)			
G4-LA6	Occupational health and safety			
	Number of accidents			
	Orange Polska	52	54	GRI ✓ 32
	Accident severity			
	fatal accidents	0	0	GRI ✓ 1
	serious accidents	1	0	GRI ✓ 0
	other accidents	51	54	GRI ✓ 31
	Accident frequency rate*			
	Orange Polska	2.9	3.5	GRI ✓ 2.3
	OCS	2.66	4.16	GRI ✓ 0.3***
	Days off work due to work-related accidents			
	Orange Polska	1 573	1 776	GRI ✓ 1 026
	OCS	526	426	GRI ✓ 39***
	Accident severity rate**			
	Orange Polska	37.5	38	GRI ✓ 33.1
	OCS	52.6	60.68	GRI ✓ 39***

* Number of persons injured in work-related accidents per 1,000 employees

** Number of days off per accident

*** OCS merged with Orange Polska in 2016. All indices have been aggregated since October 2016.

All indices for the Orange Polska Group unless indicated otherwise

GRI	Energy	unit	2014	2015	2016
G4-EN3	Energy				
	electricity consumption/customer	kWh/customer	26.42	27.42	GRI ✓ 25.92
	Direct energy consumption by primary energy sources				
	fuel (all buildings, all uses)	'000 m³	1.5	1.8	GRI ✓ 2.1
	gas	'000 m³	3 109	3 803,3	GRI ✓ 3 648,9
	coal	tonnes	97.2	80.7	GRI ✓ 51.6
	energy produced during combustion, primary sources	GWh	33.9	47.2	GRI ✓ 78.5
	Indirect energy consumption by primary energy sources				
G4-EN16	electricity	GWh	623	635	GRI ✓ 588
	Emissions				
	CO ₂ emissions excluding transport	'000 tonnes	479.4	491.7	GRI ✓ 462.7
	total CO ₂ emissions during transport	'000 tonnes	13.8	13.3	GRI ✓ 12.3
	total CO ₂ emissions	'000 tonnes	493	505	GRI ✓ 475
	CO ₂ emissions during electricity consumption/customer	kg/customer	19.98	20.7	GRI ✓ 19.6
G4-EN1	CO ₂ emissions (all energies)/customer	kg/customer	21.2	21.9	GRI ✓ 21
	Materials				
G4-EN23	waste paper, cardboard boxes: internally and externally	'000 tonnes	1.7	1.5	GRI ✓ 1.3
	Waste				
	industrial waste	tonnes	n/a	n/a	GRI ✓ n/a
	internal WEEE (network & tertiary)	tonnes	991.6	44.6	GRI ✓ 20.31
	wooden poles	tonnes	31.4	23.6	GRI ✓ 43.44
	cables	tonnes	544.8	259.1	GRI ✓ 345.1
	batteries	tonnes	334.7	227.2	GRI ✓ 138.81
	paper / cardboard	tonnes	55.3	93.4	GRI ✓ 45.42
	other hazardous waste (including PCB)	tonnes	101.4	8	GRI ✓ 4.64
	other non-hazardous waste	tonnes	980.8	1446.2	GRI ✓ 834.07
	waste recycled internally	tonnes	3039.9	2102.1	GRI ✓ 1431.79
	Waste electrical and electronic equipment				
	WEEE collected from customers	tonnes	0	0.3	GRI ✓ 0.06
	WEEE collected from customers	kg/1000 customers	0	0.01	GRI ✓ 0
	KPI EMS: ISO 14001	%	29.6	23.7	GRI ✓ 26.7

* The environmental data presented in the Orange Polska Report may differ from the data in the Orange Group report. Due to the date of gathering information in the Group's report, the data from the 3 quarters and estimation for 4Q are presented. Orange Polska Report presents the data from 4 quarters of 2016.



Limited assurance report

To the Management Board of Orange Polska S.A.

