POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS for the year 2014

(year)

(according to par. 82 s. 2 of the Decree of Minister of Finance dated 19 February 2009 - Journal of Laws No. 33, item 259, with amendments)
for the issuers in sectors of production, construction, trade or services

for the **year 2014**, i.e. from **1 January 2014 to 31 December 2014**

including, consolidated financial statements prepared under: **International Financial Reporting Standards**
in currency: **PLN**

date of issuance: **12 February 2015**

ORANGE POLSKA SA
(full name of issuer)

ORANGEPL
(abbreviated name of the issuer)

Telecommunication (tel)
(classification according to WSE / sector)

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(post code)

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(location)

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Deloitte Polska Sp. z o.o. Sp. k.
(auditor)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	year / 2014	year / 2013	year / 2014	year / 2013
I. Revenue	12 212 000	12 923 000	2 915 045	3 068 867
II. Operating income	986 000	788 000	235 362	187 129
III. Profit before income tax	581 000	310 000	138 687	73 617
IV. Consolidated net income	535 000	294 000	127 706	69 817
V. Net income attributable to owners of Orange Polska S.A.	535 000	294 000	127 706	69 817
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.41	0.22	0.10	0.05
VII. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VIII. Total comprehensive income	423 000	329 000	100 972	78 129
IX. Total comprehensive income attributable to owners of Orange Polska S.A.	423 000	329 000	100 972	78 129
X. Net cash provided by operating activities	2 753 000	3 292 000	657 150	781 762
XI. Net cash used in investing activities	(1 745 000)	(2 166 000)	(416 537)	(514 367)
XII. Net cash used in financing activities	(965 000)	(1 324 000)	(230 349)	(314 415)
XIII. Total net change in cash and cash equivalents	50 000	(208 000)	11 935	(49 394)
	Balance as at 31/12/2014	**Balance as at 31/12/2013**	**Balance as at 31/12/2014**	**Balance as at 31/12/2013**
XIV. Total current assets	2 078 000	1 852 000	487 530	446 566
XV. Total non-current assets	20 026 000	20 725 000	4 698 402	4 997 348
XVI. Assets held for sale	-	225 000	-	54 253
XVII. Total assets	22 104 000	22 802 000	5 185 932	5 498 167
XVIII. Total current liabilities	4 709 000	7 333 000	1 104 802	1 768 181
XIX. Total non-current liabilities	4 997 000	2 800 000	1 172 372	675 154
XX. Total equity	12 398 000	12 631 000	2 908 758	3 045 669
XXI. Equity attributable to owners of Orange Polska S.A.	12 396 000	12 629 000	2 908 289	3 045 187
XXII. Share capital	3 937 000	3 937 000	923 680	949 315
XXIII. Liabilities related to assets held for sale	-	38 000	-	9 163

The statement of financial position data as at 31 December 2014 and 2013 presented in the table "Selected financial data" was translated into Euro at the average exchange rate of the National Bank of Poland on the end of the reporting period. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the years ended 31 December 2014 and 2013, were translated into Euro at an exchange rate which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of years ended 31 December 2014 and 2013.

The exchange rates used in translation of statement of financial position, income statement, statement of comprehensive income and statement of cash flows data are presented below:

1 Euro	31 December 2014	31 December 2013
Statement of financial position	4.2623 PLN	4.1472 PLN
Income statement, statement of comprehensive income, statement of cash flows	4.1893 PLN	4.2110 PLN

Dear Shareholders,

2014 was another year of progress for Orange Polska on all fronts: commercial, operational and financial. Despite numerous challenges and a persistently tough competitive market , we achieved the majority of our objectives.

Deregulation improves prospects for fixed broadband market in Poland
In October the Polish regulator approved partial deregulation of the fixed broadband market, a decision which affects almost 30% of all Polish households including those in major cities like Warsaw, Katowice, Lodz and Wroclaw. This was an important development for Orange Polska as it means greater price flexibility on the retail market and the introduction of commercial terms of cooperation on the wholesale market. We reacted immediately, launching new, more attractive offers in the deregulated areas. The recent deregulation has reinforced our decision to make significant investments in fibre technology in 2015.

Significant quality improvements to mobile networks
In September, after two and a half years of work, we completed our mobile network modernisation project. As a result, 3G network coverage for Orange Polska customers now extends to close to 100% of the population (compared to 63% before the project started), and 95% of Poland's geographical area (up from a mere 12%). With the benefit of our strategic network-sharing partnership with T-Mobile, the project has already created important savings in terms of operating expenses and allowed us to avoid significant capital expenditure.
Our 4G LTE network construction, which started in Q3 2013, covered 61% of the population by the end of 2014. 4G LTE substantially improves customer experience and is the key growth lever for data in mobile services. We have more than 600 thousand LTE users and our 4G network already carries close to 20% of Orange Polska's mobile data traffic. We intend to continue to invest in this technology, and to that end we are taking part in the ongoing spectrum auction of 800MHz and 2600MHz frequencies.

Good commercial momentum continues
In last year's letter I called 2013 a year of commercial progress. I am happy to say than in 2014 we maintained our good commercial momentum, especially in post-paid mobile services. Our statistics improved both in terms of absolute numbers and relative to our competitors. The number of customers who transferred to Orange Polska totalled 400 thousand, which corresponded to a market share in 'ports-in' of 26% (up from 21% in 2013).
We increased our post-paid subscriber base by more than 6% in 2014. Post-paid services have become significantly more affordable for customers, encouraging customers to migrate to this segment from pre-paid in greater numbers during 2014. The growing popularity of mobile broadband and our second mobile brand, nju.mobile, also contributed to this success.
Despite a particularly tough market environment in the business segment we managed to grow the number of voice business customers in this area for the first time since 2010. In 2014, we continued to successfully expand our convergent offer, Orange Open, combining mobile and fixed line products. Its customer base grew by nearly 90% to 539 thousand. In fixed broadband we continue to see growing demand for higher speeds: uptake of our super-fast VHBB services grew 150%, accounting for 8% of all Orange Polska's DSL customers by the end of the year.

Financial performance in line with objectives
I am pleased to report that Orange Polska's financial performance in 2014 ended in line with our objectives despite the ongoing pressure on our revenues. Thanks to our persistent focus on financial discipline, we were able to generate significant cost savings and keep capital expenditure well below the previous year's level. Savings from sustainable cost optimisation measures amounted to PLN 307 million - much higher than in 2013. I would like to stress the diverse nature of these cost savings, close to 60% of which came from sources other than labour. On that front, headcount restructuring progressed as planned, in line with the social agreement we signed in December 2013. Lower revenue decline combined with cost savings allowed us to slightly improve the restated EBITDA margin to 32.1%, up from 31.6% in 2013. Our capex (excluding spectrum fees) fell by 7%, due to completion of the network modernisation project. As a result, we managed to slightly grow our organic

cash flow to PLN 1,149 million, meeting our objective of at least repeating the result of 2013. We reduced our net debt by close to PLN 400 million and preserved a sound financial structure, with net debt at 1.1 times EBITDA (unchanged from the previous year) and net gearing at 25% (reduced from 26% in 2013).

New initiatives to complement our service portfolio
In 2014 we introduced two new commercial initiatives: Orange Finanse and Orange Energia. These products – an online banking platform and an energy retail platform - complement our telecom services, and are designed to improve customer loyalty. As more and more of our customers rely on their smartphones as all-purpose life management devices, we believe these complementary products are a natural extension to our service portfolio. The initial response to Orange Finanse has been very promising, with 47 thousand customers signing up in the first four months.

Top priorities for 2015: investments in fibre, customer satisfaction and further efficiency increases
The start of 2015 has been marked by two very important developments for our company: firstly, the start of the long awaited LTE spectrum auction, and secondly, Orange Polska's announcement of a significant programme of investment in our fibre access network this year.
Strong market demand for fast internet, a more favourable regulatory environment and the promising results of our pilot project have encouraged us to step up the rollout of our fibre network. We plan to spend up to PLN 450 million to cover up to 650 thousand households with internet speed in excess of 100MB/s. The investment programme will mainly concentrate on big cities where we already have a high market share in mobile voice services, and can leverage on that strong footprint. We will carefully monitor monetisation of this investment: we expect a return substantially greater than our cost of capital. I strongly believe this investment programme will build a base for future growth.
Our customer excellence programme will continue to be a top priority in 2015. We need to further improve customer experience by ensuring that our approach is convergent, competent and cost-effective. At the same time, in order to stabilise performance and defend our profitability, we must continue to increase efficiency, to be more 'online' and more flexible. Efficiency measures will include further process automation; workforce optimisation, with 1,420 leaves expected in 2015 (based on the social agreement signed in December 2013); further consolidation of our call centres and points of sale; and, as usual, a rigorous approach to G&A costs. These efforts to optimise operating costs will be coupled with further efficiency savings in capital expenditure.
In closing, I would like to thank Orange Polska employees whose creativity, hard work and dedication to our customers made last year's achievements possible. Your understanding of customer needs is a key asset in this very competitive marketplace.
I want also thank our shareholders for their trust and support. I will be happy to meet you during our annual shareholders' meeting and during our investor roadshows.

Bruno Duthoit
President of the Board and CEO
Orange Polska S.A.

Deloitte Polska
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AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Orange Polska S.A.

We have audited the attached consolidated financial statements of the Orange Polska Group ("the Group") with Orange Polska S.A., with its registered office in Warsaw at Al. Jerozolimskie 160, as the Parent Company ("the Company"), which comprise consolidated statement of financial position prepared as of 31 December 2014, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2014 to 31 December 2014 and notes comprising a summary of significant accounting policies and other explanatory information as required by the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations.

Preparation of consolidated financial statements and a report on the activities of the Group in line with the law is the responsibility of the Management Board of the Parent Company.

The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, No. 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Group, express an opinion whether the financial statements give a true and fair view of the financial and economic position as well as the financial result of the Group.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland and
- International Standards on Auditing.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements:

- give a true and fair view of the information material to evaluation of the economic and financial position of the Group as of 31 December 2014 as well as its profit in the financial year from 1 January 2014 to 31 December 2014
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
- comply with the provisions of law applicable to the Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Group for the 2014 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014, item 133) and consistent with underlying information disclosed in the audited financial statements.

Piotr Sokołowski
Key certified auditor
conducting the audit
No. 9752

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Piotr Sokołowski – Deputy Chairman of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 12 February 2015

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF ORANGE POLSKA GROUP FOR THE 2014 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Company

The Parent Company of the Group operates under the business name Orange Polska S.A. The Company's registered office is located in Warsaw at Al. Jerozolimskie 160.

The Parent Company operates as a joint stock company. The Parent Company is recorded in the Register of Entrepreneurs kept by the District Court in Warsaw, XII Business-Registry Division in Warsaw, under KRS No. 0000010681.

The Company operates based on the provisions of the Code of Commercial Companies.

In the audited period, the Group conducted mainly the following business activities:
- mobile and fixed telecommunications services, including calls, messaging, content, access to the Internet and TV,
- provision of leased lines, data transmission and other telecommunications value added services,
- sale of telecommunications equipment.

As of 31 December 2014, the Company's share capital amounted to PLN 3,937 million and was divided into 1,312 million ordinary shares with a face value of PLN 3 each. The ownership structure of the share capital as at 31 December 2014 was as follows:

	% of votes	*Nominal value (in PLN millions)*
Orange S.A.	50.67	1,995
Other shareholders	49.33	1,942
Total	**100.00**	**3,937**

As at the opinion's date, the composition of the Company's Management Board was as follows:
- Bruno Duthoit – President of the Management Board,
- Piotr Muszyński – Vice President in charge of Operations,
- Mariusz Gaca – Vice President in charge of Business Market,
- Maciej Nowohoński – Board Member in charge of Finance,
- Jacek Kowalski – Board Member in charge of Human Resources.

2. Structure of the Capital Group

The consolidated financial statements as of 31 December 2014 included the following entities:

a) Parent Company – Orange Polska S.A.

We have audited the financial statements of Orange Polska S.A. (Parent Company) for the period from 1 January to 31 December 2014. As a result of our audit, on 12 February 2015 we issued an unqualified opinion.

b) Companies subject to full consolidation:

Name and address of the Company	Share in the share capital:	Name of entity that audited the financial statements and type of opinion issued	Opinion date
Orange Real Estate Sp. z o.o.	100%	Deloitte Polska Unqualified	30.01.2015
TP Edukacja i Wypoczynek Sp. z o.o.	100%	Deloitte Polska Unqualified	30.01.2015
TP Invest Sp. z o.o.	100%	Deloitte Polska Unqualified	30.01.2015
Telefon 2000 Sp. z o.o. (the Company is in liquidation)	100%	Not required to be audited	Not applicable
TP TelTech Sp. z o.o.	100%	Deloitte Polska Unqualified	30.01.2015
Telefony Podlaskie S.A.	89%	Deloitte Polska Unqualified	30.01.2015
Contact Center Sp. z o.o.	100%	Deloitte Polska Unqualified	30.01.2015
Orange Szkolenia Sp. z o.o.	100%	Deloitte Polska Unqualified	30.01.2015
Orange Customer Service Sp. z o.o.	100%	Deloitte Polska Unqualified	30.01.2015
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	100%	Deloitte Polska Unqualified	30.01.2015
Fundacja Orange	100%	Deloitte Polska Unqualified	30.01.2015
TPSA Eurofinance France S.A.	100%	Deloitte & Associés (France) Unqualified	12.02.2015
Ramsat S.A.	100%	Deloitte Polska Unqualified	30.01.2015
Integrated Solutions Sp. z o.o.	100%	Deloitte Polska Unqualified	30.01.2015
Telekomunikacja Polska Sp. z o.o.	100%	Not required to be audited	Not applicable

c) Company accounted for in accordance with IFRS 11 “Joint Arrangements”:

Name and address of the Company	Share in the share capital:	Name of entity that audited the financial statements and type of opinion issued	Opinion Date
NetWorkS! Sp. z o.o.	50%	BDO Sp. z o.o. Unqualified	02.02.2015

3. Information on the consolidated financial statements for the previous financial year

The activities of the Group in 2013 resulted in the net profit of PLN 294 million. The consolidated financial statements of the Group for the 2013 financial year were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion.

The General Meeting of Orange Polska S.A. which approved the consolidated financial statements for the 2013 financial year was held on 10 April 2014.

In accordance with applicable laws, the consolidated financial statements for the 2013 financial year were submitted to the National Court Register (KRS) on 17 April 2014.

4. Details on the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the resolution of the Supervisory Board. The audit of the consolidated financial statements was performed based on the agreement of 28 August 2014 concluded between Orange Polska S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with the registered office in Warsaw, Al. Jana Pawła II 19 registered under number 73 on the list of entities authorized to provide audit services kept by the National Council of Certified Auditors. On behalf of the authorized entity, the audit of financial statements was conducted under the supervision of key certified auditor Piotr Sokołowski (No. 9752), from 28 August 2014 to 12 February 2015.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws from 2009, No. 77, item 649, as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Group.

5. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed in the written representation of the Management Board of the Parent Company of 12 February 2015.

II. ECONOMIC AND FINANCIAL POSITION OF THE GROUP

Presented below are the main items from the income statement as well as financial ratios describing the financial result of the Group and its financial position as compared to the same items in the previous years.

Main items from the income statement (in million PLN)	2014	2013	2012
Revenue	12,212	12,923	14,141
Operating expenses, net	(11,226)	(12,135)	(12,567)
Result from financial activity	(405)	(478)	(556)
Income tax	(46)	(16)	(163)
Net profit	535	294	855

	2014	2013	2012
Profitability ratios			
– operating profit margin Operating income *100% / Revenue	8%	6%	11%
– net profit margin Net profit *100% / Revenue	4%	2%	6%
– net return on equity Net profit *100% / Total equity	4%	2%	7%
Effectiveness ratios			
– assets turnover ratio Revenue / Total assets	0.55	0.57	0.59
– trade receivables turnover in days (Trade receivables, net year end + Trade receivables, net opening balance)/2*365 / Revenue	40	37	38
– trade liabilities turnover in days (Short term trade payables year end + Short term trade payables opening balance)/2*365 / (External purchases + Other operating expense+ Depreciation and amortisation)	72	73	90

Liquidity/Net working capital	2014	2013	2012
– debt ratio (Total current and non-current liabilities) *100% / Total assets	44%	45%	46%
– equity to assets ratio Equity *100% / Total assets	56%	55%	54%
– net working capital Current assets - Current Liabilities	(2,631)	(5,481)	(4,292)
– current ratio Current assets / Current liabilities	0.44	0.25	0.34
– quick ratio (Current assets - Inventories, net) / Current liabilities	0.40	0.23	0.31

The analysis of the above figures and ratios indicated the following trends occurring in the year 2014 in comparison to the year 2013:

- increase of profitability ratios,
- decrease of asset turnover ratio comparing to 2013,
- increase of trade receivables turnover,
- decrease of trade liabilities turnover,
- increase of net working capital,
- increase of liquidity ratios.

III. DETAILED INFORMATION

1. Information on the audited consolidated financial statements

The audited consolidated financial statements were prepared as of 31 December 2014 and include:

– consolidated statement of financial position prepared as of 31 December 2014, with total assets, total equity and liabilities of PLN 22,104 million,

– consolidated income statement for the period from 1 January 2014 to 31 December 2014, with a net income of PLN 535 million,

– consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 with a total comprehensive income of PLN 423 million,

– consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014, showing a decrease in equity of PLN 233 million,

– consolidated statement of cash flows for the period from 1 January 2014 to 31 December 2014, showing a net cash inflow of PLN 43 million,

– notes, comprising summary of adopted significant accounting policies and other explanatory information.

The structure of assets, equity and liabilities, as well as items affecting the financial result, was presented in the consolidated financial statements.

The audit covered the period from 1 January 2014 to 31 December 2014 and focused mainly on:

– verifying correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company,

– verifying the consolidation documentation,

– evaluating correctness of the consolidation methods and procedures applied during consolidation,

– review of opinions and reports on audits of financial statements of subsidiaries included in consolidation, prepared by other certified auditors.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

– financial statements of the entities included in the consolidated financial statements,

– financial statements of the controlled entities adjusted to the accounting principles (policy) applied during consolidation,

– financial statements of subsidiaries translated into the Polish currency,

– all consolidation adjustments and eliminations necessary for consolidated financial statements preparation,

– calculation of goodwill as well as its impairment tests,

– calculation of non-controlling interest,

– calculation of exchange differences arising on translation of the subsidiaries' financial statements denominated in foreign currencies.

The consolidation of the financial statements of the Group was carried out based on the full method by summing up individual items of respective financial statements of the Parent Company and the subsidiaries included in consolidation.

In case of NetWorkS! Sp. z o.o. – joint operation – according to IFRS 11 part of net assets, liabilities and revenues of this entity to which the Parent Company was entitled is presented in the consolidated financial statement of Orange Polska.

3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Group

The Parent Company confirmed the validity of the going concern basis in preparation of the consolidated financial statements. Notes and explanations to the consolidated financial statements give a correct and complete description of the valuation principles regarding assets, equity and liabilities, principles of measurement of the financial result as well as method of preparation of the consolidated financial statements.

The Parent Company provided notes and explanations consisting of tabular notes to individual items in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows as well as narrative descriptions in line with IFRS.

The Management Board prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2014 financial year. The report contains all information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. CLOSING COMMENTS

<u>Management Board’s Representation</u>

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Management Board of the Parent Company in which the Board stated that the Group complied with the laws in force.

Piotr Sokołowski
Key certified auditor
conducting the audit
No. 9752

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Piotr Sokołowski – Deputy Chairman of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 12 February 2015

ORANGE POLSKA GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

February 12, 2015

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CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings per share)	*Note*	*12 months ended* *31 December 2014 (audited)*	*31 December 2013 (audited)*
Revenue	**5**	**12,212**	**12,923**
External purchases	6.1	(6,113)	(6,440)
Labour expense	6.2	(1,874)	(1,946)
Other operating expense	6.3	(718)	(807)
Other operating income	6.3	313	320
Gains on disposal of assets	7	57	40
Gain on disposal of Wirtualna Polska S.A.	8	191	-
Employment termination expense	14	8	(186)
Depreciation and amortisation	11,12	(3,073)	(3,107)
Impairment of non-current assets	9.3	(17)	(9)
Operating income		**986**	**788**
Interest income	17	14	12
Interest expense and other financial charges	17	(303)	(388)
Foreign exchange losses	17	(2)	(2)
Discounting expense	17	(114)	(100)
Finance costs, net		**(405)**	**(478)**
Income tax	24	(46)	(16)
Consolidated net income		**535**	**294**
Net income attributable to owners of Orange Polska S.A.		535	294
Net income attributable to non-controlling interests		-	-
Earnings per share (in PLN) (basic and diluted)	**31.5**	**0.41**	**0.22**
Weighted average number of shares (in millions) (basic and diluted)	31.5	1,312	1,312

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)	*Note*	*12 months ended* *31 December 2014 (audited)*	*31 December 2013 (audited)*
Consolidated net income		**535**	**294**
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on post-employment benefits	16	(48)	38
Income tax relating to items not reclassified		9	(7)
Items that may be reclassified subsequently to profit or loss			
Losses on cash flow hedges	21	(90)	(1)
Translation adjustment		-	5
Income tax relating to items that may be reclassified		17	-
Other comprehensive income/(loss), net of tax		**(112)**	**35**
Total comprehensive income		**423**	**329**
Total comprehensive income attributable to owners of Orange Polska S.A.		423	329
Total comprehensive income attributable to non-controlling interests		-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)	**Note**	***At 31 December 2014*** *(audited)*	***At 31 December 2013*** *(audited)*
ASSETS			
Goodwill	10	3,940	3,940
Other intangible assets	11	3,215	3,081
Property, plant and equipment	12	11,715	12,768
Trade receivables	13	138	-
Derivatives	21	70	4
Other financial assets		14	9
Deferred tax assets	24	934	923
Total non-current assets		**20,026**	**20,725**
Inventories		198	200
Trade receivables	13	1,372	1,199
Derivatives	21	21	89
Other financial assets		10	15
Income tax assets		4	7
Other assets		154	56
Prepaid expenses		71	88
Cash and cash equivalents	20	248	198
Total current assets		**2,078**	**1,852**
Assets held for sale	8	-	225
TOTAL ASSETS		**22,104**	**22,802**
EQUITY AND LIABILITIES			
Share capital	25.1	3,937	3,937
Share premium		832	832
Other reserves	16,21,25.4	(119)	(7)
Retained earnings		7,746	7,867
Equity attributable to owners of Orange Polska S.A.		**12,396**	**12,629**
Non-controlling interests		2	2
Total equity		**12,398**	**12,631**
Trade payables	15.1	866	921
Loans from related party	19.1	3,229	1,157
Other financial liabilities at amortised cost	19.2,19.3	59	79
Derivatives	21	148	9
Employee benefits	16	345	296
Provisions	14	303	313
Deferred income	15.3	47	25
Total non-current liabilities		**4,997**	**2,800**
Trade payables	15.1	2,006	1,921
Loans from related party	19.1	1,078	237
Other financial liabilities at amortised cost	19.2,19.3	65	3,106
Derivatives	21	-	276
Employee benefits	16	179	187
Provisions	14	790	899
Income tax liabilities		58	95
Other liabilities	15.2	131	185
Deferred income	15.3	402	427
Total current liabilities		**4,709**	**7,333**
Liabilities related to assets held for sale	8	-	38
TOTAL EQUITY AND LIABILITIES		**22,104**	**22,802**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Treasury shares	Other reserves				Translation adjustment	Retained earnings [1]	Equity attributable to owners of OPL S.A.	Non-controlling interests	Total equity
				Losses on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments					
Balance at 1 January 2013 *(audited)*	**4,007**	**832**	**(400)**	**(15)**	**(127)**	**26**	**79**	**(5)**	**8,559**	**12,956**	**2**	**12,958**
Total comprehensive income for the 12 months ended 31 December 2013	-	-	-	(1)	38	(7)	-	5	294	329	-	329
Redemption of treasury shares	(70)	-	400	-	-	-	-	-	(330)	-	-	-
Dividend	-	-	-	-	-	-	-	-	(656)	(656)	-	(656)
Balance at 31 December 2013 *(audited)*	**3,937**	**832**	**-**	**(16)**	**(89)**	**19**	**79**	**-**	**7,867**	**12,629**	**2**	**12,631**
Balance at 1 January 2014 *(audited)*	**3,937**	**832**	**-**	**(16)**	**(89)**	**19**	**79**	**-**	**7,867**	**12,629**	**2**	**12,631**
Total comprehensive income for the 12 months ended 31 December 2014	-	-	-	(90)	(48)	26	-	-	535	423	-	423
Dividend	-	-	-	-	-	-	-	-	(656)	(656)	-	(656)
Balance at 31 December 2014 *(audited)*	**3,937**	**832**	**-**	**(106)**	**(137)**	**45**	**79**	**-**	**7,746**	**12,396**	**2**	**12,398**

[1] See Note 25.3.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)	*Note*	*12 months ended 31 December 2014 (audited)*	*12 months ended 31 December 2013 (audited)*
OPERATING ACTIVITIES			
Consolidated net income		535	294
Adjustments to reconcile net income to cash from operating activities			
Gains on disposal of assets	7	(57)	(40)
Gain on disposal of Wirtualna Polska S.A.	8	(191)	-
Depreciation and amortisation	11,12	3,073	3,107
Impairment of non-current assets	9	17	9
Finance costs, net		405	478
Income tax	24	46	16
Change in provisions and allowances		(328)	(55)
Operational foreign exchange and derivatives losses, net		2	-
Change in working capital (trade)			
Increase in inventories, gross		(2)	(3)
(Increase)/decrease in trade receivables, gross		(281)	141
Increase/(decrease) in trade payables		137	(40)
Change in working capital (non-trade)			
(Increase)/decrease in prepaid expenses and other receivables		(28)	29
Decrease in deferred income and other payables		(81)	(73)
Interest received		14	12
Interest paid and interest rate effect paid on derivatives, net		(447)	(458)
Exchange rate effect received/(paid) on derivatives, net		4	(20)
Income tax paid		(65)	(105)
Net cash provided by operating activities		**2,753**	**3,292**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	11,12	(2,153)	(2,180)
Decrease in amounts due to fixed assets suppliers		(79)	(74)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		5	-
Proceeds from sale of property, plant and equipment and intangible assets		100	67
Decrease in receivables related to leased fixed assets		9	9
Proceeds from sale of subsidiaries, net of cash and transaction costs	4	371	9
Cash paid for subsidiaries, net of cash acquired	4	(2)	(8)
Decrease in other financial assets		3	8
Exchange rate effect received on other derivatives, net		1	3
Net cash used in investing activities		**(1,745)**	**(2,166)**
FINANCING ACTIVITIES			
Redemption of bonds		(2,969)	-
Issuance of long-term debt	19	2,016	1,172
Repayment of long-term debt	19	(50)	(934)
Increase/(decrease) in short-term debt	19	814	(904)
Exchange rate effect paid on derivatives, net	19	(120)	(2)
Dividend paid	25.3	(656)	(656)
Net cash used in financing activities		**(965)**	**(1,324)**
Net change in cash and cash equivalents		**43**	**(198)**
Effect of changes in exchange rates and other impacts on cash and cash equivalents		-	(3)
Cash and cash equivalents at the beginning of the period		205 [(1)]	406
Cash and cash equivalents at the end of the period		**248**	**205** [(1)]

[(1)] Includes PLN 7 million classified as assets held for sale (see Note 8).

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.

On 31 December 2013, the merger of Telekomunikacja Polska S.A. (currently Orange Polska S.A.) and its fully owned subsidiaries – PTK-Centertel Sp. z o.o. and Orange Polska Sp. z o.o. – was registered in the Commercial Court. The merger was effected by transferring all assets and liabilities of these subsidiaries to Orange Polska S.A. In these Consolidated Financial Statements, PTK-Centertel Sp. z o.o. and Orange Polska Sp. z o.o are referred to as Orange Polska S.A.

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 leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, sells electrical energy and financial services.

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

Orange Polska provides telecommunications services on the basis of entry number 1 in the register of telecommunications companies maintained by the President of Office of Electronic Communication ("UKE"), the national regulatory authority for the telecommunications market. The Group's telecommunications operations are subject to the supervision of 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 2014	*31 December 2013*
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100%	100%
Orange Customer Service Sp. z o.o.	Warsaw, Poland	Post-sale services for OPL S.A. customers.	100%	100%
Ramsat S.A.	Modlnica, Poland	Distributor of OPL S.A. products on mass and business market.	100%	100%
Wirtualna Polska S.A. (1)	Gdańsk, Poland	Internet portal and related services including internet advertising.	-	100%
Orange Real Estate Sp. z o.o.	Warsaw, Poland	Facilities management and maintenance.	100%	100%
TP Edukacja i Wypoczynek Sp. z o.o.	Warsaw, Poland	Hotel services, training and conference facilities.	100%	100%
TP Invest Sp. z o.o.	Warsaw, Poland	Services for Group entities, holding management.	100%	100%
- Contact Center Sp. z o.o. (2)	Warsaw, Poland	Call-centre services and telemarketing.	100%	-
- Orange Szkolenia Sp. z o.o. (2)	Warsaw, Poland	Training and hotel 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%
- Telefon 2000 Sp. z o.o.	Warsaw, Poland	No operational activity, in liquidation.	100%	100%
- TPSA Eurofinance France S.A.	Paris, France	No operational activity.	99.99%	99.99%
Pracownicze 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%

(1) The company was disposed of in 2014 (see Note 8).
(2) Contact Center Sp. z o.o. was divided into two entities: Contact Center Sp. z o.o. (a new entity) and Orange Szkolenia Sp. z o.o. (previously Contact Center Sp. z o.o.).

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.

In the 12 months ended 31 December 2014 and 2013, 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:

Bruno Duthoit – President of the Management Board,
Mariusz Gaca – Vice President in charge of Business Market,
Piotr Muszyński – Vice President in charge of Operations,
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,
Prof. Andrzej K. Koźmiński – Deputy Chairman of the Supervisory Board**,** Independent Member 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,
Jean-Marie Culpin – Member of the Supervisory Board,
Eric Debroeck – Member of the Supervisory Board,
Ramon Fernandez – Member of the Supervisory Board,
Dr. Mirosław Gronicki – Independent Member of the Supervisory Board,
Russ Houlden – Independent Member of the Supervisory Board,
Sławomir Lachowski – Independent Member of the Supervisory Board,
Marie-Christine Lambert – Member of the Supervisory Board,
Gérard Ries – Member of the Supervisory Board,
Dr. Wiesław Rozłucki – Independent Member of the Supervisory Board,
Valérie Thérond – Member of the Supervisory Board.

The following changes occurred in the Management Board of the Company in the year ended 31 December 2014 and in the year 2015 until the date of the authorisation of these Consolidated Financial Statements:

On 6 February 2014, OPL S.A.'s Supervisory Board appointed Mr Mariusz Gaca as the Member of the Management Board of OPL S.A. in charge of Business Market. On 14 October 2014, Mr Mariusz Gaca was appointed as Vice President of the Management Board of OPL S.A. in charge of Business Market.

On 24 February 2014, Mr Jacques de Galzain submitted his resignation as the Member of the Management Board of OPL S.A. in charge of Finance with effect on 28 February 2014.

On 17 March 2014, OPL S.A.'s Supervisory Board appointed Mr Maciej Nowohoński as the Member of the Management Board of OPL S.A. in charge of Finance.

On 9 September 2014, Mr Vincent Lobry submitted his resignation as the Member of the Management Board of OPL S.A. in charge of Value Management and Convergence with effect on 15 October 2014.

The following changes occurred in the Supervisory Board of the Company in the year ended 31 December 2014 and in the year 2015 until the date of the authorisation of these Consolidated Financial Statements:

On 10 April 2014, OPL S.A. Supervisory Board Members' mandates of Mr Timothy Boatman and Mr Pierre Louette expired and were not renewed. On the same day the General Meeting of OPL S.A. appointed Mr Russ Houlden and Ms Valérie Thérond as Members of the Supervisory Board of OPL S.A.

On 10 July 2014, Mr Benoit Scheen submitted his resignation as a Member of the Supervisory Board of OPL S.A. with effect on 31 August 2014.

On 9 October 2014, the Supervisory Board of OPL S.A. appointed Mr Ramon Fernandez as a Member.

2. Statement of compliance and basis of preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use 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").

Comparative amounts for the year ended 31 December 2013 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 and debt that is hedged against exposure to changes in fair value.

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 are prepared in millions of Polish złoty ("PLN") and were authorised for issuance by the Management Board on 12 February 2015.

The principles applied to prepare financial data relating to the year ended 31 December 2014 are described in Note 31 and are based on:

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2014,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2014 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. Segment performance is evaluated by the Management Board mainly based on consolidated revenue, consolidated EBITDA, consolidated net income, consolidated organic cash flows, consolidated capital expenditures, consolidated net gearing ratio and consolidated net financial debt / EBITDA ratio based on cumulative EBITDA for the last four quarters. EBITDA corresponds to operating income before depreciation and amortisation expense and impairment of non-current assets. Organic cash flows 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 fixed assets. Net gearing ratio is the share of net financial debt in the sum of net financial debt and equity.
To enhance the performance evaluation, where it is materially important for trends analysis, these financial data can be restated to exclude the impact of significant non-recurring transactions or other events and changes in scope of consolidation.

Basic financial data of the operating segment is presented below:

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Restated revenue	12,212	12,786
Restated EBITDA	3,921	4,046
Net income as per consolidated income statement	535	294
Restated organic cash flows	1,149	1,105
Restated capital expenditures	1,775	1,916

	At 31 December 2014	*At 31 December 2013*
Net gearing ratio	25%	26%
Net financial debt / restated EBITDA ratio	1.1	1.1

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

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Revenue	12,212	12,923
- restatement for data of WP and ORE [(1)]	-	(137)
Restated revenue	12,212	12,786
EBITDA	4,076	3,904
- restatement for gain on disposal of WP (see Note 8)	(191)	-
- restatement for employment termination expense (see Note 14) net of related curtailment of long-term employee benefits (see Note 16)	(8)	145
- restatement for data of WP and ORE [(1)]	-	(38)
- restatement for the impact of certain claims and litigation	44	-
- restatement for the write-off of certain assets following the merger (see Note 1.1) and other restatements	-	35
Restated EBITDA	3,921	4,046
Organic cash flows	626	1,105
- restatement for payments for acquisition of telecommunications licences (see Note 11)	378	-
- restatement for the impact of certain claims and litigation	145	-
Restated organic cash flows	1,149	1,105
Capital expenditures	2,153	2,180
- restatement for expenditures on acquisition of telecommunications licences (see Note 11)	(378)	(264)
Restated capital expenditures	1,775	1,916

[(1)] Restated revenue and restated EBITDA for 12 months ended 31 December 2013 include Wirtualna Polska S.A.'s ("WP") data for the period up to February 2013 (see Note 8) and do not include data of Otwarty Rynek Elektroniczny S.A. ("ORE", see Note 4).

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

On 13 February 2014, the Group disposed of its 100% shareholding in Wirtualna Polska S.A. (see Note 8).