Subject matter and criteria

We have been engaged by the Management Board of Orange Polska S.A. ("the Company") in accordance with our agreement dated 18 April 2017 (the "Agreement") to perform a limited assurance engagement of selected non-financial data presented in the "Integrated Annual Report Orange Polska 2016, (the "2016 Integrated Report") prepared for the period of 1 January 2016 to 31 December 2016 and marked with a check symbol **GRI** in a column "External assurance" in GRI Index table, that is selected general standard disclosures and specific standard disclosures : G4-EN2, G4-EN3, G4-EN6, G4-EN7, G4-EN16, G4-EN19, G4-EN23, G4-EN29, G4-EN34, G4-LA1, G4-LA2, G4-LA3, G4-LA5, G4-LA9, G4-LA10, G4-LA11, G4-LA13, G4-HR2, G4-HR3, G4-SO2, G4-SO4, G4-SO6, G4-SO7, G4-SO8, G4-PR1, G4-PR2, G4-PR3, G4-PR4, G4-PR5, G4-PR7, G4-PR8, G4-PR9 ("Reviewed Indicators)". Indicators definition and reference to the place of presentation can be found in GRI Index table in the 2016 Integrated Report.

The subject to our review are only Reviewed Indicators for the period ended 31 December 2016 and we did not perform procedures in respect of any other data or information that is contained in the 2016 Integrated Report and that is why we do not express an opinion or conclusion on the 2016 Integrated Report as a whole.

The Company's management prepared 2016 Integrated Report ensuring its adherence to the Sustainability Reporting Guidelines of the Global Reporting Initiative version 4 Core ("GRI G4 criteria").

Management's Responsibility

The Company's Management is responsible for the preparation of the 2016 Integrated Report in accordance with the GRI 4 criteria.

The responsibility of the Company's Management includes the selection and application of appropriate methods to prepare the non-financial data and the design, implementation and maintenance of systems and processes which ensure the adherence to the GRI G4 criteria relevant for the preparation of the non-financial data using assumptions and estimates which are reasonable in the circumstances.

Our Responsibility

Our responsibility is to formulate a limited assurance conclusion as to the Reviewed Indicators presented in 2016 Integrated Report. We chose performed procedures based on our judgment and taking under consideration our assessment of the risk of material misstatement of the Reviewed Indicators and general assessment of presentation of these indicators.

We conducted our work in accordance with International Standard on Assurance Engagements 3000 "Assurance engagements other than audits or reviews of historical financial information" ("ISAE 3000") issued by International Auditing and Assurance Standards Board. The standard requires us to plan and perform procedures in order to obtain limited assurance that Reviewed Indicators do not contain material misstatements.

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PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register maintained by the District Court for the Capital City of Warsaw, under KRS number 0000044655, NIP 526-021-02-28. The share capital is PLN 10,363,900. The seat of the Company is in Warsaw at Al. Armii Ludowej 14.



Summary of work performed

Our limited assurance procedures included:

- Interviews with management and persons responsible for the reporting of the non-financial data,
- Agreeing of the values to the summary documents such as internal reports of the entities within Orange Polska S.A. that have been a basis for preparation on the Reviewed Indicators, as well as analysis of these documents, and where it was justified, their connection to the source documents such as external reports or invoices as well as analytical procedures for the selected non-financial information were relevant.

In a limited assurance engagement, the evidence-gathering procedures are more limited than in a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control 1 and accordingly maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory.

Conclusion

Based on performed procedures, nothing has come to our attention that causes us to believe that the Reviewed Indicators as presented in the 2016 Integrated Report have not been prepared, in all material respects, in accordance with the GRI G4 criteria.

Limitation of use and distribution

Our limited assurance report prepared by PricewaterhouseCoopers Sp. z o.o. ("PwC") for Orange Polska S.A. in respect of the Agreement is directed to sole use of the Orange Polska S.A. Management Board. It should not be used to other purposes. PwC does not take any responsibility in respect of this report (contractual, tort (including that for negligence) or any other) in respect of any parties other than Orange Polska S.A. Respectively, regardless of the form of the actions, whether in contract, tort or other, within the capacity allowed by the law, PwC does not take any responsibility, and any consequences coming out of the report for any person (excluding the Company, based on rules described above) or for any other decision taken based on this report.

The 2016 Integrated Report should be read together with the Sustainability Reporting Guidelines GRI G4 Core.

PricewaterhouseCoopers Sp. z o.o.

PricewaterhouseCoopers Sp. z o.o.
Warsaw 18 April 2017

methodological note for non-financial indicators

workforce data

The workforce data presented in this Report have been collected using the HR-Info system, which accounts for variables such as employee's gender or position. The data fed to HR-Info are based on the data contained in the HR systems of the member companies of Orange Polska and are reported in line with FT's standards.

managers (employed under employment contracts as at the end of the reported period)

The management rate refers to middle to top managers employed under employment contracts. Employees are classified as “managers” on the basis of their employment groups, according to their competence profile, in line with FT’s standards.

accidents at work

This rate corresponds to the number of occurrences that were classified as accidents at work during the reported period. Under Polish regulations, this is ultimately determined by the date of the employer's decision to recognise an occurrence as a work-related accident rather than the date of accident itself (e.g. if an accident occurs in December, but the accident report is not approved before January, it will not be accounted for in the given year, but rather in the following year. In statistical terms, until the accident investigation procedure is completed and the report is approved, an occurrence is not considered an accident at work).

environmental data

Environmental data are based on reporting to the INDICIA database. In 2016, Orange Polska reported about 100 environmental indicators on a quarterly basis.

energy

Electricity consumption in Orange Polska's buildings is determined using a statistical method devised by an Orange Labs' statistician and approved by both Orange Group and external auditors. Fuel consumption refers to the total consumption of all fuels (heating oil, diesel oil, petrol and heavy fuel oil), excluding motor vehicles.

CO2 emissions

For electricity consumption, the emissions are calculated according to the GHG Protocol (2009) with the most recent update (2012). Emission factors for fuels (gas, fuel oil, coal, petrol, diesel oil and LPG) are derived from the GHG Protocol (2007).

electronic and electrical waste collection

The “E-waste collected from customers” corresponds to the total amount of handsets, desktop telephones and multimedia devices delivered to sale outlets, sent by mail or collected by service providers. This also accounts for waste mobile phones of Orange Polska’s employees as well as batteries and chargers collected. This indicator is not used in the Group companies which do not have the relevant channel for e-waste collection and recycling.

Notes

[illegible]

GLOSSARY OF TELECOM TERMS

4G – fourth generation of mobile technology, sometimes called LTE (Long Term Evolution)

Access Fee – revenues from monthly fee from New Tariff Plans (incl. Free minutes)

API – Application Program Interface

ARPU – Average Revenues per User

AUPU – Average Usage per User

BI – Business Intelligence

BSA – Bitstream Access Offer

CATV – Cable Television

CDMA – Code Division Multiple Access, second generation wireless mobile network used also as a wireless local loop for locations where cable access is not economically justified

DLA – Drop-Line Agnostic

EBITDA – Operating income + depreciation and amortisation + impairment of goodwill + impairment of non-current assets

F2M – Fixed to Mobile Calls

FBB – Fixed Broadband

FTE – Full time equivalent

FTTH – Fibre To The Home

FVNO – Fixed Virtual Network Operator

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

Liquidity Ratio – Cash and unused credit lines divided by debt to be repaid in the next 18 months

LLU – Local Loop Unbundling

LTE – Long Term Evolution, standard of data transmission on mobile networks (4G)

M2M – Machine to Machine, telemetry

MTR – Mobile Termination Rates

MVNO – Mobile Virtual Network Operator

Net Gearing – net gearing after hedging ratio = net debt after hedging / (net debt after hedging + shareholders’ equity)

Organic Cash Flow – Organic Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables) + proceeds from sale of assets

PoP – Point of Presence

RAN agreement – agreement on reciprocal use of radio access networks

RIO – Reference Interconnection Offer

SAC – Subscriber Acquisition Costs

SIMO – mobile SIM only offers without devices

SMP – Significant Market Power

SRC – Subscriber Retention Cost

UKE – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

UOKiK – Urząd Ochrony Konkurencji i Konsumentów (Office for Competition and Consumer Protection)

USO – Universal Service Obligation

VDSL – Very-high-bit-rate Digital Subscriber Line

VHBB – Very high speed broadband, above 30 Mbps

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental

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