On 15 March 2013, the Group purchased a 100% shareholding in Datacom System S.A. – a provider of integrated IT services. The purchase price amounted to PLN 13 million, of which PLN 11 million was paid on the purchase date and PLN 2 million was paid in 2014. On 1 October 2013, Datacom System S.A. merged with Integrated Solutions Sp. z o.o., a fully owned subsidiary.

On 9 July 2013, the Group concluded a share sale agreement with a private equity fund under which the 100% shareholding in Otwarty Rynek Elektroniczny S.A. was disposed of for a total consideration amounting to PLN 16 million.

The Group liquidated TPSA Eurofinance B.V. and TPSA Finance B.V., fully owned subsidiaries. They were deleted from the Dutch commercial register in August 2013.

On 3 December 2013, the Group incorporated Telekomunikacja Polska Sp. z o.o., a fully owned subsidiary.

5. Revenue

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Mobile services	**5,713**	**6,110**
Voice traffic revenue	3,064	3,545
Data, messaging, content and M2M (machine-to-machine)	1,903	1,794
Wholesale revenue (including interconnect)	746	771
Mobile equipment sales	**427**	**149**
Fixed services	**5,520**	**6,057**
Fixed narrowband	1,983	2,297
Fixed broadband, TV and VoIP (Voice over Internet Protocol)	1,663	1,687
Enterprise solutions and networks	933	1,020
Wholesale revenue (including interconnect)	941	1,053
Other revenue	**552**	**607**
Total revenue	**12,212**	**12,923**

Revenue is generated mainly in the territory of Poland. Approximately 2.9% and 2.9% of the total revenue for the 12 months ended 31 December 2014 and 2013 was earned from entities which are not domiciled in Poland, mostly from interconnect services.

6. Operating expense and income

6.1. External purchases

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Commercial expenses	(2,545)	(2,765)
– *cost of handsets and other equipment sold*	*(1,590)*	*(1,710)*
– *commissions, advertising, sponsoring costs and other*	*(955)*	*(1,055)*
Interconnect expenses	(1,231)	(1,251)
Network and IT expenses	(788)	(846)
Other external purchases	(1,549)	(1,578)
Total external purchases	**(6,113)**	**(6,440)**

Other external purchases include mainly customer support and management services, postage costs, costs of content, rental costs and real estate operating and maintenance costs. From 2014, the Group classifies costs of equipment used in ICT (Information and Communications Technology) projects as commercial expenses (previously classified as other external purchases). As a result, comparative amounts in this note were adjusted.

6.2. Labour expense

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Average number of active employees (full time equivalent)	19,094	21,214
Wages and salaries	(1,625)	(1,735)
Social security and other charges	(380)	(398)
Long-term employee benefits (see Note 16)	(10)	34
Capitalised personnel costs	199	211
Other employee benefits	(58)	(58)
Total labour expense	**(1,874)**	**(1,946)**

6.3. Other operating expense and income

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Trade and other receivables impaired or sold, net	(172)	(221)
Taxes other than income tax	(329)	(323)
Orange brand fee (see Note 29.2)	(134)	(164)
Other expense and changes in provisions, net	(83)	(99)
Total other operating expense	**(718)**	**(807)**
Recoveries on customer bad debts	111	97
Other income	202	223
Total other operating income	**313**	**320**

Other 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

In the 12 months ended 31 December 2014 and 2013, research and development costs expensed in the consolidated income statement amounted to PLN 63 million and PLN 61 million, respectively.

7. Gains on disposal of assets

In the 12 months ended 31 December 2014 and 2013, gains on disposal of assets amounted to PLN 57 million and PLN 40 million, respectively, and included mainly gains on disposal of properties.

8. Gain on disposal of Wirtualna Polska S.A.

On 13 February 2014, the Group and o2 Sp. z o.o. finalised a share sale agreement under which the Group disposed of its 100% shareholding in Wirtualna Polska S.A. ("WP"), for a total consideration amounting to PLN 367 million, consisting of consideration received in cash amounting to PLN 382 million, decreased by PLN 15 million of liabilities assumed by the Group. Additionally, the Group incurred transaction costs of PLN 4 million.

The Group disposed of the following assets and liabilities:

(in PLN millions)	
Assets:	**202**
- Goodwill	85
- Other intangible assets	7
- Property, plant and equipment	43
- Deferred tax assets	5
- Trade receivables	25
- Bonds issued by the Group [(1)]	26
- Cash and cash equivalents	7
- Other	4
Liabilities:	**30**
- Trade payables	20
- Employee benefits	8
- Other	2
Net assets disposed of	**172**

[(1)] Bonds issued by the Group to WP were recognised at the disposal date in the consolidated statement of financial position as current Other financial liabilities at amortised cost.

Gain on disposal amounting to PLN 191 million is presented separately in the consolidated income statement.

The following WP's assets and liabilities were classified as held for sale and presented separately in the consolidated statement of financial position as at 31 December 2013:

(in PLN millions)	*At 31 December 2013*
Assets held for sale:	**225**
- Goodwill	85
- Other intangible assets	6
- Property, plant and equipment	43
- Deferred tax assets	5
- Trade receivables	37
- Bonds issued by OPL S.A. (1)	39
- Cash and cash equivalents	7
- Other	3
Liabilities related to assets held for sale:	**38**
- Trade payables	27
- Employee benefits	9
- Other	2

(1) Bonds issued by OPL S.A. to WP were included in the consolidated statement of financial position as at 31 December 2013 in Assets held for sale and in current Other financial liabilities at amortised cost.

9. Impairment

9.1. Information concerning the Cash Generating Unit

Most 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 the telecom operation as the telecom operator Cash Generating Unit ("CGU").

The Group considers certain indicators, including market liberalisation and other 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 2014 and 2013 the Group performed impairment tests of the CGU (including goodwill). No impairment loss was recognised in 2014 or 2013 as a result of these tests.

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, decisions of the regulator in terms of pricing, accessibility of services, 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 and
- the level of investment spending, which may be affected by the roll-out of necessary new technologies or regulatory decisions concerning telecommunications licences allocation.

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.

Revenue is likely to be lower in 2015. Operating expenses, excluding impact of claims and litigation, may also decrease, but possibly at a slower pace than the decline of the revenue. The EBITDA will therefore be under pressure. Capital expenditures are expected to increase due to planned investments in fibre network and acquisition of telecommunications licences.

Discount rates used to determine value in use are based on weighted average cost of capital and reflect current market assessment of the time value of money and the risks specific to activities of the CGU. Growth rates to perpetuity reflect Management's assessment of cash flows evolution after the last year covered by the cash flow projections.

Telecom operator CGU

	At 31 December 2014	*At 31 December 2013*
Basis of recoverable amount	Value in use	Value in use
Sources used	Business plan	Business plan
	5 years cash flow projections	5 years cash flow projections
Growth rate to perpetuity	1%	1%
Post-tax discount rate	8.8%	8.8%
Pre-tax discount rate (1)	10.2%	10.2%

(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

Management believes that no reasonably possible change to any of the above key assumptions would cause the carrying value of telecom operator CGU to exceed its recoverable amount.

9.2. Goodwill

In the 12 months ended 31 December 2014 and 2013, there was no goodwill written off. Details regarding impairment tests of goodwill are presented in Note 9.1.

9.3. Other property, plant and equipment and intangible assets

In the 12 months ended 31 December 2014 and 2013, the impairment loss on property, plant and equipment and intangible assets charged to the income statement amounted to PLN 17 million and PLN 9 million respectively, primarily including a net impairment loss as a result of a review of certain of the Group's properties.

10. Goodwill

(in PLN millions)	*At 31 December 2014*			*At 31 December 2013*		
CGU	*Cost*	*Accumulated impairment*	*Net*	*Cost*	*Accumulated impairment*	*Net*
Telecom operator	3,940	-	3,940	3,940	-	3,940
Total goodwill	**3,940**	**-**	**3,940**	**3,940**	**-**	**3,940**

11. Other intangible assets

(in PLN millions)	*At 31 December 2014*			
	Cost	*Accumulated amortisation*	*Accumulated impairment*	*Net*
Telecommunications licences	2,617	(1,252)	-	1,365
Software	6,873	(5,095)	-	1,778
Other intangibles	224	(139)	(13)	72
Total other intangible assets	**9,714**	**(6,486)**	**(13)**	**3,215**

(in PLN millions)	*At 31 December 2013*				*At 1 January 2013*
	Cost	*Accumulated amortisation*	*Accumulated impairment*	*Net*	*Net*
Telecommunications licences	2,609	(1,477)	-	1,132	996
Software	6,665	(4,824)	-	1,841	1,857
Other intangibles	232	(111)	(13)	108	114
Total other intangible assets	**9,506**	**(6,412)**	**(13)**	**3,081**	**2,967**

Details of telecommunications licences are as follows:

(in PLN millions)	*Acquisition date*	*Licence term*	*Net book value At 31 December 2014*	*Net book value At 31 December 2013*
1800 MHz	1997	2027	-	-
900 MHz	1999	2014	-	14
900 MHz	2014	2029	348	-
2100 MHz	2000	2023	765	860
900 MHz [1]	2013	2018	45	35
1800 MHz [1]	2013	2028	207	223
Total telecommunications licences			**1,365**	**1,132**

[1] Licences held under agreements with T-Mobile Polska S.A.

On 27 June 2014, the Group was granted a 900 MHz licence for a period of next 15 years for a consideration of PLN 358 million paid on 1 July 2014.

Movements in the net book value of other intangible assets were as follows:

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Opening balance net of accumulated amortisation and impairment	**3,081**	**2,967**
Acquisitions of intangible assets	943	790
Disposals and liquidations	-	(3)
Amortisation	(811)	(729)
Transfer to assets held for sale (see Note 8)	-	(6)
Reclassifications and other, net	2	62
Closing balance	**3,215**	**3,081**

12. Property, plant and equipment

(in PLN millions)	*At 31 December 2014*			
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*
Land and buildings	3,248	(1,689)	(118)	1,441
Network	37,625	(28,346)	-	9,279
Terminals	2,031	(1,506)	-	525
Other IT equipment	1,598	(1,239)	-	359
Other	355	(242)	(2)	111
Total property, plant and equipment	**44,857**	**(33,022)**	**(120)**	**11,715**

(in PLN millions)	*At 31 December 2013*				*At 1 January 2013*
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*	*Net*
Land and buildings	3,334	(1,616)	(107)	1,611	1,807
Network	38,037	(27,881)	-	10,156	10,884
Terminals	2,065	(1,526)	-	539	552
Other IT equipment	1,587	(1,218)	-	369	603
Other	338	(241)	(4)	93	105
Total property, plant and equipment	**45,361**	**(32,482)**	**(111)**	**12,768**	**13,951**

During the 12 months ended 31 December 2014 and 2013 the Group recognised respectively PLN 34 million and PLN 45 million of non-repayable investment grants received from the government and the European Union. These grants related to the development of the broadband telecommunications network. Investment grants are deducted from the cost of the related assets.

Movements in the net book value of property, plant and equipment were as follows:

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Opening balance net of accumulated depreciation and impairment	**12,768**	**13,951**
Acquisitions of property, plant and equipment	1,210	1,390
Disposals and liquidations	(54)	(56)
Depreciation	(2,262)	(2,378)
Impairment	(17)	(9)
Transfer to assets held for sale (see Note 8)	-	(43)
Dismantling costs, reclassifications and other, net	70	(87)
Closing balance	**11,715**	**12,768**

13. Trade receivables

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
Non-current trade receivables, net	138	-
Current trade receivables, net	1,372	1,199
Trade receivables, net	**1,510**	**1,199**

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 to sales of mobile handsets on instalments.

Movement in the impairment of trade receivables in the 12 months ended 31 December 2014 and 2013 is presented below.

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Beginning of period	**164**	**136**
Impairment losses, net	78	135
Impaired receivables sold or written-off	(99)	(107)
End of period	**143**	**164**

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

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
Trade receivables collectively analysed for impairment, net:		
Not past due	862	537
Past due less than 180 days	305	275
Past due between 180 and 360 days	22	21
Past due more than 360 days	1	7
Total trade receivables collectively analysed for impairment, net	**1,190**	**840**
Trade receivables individually analysed for impairment, net: [(1)]		
Not past due	238	215
Past due	82	144
Total trade receivables individually analysed for impairment, net	**320**	**359**
Total trade receivables, net	**1,510**	**1,199**

[(1)] Mainly includes receivables from related parties (see Note 29.2) and telecommunications companies.

14. Provisions

Movements of provisions for the 12 months ended 31 December 2014 were as follows:

(in PLN millions)	*Provisions for claims and litigation, risks and other charges*	*Provisions for employment termination expense*	*Dismantling provisions*	*Total provisions*
At 1 January 2014	**781**	**176**	**255**	**1,212**
Increases	165	1	62	228
Reversals (utilisations)	(192)	(83)	(19)	(294)
Reversals (releases)	(89)	(9)	-	(98)
Foreign exchange effect	15	-	-	15
Discounting effect	17	4	9	30
At 31 December 2014	**697**	**89**	**307**	**1,093**
Current	697	89	4	790
Non-current	-	-	303	303

Movements of provisions for the 12 months ended 31 December 2013 were as follows:

(in PLN millions)	*Provisions for claims and litigation, risks and other charges*	*Provisions for employment termination expense*	*Dismantling provisions*	*Total provisions*
At 1 January 2013	**848**	**87**	**281**	**1,216**
Increases	41	201	3	245
Reversals (utilisations)	(67)	(98)	(23)	(188)
Reversals (releases)	(65)	(15)	(17)	(97)
Foreign exchange effect	7	-	-	7
Discounting effect	17	1	11	29
At 31 December 2013	**781**	**176**	**255**	**1,212**
Current	781	109	9	899
Non-current	-	67	246	313

The discount rate used to calculate the present value of provisions amounted to 2.21% - 2.81% as at 31 December 2014 and 2.75% - 4.70% as at 31 December 2013.

<u>Provisions for claims and litigation, risks and other charges</u>
These provisions relate mainly to claims and litigation described in the Note 28. 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.

<u>Provisions for employment termination expense</u>
Provisions for employment termination expense as at 31 December 2014 and 2013 consisted of the estimated amount of termination benefits for employees scheduled to terminate employment in OPL S.A. and Orange Customer Service Sp. z o.o. ("OCS") under the 2014-2015 Social Agreement. Reversals of these provisions during the 12 months ended 31 December 2013 related mainly to the 2012 - 2013 Social Agreement.

On 9 December 2013, OPL S.A. and OCS concluded with Trade Unions the Social Agreement under which up to 2,950 employees were entitled to take advantage of the voluntary departure package in years 2014 - 2015. 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 2015.

<u>Dismantling provisions</u>
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.

15. Trade payables, other liabilities and deferred income

15.1. Trade payables

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
Trade payables	1,294	1,189
Fixed assets payables	562	590
Telecommunications licence payables	1,016	1,063
Total trade payables	**2,872**	**2,842**
Current	2,006	1,921
Non-current [1]	866	921

[1] Includes telecommunications licence payables only.

15.2. Other liabilities

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
VAT payables	64	102
Other taxes payables	21	20
Other	46	63
Total other liabilities	**131**	**185**
Current	131	185
Non-current	-	-

15.3. Deferred income

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
Subscription (including unused balances in subscription system)	192	204
Unused balances in the pre-paid system	161	183
Connection fees	44	46
Other	52	19
Total deferred income	**449**	**452**
Current	402	427
Non-current	47	25

16. Employee benefits

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
Jubilee awards	145	122
Retirement bonuses and other post-employment benefits	221	197
Salaries and other employee-related payables	158	164
Total employee benefits	**524**	**483**
Current	179	187
Non-current	345	296

Certain employees and retirees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 31.22). 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 2014 and 2013 are detailed below:

(in PLN millions)	*12 months ended 31 December 2014*			
	Jubilee awards	*Retirement bonuses*	*Other post-employment benefits*	*Total*
Present/carrying value of obligation at the beginning of the period	**122**	**98**	**99**	**319**
Current service cost [1]	8	5	-	13
Past service cost [1] [2]	-	-	(30)	(30)
Interest cost [3]	5	4	3	12
Benefits paid	(17)	(1)	(5)	(23)
Actuarial losses for the period	27 [1]	29 [4]	19 [4]	75
Present/carrying value of obligation at the end of the period	**145**	**135**	**86**	**366**
Weighted average duration (in years)	9	16	14	13

[1] Recognised under labour expense in the consolidated income statement.
[2] Curtailment of other post-employment benefits for retirees of the Group.
[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 PLN millions)	*12 months ended 31 December 2013*			
	Jubilee awards	*Retirement bonuses*	*Other post-employment benefits*	*Total*
Present/carrying value of obligation at the beginning of the period	**152**	**150**	**98**	**400**
Current service cost [1]	10	9	1	20
Past service cost [1] [2]	(16)	(22)	(3)	(41)
Interest cost [3]	6	5	4	15
Benefits paid	(17)	(2)	(5)	(24)
Actuarial (gains)/losses for the period	(13) [1]	(42) [4]	4 [4]	(51)
Present/carrying value of obligation at the end of the period	**122**	**98**	**99**	**319**
Weighted average duration (in years)	8	15	12	11

[1] Recognised under labour expense in the consolidated income statement.
[2] Curtailment resulting from the Social Agreement concluded on 9 December 2013 (see Note 14).
[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.

The valuation of obligations as at 31 December 2014 and 2013 was performed using the following assumptions:

	At 31 December 2014	*At 31 December 2013*
Discount rate	2.6%	4.5%
Wage increase rate	2.5% – 3.0%	2.5% – 3.0%

A change of the discount rate by 0.5 p.p. would increase or decrease the present/carrying value of obligations related to long-term employee benefits as at 31 December 2014 by PLN 24 million or PLN 22 million, respectively.

17. Finance income and expense

(in PLN millions)	*12 months ended 31 December 2014*							
	Finance costs, net					*Operating income*		
	Interest Income	*Interest expense and other financial charges*	*Foreign exchange gains / (losses)*	*Discounting expense*	***Finance income / (costs), net***	*Interest income*	*Impairment losses*	*Foreign exchange gains / (losses)*
Loans and receivables	14	-	-	-	**14**	23 [(2)]	(78) [(3)]	3
– *including cash and cash equivalents*	*9*	*-*	*-*	*-*	***9***	*-*	*-*	*-*
Liabilities at amortised cost	-	(137) [(1)]	(103)	(75)	**(315)**	-	-	(17)
Derivatives	-	(166)	101	4	**(61)**	-	-	27
– *hedging derivatives*	*-*	*(68)*	*94*	*-*	***26***	*-*	*-*	*-*
– *derivatives held for trading* [(4)]	*-*	*(98)*	*7*	*4*	***(87)***	*-*	*-*	*27*
Non-financial items [(5)]	-	-	-	(43)	**(43)**	-	-	(15)
Total	**14**	**(303)**	**(2)**	**(114)**	**(405)**	**23**	**(78)**	**(2)**

[(1)] Includes mainly interest expense on loans from related party, bonds, bank borrowings and change in fair value of liabilities hedged by fair value hedges.
[(2)] Includes late payment interest on trade receivables.
[(3)] Includes impairment losses on trade receivables.
[(4)] Derivatives economically hedging commercial or financial transactions.
[(5)] Includes mainly provisions and employee benefits.

(in PLN millions)	*12 months ended 31 December 2013*							
	Finance costs, net					*Operating income*		
	Interest Income	*Interest expense and other financial charges*	*Foreign exchange gains / (losses)*	*Discounting expense*	***Finance income / (costs), net***	*Interest income*	*Impairment losses*	*Foreign exchange gains / (losses)*
Loans and receivables	12	-	(3)	-	**9**	24 [(2)]	(135) [(3)]	-
– *including cash and cash equivalents*	*9*	*-*	*(3)*	*-*	***6***	*-*	*-*	*-*
Liabilities at amortised cost	-	(228) [(1)]	(35)	(59)	**(322)**	-	-	(9)
Derivatives	-	(160)	36	4	**(120)**	-	-	16
– *hedging derivatives*	*-*	*(48)*	*25*	*-*	***(23)***	*-*	*-*	*2*
– *derivatives held for trading* [(4)]	*-*	*(112)*	*11*	*4*	***(97)***	*-*	*-*	*14*
Non-financial items [(5)]	-	-	-	(45)	**(45)**	-	-	(7)
Total	**12**	**(388)**	**(2)**	**(100)**	**(478)**	**24**	**(135)**	**-**

[(1)] Includes mainly interest expense on bonds, bank borrowings, loans from related party and change in fair value of liabilities hedged by fair value hedges.
[(2)] Includes late payment interest on trade receivables.
[(3)] Includes impairment losses on trade receivables.
[(4)] Derivatives economically hedging commercial or financial transactions.
[(5)] Includes mainly provisions and employee benefits.

During the 12 months ended 31 December 2014 and 2013 there was no significant ineffectiveness on cash flow hedges and fair value hedges.

18. 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, other financial assets at fair value through profit or loss 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 2014*	*At 31 December 2013*
Loans from related party	19.1	4,307	1,394
Bonds	19.2	-	3,016
Other financial debt	19.3	124	130
Derivatives – net [(1)]	21	57	192
Gross financial debt after derivatives		**4,488**	**4,732**
Cash and cash equivalents	20	(248)	(198)
Other financial assets at fair value through profit or loss		-	(6)
Effective portion of cash flow hedges		(106)	(16)
Net financial debt		**4,134**	**4,512**

[(1)] Liabilities less assets.

19. Financial liabilities at amortised cost excluding trade payables

19.1. Loans from related party

(in millions of currency)		*Amount outstanding at [(1)]*			
		31 December 2014		*31 December 2013*	
Creditor	*Repayment date*	*Currency*	*PLN*	*Currency*	*PLN*
Floating rate					
Atlas Services Belgium S.A. (EUR)	31 March 2016	280	1,192	280	1,157
Atlas Services Belgium S.A. (EUR)	20 May 2019	480	2,041	-	-
Atlas Services Belgium S.A. (PLN) [(2)]	30 March 2018	1,074	1,074	237	237
Total loans from related party			**4,307**		**1,394**
Current			1,078		237
Non-current			3,229		1,157

[(1)] Includes accrued interest, arrangement fees and the fair value adjustment to the loans hedged by fair value hedge.
[(2)] Revolving credit line.

The weighted average effective interest rate on loans from related party, before swaps, amounted to 1.91% as at 31 December 2014 and 2.19% as at 31 December 2013.

19.2. Bonds

(in PLN millions)						*Amount outstanding at [(1)]*	
Issuer	*Series*	*Nominal value (in millions of currency)*	*Nominal interest rate*	*Issue date*	*Redemption date*	*31 December 2014*	*31 December 2013*
TPSA Eurofinance France S.A.	A1	500 EUR	6.000%	22 May 2009	22 May 2014	-	2,147
TPSA Eurofinance France S.A.	A2	200 EUR	6.000%	17 July 2009	22 May 2014	-	869
Total bonds issued by the Group						**-**	**3,016**
Current						-	3,016
Non-current						-	-

[(1)] Includes accrued interest and the fair value adjustment to the bonds hedged by fair value hedge.

On 22 May 2014, the Group redeemed at maturity bonds of the nominal value of EUR 700 million issued by TPSA Eurofinance France S.A. in 2009 under the European Medium Term Note issuance programme. The weighted average effective interest rate on the Group's bonds, before swaps, amounted to 5.76% as at 31 December 2013. Effective interest rate was lower than nominal interest rate mainly due to issuance proceeds from A2 series exceeding the nominal value.

Additionally, as at 31 December 2013 current financial liabilities at amortised cost included PLN 39 million of bonds issued by Orange Polska S.A. to Wirtualna Polska S.A., which is a result of classification of WP's assets and liabilities as held for sale (see Note 8). Bonds issued by OPL S.A. to WP (presented in other financial liabilities at amortised cost and assets held for sale) are not included in the calculation of net financial debt in Note 18.

19.3. Other financial debt

(in millions of currency)		*Amount outstanding at* [1]			
		31 December 2014		*31 December 2013*	
Creditor	*Repayment date*	*Currency*	*PLN*	*Currency*	*PLN*
Floating rate					
European Investment Bank (EUR)	15 December 2015	8	36	17	70
Other credit lines (PLN)	4 December 2015	4	4	3	3
Fixed rate					
Instituto de Credito Oficial (USD)	2 January 2021	10	34	11	34
Bank borrowings			**74**		**107**
Finance lease liabilities and other (PLN)			50		23
Total other financial debt			**124**		**130**
Current			65		51
Non-current			59		79

[1] Includes accrued interest and bank borrowings issue costs.

The weighted average effective interest rate on the Group's bank borrowings, before swaps, amounted to 1.17% as at 31 December 2014 and 1.07% as at 31 December 2013.

20. Cash and cash equivalents

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
Cash on hand	1	1
Current bank accounts and overnight deposits	175	158
Deposits with Orange S.A.	69	37
Bank deposits up to 3 months	3	2
Total cash and cash equivalents	**248**	**198**

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 concluded in 2013. 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.

As at 31 December 2014 and 2013, cash and cash equivalents included an equivalent of PLN 26 million and PLN 12 million, respectively, denominated in foreign currencies.

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 on the counterparties. In case the counterparty's financial soundness is deteriorating, the Group applies the appropriate measures mitigating the default risk.

21. Derivatives

As at 31 December 2014 and 2013, the Group's derivatives portfolio constituted financial instruments for which there was no active market (over-the-counter derivatives) i.e. interest rate swaps, currency swaps and non-deliverable forwards. To price these instruments the Group applies standard valuation techniques, where the prevailing market zero-coupon curves constitute the base for calculation of discounting factors. A fair value of swap/forward transaction represents discounted future cash flows calculated using quoted market forward interest rates and converted into PLN at the National Bank of Poland period-end average exchange rate.

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

(in PLN millions)

Type of instrument [(1)]	*Hedged risk*	*Nominal amount (in millions of currency)*	*Maturity*	*Fair value* [(2)] *Financial Asset*	*Fair value* [(2)] *Financial Liability*
		At 31 December 2014			
Derivative instruments - fair value hedge					
CCIRS	Currency and interest rate risk	80 EUR	2016	1	(0)
Total fair value hedges				1	(0)
Derivative instruments - cash flow hedge					
CCIRS	Currency and interest rate risk	680 EUR	2016-2019	69	-
IRS	Interest rate risk	2,800 PLN	2016-2019	-	(147)
NDF	Currency risk	75 EUR	2015	5	-
NDF	Currency risk	2 USD	2015	0	-
Total cash flow hedges				74	(147)
Derivative instruments – held for trading [(3)]					
NDF	Currency risk	264 EUR	2015	13	-
NDF	Currency risk	15 USD	2015	3	(0)
IRS	Interest rate risk	350 PLN	2020	-	(1)
Total derivatives held for trading				16	(1)
Total derivative instruments				**91**	**(148)**
Current				21	-
Non–current				70	(148)

[(1)] CCIRS – cross currency interest rate swap, IRS – interest rate swap, NDF – non-deliverable forward.
[(2)] Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.
[(3)] Derivatives economically hedging commercial or financial transactions.

(in PLN millions)

Type of instrument [(1)]	*Hedged risk*	*Nominal amount (in millions of currency)*	*Maturity*	*Fair value* [(2)] *Financial Asset*	*Fair value* [(2)] *Financial Liability*
		At 31 December 2013			
Derivative instruments - fair value hedge					
CCIRS	Currency and interest rate risk	110 EUR	2014	2	(3)
IRS	Interest rate risk	110 EUR	2014	19	-
Total fair value hedges				21	(3)
Derivative instruments - cash flow hedge					
CCS	Currency risk	13 EUR	2014	3	-
NDF	Currency risk	83 EUR	2014	-	(4)
NDF	Currency risk	9 USD	2014	-	(1)
Total cash flow hedges				3	(5)
Derivative instruments – held for trading [(3)]					
CCIRS	Currency and interest rate risk	870 EUR	2014-2016	10	(125)
NDF	Currency risk	271 EUR	2014	-	(29)
NDF	Currency risk	21 USD	2014	-	(3)
IRS	Interest rate risk	340 EUR	2014	59	-
IRS	Interest rate risk	3,111 PLN	2014-2018	0	(120)
Total derivatives held for trading				69	(277)
Total derivative instruments				**93**	**(285)**
Current				89	(276)
Non–current				4	(9)

[(1)] CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, NDF – non-deliverable forward.
[(2)] Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.
[(3)] 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 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 2014*			*12 months ended 31 December 2013*		
	Before tax	*Tax*	*After tax*	*Before tax*	*Tax*	*After tax*
Effective part of gains/(losses) on hedging instrument	(62)	12	(50)	40	(8)	32
Reclassification to the income statement, adjusting:	(27)	5	(22)	(37)	7	(30)
- interest expense presented in finance costs, net	*50*	*(10)*	*40*	*33*	*(6)*	*27*
- foreign exchange differences presented in finance costs, net	*(77)*	*15*	*(62)*	*(68)*	*13*	*(55)*
- foreign exchange differences presented in other operating expense	-	-	-	*(2)*	-	*(2)*
Transfer to the initial carrying amount of the hedged item	(1)	-	(1)	(4)	1	(3)
Total losses on cash flow hedges	**(90)**	**17**	**(73)**	**(1)**	**-**	**(1)**

Losses on cash flow hedges cumulated in other reserves as at 31 December 2014 are expected to mature and affect the income statement in years 2015 - 2019.

22. Fair value of financial instruments

22.1. Fair value measurements

For the financial instruments measured subsequent to 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 following tables provide an analysis of the Group's financial assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

(in PLN millions)		*At 31 December 2014*			
		Fair value measurement			
	Note	*Level 1*	*Level 2*	*Level 3*	*Total*
Derivatives	21	-	91	-	91
Total financial assets measured at fair value		**-**	**91**	**-**	**91**
Derivatives	21	-	148	-	148
Total financial liabilities measured at fair value		**-**	**148**	**-**	**148**

(in PLN millions)		*At 31 December 2013*			
		Fair value measurement			
	Note	*Level 1*	*Level 2*	*Level 3*	*Total*
Derivatives	21	-	93	-	93
Other financial assets at fair value through profit or loss		6	-	-	6
Total financial assets measured at fair value		**6**	**93**	**-**	**99**
Derivatives	21	-	285	-	285
Total financial liabilities measured at fair value		**-**	**285**	**-**	**285**

During the 12 months ended 31 December 2014 and 2013, there was no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurement.

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

As at 31 December 2014 and 2013, the carrying amount of cash and cash equivalents, current trade receivables and current trade payables, current other financial assets and current financial liabilities at amortised cost approximated their fair value due to relatively short term maturity of those instruments or cash nature.

As at 31 December 2014 and 2013, 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, is presented below.

(in PLN millions)		*At 31 December 2014*		*At 31 December 2013*	
	Note	*Carrying amount*	*Estimated fair value Level 2*	*Carrying amount*	*Estimated fair value Level 2*
Telecommunications licence payables	15.1	1,016	1,233	1,063	1,106
Bank borrowings with fixed interest rate	19.3	34	34	34	34
Bonds issued with fixed interest rate [1]	19.2	-	-	3,016	3,086
Total		**1,050**	**1,267**	**4,113**	**4,226**

[1] On 22 May 2014, the Group redeemed the bonds at maturity.

The fair value of financial instruments is calculated by discounting expected future cash flows at the prevailing market zero-coupon rates for a given currency. Fair value amounts are translated to PLN at the National Bank of Poland period-end average exchange rate.

23. Objectives and policies of financial risk management

23.1. 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 derivatives,
- methods for testing hedging effectiveness for accounting purposes,
- transaction limits for and credit ratings of counterparties with which the Group concludes hedging transactions.

23.2. 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 fair value hedges or cash flow hedges and the Group applies hedge accounting principles as stated in IAS 39 (see Note 31.18). The fair value hedges are used for hedging changes in the fair value of financial instruments that are attributable to particular risk and could affect the income statement.

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 classified as held for trading as they do not fulfil all requirements of hedge accounting as set out in IAS 39 and hedge accounting principles are not applied to those instruments. The Group considers those derivative instruments 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 21.

23.3. Currency risk

The Group is exposed to foreign exchange risk arising from financial liabilities denominated in foreign currencies, namely loans from related party, bank borrowings denominated in EUR and USD (see Note 19) and trade receivables, trade payables and provisions of which a significant balance relates to the 2100 MHz licence payable and provision for the proceedings by the European Commission (see Note 28.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 given 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.

	Hedge ratio	
Currency exposure	*At 31 December 2014*	*At 31 December 2013*
Loans from related party, bonds and bank borrowings	99.7%	99.8%
2100 MHz licence payable	55.1%	64.8%
EC proceedings provision (see Note 28.b)	75.5%	77.5%

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 2014		*At 31 December 2013*		*At 31 December 2014*		*At 31 December 2013*	
					+10%	*-10%*	*+10%*	*-10%*
Hedged item	*Currency*	*PLN*	*Currency*	*PLN*	*PLN*		*PLN*	
Bank borrowings (USD)	3	11	3	9	1	(1)	1	(1)
2100 MHz licence payable (EUR)	80	341	69	285	34	(34)	28	(28)
EC proceedings provision (EUR) (see Note 28.b)	34	145	31	127	15	(15)	13	(13)
Total		**497**		**421**	**50**	**(50)**	**42**	**(42)**

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 satisfying hedge accounting requirements and those classified as economic hedges are treated as risk-mitigation transactions,
- cash and cash equivalents are excluded from the analysis.

From 2014, the above sensitivity analysis is based on discounted amount of liabilities (previously on nominal amounts). As a result, comparative amounts in this note were adjusted.

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect consolidated other comprehensive income. The sensitivity analysis prepared by the Group as at 31 December 2014 and 2013 indicated that there was no significant impact on other comprehensive income resulting from a hypothetical 10% appreciation/depreciation of the PLN against other currencies.

23.4. 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 19).

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 given 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 2014 and 2013, the Group's proportion between fixed/floating rate debt (after hedging activities) was 73/27% and 67/33%, 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 2014		*At 31 December 2013*	
	+1 p.p.	*-1 p.p.*	*+1 p.p.*	*-1 p.p.*
Finance costs, net	4	(5)	-	1
Other comprehensive income	87	(91)	-	-

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 derivatives classified as fair value hedges b) the change in the fair value of derivatives that do not qualify for hedge accounting and are classified as held for trading (see Note 21),
- other comprehensive income includes the change in the fair value of derivatives that is determined as effective cash flow hedge (see Note 21),
- as at 31 December 2014, the gross financial debt based on floating rate, after derivatives classified as fair value hedges, amounted to PLN 1,152 million (as at 31 December 2013, PLN 1,528 million).

23.5. 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. and giving an access to back-up liquidity funding with headroom up to PLN 1,750 million.

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. As at 31 December 2014, the Group had the following unused credit facilities amounting to PLN 2,723 million (as at 31 December 2013, PLN 2,571 million):
- PLN 973 million of credit lines, mainly from the Orange Group,
- PLN 1,750 million of the abovementioned back-up credit facility from Orange S.A.

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, which represents the relation between available financing sources (i.e. cash and credit facilities) and debt repayments during next 12 and 18 months, is presented in the following table:

(in PLN millions)	*Liquidity ratios*	
	At 31 December 2014	*At 31 December 2013*
Liquidity ratio (incl. derivatives) - next 12 months	238%	76%
Unused credit facilities	2,723	2,571
Cash and cash equivalents	248	198
Debt repayments (1)	1,170	3,379
Derivatives repayments (2)	78	249
Liquidity ratio (incl. derivatives) - next 18 months	120%	75%
Unused credit facilities	2,723	2,571
Cash and cash equivalents	248	198
Debt repayments (1)	2,380	3,407
Derivatives repayments (2)	98	264

(1) Undiscounted contractual cash flows on loans from related party, bonds 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 2014 and 2013 is presented below.

As at 31 December 2014 and 2013, 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 latest interest rates fixed before 31 December 2014 and 2013, respectively. Financial liabilities that can be repaid at any time at the Group's discretion are classified as current or non-current, depending on the expected repayment date.

(in PLN millions)			*At 31 December 2014*							
			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	19.1	4,307	1,124	1,225	27	28	2,060	-	3,340	4,464
Other financial debt	19.3	124	67	18	16	13	8	8	63	130
Derivative assets	21	(91)	39	19	35	35	(18)	-	71	110
Derivative liabilities	21	148	39	32	29	28	14	-	103	142
Gross financial debt after derivatives		**4,488**	**1,269**	**1,294**	**107**	**104**	**2,064**	**8**	**3,577**	**4,846**
Trade payables	15.1	2,872	2,013	157	156	151	143	560	1,167	3,180
Total financial liabilities (including derivative assets)		**7,360**	**3,282**	**1,451**	**263**	**255**	**2,207**	**568**	**4,744**	**8,026**

[1] Includes both nominal and interest payments.

(in PLN millions)			*At 31 December 2013*							
			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	19.1	1,394	258	16	1,166	-	-	-	1,182	1,440
Bonds	19.2	3,016	3,077	-	-	-	-	-	-	3,077
Other financial debt	19.3	130	54	44	9	9	9	11	82	136
Derivative assets	21	(93)	(67)	17	5	-	-	-	22	(45)
Derivative liabilities	21	285	316	11	14	-	-	-	25	341
Gross financial debt after derivatives		**4,732**	**3,638**	**88**	**1,194**	**9**	**9**	**11**	**1,311**	**4,949**
Trade payables	15.1	2,842	1,832	153	153	153	148	690	1,297	3,129
Total financial liabilities (including derivative assets)		**7,574**	**5,470**	**241**	**1,347**	**162**	**157**	**701**	**2,608**	**8,078**

[1] Includes both nominal and interest payments.

The average duration for the existing debt portfolio as at 31 December 2014 was 3.2 years (as at 31 December 2013, 0.9 years).

23.6. 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 13, 20, 21.

23.7. Management of covenants

As at 31 December 2014 and 2013 the Group was a party to guarantee agreements containing a financial covenant, upon which the Group should meet the following financial ratio: Net Debt / restated EBITDA to be no higher than 3.5:1 confirmed on a semi-annual basis.

In years 2014 and 2013 the covenant was met.

24. Income tax

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Current income tax	(31)	(75)
Deferred tax	(15)	59
Total income tax	**(46)**	**(16)**

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 2014*	*12 months ended 31 December 2013*
Consolidated net income before tax	**581**	**310**
Less: Gain on disposal of Wirtualna Polska S.A. (tax neutral)	*(191)*	-
Consolidated net income before tax, adjusted	390	310
Statutory tax rate	19%	19%
Theoretical tax	**(74)**	**(59)**
Tax relief on new technologies	25	36
Current income tax adjustments of prior years	36	6
Income not subject to/(expense not deductible for) tax purposes, net and other	(33)	1
Total income tax	**(46)**	**(16)**

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 2014 OPL S.A., TP Invest Sp. z o.o. and Orange Customer Service Sp. z o.o. comprised the Tax Capital Group. During the 12 months ended 31 December 2013 Telekomunikacja Polska S.A., PTK-Centertel Sp. z o.o., TP Invest Sp. z o.o. and Orange Customer Service Sp. z o.o. comprised the Tax Capital Group.

Deferred tax

(in PLN millions)	*Consolidated statement of financial position*		*Consolidated income statement*	
	At 31 December 2014	*At 31 December 2013*	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Property, plant and equipment and intangible assets	513	444	69	52
Receivables and payables recognised on accrual basis	122	146	(24)	16
Deferred income	77	91	(14)	(11)
Employee benefit plans	90	82	(1)	(8)
Provisions	85	102	(17)	15
Net financial debt	22	26	(21)	(16)
Accumulated impairment losses on financial assets	30	33	(3)	(4)
Other	(5)	(1)	(4)	15
Deferred tax assets, net [(1)]	**934**	**923**	**-**	**-**
Total deferred tax	**-**	**-**	**(15)**	**59**

[(1)] As at 31 December 2013, PLN 5 million was presented as assets held for sale (see Note 8). During the 12 months ended 31 December 2014 and 2013, PLN 26 million and PLN (7) million of change in deferred tax asset was recognised in the consolidated statement of comprehensive income, respectively.

In 2014, the Group changed the classification of temporary differences disclosed in the table above. As a result, comparative amounts were also adjusted.

Unrecognised deferred tax assets relate mainly to temporary differences, which based on the Group's management assessment could not be utilised for tax purposes. As at 31 December 2014 and 2013, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 55 million and PLN 32 million gross, respectively.

25. Equity

25.1. Share capital

As at 31 December 2014 and 2013, 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 2014 and 2013 was as follows:

(in PLN millions)	*At 31 December 2014*			*At 31 December 2013*		
	% of votes	% of shares	Nominal	% of votes	% of shares	Nominal
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**

25.2. Redemption of treasury shares

On 11 April 2013, the General Meeting of OPL S.A. adopted resolutions on the redemption of 23,291,542 own shares acquired by the Company in 2012 and 2011 for a total consideration of PLN 400 million and on the reduction of the Company's share capital from PLN 4,007 million to PLN 3,937 million (registered by the Registry Court on 18 June 2013).

25.3. Dividend

On 10 April 2014, the General Meeting of OPL S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from 2013 profit. Total dividend, paid on 10 July 2014, amounted to PLN 656 million.

On 11 April 2013, the General Meeting of OPL S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from 2012 profit. Total dividend, paid on 11 July 2013, amounted to PLN 656 million.

OPL S.A.'s retained earnings available for dividend payments to the Group's shareholders amounted to PLN 5.1 billion as at 31 December 2014. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 0.3 billion of OPL S.A.'s subsidiaries retained earnings as at 31 December 2014 was available for dividend payments by subsidiaries to OPL S.A.

25.4. Share-based payments

Group incentive programme
On 28 April 2006, the General Meeting of OPL S.A. approved an incentive programme ("the Program") for the key managers and executives ("the Beneficiaries") of Orange Polska and its selected subsidiaries in order to further motivate management in their efforts aimed at the Group development and maximisation of its value. As a result of the Program, on 9 October 2007 OPL S.A. issued 6,202,408 registered bonds with a nominal value, equal to issue price, of PLN 0.01 each with pre-emption rights to subscribe for Company shares with priority over the existing shareholders. A total of 6,047,710 bonds were subscribed and allocated to the Beneficiaries, the remaining 154,698 bonds had not been subscribed and were redeemed.

Pre-emption rights attached to the bonds to subscribe for the Company's shares may be exercised until 9 October 2017. One bond gives a right to subscribe for one ordinary share. The shares acquired upon exercising pre-emption right attached to the bonds are ordinary bearer shares and are not subject to any restriction in trading. The right to subscribe for the shares shall be vested exclusively in the bondholders. The issue price of the shares is PLN 21.57 per share. These instruments were not included in the calculation of diluted earnings per share because they are antidilutive for the periods presented.

The following table illustrates the number and exercise price of equity instruments granted by OPL S.A.:

	12 months ended 31 December 2014		*12 months ended 31 December 2013*	
	number	*exercise price (PLN)*	*number*	*exercise price (PLN)*
Outstanding at the beginning of the period	3,096,231	21.57	3,381,234	21.57
Cancelled during the year	(69,303)	-	(285,003)	-
Outstanding at the end of the year	**3,026,928**	**21.57**	**3,096,231**	**21.57**

During the vesting period (years 2007-2010) the fair value of services received, recognised in labour expense and equity, amounted to PLN 17 million.

Orange S.A. free share award plan
In 2007 Orange S.A. established a free share, equity-settled, award plan ("NExT plan"). Under the NExT plan 988,400 shares of Orange S.A. were offered to employees and executives of the Group. The grant date was established on 18 March 2008 that is the date when the main terms and conditions of the plan were announced to Orange Polska Group's employees. The fair value of equity instruments at grant date was PLN 63.57 (an equivalent of EUR 17.95 translated at National Bank of Poland period-end exchange rate at 18 March 2008).

During the vesting period (years 2008-2010) the fair value of services received, recognised in labour expense and equity, amounted to PLN 62 million.

26. 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 current Group's objectives in that area are the following:
- Net Gearing ratio - remaining below 40% in the long term,
- Net financial debt to restated EBITDA ratio - remaining below 1.5 in the long term.

The table below provides the capital ratios as at 31 December 2014 and 2013 and presents the sources of capital involved in their calculation. The Group regards capital as the total of equity and net financial debt.

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
Net financial debt (see Note 18)	4,134	4,512
Equity	12,398	12,631
Equity and Net financial debt	16,532	17,143
Restated EBITDA (see Note 3)	3,921	4,046
Net Gearing ratio (1)	**25%**	**26%**
Net financial debt / restated EBITDA ratio	**1.1**	**1.1**

(1) Net Gearing = Net financial debt / (Net financial debt + Equity).

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. There are no external capital requirements imposed on the Group.

27. Unrecognised contractual obligations

27.1. 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 2014 and 2013 amounted to PLN 387 million and PLN 438 million, respectively. Most of the agreements are denominated in foreign currencies. Some of the above agreements are indexed with price indices applicable for a given currency.

Future minimum lease payments under non-cancellable operating leases, as at 31 December 2014 and 2013, were as follows:

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
Within one year	215	187
After one year but not more than five years	405	429
More than five years	241	320
Total minimum future lease payments	**861**	**936**

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2014 and 2013 amounted to PLN 66 million and PLN 68 million, respectively.

27.2. 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 2014*	*At 31 December 2013*
Property, plant and equipment	88	274
Intangibles	47	173
Total investment commitments	**135**	**447**
Amounts contracted to be payable within 12 months after the end of the reporting period	119	376

Investment commitments represent mainly purchases of telecommunications network equipment, IT systems and other software.

28. Litigation, claims and contingent liabilities

a. Proceedings by UKE and UOKiK

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 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 prior year's revenue for a breach of the law.

Proceedings by UOKiK related to IP traffic
On 20 December 2007, UOKiK issued a decision concluding that Orange Polska had engaged in practices restricting competition when it downgraded IP traffic coming from domestic operators' networks to Orange Polska's network via foreign operators' networks and imposed a fine of PLN 75 million on the Company. Orange Polska disagreed with the decision of UOKiK, did not pay the fine and appealed to SOKiK against the decision. In 2011, SOKiK reduced the fine to the amount of PLN 38 million and the parties appealed against that verdict. After subsequent stages of the appeal procedure, the Court of Appeal, on 9 April 2013, dismissed both appeals filed by UOKiK and Orange Polska against the verdict of SOKiK reducing the fine. Orange Polska paid the fine in May 2013 and lodged a cassation appeal to the Supreme Court against the decision of the Court of Appeal of 9 April 2013.

On 15 May 2014, the Supreme Court dismissed the cassation appeal. That verdict ended the appeal procedure on the fine imposed by UOKiK on Orange Polska.

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. (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 12 March 2015. Apart from the UOKiK proceedings, in 2012 P4 has raised claims relating to the retail mobile prices.
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 prolonged the proceedings. The indicated date of prolongation is 20 March 2015.
The Management Board of Orange Polska notes that they did not agree the terms of offers with the other companies.

As at 31 December 2014, 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. 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.

The decision is not final and Orange Polska, in liaison with its legal advisors, appealed against it to the General Court of the European Union on 2 September 2011. In 2012 the General Court permitted Netia S.A. and the Polish Chamber of Information Technology and Telecommunications to take part in these appeal proceedings as interveners in the written and oral procedure. In December 2014, the General Court informed Orange Polska that Netia S.A. withdrew its intervention.

On 6 September 2013, the Registrar of the General Court informed that the written stage of the appeal procedure was closed. Orange Polska has not yet been notified on any scheduled hearing date.

The judgment of the General Court of the European Union could be appealed to the Court of Justice by any of the parties.

On 16 April 2012, Orange Polska received a notification of a hearing on Netia S.A.'s motion from the Warsaw Commercial Court. In its motion Netia S.A. called on Orange Polska for an amicable settlement of a damages claim based on the above mentioned European Commission decision. At the court session held on 10 May 2012, the parties did not reach an agreement. On 5 November 2014 Orange Polska and Netia S.A. and its subsidiaries concluded a settlement agreement under which all parties waived mutual, actual and potential, claims and Orange Polska paid Netia S.A. PLN 145 million increased by applicable VAT. The waiver encompassed the potential damage claim based on the decision of the European Commission.

c. Magna Polonia S.A. claim towards Orange Polska, T-Mobile Polska, Polkomtel and P4

Orange Polska received two summonses to conciliation court hearings on the motion of Magna Polonia S.A.: for the hearing at Warsaw Commercial Court on 11 December 2013 and for the hearing at Warsaw Civil Court on 18 December 2013. 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 in connection with the unlawful act allegedly committed by those companies in the form of restricting competition. Magna Polonia asserts that its claim results 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.

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.

On 11 December 2013, at the session held at Warsaw Commercial Court the parties did not reach an agreement. The hearing scheduled for 18 December 2013 at Warsaw Civil Court was cancelled on the motion of Magna Polonia. Magna Polonia has filed no statement of claim against Orange Polska and it has filed no call for any payment since then.

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.

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. Tax contingent liability

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) 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, which often leads 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.

f. 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.

g. Other contingent liabilities and provisions

Apart from the above mentioned, operational activities of the Group are subject to legal, social and administrative regulations and 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.

29. Related party transactions

29.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

(in PLN thousands)	*12 months ended 31 December 2014*		*12 months ended 31 December 2013*	
	Paid	*Accrued but not paid*	*Paid*	*Accrued but not paid*
Short-term benefits excluding employer social security payments [1]	12,218	1,335	11,045	1,302
Post-employment benefits	2,358	-	3,310	-
Total	**14,576**	**1,335**	**14,355**	**1,302**

[1] Gross salaries, bonuses and non-monetary benefits.

Compensation (remuneration, bonuses, post-employment benefits and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) paid during the 12 months ended 31 December 2014 and 2013 (including PLN 1.3 million and PLN 0.7 million accrued in previous periods, respectively) or accrued but not paid in accordance with contractual commitments by OPL S.A. to OPL S.A.'s Management Board and Supervisory Board Members are presented below.

Persons that were Members of the Management Board of the Company as at 31 December 2014:

(in PLN thousands)	*12 months ended 31 December 2014*		*12 months ended 31 December 2013*	
	Paid	*Accrued but not paid*	*Paid*	*Accrued but not paid*
Bruno Duthoit	2,878	268	494 [1]	315
Mariusz Gaca	1,577 [1]	294	-	-
Piotr Muszyński	2,380	324	2,200	325
Jacek Kowalski	1,577	246	1,495	206
Maciej Nowohoński	861 [1]	203	-	-
Total	**9,273**	**1,335**	**4,189**	**846**

[1] From the date of appointment.

Persons that were Members of the Management Board of the Company in 2014 and in previous periods:

(in PLN thousands)	*12 months ended 31 December 2014*		*12 months ended 31 December 2013*	
	Paid	*Accrued but not paid*	*Paid*	*Accrued but not paid*
Maciej Witucki	-	-	5,878 [(1)]	-
Jacques de Galzain	2,350 [(1)]	-	2,100	243
Vincent Lobry	2,953 [(1)]	-	2,188	213
Total	**5,303**	**-**	**10,166**	**456**

[(1)] Compensation until the termination date (including post-employment benefits).

In the years ended 31 December 2014 and 2013, the Members of OPL S.A.'s Management Board did not receive any compensation (remuneration, bonuses, post-employment benefits and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) from the Group's subsidiaries.

Supervisory Board compensation was as follows:

(in PLN thousands)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Maciej Witucki [(1)]	386	71
Prof. Andrzej K. Koźmiński	361	367
Gervais Pellissier [(2)]	-	-
Marc Ricau [(2)]	-	-
Dr. Henryka Bochniarz	192	186
Jean-Marie Culpin [(2)]	-	-
Eric Debroeck [(2)]	-	-
Ramon Fernandez [(2)]	-	-
Dr. Mirosław Gronicki	192	186
Russ Houlden	229	-
Sławomir Lachowski	192	186
Marie-Christine Lambert [(2)]	-	-
Gérard Ries [(2)]	-	-
Dr. Wiesław Rozłucki	289	278
Valérie Thérond [(2)]	-	-
Timothy Boatman [(3)]	133	322
Thierry Bonhomme [(2)] [(3)]	-	-
Jacques Champeaux [(3)]	-	69
Pierre Louette [(2)] [(3)]	-	-
Benoit Scheen [(2)] [(3)]	-	-
Total	**1,974**	**1,665**

[(1)] The Chairman of the Supervisory Board since 19 September 2013. Compensation from the date of appointment.
[(2)] Persons appointed to the Supervisory Board of the Company employed by Orange S.A. do not receive remuneration for the function performed.
[(3)] Persons that were not Members of the Supervisory Board of the Company as at 31 December 2014 but were Members of the Supervisory Board of OPL S.A. in 2014 or previous periods.

In the years ended 31 December 2014 and 2013, the Members of OPL S.A.'s Supervisory Board did not receive any compensation (remuneration, bonuses, post-employment benefits and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) from the Group's subsidiaries.

In the years ended 31 December 2014 and 2013, the Group did not enter into any significant transactions with Members of the OPL S.A.'s Management Board or the Supervisory Board or their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections and did not grant them any loans, advances or guarantees.

In the years ended 31 December 2014 and 2013, the Group did not enter into any significant transactions with companies which were controlled or jointly controlled by the Members of the OPL S.A.'s Management Board or the Supervisory Board or their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections.

29.2. Related party transactions

As at 31 December 2014, 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 appoints and dismisses Members of the Management Board.

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

In 2013 and 2014, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded loan agreements for EUR 760 million and Revolving Credit Facility Agreement for up to EUR 480 million (see Note 19.1). Additionally, in 2013 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. provided in EUR. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2014 was EUR 760 million and PLN 3,150 million with a total negative fair value of PLN 78 million (as at 31 December 2013, nominal amount of EUR 280 million and PLN 650 million with a total negative fair value of PLN 4 million).
Financial receivables, payables, financial expense and other comprehensive loss concerning transactions with the Orange Group relate to the abovementioned agreements. Financial income from Orange S.A. and cash and cash equivalents deposited with Orange S.A. relate to the Cash Management Treasury Agreement (see Note 23.5).

(in PLN millions)	*12 months ended 31 December 2014*	*12 months ended 31 December 2013*
Sales of goods and services and other income:	**212**	**216**
Orange S.A. (parent)	131	148
Orange Group (excluding parent)	81	68
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(286)**	**(334)**
Orange S.A. (parent)	(99)	(112)
Orange Group (excluding parent)	(187)	(222)
- including Orange Brand Services Limited (brand licence agreement)	*(134)*	*(164)*
Financial income:	**7**	**2**
Orange S.A. (parent)	7	2
Financial expense, net:	**(159)**	**(31)**
Orange S.A. (parent)	(21)	(21)
Orange Group (excluding parent)	(138)	(10)
Other comprehensive loss:	**(112)**	**-**
Orange S.A. (parent)	(112)	-
Dividend paid:	**332**	**332**
Orange S.A. (parent)	332	332

In April 2005, Orange Polska and Orange Brand Services Limited (UK) (hereinafter referred to as "OBSL") concluded a licence agreement under which Orange Polska acquired rights to operate under the Orange brand for mobile services. The brand licence agreement provides that OBSL receives a fee of 1.6% of operating revenue from mobile services for full use of the Orange brand as well as access to the Orange roaming and interconnection arrangements, technology, advanced mobile handsets and consultancy services. The agreement was concluded for 10 years with the possibility of renewal.

On 24 July 2008, Orange Polska, Orange S.A. and OBSL concluded a licence agreement under which Orange Polska acquired rights to operate under the Orange brand for fixed services. 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 from fixed services. The agreement was concluded for 10 years with the possibility of renewal.

(in PLN millions)	*At 31 December 2014*	*At 31 December 2013*
Receivables:	**71**	**79**
Orange S.A. (parent)	46	61
Orange Group (excluding parent)	25	18
Payables:	**106**	**112**
Orange S.A. (parent)	43	54
Orange Group (excluding parent)	63	58
Financial receivables:	**70**	**5**
Orange S.A. (parent)	70	5
Cash and cash equivalents deposited with:	**69**	**37**
Orange S.A. (parent)	69	37
Financial payables:	**4,455**	**1,403**
Orange S.A. (parent)	148	9
Orange Group (excluding parent)	4,307	1,394

30. Subsequent events

In January 2015, the Group signed with Trade Unions an agreement which curtailed other post-employment benefits for retirees of the Group. As a result a credit of PLN 82 million will be recognised in labour expense in the first quarter of 2015.

31. 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 2014.

31.1. Use of estimates and judgement

In preparing the Group's accounts, the Company's management is required to make estimates, insofar as 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 2014 may be subsequently changed. The main estimates and judgements made are described in the following notes:

Note		*Estimates and judgements*
5, 31.9	Revenue	Allocation of revenue between each separable component of a packaged offer based on its relative fair value. Straight-line recognition of revenue relating to service access 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.
9, 31.13, 31.17	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.
11, 12, 31.14, 31.15	Useful lives of tangible and intangible assets	The useful lives and the method of depreciation and amortisation.
13, 31.18	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
14, 28, 31.21	Provisions	The assumptions underlying the measurement of provisions for claims and litigation. Provisions for employment termination expense: discount rates and other assumptions.
14	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.
16, 31.22	Employee benefits	Discount rates, salary increases.
21, 22, 31.18	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
24, 31.20	Income tax	Assumptions used for recognition of deferred tax assets.
31.19	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 liabilities could result from changes in estimates and judgements relating to provisions for claims, litigation and risks (see Notes 14 and 28).

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.

31.2. Application of new standards and interpretations

Adoption of standards in 2014

No new standards or interpretations were adopted by the Group since 1 January 2014.

Standards and interpretations issued but not yet adopted

- IFRS 15 "Revenue from Contracts with Customers". This standard was issued on 28 May 2014 and is currently intended to be applied for reporting periods beginning on or after 1 January 2017. This standard has not yet been endorsed by the European Union. The standard will mainly affect:
    - recognition of revenue from multiple elements arrangements: the allocation of the revenue between the communication and handset component will change and therefore the timing of the revenue recognition will be accelerated;
    - subscriber acquisition and retention costs: the portion of these costs relating to incremental costs to acquire a contract (i.e. payment to distributors directly attributable to contract acquisition, excluding subsidies) will be eligible for deferral. Overall costs will not change.

- IFRIC 21 "Levies". This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. This interpretation has been endorsed by the European Union to apply at the latest as from 1 January 2015. The Group has decided against earlier application of this Interpretation. The Group considers that future application of IFRIC 21 should not have a significant impact on the financial statements.

- 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 not yet been endorsed by the European Union. The standard provides for:
    - classification and measurement of financial assets based on cash flow characteristics and on the entity's business model;
    - impairment methodology, which replaces existing incurred loss model with expected credit loss model;
    - new model for hedge accounting, more closely aligned with risk management.

  The Management estimates that the application of the standard will have no material impact on the financial statements.

31.3. 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 31.9 *Separable components of packaged and bundled offers*).

31.4. 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.
IAS 38	Intangible assets	Intangible assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

31.5. 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 per share

The net income per share for each period is calculated by dividing the net income 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 and, if applicable, the dilutive effect of the pre-emption rights attached to the bonds issued under OPL S.A. incentive programme (see Note 25.4).

31.6. 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 Company loses control over the subsidiary.

Intercompany transactions and balances are eliminated on consolidation.

31.7. 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.

31.8. Effect of changes in foreign exchange rates

The functional currency of Orange Polska is the Polish złoty.

Transactions in foreign currencies

Transactions in foreign currencies are converted into Polish złoty 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.

31.9. 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 recognized for the handset sale is generally limited to the amount of the arrangement 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 recognized 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 to the subscription of telecommunication services is sold by a third-party retailer who purchases it from the Group, the related revenue is recognized 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 in the case of finance leases which are accounted for as sales on credit.

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.

Loyalty programs

Loyalty programs consist of granting future benefits to customers (such as call credit and product discounts) in exchange for present and past use of the service or purchase of goods.

Points awarded to customers are treated as a separable component to be delivered out of the transaction that triggered the acquisition of the points. Part of the invoiced revenue is allocated to these points based on their fair value taking into account an estimated utilisation rate, and deferred. If the Group supplies the awards itself, revenue allocated to the points is recognised in the income statement when points are redeemed and the Group fulfils its obligations to supply awards. The amount of revenue recognised is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed. When a third party supplies the awards and the Group is collecting the consideration on behalf of a third party, revenue is measured as a net amount retained on the Group's own account.

Discounts for poor quality of services or for breaks in service rendering

The Group's commercial contracts may contain service level commitments (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".

31.10. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs, other than loyalty program costs (see Note 31.9), 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.

31.11. 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.

31.12. Share issuance costs and treasury shares

If OPL S.A. or its subsidiaries purchase equity instruments of the Company, the consideration paid, including directly attributable incremental costs, is deducted from equity attributable to the Company equity holders and presented in the statement of financial position separately under "Treasury shares" until the shares are cancelled or reissued.
Treasury shares are recognised using settlement date accounting.

31.13. 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.

Impairment tests and Cash Generating Units

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 each cash generating unit (CGU) to which the goodwill has been allocated. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of business combination.

Recoverable amount

To determine whether an impairment loss should be recognised, the carrying value of the assets and liabilities of the CGU (or group of CGUs), 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 or group of CGUs, 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 declining or flat 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 CGUs to which the goodwill is allocated 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 and are not reversed.

31.14. 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.

From 2015, the Group will extend the estimated useful lives for certain items of software. As a result, depreciation expense in 2015 relating to these assets is expected to be lower by approximately PLN 100 million than in 2014.

31.15. 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 in the form of direct or indirect 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 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 30 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.

31.16. 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.

31.17. Impairment of non-current assets other than goodwill

Recoverable amount of an asset is estimated whenever there is an indication that the asset may be impaired and an impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Where possible, the recoverable amount is estimated for individual assets. The recoverable amount of such assets is determined at their fair value less cost to sell or their value in use. If it is not possible to estimate the recoverable amount of the individual asset, the Group identified the cash-generating unit (“CGU”) to which the asset belongs.

Given the nature of its assets and operations, most of the Group's individual assets do not generate cash flow independently from other assets.

The recoverable amount of an asset is generally determined by reference to its value in use, corresponding to the future economic benefits expected to be derived from the use of the asset and its subsequent disposal, if any. It is assessed by the discounted cash flow method, based on management’s best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and the asset's expected conditions of use.

The impairment loss recognised equals the difference between net book value and recoverable amount.

31.18. 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.

<u>Loans and receivables</u>
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, cash and cash equivalents and other loans and receivables. They are carried in the statement of financial position under "Other financial assets", "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.

<u>Assets at fair value through profit or loss</u>
Financial assets at fair value through profit or loss are the following financial assets held for trading:
- financial assets acquired principally for the purpose of selling them in the near term;
- derivative assets not qualifying for hedge accounting as set out in IAS 39.

Financial assets classified in this category are measured at fair value.

Recognition and measurement of financial liabilities

<u>Financial liabilities at amortised cost</u>
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 are 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 derivatives that do not qualify for hedge accounting as set out in IAS 39 and 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 of derivatives held for trading is presented under interest expense 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 is recognised in profit or loss and is offset by the effective portion of the loss or gain from re-measuring the hedging instrument at fair value. The adjustment to the hedged item is amortised 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.

31.19. 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 probable 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.

31.20. 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 liabilities are not recognised if they arise from the initial recognition of goodwill.

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.

31.21. 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.

31.22. Pensions and other employee benefits

Certain employees of the Group are entitled to jubilee awards and retirement bonuses. Jubilee awards are paid to employees upon completion of a certain number of years of service whereas retirement bonuses represent one-off payments paid upon retirement in accordance with the Group’s remuneration policies. Both items vary according to the employee’s average remuneration and length of service. Jubilee awards and retirement bonuses are not funded. The Group is also obliged to provide certain post-employment benefits to some of its retired employees.

The cost of providing benefits mentioned above is determined separately for each plan using the projected unit credit actuarial valuation method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation which is then discounted. The calculation is based on demographic assumptions concerning retirement age, staff turnover rates, and financial assumptions concerning rates of future salary increases, future interest rates (to determine the discount rate).

Actuarial gains and losses on jubilee awards plans are recognised as income or expense when they occur. Actuarial gains and losses on post-employment benefits are recognised immediately in their total amount in the other comprehensive income. The present value of the defined benefit obligations is verified at least annually by an independent actuary. Demographic and attrition profiles are based on historical data.

Benefits falling due more than 12 months after the end of the reporting period are discounted using a discount rate determined by reference to market yields on Polish government bonds.

31.23. Share-based payments

OPL S.A. operates an equity-settled, share-based compensation plan under which employees rendered services to the Company and its subsidiaries as consideration for equity instruments of OPL S.A. The fair value of the employee services received in exchange for the grant of the equity instruments was recognised as an expense, with a corresponding increase in equity, over the period in which the service conditions were fulfilled (vesting period).

Orange S.A. operated its own equity-settled, share-based compensation plan under which employees of the Group rendered services to the Company and its subsidiaries as consideration for equity instruments of Orange S.A. In accordance with IFRS 2 "Share-based Payment", the fair value of the employee services received in exchange for the grant of the equity instruments of Orange S.A. was recognised in these Consolidated Financial Statements as an expense with a corresponding increase in equity, over the period in which the service conditions were fulfilled (vesting period).

The fair value of the employee services received was measured by reference to the fair value of the equity instruments at the grant date.

Vesting conditions, other than market conditions, were taken into account by adjusting the number of equity instruments included in the measurement of the transaction so that, ultimately, the expense recognised for services received was based on the number of equity instruments that were expected to vest.

ORANGE POLSKA GROUP

MANAGEMENT BOARD'S REPORT

FOR 2014
ENDED 31 DECEMBER 2014

12 February 2015

This report on the activity of the Orange Polska Group ("the Group" or "Orange Polska") in 2014 has been drawn up in compliance with Articles 91 and 92 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2009 No. 33, item 259, as amended).

CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2014 and for the twelve month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

	For 12 months ended				
	31 December 2014		31 December 2013		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue	12,212	2,915	12,923	3,069	-5.5%
EBITDA (restated*)	3,921	936	4,046	961	-3.1%
EBITDA margin	*32.1%*		*31.3%*		*0.8 pp*
Operating income	986	235	788	187	25.1%
Operating margin	*8.1%*		*6.1%*		*2.0 pp*
Consolidated net income	535	128	294	70	82.0%
Net income attributable to owners of Orange Polska S.A.	*535*	*128*	*294*	*70*	*82.0%*
*Weighted average number of shares (in millions)***	*1,312*		*1,312*		
Earnings per share (in PLN) (basic and diluted)	*0.41*	*0.10*	*0.22*	*0.05*	*86.4%*
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	2,753	657	3,292	782	-16.4%
Net cash used in investing activities, including	(1,745)	(417)	(2,166)	(514)	-19.4%
Purchases of property, plant and equipment and intangible assets	(2,153)	(508)	(2,180)	(518)	-1.2%
Net cash used in financing activities	(965)	(230)	(1,324)	(314)	-27.1%
Net change in cash and cash equivalents	43	10	(198)	(47)	n/a

	As of				
	31 December 2014		31 December 2013		Change
	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Consolidated Statement of Financial Position					
Cash and cash equivalents	248	58	198	48	25.3%
Other intangible assets	3,215	754	3,081	743	4.3%
Property, plant and equipment	11,715	2,749	12,768	3,079	-8.2%
Total assets	22,104	5,186	22,802	5,498	-3.1%
Financial liabilities at amortised cost***, of which:	4,431	1,040	4,579	1,104	-3.2%
Current	1,143	268	3,343	806	-65.8%
Non-current	3,288	771	1,236	298	166.0%
Other liabilities, current and non-current	5,275	1,238	5,554	1,339	-5.0%
Total equity	12,398	2,909	12,631	3,046	-1.8%

Notes on data conversion:

1 – PLN/EUR fx rate of 4.1893 applied

2 – PLN/EUR fx rate of 4.2110 applied

3 – PLN/EUR fx rate of 4.2623 applied

4 – PLN/EUR fx rate of 4.1472 applied

** For restatements of basic financial data please see Note 3 to the Consolidated Financial Statement.*
*** Weighted average number of shares in 12 months ended December 31, 2014 and December 31, 2013, respectively*
**** Excluding trade payables*

1.1 Comments to the Consolidated Income Statement

The consolidated revenue amounted to PLN 12,212 million in 2014 and was lower by PLN 711 million (5.5%) as compared to 2013.

Restated operating income before depreciation and amortisation expense and impairment of non-current assets (EBITDA restated, please see Note 3 to the IFRS Consolidated Financial Statements) amounted to PLN 3,921 million in 2014 and was PLN 125 million lower than in 2013.

In particular, in 2014 compared to 2013 (restated data):

- Mobile voice traffic revenue decreased by PLN 481 million, due to price pressure and higher share of SIMO offers;
- Mobile data, messaging, content and M2M revenue increased by PLN 109 million, driven up by a growing demand for mobile data;
- Mobile equipment sales increased by PLN 278 million, due to instalments sales effective 2014;
- Fixed narrowband revenue decreased by PLN 314 million, mainly due to substitution of fixed traffic and lines to mobile;
- Enterprise solutions and networks revenues decreased by PLN 87 million, due to price pressure;
- Interconnect expenses decreased by PLN 19 million, mainly due to a decrease of the Mobile Termination Rates;
- Commercial expenses decreased by PLN 181 million, despite higher customer net additions in mobile, which was a result of further optimisation of the subscriber acquisition and retention costs as well as lower cost of advertising and promotion;
- Labour expense decreased by PLN 28 million, mainly due to lower headcount and downward adjustment of labor costs in 2013 related to the social agreement.

In 2014 gain on disposal of Wirtualna Polska S.A. was recognized in the amount of PLN 191 million.
Operating income (EBIT) amounted to PLN 986 million in 2014 and was PLN 198 million higher than in 2013.

Net finance costs were PLN 73 million lower than in 2013, which resulted mainly from a decrease in interest expense of PLN 85 million, which was partially offset by an increase in discounting expense of PLN 14 million.

Consolidated net income amounted to PLN 535 million in 2014, which is an increase of PLN 241 million compared to 2013. Earnings per share increased from PLN 0.22 to PLN 0.41.

1.2 Comments to the Consolidated Statement of Cash Flows

Net cash from operating activities amounted to PLN 2,753 million in 2014 and was lower by PLN 539 million compared to 2013. The decrease was mainly attributable to change in the working capital (PLN 255 million used in 2014 compared to PLN 54 million provided in 2013).

Net cash used in investing activities amounted to PLN 1,745 million in 2014 and was lower by PLN 421 million compared to 2013. The change consisted of PLN 371 million net proceeds from sale of Wirtualna Polska S.A. and PLN 33 million higher proceeds from sale of property, plant and equipment and intangible assets.

Net cash used in financing activities amounted to PLN 965 million in 2014 and was lower by PLN 359 million compared to 2013. In 2014, cash outflow of PLN 2,969 million for redemption of bonds issued in 2009 under the European Medium Term Note ("EMTN") issuance programme was offset by PLN 2,850 million cash inflow from related party loans (financing from the Orange Group), while in 2013, cash inflow from the Orange Group financing was lower by PLN 666 million than the repayment of debt.

1.2.1 Capital Expenditures (CAPEX)

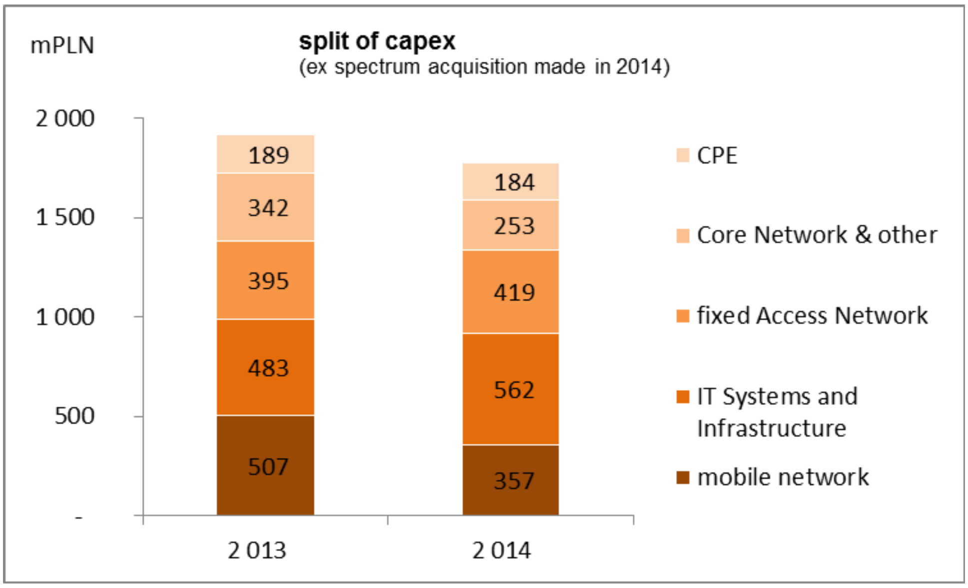
Group's capital expenditures in 2014 amounted to PLN 2,153 million and were slightly lower than in 2013 (PLN 2,180 million).

The Group invested mainly in the following areas:

- securing the assignment of frequencies in the 900 MHz band, which are used for mobile voice and data services, for a further 15 years;
- investments to enhance the quality of the mobile network, expand the capacity and range of GSM/UMTS services, and adapt the mobile access network to the 4G technology requirements in a joint project with T-Mobile as well as in the areas not covered by the mobile access network consolidation project (i.e. strategic or underinvested regions);
- expansion of the mobile transport and core network in order to handle the growing volume of data transmission and ensure the service quality expected by customers;

- expansion of the fibre-optic network and transmission equipment network in order to launch new backbone and access lines and enable further development of the IP new generation network as well as enhance the quality and transfer rate of broadband services;
- expansion of the broadband access network, which also enables provision of television services, as well as related purchases of subscriber terminals;
- investment projects related to the portfolio development and sales and customer service processes as well as the modernisation and enhancement of the IT technical infrastructure;
- revitalisation and modernisation of Orange Point of Sale (POS) network;
- research and development.

Excluding expenditures on telecommunication licences (PLN 378 million in 2014 and PLN 264 million in 2013), capital expenditures were PLN 141 million lower in 2014. They also decreased as a percentage of revenue, which is consistent with the medium-term plan objectives. The break-down of capital expenditures by main categories (excluding telecommunication licences) in 2013–2014 is presented in the diagram below.



1.3 Comments to the Consolidated Statement of Financial Position

As at 31 December 2014, total equity amounted to PLN 12,398 million and was lower by PLN 233 million than as at 31 December 2013. The change was attributable to the dividend payment of PLN 656 million, which was partially offset by consolidated net income of PLN 535 million generated in 2014.

Property, plant, equipment and other intangible assets decreased by PLN 919 million compared to 31 December 2013, mainly as a result of depreciation and amortisation that was higher by PLN 920 million than capital expenditures.

Total assets were lower by PLN 698 million than as at 31 December 2013. The change resulted mainly from the aforementioned decrease of PLN 919 million in property, plant, equipment and other intangible assets, a decrease of PLN 225 million in assets held for sale (sale of Wirtualna Polska S.A.), which was partially offset by an increase of PLN 311 million in trade receivables and an increase of PLN 50 million in cash and cash equivalents.

Total non-current and current liabilities decreased by PLN 427 million to PLN 9,706 million as at 31 December 2014. The change resulted from a decrease of PLN 3,061 million in other financial liabilities at amortised cost (mainly due to the redemption of bonds issued under the EMTN issuance programme), which was partially offset by an increase of PLN 2,913 million in loans from the related party (financing from the Orange Group). Furthermore, derivatives decreased by PLN 137 million and provisions decreased by PLN 119 million.

1.4 Related Parties Transactions

Please see Note 29 to the IFRS Consolidated Financial Statements about Group's transactions with related entities.

1.5 Description of Significant Agreements

Please see section 1.9.2 below for information on significant agreements concluded by the Group in 2014.

1.6 Subsequent Events

Please see Note 30 to the IFRS Consolidated Financial Statements for information on subsequent events.

1.7 Scope of Consolidation within the Group

Please see Note 1.2 to the IFRS Consolidated Financial Statements for information about the scope of consolidation within the Group.

1.8 Information about the Loan or Borrowing Collaterals or Guarantees Provided by the Issuer or Its Subsidiaries

In the 12 months ended 31 December 2014, neither the Company nor its subsidiaries granted guarantees or collateral of loans or borrowings to any entity or its subsidiary with a total value representing the equivalent of at least 10% of OPL S.A.'s shareholders equity.

1.9 Management of Financial Resources and Liquidity of the Group

In the reported period, the Group financed its activities mostly by cash from operating activities and loans provided by the Orange SA Group.

In 2014, the Group repaid long-term bank loans totalling PLN 39 million, revolving loan of PLN 800 million provided by Orange SA Group and redeemed bonds totalling EUR 700 million par.

The Group benefited from a long-term loan, of which a total of PLN 2,010 million was used, and a revolving loan, of which a total of PLN 1,640 million was used, both provided by the Orange SA Group.

As of December 31, 2014, Group's interest-bearing liabilities (before derivatives) totalled PLN 4,381 million, which is a decrease of PLN 136 million compared to December 31, 2013 including issued bonds.

The value of liabilities under financial lease and other financial liabilities as of December 31, 2014 amounted to PLN 50 million and was 27 million higher compared to December 31, 2013.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 248 million at December 31, 2014, and available credit facilities totalling the equivalent of PLN 2,723 million (please see section 1.9.3 below for details).

Based on available cash, back-up and revolving credit facilities, as well as external sources of financing, the Group has sufficient funds to carry out its investment projects, including capital investments, scheduled for implementation in 2015.

1.9.1 Bonds

On May 22, 2014, TPSA Eurofinance France SA, a subsidiary of Orange Polska S.A., redeemed at maturity five-year debt securities totalling EUR 700 million par, that had been issued in two tranches, namely on 22 May 2009 (EUR 500 million) and July 17, 2009 (EUR 200 million).

The Group did not issue or redeem any external long-term debt notes in the reported period.

1.9.2 Loan and Borrowings Agreements

In 2014, Group companies concluded the following major loan agreements:

- On May 15, 2014, Orange Polska S.A. concluded a loan agreement with Atlas Services Belgium SA, a wholly-owned subsidiary of Orange SA, which provided the Group with long-term financing of up to EUR 480 million, with the maturity date of May 20, 2019;
- On May 15, 2014, Orange Polska S.A. signed an annex to the revolving loan agreement of April 17, 2013 with Atlas Services Belgium SA, pursuant to which the amount of the revolving loan was increased by EUR 230 million to EUR 480 million and the maturity thereof was extended to March 30, 2018.

- Two current account overdraft agreements concluded by the Parent Company with RBS Bank (Polska) S.A. provided an overdraft facility of PLN 40 million each to secure the parent company's liquidity and current financing in the period from January 2, 2014 to June 27, 2014 and from July 4, 2014 to December 29, 2014, respectively.

Please see Notes 19.3 to the IFRS Consolidated Financial Statements for the detailed information on all bank loans (including their maturity dates).

1.9.3 Unused Credit Facilities

As of December 31, 2014, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 973 million, specifically (by Group companies):

- Orange Polska S.A.: EUR 227 million (revolving loan);
- Ramsat: PLN 1.1 million (current account overdraft); and
- Orange Real Estate sp. z o.o. (formerly OPCO sp. z o.o.): PLN 2 million (current account overdraft).

In addition, the Group had an unused limit of back-up liquidity financing of PLN 1,750 million, provided by Orange SA.

1.9.4 Loan Covenants

Guarantee agreements to which Orange Polska S.A. is a party impose an obligation to meet the ratio of net debt to restated EBITDA not higher than 3.5:1 (tested for the Group on a six months' basis). The ratio on December 31, 2014 was met, as it was 1.1.

1.9.5 Guarantees and Collaterals

In the reported period, Orange Polska S.A. requested banks to issue banker's guarantees with respect to liabilities of TP Teltech sp. z o.o., an Orange Polska's wholly-owned subsidiary, towards its business partners, while Orange Polska promised to cover any claims related to payments under the guarantee. As of December 31, 2014, those guarantees totalled PLN 16 million.

1.9.6 Ratings

Pursuant to the termination of agreements with credit rating agencies Moody's and Standard and Poor's, as from October 1, 2014 both agencies no longer provide ratings of the parent company or its subsidiaries. Orange Polska's decision to discontinue the ratings of the parent company and/or its subsidiaries is related to the conclusion by the parent company of financing agreements with the Orange Group, which secured intragroup financing.

1.9.7 Hedging Transactions

In 2014, the Group continued to minimise its exposure to foreign exchange volatility by concluding and maintaining cross currency swap, cross currency interest rate swap and non-deliverable forward contracts, which at December 31, 2014 covered:

- 99.7% of debt denominated in foreign currencies,
- 55.1% of licence payable for 2100 MHz spectrum; and
- 75.5% of European Commission proceedings provision.

As a result of hedging, Group's effective currency exposure at December 31, 2014 was as follows:

- USD 3 million of debt;
- EUR 80 million of licence payable for 2100 MHz spectrum; and
- EUR 34 million of European Commission proceedings provision.

The Group has also hedged a portion of the exposure to foreign exchange risk generated by operating expenditures (e.g. handset purchases) and capital expenditures.

In addition, the Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As of December 31, 2014 the Group's proportion between fixed/floating rate debt (after hedging) was 73/27% as compared to 67/33% on December 31, 2013.

Notes 21 and 23 to the IFRS Consolidated Financial Statements present detailed information about foreign exchange and interest rate hedging.

1.9.8 Group's Financial Liquidity and Net Financial Debt

At December 31, 2014, Group's quick and current ratios increased as compared to the end of 2013. Higher liquidity of the Group was driven by an increase of PLN 226 million in current assets, including an increase of PLN 50 million in cash, as well as a decrease of PLN 2,490 million in current liabilities (less provisions and deferred income).

The liquidity ratios for the Group at December 31, 2014 and December 31, 2013, respectively, are presented in the table below.

	December 31, 2014	December 31, 2013
Current ratio Current assets / current liabilities*	0.59	0.31
Quick ratio Total current assets – inventories / current liabilities*	0.53	0.28
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.14	0.08

*Current liabilities less provisions and deferred credits were used to determine the ratio.

Group's net financial debt (after valuation of derivatives) decreased to PLN 4.134 million at the end of December 2014 (from PLN 4,512 million at the end of December 2013).

CHAPTER II
MANAGEMENT BOARD'S REPORT ON OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

in 2014

2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

Selected financial data (PLN million) IFRS	**2014**	**2013**	**Change**
Restated(1) Group's revenue	12,212	12,786	-4.5%
Restated(1) EBITDA	3,921	4,046	-3.1%
Restated(1) EBITDA (as % of revenue)	32.1%	31.6%	0.5 pp
Consolidated net income	535	294	82.0%

(1) For restatements of basic financial data please see Note 3 to the Consolidated Financial Statement.

Group's restated revenue totalled PLN 12,212 million in 2014 and was down PLN 574 million (4.5%) year-on-year.

This predominantly reflected the impact of regulatory decisions (mostly MTR cuts), which decreased the Group's revenues by PLN 255 million, a decrease of PLN 296 million in fixed voice revenues (due to decline in both the number of customers and ARPU), as well as price pressure that negatively affected mobile voice traffic revenue.

These factors were only partly offset by an increase in equipment sales (by PLN 278 million), higher mobile data revenue and higher other revenue. The sharp rise in equipment sales was driven mainly by the introduction of an instalment scheme in mobile equipment sales, while other revenue grew mainly as a result of implementation of broadband infrastructure projects.

Group's restated EBITDA margin increased by 0.5 percentage points year-on-year, while restated EBITDA was PLN 125 million higher than in 2013. This can be attributed mainly to the following factors:

- a revenue decrease, as described above;
- a PLN 171 million increase in interconnect costs related to growth in traffic, particularly resulting from higher popularity of unlimited mobile tariffs;
- negative regulatory impact resulting mainly from cuts in European Union roaming rates (PLN 71 million);
- a PLN 138 million decrease in direct commercial costs, despite higher customer net additions in mobile, which was a result of further optimisation of the subscriber acquisition and retention costs;
- sustainable cost savings of PLN 307 million.

Striving to reverse the negative trends, Orange Polska has focused on the development of bundled services, promotion of its convergent Orange Open offer as well as further optimisation of its cost base and improvement in the customer satisfaction from Orange services. In addition, revenue trends have been supported by the introduction of instalment sales. These initiatives are based on the assumptions for the medium-term action plan for 2013–2015, which was adopted in February 2013 (see section 3.3 below).

2.1 Mobile Services

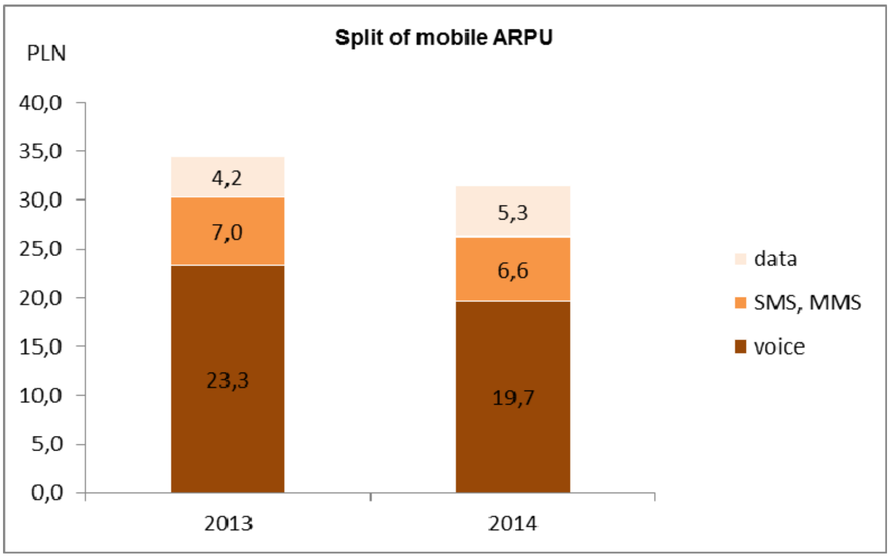
Revenue	For 12 months ended		
PLN million	December 31, 2014	December 31, 2013	Change
Mobile services revenue	5,713	6,110	-6.5%
of which voice traffic revenue	3,064	3,545	-13.6%
of which data, messaging, content and M2M	1,903	1,794	6.1%
of which wholesale	746	771	-3.2%
Mobile equipment sales	427	149	186.6%

Key performance indicators			
PLN '000, unless indicated otherwise	December 31, 2014	December 31, 2013	Change
Orange Open customers*	539	286	88.5%
Total mobile customers (SIM)	15,629	15,325	2.0%
of which post-paid	7,679	7,221	6.3%
of which pre-paid	7,950	8,104	-1.9%
SRC (post-paid), PLN	277.0	403.9	-31.4%
SAC (post-paid), PLN	380.1	516.4	-26.4%
Monthly blended ARPU, PLN	31.5	34.5	-8.7%
post-paid	54.0	59.9	-9.8%
pre-paid	12.4	13.9	-10.8%

* Orange Open is a bundle of fixed-line and mobile services

As at the end of December 2014, Orange Polska had a mobile customer base of 15.6 million, which is an increase of over 300,000 or 2.0% year-on-year. The increase was driven entirely by the expansion of the post-paid customer base, which grew by over 450,000 or over 6% year-on-year. This was mainly related to the fact that post-paid services had become significantly more affordable for customers, who partly migrated to this segment from the pre-paid one. Growing popularity of SIM cards dedicated to mobile broadband was another growth factor, as these are typically activated in the post-paid scheme. Further growth of the second mobile brand, nju.mobile, also contributed to the success; in 2014, its customer base increased by 227,000 (or 64%), including almost 100,000 in the post-paid segment.

Blended ARPU amounted to PLN 31.5 in 2014 and was 8.7% lower than in 2013. This can be attributed mainly to a decline in voice and SMS ARPU resulting from regulatory voice MTR cuts; market price pressure, driven by the aforementioned MTR reductions and aggressive offers of competitors, particularly in the business market; and the growing popularity of SIM-only (SIMO) offers. These negative factors were not offset by an increase in data ARPU, which grew 25% (year-on-year) in 2014. The share of data ARPU in aggregate ARPU increased from 12% in 2013 to 17% in 2014.



2.1.1 Market and Competition

The mobile voice market is in a saturation phase in terms of the number of users. The number of SIM cards increased by 1.9% from December 31, 2013, driving the mobile penetration rate (among population) to 150% at the end of December 2014.

The three leading operators continued to lose market share to P4. Between December 31, 2013 and December 31, 2014, their total volume market share decreased from 80% to 78%. Orange Polska's share in the mobile market was 27.3% by volume at the end of December 2014.

Due to differences in methodology, such as different definitions of an active prepaid SIM card or different methods of customer acquisition and retention (instalment sales, subsidies), positioning of the data sets presented by various operators against one another is becoming increasingly difficult.

In 2014, Orange Polska significantly improved its competitive position in terms of portability market share. Numbers transferred to Orange Polska totalled 400 thousand, which corresponded to a market share of 26% (up from 21% in 2013). Mobile number portability balance was -47 thousand in 2014, which was an improvement over -135 thousand in 2013. Notably, the balance was positive for post-paid services alone.

2.1.2 Convergent Orange Open Offer

In 2014, Orange Polska successfully expanded its convergent offer, Orange Open, combining mobile and fixed line products and addressing the need to use a number of different services. By the end of 2014, the Orange Open take-up had increased by almost 90% to 539 thousand, which corresponded to 24% of the fixed broadband customer base. The total number of services sold in the Orange Open scheme exceeded 2,200 thousand, which means that on average each customer uses more than four services. The convergent offer increases customer loyalty, as its churn rate is much lower than among single service users.

In April 2014, the existing promotions, Orange Open Family, Orange Open Combo and Orange Open, were combined into a single one, Orange Open. The method for the calculation of discounts for bundled services was changed: the bonuses for additional services are now equal for mobile and fixed line customers. They can get a discount of up to PLN 65 monthly, depending on the number of Orange services they use. Additional initiatives aimed to increase the effectiveness of bundle sales were implemented in the second half of 2014.

Orange Open discounts are available to business customers, as well. Since April, Orange Open For Business discounts are granted not only for services from the same mobile category, but also a new category of IT services.

2.1.3 Mobile Voice and Data Services

The most important initiatives in 2014 included:

Introduction of new *Smart Plans*, i,e. **new tariff solutions for residential customers**

The new voice offer now consists of four tariff plans:

- ***Smart Plan Multi II Max*** for heavy phone users in Poland and abroad, who need to have a modern smartphone model. Orange Polska, as the only operator in the market, offers a new handset during the term of the agreement, just 12 months after it was signed. In addition, the *Smart Plan Multi II Max* offers 400 minutes for roaming calls in EU countries monthly, up to 10 GB for using the Internet in Poland as well as unlimited calls, SMSs or MMSs to all networks. The *TV Package* and *Orange Navigation* are also included in the subscription fee;
- ***Smart Plan Multi II*** offers larger data pools (up to 5 GB), unlimited calls, SMSs and MMSs to Orange as well as *Orange Navigation*. Depending on the tariff, there is also a pool of 400 minutes for roaming calls in the EU as well as unlimited calls, SMSs and MMSs to all networks.
- ***Smart Plan Halo II*** differentiators are large pools of minutes, SMSs or MMSs to all networks, unlimited calls on the Orange network and, in a selected option, also unlimited SMSs to all networks. A new feature in selected options is interchangeability of minutes between domestic calls and roaming calls in EU countries (on a two per one basis).
- ***Smart Plan Mix II***, in addition to a pool of minutes for calls, offers unlimited texting to all.

The new tariff plans are also available in the SIM-only option.

All the new tariff plans have several features in common, which increase their usefulness. In particular, they include, as standard, the 'Safe Internet on the Phone' service, which enables customers to comfortably use data transmission without worrying about the bill, as well as free access to data storage in the 'Orange Cloud' service, which offers 5GB of virtual disc space with free transfer.

Introduction of Instalment Sales

In 2014 Orange Polska introduced instalment sales of smartphones and tablets as a complementary tool to traditional subsidised offers. The scheme is available only for specific post-paid tariff plans. This aims at accelerating the purchases of advanced smartphones and encouraging SIM-only customers to switch to handset offers.

Pre-paid Portfolio

An innovative solution enabling customers to choose their phone number, which was introduced in the first half of 2014, remains the most important development. Until the end of 2013, starter kits from all operators had numbers pre-assigned at the manufacturing stage and customers could only choose from among several different starter kits available in a sales outlet. The 'Choose Your Number' starter kits have no fixed numbers assigned to them and offer an opportunity to choose a phone number during SIM card activation. It is the only such offer in the Polish market and probably the first in Europe. Due to technical complexity, the service has still not been copied by other market players.

Also in 2014, Orange Polska, in co-operation with PAYBACK, introduced Poland's only starter kit integrated with a loyalty programme. In September, the 'Safe Starter Kit' was introduced. It is the only solution in the pre-paid segment which offers Internet filtering. Blocking pornography and other content harmful to minors is consistent with Orange Foundation's long-standing initiatives for safety of children on the net. The 'Safe Starter Kit', which is addressed to conscientious parents, has been developed in co-operation with McAfee, one of the world's leaders in IT security solutions. Good sale results have been reported for both products.

Voice Offer to Business Customers

In January 2014, new voice tariff plans, *Orange Biz* and *Orange Biz Mix*, as well as promotional offers with additional service multi-packs based on these plans were added to the business voice portfolio. Owing to such a design, the offer can be better tailored to individual business needs. The offer was further developed in subsequent months. In April, the 'Smartphones in Orange Biz on instalments' promotion was launched. In May, the 'Smartphones in Orange Biz on instalments' promotion was expanded to include the 'Hello, Playing' service offered on a try & buy basis; that is customers activating or renewing the agreement automatically receive the 'Hello, Playing' service free of charge for one month.

The 'Orange Discount Zone For Biz 125' service, offering a discount on outgoing and incoming roaming calls in the following countries: US, Russia, Belarus, China and Ukraine, and the 'Call and Answer in the EU' service, an extra pool of minutes for roaming calls within EU, were introduced in the summer holiday period.

Moreover, since July 2014, customers signing up for *Orange Biz* without multi-packs have been receiving a 1GB data pool free of charge for the first two months. In August, customers subscribing to *Orange Biz 60* plus multi-pack #1 or other *Orange Biz* plans plus multi-pack #2 were offered discounts on subscription fees.

The *Orange Biz* portfolio was further modified in October 2014 with the introduction of the 'Six Months for PLN 1 in *Orange Biz* and *Orange Biz* on instalments' promotional offer to customers porting numbers to Orange in the *Orange Biz 60* plan with handset purchase. A retention offer fee was also added.

Data Services

2014 saw a growing share of Orange Free Net with equipment in the mobile broadband sales structure, as LTE routers and tablets with a built-in LTE modem at attractive prices were added to the portfolio.

On October 21, the 'Six-month free unlimited LTE' promotion for post-paid Orange and nju.mobile customers was launched. After customers use up their basic data pool, they can still access the Internet at full speed in the 4G LTE technology. The promotional offer is available to the existing and new Orange and nju.mobile customers with LTE access who have signed up for mass or business market pre-paid voice or broadband offers.

Another portfolio addition is a new edition of the 'Internet Here and There' offer (available since November 1, 2014), in which, for PLN 89.90 monthly, customers are offered fixed broadband, a Samsung 7" tablet with a built-in LTE modem for PLN 1 and 10 GB mobile broadband.

All Orange Free Net tariff plans include a common data pool, which can be used also on a smartphone in a voice offer, provided that both offers are assigned to the same subscriber's account.

2.2 Fixed Line Services

Revenue	For 12 months ended		
PLN million	December 31, 2014	December 31, 2013	Change
Fixed line revenue	5,520	6,057	-8.9%
of which narrowband	1,983	2,297	-13.7%
of which broadband, TV and VoIP	1,663	1,687	-1.4%
of which enterprise solutions and networks	933	1,020	-8.5%
of which wholesale	941	1,053	-10.6%
Other revenue	552	470	17.4%

Key performance indicators	December 31, 2014	December 31, 2013	Change
Fixed voice lines	4,512	4,741	-4.8%
Orange Open customers*	539	286	88.5%
3P customers (broadband, TV & VoIP)	423	351	20.5%
Fixed broadband accesses (retail)	2,241	2,301	-2.6%
TV customers	748	707	5.8%
Retail fixed voice ARPU, PLN	41.4	44.2	-6.3%
Broadband, TV and VoIP ARPU, PLN	60.4	60.3	0.2%

* Orange Open is a bundle of fixed-line and mobile services

In 2014, fixed-line revenue remained under pressure from both other market players and mobile technologies. However, net churn of fixed voice customers was limited to 229 thousand in 2014 as compared to 346 thousand in 2013. This was a result of a strategy of product bundling and convergence as well as return of customers from wholesale services of other operators.

Broadband, TV and VoIP revenue slightly declined due to a net decrease in customer base, mainly in the CDMA technology, which is no longer competitive. ARPU from these services remained stable. 2014 saw a significant rise in demand for fast Internet access in the VDSL technology; the VDSL customer base increased by 150% year-on-year, driving its share to 8% of all xDSL customers.

There was a significant increase, by approximately 17%, in other revenue last year. It resulted from higher sales of ICT equipment as well as implementation of infrastructure projects by Orange Polska's subsidiary, TP Teltech, in co-operation with local communes.

2.2.1 Market and Competition

Fixed Line Voice Market

The Group estimates that the fixed line penetration rate was at 22% of Poland's population at the end of December 2014, as compared to 23% at the end of December 2013. The decline is mainly attributable to growing popularity of mobile technologies. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a substitute to fixed line telephony. The aforementioned downward trend has been also affecting regulated fixed-line wholesale products (WLR and LLU).

Fixed Broadband Market

According to Group's estimates, the total number of fixed broadband access lines at the end of December 2014 was up by 0.7% compared to the end of December 2013. Consequently, this shows that the market grew at a slower pace than in 2013 (+1.4% compared to the end of December 2012). The slowdown was mainly caused by the popularisation of mobile broadband access, which, depending on the price option, may be either substitute of or complementary to fixed broadband access. The penetration of fixed broadband services in Poland's population reached 18.9% by the end of 2014, compared to 18.8% at the end of 2013.

According to Group's estimates, the value of the fixed broadband market in the first half of 2014 grew by 1.1% year-on-year, versus a 5.2% increase in 2013. The growth rate of the market value outpaced its increase in volume, mainly as a result of growing ARPU, which may be attributed to a combination of two factors: customer migration to higher speed options with a gradual increase in ARPU from the service, and an increase in ARPU owing to cross-sales of additional services.

Competitive pressure from cable television (CATV) operators has remained strong and their total market share has been steadily growing. It is estimated at 33.7% by volume or 31.9% by value (in Q4 2014), as compared to 32.1% by volume and 30.1% by value the year before. The increase in CATV market share results from popularity of bundled offers, which may be effectively sold by CATV operators due to their strong position on the television market. It is also a result of growth of the broadband speeds offered by CATV operators, without raising prices, which contributes to an increase in average line speeds and raises customers' expectations in this respect.

Alternative operators, primarily Netia, still use the wholesale BSA and LLU based services. The total volume of BSA-based lines at the end of 2014 declined by 50 thousand compared to the end of 2013, while the total of LLU-based lines at the end of 2014 amounted to 152 thousand as compared to 172 thousand at the end of 2013.

2.2.2 Fixed Line Voice Services

In 2014, Orange Polska continued steady efforts to contain the erosion of its fixed-line voice subscriber base.

Currently, the fixed line voice portfolio is based on three unlimited tariff plans (enabling unlimited calls for no additional cost either 24 hours/day or in the evening/weekend option) for calls to both domestic and international fixed networks and, in the high-end plan, also domestic mobile networks. Owing to such a design, the offer can meet the expectations of customers with various needs, as they can choose a plan which is best tailored to what they expect from a fixed-line voice offer.

2014 saw the continuation of efforts to loyalise customers who use more than a fixed voice service. These include FunPack HD (bundle including broadband, TV and voice), offering unlimited calls to fixed line terminals in Poland, EU countries, US and Canada, as well as Neostrada offer with unlimited domestic fixed line calls.

According to Orange Polska's internal estimates, the Group had the following market shares:

Fixed voice market share in December 2014

	4Q 2014 (estimated)	4Q 2013	Change
Retail local access[1]	53.2%	53.8%	-0.6 pp

2.2.3 Fixed Line Data Services

Fixed broadband market – key performance indicators:

	Dec 31, 2014	Dec 31, 2013
Market penetration rate in Poland – broadband lines (in total population)	18.9%	18.8%
Total number of broadband lines in Poland ('000)	7,272	7,220
Market share of Orange Polska	30.9%	31.9%

In 2014, Orange Polska focused on promoting high speed broadband access. The standard broadband portfolio for the mass market was simplified as much as possible: the number of speed options was reduced and the price differences between 12-month and 24-month agreements were standardised. In particular, the VDSL-based portfolio was simplified and enhanced, with the 80 Mbps option replacing the existing 40 Mbps and 80 Mbps options. Owing to the changes in the portfolio, the VDSL share in new sales within the broadband technical range has been steadily growing. Currently, over two thirds of new customers within the VDSL reach choose this service. In December, the VDSL service take-up reached 160,000.

Orange Polska continued to successfully promote bundles with digital TV, offered in both IPTV and DTH (satellite digital TV) technologies. The TV customer base increased by almost 6% year-on-year. In addition, the Group's convergent offer, Orange Open, which provides discounts to customers who use both fixed and mobile services, was further developed. The convergent offer was enhanced by (i) adding 'Internet Here and There', a dedicated offer of *Neostrada* or FunPack and mobile broadband for the same price plus a tablet and a WiFi router for PLN 1 each, and (ii) the communication of the FunPack Light offer, that is a bundle of *Neostrada* with TV and mobile voice service.

In 2014, the key development for the future of the fixed broadband offer was market deregulation. UKE's decision of October 7, 2014 lifted regulatory obligations from Orange Polska in 76 communes (*gminas*) in which there is effective competition (BSA; market 5/2007). These are areas in big cities (including Warsaw, Katowice, Łódź, Szczecin and Wrocław), which account for 30% of Poland's households. Owing to the market deregulation the Group can be more effective and flexible in competing with CATV operators, which are the strongest players in the fixed broadband market and which were not covered by telecommunication regulations. In order to make use of the opportunities offered by deregulation, on October 17 Orange Polska launched an offer dedicated to the deregulated areas, with optimised pricing adjusted to the competitive conditions. The offer covers key services, *Neostrada* and *Neostrada* plus TV bundles (*Neostrada* + Orange TV and FunPack, that is a bundle of *Neostrada*, TV and VoIP fixed-line voice service).

The Group continued investments in the FTTH network in Warsaw in the 'Stolica' pilot project, and in October 2014 first FTTH lines were transferred into use in Lublin. By the end of 2014, the number of ready-to-connect FTTH lines had exceeded 70,000.

[1] Without Wholesale Line Rental but with Orange WLR and VoIP services, which are the equivalents of subscriber lines.

3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

3.1 Market Outlook

According to Group's estimates, the value of Poland's telecommunication market decreased by 1.9% in 2014 as compared to 2013. The main factor contributing to the decline was re-evaluation of the fixed line market accompanied by price reductions in the mobile market for both retail and wholesale services. MTR reduction and a decrease in roaming fees, apart from direct impact on revenue of mobile operators, resulted in a general drop in prices.

Offers with terminals sold by operators in the instalment scheme have been gaining popularity in the market. On the one hand, it enables operators to report revenue at the moment of sale of terminals to end users, that is earlier than in the traditional approach adopted in the telecommunication market, i.e. subsidised offers. On the other hand, such an approach enables customers to compare prices of terminals, which may result in shifting some value out of the telecommunication market (to distribution chains not owned by operators).

Mobile operators continue to offer voice services with unlimited minutes both in their mobile and fixed-line portfolio. This contributes to a decline of the market value, particularly in the mobile segment. On the other hand growing popularity of smartphones, tablets and other devices that use mobile broadband access has a positive impact on the development of the telecom market, particularly mobile data services.

Fixed to mobile substitution continues to be an important adverse factor on the market. In previous years, this trend affected mainly fixed-line voice services; now, it is beginning to affect the fixed broadband segment, as well. Popularisation of LTE, depending on price options, could potentially affect the substitute role of mobile services to fixed line services or the complementarity of both services.

In subsequent years, market developments will concentrate around growing importance of fixed-mobile convergence, further bundling of telecommunication services with television and entertainment, as well as expansion of services based on 4G technology. Major developments in the business market will most likely include growing popularity of combining telecom offers with ICT offers as well as growth in the machine-to-machine (M2M) segment.

Poland is currently going through a transformation on the fixed line internet market towards a higher share of very high speed broadband in total broadband access. With growing demand for data transmission and connection speed, traditional internet access is facing loss of popularity. Having a product with very high connection speed in their portfolio is crucial for a company to stay competitive and to face challenges of growing needs of customers. After an extensive FTTH pilot conducted in 2014, Orange Polska is currently planning to invest in fibre technology on a larger scale in 2015. Orange investment plans will not only meet current market needs, but will provide basis for future technology revolutions.

There was a number of major ownership changes in the telecommunication market in 2014. The acquisition of GTS Central Europe by Deutsche Telekom (owner of T-Mobile Polska) was approved by the European Commission and the merger process was initiated. Cyfrowy Polsat took over control of Polkomtel, thus increasing its potential for offering convergent services. Orange Polska sold Wirtualna Polska, which is to be merged with the O2 Group's portal by the new investor. Furthermore, new business partnerships were formed, which combine telecommunication services with other sectors of the economy. Operators started to sell banking services or, in conjunction with electricity providers, offer power supply to its customers. One of mobile operators is also considering gas sales. These processes are expected to continue in the future.

Regarding sale of shares through the stock exchange, Multimedia Polska's initial public offering was cancelled due to unsatisfactory demand from investors, while Tele-Polska Holding sold just 22% of its shares offered.

3.2 Orange Polska's Strengths

Orange Polska operates in an increasingly challenging market. Due to fierce competition and the market structure, actions taken by the Group need to be determined and consistent. The ability to adapt to the existing conditions and respond to new market trends results from a number of Orange Polska's strengths, the most important of which are as follows:

- Market's broadest portfolio of mobile and fixed line services, including the possibility to render convergent solutions;
- Cost-effective bundles of telecommunication services;
- Market's broadest bundle of services within a single offer (Orange Open);
- Service portfolio expansion to include sales of electric energy and banking services;
- Broadly recognised Orange brand in the telecommunications services market;
- Innovative b-brand mobile offer (under the nju.mobile brand);
- Largest coverage of telecommunication network in Poland;
- The ability to build and develop strategic alliances (e.g. with T-Mobile (see point 4.5 below), *nc+* and mBank);

- High recognition of corporate social responsibility standards (Ministry of Economy's award), including projects carried out by the Orange Polska Foundation and efforts to ensure web security for minors;
- Poland's largest sales network, enabling professional customer service during and after sales; simultaneously, modern distribution channels, particularly on-line, are being developed;
- Active participation in building the information society through various initiatives, including development of the telecommunication infrastructure in the areas at risk of digital exclusion;
- Broad international co-operation and access to know-how of Orange Polska's partners from the Orange Group, including use of the Buy-In company (a joint venture of Orange Group and Deutsche Telekom) as well as close co-operation and R&D experience sharing within the Orange Labs network;
- One of Poland's top ten employers in 2013 (according to the CRF Institute) and one of the most attractive companies as a potential employer in the telecommunication industry for students (according to the 'Your Perspective' Programme ranking list);
- Experienced workforce and well-developed work assessment and competence development system.

Owing to these strengths, Orange Polska is the sole provider of an integrated offer and value-added services for telecommunication products nationwide. The Group is able to provide its customers with offers which match their needs, while effectively responding to actions of its rivals.

3.3 Orange Polska's Medium Term Action Plan

The Group's action plan aims at strengthening its leadership in core market segments and developing new markets and value-added services, while preserving Orange Polska's financial standing and revenues. The Group will flexibly respond to changing customer needs, offering an attractive range of services and solutions to accompany customers in their everyday life. It means the following efforts:

- To reinforce a leadership position in Group's core markets, by leveraging on the convergence concept in order to maximise the potential of its existing and future customer bases, by providing its customers with convergent products and services, including both fixed and mobile components, offered at attractive prices and delivered via a convergent sales and distribution network;
- To further develop convergent infrastructure required to offer cutting-edge technological solutions to customers;
- To continue investments in both mobile and fixed-line networks, improving the customer satisfaction level;
- To expand the portfolio of value-added services (banking services, sales of electric energy, multimedia, cloud, smart home, etc.), which contribute to an increase in data transmission volume and revenue;
- To successively implement multimedia services accessible for Orange customers regardless of the form of access to the Internet ('Here and There' product catalogue);
- To adjust its solutions and services to customer needs in order to become the telecommunication (fixed and mobile) service provider of choice;
- To continue to develop a new portfolio for business customers in the Information and Communication Technology (ICT) market, particularly through the dedicated company, Integrated Solutions;
- To improve and unify its customer care, in coherence with the convergent service portfolio;
- To develop an even stronger sales network by leveraging on convergent customer databases and also by developing remote sales channels which increase the offer availability;
- To continue the cost savings and transformation programme, aimed at reducing the cost base and increasing operating efficiency;
- To adjust its recurring capital expenditure to the challenging environment, optimising the allocation of capital expenses while acquiring the spectrum needed for the future growth.

Strategic vision for 2013–2015 (based on the strategy presented in February 2013):

customer customer-oriented, total telecom solutions	**our commitments** – sign up about half of our contract customers to convergent products, like Orange Open – compete with solutions that offer better services and better value to customer – single, convergent sales network – seamless 'Orange Care' customer service operation
convergence anytime, anywhere services, convenient and technology-transparent	**our commitments** – full legal merger of fixed and mobile businesses – coherent service for >20 million customers – maximise sales of product bundles and convergent solutions
connectivity seamless connectivity experience on a convergent network with wide coverage	**our commitments** – extend very high broadband (VHBB) network to 4 million homes – extend 4G coverage to over 90% and 3G coverage to 80% of population – ensure seamless switching between networks – improved customer experience
capital selective investments and a sound balance sheet	**our commitments** – long-term capex target at 12-13% of annual sales (excl. spectrum acquisition, licence renewal and VHBB investments) – selective network investments to enable revenue-generating data traffic, including spectrum to launch 4G services – in the long term, net gearing maintained below 40% and net debt to EBITDA at maximum 1.5x – reasonable remuneration offered to Group's shareholders
cost efficiency flexible cost base and an effective business model	**our commitments** – social plan to reduce headcount by 2,950 in 2014–2015 including 1,530 FTEs less in 2014 – reduction in the number of low performing shops and growth in share of online sales – co-used network to provide cost savings, coupled with significant capex avoidance – reduction of G&A costs made possible by the merger of TP S.A. with PTK Centertel into a single company, Orange Polska – study of options, including partial outsourcing, for the fixed network and IT activities – sale of non-core subsidiaries, including Wirtualna Polska

4 MATERIAL EVENTS THAT HAD OR MAY HAVE INFLUENCE ON ORANGE POLSKA'S OPERATIONS

Presented below are the key events that, in Management's opinion, have influence on Orange Polska's operations now or may have such influence in the near future. Apart from this section, the threats and risks that may impact the Group's operational and financial performance are also reviewed in the Chapter IV hereof.

4.1 Regulatory Obligations

Pursuant to President of UKE's decisions issued in 2007, Orange Polska S.A. was designated as an operator having significant market power ("an SMP operator") in the relevant retail markets 3 to 7 (according to the European Commission's recommendation of 2003), namely:

- market for provision of national telephone services on a fixed public telephone network to consumers (market 3/2003);
- market for provision of international telephone services on a fixed public telephone network to consumers (market 4/2003);
- market for provision of national telephone services on a fixed public telephone network to end users, except consumers (market 5/2003);
- market for provision of international telephone services on a fixed public telephone network to end users, except consumers (market 6/2003); and
- market for provision of services of part or whole of the minimum set of leased lines with capacity of up to and including 2 Mbps (market 7/2003) – on June 12, 2014, Orange Polska's regulatory obligations in this market were lifted.

Under the aforementioned decisions, with respect to the markets 3/2003 to 6/2003, Orange Polska has an obligation to submit costing results and regulatory accounting statements to an independent audit. Orange Polska is also subject to an obligation to submit its price lists and terms of service provision for the President of UKE's approval with respect to services covered by the markets 3/2003 to 6/2003. There is a ban on both underpricing (to restrain competition) and overpricing.

Pursuant to the President of UKE's decisions issued in 2012, Orange Polska has a significant market power in the following relevant retail markets:

- market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to consumers (market 1/2003);
- market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to business customers (market 2/2003).

Under the aforementioned decisions, Orange Polska is subject to an obligation to obtain UKE's approval for its price lists and terms of service provision as well as a ban on underpricing, a ban on obligating users to subscribe to services which are unnecessary for them, a ban on unjustified preferences for groups of users and a ban on hindering the market entry of other operators.

Pursuant to the President of UKE's decisions, Orange Polska is an operator having a significant market power (SMP) in a number of the relevant wholesale markets according to the European Commission's Recommendation of 2003. Consequently, it has the following regulatory obligations:

- In the domestic market for leased line terminating segment services (market 13/2003): obligation to provide other operators with telecommunications access to Orange Polska's network (on the terms specified in the reference offer), including the use of network elements and associated facilities, in order to provide leased line terminating segment services; and
- In the domestic market for leased line trunk segment services, excluding connections between 145 locations (market 14/2003): obligation to provide other operators with telecommunications access to Orange Polska's network (on the terms specified in the reference offer), including the use of network elements and associated facilities, in order to provide leased line trunk segment services.

In addition, pursuant to decisions designating Orange Polska as an SMP operator in the relevant wholesale markets according to the Commission's Recommendation of 2007, Orange Polska has the following regulatory obligations:

- In the domestic market for call origination on a fixed public telephone network (market 2/2007): obligation to enable end-user service management, offer wholesale services for the purposes of resale (WLR), provide telecommunications infrastructure and enable colocation and other forms of facility sharing (on the terms specified in the reference offer);
- In the domestic market for call termination on Orange Polska's fixed line network (market 3/2007): obligation to provide access to the network on non-discriminatory terms specified in the reference offer, including obligation to charge flat interconnect rates for the service;

- In the domestic market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (market 4/2007): The scope of the market was extended to include not only copper but also fibre optic loops and subloops. Orange Polska has an obligation to provide access to this infrastructure on the terms specified by UKE in the reference offer;
- In the domestic market for wholesale broadband access services, excluding some local administrative units (market 5/2007). The product range of the market includes both copper and fibre optic infrastructure. Until October 7, 2014, Orange Polska was designated as an SMP operator for the whole territory of Poland except for 11 local municipalities (gminas), including the City of Warsaw; however, the latter areas remained subject to a regulatory decision of 2007, pursuant to which Orange Polska had an obligation to provide services on its copper network. On October 7, 2014, the President of UKE issued a new decision for the market 5/2007. Pursuant to it, the regulated area (with respect to both copper and fibre optic networks) is the territory of Poland excluding 76 local municipalities. The market in these 76 municipalities was recognised as competitive; consequently Orange Polska has no regulatory obligations (with respect to either FTTx or xDSL) in this area, excluding an interim obligation (to October 2016) to maintain the BSA access provided before. In the regulated area, Orange Polska has an obligation to provide access to its copper and fibre optic infrastructure on the terms specified in the reference offer approved by the President of UKE.

Pursuant to SMP decisions for the markets 2/2007, 3/2007 and 4/2007 as well as 13/2003 and 14/2003, Orange Polska has an obligation to charge cost-based telecommunication access fees and an obligation to carry out regulatory accounting in accordance with a manual approved by the President of UKE. The relevant regulatory statements for these markets have to be submitted to an independent audit.

Pursuant to the SMP decision for the market 5/2007, Orange Polska has an obligation to calculate costs of services and charge access fees based on the operator's justified costs. The service costing results for these markets are subject to an independent audit. Until a regulatory audit is conducted, Orange Polska has an obligation to charge cost-based prices.

Furthermore, Orange Polska is an SMP operator in the market for call termination on Orange Polska's mobile network (market 7/2007). The key regulatory obligations imposed on Orange Polska in connection with its position are the non-discrimination obligation, the transparency obligation to disclose and publish information on matters related to providing access, the obligation to provide telecommunication access and the obligation to charge rates for call termination on Orange Polska's network according to the time schedule set in the SMP decision of December 14, 2012 (i.e. PLN 0.0429 / minute from July 1, 2013). On December 31, 2012, Orange Polska appealed from the UKE's decision of December 14, 2012, which imposed regulatory obligations on the Company in the market 7/2007. The appeal proceedings are pending.

On December 14, 2010, the President of UKE designated Orange Polska as an SMP operator in the market for SMS termination on Orange Polska's mobile network. The most important regulatory obligation imposed by the decision is to provide SMS termination services based on costs. Orange Polska's appeal from the decision has been rejected. The Company has filed a cassation appeal. The proceedings are pending.

4.2 Proposed Changes in Regulations

In March 2014, the President of UKE commenced consultation of her draft decisions for the retail markets for national and international calls for consumers and business customers (markets 3/2003 to 6/2003). In November 2014, having gathered new data, the President of UKE re-commenced consultation in this respect. According to the draft decisions released for consultation, the President of UKE intends to recognise these markets as competitive and lift the existing regulatory obligations from Orange Polska. The matter should be finally decided in the first half of 2015.

In addition, the wholesale leased line markets (13/2003 and 14/2003) are being reviewed. Draft decisions for these markets are expected to be published in 2015.

4.3 Merger of TP S.A. and PTK Centertel

On December 31, 2013, the District Court for the Capital City of Warsaw, XII Commercial Department of the National Court Register, registered the merger of Telekomunikacja Polska S.A. (as the acquiring company), with Polska Telefonia Komórkowa – Centertel sp. z o.o. and Orange Polska sp. z o.o. (as the target companies) in the commercial register.

The Court also registered amendments to the Articles of Association with respect to the objects of the company and a change of the name from Telekomunikacja Polska Spółka Akcyjna to Orange Polska Spółka Akcyjna. The amendments have been effected pursuant to the Resolutions no. 3, 4 and 5 of the Extraordinary General Meeting of TP S.A. dated November 7, 2013.

The merger has been effected pursuant to Article 492(1.1) of the Commercial Companies Code by transfer of all the assets of PTK Centertel sp. z o.o. and Orange Polska sp. z o.o. to TP S.A., the sole shareholder of the target companies.

As at December 31, 2013 TP S.A., as the acquiring company, entered into all the rights and obligations of the target companies.

The merger aims at integrating the main strengths of Orange Polska within a single entity. In particular, the merger will contribute to:

- Strengthening the leadership position in core markets by leveraging on convergence;
- Development of the infrastructure required to offer convergent technical solutions to customers and support the expected considerable growth of data traffic;
- Further unification of customer care in coherence with the convergent service portfolio;
- Cost savings, through increase of operational efficiency, simplification and integration of processes of the merged entity.

4.4 Launch of Financial Services by Orange Polska in Partnership with mBank

On March 19, 2014, Orange Polska and mBank signed several agreements concerning co-operation in the area of financial services. The main co-operation agreement is valid until the end of 2025, with the possibility for a further three years extension. Based on the agreement, the Parties have initiated a project to develop a financial platform in the form of a retail mobile bank for clients using mobile devices. The project focuses on provision of banking services through a branch of mBank, created and financed by mBank, to clients acquired through the co-operation with Orange Polska. The Orange Group has made the Orange brand available for all products included in the co-operation. Orange Polska is responsible for marketing and client acquisition, and does not bear any risks related to bank management matters. Orange Polska is remunerated for being an agent in acquisition of clients and for sales of bank products on a commission basis, while sales of non-banking products is subject to profit sharing as set forth in the agreement. Orange Polska should also benefit from increased customer loyalty. Between January 1, 2020 and December 31, 2023, Orange Polska may exercise a call option on an organised portion of assets of the enterprise operated within the branch. This may be exercised mainly through the acquisition of the organised portion of assets of the enterprise by a bank indicated by Orange Polska or established jointly by the Parties. A condition precedent of the exercise of the option will be the approval by the General Assembly of mBank and the regulatory approvals required by law. On October 2, 2014, sales of banking products under the Orange Finanse brand were launched. The banking products are provided by mBank. They are sold via Orange sales network and mobile channels, i.e. dedicated website and mobile application. The product portfolio includes current accounts, savings accounts, loans, deposits as well as debit and credit cards. Currently, the offer is addressed to residential customers, but in the first quarter of 2015 it is to be extended to include small to medium companies. At the end of December, the customer base of Orange Finanse was about 36,000.

4.5 RAN Co-using Agreement

Orange Polska has continued its technical co-operation with T-Mobile Polska (“T-Mobile”) based on:

- agreement on reciprocal use of radio access networks (“RAN sharing Agreement”) signed in July 2011, with a subsequent annexes; and
- joint operation NetWorkS! sp. z o.o. (“NetWorkS!”), in which Orange Polska and T-Mobile hold a 50% stake each and which conducts management, planning, operations, development and maintenance of their access networks.

By the third quarter of 2014, the project implementation had been completed and the co-used radio access networks had covered the entire territory of Poland. As a result, the number of base stations handling the traffic generated by Orange customers now exceed 10,000 (50.5% of which are owned by Orange). Hence, the number of base stations is more than 60% higher than it was before the launch of the RAN sharing project in May 2012.

Since August 2013, as part of the co-operation, Orange Polska has been providing UMTS data transmission services in the 900 MHz band (over bandwidth of 4.2 MHz, which consists of Orange’s and T-Mobile’s channels). The 3G data services using this frequency have been implemented nationwide, excluding selected borderland areas, where their launch is not possible due to international co-ordination issues. All these efforts resulted in a very significant increase in service coverage, particularly the availability of modern mobile data services. As of December 31, 2014, 3G coverage was as follows:

- Population: 99.4% outdoors (up almost 37 pp since the start of the project);
- Territory: 94.7% outdoors (up almost 83 pp since the start of the project).

Improvement in 2G coverage was lower, yet equally important. The most notable increase has been achieved with respect to territory and services available indoors: 83.7% of Poland’s territory (up over 12 pp).

In September 2013, the RAN Agreement was extended to include co-using of radio access networks based on the 4G (LTE) technology. Under the agreement, the parties shall invest in the LTE network development and

Orange Polska has acquired the right to use T-Mobile's frequencies (together with T-Mobile) in the 1800 MHz band, particularly bandwidth of 10 MHz allocated to T-Mobile by the President of UKE on June 14, 2013, for a consideration payable over 14.5 years.

Extending the co-operation enabled Orange Polska to launch LTE services to its customers. By the end of December 2014, such services were provided via almost 5,000 base stations, which provided coverage of almost 61% of Poland's population.

Orange Polska's co-operation with T-Mobile is strictly limited to technical aspects; in particular, both operators continue to compete on wholesale and retail telecommunication markets.

4.6 Co-operation with TVN and ITI Neovision

In 2014, the Group continued to distribute its basic TV offering enhanced with content provided by TVN as well as pay-TV packages corresponding to the *nc+* platform offer (formerly "new generation *n* platform"); the distribution was originally started in 2011. In addition to the distribution of *nc+* packages together with the *Neostrada* + TV bundled offer, the companies extended their co-operation to include other product lines: Orange Free Net mobile broadband access as well as *Smart Plan Hello* and *Smart Plan Multi* mobile tariff plans. All the offers aim at strengthening up-selling potential by reciprocal use of customer bases as well as achieving cost synergies.

4.7 Group's Activity in the Area of ICT Services

The Group delivers ICT products and services through its own traditional sales channels and through Integrated Solutions, a wholly-owned subsidiary of the Group established in June 2011. The Group's strategy provides for the development of the ICT portfolio in both the service-based and project-based model as well as gradual expansion into new market segments. To implement its strategy in the ICT area, the Group uses its infrastructural and technological resources, which enable it to reap the benefits of the economies of scale and offer value to customers in the form of complete and safe service.

Extension of Specialised ICT Sales onto Corporate Customer Segment

2014 saw the development of structures that would enable effective sales of specialised ICT solutions in the corporate customer segment. A change in Orange Polska's organisational structure, which involved concentration of management of key customer and corporate customer segments in a single function, enabled replication of a model which had proven successful in the key customer segment.

Portfolio Expansion

A new dedicated team, 'Smart City', was established in 2014 to address the biggest infrastructure projects which support the functioning of cities and their inhabitants. The first project in the new 'Smart City' line of business, which started last year, is the Integrated Traffic and Public Transport Management System in the City of Legnica. The project is being implemented by a consortium of Orange, Integrated Solutions and Koma Nord. It aims to streamline vehicle traffic, curtail traffic jams and reduce pollution levels. As a result of the investment, the city will get a number of modern solutions, such as variable message boards, bus stop boards or a traffic management centre. In addition, there will be on board computers in buses, intersections with priority for public vehicles and fire engines as well as various measuring equipment. The implemented technologies will support municipal services, reduce the time needed to arrive at the scene and facilitate traffic management in crisis situations.

In the specialised portfolio, IaaS (Infrastructure as a Service) was enhanced. It is now offered as the Integrated Computing service, offering significantly greater functionalities and capacities then before.

4.8 Machine to Machine (M2M)

In 2014, new M2M Connect services were added to the Company's M2M portfolio. They enable unlimited access to packet data transmission for M2M purposes (e.g. video monitoring), which involve large data volumes. Owing to the new services, Orange Polska's portfolio even better matches the complex needs of customers in the M2M segment.

M2M solutions require top quality and continuous availability of data transmission. Therefore, in June 2014, M2M customers were offered a private APN monitoring service, which uses IPe2e probes to monitor the availability of private APNs from the radio network gateway to intranet terminals. The solution ensures even more efficient response of Orange Polska's technicians to any problems with APN availability. It also enables detecting transmission problems on the user side and informing customers automatically about any APN non-availability.

In September 2014, the LTE for M2M Tariff 10 was launched. Customers who subscribe to this M2M dedicated tariff plan get access to the most sophisticated network infrastructure and faster data transmission. This portfolio expansion is an element of a steady development of M2M services, through which Orange sets standards for this market in Poland and across Europe.

4.9 Growth of Infrastructure-based Operators in the Mobile Market

As the mobile market has entered the saturation phase, there are two areas which have the key importance in the activity of infrastructure-based operators, namely (i) customer base increase by winning customers from rival operators in the number portability scheme, and (ii) wholesale revenues.

As a result of aggressive marketing and pricing policy, Play continued to have the biggest, though falling, share in number portability in 2014. However, as already mentioned in section 2.1.1 above, Orange Polska significantly improved its competitive position in terms of portability market share in 2014.

A particularly important development in the wholesale market in 2014 was further development of infrastructure by companies from the Midas Group, which is controlled by Zygmunt Solorz-Żak. The constructed base stations are subsequently used for providing wholesale data services to other member companies controlled by the businessman, such as Polkomtel, Cyfrowy Polsat and related company Sferia.

4.10 4G Development and Auction

2014 saw massive rollout of networks by operators and introduction of offers including data services based on the LTE technology. It resulted from operators' investments in the wake of a bidding procedure held in 2013.

Orange Polska gained an opportunity to provide data services in the LTE technology, using the 1800 MHz band, pursuant to an annex to the RAN Agreement referred to in section 4.5 above. In September 2013, the Company launched LTE services, reaching nearly 61% population coverage by the end of 2014.

From 2011, a group of companies owned by Zygmunt Solorz-Żak, particularly Polkomtel and Cyfrowy Polsat, had a monopoly on 4G services for almost two years. Play launched commercial LTE services in November 2013 and T-Mobile became the last operator to join this group in June 2014. Thus, all infrastructure-based operators in Poland now offer access to 4G services to their retail customers.

LTE services are provided using the 1800 MHz spectrum. Frequencies from the 800 MHz and 2600 MHz bands, intended for the further increase of coverage and capacity of the 4G network, will be distributed by the President of UKE in an auction process, which was announced on October 10, 2014.

The auction covers 5 blocks in the 800 MHz spectrum (a total of 2×25 MHz) and 14 blocks in the 2600 MHz spectrum (a total of 2×70 MHz). Orange Polska has submitted an initial bid in accordance with the auction dossier requirements and qualified for stage two of the procedure. Until the frequency allocation as a result of the auction, Orange Polska will continue investments in the rollout of LTE services using the 1800 MHz spectrum.

4.11 Purchase of a 2.4 MHz Block of Frequencies in the 1800 MHz Band from Polkomtel

On July 22, 2013 Orange Polska (then PTK Centertel) and Polkomtel concluded a conditional agreement on transfer of the right to manage frequencies in the 1800 MHz band. The agreement concerned a 2×2.4 MHz block of frequencies, namely 1757.5–1759.9 MHz and 1852.5–1854.9 MHz.

The key condition precedent was the issuance by the President of UKE, under Article122 of the Telecommunication Law, of a decision on changing the entity entitled to manage the aforementioned frequencies upon Polkomtel's request.

Such a decision was issued on February 28, 2014. According to it, Orange Polska became entitled to manage the transferred 2.4 MHz block as from March 1. As the President of UKE's decision was immediately enforceable, Orange Polska could apply for the re-assignment of this block (the original assignment expired on September 13, 2014).

Polkomtel appealed against the President of UKE's decision.

Owing to the fact that Orange Polska was entitled to manage the frequencies in questions since March 1, the Company applied for and obtained the first radio licences required to operate equipment in this band (for provision of LTE services).

In a letter of June 13, 2014, Polkomtel withdrew its request of August 2013 for a change of the entity managing the 2×2.4 MHz block, while requesting the decision of February 28, 2014 to be cancelled.

On July 22, 2014, the President of UKE cancelled the decision of February 28, 2014 in its entirety and decided to discontinue the proceedings.

Orange Polska appealed against the discontinuation decision to the Regional Administrative Court in Warsaw. Simultaneously, pursuant to the provisions of the agreement of July 2013, Orange Polska three times demanded that Polkomtel pay penalty fees totalling PLN 21 million for actions aimed at delaying the President of UKE's decision on the re-examination or cancellation of her previous decision. As Polkomtel has failed to pay the penalty fees, Orange Polska has filed a suit with the District Court in Warsaw.

4.12 Polkomtel's Letters to UOKiK and the European Commission

On April 1, 2014, the European Commission notified Orange Polska regarding a letter it has received from Polkomtel informing about a potential breach by Orange Polska and T-Mobile Polska of the Treaty provisions prohibiting agreements which may distort competition within the internal market (Article 101(1) of the Treaty). The letter also indicated a potential breach of the jurisdiction provisions contained in the Council Regulation No. 139/2004 on the control of concentrations between undertakings; Polkomtel claimed that the establishment of NetWorkS! should have been, allegedly, subject to approval by the European Commission rather than by UOKiK.

On April 15, 2014, Orange Polska sent to the European Commission a response to Polkomtel's charges, stating that in the Company's opinion they are groundless. The Commission sent additional questions to Orange Polska on July 8, 2014 and November 18, 2014. Orange Polska submitted the information and documents requested by the Commission.

On April 11, 2014, UOKiK opened initial proceedings to clarify whether the activity of telecommunication operators related to their co-operation in providing access to, integration of or co-use of telecommunication networks, telecommunication infrastructure or frequencies might have resulted in a breach of the Act on Competition and Consumer Protection, justifying the opening of anti-monopoly proceedings.

In connection with the clarification proceedings, UOKiK requested that Orange Polska submit a range of documents and information, and the Company complied with the request.

In Orange Polska's opinion, there has been no breach of the Act on Competition and Consumer Protection.

4.13 Mobile Virtual Network Operators (MVNOs)

First mobile virtual network operators debuted in Poland in 2007 and their main competitive advantage has been low price of services. The MVNO market is evolving towards increased presence of international brands aimed at providing services to specific groups of customers (e.g. travelling businessmen) among which they have been successful in other markets as well as emphasising the operator's unique features (e.g. full flexibility of rates or free data transfer) in order to build customer awareness in the very competitive mobile market. Upon the introduction of unlimited offers in the pre-paid segment by infrastructure-based operators, it is more difficult for virtual operators to compete exclusively on price.

According to Orange Polska's estimates, about twenty virtual operators operated in the market as at the end of 2014 and their aggregate market share in Poland's mobile market was approximately 1%.

4.14 New Brands in the Mobile Market

2014 saw the following developments in the MVNO market:

- Multimedia Polska, an MVNO controlled by a CATV operator, launched voice services hosted on Polkomtel's network in January 2014;
- DobryTel, which offered 3 different numbers (including Polish and either British or Dutch) per SIM card, decided to discontinue its activity at the end of May 2014;
- mBank mobile, one of MVNO pioneers in Poland, decided to discontinue its activity at the end of November 2014.

4.15 CATV Operators

Despite the growing market saturation and the launch of terrestrial digital TV, CATV operators, who hold a total share of approximately 40% in the pay TV market and control one third of the broadband market, attempt to strengthen their market position as providers of bundled telecommunication services (TV, broadband, fixed line, mobile) and comprehensive solutions for households, including house insurance or electric energy sales. Furthermore, customisation of content (particularly related to entertainment) and services on demand, such as IPTV, HD channel portfolio, music and video-on-demand, play an increasingly important role. CATV operators strive to provide the same content in the best quality on every screen used by customers (tablet, TV, smartphone, computer). Since usage of such services generates growing demand for high-speed broadband lines, CATV operators continuously modernise and expand their networks and, more and more frequently, they also lease third party's fibre-optic lines. These investments also aim at acquiring customers from the business segment, which has been a growing source of revenue for CATV operators.

CATV operators, which operate in Poland's biggest cities and make use of the technological potential of their infrastructure, often offer higher broadband speeds or increased scope of services within a package without increasing the service price. In 2014, CATV operators promoted their mobile portfolio, using the MVNO model, in order to attract new customers and increase the loyalty of the existing customer base. The share of convergent offers (bundled fixed and mobile services) is going to grow among CATV operators.

Further consolidation is expected in the CATV market, as UPC, Multimedia Polska and Vectra have all declared their acquisition ambitions.

4.16 Infrastructure Development

By the end of December 2014, Orange Polska provided services based on the VDSL technology in over 4,000 network sites. At the same time, migration of the aggregation network from ATM to the IP standard was continued; by the end of 2014, approximately 69% of *Neostrada* customers and 55% of IDSL customers were handled using access nodes connected via the IP aggregation network.

In 2014, Orange Polska started to implement new super-core routers, scalable to 8 Tbps each, in order to increase the capacity of the IP backbone network to 640 Gbps with protection mechanisms by the end of 2014. In consideration of the growing traffic, the backbone network equipment has been prepared to set up IP connections at 100 Gbps and three such connections were launched commercially.

Furthermore, a process of adjustment of the IP network infrastructure to future traffic requirements continued in 2014. This involves simplification of the network topology and adaptation of PoPs on the IP network to the 100 Gbps technology. A programme of expansion of the aggregation network in small to medium towns was initiated, and 14 new aggregation network nodes were launched.

In December 2014, the process of migration of the Packet Core network to the Evolved Packet Core (EPC), technology was completed. The EPC system was implemented at the beginning of 2014 to handle LTE traffic. From mid-year to the end of 2014, 2G and 3G services were gradually migrated from Legacy Packet Core systems to the EPC system. As a result, the entire mobile data traffic (2G/3G/4G) is now handled by the new system. The radio network consolidation achieved its target in 2014 owing to the fact that a total of 2,860 fibre-optic transmission lines of the capacity of 1 Gbps in the packet technology were provided.

In addition, further 541 fibre-optic leased lines for the mobile network of Orange Polska and 204 lines for T-Mobile for connecting the stations of the commonly used mobile access networks were provided in 2014. Furthermore, in 2014, packet data transmission was provided for the purpose of the LTE service for 2,534 base stations nationwide. The radio networks co-using goals were met, as both the radio network coverage and the transmission rate available to end users increased.

The process of consolidation of the mobile network developed jointly with T-Mobile was completed in 2014. As a result, the UMTS/HSPA network covered 99.4% of Poland's population as of the end of 2014. The rollout of the LTE network in the 1800 MHz band, which began in the second half of 2013, continued; at the end of 2014, the reach of LTE services was almost 61% of Poland's population.

4.17 Orange Polska's Activity within Regional Operational Programmes

Orange Polska as a beneficiary of EU funds in the 2007-2013 Regional Operational Programmes has been developing its own broadband infrastructure in two regions of Poland, namely Lubuskie Region and Pomeranian Region. In three other regions, where the new networks become the property of local governments, Group companies carry out work either directly for the Regional Marshal's Office (i.e. TP Teltech and Integrated Solutions in the Łódź Region) or as subcontractors of the Private Partners of Regional Marshal's Offices (i.e. TP Teltech in the Warmia-Mazuria Region and the Subcarpathian Region).

The aggregate outcome of the projects in the Lubuskie Region and Pomeranian Region will be 3,236 km of new regional information highways (in both core and distribution network layers) as well as new service access points in over 500 towns located within the current network coverage gaps. In the short term, the launch of the new infrastructure will improve the parameters of services provided via the existing access lines, while in a slightly longer perspective, it will enable the development of the 'last mile' network. Any operator interested in providing retail services has open access to the regional information highway on the basis of Orange Polska's wholesale offer, and the network technological neutrality imposes no limitations on access solutions.

4.18 Claims and Disputes, Fines and Proceedings

Please see Note 28 to the IFRS Consolidated Financial Statements for detailed information about material proceedings and claims against Group companies as well as fines imposed thereon, particularly an appellate procedure against a fine imposed by the European Commission.

4.19 Cost Calculation Results

Under the regulatory obligations resulting from having significant market power in the relevant markets for bitstream access (market 12/2003 – pursuant to the regulatory decision of 2007, which remains in force) and retail services (markets 3/2003 to 6/2003), in 2014 Orange Polska had an obligation to carry out costing of services covered by the aforementioned markets for 2015 and submit the results thereof to an independent auditor selected by the President of UKE. In addition, Orange Polska had an obligation to prepare regulatory accounting statements for 2013 and submit them to an independent audit.

In performance of its regulatory obligations, Orange Polska submitted a manual for drawing up regulatory statements for 2013 as well as descriptions of service costing for 2015, including changes proposed by Orange Polska, for the President of UKE's approval. The President of UKE accepted these changes and on March 26, 2014 issued a decision approving Orange Polska's service costing description and regulatory reporting manual. On April 10, 2014, the Polish Chamber of Electronics and Telecommunications applied to the President of UKE for the re-examination of the case. Following the resulting administrative proceedings, on June 5, 2014, the President of UKE upheld her decision of March 26, 2014 in its entirety.

On August 8, 2014, Ernst&Young Audit sp. z o.o., which was selected by the President of UKE, completed the audit of service costing for 2015 and regulatory statements for 2013. The auditor submitted the audit report together with the auditor's opinion to the President of UKE and Orange Polska. According to the auditor's opinion, Orange Polska's regulatory accounting statements and service costing have been developed in compliance with the mandatory regulations as well as the relevant regulatory reporting manual and service costing description.

Court proceedings regarding service costing descriptions for 2010 and the regulatory reporting manual for 2008 are pending. On March 30, 2010, the Regional Administrative Court rejected Orange Polska's complaint against the President of UKE's decision approving service costing descriptions for 2010 and the regulatory reporting manual for 2008. Consequently, Orange Polska filed a cassation appeal against the Regional Administrative Court's ruling with the Supreme Administrative Court, then on April 5, 2012, the Supreme Administrative Court cancelled the Regional Administrative Court's ruling and transferred the case back for re-examination. On March 19, 2013, the Regional Administrative Court cancelled the President of UKE's decision being the subject of appeal and the preceding decision, and declared that they were not to be implemented. In August 2013, the President of UKE and the Polish Chamber of Electronics and Telecommunications, which is a party to the proceedings, filed cassation appeals with the Supreme Administrative Court against the Regional Administrative Court's ruling March 19, 2013. The proceedings are pending.

Moreover, court proceedings regarding service costing descriptions for 2013 and the regulatory reporting manual for 2011 are pending. On October 29, 2014 the Regional Administrative Court cancelled the President of UKE's decision issued upon the Polish Chamber of Electronics and Telecommunications' request for the re-examination of the case. The first-instance decision remains in force. Orange Polska has the right to file a cassation appeal against this ruling with the Supreme Administrative Court.

Also court proceedings regarding service costing descriptions for 2014 and the regulatory reporting manual for 2012 are pending. On September 15, 2014, the Regional Administrative Court rejected the Polish Chamber of Electronics and Telecommunications' appeal against the President of UKE's decision, stating that the Anti-monopoly Court was competent to decide the case. Both the Chamber and the President of UKE filed cassation appeals with the Supreme Administrative Court. The proceedings are pending.

4.20 Compensation for Universal Service Costs

Appeal proceedings against the President of UKE's decisions granting Orange Polska compensation of the net cost deficit for the years 2006 to 2012 are pending.

The Regional Administrative Court initially rejected Orange Polska's complaints against the President of UKE's decisions regarding compensation of the net cost deficit for the years 2006 to 2011. Orange Polska filed cassation appeals with the Supreme Administrative Court with respect to the aforementioned rulings of the Regional Administrative Court.

In the cases of compensation for universal service costs for the years 2006 to 2010, the Supreme Administrative Court has already examined cassation appeals and reversed all the rulings adverse to Orange Polska, transferring all cases for the re-examination by the Regional Administrative Court. The primary basis for the reversal was the fact that UKE and the Regional Administrative Court groundlessly assumed that UKE can refuse compensation in the part in which Orange Polska had failed to meet some of the USO indicators.

The case of compensation for 2011 is pending examination by the Supreme Administrative Court.

In the cases of compensation for 2006 and 2007, the Regional Administrative Court has already ruled again. However, as a result of cassation appeals filed by UKE, the Chamber and Orange Polska, its rulings are pending another examination by the Supreme Administrative Court.

The cases of compensation for 2008, 2009 and 2010 are being re-examined by the Regional Administrative Court.

The compensation for universal service costs is paid pro rata by all the operators with revenues of more than PLN 4 million in the year for which the compensation is due. The President of UKE first determines the list of operators to share in the compensation of the net cost deficit for particular years, and then their share in the compensation by way of individual decisions. Orange Polska also participates in compensating the deficit.

On March 26, 2014, the President of UKE determined a list of 91 operators to share in the compensation for 2006 and a uniform percentage rate to determine their respective shares (with reference to their revenues). The final decision was issued on October 10, 2014 after re-examination of the case. Next, the President of UKE initiated a procedure to determine the share of individual operators in the compensation for 2006.

The President of UKE's procedures regarding determination of operators to share in the compensation of the USO net cost deficit for the years 2007 to 2011 are pending. Consequently, the procedures to determine the share of individual operators in the compensation have not been initiated yet.

With respect to some operators, Orange Polska has reached an agreement regulating the issue of mutual settlements on the account of the universal service obligation.

4.21 Sales of Electric Energy by Orange Polska

On February 10, 2015, the Management Board of Orange Polska decided to implement on a commercial basis an offer of sale of electricity to end users under the Orange brand nationwide. The decision stems from the positive outcome of the pilot sale of electricity launched by Orange Polska in the third quarter of 2014.

The offer will be available via all sale channels of Orange Polska and is addressed to residential customers as well as small to medium companies which use the tariff G or C. Electricity for resale to end users as well as property rights to certificates of origin for electric energy will be purchased by Orange Polska through its wholesale partner, Polenergia Obrót S.A., under the framework energy sale agreement and the framework property rights sale agreement. Orange Polska's margin will be a difference between the purchase cost and resale price of electricity. The co-operation scheme developed has considerably reduced a risk related to volatility of energy purchase prices and volumes. It secures the expected margin and enables price adjustments in the retail market well in advance of the actual period in which the energy is to be provided to end customers. Orange Polska intends to develop an offer to end users which will stand out from the competition in terms of both service quality and attractive pricing. The venture has been organised within Orange Polska's structure, and the services and products will be offered under the trade name of Orange Energia. The Orange Energia offer will contribute to building customers' loyalty towards the Orange brand.

Furthermore, Orange Polska has concluded general distribution agreements with Poland's top five operators of electric energy distribution systems, namely RWE Stoen Operator sp. z o.o., Energa-Operator S.A., Enea Operator sp. z o.o., Tauron Dystrybycja S.A. and PGE Dystrybucja S.A. These agreements provide for distribution of the energy purchased by Orange Polska to end users.

4.22 Changes in Regulations

On June 24, 2014, the Act of May 30, 2014 on consumer rights was promulgated in the Journal of Law (item 827). The bill came into force on December 25, 2014.

On July 17, 2014, the Act of June 10, 2014 amending the act on competition and consumer protection and the Code of Civil Procedure was promulgated in the Journal of Law (item 945). The bill came into force on January 18, 2015.

The following bills which may affect the investment activity of telecom operators, including Orange Polska, are currently at various stages of the legislation process:

- draft bill on landscape protection;
- draft bill on transmission corridors
- draft Town Planning and Construction Code; and
- transposition into the Polish legal framework of the Directive on measures to reduce the cost of deploying high-speed electronic communications networks.

Furthermore, intended regulations at the EU level, particularly a draft regulation on the European single market for electronic communications and a draft regulation on personal data protection regulation, may also be a significant factor.

The most important secondary regulations promulgated in 2014 are as following:

- Decree of the Minister of Administration and Digitisation of February 24, 2014 on telecommunication service complaints (JoL of 2014, item 284);
- Decree of the Minister of Administration and Digitisation of March 26, 2014 on the detailed requirements for facilities for the disabled provided by public telephone service providers (JoL of 2014, item 464);
- Decree of the Council of Ministers of October 31, 2014 amending the decree on annual fees for the right to use frequencies (JoL of 2014, item 1596);
- Decree of the Minister of Administration and Digitisation of December 5, 2014 amending the decree on the amount, the procedure for determination and the terms and manner of payment of the annual telecommunication fee (JoL of 2014, item 1817);

5 THE GROUP'S MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

5.1 Research and Development

Orange Labs Poland is a member of the international Orange Labs network, which consists of Orange R&D units and laboratories in 8 countries.

Orange Labs Poland is responsible for determining and managing the development of the architecture of fixed and mobile networks and selected IT systems as well as defining network development plans and the relevant technological concepts. Another major element of its operations is a process of development, selection and implementation of innovations, which involves co-operation with external partners and performance of research and development tasks for both Orange Polska and the Orange Group.

Orange Labs actively promotes innovativeness inside and outside Orange Polska. In 2014, in the Innovation Gardens programme, it presented 51 prototype or commercial solutions and carried out 15 major events with the participation of representatives of Orange SA, universities, suppliers and government administration. The Innovation Gardens were attended by a total of 8,000 visitors.

Orange Labs Poland has been involved in developing an innovative image of Orange Polska by participating in a number of Polish and international discussion panels, conferences (e.g. Innovation Days, Innovative Technology) and presentations as well as by organising or co-organising numerous training workshops and competitions (Telecreator, OpenApiHackathon, Orange Fab).

Orange Labs Poland's Major Achievements in 2014:

1. Launch of cooperation programs dedicated to developers (BIHAPI competition) and small and medium-sized enterprises (Orange Fab accelerator program) in order to search for trends and new solutions enriching Orange offer.

2. Creation of financial and technical model for API exposure at Orange Polska, which aims to monetize telecommunications services and open data (Big Data).

3. Implementation of RFoG/Docsis technique than allows the use of coaxial cables and launch of RFoG Diagnostyka and RFoG Ewidencja systems for RFoG trial (August 2014).

4. Extension of Proactive Fault Center system, providing proactive repairs of broadband services, to B2B market and implementation of new functionality called Eyes Wide Open enabling detection of group PPP session breaks on network devices which allowed to extend the scope of information on all events provided to customers on the IVR (February 2014).

5. Implementation of diagnostic tools for ADSL broadband lines, modem diagnostics and broadband service operation diagnostics used by the Technical Partners, which improves the quality of their work and minimizes the number of repeated orders (October 2014).

Involvement in Standardisation Works:

Orange Labs Poland has been involved in the work of international standardisation organisations, such as ITU-T, ITU-R, ISO/IEC, IEC/CENELEC, ETSI, 3GPP, Broadband Forum or Home Gateway Initiative. Two representatives of Orange Labs Poland hold managerial positions in the standardisation area. These are Marcin Drzymała, Vice President of Broadband Forum (fourth term of office) and Fryderyk Lewicki, Chairman of ITU-R SWG 3K2 and Vice Chairman of ITU-T SG 5 WP2. Janusz Pieczerak became the first international expert of Orange Labs to be nominated as the Senior Standardisation Manager (SSM), for the Cloud Computing technological domain.

The following standardisation works with participation of Orange Labs Poland's experts have been successfully completed: eight initial guidelines for cloud computing, methods and measurements of radio wave effects on the human body (ITU-T), VDSL test specifications (Broadband Forum), radio propagation models for telecommunication networks (ITU-R) and quality and parameters of optical connectors and infrastructure elements in FTTx transmission and access systems (IEC/CENELEC).

Orange Polska has been also involved in local standardisation initiatives as a member of the Polish Committee for Standardisation (PKN). Orange Polska's experts have been delegated to seven Technical Committees of PKN, where they develop and review standardisation documents and directly co-operate with the relevant working bodies of international and European standardisation organisations (monitoring global trends in standardisation).

Furthermore, Orange Polska has carried out internal standardisation initiatives, developing and updating Orange Polska's own standards for internal and external use (the latter involves sale to other business entities).

5.2 R&D Co-operation with Orange SA

Key projects for Orange SA (main areas and projects with highest expense):

- Responsibility for development of selected network solutions within Orange SA Group: xDSL, FTTx (GPON, FTTDp, RFoG), IP routers / BNG, IN Prepaid platform, Open Service Gateway, IMS / Volte AS, Huawei PSCN / EPC evolution, PCEF and MIG evolution, SDM validation / expertise,
- Dynamic Social Network (creation of enabler for the Group for new services and functionalities - social communications services),
- Telco API and network exposures,
- Mobile VoIP and Voice over LTE (VoLTE) development, Voice over WiFi (VoWiFi), Video over LTE (ViLTE),
- Hybrid Box - a combination of fixed and mobile access.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

6 CHANGES IN THE GROUP'S STRUCTURE IN 2014

6.1 Changes in the Corporate Structure of Orange Polska S.A.

In 2014, two new positions reporting directly to the President of the Management Board were created:

- Vice President of the Management Board in charge of Business Market (formerly Executive Officer in charge of Business Market, then Board Member in charge of Business Market); and
- Executive Officer in charge of Effectiveness & Transformation (formerly Executive Officer in charge of Effectiveness & Customer Excellence).

In addition, the function of Value Management and Convergence, reporting to the Vice President of the Management Board in charge of Value Management and Convergence, was liquidated and the relevant business units were transferred to other functions.

6.1.1 Management Board of Orange Polska S.A.

As of December 31, 2014, the Management Board is composed of five Members, who have been assigned the direct supervision over the following Company's matters:

- President of the Management Board;
- Vice President of the Management Board in charge of Operations;
- Vice President of the Management Board in charge of Business Market;
- Management Board Member in charge of Finance; and
- Management Board Member in charge of Human Resources.

6.1.2 Business Units of Orange Polska S.A.

The total number of business units within the organisation changed in 2014.

As of December 31, 2014, Orange Polska had 76 business units, reporting directly to:

1) President of the Management Board: 4 business units;
2) Vice President of the Management Board in charge of Business Market: 7 business units;
3) Vice President of the Management Board in charge of Operations: 11 business units;
4) Management Board Member in charge of Finance: 6 business units;
5) Management Board Member in charge of Human Resources: 9 business units;
6) Executive Officer in charge of Corporate Affairs: 7 business units;
7) Executive Officer in charge of Shared Services: 5 business units;
8) Executive Officer in charge of Effectiveness & Transformation: 3 business unit;
9) Executive Officer in charge of Consumer Marketing: 9 business units;
10) Executive Officer in charge of Carriers Market: 6 business units;
11) Executive Officer in charge of Sales: 8 business units;
12) Executive Officer in charge of Brand and Marketing Communication; and
13) Executive Officer in charge of Customer Care: 1 business unit.

6.1.3 Changes in the Structure of Subsidiaries of Orange Polska S.A.

There were no major organisational changes in Orange Polska S.A.'s subsidiaries in 2014.

6.2 Ownership Changes within the Group in 2014

6.2.1 Sale of Wirtualna Polska S.A.

On February 13, 2014, Orange Polska effected sale of all shares in Gdańsk-based Wirtualna Polska S.A. to o2 sp. z o.o. The shares constituted a 100% stake in Wirtualna Polska S.A. and corresponded to 100% votes at the General Assembly of the latter. The total sale price was PLN 382 million.

6.2.2 Division of Contact Center sp. z o.o.

On May 8, 2014, Contact Center sp. z o.o. (currently: Orange Szkolenia sp. z o.o.) was divided by separation of a portion of its assets, constituting an organised part of the enterprise, and the transfer thereof into a newly established company. The newly established company assumed the name of the divided company, i.e. Contact Center sp. z o.o.

6.2.3 Decrease in the Share Capital of TP INVEST sp. z o.o.

On August 27, 2014, the District Court for the Capital City of Warsaw registered a change in the National Court Register involving a decrease in the share capital of TP INVEST sp. z o.o. from PLN 395.48 million to PLN 20 million.

6.3 Parent Company's Shareholders

As of December 31, 2014, 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 based on information available on December 31, 2014 was as follows:

Shareholder	Number of shares held	Number of votes at the General Assembly of Orange Polska S.A.	Percentage of the total voting power at the General Assembly of Orange Polska S.A.	Nominal value of shares held (in PLN)	Interest in the Share Capital
Orange SA (formerly France Telecom SA)	664,999,999	664,999,999	50.67%	1,994,999,997	50.67%
Other shareholders	647,357,480	647,357,480	49.33%	1,942,072,440	49.33%
TOTAL	1,312,357,479	1,312,357,479	100.00%	3,937,072,437	100.00%

As of December 31, 2014, Orange SA held a 50.67% stake in the Company. Orange SA has the power to appoint the majority of Orange Polska S.A. Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

As of December 31, 2014, the Company has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

Orange Polska S.A. did not issue any employee shares in 2014, but an Incentive Programme for the Key Managers was launched in 2007 (for more information please see section 7.2.2 below).

7 GROUP'S STRUCTURE AS OF DECEMBER 31, 2014

Please see Note 1.2 to the IFRS Consolidated Financial Statements for the description of the Group's organisation.

7.1 Corporate Governance Bodies of the Parent Company

For detailed information about the Management Board and Supervisory Board of Orange Polska please see section 12 below.

7.1.1 Orange Polska Shares Held by Persons Who Manage or Supervise Orange Polska

Members of the Management Board did not hold any shares of Orange Polska S.A. or related entities as of December 31, 2014.

As part of the Company's incentive program, members of the Management Board of the Company acquired Orange Polska registered A-series first option bonds, giving the right to subscribe for the Company's shares with priority over existing shareholders. The number of first option bonds held by members of the Management Board of the Company on December 31, 2014 was as follows:

Mariusz Gaca	68,839
Piotr Muszyński	190,896
Jacek Kowalski	25,241
Maciej Nowohoński	36,715

As of December 31, 2014, Mr. Maciej Witucki Chairman of the Orange Polska Supervisory Board, held 305,557 first option bonds. Other Members of the Supervisory Board of Orange Polska S.A. do not participate in the Company's incentive program and as of December 31, 2014 held no first option bonds. As of December 31, 2014, Mr. Maciej Witucki Chairman of the Orange Polska Supervisory Board, held 4,000 shares of Orange Polska S.A. No other persons who manage or supervise Orange Polska held the Company's shares.

7.1.2 Information on the Remuneration of Persons Who Manage or Supervise Orange Polska

For information on the remuneration (including bonus) paid or payable by the Company to the persons appointed to its management and supervisory bodies please see Note 29.1. to the IFRS Consolidated Financial Statements.

7.1.3 Contracts of Persons Who Manage Orange Polska

Employment contracts of the Members of Orange Polska Management Board include provisions concerning severance pay payable in the case of the contract termination by the Company (or employment termination by mutual agreement of the parties) and provisions concerning compensation payable for the ban on competing activity after the termination of employment. The severance pay related to the employment contract termination is equal to six monthly salaries. The compensation for restraining from any activity competitive to that of Orange Polska for a period of twelve months after the termination of employment is six monthly salaries (this applies to the Management Board Members who were in charge as of the date of the Financial Statements).

7.1.4 General Assembly

On April 10, 2014, the Annual General Assembly approved a dividend of PLN 656 million (i.e. PLN 0.5 per share). A total of 1,312,357,479 shares were eligible for dividend. The dividend, net of withholding tax, was paid on July 10, 2014.

7.2 Workforce

As of December 31, 2014, Orange Polska employed 18,047 people (in full-time equivalents), which is a decrease of 9.4% compared to the end of December 2013.

The workforce reduction (year-on-year) resulted from the sale of Wirtualna Polska S.A. (415 employees) as well as a decrease in Orange Polska S.A. (by 677 employees), Orange Customer Service sp. z o.o. (616 employees, including approx. 300 employees transferred to Orange Polska S.A.), Ramsat S.A. (128 employees) and TP Edukacja i Wypoczynek sp. z o.o. (50 employees).

Orange Polska S.A.'s workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2014–2015. Pursuant to it, a total of 1,150 employees left the Company in 2014, 91% of whom under the voluntary departure programme. Severance pay averaged PLN 66.6 thousand per employee in 2014. The voluntary departure programme was also effected in Orange Customer Service sp. z o.o. (OCS). Pursuant to the Social Agreement for the years 2014–2015 between the OCS Management Board and trade unions, a total of 380 people left the company in 2014, 89% of whom on a voluntary departure basis. Severance pay averaged PLN 54.4 thousand. Voluntary departures at OCS were effected on the same terms as in Orange Polska S.A.

In 2014, external recruitment in Orange Polska totalled 610 positions. External recruitment was mainly related to sale positions and customer service staff.

7.2.1 Social Agreement

On December 9, 2013, the Management Board of the Company concluded with trade unions a new Social Agreement for the years 2014–2015, coming into force on January 1, 2014. In particular, the Social Agreement concerns investments in a friendly work environment and pay rises (2.5% both in 2014 and 2015), as well as enabling long-standing employees to leave the Company with fair compensation and supporting employees, particularly aged 50 or more, in seeking jobs in the market (outplacement).

In the years 2014–2015, up to 2,250 employees of Orange Polska S.A. and 700 employees of Orange Customer Service sp. z o.o. (a wholly-owned subsidiary of Orange Polska S.A.) with seniority of over 10 years will be eligible for the voluntary departure package. In addition, the parties concluded separate agreements with trade unions specifying that up to 1,150 employees of Orange Polska S.A. and 380 employees of Orange Customer Service sp. z o.o. may use the package in 2014. In Orange Polska S.A., the voluntary departure offer is addressed to the employees who are covered by the Intragroup Collective Labour Agreement.

The package offered to departing employees depends on their seniority in the Group and ranges between 4 and 15 basic monthly salaries. In 2014, this is increased by an additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 9,000 for employees with seniority of more than 15 but less than 20 years or PLN 26,000 for employees with seniority of more than 20 years.

In December 2014, the parties concluded further separate agreements with trade unions, specifying that up to 1,100 employees of Orange Polska S.A. and 320 employees of Orange Customer Service sp. z o.o. may use the package in 2015. In Orange Polska S.A., the voluntary departure offer is addressed to the employees who are covered by the Intragroup Collective Labour Agreement.

The package offered to departing employees depends on their seniority in the Group and ranges between 4 and 15 basic monthly salaries. In 2015, this is increased by an additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 7,000 for employees with seniority of more than 15 but less than 20 years or PLN 22,000 for employees with seniority of more than 20 years.

7.2.2 Stock Option Plan

Please see Note 25.4 to the IFRS Consolidated Financial Statements for information on Group incentive programme.

CHAPTER IV
KEY RISK FACTORS

8 RISK FACTORS AFFECTING THE ACTIVITIES OF ORANGE POLSKA

The risks mentioned in this report are not intended to constitute an exhaustive list of all possible risks and uncertainties, which could adversely impact the Group's activities, its results, liquidity or capital resources. The system of internal control and risk management in the Group is designed and implemented by the Management. This approach allows to manage the risk of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures as needed) – (please see Note 28 to the IFRS Consolidated Full-Year Financial Statements for additional information about major outstanding claims and litigations). Our processes are designed to give reasonable, but cannot give absolute assurance that the risks significant to the Group are identified and addressed. There may be risks which are unknown or which are presently judged not to be significant but later prove to be significant. We have included comments on mitigations that are applied to help us manage the risks; however, it is possible that not all of these mitigations will be successful.

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The Group has developed a risk management process which encompasses risk identification, analysis and assessment, implementation of risk mitigation measures and verification of action results. This provides the Management Board with information about the key risks within the Group, so preventive actions may be additionally supported. The Risk Management team provides structure, facilitates communication and reviews external risks reported within the industry. The review and assessment of the identified risks, the identification of the main causes and the implementation of action plans involve the participation of Group's top management.

The major risks are subject to monitoring. For such risks, preventive measures aimed at reducing their vulnerability and limiting their potential impact on the Group's operations are implemented. The top risks are updated and submitted by the Management Board to the Supervisory Board on an annual basis. The internal audit plan for each year is developed also taking account of a list of the major risks identified.

8.1 Implementation of the Group's Medium Term Action Plan

The medium-term plan focuses on stabilising the Group's leadership in Poland's telecommunication market, rebalancing the organisation in order to achieve greater efficiency and ensure meeting the expectations of external and internal customers to the greatest possible extent. Due to strong competition and volatile regulatory environment, the Group's ability to achieve business objectives is under strong pressure, so Orange Polska carries out dedicated actions aimed at reducing the competitive pressure on its performance by constantly modernising its offers in the fixed-line and mobile segments and enhancing customer service. The Group's ability to protect its margins will also depend on the transformation of its cost structure.

8.2 Regulatory Decisions and Changes in the Regulatory Environment Could Adversely Impact the Group

The Group must comply with various regulatory obligations governing the provision of its services and products, also relating to obtaining and renewing licenses. The regulatory obligations result from 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 imposed requirements, there is a risk of administrative fines. As provided in the Telecommunications Law of July 16, 2004, the President of UKE may impose a penalty of up to 3% of its prior calendar year's revenues on a telecommunications operator, if the operator does not fulfil certain requirements thereof.

According to the Act on Competition and Consumer Protection, in case of non-compliance with its regulations, the President of the Antimonopoly Office (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 providing untrue information) as well as up to a maximum amount of 10% of an entity's prior year's turnover for a breach of the law.

Further information on the regulatory risks is set out in section 9.

8.3 The Extent of Competition and the Resulting Pressure on Services and Prices

Strong competition on the market and technological developments of new services result in pressure on price reductions in the mobile segment and also in the fixed segment. There is a risk that the effect of further price reductions will not be offset by increased volume of traffic on the network.

Competition could lead to a reduction in the rate at which the Group adds new customers, a decrease in the size of the Group market share and a decline in ARPU in certain markets.

The Group faces competition from not only telecom and cable - network companies but also players from outside the industry, such as providers of special services (VoIP, video services/TV Over-The-Top).

In response to this competition, the Group strives to better answer customer needs in terms of the quality and simplicity of services. The Group is developing an organisation, procedures and systems aimed at offering the latest technological developments and improved products and services to its customers. Perception and trust from customers is one of the top priorities of Orange Polska. In order to enhance customer relationship the Group continues the transformation to a customer centric organisation.

The Group continues to introduce further convergent offers like Internet Tu i Tam, which combines fixed and mobile Internet. The Group continues to offer IT and telecommunication system integration services and provides solutions to satisfy business clients' needs. The uncertainty remains with regard to not being able to successfully monetize new services offered to customers and adequate return from the significant investment made.

In addition, new products and services require an adjustment of network and IT systems. This is a complex and time-consuming process, which poses a potential risk of delays in the market launch of products and services. The requirement to provide an equivalent offer to alternative operators poses an additional risk to timely implementation thereof. Delays in the launch of new products and services may result in lower than planned take-up, posing a risk of non-achievement of the Group's budgeted financial results.

8.4 Potential Saturation of Networks

The current expansion in broadband usages, such as TV (as part of triple-play) or Internet, fixed-line and mobile, has already on occasion resulted in the saturation of existing aggregation and backbone networks. As a result of growing use of sophisticated equipment (smartphones, tablets) and development of services which require high capacity, the Group faces a challenge of undertaking significant capital expenditure programs in scope of aggregation and backbone networks development in order to ensure appropriate servicing of growing IP traffic.

8.5 New Investments in Network Infrastructure

In 2015 the Group expects to invest significant amounts in acquiring new spectrum frequencies. In particular the Group is taking part in the auction launched by UKE regarding spectrum in 800Mhz and 2600Mhz frequencies. There are risks concerning the costs of acquiring these frequencies and the availability of future spectrum.

Due to new services, growing customer needs and competitive pressure, the Group undertakes costly investments in the network infrastructure. To achieve synergies and assure more efficient use of the network infrastructure, Orange Polska has established a RAN Sharing cooperation with T-Mobile Polska and in 2014 the project of Radio Access Network Consolidation was finalised. Within the framework of that cooperation a joint venture company NetWorkS! was established – an entity responsible for managing the radio networks owned by Orange and T-Mobile.

In 2015 Orange Polska also intends to invest up to PLN 450 million in a new project regarding fibre access network. The purpose of the investment is to deliver to customers fast fixed broadband thereby regaining share in this market. There are risks that the new project will not meet the objectives regarding the desired number of customers and assumed return on the investment.

The Group continues also development of HSPA+ DC, LTE network and deployment of fixed and radio IP backhaul to handle increasing traffic.

Traffic growth trends in the mobile network will require in the coming years investments in new sites providing additional capacity for data as well as new equipment on existing sites.

8.6 New Services

The Group's growth also depends on a strategy for developing new businesses to cope with the rapid and extensive transformation of the electronic communications sector. This strategy rests on new businesses, particularly content aggregation, mobile payment, contactless services (NFC), Machine to Machine, cloud computing or fibre network based services. An opportunity for the Group's future diversification and development is the launching of Orange Finance and Orange Energy. Meeting those challenges requires resources, in particular regarding service integration and content development, however there is no guarantee that the use of these services and contents will grow or that they will be monetized reasonably and generate an adequate return on the corresponding costs. Furthermore, the development of these new services could be hampered by regulatory changes or as a result of the economic environment.

Further information on Orange Polska services is set out in sections 2 and 4 above.

8.7 Non-availability or Failure of Technical Infrastructure

The technical infrastructure required to offer the Group's products and services is exposed to a risk of failure and interruption resulting from natural disasters, failures, equipment usage or intentional and non-intentional human actions. Interruptions in technical infrastructure operations have a direct impact on provision of services and supply of products by the Group, which in turn translates into lower revenues from such products and services and a decline in customer satisfaction and the deterioration of the Group’s image. This risk is mitigated by proper network development planning, preventive maintenance (including regular fire protection insurance surveys in strategic Orange Polska locations), implementation of business continuity and crisis management plans and insurance schemes. The Orange Group is covered by a property damage and business interruption insurance policy (PD/BI) which protects it against loss or damage of telecom infrastructure and loss of profit. Aerial lines and submarine cables are excluded from the insurance policy and damage to these assets, and resulting losses, will be borne by the Group.

8.8 System Security and Data Protection

The Group has implemented and maintained ISO27001:2013 certification for its Information System, hosting, collocation and cloud computing services, and received European CERT certification for CERT function in Orange Polska. Any material failure in maintaining the security of network infrastructure and IT systems may significantly damage our reputation and may lead to disruptions in business processes, resulting in revenue losses. Therefore the Group implements measures, as far as it is practicable, to protect the network and IT infrastructure from cyber-attacks and to detect the disclosure of sensitive data to unauthorised parties and to promptly react to security incidents.

8.9 Non-availability or Failure of IT Systems

As rapid implementation or modification of IT systems has become a necessity to meet customer demand for attractive offers, there may be a risk of malfunctions resulting from insufficient testing of new services or lack of data integrity within connected systems. Potential failures and reduced availability of critical systems, resulting from frequent changes in the applications used, can lead to decreased quality of services and delayed response to changing customer needs.

8.10 Dependence on External Partners

The Group concludes contracts with external partners, particularly for development and maintenance of its network, IT infrastructure and IT systems. Although adequate safeguard and protection clauses are included in the contracts, there is still a risk of non-performance by the Group’s suppliers, resulting in delays and a decrease in quality of services provided by the Group. At the same time, the Group has partially outsourced operation and supervision of IT systems and processes to external suppliers. This process is monitored on a regular basis in order to assure its optimum operation and taking effective corrective actions, if required.

8.11 Risk Related to Trade Agreements and Strategic Alliances

In order to attain its business objectives and to mitigate the risk in question, the Group attempts to extend its portfolio through trade agreements and strategic alliances that enable it to use products and services of external partners. It is assumed that such bilateral agreements will bring added value to both the Group and its customers. However, there is a risk that the benefits resulting from them will fall short of the anticipated and planned levels.

At the same time, the Group is at risk of losing a portion of its revenues due to migration of some of the existing customers who may sign beneficial trade agreements or arrangements with other telecom service providers which are competitive to Orange Polska. In response, Orange Polska has undertaken a number of initiatives to reduce the exposure. In particular, a co-operation agreement with *nc+* is continued: both companies have joined forces to satisfy growing demands of customers and provide them with as complete an offer as possible.

8.12 Availability of Skilled Employees

The Group operates in a market which is affected by a constant risk related to attracting and retaining skilled employees in all business areas. The risk of unavailability of skilled employees is particularly noticeable in customer service and sales, where personnel turnover is relatively high, and in the technology area, where highly qualified employees need to be attracted. It may pose a threat to the timely performance and quality of the Group’s core business processes and may hinder the achievement of the Group’s business objectives.

8.13 Human Resources Risks and Alignment of Organisation Structure

The Group, its managers, continues transforming its internal culture in order to motivate the employees and drive the performance culture and also streamlining the organisation and infrastructure in order to confront the competition and to take account of new technologies, new and more efficient business models through the transformation program. If the Group does not complete these transformations successfully, its operating margins, financial position and results could be adversely impacted.

The Group has continued a voluntary departure programme and a workforce optimisation process. Regular staff satisfaction surveys are conducted by an outside consultant.

8.14 Issues Related to the Incorporation of Orange Polska S.A.

Orange Polska S.A. 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 assets may be questioned and, as a result, the share premium balance may be subject to changes.

8.15 Tax Contingent Liability

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) 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, which often leads to the lack of reasonable certainty. 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.

8.16 Compliance with Personal Data Protection Regulations and Breach of Licence Agreements or Infringement of Copyrights

The Group possesses a vast customer base and constantly undertakes activities designed to prevent leakage of its customers' data. In that respect, the Group implements adequate policies, adheres to rules and guidelines, and conducts any relevant training. However, it is not possible to fully exclude the risk of an unintended leak of data.

There are further risks which arise from the Group's operations as a broadcaster of Orange Sport television channels. The risks include that of infringing copyrights, neighbouring rights or defaming persons or entities. In addition, the broadcasts are subject to regulations regarding the editor's responsibility for content of programmes comprising the service as well as a number of regulatory obligations imposed by the Polish Broadcasting Act. Orange Polska S.A. uses its best efforts to properly perform its obligations under Polish copyright law, press law, intellectual property law, Broadcasting Act and Act on Suppression of Unfair Competition. It applies to all content used in all media, including the Internet.

Some element of risk derives from a lack of effective control over broadcast content, in particular during broadcasting of live programmes. However, it should be noted that the Group exercises due diligence in preparing programmes to avoid any unlawful materials from being broadcast.

8.17 Environmental Risks

Orange Polska believes that because its business concerns provision of services, not manufacturing of equipment its activities do not pose a serious threat to the environment. The Group's activities generate waste for which recycling is closely controlled (such as electronic equipment waste, electronics at end-of-life, batteries and storage cells, cables and treated poles as well as other waste). The waste is collected by specialized recycling companies on the basis of framework contracts. Utilization of waste is subject to strict control.

The Environmental Team has been established to carry out ongoing supervision regarding regulatory compliance, emission levels, as well as to meet other legal requirements in the area of environmental protection.

Exposure to electromagnetic fields from telecommunications equipment raises concerns for possible health risks. If the perception of this risk were to deteriorate or if a health risk was scientifically proven, this could have a material impact on the activity and results of operators such as Orange Polska.

8.18 Risk of Impairment in Value of Assets

Recoverable amounts of the businesses which support the book value of non-current assets, including recorded goodwill, are sensitive to the valuation method and to the assumptions used in the model. They are also sensitive to any change in the business environment that is different to assumptions used. For further information on the impairment of goodwill and the recoverable amounts see the notes in the IFRS Consolidated Full-Year Financial Statements.

9 TELECOMMUNICATIONS SECTOR RISKS

This section describes potential risks in the telecommunications sector that may affect the Group's operations except for the developments described in the section 8 above.

9.1 Regulatory Risks

Changes in the regulatory environment combined with increasing competition caused pressure on the Group's top line in 2014.

Orange Polska continuously makes efforts in order to meet its regulatory obligations in the optimum way, including issues as Wholesale Line Rental (WLR), Bitstream Access (BSA) or Local Loop Unbundling (LLU).

The Group has explored all possible legal means to protect its interests. Orange Polska intends to turn to relevant European Union institutions whenever it believes that European law is being breached.

9.1.1 Single Reference Offer

On September 29, 2010, the President of UKE decided to approve the single reference offer ("SRO") for RIO, WLR, BSA and LLU services. As the approved offer differed from the draft submitted by Orange Polska for approval, the Company filed a complaint against the SRO approving decision. On March 3, 2014, the Regional Administrative Court rejected the complaint.

In 2014, the President of UKE issued five SRO modifying decisions, as follows:

- regarding information and request handling services available in the WLR scheme (issued on March 3, 2014);
- regarding increased-charge services available in the WLR scheme (issued on May 26, 2014) – both Orange Polska and the Polish Chamber of Electronics and Telecommunications ("the Chamber") have applied for the re-examination of the case;
- regarding the introduction of the 'up to 80 Mbps' option to the BSA portfolio (issued on May 30, 2014) – both Orange Polska and the Chamber have applied for the re-examination of the case;
- resulting from the President of UKE's SMP decisions for the market 4 (LLU) of December 30, 2010 and for the market 5 (BSA) of April 28, 2011 (issued on June 2, 2014)) – both Orange Polska and the Chamber have applied for the re-examination of the case; and
- regarding changes in penalty fee provisions (issued on June 18, 2014) – both Orange Polska and the Chamber have applied for the re-examination of the case.

In particular, pending proceedings at UKE regarding SRO modification concern the following:

- call initiation service in performance of an obligation imposed in the market 2/2007 (status: pending consultation of the draft decision);
- call termination service, particularly with respect to cancellation of division into charge periods, in performance of UKE's decision obligating Orange Polska S.A. to amend its SRO in this respect (status: pending consultation of the draft decision);
- reflecting regulated retail services in wholesale services and, consequently, TTM process.

9.1.2 Leased Lines (RLLO)

The telecommunication access reference offer for the provision of leased line services with respect to terminating segments, trunk segments and end-to-end lines (the Reference Leased Lines Offer – RLLO) which is currently in force was approved by UKE on December 31, 2009. Following the Supreme Administrative Court's decision of December 2013, which reversed the RLLO modifying decision of October 2010, the President of UKE reactivated the proceedings to re-examine her decision of December 2009. The outcome of the proceedings may affect RLLO.

In addition, three sets of proceedings carried out by UKE may result in the reference offer modification:

- initiated upon NASK's request of February 2013 to obligate Orange Polska to prepare modification to RLLO;
- initiated upon Orange Polska's request of April 2013;
- initiated *ex officio* in November 2013 to obligate Orange Polska to modify RLLO by introducing the terms of lease of lines between Ethernet nodes.

9.1.3 Cable Ducts (ROI)

The telecommunication access reference offer, in the telecommunication infrastructure part, for cable ducts (the Reference Offer for Infrastructure – ROI) which is currently in force was approved by the President of UKE on November 23, 2012. The offer provides for access to cable ducts in the Indefeasible Right of Use (IRU) scheme in the Lease for the Implementation of Community Projects (DRPU) model. The DRPU model is the IRU scheme restricted to projects which are wholly or partially financed from public funds in EU Operational Programmes or other similar programmes.

On December 7, 2012, Orange Polska filed a request for the re-examination of a decision which implemented ROI, questioning the IRU-DRPU scheme and technical solutions which weaken Orange Polska's control of its assets. The proceedings are pending.

In April 2014, Orange Polska filed an application for ROI modification with respect to inter-operator communication channel (Inter System Interface – ISI). The Company requested that it could use a limited version of ISI in line with the market needs. The procedure is pending.

9.1.4 Frequencies of Orange Polska

On June 27, 2014, the President of UKE assigned 908.1–914.9 MHz and 953.1–959.9 MHz frequency blocks in the 900 MHz band to Orange Polska. The assignment is for a further 15 years (to July 6, 2029), is valid in the whole country and is technology-neutral. The requirement is to cover 90% of Poland's territory with telecommunication services provided using these frequencies. However, in case of Orange Polska, such coverage was already over 99.5% as of the end of March 2014. Orange Polska uses the 900 MHz band to provide 2G services as well as data and voice services based on the 3G technology (UMTS 900).

Orange Polska is the first mobile operator to pay a fee for frequency assignment for another period under the amended Telecommunication Law. The fee has been set at PLN 358.1 million and was paid in July. On July 10, 2014, Orange Polska applied to the President of UKE for the re-examination of the amount of the fee. The procedure is pending.

On December 30, 2013, the President of UKE announced an auction for new frequencies (in the 800 and 2600 MHz bands), enabling the provision of 4G services. However, the auction was cancelled for procedural reasons. Then, new auction consultation was announced on February 17, 2014. The outcome of the consultation was not published, but the second round of consultation, with changes to some auction dossier provisions, was launched on April 4, 2014. The outcome of this round of consultation was published on October 9, 2014, and on October 10, 2014 the President of UKE announced the auction. The deadline for initial bids was set on November 24, 2014. Orange Polska submitted its initial bid on November 21, 2014. The actual auction is expected to start early in 2015 (see also section 4.10 above).

9.1.5 Roaming Rate Reduction

According to the Regulation of the European Parliament and the Council of May 2012, the caps for roaming service rates are as follows (in Euro, net of VAT):

Maximum retail rates, Eurotariffs, in euro cents ("c"):

- From July 1, 2013: data transfer (per MB) – 45c; outgoing calls – 24c; incoming calls – 7c; SMS – 8c;
- From July 1, 2014: data transfer (per MB) – 20c; outgoing calls – 19c; incoming calls – 5c; SMS – 6c. These tariffs will remain valid until June 30, 2017.

Maximum wholesale rates:

- From July 1, 2013: data transfer (per MB) – 15c; calls – 10c; SMS – 2c;
- From July 1, 2014: data transfer (per MB) – 5c; calls – 5c; SMS – 2c. These tariffs will remain valid until June 30, 2022.

In 2014, Orange Polska was charging wholesale rates and retail prices for its roaming services in conformity with the caps specified in the Regulation. In addition, the Regulation provides for separating roaming from other services to enable separate sales (i.e. customers do not have to buy roaming services exclusively from their operator, but are able to buy them from any provider). This option may be exercised from July 1, 2014.

On the European Union level, the 'Roam Like At Home' (RLAH) solution, bringing roaming rates at par with domestic rates, is being prepared for implementation. Due to differences of opinion, detailed RLAH proposals have not been worked out on the European level yet and the work on the solution will be continued. At this stage it is proposed to maintain the current level of wholesale roaming rates until at least the first half of 2016. However, these proposals are still subject to change.

9.2 Competitive Risks

9.2.1 CATV Operators

Despite the growing market saturation and the launch of terrestrial digital TV, CATV operators, who hold a total share of approximately 40% in the pay TV market and control one third of the broadband market, attempt to strengthen their market position as providers of bundled telecommunication services (TV, broadband, fixed line, mobile) and comprehensive solutions for households, including house insurance or electric energy sales.

Furthermore, customisation of content (particularly related to entertainment) and services on demand, such as IPTV, HD channel portfolio, music and video-on-demand, play an increasingly important role. CATV operators strive to provide the same content in the best quality on every screen used by customers (tablet, TV, smartphone, computer). Since usage of such services generates growing demand for high-speed broadband lines, CATV operators continuously modernise and expand their networks and, more and more frequently, they also lease third party's fibre-optic lines. These investments also aim at acquiring customers from the business segment, which has been a growing source of revenue for CATV operators.

CATV operators, which operate in Poland's biggest cities and make use of the technological potential of their infrastructure, often offer higher broadband speeds or increased scope of services within a package without increasing the service price. In 2014, CATV operators promoted their mobile portfolio, using the MVNO model, in order to attract new customers and increase the loyalty of the existing customer base. The share of convergent offers (bundled fixed and mobile services) is going to grow among CATV operators.

Further consolidation is expected in the CATV market, as UPC, Multimedia Polska and Vectra have all declared their acquisition ambitions.

9.2.2 Cross-selling of Cyfrowy Polsat and Polkomtel's Offers

In the first half of 2014, Cyfrowy Polsat and Polkomtel (both in the Cyfrowy Polsat Group controlled by Zygmunt Solorz-Żak) continued cross-sales of bundled offers combining mobile voice, mobile broadband and TV, which were launched in 2013, coupled with sales of electrical energy and financial services in order to strengthen marketing relationship with both existing and new customers and build a joint customer base. Customers receive a number of benefits in exchange for the simultaneous use of telco-media services offered under both brands. In particular, the 'Smart Home' offers a range of household-dedicated services combined with the 'Passport of Benefits' loyalty programme.

The closer organisational and portfolio co-operation was accompanied and facilitated by ownership changes, as a result of which Cyfrowy Polsat took over formal control over Polkomtel (through the acquisition of Metelem Holding Company). The second half of 2014 saw reports about plans to re-arrange the brand policy in the Cyfrowy Polsat Group in 2015 in order to maximise marketing and financial benefits from offering a wide range of services (this may involve discontinuation of the use of both leading brands with respect to telecommunication services).

Also other companies controlled by Mr. Solorz-Żak (Mobyland owned by Midas National Investment Fund; Plus Bank; ZE PAK energy group) were often involved in the development of bundled offers of Cyfrowy Polsat and Polkomtel.

9.2.3 New Integrated Operator on the Business Market: T-Mobile Merged with GTS

Since 15 January, 2015 all products of T-Mobile Poland and GTS Poland are provided under one brand (GTS brand disappeared from the market as it was acquired in May 2014). Following the joint infrastructure and a complex offer T-Mobile is now able to offer more converged services targeting business clients - both private firms and public institutions. It plans to encourage medium and big companies to use as many services as possible: not only traditional phone calls, data transmission and access to the Internet, but also servers, applications, financial services and data processing. This generates business risk of stronger price pressure on B2B market. After the merger T-Mobile Poland can offer 15,000 kilometers of fiber network and over 5,000 access points as well as five data centers with a total collocation area of 6,300 square meters.

9.2.4 Business Risk Created by Play

On mobile market Play remains a source of business risk, however this risk decreases following achievements of large operator scale by Play. Taking the level of financial liabilities into account, it can be expected that business decisions and moves of Play in the future will be more balanced and predictable.

Play in the last few years has not only survived on the market as a new operator, but almost caught up with the big three network operators and is still growing. During the first period of its activity Play skillfully used the favorable regulatory conditions created by UKE to support 4th mobile operator enter the Polish market - roughly evenly divided between the three network operators. Mobile Termination Rates (MTRs) asymmetry in favor of Play has proved to be especially effective tool to support the fourth operator, allowing Play to generate a positive balance on interconnection market. Preferences in wholesale revenue source enabled Play to conduct aggressive policy (both in terms of price and communications) on retail site. MTRs asymmetry in favor of P4 was abolished with effect from 1st January, 2013. However historical competitive advantages enabled further dynamic development of Play's business. As a result of aggressive marketing and regulatory preferences in less than seven years after the start of operations Play reached more than 20% estimated market share in the number of SIM cards and almost 20% estimated market share in terms of revenues as of the end of 2014.

Business risk associated with Play is an effect of high potential achieved in attracting new customers (the best results in the balance of mobile number portability), as well as strong image created of the operator with the lowest prices on the market. Currently, the price level in Play is comparable with the market, nevertheless in the perception of customers Play remains the cheapest provider.

In contrast to other mobile operators Play does not communicate at the moment an intension to enter convergent services market on a large scale, however such a strategy is likely to happen in the long perspective. As for the moment exact business model for such services by Play is unclear.

9.2.5 Fixed/Mobile Substitution

Fixed/mobile substitution is one of the major challenges for telecom operators, particularly in Central and Eastern Europe, where the fixed line penetration at the time of popularisation of mobile telephony was significantly lower than in West European countries.

The fixed/mobile substitution in Poland, like in other CEE countries, has a greater scale than in the majority of West European countries and the ratio of ‘only-mobile’ users is generally higher.

The offers in which fixed line voice services are an added value to broadband or mobile services and are provided in the VoIP technology or using the mobile infrastructure as the equivalent of ‘traditional’ fixed lines have been clearly gaining popularity.

9.2.6 WLR, BSA and LLU Wholesale Markets

The terms of provision of regulated wholesale services, WLR, BSA and LLU, are determined by the Single Reference Offer (“SRO”; see section 9.1.1 above).

In 2014, the President of UKE issued five decisions modifying SRO, particularly with respect to penalty fees, access to increased-charge numbers and offer update to include access to fibre-optic and technical infrastructure.

WLR Service

The access to Orange Polska’s network based on wholesale line rental (WLR) has been provided since 2006. At the end of December 2014, Orange Polska actively provided WLR services to 22 operators and handled about 1 million WLR lines.

BSA Service

The broadband access to a local subscriber loop (bitstream access – BSA) has been provided by Orange Polska since 2006. At the end of December 2014, Orange Polska provided BSA services to 27 operators and handled approximately 280,000 BSA lines.

LLU Service

The access to Orange Polska’s local subscriber loop (LLU service) has been provided since 2005. By the end of 2014, 9 operators had made active use of the LLU offer (while 28 operators had signed the relevant agreements). At the end of December 2014, Orange Polska handled over 150,000 LLU lines.

9.2.7 Mobile Broadband Access

The upward trend in the mobile broadband segment continued in 2014. Orange Polska estimates that the mobile broadband penetration of Poland’s population exceeded 15% at the end of December 2014. In Poland, mobile broadband access, depending on price options, seems to be partly a substitute to fixed broadband access, and the development of the former has partly slowed down the growth of the latter over the recent years.

Mobile broadband service providers have aimed at enhancing the coverage and technological capacity of their networks in order to offer higher data transmission rates.

Commercial services based on fast LTE technology are currently provided by Cyfrowy Polsat, Polkomtel, Play, Orange and T-Mobile. An auction for frequencies in the 800 MHz and 2600 MHz bands, which are necessary for the development of LTE coverage in sub-urban and rural areas, is scheduled to take place in the first half of 2015 (for more information please see also section 4.10 above).

9.2.8 Leased Lines Market

Orange Polska's main competitors in the wholesale leased lines market are Exatel, TK Telecom, GTS Poland and Netia. These companies have network resources that enable them to compete with Orange Polska’s offer in terms of quality and price. On the other hand, these operators are the core customers of Orange Polska’s wholesale services. A major part of the leased lines market is the retail segment with additional competition from smaller market players that develop their retail offer on the basis of lines leased from Orange Polska or other large players.

The current reference leased lines offer (RLLO) provides access to this service for a broad group of customers. The companies that have used the retail leased lines services so far, may, upon registration in the register of telecom operators, use the wholesale price list.

There has been an increasingly noticeable churn towards sophisticated data transmission services on managed networks as well as convergent services which combine traditional leased line services with packet network services. For this reason, in Poland, like in other European countries, customers have been migrating from traditional data transmission services to managed solutions. Both Orange Polska and its rival companies have been expanding their service portfolio in this direction.

9.2.9 Interconnect Market

Mobile Termination Rates (MTR)

There have been no intentions articulated by the regulator regarding further MTR changes. Since July 1, 2013, the mobile termination rate has been PLN 0.0429 / minute.

Fixed Termination Rates (FTR)

An administrative procedure to modify the reference offer with respect to the call initiation and termination market carried out by the President of UKE as a result of a regulatory obligation imposed on Orange Polska in the market 2/2007 and the President of UKE's decision obligating Orange Polska to modify SRO is pending. In particular, the SRO modification with respect to call termination is to involve elimination of rate division into three charge periods.

In August 2014, UKE commenced work on a new FTR costing model in order to implement the Commission recommendation of 7 May 2009 (2009/396/WE) in the Polish market. On August 28, 2014, UKE announced the results of a bidding procedure for the model development. The winner was Ernst&Young. According to the bidding procedure assumptions, the new FTR model was to be developed and submitted to UKE at the beginning of December 2014. It should be expected that the implementation of the new model in 2015/2016 will result in FTR cuts and elimination of asymmetry of rates.

Orange Polska has successfully completed tests of interconnect services based on the IP technology, which started in 2013. Based on positive test results, the services were launched on a commercial basis. The commercial offer is addressed to entities which operate in the IP technology and have no direct interconnection with Orange Polska's network.

9.2.10 International Long Distance Inbound and Gateway Markets

The ILD inbound and gateway markets are highly competitive and the activity of operators in this market segment reflects the need to search for additional sources of revenue. As a result, operators establish more and more direct interconnections with global international operators. At the same time, operators try to attract traffic to their own networks and win transit traffic to other domestic networks. The struggle is most dynamic in the market for mobile calls, which relatively generate the highest revenues.

Orange Polska has been an active player in the international inbound and gateway markets, which is particularly reflected in the following actions:

- expanding its foreign interconnect base;
- maintaining its share in Poland's inbound market;
- attracting new gateway traffic volumes by winning subsequent operators for its ILD service;
- conclusion of short-term bilateral agreements with operators, which assure stable traffic volumes, stable revenues and costs, the optimum network usage and business predictability; and
- co-operation with 40 domestic operators, providing services of call termination on foreign operators' networks via its own network, as well as similar co-operation model in business relations with 86 foreign operators.

These efforts increase Orange Polska's negotiating power in its relations with foreign partners.

Another major trend in the ILD market is growing use of the IP technology. A number of operators is migrating or planning to migrate from the TDM technology to the IP technology both within their own networks and in the interconnect traffic.

In 2011, Orange Polska launched its first IP-based interconnect gateways. Such interconnections with a total of 23 foreign operators have been launched so far. In addition, Orange Polska has been working on attracting further international operators to co-operate on the IP interconnect basis.

As shown by the experience of foreign operators (e.g. Belgacom or KPN), the migration of complete service portfolio is a difficult and prolonged process. Therefore, operators are still using mixed technology and have not entirely given up TDM. Orange Polska has also adopted a similar model: it introduces a growing number of IP-based services into its portfolio, while not giving up the TDM technology.

9.2.11 International IP Transit Market

Orange Polska's principal competitors in this market are domestic operators which develop or lease international lines to the main traffic exchange points. The presence of international operators in Poland further intensifies competition for access to the worldwide Internet resources. The activity of domestic operators and the growing volume of IP traffic handled by international players (of Tier-1) have been gradually reducing Orange Polska's position in this market. The provider market has seen a gradual reduction in prices for Internet access spectrum.

9.2.12 VoIP services

Constant growth in voice-over-Internet Protocol (VoIP) services in Poland is driven mostly by subscribers' pursuit of lower voice rates (as some VoIP calls, e.g. between users of the same application, are free). Dedicated applications (communicators), which may be installed on any devices with the Internet connection, have been particularly popular among users.

For many years the VoIP technology has been widely used in Poland also by telecom operators for providing fixed voice services in the form of fully functional equivalents of traditional fixed lines.

Orange Polska has also been active in the market for VoIP services, steadily enhancing and adapting its VoIP portfolio to changing needs of customers. VoIP is a major component of multi-play offers, such as FunPack, which combine broadband, TV and VoIP services. With the VoIP take-up of over 530,000, Orange Polska is among Poland's leading VoIP providers (including CATV operators).

The VoIP technology has been gaining popularity among mobile users in Poland, on one hand contributing to increased data transfer and on the other cannibalising both traditional voice services and SMS services.

10 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

10.1 Macroeconomic Factors and Factors Related to Poland

10.1.1 Economic Growth

In 2014, the Polish economy continued the growth trend, which started in 2013. The increase in the GDP growth rate resulted mainly from growing exports, fuelled by recovery in the Eurozone, as well as improving domestic demand, driven by individual consumption and private investments. In 2014, after a promising start, two external factors, namely the Russian-Ukrainian conflict and stagnation in the Eurozone, negatively affected Poland's foreign trade, reducing export orders placed with Polish companies. This inhibited industrial production growth and reduced retail sales growth rate. Nevertheless, considering better-than-expected reports about GDP growth rate in the third quarter (+3.3% y-o-y), Poland's GDP growth rate increased by 3.3% in entire 2014. Further economic growth in 2015 should be driven by improving situation of Polish exporters owing to market diversification as well as growing private consumption, fuelled by an increase in household disposable income supported by improvement in the labour market. Poland's economic outlook partly depends on the condition of other European economies and the economic climate in global markets. There is still a risk of decline of the economic and financial situation within the European Union, particularly in the context of the prolonged Ukraine crisis. Owing to strong ties between the Polish economy and economies of other European countries, especially Germany, a potential negative scenario for the European or German economy may have adverse effects on Poland's GDP growth rate.

10.1.2 Inflation

Average annual CPI reached 0.0% in 2014, which was well below the inflation target (2.5%). Deflation, which took hold in the middle of the year, resulted primarily from lower food and fuel prices, which in both cases can be attributed mainly to external factors. Russian sanctions on the 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.

After the Monetary Policy Council cut interest rates to the record low (2.00%) in October, it kept the basic interest rate stable until the end of the year, upholding an opinion that the current stable economic growth limited the risk of inflation remaining below the target in the medium term.

A potential increase in inflation may result from depreciation of the Polish zloty in case of a significant increase in risk aversion in global financial markets.

10.1.3 Unemployment and Labour Costs

The labour market has been positively affected by the economic recovery, which was reflected in an increase in employment and a decrease in unemployment to 11.5% (-1.9 pp y-o-y) at the end of 2014. At the same time, an increase in wages in the enterprise sector was reported between January and December 2014 they were up 3.7% in nominal and in real terms (y-o-y).

A further improvement in the labour market, driven by growing GDP, enhanced mood in the enterprise sector, growing investments and inflow of EU funds, may be expected in 2015.

10.1.4 Political and Economic Factors

Poland has undergone significant political, economic and social transformation in the last twenty five years. Changes in political, economic, social and other conditions may have influence on the economy and the condition of enterprises, including the financial condition and performance of Orange Polska. A trend observed over the recent years shows that the activity of the telecommunication market regulator has much more material effects on the Group and the telecommunication market as a whole than any political changes in Poland do.

Raised sensitivity to personal data protection and the privacy of telecommunication service users in Poland and across the European Union might lead to regulatory decisions with negative economic effects for operators. Another major factor is an on-going discussion about Poland's position in the European Union and the target date for entering the Euro zone as well as potential solutions for the EU economic recovery, particularly a debate on the establishment of a single telecommunications market within the EU by 2015.

10.1.5 Ukraine Crisis Impact on the Polish Economy

The Ukrainian crisis, which resulted in the annexation of Crimea by the Russian Federation and destabilisation of south-eastern regions of Ukraine, was among the main geopolitical developments influencing the market sentiment in the CEE region in the last twelve months.

Proximity to the area of conflict is an important factor not only for Poland's safety, but also the strength of economic recovery, which started in the second half of 2013.

Despite the fact that Russia and Ukraine are not the dominant export markets of Poland (3.2% of GNP and 8.1% of total exports in 2013), the escalation of the conflict may nevertheless reduce exports and inhibit the recovery in investments observed in 2014.

The recent data of Poland's Central Statistical Office (GUS) have confirmed concerns about a slump in foreign trade with Russia and Ukraine. However, so far this negative trend has been offset by growth in exports to Central and Western Europe.

Potential escalation of the conflict may force the European Union to impose more severe political and economic sanctions, whose indirect effects may be much more significant for Poland, especially in the light of the strong position of German exports in Russian foreign trade and high dependence of Polish exports on the economic climate in Germany.

In addition to an impact on foreign trade with Russia and Ukraine and resulting slow-down of the economic growth, the Ukraine conflict may disrupt Russian gas and crude oil supplies to Europe, contributing to an increase in prices of raw materials and pushing inflation up.

Concerns about geopolitical stability in the region may negatively affect business sentiment and result in outflow of capital not only from the countries directly involved in the conflict, but also their neighbours, weakening local currencies in the process. They may also contribute to a decrease in private consumption due to worsening household sentiment.

On the other hand, the growing risk of economic uncertainty in Ukraine and Russia has made foreign investors withdraw their capital and move their investments to safer locations, particularly in the IT outsourcing industry. Given the good opinion of Poland as a favourable place for such activity, this may become an opportunity for the Polish economy to attract additional investments.

10.1.6 Polish Tax System

Polish tax laws and regulations, in particular regarding value added tax and income tax, are complex and subject to frequent changes and contradictory interpretations by tax authorities. Changes in regulations, leading to lack of reasonable certainty of the tax system, may adversely affect the legal, business and financial situation of the Group. Recently, the Ministry of Finance has not indicated any plans to change tax rates; in particular, return to VAT rates of 22% and 7% is not intended until the end of 2016. Furthermore, there has been a clear tendency of the Ministry of Finance to tighten up the tax system by eliminating solutions which used to enable lawful tax optimisation.

10.2 Factors Related to Financial Markets

10.2.1 General Risks Related to the Polish Market

Poland is still considered a less stable market, which is exposed to higher fluctuations in case of negative developments in global markets. Therefore, investors should exercise caution while assessing the risk of purchase of financial assets of Polish companies. In consideration of the above, investment decisions should be made by experienced investors who are able to fully assess all risks involved in such investments.

10.2.2 Interest Rates

Throughout most of the year, the Monetary Policy Council kept interest rates on hold, but finally, in October, cut the reference interest rate to 2.0%. Considering deflation both in Poland and generally in Europe, the Monetary Policy Council should be expected to advocate loose monetary policy also in 2015. Lower interest rates in Poland may also result from adjusting Poland's monetary policy to that of the European Central Bank. A potential increase in interest rates should not have any major influence on the Group's debt service costs, due to high hedging ratio.

10.2.3 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 2014, Polish zloty lost 2.4% against euro and 15.7% against the US dollar. The fluctuations of the Polish currency were caused mainly by external factors. Due to higher volatility in the currency market, it is not possible to clearly predict the Polish zloty trend in 2015. On the one hand, appreciation of zloty, supported by improving Poland's macroeconomic data, may be expected; on the other hand, the Polish currency may be affected by the geopolitical risk across Poland's eastern border and outflow of capital from emerging markets. In the reported period, the exchange rate of zloty against euro was in the 4.0998 – 4.3138 bracket, while its exchange rate against the US dollar oscillated between 3.0042 and 3.5458. NBP's mean exchange rates of PLN against the US dollar and euro were 3.1537 and 4.1845, respectively, in 2014.

10.2.4 Situation at the Warsaw Stock Exchange

Since November 1998, shares of Orange Polska (formerly Telekomunikacja Polska S.A.) have been listed on the primary market of the Warsaw Stock Exchange (WSE) within the continuous listing system.

The Company's shares are included in the following indices:

- WIG20 and WIG30 large-cap indices;
- WIG broad-market index;
- WIG-telecommunication industry index; and
- RESPECT Index of socially responsible companies.

On January 14, 2014, in connection with the change of the Company's name from Telekomunikacja Polska S.A. to Orange Polska S.A., pursuant to a decision of the WSE Board, the abbreviated names used by WSE for the Company's shares were changed in the following manner:

a) the existing abbreviated name: TPSA; the new abbreviated name: ORANGEPL;
b) the existing ticker: TPS; the new ticker: OPL.

2014 saw drops in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were down 10.5% (after the dividend-related reference price change), while the large-cap index, WIG20, lost 3.5% in the period.

The changes in the pension system effected by the Government may potentially reduce the funds allocated by Open Pension Funds onto the Warsaw Stock Exchange. This may result in a change in the investors' attitude towards the shares listed in the WSE's blue-chip indices, WIG20 and WIG30, including Orange Polska shares.

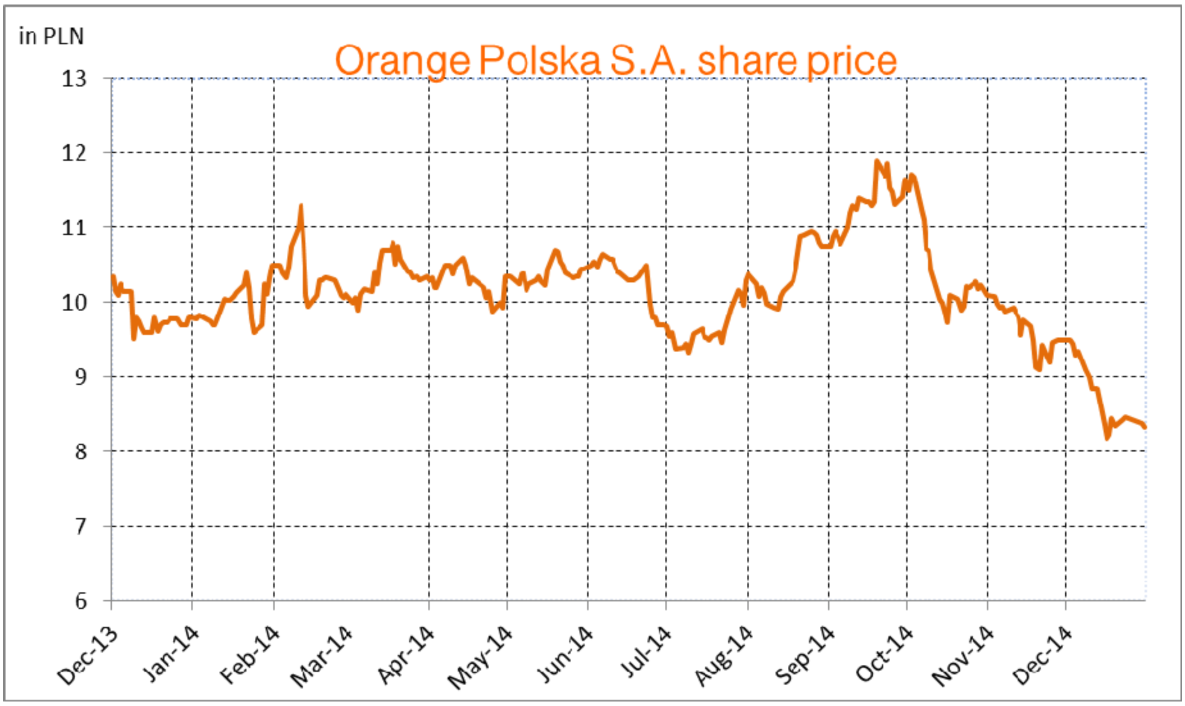
By July 31, 2014, the insured were to decide whether a portion of their gross wages would be transferred to Open Pension Funds or would remain in the state-controlled Social Insurance Institution (ZUS). According to ZUS, almost 2.6 million people, or about 15.4% of all pension funds members, have chosen Open Pension Funds.

In 2014, Orange Polska was once again included in a prestigious group of listed, socially responsible companies. The new portfolio of the RESPECT Index announced by the Warsaw Stock Exchange comprises 24 companies. Orange Polska has been present in the index portfolio since its first edition.

The RESPECT Index was launched in 2009. It is the first index of socially responsible companies in Central and Eastern Europe. It aims to popularise a strategic approach to corporate social responsibility. The index comprises companies which are characterised by comprehensive CSR management and diligent responding to the environment needs and expectations and which follow CSR principles both on the business strategy level and in everyday business practice. Orange Polska has followed a comprehensive approach to the management of CSR area and projects for years. Through a dialogue with its stakeholders, including customers, employees, the regulator or non-governmental organisations, the company can update its knowledge of the needs and expectations of its environment on a current basis and account for them in its business initiatives.

The RESPECT Index has been increasingly popular among companies and investors, who have noticed a link between consideration for social and environmental impact and financial performance.

ORANGE POLSKA S.A. SHARE PRICES
in the period from December 31, 2013 to December 31, 2014



Recommendations and reports for Orange Polska S.A. shares are issued by the following financial institutions (according to the Company's knowledge as of the date of this report)*:

BASED IN POLAND	BASED OUTSIDE POLAND
DM BZ WBK	CITIGROUP
ING SECURITIES	DEUTSCHE BANK
DM BOŚ	ERSTE BANK INVESTMENT
DM PKOBP	GOLDMAN SACHS
UNICREDIT GROUP	HSBC
DM MBANKU	J.P. MORGAN
TRIGON DOM MAKLERSKI S.A.	RAIFFEISENBANK AG
ESPIRITO SANTO INVESTMENT BANK	RENAISSANCE CAPITAL
	UBS
	VTB CAPITAL
	WOOD & COMPANY
	NEW STREET RESEARCH LLP
	MORGAN STANLEY

*For an updated list of brokers with the related institution data please visit the Company's website at www.orange-ir.pl

10.2.5 Other Factors That May Influence the Price of Orange Polska Shares

Other than major factors already mentioned earlier in this document, the following may also result in Orange Polska share price fluctuations:

- Change in the dividend per share;
- Change in the Group's debt;
- Sale or purchase of assets by the Group;
- Significant changes in the shareholder structure; and
- Changes in the capital market analysts' forecasts and recommendations concerning the Group, its competitors and partners, or business sectors in which the Group operates.

CHAPTER V
STATEMENTS

11 STATEMENTS OF THE MANAGEMENT BOARD

11.1 Statement on Adopted Accounting Principles

Orange Polska S.A. Management Board, composed of:

1. Bruno Duthoit - President of the Board
2. Mariusz Gaca - Vice President in charge of Business Market
3. Piotr Muszyński - Vice President in charge of Operations
4. Jacek Kowalski - Board Member in charge of Human Resources
5. Maciej Nowohoński - Board Member in charge of Finance

hereby confirms that according to its best knowledge the consolidated financial statements and comparable data have been drawn up in compliance with the accounting regulations in force and reflect the Group's property, financial standing and financial result in an accurate, reliable and transparent manner.

This Management Board's Report provides accurate depiction of the development, achievements and standing of the issuer's group, including the description of major threats and risks.

11.2 Statement on Appointment of the Licensed Auditor of the Group's Consolidated Financial Statements

Orange Polska S.A. Management Board hereby declares that the licensed auditor of the consolidated financial statements has been appointed in compliance with the relevant regulations and that both the auditor and the chartered accountants carrying out the audit meet the requirements to develop an impartial and independent opinion on the audited consolidated financial statements in compliance with the relevant regulations and professional standards.

11.3 Agreement with the Licensed Auditor

On June 4, 2014 and August 28, 2014, Orange Polska S.A. concluded agreements with an entity licensed to audit financial statements for auditing and reviewing its standalone and consolidated financial statements for reporting periods of 2014. Pursuant to these agreements, Deloitte Polska Sp. z o.o. Sp. k. has performed the following:

- reviews of the standalone and consolidated financial statements for the first half of 2014;
- the audit of the standalone financial statements of the Company and the consolidated financial statements of the Group for 2014 prepared in accordance with IFRS; and
- agreed procedures concerning audit and reviews of standalone and consolidated financial statements in 2014.

The aggregate remuneration (in PLN '000) for auditing and reviewing the above-mentioned financial statements and other services rendered by Deloitte Polska Sp. z o.o. Sp. k. for 2014 is presented below:

	2014
Audit of annual financial statements of the Group, including:	3,856
- Audit of annual financial statements of Orange Polska S.A. and the consolidated financial statements of the Group	3,455
- Audit of annual financial statements of subsidiaries*	401
Other authentication services to the Group, including:	1,102
- Review of financial statements of Orange Polska S.A. and the consolidated financial statements of the Group as of June 30, 2014	1,094
- Other authentication services**	8
Total amount payable by Group	4,958

* *The remuneration for audits of subsidiaries is payable under separate contracts between the auditor (including Deloitte France in one case) and each subsidiary.*

** *Including the remuneration paid to Deloitte Advisory sp. z o.o.*

The aggregate remuneration for auditing and reviewing the above-mentioned financial statements and other services rendered by Deloitte Polska Sp. z o.o. Sp. k. as of 2013 was as follows: PLN 3,554 thousand for audits/reviews of Orange Polska S.A.; PLN 40 thousand for audit-related and other services to TP S.A.; PLN 1,946 thousand for audits of Poland-based subsidiaries; and PLN 48 thousand for audits of foreign-based companies conducted by other Deloitte companies than already mentioned.

11.4 Management Board's Position as to the Achievement of the Previously Published Financial Projections for the Given Period

Orange Polska S.A. did not publish any financial projections concerning results of the Group for 2014 pursuant to Article 5(1.25) of the Decree of the Minister of Finance of February 19, 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (JoL of 2009 No. 33, item 259, as amended).

12 CORPORATE GOVERNANCE STATEMENT

(a) Company's corporate governance policy

The Company, as an issuer of securities listed on the Warsaw Stock Exchange (WSE), is obliged to comply with the corporate governance practices set out in the *Code of Best Practice for WSE Listed Companies*, which is available at http://corp-gov.gpw.pl.

(b) Corporate governance compliance

In 2014, the Company complied with the corporate governance best practice referred to above.

Furthermore, referring to the Section I of the *Best Practice*, the Company informs that:

(1) The Company has a remuneration policy as well as rules of defining the remuneration of members of supervisory and management bodies.

(2) One of the Company's priorities is to ensure equal access of women and men to management positions in the Company (section I.9). Therefore, Orange Polska has introduced new recruitment rules and set the proportion of employing men and women in managerial positions. In addition, a related succession index has been set, determining the percentage of TOP 350 positions with at least one female successor. Orange Polska has followed a policy of appointing persons with proper competence, professional experience and expertise to its supervisory and management bodies.

(3) The Company has not decided to implement the rule that a company should enable its shareholders to participate in a General Assembly using means of electronic communication, particularly through real-time bilateral communication, as well as exercise their right to vote during a General Assembly either in person or through a plenipotentiary (sections I.12 and IV.10), due to doubts about its compliance with the Commercial Companies Code.

(c) Description of major features of Orange Polska's internal control and risk management systems with respect to the process of development of standalone and consolidated financial statements (please see chapter IV for additional information on key risk factors)

The system of internal control and risk management in the Group has been designed and implemented by the Management Board to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Code of Ethics was adopted within the Group in 2008 which encompasses its relationship with customers, shareholders, employees, suppliers, competition and also with respect to the environment in which the Group operates. A warning system related to ethics and reporting of potential and actual fraud has been enhanced by the Group which is co-ordinated by the Ethics Committee. Training on ethics is provided to employees, which is confirmed by a personal certification. Formal channels for whistle blowing have been established, including reporting to the Chairman of the Audit Committee of the Supervisory Board and the Ethics Committee.

In 2013 in accordance with the approach adopted by Orange Group assuming a gradual implementation of subsequent elements of Compliance Program the Anti-Corruption Policy and Guidelines were introduced in Orange Polska. The implemented Anti-corruption Policy, supplemented by the Guidelines, contains detailed rules and standards for its application and references to specific conditions and circumstances relating to the identification and mitigation of risk of corruption. In addition, a number of information and training actions were carried out in order to raise employees' awareness of anti-corruption laws and rules applicable to the Company.

The Group is diligent in its approach to reporting financial results and its ongoing communication with the Polish and international investment community, as well as fulfilling its disclosure obligations. Key managers responsible for the financial, legal, regulatory and internal control functions review financial statements and make comments thereto at the Disclosure Committee. The purpose of the Committee's meetings is to ensure that financial disclosures are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of both the Company and the Group. In 2014, the Disclosure Committee had six meetings. In addition the Audit Committee review the financial disclosures of the Company and the Group before they are published.

The key elements of the Group's internal control and risk management system include the following procedures:

(1) An internal audit function, which reports directly to the President of the Management Board. The internal audit programme is annually reviewed by the Audit Committee, which also analyses the Group's Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit, Management Board decisions regarding the conclusion and termination of an employment contract with the Group Internal Audit Director as well as his evaluation and remuneration require an opinion of the Audit and Remuneration Committees. The Group Internal Audit Director attends all meetings of the Audit Committee.

(2) The Group conducts ongoing assessments of the quality of the risk management system and controls. This process includes identification and classification of the Group's financial and non-financial risks – see Chapter 4, section 8.

(3) Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental, financial reporting and operational) effectively on an ongoing basis. It provides a framework for ongoing risk-controlling activities.

In 2014, the Management Board again completed a comprehensive assessment of the Group's internal controls over financial reporting. Main deficiencies were identified and corrected or appropriate action points have been launched. As a result of the assessment, the Management concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at December 31, 2014.

(d) Indication of shareholders holding, directly or indirectly, significant batches of shares, including the number of shares held, the interest in the Share Capital, the corresponding number of votes and the percentage of the total voting power at the General Assembly

Please see section 6.3 above for the information about major shareholders.

(e) Indication of holders of any securities granting special control rights and description of such rights

The Company has not issued any securities granting any special control rights to shareholders or other entities.

(f) Indication of any restrictions concerning the exercise of the voting rights on shares, such as restriction of the voting rights to a certain percentage or number of votes or temporary restriction of the voting rights, or regulations according to which, in conjunction with the Company, the rights on securities are separated from the ownership of securities

The Company has not introduced any specific restrictions concerning the exercise of the voting rights on shares.

(g) Indication of any restrictions concerning transfer of ownership of the securities issued by Orange Polska

The transfer of ownership of the securities issued by the Company is not subject to any restrictions.

(h) Description of procedures for appointment and removal of managing persons and their rights, particularly the right to make decisions regarding the issuance or redemption of shares

The Management Board consists of between 3 and 10 members, including the President. They are appointed and removed by the Supervisory Board by a simple majority of the votes cast. The term of office for the member of the Management Board is three years. The Management Board's remit comprises the management of all aspects of the Company's affairs, with the exception of the matters which under the Polish Commercial Companies Code or the Articles of Association shall be within the competence of the General Assembly or the Supervisory Board. In particular, the powers of the Management Board include development of the Group's strategy, economic and financial plans; establishment, transformation and liquidation of the Company's business units; and governance of the Group subsidiaries. Any decisions regarding the issuance or redemption of the Company's shares are exclusively within the competence of the General Assembly.

The powers of the Management Board are detailed in the Management Board by-laws, available at www.orange-ir.pl

(i) Description of procedures for amending the Articles of Association or the deed of the company

Any amendment to the Articles of Association requires a resolution of the General Assembly adopted by a majority of the three quarters of votes.

(j) Rules of operation of the General Assembly and its major responsibilities, and description of the shareholders' rights and the way of exercise thereof, particularly the rules resulting from the General Assembly by-laws, if any, unless the information in this respect results directly from mandatory regulations

I. General Assemblies shall be held in Warsaw. The General Assembly shall be valid irrespective of the number of shares represented. According to the adopted by-laws, the General Assembly shall be opened by the Chairman of the Supervisory Board or his deputy, or, in case of their absence, by the President of the Management Board or a person designated by the Management Board. Thereafter, the Chairman shall be elected from among the persons entitled to take part in the General Assembly. After each subsequent matter on the agenda has been presented the Chairman of the General Assembly shall open a discussion giving floor to speakers in the sequence in which they have declared their willingness to speak. Upon the consent of the General Assembly several items of the agenda may be discussed jointly. The participants may speak only on the matters which have been put on the agenda and are being considered at that moment.

II. Pursuant to the Regulations of the General Assembly of Orange Polska S.A., the shareholders have the following rights:

(1) The shareholders may take part in the General Assembly and exercise the right of vote in person or by attorneys-in-fact (other representatives).

(2) Each shareholder has the right to candidature for the Chairman of the General Assembly or to put forward one candidature for the position of the Chairman of the General Assembly to the minutes.

(3) When every point on the agenda is considered each shareholder has the right to one speech of 5 minutes and a reply of 5 minutes.

(4) Each shareholder has the right to ask questions on any matters on the agenda.

(5) The shareholder has the right to object a decision of the Chairman of the General Assembly. The General Assembly shall decide in a resolution whether the decision of the Chairman be upheld or reversed.

(6) Each shareholder has the right to suggest amendments or additions to draft resolutions, which are covered by the agenda of the General Assembly, by the time of closing the discussion over the item on the agenda referring to the draft resolution to which the suggestion is related.

(k) Composition and changes thereof in the last financial year, and description of bodies that manage, supervise or administer Orange Polska S.A. and any committees thereof

I. Composition of the Management Board in 2014

Composition on January 1, 2014:

1. Bruno Duthoit - President of the Board
2. Vincent Lobry - Vice President of the Board
3. Piotr Muszyński - Vice President of the Board
4. Jacques de Galzain - Board Member
5. Jacek Kowalski - Board Member

On February 6, 2014 the Supervisory Board appointed Mr. Mariusz Gaca as Member of the Management Board.

On February 24, 2014, Mr. Jacques de Galzain submitted his resignation from the position of Member of the Management Board, effective as of February 28, 2014.

On March 17, 2014 the Supervisory Board appointed Mr. Maciej Nowohoński as Member of the Management Board.

On September 9, 2014, Mr. Vincent Lobry submitted his resignation from the position of Vice President of the Management Board, effective as of October 15, 2014.

Composition on December 31, 2014:

1. Bruno Duthoit - President of the Board
2. Mariusz Gaca - Vice President of the Board
3. Piotr Muszyński - Vice President of the Board
4. Jacek Kowalski - Board Member
5. Maciej Nowohoński - Board Member

Notes regarding Management Board Members:

- Mr. Bruno Duthoit (born 1953) is a graduate of the French École Polytechnique and École Nationale Supérieure des Télécommunications. He started his professional career as an engineer working for France Telecom SA (currently Orange SA) and soon progressed to become deputy regional director for network development investment in the Lower Normandy Region (until 1983). After six years of work in senior positions in public administration (at DATAR – Délégation à l'aménagement du territoire et à l'action régionale), first at regional and then national level, he returned to Orange SA in 1991 to head the Group's office for Czech Republic and Slovakia. From 1996 to 2013 he held positions of Chief Executive Officer or Management Board Member in several international subsidiaries of the Group. Notably, he was the CEO of Orange Slovensko in Slovakia (1996-1999), Orange Moldova (2006-2008), Orange Armenia (2008-2012), and Ethiopia's Ethiotelecom (2012-2013). He was a Management Board Member of Telekomunikacja Polska S.A. between 2001 and 2006 with a scope of responsibilities ranging from transformation to sales, marketing and customer care to investments and strategy.
- Mariusz Gaca (born 1973) is a graduate of the Academy of Agriculture and Technology in Bydgoszcz and Warsaw University. He has also earned an MBA degree at the University of Illinois in Urbana Champaign and AMP at INSEAD. He began his professional career in the Elektrim Group (1995-2000), where he was

involved in the development of business plans for local telecommunication operators. In 2001, he joined the TP Group as the Director of Multimedia Branch, responsible for the development of the Internet access portfolio for the mass market. Between 2005 and 2009, he was responsible for TP Group's business market. From 2009 he was the TP Group Executive Director in charge of Sales and Customer Care and CEO of TP Group's mobile arm, PTK Centertel – a position which he held until the recent merger of PTK Centertel with TP S.A. Since November 2013 he has been responsible for Orange Polska's Business Market. Since 2011 he has served as Vice-President of Employers of Poland and the Chairman of the Polish Section of Business Industry Advisory Committee to the OECD.

- Mr. Piotr Muszyński (born 1963) graduated from the Faculty of Law and Administration at the University of Wrocław, completed Postgraduate Study in Management at the Polish International Business School and the Advanced Management Program organised by IESE Business School, University of Navarra. He started his career in 1990 in Eastern Europe Investment Ltd (EEI) as a Partner and Project Manager responsible for strategy, marketing and business development. From 1993 he was employed in REMA 1000 Poland Ltd. as Managing Director and Member of the Management Board and from 1999 to 2001 as President of the Management Board. In parallel, in 1996-1998 he was a Member of the Management Board of Intersport Poland, taking part in the incorporation and launch of the company. He joined TP S.A. in 2001, holding the position of Director of Customer Care Branch. In 2005 he was assigned to the position of Director of Sales and Services Division. He has been a Member of Orange Polska Management Board since 2008 and a Vice-President and Chief Operating Officer since 2009.
- Mr. Jacek Kowalski (born 1964) has been the Orange Polska Management Board Member in charge of Human Resources since January 2011. Mr. Kowalski has worked for the Group for over 12 years. From November 2009 he served as the TP Group Executive Director in charge of Human Resources. Mr. Kowalski joined the Group in 2001 as Human Resources Manager for Sales and Marketing in PTK Centertel. From 2005 he was the Director of Employee Competence and Development Management Branch. In 1989 he graduated from the History Faculty of the Warsaw University before moving on to postgraduate studies in local government and non-governmental organisation management also at the Warsaw University, which he completed in 1996. Before joining the Group, he was the Director of the Entrepreneurship and Human Resources School in Infor Training (Infor Media Group) and served as Director of the National In-Service Teacher Training Centre, responsible for the implementation of training programmes supporting the development of education in Poland. Jacek Kowalski is a member of the Programme Board of the Polish Human Resources Management Association.
- Mr. Maciej Nowohoński (born 1973) has been the Orange Polska Management Board Member in charge of Finance since March 2014. He has been with Orange Polska since 2003, in a variety of positions in the area of finance of increasing scope and responsibility, most notably that of Orange Polska Group Controller in 2006–2014. He was also Management Board Member at Emitel in 2010–2011 and the Management Board Member in charge of Finance at PTK Centertel in 2011–2013. Mr. Nowohoński also sits on the supervisory boards of several Orange Polska's subsidiaries. Prior to joining Orange Polska, he worked, among others, in Arthur Andersen and Andersen Business Consulting. He graduated from the Foreign Trade Faculty at the Economic University of Poznań and from the Hogeschool van Arnhem en Nijmegen, a Dutch business school.

II. Composition of the Supervisory Board and its Committees and changes thereof in 2014

Composition on January 1, 2014:

1.	Maciej Witucki	- Chairman of the Supervisory Board
2.	Prof. Andrzej K. Koźmiński	- Deputy Chairman and Independent Board Member
3.	Benoit Scheen	- Deputy Chairman and Chairman of the Strategy Committee
4.	Marc Ricau	- Board Member and Secretary
5.	Timothy Boatman	- Independent Board Member and Chairman of the Audit Committee
6.	Dr. Henryka Bochniarz	- Independent Board Member
7.	Jean-Marie Culpin	- Board Member
8.	Eric Debroeck	- Board Member
9.	Dr. Mirosław Gronicki	- Independent Board Member
10.	Sławomir Lachowski	- Independent Board Member
11.	Marie-Christine Lambert	- Board Member
12.	Pierre Louette	- Board Member
13.	Gervais Pellissier	- Board Member
14.	Gérard Ries	- Board Member
15.	Dr. Wiesław Rozłucki	- Independent Board Member and Chairman of the Remuneration Committee

On April 10, 2014, the mandates of Messrs. Benoit Scheen, Timothy Boatman, Pierre Louette and Gérard Ries expired.

On the same day, Messrs. Benoit Scheen, Russ Houlden and Gérard Ries and Ms. Valérie Thérond were appointed by the Annual General Assembly as Members of the Supervisory Board.

On July 10, 2014, Mr. Benoit Scheen submitted his resignation from the position of Member of the Supervisory Board, effective as of August 31, 2014.

On October 9, 2014, Mr. Ramon Fernandez was appointed by the Supervisory Board as Member of the Supervisory Board.

Composition on December 31, 2014:

1. Maciej Witucki - Chairman of the Supervisory Board
2. Prof. Andrzej K. Koźmiński - Deputy Chairman and Independent Board Member
3. Gervais Pellissier - Deputy Chairman and Chairman of the Strategy Committee
4. Marc Ricau - Board Member and Secretary
5. Dr. Henryka Bochniarz - Independent Board Member
6. Jean-Marie Culpin - Board Member
7. Eric Debroeck - Board Member
8. Ramon Fernandez - Board Member
9. Dr. Mirosław Gronicki - Independent Board Member
10. Russ Houlden - Independent Board Member and Chairman of the Audit Committee
11. Sławomir Lachowski - Independent Board Member
12. Marie-Christine Lambert - Board Member
13. Gérard Ries - Board Member
14. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee
15. Valérie Thérond - Board Member

At present, Orange Polska has six independent members on the Supervisory Board, namely: Prof. Andrzej K. Koźmiński, Dr. Henryka Bochniarz, Dr. Mirosław Gronicki, Russ Houlden, Sławomir Lachowski and Dr. Wiesław Rozłucki.

Composition of the Committees of the Supervisory Board on December 31, 2014:

The Audit Committee

1. Russ Houlden – Chairman
2. Marc Ricau
3. Sławomir Lachowski
4. Marie-Christine Lambert

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

The Remuneration Committee

1. Dr. Wiesław Rozłucki – Chairman
2. Andrzej K. Koźmiński
3. Marc Ricau
4. Valérie Thérond

The Strategy Committee

1. Gervais Pellissier – Chairman
2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Dr. Mirosław Gronicki
5. Sławomir Lachowski
6. Gérard Ries

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.

III. Operations of the Management Board

The operations of the Management Board is managed by its President. Meetings of the Management Board are chaired by the President of the Management Board or, in case of his absence, another member of the Management Board designated by the President. Resolutions may be adopted if all members of the

Management Board have been duly notified about the meeting. Resolutions of the Management Board shall be adopted by absolute majority of votes of all appointed members of the Management Board. Individual members of the Management Board shall manage the areas of the Company's operations assigned to them.

The responsibilities and obligations of the Management Board are detailed in the Management Board by-laws, available at www.orange-ir.pl.

IV. Operations of the Supervisory Board

The work of the Supervisory Board is co-ordinated by the Board Chairman with the assistance of the Board Secretary. The Supervisory Board shall hold a meeting at least once a quarter. The Management Board or a member of the Supervisory Board may demand convening a meeting, specifying a suggested agenda thereof. The Chairman of the Supervisory Board shall call a meeting within two weeks of the receipt of the aforementioned motion. In case the Chairman of the Supervisory Board fails to call a meeting within two weeks, the applicant may call it on his own, specifying the date, place and suggested agenda of the meeting. The Supervisory Board shall adopt resolutions by a simple majority of the votes cast and in the presence of at least half of all members of the Supervisory Board. In case of equal votes, the Chairman of the Supervisory Board shall have the decisive vote.

Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in further paragraphs.

The Supervisory Board by-laws are available at www.orange-ir.pl

In particular, the Supervisory Board is responsible for the appointment and remuneration of the members of the Management Board, the appointment of the Company's independent auditors, and the supervision of the Group's business. As part of its supervisory responsibilities, it examines the Group's strategic plan and annual budget, monitors the Group's operating and financial performance, formulates opinions on incurring liabilities that exceed the equivalent of €100,000,000, formulates opinions on disposal of the Group's assets that exceed the equivalent of €100,000,000, evaluates the Management Board's report on the Company's activities and the Management Board's proposals regarding distribution of profits or covering losses. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to Group's businesses.

Furthermore, an amendment to the Polish Accounting Act, dated September 29, 1994 was published in 2009 which increased the responsibility of the members of the Supervisory Board in regards to the reliability and fair presentation of the Company's financial reporting.

V. Operations of the Committees of the Supervisory Board

(A) The Audit Committee

The task of the Committee is to advise the Supervisory Board on the proper implementation of budgetary and financial reporting and internal control (including risk management) principles in the Group and to liaise with the auditors of the Group.

The key functions of the Audit Committee include:

1) Monitoring the integrity of the financial information provided by the Company and the Group in particular by reviewing:
    a. The relevance and consistency of the accounting methods used by the Company and the Group, including the criteria for the consolidation of the financial results;
    b. Any changes to accounting standards, policies and practices;
    c. Major areas of financial reporting subject to judgment;
    d. Significant adjustments arising from the audit;
    e. Statements on going concern;
    f. Compliance with the accounting regulations;
2) Reviewing, at least annually, the Group's system of internal control and risk management systems with a view to ensuring, to the extent possible, that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed;
3) Reviewing annually the Internal Audit programme, including the review of independence of the Internal Audit function and its budget, and coordination between the internal and external auditors;
4) Analyzing reports of the Group's Internal Audit and major findings of any other internal investigations and responses of the Management Board to them;
5) Making recommendations in relation to the engagement, termination, appraisal and/or remuneration (variable pay) of the Director of the Internal Audit;
6) Reviewing and providing an opinion to the Management and/or the Supervisory Board (where applicable) on significant transactions with related parties as defined by the corporate rules;

7) 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, with particular attention being paid to remuneration for additional services;
8) Reviewing the issues giving rise to the resignation of the external auditor;
9) Discussing with the Company's external auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
10) Discussing with the Company's external auditors (in or without the presence of the Company Management Board) any problems or reservations, resulting from the financial statements audit;
11) Reviewing the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
12) Considering any other matter noted by the Audit Committee or the Supervisory Board;
13) Regularly informing the Supervisory Board about all important issues within the Committee's scope of activity.
14) Providing the Supervisory Board with its annual report on the Audit Committee's activity and results.

(B) The Remuneration Committee

The Remuneration Committee's task is to advise the Supervisory Board and Management Board on the general remuneration and nomination policy of the Group, determining the conditions of employment and remuneration (including the setting of objectives) of the Members of Management Board and giving recommendations to the Supervisory Board regarding salaries and the amounts of variable pay for the members of the Management Board.

(C) The Strategy Committee

The tasks of the Strategy Committee include:

(1) giving its opinion and recommendation to the Supervisory Board on the strategic plans put forward by the Management Board and any further suggestions made by the Supervisory Board regarding such strategic plan(s), and in particular on the main strategic options involved; and

(2) consulting on all strategic projects related to the development of the Group, the monitoring of the evolution of industrial partnerships within the Group and projects involving strategic agreements for the 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:

(1) strategic agreements, alliances, and technological and industrial co-operation agreements, including aspects of the Group's strategic partnership with Orange SA; and

(2) significant acquisitions and sales of assets.

13 APPENDIX. PRODUCTS AND SERVICES – THE KEY CHANGES INTRODUCED IN 2014

FIXED LINE SERVICES

Business Customers

In 2014, the fixed line voice portfolio was simplified with respect to value-added services.

On March 1, special tariffs for calls to selected borderline areas were withdrawn. Then, the 'Teletaxa' service was modified in August, and the value-added services, 'Bill Curbing' and 'Bill Limit', were withdrawn in October.

In December 2014, some changes in F2M rates were introduced. F2M rates in per-second billing profiles 'Profit Pro' and 'Business Pro' in the *Profitable Plan* were reduced, while FTM rates in per-second billing profiles 'Profit' and 'Profit Pro' in the *Universal TP Business Plan* were increased.

Furthermore, in order to adapt the service standards to changing legal environment, the Rules of ISDN Service Provision and the Rules of Provision of Telecommunication Services on the Fixed Line Network were modified with respect to complaint handling.

Residential Customers

Promotional Offers and Campaigns

- In June 2014, a BTL campaign, 'Plan For Every Day. A convenient way to keep your bills low not only during holidays', was launched. It aimed at promoting the *Plan For Every Day*, which offers unlimited calls to domestic and international fixed-line networks (within the first zone) for just PLN 49 per month.

New Services and Tariff Plans

- In August 2014, the 'Minutes For Everyone's Budget' offer was introduced for subscribers of the *For Everyone's Budget Plan*. The offer was permanently added to the Telecommunication Service Price List. In this offer, customers can activate a pool of 30 minutes for domestic calls for PLN 2 per month.

Connection Offers

With respect to the network connection service, in 2014 Orange Polska's customers were offered the continuation of the 'Connection for a Fair Price' promotion on unchanged terms.

The promotion offers a discount on a one-off fee for connecting the first terminal via analog (POTS) lines. The offer includes two loyalty agreement options:

- POTS connection fee of PLN 10.09 (incl. VAT) in case of a 12-month agreement; or
- POTS connection fee of PLN 1.01 (incl. VAT) in case of a 24-month agreement.

DATA SERVICES

Business Customers

Business Package: Service Bundle for SME

The 'Business Package' service, a bundle of broadband plus VoIP, was still very popular. The service portfolio was expanded, when Four 'Basic' packages with speeds up to 80 Mbps, addressed primarily to smaller companies, were added on December 1. The new packages were offered at attractive prices in the 'Mini-Office' promotion.

In 2014, customers were also offered 'Small Office' and 'Company Office' promotions, dedicated to medium to large companies.

VPN

At the end of 2014, the Business VPN portfolio was expanded to include higher IP bandwidth options: 4/1, 10/1, 20/4 and 40/10 Mbps in the wake of implementation of the new VDSL access technology. In addition, a new functionality, multicast, was implemented; it provides for fast simultaneous transfer of large data streams from one sender to an unlimited number of recipients. Simultaneous transfer enables more effective use of bandwidth and can be useful for companies sending large data streams (voice and video) between their branches; these may include radio or TV signal broadcasting, video conferences or e-learning platforms.

New WLAN solutions provided by Fortinet and Aruba were introduced in the LAN management service.

Broadband Internet Access

In February 2014, a new high-end option, 'Dynamic DSL', was added to the service portfolio. It features permanent network access at maximum download speed of between 10 Mbps and 80 Mbps, permanent public IP address subnetwork, e-security package and hosting package. At the end of the year, customers were offered a new value-added service from the ICT security range, 'Secure Network with UTM'. The service provides for higher web security level to protect companies from both external attacks and its own employees using the Internet irresponsibly. In this solution, Orange Polska provides a number of security-related functionalities, available with a single UTM device.

A number of promotional campaigns were carried out in 2014, including 'Dynamic DSL for Business', 'Turbo DSL', 'Turbo DSL for Neo' and 'Double Speed'. In the latter, customers were offered double speed if they purchased two services in one location with a load balancer (the fee for the second line was reduced by 50%).

In addition, Orange Polska launched a number of marketing campaigns, in which customers were offered additional benefits, such as 'Business Everywhere' starter kit ('Dynamic DSL with Mobile Broadband'), geolocation service ('DSL + GeoLoc'), tablet ('Dynamic DSL with Mobile Broadband', 'Tablet for TURBO DSL Internet Access'), portable disc or car GPS navigation system ('DSL with a Gadget').

ICT Services

At the beginning of October 2014, the 'IT for Business' service was redefined in order to better adjust the service portfolio to the market needs. New packages for computers and printers as well as six computer models to choose from in the package were added. In addition, new 'Office 365' packages and new IT support options were introduced. The 'IT Workstation for Business' option with mobile broadband access was removed from the portfolio.

Residential Customers

Broadband Internet Access

A deregulated offer introduced in October was reinforced in November with an additional promotional offer exclusively for the *Neostrada* option of 10 Mbps. The latter was initially addressed to new customers only, but in December it was expanded to include reactive retention as well. For the optimum Internet speed in a 24-month agreement customers pay PLN 49 per month; this includes the line maintenance fee, as the promotion has been addressed to customers who do not use a traditional fixed line phone.

The gadget offer was continued. Each new customer signing up for the *Neostrada* option of up to 80 Mbps or the *Neostrada* + TV bundle could choose from several attractive gadgets (the list of gadgets was regularly updated depending on the customer needs and market developments), such as tablet, smartband, external disc, wireless headphones or navigation system.

In addition to standard promotions involving 12-month or 24-month agreements, Orange Polska has continued its 'Internet Here and There' promotional offer, featuring *Neostrada* or FunPack plus a tablet for PLN 1, in 24-month agreements only. For a single subscription fee, customers are offered fixed broadband service (*Neostrada* or FunPack), a FunTab 8" tablet for PLN 1, mobile broadband (5 GB per month) and a Huawei 5220 router also for PLN 1. As the offer comprises two services, fixed line broadband and mobile broadband, customers sign two separate agreements and get two sets of promotion terms.

Furthermore, *Neostrada* customers can use 5 GB of free disk space in a cloud for saving any types of files, data or backup copies, while Livebox customers can use 'Free Orange WiFi', i.e. free access to their home Internet without limits out-of-home (users providing public bands on their modems can use a network of free Internet access spots consisting of Livebox modems of other *Neostrada* users).

Multimedia Services

The TV plus *Neostrada* bundle offer was upgraded in the first months of 2014 to include 61 channels, including 7 HD channels. In addition, Orange Polska distributed the following *nc+* platform packages:

- Comfort+ (85 channels, including 27 HD channels) and Comfort+ Extra+ (130 channels, including 40 HD channels), as well as premium content packages: Comfort+ Premium Sport and Comfort+ Premium Film (133 channels, including 43 HD channels), Comfort+ Premium Sport & Film (136 channels, including 46 HD channels), Comfort+ Superfilm (136 channels, including 46 HD channels) and Comfort+ Superpremium (141 channels, including 51 HD channels).

In addition, bundles of *nc+* television plus Orange Free Net mobile broadband or *Smart Plan* voice services were further developed. The following bundles were available:

- Orange Free Net 20 GB plus Comfort+, Orange Free Net 30 GB plus Comfort+ Premium Sport, Orange Free Net 30 GB plus Comfort+ Premium Film, and *Smart Plan Multi* 49.98 plus Comfort+ Premium Sport.

VoIP Services

In 2014, Orange Polska offered *Plan for Everyone* in its VoIP service portfolio. For a monthly fee of PLN 29.90 (incl. VAT), customers get a pool of 600 minutes for F2F domestic calls, exchangeable for 300 minutes for F2M or international calls. The plan is offered in the *Neophone* service, which is available to customers regardless of their Internet access provider.

MOBILE SERVICES

Introduction of Instalment Sales

In 2014 Orange Polska introduced instalment sales of smartphones and tablets as a complementary tool to traditional subsidised offers. The scheme is available only for specific post-paid tariff plans. This aims at accelerating the purchases of advanced smartphones and encouraging SIM-only customers to switch to handset offers.

Residential Customers

In 2014, the most important development with respect to the mobile portfolio was the introduction of new *Smart Plans* in April.

Orange Polska's new voice offer to residential customers consists of four tariff plans:

- ***Smart Plan Multi II Max*** for heavy phone users in Poland and abroad, who need to have a modern smartphone model. Orange Polska, as the only operator in the market, offers a new handset during the term of the agreement, just 12 months after it was signed. In addition, the *Smart Plan Multi II Max* offers 400 minutes for roaming calls in EU countries monthly, up to 10 GB for using the Internet in Poland as well as unlimited calls, SMSs or MMSs to all networks. The *TV Package* and *Orange Navigation* are also included in the subscription fee;
- ***Smart Plan Multi II*** offers larger data pools (up to 5 GB), unlimited calls, SMSs and MMSs to Orange as well as *Orange Navigation*. Depending on the tariff, there is also a pool of 400 minutes for roaming calls in the EU as well as unlimited calls, SMSs and MMSs to all networks.
- ***Smart Plan Halo II*** differentiators are large pools of minutes, SMSs or MMSs to all networks, unlimited calls on the Orange network and, in a selected option, also unlimited SMSs to all networks. A new feature in selected options is interchangeability of minutes between domestic calls and roaming calls in EU countries (on a two per one basis).
- ***Smart Plan Mix II***, in addition to a pool of minutes for calls, offers unlimited texting to all.

Major developments related to Orange Polska's pre-paid offer in 2014 were as follows:

In 2014, in the pre-paid segment, the division between YES, SMART and FREE tariff plans ensured balance between a broad range of solutions addressing various needs of customers and the offer simplicity and transparency.

YES tariff plans are addressed to customers seeking mainly cost-effective voice and SMS solutions; SMART plans enable customers to optimally use the opportunities offered by smartphones without risking high charges for data transmission; while FREE plans are dedicated specifically to modems, tablets, laptops or similar devices. This simple division is also reflected in the starter kit arrangement.

All pre-paid tariff plans are also available in the 'Zetafon' [a handset for a penny] formula, in which customers are offered handsets at attractive prices (starting from PLN 1), while they retain all the benefits and specific features characteristic of the pre-paid offer.

In addition the main initiatives included:

- In January, Orange Polska became the first, and so far only, company in Poland to offer a solution enabling customers buying a starter kit to choose their phone number.
- In February, the 'Secure Account' service was launched. In this service, customers can receive alarm messages to any post-paid or pre-paid number in case a balance of an account corresponding to a chosen pre-paid number falls to zero, and then request auto top-up. It is a unique solution in the market, which is attractive e.g. for parents.
- In May, the opportunity to choose a number, which was offered in January to starter kit buyers, was made available to all customers for an extra fee.
- Orange Polska introduced the only auto-credit solution in the market, which, upon customer's prior consent, automatically grants credit in an account when the account balance is zero. It still remains the only such solution in Poland.
- In August, the first, and so far only, starter kit in the market which is integrated with the Payback partnership programme was introduced.
- In September, the first, and so far only, starter kit in the market which filters the Internet to eliminate content harmful to minors, such as pornography, was introduced.

- 2014 was another year in which Orange Polska introduced seasonal offers of cheap high-volume data pools to enable customers to test the potential of their smartphones. These included a pool of 6 GB at PLN 6, which was available during summer holidays, and a pool of 3 GB at PLN 3, which was offered before Christmas (like in 2013).
- In December, another Christmas promotion was launched, offering benefits for transferring a bonus to one's relatives or friends. It is a unique mechanism in the Polish market, which is much appreciated by Orange customers, as evidenced by massive take-up of the two previous editions of the identical promotional offer.

Business Customers

Voice Services

In January 2014, new voice tariff plans, *Orange Biz* and *Orange Biz Mix*, as well as promotional offers with additional service multi-packs based on these plans were added to the business voice portfolio. Owing to such a design, the offer can be better tailored to individual business needs. The offer was further developed in subsequent months. In April, the 'Smartphones in Orange Biz on instalments' promotion (*Orange Biz* at a promotional price plus terminal purchase on interest-free instalments) was launched.

In May, the promotional offers were expanded to include the 'Hello, Playing' service offered on a try & buy basis; that is customers activating or renewing the agreement automatically receive the 'Hello, Playing' service free of charge for one month.

The 'Orange Discount Zone For Biz 125' service, offering a discount on outgoing and incoming roaming calls in the following countries: US, Russia, Belarus, China and Ukraine, and the 'Call and Answer in the EU' service, an extra pool of minutes for roaming calls within EU, were introduced in the summer holiday period.

Moreover, since July 2014, customers signing up for *Orange Biz* without multi-packs have been receiving a 1GB data pool free of charge for the first two months. In August, customers subscribing to *Orange Biz 60* plus multi-pack #1 or other *Orange Biz* plans plus multi-pack #2 were offered discounts on subscription fees.

The *Orange Biz* portfolio was further modified in October 2014 with the introduction of the 'Six Months for PLN 1 in *Orange Biz* and *Orange Biz* on instalments' promotional offer to customers porting numbers to Orange in the *Orange Biz 60* plan with handset purchase. A retention offer fee was also added.

Apart from changes in the *Orange Biz* portfolio, the rates for calls / SMS / MMS / data to Russia were reduced in the 'Cheaper Roaming in Russia' promotion in September, and the 'Business Roaming Zone' and 'Chosen Country' services were modified in October 2014.

Since November 2014, customers using e-invoices have received an additional discount for timely payments.

Data Services

In April 2014, a promotional offer of mobile broadband, 'Business Everywhere Package without Terminal', was introduced to business customers. In the promotion, they are offered a discount on subscription fee and free activation of the *Business Everywhere Package Mini* tariff plan, provided that they sign up for *Neostrada* in the 'Fast *Neostrada* with a Tablet for PLN 1' promotion.

As part of holiday solutions, the new 'Safe Internet in the EU' service was introduced in July. In this solution, a fee for data transmission within the European Union during a 30-day period will not exceed PLN 40 (net of VAT), with the data transfer capped at 100 MB. Customers were also offered additional roaming data pools of 0.5 GB and 1 GB for using within the EU.

For large companies, an option to buy an SMS pool of pre-defined volume was added to Orange Polska's portfolio in September. The same scheme is available for buying data pools. The offer is addressed to the biggest business customers.

In October, our customers were offered dedicated IT support for their hardware and operating systems in the 'Business Everywhere Package' and 'Business Everywhere Package with Support on Instalments' promotions. In addition, in the same month, the 'Business Everywhere Package without Terminal' and 'Business Everywhere Package with Terminal' promotional offers were modified by increasing the data transfer limit and, consequently, the monthly fee.

The biggest change in the mobile broadband portfolio came with the launch of the 'Unlimited LTE' promotion in October. After the end of the promotional period, 'Business Everywhere Package without Terminal' and 'Business Everywhere Package with Terminal' customers subscribing to the 'Standard' plan can use fast LTE access (at up to 10 Mbps), while those subscribing to the 'Platinum' plan will still have unlimited LTE access.

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)

ARPU – Average Revenues per User

AUPU – Average Usage per User

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

Data user – a customer who used mobile data transmission in a given month

DLD – Domestic Long Distance Calls

DSLAM – Digital Subscriber Line Access Multiplexer

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

F2M – Fixed to Mobile Calls

FBB – Fixed Broadband

Fibre access network project – rollout of fixed broadband access network based on fibre technology which provides the end user with speed of above 100Mbps

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

LC – Local Calls

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

MAN – Metropolitan Area Network

MPLS – MultiProtocol Label Switching

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

POS – Point-Of-Sale

POTS – Plain Old Telephone Service

RAN agreement – agreement on reciprocal use of radio access networks

RGU – Revenue Generation Unit

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 30Mbps

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental