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POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS for the year 2013

(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 2013**, i.e. from **1 January 2013 to 31 December 2013**

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

date of issuance: **12 February 2014**

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. (formerly: Deloitte Audyt Sp. z o.o.)
(auditor)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	year / 2013	year / 2012	year / 2013	year / 2012
I. Revenue	12 923 000	14 141 000	3 068 867	3 388 202
II. Operating income	788 000	1 574 000	187 129	377 132
III. Profit before income tax	310 000	1 018 000	73 617	243 914
IV. Consolidated net income	294 000	855 000	69 817	204 859
V. Net income attributable to owners of Orange Polska S.A.	294 000	855 000	69 817	204 859
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.22	0.65	0.05	0.16
VII. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 316	1 312	1 316
VIII. Total comprehensive income	329 000	794 000	78 129	190 243
IX. Total comprehensive income attributable to owners of Orange Polska S.A.	329 000	794 000	78 129	190 243
X. Net cash provided by operating activities	3 292 000	1 879 000	781 762	450 211
XI. Net cash used in investing activities	(2 166 000)	(2 742 000)	(514 367)	(656 987)
XII. Net cash used in financing activities	(1 324 000)	(1 620 000)	(314 415)	(388 154)
XIII. Total net change in cash and cash equivalents	(208 000)	(2 465 000)	(49 394)	(590 617)
	Balance as at 31/12/2013	**Balance as at 31/12/2012**	**Balance as at 31/12/2013**	**Balance as at 31/12/2012**
XIV. Total current assets	1 852 000	2 210 000	446 566	540 580
XV. Total non-current assets	20 725 000	21 953 000	4 997 348	5 369 845
XVI. Assets held for sale	225 000	-	54 253	-
XVII. Total assets	22 802 000	24 163 000	5 498 167	5 910 425
XVIII. Total current liabilities	7 333 000	6 502 000	1 768 181	1 590 431
XIX. Total non-current liabilities	2 800 000	4 703 000	675 154	1 150 384
XX. Total equity	12 631 000	12 958 000	3 045 669	3 169 610
XXI. Equity attributable to owners of Orange Polska S.A.	12 629 000	12 956 000	3 045 187	3 169 121
XXII. Share capital	3 937 000	4 007 000	949 315	980 138
XXIII. Liabilities related to assets held for sale	38 000	-	9 163	-

The statement of financial position data as at 31 December 2013 and 2012 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 raporting period. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the years ended 31 December 2013 and 2012, 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 2013 and 2012.

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 2013	31 December 2012
Statement of financial position	4.1472 PLN	4.0882 PLN
Income statement, statement of omprehensive income, statement of cash flows	4.2110 PLN	4.1736 PLN

“Disciplined execution of our strategy allowed us to gain considerable commercial momentum as the year progressed. With our financial performance in line with objectives, we have delivered on our commitments to shareholders.”

Dear Shareholders,

2013: a year of commercial progress

Throughout 2013 we continued to face a demanding market, characterised by severe cuts to the mobile termination rate (effectively reducing it by 65%), and by fierce price competition, especially in the mobile segment.

We have risen to the challenge with our marketing strategy. We leveraged our key differentiator – convergent fixed and mobile solutions – to appeal to the mainstream market, and launched a second mobile brand, nju.mobile, to capture a new, price-conscious customer base. This approach bore fruit: by the end of 2013, our convergent Orange Open product had gained 286 thousand users, versus 33 thousand the year before. Its upsell potential was underscored, as 58% customers purchased additional products when entering into Orange Open. And nju.mobile won 353 thousand customers in its first eight months, mostly at the expense of our competition. In effect, we have gained considerable commercial momentum in our main lines of business. We grew the overall mobile customer base at a faster rate: 430 thousand net adds in 2013 compared to 237 thousand in 2012. Even more importantly, we reversed the trend in post-paid, with 310 thousand net adds compared to a decline of 66 thousand the year before. Our ICT activity also developed according to plan, with its sales up 74% since 2012. We were able to limit the decline of our fixed voice customer base, which fell by 345 thousand in 2013 versus 590 thousand the year before.

Financial performance in line with the objectives, Organic Cash Flow guidance met

I am pleased to report that 2013 ended with our financial performance in line with our objectives. In particular this reflects our efforts to optimise our expenses. Ongoing cost saving measures like voluntary employee departures and mobile network co-operation were boosted by new initiatives, including a new social agreement for 2014-2015, which provides for a further 2,950 voluntary employee departures going forward. Despite investing roughly PLN 108 million more in customer acquisition and retention, we have decreased our total operating costs by 4.8%[1] since 2012. This allowed us to defend the EBITDA margin at 31.6% in 2013. Simultaneously, we have continued to optimise capex, which was down by 18%[2] and amounted to 14.8% of revenue, versus 16.5% a year ago. All of the above allowed us to generate PLN 1,105 million of Organic Cash Flow, meeting our objective of ‘at least PLN 1 billion[3]’ for the full year. In turn, this enabled us to reduce our net debt by PLN 514 million and preserve a sound financial structure, with net debt at 1.1 times EBITDA and net gearing at 26%. Our balance sheet will be further supported by PLN 375 million of cash proceeds from the sale of our Internet portal, Wirtualna Polska, which we expect to complete in the first quarter of 2014.

One company, under the Orange brand

On December 31, we merged our main fixed line and mobile entities, TP S.A. and PTK Centertel, into one company: Orange Polska S.A.. This is an important development, which will enable us to better meet the needs of our customers by: leveraging on convergence between fixed and mobile services to reinforce our position in core markets; further unifying our sales and customer care in line with the product strategy; and developing the infrastructure we need to offer solutions to customers and to support the expected high growth of data traffic. We are happy that this complex integration progressed smoothly, and that by consolidating our main strengths, we are now better equipped for the challenges ahead.

Ready for the fast mobile broadband revolution - 4G LTE

Since 2011, we have been co-operating with T-Mobile on reciprocal use of each other’s mobile access networks. We are striving to build a 10,000 site commonly used networks that increase our coverage, quality and throughput, supporting delivery of new services, including fast mobile broadband, to a greater number of customers. The project is right on track, with almost 8,200 sites in common use by the end of 2013. As a result, Orange customers in areas where the project has been completed now have access to 60% more sites. We have also made significant gains in coverage, extending 3G coverage to around 90% of the population - up 28 percentage points since the start of the project.

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[1] total costs up to EBITDA, excluding PLN -147mn restructuring expenses and PLN -33mnadjustment linked to TPSA/PTK merger (VAT and inventories)

[2] Excluding spectrum acquisition in 2013

[3] Original guidance was revised up in 3Q 2013

In 2013, we extended the scope of the co-operation to include the 4G (LTE) technology, gaining access to T-Mobile's frequencies in the 1,800MHz band. This has allowed us to launch 4G LTE services already. We will continue to invest in this technology, including the potential acquisition of spectrum in the 800MHz frequency, to be sold by the Polish regulator through an auction in 2014. 4G LTE is the next growth lever for data in mobile and we intend to benefit from this in the future.

Focus for 2014: customer experience, growth of market share and increased efficiency

Going forward, we will strive to boost our commercial activity by enhancing the customer experience. Improvements to our service delivery processes and distribution network (now fully unified as Orange Polska) will facilitate this.

We will compete very proactively, not only with our existing product portfolio, including Orange Open and nju.mobile, but also with new services. These will include: very fast mobile broadband, based on 4G LTE technology; further development of our machine-to-machine business; and new ICT services, an area which grew rapidly in 2013. We intend to recover in fixed broadband through further sale of very fast broadband through VDSL technology and, more selectively, fibre to the home. As result of these actions, coupled with the diminishing impact of 2013's MTR cuts, we expect to slow down revenue decline significantly in the second half of 2014, preparing strong foundations for its stabilisation in the future.

Simultaneously, cost savings remain a key priority, as we must increase efficiency in order to recover our sustainable profitability. We have demonstrated our commitment by optimising our operating costs[4] by 4.8% in 2013, and in 2014 we will bring costs further down. Measures will include: process automation; workforce optimisation, with 1,530[5] voluntary leaves expected in 2014; further consolidation of our call centres; and a rigorous approach to G&A costs. Optimisation of our operating costs will be coupled with further efficiency in our capital expenses, as we benefit from the fixed network modernisation we undertook in 2010-2012 and from the co-operation with T-Mobile. Excluding the capex needed for spectrum, we expect to reduce our underlying capital expenses by at least 6% in 2014.

Following 2013, we are better equipped for market competition and our balance sheet is solid. Next year will certainly bring many obstacles, but I am confident that we will rise to these challenges and we will stabilise our underlying performance, building a solid base for future recovery. I want to take this opportunity to personally thank the entire staff of Orange Polska for the hard work they have put in over the past year. We are encouraged by the growing culture of commitment and co-operation in Orange Polska and our performance in 2013 is in no small part thanks to their efforts.

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

[4] total costs up to EBITDA, excluding PLN -147mn restructuring expenses and PLN -33mn adjustment linked to TPSA/PTK merger (VAT and inventories)

[5] the voluntary leaves program for 2014-2015 amounts to 2,950, including 1,530 in 2013

Deloitte.

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AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Orange Polska S.A. (formerly: Telekomunikacja 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 Jerozolimskie 160 Avenue, as the Parent Company ("the Company"), which comprise consolidated statement of financial position prepared as of 31 December 2013, 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 2013 to 31 December 2013 and notes comprising a summary of significant accounting policies and other explanatory information.

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 2013 as well as its profit in the financial year from 1 January 2013 to 31 December 2013

– 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 2013 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 2009, No. 33, item 259, as amended) 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, 11 February 2014

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 2013 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Company

Since 31 December 2013 the Parent Company of the Group operates under the business name Orange Polska S.A., formerly operated under the business name Telekomunikacja Polska S.A. The Company's registered office is located in Warsaw at Jerozolimskie 160 Avenue.

The Company operates as a joint stock company established by the notary deed of 4 December 1991 in front of Katarzyna Szachułowicz-Barańska, Notary Public in Warsaw (Repertory A No. 6480/91). The Company was entered in the Commercial Register kept by the District Court in Warsaw, XVI Business-Registry Division in Warsaw, section B, under the number RHB 29979, based on the decision of 13th December 1991. Currently, the 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 has the tax identification number NIP: 526-02-50-995 assigned by Second Tax Office Warszawa - Śródmieście on 4 June 1993.

The REGON number assigned by the Statistical Office is: 012100784.

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-line telecommunications services including voice telephony, Integrated Services Digital Network, access to the Internet, TV and Voice over Internet Protocol,
- telecommunications equipment sale, data transmission, multimedia and various Internet services,
- development of telecommunications infrastructure,
- research and development activities in the field of telecommunications.

As of 31 December 2013, 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 2013 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**

On 11 April 2013 General Meeting of Orange Polska S.A. adopted resolution in order to redeem 23,291,542 own shares purchased by the Company in 2012 and 2011 for a total consideration of PLN 400 million and in order to reduce share capital from PLN 4,007 million to PLN 3,937 million (the change has been registered in National Court Register (KRS) on 18 June 2013.

The Group has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

After the end of the reporting period there were no changes in the Company's share capital.

As of 31 December 2013, the Group's total equity amounted to PLN 12,631 million.

The Group's financial year is the calendar year.

As at the opinion's date, the composition of the Company's Management Board was as follows:
- Bruno Duthoit – President of the Management Board,
- Vincent Lobry – Vice President in charge of Value Management and Convergency,
- Piotr Muszyński – Vice President in charge of Operations,
- Mariusz Gaca – Board Member in charge of Business Market,
- Jacques de Galzain – Board Member in charge of Finance,
- Jacek Kowalski – Board Member in charge of Human Resources.

As of 31 December 2013, the Group included:

- Parent Company – Orange Polska S.A., and
- subsidiaries:
  - Orange Real Estate Sp. z o.o. (formerly: OPCO Sp. z o.o.),
  - TP Edukacja i Wypoczynek Sp. z o.o.,
  - TP Invest Sp. z o.o.,
  - Telefon 2000 Sp. z o.o. (the Company is in liquidation),
  - TP TelTech Sp. z o.o.,
  - Telefony Podlaskie S.A,.
  - Contact Center Sp. z o.o.,
  - Orange Customer Service Sp. z o.o.,
  - Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.,
  - Fundacja Orange,
  - TPSA Eurofinance France S.A.,
  - Wirtualna Polska S.A.,
  - Ramsat S.A.,
  - Integrated Solutions Sp. z o.o.
  - Telekomunikacja Polska Sp. z o.o.
- joint operation:
  - NetWorkS! Sp. z o.o.

The consolidated financial statements as of 31 December 2013 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 2013. As a result of our audit, on 11 February 2014 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. (formerly: OPCO Sp. z o.o.)	100%	Deloitte Polska Unqualified	31.01.2014
TP Edukacja i Wypoczynek Sp. z o.o	100%	Deloitte Polska Unqualified	31.01.2014
TP Invest Sp. z o.o.	100%	Deloitte Polska Unqualified	31.01.2014
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	31.01.2014
Telefony Podlaskie S.A.	89%	Deloitte Polska Unqualified	17.01.2014
Contact Center Sp. z o.o.	100%	Deloitte Polska Unqualified	31.01.2014
Orange Customer Service Sp. z o.o.	100%	Deloitte Polska Unqualified	31.01.2014
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	100%	Deloitte Polska Unqualified	31.01.2014
Fundacja Orange	100%	Deloitte Polska Unqualified	13.01.2014
TPSA Eurofinance France S.A.	100%	Deloitte & Associés (France) Unqualified	11.02.2014
Wirtualna Polska S.A.	100%	Deloitte Polska Unqualified	21.01.2014
Ramsat S.A.	100%	Deloitte Polska Unqualified	31.01.2014
Integrated Solutions Sp. z o.o.	100%	Deloitte Polska Unqualified	31.01.2014
Telekomunikacja Polska Sp. z o.o.	100%	Not required to be audited	Not applicable
Otwarty Rynek Elektroniczny S.A. (the Company was disposed of in 2013)	Not applicable	Not applicable	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%	Ernst&Young Sp. z o.o. Unqualified	31.01.2014

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

The activities of the Group in 2012 resulted in the net profit of PLN 855 million. The consolidated financial statements of the Group for the 2012 financial year were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. On 11 February 2013, the certified auditor issued an unqualified opinion.

The General Meeting of TP S.A. which approved the consolidated financial statements for the 2012 financial year was held on 11 April 2013.

In accordance with applicable laws, the consolidated financial statements for the 2012 financial year were submitted to the National Court Register (KRS) on 18 April 2013.

3. Details on the authorized entity and the Key Certified Auditor acting on its behalf

The audit of the consolidated financial statements was performed based on the agreement of 24 September 2013 concluded between Orange Polska S.A. and Deloitte Audyt Sp. z o.o. 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 24 September 2013 to 11 February 2014.

The entity authorized to audit the financial statements was appointed by the resolution of the Supervisory Board of 11 July 2013 based on authorization included in Article 23 p. 2.8 of the Parent Company's Articles of Association.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the Key Certified Auditor Piotr Sokołowski 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 Orange Polska Group.

4. 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 e.g. in the written representation of the Management Board of the Parent Company of 11 February 2014.

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)	2013	2012	2011
Revenue	12,923	14,141	14,922
Operating expenses, net	(12,135)	(12,567)	(12,705)
Result from financial activity	(478)	(556)	(432)
Income tax	(16)	(163)	133
Net profit	294	855	1,918

	2013	2012	2011
Profitability ratios			
– gross profit margin Operating income *100% / Revenue	6%	11%	15%
– net profit margin Net profit *100% / Revenue	2%	6%	13%
– net return on equity Net profit *100% / Total equity	2%	7%	13%
Effectiveness ratios			
– assets turnover ratio Revenue / Total assets	0.57	0.59	0.53
– trade receivables turnover in days (Trade receivables, net year end + Trade receivables, net opening balance)/2*365 / Revenue	37	38	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)	102	128	135

Liquidity/Net working capital	2013	2012	2011
– debt ratio (Total current and non-current liabilities) *100% / Total assets	44%	46%	49%
– equity to assets ratio Equity *100% / Total assets	55%	54%	51%
– net working capital Current assets - Current Liabilities	(5,481)	(4,292)	(2,992)
– current ratio Current assets / Current liabilities	0.25	0.34	0.63
– quick ratio (Current assets - Inventories, net) / Current liabilities	0.23	0.31	0.61

The analysis of the above figures and ratios indicated the following trends occurring in the year 2013 in comparison to the year 2012 and 2011:

– decrease of profitability ratios,
– decrease of asset turnover ratio comparing to 2012,
– slight decrease of trade receivables turnover,
– decrease of trade liabilities turnover,
– decrease of net working capital,
– decrease 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 2013 and include:

- consolidated statement of financial position prepared as of 31 December 2013, with total assets, total equity and liabilities of PLN 22,802 million,
- consolidated income statement for the period from 1 January 2013 to 31 December 2013, with a net income of PLN 294 million,
- consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013 with a total comprehensive income of PLN 362 million,
- consolidated statement of changes in equity for the period from 1 January 2013 to 31 December 2013, showing a decrease in equity of PLN 327 million,
- consolidated statement of cash flows for the period from 1 January 2013 to 31 December 2013, showing a net cash outflow of PLN 198 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 2013 to 31 December 2013 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.

The audit of the consolidated financial statements was conducted in line with the relevant applicable laws, national auditing standards issued by the National Council of Statutory Auditors in Poland as well as International Standards on Auditing.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:
1) financial statements of the entities included in the consolidated financial statements,
2) financial statements of the controlled entities,
3) financial statements of subsidiaries translated into the Polish currency,
4) all consolidation adjustments and eliminations necessary for consolidated financial statements preparation,
5) calculation of goodwill as well as its impairment tests,
6) calculation of non-controlling interest,
7) calculation of exchange differences arising on translation of the subsidiaries' financial statements denominated in foreign currencies.

Basis of the preparation of the consolidated financial statements
The consolidated financial statements of the Group for the 2013 financial year were prepared in accordance with the International Financial Reporting Standards in the form adopted by the European Union.

Determination of entities within the Group

When determining relationship between group entities, as well as consolidation scope and methods, the International Financial Reporting Standards criteria were applied.

Reporting period

The consolidated financial statements were prepared as of the same statement of financial position date and the same financial year as the financial statements of the Parent Company– Orange Polska S.A. Subsidiaries included in consolidation prepared their financial statements as of the same reporting date as the Parent Company. The financial year of all subsidiaries included in consolidation ended 31 December 2013.

Consolidation method

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.

After summing up the values, consolidation adjustments and exclusions were applied to:

- the value of purchase of shares held by the Parent Company in subsidiaries and the part of net assets of subsidiaries corresponding to the share of the Parent Company in the ownership of these companies,
- intercompany receivables and liabilities of entities included in consolidation,
- revenues and expenses related to operations between entities 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 applied to the consolidated financial statements the going concern principle. 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.

Individual assets, equity and liabilities as well as revenues and expenses were correctly presented by the Parent Company in the consolidated financial statements.
The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows with additional notes, information and explanations constituting their

integral part contain all the material items required to be disclosed in the financial statements by the provisions of IFRS.

The Management Board prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2013 financial year. The report contains all information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance 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. We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. CLOSING COMMENTS

Management Board's Representation

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, 11 February 2014

ORANGE POLSKA GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

February 11, 2014

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Financial instruments excluding trade receivables and payables

Income tax

Equity

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CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings per share)		*12 months ended*	
	Note	***31 December 2013*** *(audited)*	***31 December 2012*** *(see Note 2, audited)*
Revenue	**5**	**12,923**	**14,141**
External purchases	6.1	(6,440)	(6,903)
Labour expense	6.2	(1,946)	(2,065)
Other operating expense	6.3	(807)	(838)
Other operating income	6.3	320	479
Gains on disposal of assets	7	40	35
Employment termination expense	14	(186)	8
Depreciation and amortisation	10,11	(3,107)	(3,267)
Impairment of non-current assets	8.3	(9)	(16)
Operating income		**788**	**1,574**
Interest income	17	12	28
Interest expense and other financial charges	17	(388)	(517)
Foreign exchange gains/(losses)	17	(2)	28
Discounting expense	17	(100)	(95)
Finance costs, net		**(478)**	**(556)**
Income tax	26	(16)	(163)
Consolidated net income		**294**	**855**
Net income attributable to owners of Orange Polska S.A.		294	855
Net income attributable to non-controlling interests		-	-
Earnings per share (in PLN) (basic and diluted)	**32.6**	**0.22**	**0.65**
Weighted average number of shares (in millions) (basic and diluted)	32.6	1,312	1,316

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)		*12 months ended*	
	Note	***31 December 2013*** *(audited)*	***31 December 2012*** *(audited)*
Consolidated net income		**294**	**855**
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on post-employment benefits	16	38	(50)
Income tax relating to items not reclassified		(7)	9
Items that may be reclassified subsequently to profit or loss			
Losses on cash flow hedges	22	(1)	(25)
Translation adjustment		5	-
Income tax relating to items that may be reclassified		-	5
Other comprehensive income/(loss), net of tax		**35**	**(61)**
Total comprehensive income		**329**	**794**
Total comprehensive income attributable to owners of Orange Polska S.A.		329	794
Total comprehensive income attributable to non-controlling interests		-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)	***Note***	***At 31 December 2013*** *(audited)*	***At 31 December 2012*** *(see Note 2, audited)*
ASSETS			
Goodwill	9	3,940	4,016
Other intangible assets	10	3,081	2,967
Property, plant and equipment	11	12,768	13,951
Derivatives	22	4	127
Other financial assets	20	9	14
Deferred tax assets	26	923	878
Total non-current assets		**20,725**	**21,953**
Inventories		200	194
Trade receivables	12	1,199	1,413
Derivatives	22	89	-
Other financial assets	20	15	17
Other assets		63	113
Prepaid expenses	12	88	67
Cash and cash equivalents	21	198	406
Total current assets		**1,852**	**2,210**
Assets held for sale	13	225	-
TOTAL ASSETS		**22,802**	**24,163**
EQUITY AND LIABILITIES			
Share capital	27.1	3,937	4,007
Share premium		832	832
Treasury shares	27.2	-	(400)
Other reserves	16,22,27.4	(7)	(37)
Translation adjustment		-	(5)
Retained earnings		7,867	8,559
Equity attributable to owners of Orange Polska S.A.		**12,629**	**12,956**
Non-controlling interests		2	2
Total equity		**12,631**	**12,958**
Trade payables	15.1	921	751
Loans from related party	19.3	1,157	-
Other financial liabilities at amortised cost	19.1,19.2	79	2,990
Derivatives	22	9	283
Employee benefits	16	296	375
Provisions	14	313	263
Other liabilities	15.2	-	15
Deferred income	15.3	25	26
Total non-current liabilities		**2,800**	**4,703**
Trade payables	15.1	1,921	2,228
Loans from related party	19.3	237	-
Other financial liabilities at amortised cost	19.1,19.2	3,106	2,195
Derivatives	22	276	112
Employee benefits	16	187	213
Provisions	14	899	953
Income tax liabilities		95	123
Other liabilities	15.2	185	162
Deferred income	15.3	427	516
Total current liabilities		**7,333**	**6,502**
Liabilities related to assets held for sale	13	38	-
TOTAL EQUITY AND LIABILITIES		**22,802**	**24,163**

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
				Gains/ (losses) on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments					
Balance at 1 January 2012 *(audited)*	**4,007**	**832**	**(200)**	**10**	**(77)**	**12**	**79**	**(5)**	**9,673**	**14,331**	**3**	**14,334**
Total comprehensive income for the 12 months ended 31 December 2012	-	-	-	(25)	(50)	14	-	-	855	794	-	794
Purchase of treasury shares	-	-	(200)	-	-	-	-	-	-	(200)	-	(200)
Dividends	-	-	-	-	-	-	-	-	(1,969)	(1,969)	(1)	(1,970)
Balance at 31 December 2012 *(audited)*	**4,007**	**832**	**(400)**	**(15)**	**(127)**	**26**	**79**	**(5)**	**8,559**	**12,956**	**2**	**12,958**
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)	-	-	-
Dividends	-	-	-	-	-	-	-	-	(656)	(656)	-	(656)
Balance at 31 December 2013 *(audited)*	**3,937**	**832**	**-**	**(16)**	**(89)**	**19**	**79**	**-**	**7,867**	**12,629**	**2**	**12,631**

[1] See Note 27.3.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)		*12 months ended*	
	Note	***31 December 2013*** *(audited)*	***31 December 2012*** *(see Note 2, audited)*
OPERATING ACTIVITIES			
Consolidated net income		294	855
Adjustments to reconcile net income to cash from operating activities			
Gains on disposal of assets	7	(40)	(35)
Depreciation and amortisation	10,11	3,107	3,267
Impairment of non-current assets	8	9	16
Finance costs, net		478	556
Income tax	26	16	163
Change in provisions and allowances		(55)	(2,280)
Operational foreign exchange and derivatives losses, net		-	12
Change in working capital (trade)			
(Increase)/decrease in inventories, gross		(3)	38
Decrease in trade receivables, gross		141	109
Decrease in trade payables		(40)	(567)
Change in working capital (non-trade)			
Decrease in prepaid expenses and other receivables		29	169
Decrease in deferred income and other payables		(73)	(119)
Interest received		12	28
Interest paid and interest rate effect paid on derivatives, net		(458)	(469)
Exchange rate effect received/(paid) on derivatives, net		(20)	184
Income tax paid		(105)	(48)
Net cash provided by operating activities		**3,292**	**1,879**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	10,11	(2,180)	(2,344)
Decrease in amounts due to fixed assets suppliers		(74)	(464)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		-	14
Proceeds from sale of property, plant and equipment and intangible assets		67	59
Decrease in receivables related to leased fixed assets		9	7
Proceeds from sale of subsidiaries, net of cash and transaction costs	4	9	3
Cash paid for subsidiaries, net of cash acquired	4	(8)	-
Decrease in other financial assets	20	8	4
Exchange rate effect received/(paid) on other derivatives, net		3	(21)
Net cash used in investing activities		**(2,166)**	**(2,742)**
FINANCING ACTIVITIES			
Issuance of long-term debt	19	1,172	-
Repayment of long-term debt	19	(934)	(644)
Increase/(decrease) in short-term debt	19	(904)	1,199
Exchange rate effect paid on hedging instruments, net	19	(2)	(5)
Purchase of treasury shares	27.2	-	(200)
Dividends paid	27.3	(656)	(1,970)
Net cash used in financing activities		**(1,324)**	**(1,620)**
Net change in cash and cash equivalents		**(198)**	**(2,483)**
Effect of changes in exchange rates and other impacts on cash and cash equivalents		(3)	18
Transfer to assets held for sale	13	(7)	-
Cash and cash equivalents at the beginning of the period		406	2,871
Cash and cash equivalents at the end of the period		**198**	**406**

1. Corporate information

1.1. The Orange Polska Group

Orange Polska S.A. ("Orange Polska" or "the Company" or "OPL S.A."), previously Telekomunikacja Polska S.A. ("TP 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 telecommunications services based on the CDMA 450, GSM 900/1800, UMTS 900/2100 and LTE 1800 technologies, fixed-line telephony services (local, domestic and international calls), Integrated Services Digital Network ("ISDN"), fixed access to the Internet, TV and Voice over Internet Protocol ("VoIP"). In addition, the Group provides leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, multimedia services and various Internet services. 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").

Orange Polska's registered office is located in Warsaw at 160 Aleje Jerozolimskie St. (previously at 18 Twarda St.).

The Group's operations are subject to the supervision of UKE, the national regulatory authority for the telecommunications market. 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 2013	*31 December 2012*
PTK-Centertel Sp. z o.o. (1)	Warsaw, Poland	Mobile telecommunications services, construction and operation of mobile telecommunications network.	-	100%
Ramsat S.A.	Modlnica, Poland	Distributor of OPL S.A. products on mass and business market.	100%	100%
Orange Customer Service Sp. z o.o.	Warsaw, Poland	Post-sale services for OPL S.A. customers.	100%	100%
Wirtualna Polska S.A. (2)	Gdańsk, Poland	Internet portal and related services including internet advertising.	100%	100%
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100%	100%
Orange Real Estate Sp. z o.o. (3)	Warsaw, Poland	Facilities management and maintenance.	100%	100%
Otwarty Rynek Elektroniczny S.A. (4)	Warsaw, Poland	Provision of complex procurement solutions, including advisory, implementation and operation of e-commerce platform and IT systems, hosting.	-	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.	Warsaw, Poland	Call-centre services and telemarketing.	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. (5)	Warsaw, Poland	No operational activity, in liquidation.	100%	100%
- TPSA Eurofinance France S.A.	Paris, France	Financial and investment operations.	99.99%	99.99%
- TPSA Finance B.V. (6)	Amsterdam, The Netherlands	Financial and investment operations.	-	100%
- TPSA Eurofinance B.V. (6)	Amsterdam, The Netherlands	Financial and investment operations.	-	100%
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	Warsaw, Poland	Management of employee pension fund.	100%	100%
Fundacja Orange	Warsaw, Poland	Charity foundation.	100%	100%
Orange Polska Sp. z o.o. (1)	Warsaw, Poland	No operational activity.	-	100%
Telekomunikacja Polska Sp. z o.o.	Warsaw, Poland	No operational activity.	100%	-

(1) The company merged with Orange Polska S.A. (see Note 1.1).
(2) Classified as held for sale (see Note 13).
(3) Previously OPCO Sp. z o.o.
(4) The company was disposed of in 2013 (see Note 4).
(5) The company is in liquidation.
(6) Companies deleted from the Dutch commercial register in 2013.

Additionally, the Group has a joint operation, NetWorkS! Sp. z o.o., in which the Group and T-Mobile Polska S.A. hold a 50% interest each. NetWorkS! Sp. z o.o., located in Warsaw, conducts networks management, development and maintenance following the agreement on reciprocal use of mobile access networks between the Group and T-Mobile Polska S.A. This agreement was signed in 2011 for 15 years with an option to extend it and is classified as a joint operation for accounting purpose.

In the 12 months ended 31 December 2013 and 2012, 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,
Vincent Lobry – Vice President in charge of Value Management and Convergence,
Piotr Muszyński – Vice President in charge of Operations,
Mariusz Gaca – Board Member in charge of Business Market,
Jacques de Galzain – Board Member in charge of Finance,
Jacek Kowalski – Board Member in charge of Human Resources.

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,
Benoit Scheen – Deputy Chairman of the Supervisory Board,
Marc Ricau – Secretary of the Supervisory Board,
Timothy Boatman – Independent Member 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,
Dr. Mirosław Gronicki – Independent Member of the Supervisory Board,
Sławomir Lachowski – Independent Member of the Supervisory Board,
Marie-Christine Lambert – Member of the Supervisory Board,
Pierre Louette – Member of the Supervisory Board,
Gervais Pellissier – Member of the Supervisory Board,
Gerard Ries – Member of the Supervisory Board,
Dr. Wiesław Rozłucki – Independent Member of the Supervisory Board.

The following changes occurred in the Management Board of the Company in the year ended 31 December 2013 and in the year 2014 until the date of the authorisation of these Consolidated Financial Statements:

On 10 September 2013, Mr Maciej Witucki submitted his resignation from the Management Board of OPL S.A. with effect on 19 September 2013.

On 19 September 2013, OPL S.A.'s Supervisory Board appointed Mr Bruno Duthoit as the President of the Management Board of OPL S.A.

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.

The following changes occurred in the Supervisory Board of the Company in the year ended 31 December 2013 and in the year 2014 until the date of the authorisation of these Consolidated Financial Statements:

On 11 April 2013, OPL S.A. Supervisory Board Members' mandates of Mr Thierry Bonhomme and Mr Jacques Champeaux expired and were not renewed. On the same day the General Meeting of OPL S.A. appointed Mr Gervais Pellissier and Mr Eric Debroeck as Members of the Supervisory Board of OPL S.A.

On 19 September 2013, the Extraordinary General Meeting of OPL S.A. appointed Mr Maciej Witucki and Mr Jean-Marie Culpin as Members of OPL S.A.'s Supervisory Board. On the same day, prof. Andrzej K. Koźmiński submitted his resignation as the Chairman of the Supervisory Board of OPL S.A. and Mr Maciej Witucki was elected as the new Chairman.

2. Statement of compliance and basis for 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 2012 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 11 February 2014.

The principles applied to prepare financial data relating to the year ended 31 December 2013 are described in Note 32 and are based on:

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2013,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2013 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).

Changes in presentation of financial statements – adoption of IFRS 11

Adoption of IFRS 11 "Joint Arrangements" resulted in a change in accounting treatment of the 50% interest in NetWorkS! Sp. z o.o. which previously was accounted for using the equity method in accordance with IAS 31 "Interests in Joint Ventures". The joint arrangement which is structured through NetWorkS! Sp. z o.o. was classified as a joint operation under IFRS 11 and, in relation to its interest in NetWorkS! Sp. z o.o., the Group recognised its assets, liabilities, revenue, expenses and its share in joint items.

Changes in presentation of the statement of cash flows

The Group changed the presentation of an allowance for certain trade receivables and inventories. As a result, comparative amounts presented as a change in provisions and allowances in the consolidated statement of cash flows were adjusted with the counterpart in lines presenting increase/decrease of trade receivables (see Note 12) and inventories, gross.

Changes in the accounting policies and presentation affected the consolidated financial statements as follows:

(in PLN millions)	***Data previously reported*** *(audited)*	***Impact of changes in the accounting policies***	***Data currently reported*** *(audited)*
		12 months ended 31 December 2012	
Consolidated income statement			
Revenue	14,147	(6)	14,141
External purchases	(6,953)	50	(6,903)
Labour expense	(2,033)	(32)	(2,065)
Depreciation and amortisation	(3,261)	(6)	(3,267)
Share of profit of investment accounted for using the equity method	5	(5)	-
Operating income	**1,573**	**1**	**1,574**
Interest income	27	1	28
Finance cost, net	**(557)**	**1**	**(556)**
Income tax	(161)	(2)	(163)
Consolidated net income	**855**	**-**	**855**
Total comprehensive income	**794**	**-**	**794**

(in PLN millions)	***Data previously reported*** *(audited)*	***Impact of changes in the accounting policies***	***Data currently reported*** *(audited)*
		At 31 December 2012	
Consolidated statement of financial position			
ASSETS			
Other intangible assets	2,958	9	2,967
Property, plant and equipment	13,935	16	13,951
Investment accounted for using the equity method	21	(21)	-
Deferred tax assets	874	4	878
Total non-current assets	**21,945**	**8**	**21,953**
Trade receivables	1,408	5	1,413
Other financial assets	20	(3)	17
Other assets	114	(1)	113
Cash and cash equivalents	390	16	406
Total current assets	**2,193**	**17**	**2,210**
Total assets	**24,138**	**25**	**24,163**
EQUITY AND LIABILITIES			
Total equity	**12,958**	**-**	**12,958**
Employee benefits	374	1	375
Total non-current liabilities	**4,702**	**1**	**4,703**
Trade payables	2,218	10	2,228
Other financial liabilities at amortised cost	2,192	3	2,195
Employee benefits	205	8	213
Income tax liabilities	120	3	123
Total current liabilities	**6,478**	**24**	**6,502**
Total equity and liabilities	**24,138**	**25**	**24,163**

(in PLN millions)	***Data previously reported*** *(audited)*	***Impact of changes in the accounting policies and presentation***	***Data currently reported*** *(audited)*
	12 months ended 31 December 2012		
Consolidated statement of cash flows			
Consolidated net income	855	-	855
Depreciation and amortisation	3,261	6	3,267
Finance costs, net	557	(1)	556
Income tax	161	2	163
Change in provisions and allowances	(2,270)	(10)	(2,280)
Share of profit of investments accounted for using the equity method	(5)	5	-
Decrease in inventories, gross	20	18	38
Decrease in trade receivables, gross	119	(10)	109
Decrease in trade payables	(573)	6	(567)
Decrease in prepaid expenses and other receivables	172	(3)	169
Decrease in deferred income and other payables	(121)	2	(119)
Interest received	27	1	28
Exchange rate effect received on derivatives, net	183	1	184
Income tax paid	(46)	(2)	(48)
Net cash provided by operating activities	**1,864**	**15**	**1,879**
Purchases of property, plant and equipment and intangible assets	(2,333)	(11)	(2,344)
Decrease in amounts due to fixed assets suppliers	(459)	(5)	(464)
Decrease in other financial assets	1	3	4
Net cash used in investing activities	**(2,729)**	**(13)**	**(2,742)**
Increase in short-term debt	1,196	3	1,199
Net cash used in financing activities	**(1,623)**	**3**	**(1,620)**
Net change in cash and cash equivalents	**(2,488)**	**5**	**(2,483)**
Cash and cash equivalents at the beginning of the period	2,860	11	2,871
Cash and cash equivalents at the end of the period	**390**	**16**	**406**

3. Segment information

Until the end of 2012, the Group reported two operating segments: fixed line and mobile segment, which included entities offering predominantly telecom services based on fixed line technology and mobile technology, respectively. Increasing convergence of fixed and mobile offers, dependence of mobile network on fixed core network and a unified organisation has significantly changed the decision making process on resources allocation basing it on consolidated operating results. Convergence became the major focus of the Group as publically announced in the medium term action plan on February 2013 which included the formal merger (see Note 1.1) of Telekomunikacja Polska S.A. (the main part of the fixed line segment before 2013) and Polska Telefonia Komórkowa-Centertel Sp. z o.o (the main part of the mobile segment before 2013). Therefore, starting from 2013, the Group reports a single operating segment.

Segment performance is evaluated mainly based on consolidated revenue, consolidated EBITDA, consolidated net income, consolidated capital expenditures, consolidated organic cash flows, consolidated net financial debt / EBITDA ratio and consolidated net gearing ratio.

Basic financial data of the operating segment is presented below:

(in PLN millions)	*12 months ended*	
	31 December 2013	***31 December 2012***
Revenue	12,923	14,141
EBITDA [(1)] restated [(2)]	4,084	4,857
Net income	294	855
Organic cash flows [(3)] restated [(4)]	1,105	1,593
Capital expenditures restated [(5)]	1,916	2,346

	At 31 December 2013	***At 31 December 2012***
Net gearing ratio [(6)]	26.3%	28.0%
Net financial debt / EBITDA restated ratio	1.1	1.0

[(1)] Operating income before depreciation and amortisation expense and impairment of non-current assets.
[(2)] Restatement in 2013 relates mainly to the impact of the 2014 – 2015 Social Agreement consisting of employment termination expense and related decrease in labour expense resulting from a curtailment of long-term employee benefits (see Notes 14 and 16).
[(3)] Net cash provided by operating activities decreased by payments to fixed assets suppliers (after net exchange rate effect received on derivatives economically hedging capital expenditures) and increased by proceeds from sale of fixed assets.
[(4)] Restatement in 2012 relates to the effect of the settlement agreement with DPTG resulting in a payment of EUR 550 million (PLN 2,449 million).
[(5)] Restatement in 2013 relates to expenditures on telecommunications licences.
[(6)] Net financial debt / (net financial debt + equity). Net financial debt corresponds to the total gross financial debt, after net derivative instruments 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 (see Notes 18 and 25).

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

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 and PLN 2 million will be paid after one year. As a result of the transaction the Group recognised goodwill in the amount of PLN 9 million, as well as PLN 1 million of the acquiree's non-current assets, PLN 6 million of the acquiree's current assets and PLN 3 million of the acquiree's current liabilities which represent carrying amounts of each of those classes determined immediately before the combination. 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.

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

On 23 October 2013, the Group concluded a share sale agreement with o2 Sp. z o.o. for the 100% shareholding in Wirtualna Polska S.A. (see Note 13).

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

On 27 January 2012, the Group concluded a share sale agreement with Comp S.A. under which the 100% shareholding in PayTel S.A. was disposed of for a total consideration amounting to PLN 6 million.

5. Revenue

The Group introduced a new revenue analysis in 2013:

(in PLN millions)	*12 months ended 31 December 2013*	*12 months ended 31 December 2012*
Mobile services	**6,110**	**6,847**
Voice traffic revenue	3,545	3,947
Data, messaging, content and M2M (machine-to-machine)	1,794	1,677
Wholesale revenue (including interconnect)	771	1,223
Mobile equipment sales	**149**	**141**
Fixed services	**6,057**	**6,593**
Fixed narrowband	2,297	2,747
Fixed broadband, TV and VoIP (Voice over Internet Protocol)	1,687	1,586
Enterprise solutions and networks	1,020	1,093
Wholesale revenue (including interconnect)	1,053	1,167
Other revenue	**607**	**560**
Total revenue	**12,923**	**14,141**

Revenue is generated mainly in the territory of Poland. Approximately 2.9% and 3.3% of the total revenue for the 12 months ended 31 December 2013 and 2012, respectively, 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 2013*	*12 months ended 31 December 2012*
Commercial expenses	(2,576)	(2,550)
− *cost of handsets and other equipment sold*	*(1,521)*	*(1,417)*
− *commissions, advertising, sponsoring costs and other*	*(1,055)*	*(1,133)*
Interconnect expenses	(1,251)	(1,771)
Network and IT expenses	(846)	(835)
Other external purchases	(1,767)	(1,747)
Total external purchases	**(6,440)**	**(6,903)**

Other external purchases include mainly customer support and management services, postage costs, costs of content and ICT projects (Information and Communications Technology), rental costs and real estate operating and maintenance costs.

6.2. Labour expense

(in PLN millions)	*12 months ended 31 December 2013*	*12 months ended 31 December 2012*
Average number of employees (full time equivalent)	21,214	23,096 (2)
Wages and salaries	(1,735)	(1,786)
Social security and other charges	(398)	(409)
Long-term employee benefits (1)	34	(45)
Capitalised personnel costs	211	212
Other employee benefits	(58)	(37)
Total labour expense	**(1,946)**	**(2,065)**

(1) See Note 16.
(2) Includes the impact of adoption of IFRS 11 (see Note 2).

6.3. Other operating expense and income

(in PLN millions)	*12 months ended 31 December 2013*	*12 months ended 31 December 2012*
Trade and other receivables impaired or sold, net	(221)	(209)
Taxes other than income tax	(323)	(308)
Orange brand fee [1]	(164)	(140)
Operating foreign exchange losses, net	-	(12)
Other expense and changes in provisions, net	(99)	(169)
Total other operating expense	**(807)**	**(838)**
Recoveries on customer bad debts	97	143
Late payment interest on trade receivables	24	28
Other income	199	308
Total other operating income	**320**	**479**

[1] See Note 30.2.

6.4. Research and development

In the 12 months ended 31 December 2013 and 2012, research and development costs expensed in the consolidated income statement amounted to PLN 61 million and PLN 60 million, respectively.

7. Gains on disposal of assets

In the 12 months ended 31 December 2013 and 2012, gains on disposal of assets amounted to PLN 40 million and PLN 35 million, respectively, and included mainly gains on disposal of properties.

8. Impairment

8.1. Information concerning Cash Generating Units

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. Until the end of 2012, assets comprising the fixed network and the mobile network were treated as separate Cash Generating Units ("CGU"). The medium term action plan covering years 2013 – 2015 was announced on 12 February 2013 by the Management Board. According to this plan, assets of fixed and mobile networks are treated as one group of assets as they will generate largely dependent cash inflows. As a result, starting from 2013 the Group identifies the telecom operator CGU comprising fixed and mobile networks.

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 2013 and 2012 the Group performed impairment tests of all Cash Generating Units (including goodwill and intangible assets with an indefinite useful life). No impairment loss was recognised in 2013 or 2012 as a result of these tests.

The following key assumptions were used to determine the value in use of CGUs:

- 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 net 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 decline is expected to slow down in 2014, operating expenses and capital expenditures, excluding impact of claims and litigation and expenditures on telecommunications licences, respectively, are anticipated to be lower than in 2013.

Discount rates used to determine values 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 the respective Cash Generating Units' activities. Growth rates to perpetuity reflect Management's assessment of cash flows evolution after the last year covered by the cash flow projections.

Main CGU at 31 December 2013	*Telecom operator* [1]
Basis of recoverable amount	Value in use
Sources used	Business plan
	5 years cash flow projections
Growth rate to perpetuity	1%
Post-tax discount rate	8.8%
Pre-tax discount rate [2]	10.2%

Main CGUs at 31 December 2012	*Fixed network* [1]	*Mobile network* [1]	*Internet portal* [3]
Basis of recoverable amount	Value in use	Value in use	Value in use
Sources used	Business plan	Business plan	Business plan
	4 years cash flow projections	4 years cash flow projections	4 years cash flow projections
Growth rate to perpetuity	1%	1%	3%
Post-tax discount rate	9.6%	9.9%	11.5%
Pre-tax discount rate [2]	10.8%	11.8%	13.4%

[1] Assets comprising the fixed network and the mobile network are treated as a telecom operator CGU starting from 2013.
[2] 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.
[3] Relates to Wirtualna Polska S.A.'s assets currently classified as held for sale (see Note 13).

Sensitivity of recoverable amounts

At 31 December 2013, any of the following changes in key assumptions:

- a 32% fall in projected cash flows after fifth year or
- a 3.3 p.p. decrease of growth rate to perpetuity or
- a 2.4 p.p. increase of post-tax discount rate

would bring the value in use of telecom operator CGU to the level of its carrying value.

As the cash flows projected into perpetuity represent a significant portion of the value in use, the Group considers them to be a key assumption. Due to the link between cash flows from operations and investment capacity, the Group retains a net cash flows sensitivity. Discount rate used to determine value in use as at 31 December 2013 includes 1 p.p. to reflect market and business risk.

8.2. Goodwill

In the 12 months ended 31 December 2013 and 2012, there was no goodwill written off. Details regarding impairment tests of goodwill are presented in Note 8.1.

8.3. Other property, plant and equipment and intangible assets

In the 12 months ended 31 December 2013 and 2012, the impairment loss on property, plant and equipment and intangible assets charged to the income statement amounted to PLN 9 million and PLN 16 million respectively, primarily including a net impairment loss as a result of a review of certain of the Group's properties.

9. Goodwill

(in PLN millions)	*At 31 December 2013*			*At 31 December 2012*			
CGU	*Cost*	*Accumulated impairment*	*Net*	*CGU*	*Cost*	*Accumulated impairment*	*Net*
Telecom operator	3,940	-	3,940	Mobile network [1]	3,931	-	3,931
				Internet portal [2]	247	(162)	85
Total goodwill	**3,940**	**-**	**3,940**		**4,178**	**(162)**	**4,016**

[1] Assets comprising the mobile network are treated as a part of telecom operator CGU starting from 2013 (see Note 8.1).
[2] Relates to Wirtualna Polska S.A.'s assets and liabilities currently classified as held for sale (see Note 13).

Increase of PLN 9 million of goodwill in the telecom operator CGU in 2013 results from the acquisition of Datacom System S.A. (see Note 4).

10. Other intangible assets

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

(in PLN millions)	*At 31 December 2012*				*At 1 January 2012*
	Cost	*Accumulated amortisation*	*Accumulated impairment*	*Net*	*Net*
Telecommunications licences	2,345	(1,349)	-	996	1,133
Software	5,936	(4,079)	-	1,857	1,719
Other intangibles	243	(115)	(14)	114	109
Total other intangible assets	**8,524**	**(5,543)**	**(14)**	**2,967**	**2,961**

Details of telecommunications licences are as follows:

(in PLN millions)			*Net book value*	
	Acquisition date	*Licence term*	*At 31 December 2013*	*At 31 December 2012*
GSM 1800 licence	1997	2027	-	-
GSM/UMTS 900 licence	1999	2014 [1]	14	40
UMTS 2100 licence	2000	2023	860	956
UMTS 900 licence [2]	2013	2018	35	-
LTE 1800 licence [2]	2013	2028	223	-
Total telecommunications licences			**1,132**	**996**

[1] Orange Polska has applied for extension of the licence term for another period of 15 years.
[2] Licences held under agreement with T-Mobile Polska S.A.

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

(in PLN millions)	*12 months ended 31 December 2013*	*12 months ended 31 December 2012*
Opening balance net of accumulated amortisation and impairment	**2,967**	**2,961**
Acquisitions of intangible assets	790	761
Disposals and liquidations	(3)	(9)
Amortisation	(729)	(673)
Impairment	-	(1)
Transfer to assets held for sale (see Note 13)	(6)	-
Reclassifications and other, net	62	(72)
Closing balance	**3,081**	**2,967**

11. Property, plant and equipment

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

(in PLN millions)	*At 31 December 2012*				*At 1 January 2012*
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*	*Net*
Land and buildings	3,390	(1,469)	(114)	1,807	1,941
Network	37,880	(26,996)	-	10,884	11,790
Terminals	2,073	(1,521)	-	552	590
Other IT equipment	2,117	(1,514)	-	603	498
Other	423	(311)	(7)	105	107
Total property, plant and equipment	**45,883**	**(31,811)**	**(121)**	**13,951**	**14,926**

During the 12 months ended 31 December 2013 and 2012 the Group recognised respectively PLN 45 million and PLN 8 million of non-repayable investment grants received from the government and the European Union. These grants relate 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 2013*	*12 months ended 31 December 2012*
Opening balance net of accumulated depreciation and impairment	**13,951**	**14,926**
Acquisitions of property, plant and equipment	1,390	1,585
Disposals and liquidations	(56)	(41)
Depreciation	(2,378)	(2,594)
Impairment	(9)	(15)
Transfer to assets held for sale (see Note 13)	(43)	-
Dismantling costs, reclassifications and other, net	(87)	90
Closing balance	**12,768**	**13,951**

The carrying value of equipment held under finance leases as at 31 December 2013 and 2012 amounted to PLN 5 million and PLN 9 million, respectively. There were no additions during the 12 months ended 31 December 2013 of equipment held under finance leases. During the 12 months ended 31 December 2012, acquisitions of equipment financed through finance leases amounted to PLN 2 million. Leased assets cannot be sold, donated, transferred by title or pledged and are a collateral for the related finance lease liability.

12. Trade receivables and prepaid expenses

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
Trade receivables, net	**1,199**	**1,413**
Non-activated mobile terminals in the external dealership network	51	53
Other prepaid expenses	37	14
Total prepaid expenses	**88**	**67**

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.

Movement in the impairment of trade receivables in the 12 months ended 31 December 2013 and 2012 is presented below. The Group changed the presentation of the difference between the nominal and fair value of certain trade receivables on initial recognition, therefore comparative amounts were amended (see Note 2).

(in PLN millions)	*12 months ended 31 December 2013*	*12 months ended 31 December 2012*
Beginning of period	**136**	**163**
Impairment losses, net	135	87
Impaired receivables sold or written-off	(107)	(114)
End of period	**164**	**136**

The analysis of the age of net trade receivables that are collectively analysed for impairment is as follows:

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
Neither impaired nor past due	537	605
Past due less than 180 days	275	355
Past due between 180 and 360 days	21	29
Past due more than 360 days	7	12
Total trade receivables collectively analysed for impairment	**840**	**1,001**
Trade receivables individually analysed for impairment (1)	359	412
Total trade receivables, net	**1,199**	**1,413**

(1) Mainly includes receivables from related parties (see Note 30.2) and telecommunications companies.

13. Assets held for sale

On 23 October 2013, the Group concluded a share sale agreement with o2 Sp. z o.o. for the 100% shareholding in Wirtualna Polska S.A. ("WP") for a total price amounting to PLN 375 million (subject to minor adjustments at closing of the transaction). The agreement was subject to the condition of obtaining an approval of the Office of Competition and Consumer Protection, which was not within the Group's control. The approval was obtained in January 2014. The agreement provides for standard representations and warranties as well as an indemnity relating to the outcome of certain litigation in which WP is involved.

Pursuant to the agreement, 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 are 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.

14. Provisions

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

Movements of provisions for the 12 months ended 31 December 2012 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 2012	**3,000**	**170**	**264**	**3,434**
Increases	61	2	23	86
Reversals (utilisations)	(2,174)	(80)	(20)	(2,274)
Reversals (releases)	(35)	(10)	-	(45)
Foreign exchange effect	(18)	-	-	(18)
Discounting effect	14	5	14	33
At 31 December 2012	**848**	**87**	**281**	**1,216**
Current	848	87	18	953
Non-current	-	-	263	263

The discount rate used to calculate the present value of provisions amounted to 2.75% - 4.70% as at 31 December 2013 and 2.75% - 5.08% as at 31 December 2012.

Utilisations of provisions for claims and litigation, risks and other charges in the 12 months ended 31 December 2012 relate mainly to the settlement agreement with DPTG resulting in a payment of EUR 550 million (PLN 2,449 million). Consequently, PLN 2,167 million of provision was utilised and remaining amount decreased trade payables.

Provisions for employment termination expense
Provisions for employment termination expense as at 31 December 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. Other movements of these provisions during the 12 months ended 31 December 2013 and 2012 relate 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 may take advantage of the voluntary departure package in years 2014 - 2015. Additionally, the parties concluded a separate agreement with Trade Unions specifying that in 2014 a maximum of 1,150 employees of OPL S.A. and 380 employees of OCS may take advantage of the above mentioned package. 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.

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

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

15. Trade payables, other liabilities and deferred income

15.1. Trade payables

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
Trade payables	1,189	1,249
Fixed assets payables	590	920
Telecommunications licence payables	1,063	810
Total trade payables	**2,842**	**2,979**
Current	1,921	2,228
Non-current [(1)]	921	751

[(1)] Includes telecommunications licence payables only.

15.2. Other liabilities

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
VAT payables	102	116
Other taxes payables	20	22
Other	63	39
Total other liabilities	**185**	**177**
Current	185	162
Non-current	-	15

15.3. Deferred income

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
Subscription (including unused minutes in subscription system)	204	235
Unused minutes in the pre-paid system	183	183
Connection fees	46	96
Other	19	28
Total deferred income	**452**	**542**
Current	427	516
Non-current	25	26

16. Employee benefits

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
Jubilee awards	122	152
Retirement bonuses and other post-employment benefits	197	248
Salaries, other employee-related payables and payroll taxes due	164	188
Total employee benefits	**483**	**588**
Current	187	213
Non-current	296	375

Certain employees and retirees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 32.23). These benefits are not funded. The Group does not operate any defined benefit pension plan.

Changes in the present and carrying value of obligations related to long-term employee benefits for the 12 months ended 31 December 2013 and 2012 are detailed below:

(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**

(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 losses on post-employment benefits in the consolidated statement of comprehensive income.

(in PLN millions)	*12 months ended 31 December 2012*			
	Jubilee awards	*Retirement bonuses*	*Other post-employment benefits*	*Total*
Present/carrying value of obligation at the beginning of the period	**125**	**107**	**80**	**312**
Current service cost [1]	8	7	1	16
Interest cost [2]	7	7	4	18
Benefits paid	(17)	(2)	(6)	(25)
Actuarial losses for the period	29 [1]	31 [3]	19 [3]	79
Present/carrying value of obligation at the end of the period	**152**	**150**	**98**	**400**

(1) Recognised under labour expense in the consolidated income statement.
(2) Recognised under discounting expense in the consolidated income statement.
(3) Recognised under actuarial losses on post-employment benefits in the consolidated statement of comprehensive income.

The valuation of obligations as at 31 December 2013 and 2012 was performed using the following assumptions:

	At 31 December 2013	*At 31 December 2012*
Discount rate	4.5%	4.0%
Wage increase rate	2.5% – 3.0%	2.5% – 3.5%

Weighted average duration of obligations related to long-term employee benefits was 11 years as at 31 December 2013.

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 2013 by PLN 18 million or PLN 16 million, respectively.

17. Finance income and expense

(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)**	-	-	(23)
Derivatives	-	(160)	36	4	**(120)**	-	-	16
– *hedging derivatives*	-	*(48)*	*25*	*-*	***(23)***	-	-	*2*
– *derivatives held for trading*	-	*(112)*	*11*	*4*	***(97)***	-	-	*14*
Non-financial items [(4)]	-	-	-	(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 interests on trade receivables.
[(3)] Includes impairment losses on trade receivables.
[(4)] Includes mainly provisions and employee benefits.

(in PLN millions)	*12 months ended 31 December 2012*							
	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	28	-	20	-	**48**	28 [(2)]	(87) [(3)]	(11)
– *including cash and cash equivalents*	*25*	*-*	*20*	*-*	***45***	-	-	-
Liabilities at amortised cost	-	(301) [(1)]	299	(18)	**(20)**	-	-	38
Derivatives	-	(216)	(291)	(19)	**(526)**	-	-	(57)
– *hedging derivatives*	-	*(86)*	*(130)*	-	***(216)***	-	-	*(8)*
– *derivatives held for trading*	-	*(130)*	*(161)*	*(19)*	***(310)***	-	-	*(49)*
Non-financial items [(4)]	-	-	-	(58)	**(58)**	-	-	18
Total	**28**	**(517)**	**28**	**(95)**	**(556)**	**28**	**(87)**	**(12)**

[(1)] Includes mainly interest expense on bonds and bank borrowings and change in fair value of liabilities hedged by fair value hedges.
[(2)] Includes late payment interests on trade receivables.
[(3)] Includes impairment losses on trade receivables.
[(4)] Includes mainly provisions and employee benefits.

During the 12 months ended 31 December 2013 and 2012 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 2013*	*At 31 December 2012*
Bonds	19.1	3,016	2,997
Bank borrowings	19.2	107	2,179
Loans from related party	19.3	1,394	-
Finance lease liabilities		23	9
Derivatives – net [1]	22	192	268
Gross financial debt after derivatives		**4,732**	**5,453**
Cash and cash equivalents	21	(198)	(406)
Other financial assets at fair value through profit or loss	20	(6)	(6)
Effective portion of cash flow hedges		(16)	(15)
Net financial debt		**4,512**	**5,026**

[1] Liabilities less assets.

19. Financial liabilities at amortised cost excluding trade payables

19.1. 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 2013*	*31 December 2012*
TPSA Eurofinance France S.A.	A1	500 EUR	6.000%	22 May 2009	22 May 2014	2,147	2,115
TPSA Eurofinance France S.A.	A2	200 EUR	6.000%	17 July 2009	22 May 2014	869	879
Other short term bonds		3 PLN	Zero-coupon bonds	10 January 2012	10 January 2013	-	3
Total bonds issued by the Group						**3,016**	**2,997**
Current						3,016	108
Non-current						-	2,889

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

The weighted average effective interest rate on the Group's bonds, before swaps, amounted to 5.76% as at 31 December 2013 and 2012. 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 include 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 13). 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.

19.2. Bank borrowings

		Amount outstanding at [(1)]			
		31 December 2013		*31 December 2012*	
Creditor	*Repayment date*	*Currency (millions)*	*PLN (millions)*	*Currency (millions)*	*PLN (millions)*
Floating rate					
European Investment Bank	15 December 2015	17 EUR	70	25 EUR	102
European Investment Bank	15 September 2013	-	-	892 PLN	892
Bank Handlowy (syndicated) [(2)]	8 May 2013	-	-	1,139 PLN	1,139
Bank Handlowy (syndicated)	18 April 2013	-	-	2 PLN	2
Other credit lines	-	3 PLN	3	4 PLN	4
Fixed rate					
Instituto de Credito Oficial	2 January 2021	11 USD	34	13 USD	40
Total bank borrowings of the Group			**107**		**2,179**
Current			43		2,081
Non-current			64		98

(1) Includes accrued interest and bank borrowings issue costs.
(2) Revolving credit line.

The weighted average effective interest rate on the Group's bank borrowings, before swaps, amounted to 1.07% as at 31 December 2013 and 4.44% as at 31 December 2012.

19.3. Loans from related party

On 17 April 2013, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A. (previously France Telecom S.A.), concluded a Revolving Credit Facility Agreement for up to EUR 250 million (available in EUR and PLN) and a Credit Facility Agreement for up to EUR 400 million. The repayment date of both agreements is 31 March 2016. As at 31 December 2013, the outstanding balances under the Revolving Credit Facility Agreement and the Credit Facility Agreement amounted to PLN 237 million and EUR 280 million (PLN 1,157 million), respectively, including accrued interest. The PLN 237 million outstanding balance of Revolving Credit Facility Agreement is due to be repaid in 2014 and is presented as current liabilities.

The weighted average effective interest rate on the abovementioned credit facilities, before swaps, amounted to 1.63% in EUR and 4.91% in PLN as at 31 December 2013.

20. Other financial assets

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
Other financial assets at fair value through profit or loss [(1)]	6	6
Loans and receivables excluding trade receivables	18	25
Total other financial assets	**24**	**31**
Current	15	17
Non-current	9	14

(1) Included in net financial debt calculation (see Note 18).

The Group's maximum exposure to credit risk is represented by the carrying amounts of other financial assets.

21. Cash and cash equivalents

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
Cash on hand	1	1
Current bank accounts and overnight deposits	158	302
Bank deposits up to 3 months	2	103
Deposits with Orange S.A.	37	-
Total cash and cash equivalents	**198**	**406**

The Group's cash surplus is invested into short-term highly-liquid financial instruments - mainly bank deposits. The term of the investments depends on the immediate cash requirements of the Group. 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.

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.

As at 31 December 2013 and 2012, cash and cash equivalents included an equivalent of PLN 12 million 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 leading financial institutions with investment grade and Orange S.A. 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.

22. Derivatives

As at 31 December 2013 and 2012, the majority of the Group's derivatives portfolio constitutes financial instruments for which there is no active market (over-the-counter derivatives) i.e. the interest rate and currency swaps. 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. Fair value is calculated using the net present value of future cash flows related to these contracts, quoted market forward interest rates, quoted market forward foreign exchange rates or, if quoted forward foreign exchange rates are not available, forward rates calculated based on spot foreign exchange rates using the interest rate parity method. A fair value of swap transaction represents discounted future cash flows converted into PLN at the period-end exchange rate.

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 (see note 19.3). The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2013 was EUR 280 million and PLN 650 million with a total fair value amounting to PLN (4) million.

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

Type of instrument [1]	Hedged risk	Nominal amount (in millions of currency)	Maturity	Fair value [2] (in PLN millions) Financial Asset	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 of 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 of cash flow hedges				3	(5)
Derivative instruments – held for trading					
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 of derivatives held for trading				69	(277)
Total of 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.

Type of instrument [1]	Hedged risk	Nominal amount (in millions of currency)	Maturity	Fair value [2] (in PLN millions) Financial Asset	Financial Liability
		At 31 December 2012			
Derivative instruments - fair value hedge					
CCIRS	Currency and interest rate risk	110 EUR	2014	-	(7)
IRS	Interest rate risk	110 EUR	2014	29	-
Total of fair value hedges				29	(7)
Derivative instruments - cash flow hedge					
CCIRS	Currency and interest rate risk	283 EUR	2014	-	(48)
CCS	Currency risk	20 EUR	2014	4	-
NDF	Currency risk	75 EUR	2013	-	(10)
NDF	Currency risk	7 USD	2013	-	(1)
IRS	Interest rate risk	33 EUR	2014	9	-
IRS	Interest rate risk	1,250 PLN	2014	-	(83)
Total of cash flow hedges				13	(142)
Derivative instruments – held for trading					
CCIRS	Currency and interest rate risk	307 EUR	2014	4	(78)
NDF	Currency risk	275 EUR	2013	-	(76)
NDF	Currency risk	24 USD	2013	0	(4)
IRS	Interest rate risk	307 EUR	2014	81	-
IRS	Interest rate risk	2,359 PLN	2013-2014	-	(88)
Total of derivatives held for trading				85	(246)
Total of derivative instruments				**127**	**(395)**
Current				-	(112)
Non–current				127	(283)

[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.

The Group's maximum exposure to credit risk is represented by the carrying amounts of derivatives. The Group enters into derivatives contracts with leading financial institutions and Orange S.A. 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 2013*			*12 months ended 31 December 2012*		
	Before tax	*Tax*	*After tax*	*Before tax*	*Tax*	*After tax*
Effective part of gains/(losses) on hedging instrument	40	(8)	32	(159)	30	(129)
Reclassification to the income statement, adjusting:	(37)	7	(30)	129	(24)	105
- interest expense presented in finance costs, net	*33*	*(6)*	*27*	*37*	*(7)*	*30*
- foreign exchange differences presented in finance costs, net	*(68)*	*13*	*(55)*	*93*	*(17)*	*76*
- foreign exchange differences presented in other operating expense	*(2)*	*-*	*(2)*	*(1)*	*-*	*(1)*
Transfer to the initial carrying amount of the hedged item	(4)	1	(3)	5	(1)	4
Total losses on cash flow hedges	**(1)**	**-**	**(1)**	**(25)**	**5**	**(20)**

Losses on cash flow hedges cumulated in other reserves as at 31 December 2013 are expected to mature and affect the income statement in the year 2014.

23. Fair value of financial instruments

23.1. 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 2013*			
		Fair value measurement			
	Note	*Level 1*	*Level 2*	*Level 3*	*Total*
Derivatives	22	-	93	-	93
Other financial assets at fair value through profit or loss	20	6	-	-	6
Total financial assets measured at fair value		**6**	**93**	**-**	**99**
Derivatives	22	-	285	-	285
Total financial liabilities measured at fair value		**-**	**285**	**-**	**285**

(in PLN millions)		*At 31 December 2012*			
		Fair value measurement			
	Note	*Level 1*	*Level 2*	*Level 3*	*Total*
Derivatives	22	-	127	-	127
Other financial assets at fair value through profit or loss	20	6	-	-	6
Total financial assets measured at fair value		**6**	**127**	**-**	**133**
Derivatives	22	-	395	-	395
Total financial liabilities measured at fair value		**-**	**395**	**-**	**395**

During the 12 months ended 31 December 2013 and 2012, 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.

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

As at 31 December 2013 and 2012, the carrying amount of cash and cash equivalents, current trade receivables and current trade payables, current loans and receivables and current financial liabilities at amortised cost approximates their fair value due to relatively short term maturity of those instruments or cash nature.

As at 31 December 2013 and 2012, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximates 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 2013*		*At 31 December 2012*	
	Note	*Carrying amount*	*Estimated fair value Level 2*	*Carrying amount*	*Estimated fair value Level 2*
Bonds issued with fixed interest rate	19.1	3,016	3,086	2,997	3,192
Bank borrowings with fixed interest rate	19.2	34	34	40	39
Telecommunications licence payables	15.1	1,063	1,106	810	959
Total		**4,113**	**4,226**	**3,847**	**4,190**

The fair value of financial instruments is calculated by discounting expected future cash flows at the prevailing zero-coupon rates for a given currency. A theoretical zero-coupon curve is derived from the SWAP rate curve adjusted by the appropriate credit spread. Fair value amounts are translated to PLN at the National Bank of Poland period-end average exchange rate.

24. Objectives and policies of financial risk management

24.1. 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.

24.2. 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 32.19). 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 22.

24.3. Currency risk

The Group is exposed to foreign exchange risk arising from financial liabilities denominated in foreign currencies, namely bonds, bank borrowings, loans from related party denominated in EUR and USD (see Note 19) and trade receivables, trade payables and provisions of which a significant balance relates to the UMTS licence payable and provision for the proceedings by the European Commission (see Note 29.d).

The Group's hedging strategy, minimising the impact of fluctuations in exchange rates, is set 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 swaps, cross currency interest rate 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 nominal value of a currency exposure to the total nominal value of the exposure.

	Hedge ratio	
Currency exposure	*At 31 December 2013*	*At 31 December 2012*
Bonds, bank borrowings and loans from related party	99.8%	99.7%
UMTS licence payable	49.5%	52.3%
EC proceedings provision (see Note 29.d)	77.5%	75.8%

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 2013		*At 31 December 2012*		*At 31 December 2013*		*At 31 December 2012*	
					+10%	*-10%*	*+10%*	*-10%*
Hedged item	*Currency*	*PLN*	*Currency*	*PLN*	*PLN*		*PLN*	
Bank borrowings (USD)	3	9	3	9	1	(1)	1	(1)
UMTS licence payable (EUR)	129	535	129	527	54	(54)	53	(53)
EC proceedings provision (EUR) (see Note 29.d)	31	127	32	131	13	(13)	13	(13)
Total		**671**		**667**	**68**	**(68)**	**67**	**(67)**

The sensitivity analysis presented above is based on the following principles:

- unhedged portion of the notional 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.

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 2013 and 2012 displayed there was no significant impact on other comprehensive income resulting from a hypothetical 10% appreciation/depreciation of the PLN against other currencies.

24.4. 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 bonds, bank borrowings and loans from related party (see Note 19).

The Group's interest rate hedging strategy limiting exposure to unfavourable movements of interest rates is set 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 2013 and 2012, the Group's proportion between fixed/floating rate debt (after hedging activities) was 67/33% and 47/53%, respectively.

The Group uses the sensitivity analysis described below to measure interest rate risk.

The table below provides the Group's exposures to interest rate risk (net of hedging activities) assuming a hypothetical increase/decrease in the interest rates by 1 p.p.

(in PLN millions)	*Potential increase /(decrease) in absolute value resulting from 1 p.p. change of interest rates*			
	At 31 December 2013		*At 31 December 2012*	
	+1 p.p.	*-1 p.p.*	*+1 p.p.*	*-1 p.p.*
Finance costs, net	-	(1)	35	(34)
Fair value of gross financial debt after derivatives	(30)	32	(35)	34

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 hedges for accounting purpose b) the change in the fair value of derivatives that do not qualify for hedge accounting,
- as at 31 December 2013, the fair value of gross financial debt after derivatives (excluding finance lease and arrangement fees) was PLN 4,832 million (as at 31 December 2012, PLN 5,611 million).

24.5. 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 2013, the Group had the following unused credit facilities amounting to PLN 2,571 million (as at 31 December 2012, PLN 2,517 million):
- PLN 821 million of credit lines,
- PLN 1,750 million of the abovementioned back-up credit facility.

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 2013	*At 31 December 2012*
Liquidity ratio (incl. derivatives) - next 12 months	76%	117%
Unused credit facilities	2,571	2,517
Cash and cash equivalents	198	406
Debt repayments (1)	3,379	2,293
Derivatives (2)	249	196
Liquidity ratio (incl. derivatives) - next 18 months	75%	51%
Unused credit facilities	2,571	2,517
Cash and cash equivalents	198	406
Debt repayments (1)	3,407	5,345
Derivatives (2)	264	423

(1) Undiscounted contractual cash flows on bonds, bank borrowings and loans from related party.
(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 2013 and 2012 is presented below.

As at 31 December 2013 and 2012, amounts in foreign currency were translated at the NBP 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 2013 and 2012, 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)			*Undiscounted contractual cash flows* [1]							
			At 31 December 2013							
				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*
Bonds	19.1	3,016	3,077	-	-	-	-	-	-	3,077
Bank borrowings	19.2	107	44	40	5	5	5	11	66	110
Loans from related party	19.3	1,394	258	16	1,166	-	-	-	1,182	1,440
Finance lease liabilities		23	10	4	4	4	4	-	16	26
Derivative assets	22	(93)	(67)	17	5	-	-	-	22	(45)
Derivative liabilities	22	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.

(in PLN millions)			*Undiscounted contractual cash flows* [1]							
			At 31 December 2012							
				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*
Bonds	19.1	2,997	175	3,034	-	-	-	-	3,034	3,209
Bank borrowings	19.2	2,179	2,120	40	40	5	5	16	106	2,226
Finance lease liabilities		9	6	3	-	-	-	-	3	9
Derivative assets	22	(127)	(36)	(75)	-	-	-	-	(75)	(111)
Derivative liabilities	22	395	232	301	-	-	-	-	301	533
Gross financial debt after derivatives		**5,453**	**2,497**	**3,303**	**40**	**5**	**5**	**16**	**3,369**	**5,866**
Trade payables	15.1	2,979	2,230	114	114	114	114	585	1,041	3,271
Total financial liabilities (including derivative assets)		**8,432**	**4,727**	**3,417**	**154**	**119**	**119**	**601**	**4,410**	**9,137**

[1] Includes both nominal and interest payments.

The average duration for the existing debt portfolio as at 31 December 2013 is 0.9 years (as at 31 December 2012, 1.6 years).

24.6. Credit risk

The Group's credit risk management objective is defined as supporting business growth while minimising financial risks by ensuring that customers and partners are always in a position to pay amounts due to the Group.

The main function of the Credit Committee under the control of the Board Member in charge of Finance is to coordinate and consolidate credit risk management activities across the Group, which involve:

- clients' risk assessment,
- monitoring clients' business and financial standing,
- managing accounts receivable and bad debts.

The policies and rules regarding consolidated credit risk management for the Group were approved by the Credit Committee.

There is no significant concentration of credit risk within the Group.
Further information on credit risk is discussed in Notes 12, 20, 21, 22.

24.7. Management of covenants

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

As at 31 December 2012 OPL S.A. was a party to loan and guarantee agreements including the financial covenant indicated above.

In years 2013 and 2012 the covenant was met.

25. Management of capital

The Group manages its capital through a balanced financial policy, which aims at providing both relevant funding capabilities for business development and at securing a relevant financial structure and liquidity.

The Group's capital management policy takes into consideration the following key elements:
- business performance together with applicable investments and development plans,
- debt repayment schedule,
- the Group's credit rating and 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 - at the maximum range of 35% - 40% in the long term,
- Net financial debt to EBITDA ratio - remaining below 1.5 in the long term.

The table below provides the capital ratios as at 31 December 2013 and 2012 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 2013*	*At 31 December 2012*
Net financial debt (see note 18)	4,512	5,026
Equity	12,631	12,958
Equity and Net financial debt	17,143	17,984
EBITDA restated [(1)]	4,084	4,857
Net Gearing ratio [(2)]	**26.3%**	**28.0%**
Net financial debt / EBITDA restated ratio	**1.1**	**1.0**

[(1)] Restatement in 2013 relates mainly to the impact of the 2014 – 2015 Social Agreement consisting of employment termination expense and related decrease in labour expense resulting from a curtailment of long-term employee benefits (see Notes 14 and 16).
[(2)] 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.

26. Income tax

(in PLN millions)	*12 months ended 31 December 2013*	*12 months ended 31 December 2012*
Current income tax	(75)	(128)
Deferred tax	59	(35)
Total income tax	**(16)**	**(163)**

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 2013*	*12 months ended 31 December 2012*
Consolidated net income before tax	**310**	**1,018**
Statutory tax rate	19%	19%
Theoretical tax	**(59)**	**(193)**
Tax relief on new technologies	36	62
Income not subject to/(expense not deductible for) tax purposes, net	7	(32)
Total income tax	**(16)**	**(163)**

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 2013 TP 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. During the 12 months ended 31 December 2012 TP S.A., PTK-Centertel Sp. z o.o. and TP Invest 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 2013	*At 31 December 2012*	*12 months ended 31 December 2013*	*12 months ended 31 December 2012*
Property, plant and equipment and intangible assets	444	391	52	402
Impairment of financial assets	81	61	20	(7)
Finance (income)/expense, net	33	48	(15)	71
Accrued (income)/expense, net	174	185	(3)	(480)
Employee benefit plans	61	76	(8)	8
Deferred income	91	102	(11)	(11)
Other temporary differences	39	15	24	(18)
Deferred tax assets, net [1]	**923**	**878**	**-**	**-**
Total deferred tax	**-**	**-**	**59**	**(35)**

[1] As at 31 December 2013, PLN 5 million was presented as assets held for sale (see Note 13). During the 12 months ended 31 December 2013 and 2012, PLN (7) million and PLN 14 million of change in deferred tax asset was recognised in the consolidated statement of comprehensive income, respectively.

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Tax losses are permitted to be utilised over 5 consecutive years with a 50% utilisation restriction for each annual tax loss in a particular year. During the 12 months ended 31 December 2013 and 2012, the Group entities utilised PLN 5 million and PLN 5 million, respectively, of their tax losses previously incurred. As at 31 December 2013 and 2012, there were no significant unused tax losses in the Group entities.

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 2013 and 2012, deductible temporary differences, for which no deferred tax assets were recognised, amounted to PLN 114 million and PLN 117 million gross, respectively.

27. Equity

27.1. Share capital

As at 31 December 2013 and 2012, the share capital of the Company amounted to PLN 3,937 million and PLN 4,007 million and was divided into 1,312 million and 1,336 million fully paid ordinary bearer shares of nominal value of PLN 3 each, respectively.

The ownership structure of the share capital as at 31 December 2013 and 2012 was as follows:

(in PLN millions)	*At 31 December 2013*			*At 31 December 2012*		
	% of votes	% of shares	Nominal value	% of votes	% of shares	Nominal value
Orange S.A. [1]	50.67	50.67	1,995	49.79	49.79	1,995
Other shareholders	49.33	49.33	1,942	48.47	48.47	1,942
Treasury shares [2]	-	-	-	1.74	1.74	70
Total	**100.00**	**100.00**	**3,937**	**100.00**	**100.00**	**4,007**

[1] Previously France Telecom S.A.
[2] Voting rights attributable to treasury shares cannot be exercised at the General Meeting of OPL S.A.

The Group has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

27.2. 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).

27.3. Dividends

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 5.2 billion as at 31 December 2013. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 0.35 billion of OPL S.A.'s subsidiaries retained earnings as at 31 December 2013 was available for dividend payments by subsidiaries to OPL S.A.

27.4. 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.

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

	12 months ended 31 December 2013		*12 months ended 31 December 2012*	
	number	*exercise price (PLN)*	*number*	*exercise price (PLN)*
Outstanding at the beginning of the period	3,381,234	21.57	3,588,678	21.57
Cancelled during the year	(285,003)	-	(207,444)	-
Outstanding at the end of the year	**3,096,231**	**21.57**	**3,381,234**	**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 NBP 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.

28. Unrecognised contractual obligations

Management considers that, to the best of its knowledge, there are no existing unrecognised contractual obligations as at 31 December 2013 and 2012, other than those described below, likely to have a material impact on the current or future financial position of the Group.

28.1. Commitments related to operating leases

When considering the Group as a lessee, operating lease commitments relate to the lease of buildings and land. Lease costs recognised in the consolidated income statement for the years ended 31 December 2013 and 2012 amounted to PLN 438 million and PLN 441 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 2013 and 2012, were as follows:

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
Within one year	187	212
After one year but not more than five years	429	372
More than five years	320	286
Total minimum future lease payments	**936**	**870**
Present value of minimum future lease payments	**809**	**762**

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2013 and 2012 amounted to PLN 68 million and PLN 65 million, respectively.

28.2. 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 2013*	*At 31 December 2012*
Property, plant and equipment	274	333
Intangibles	173	62
Total investment commitments	**447**	**395**
Amounts contracted to be payable within 12 months after the end of the reporting period	376	386

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

28.3. Memorandum of Understanding with UKE

On 22 October 2009, OPL S.A. and UKE signed a Memorandum of Understanding concerning implementation of transparency and non-discrimination in inter-operator relations so as to avoid the risk of functional separation of the Company. In 2010 - 2013, OPL S.A. implemented technical and organisational solutions, in order to secure non-discriminatory relations with other operators including equal access to information. Additionally, the Company committed itself to invest in the development of 1.2 million broadband access lines until 31 March 2013. The Management Board believes that the Company has met its commitments under the Memorandum of Understanding.

29. Litigation and claims (including contingent liabilities)

a. 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. During the transformation process and transfer of ownership rights to the new entities, certain items of property 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 may be questioned.

In addition, as the regulations concerning the transformation of PPTiT are unclear, the division of certain responsibilities of PPTiT may be considered to be ineffective, which may result in joint and several liability in respect of Orange Polska's predecessor's obligations existing at the date of transformation.

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. As the regulations relating to the transformation of PPTiT are unclear, the division of certain rights and obligations may be considered to be ineffective. As a result, the share premium balance may be subject to changes.

b. 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.

c. 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 UKE related to broadband access
In 2006 and 2007, UKE imposed on Orange Polska two fines of PLN 100 million for the infringement of the obligation to determine the price of the Internet services (Neostrada) on the basis of the cost of their provision and PLN 339 million for not submitting Neostrada price list for UKE's approval. Orange Polska did not pay either of these fines and appealed against both decisions imposing the fines. The Court of Competition and Consumer Protection ("SOKiK") overruled these decisions and the Appeal Court confirmed SOKiK's verdicts. UKE lodged an appeal in cassation to the Supreme Court in both cases. The Supreme Court refused to examine both cassation appeals - with respect to the PLN 339 million fine on 6 March 2013 and with respect to the PLN 100

million fine on 2 July 2013. Those decisions ended the appeal procedures on both fines imposed by UKE on Orange Polska.

Proceedings by UOKiK related to IP traffic
On 20 December 2007, Office of Competition and Consumer Protection ("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. The verdict of SOKiK lowering the fine is binding. 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.

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 intends to conclude the proceedings by 10 March 2014. 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.
The Management Board of Orange Polska notes that they did not agree the terms of offers with the other companies.

As at 31 December 2013, 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.

d. Proceedings by the European Commission related to broadband access

In September 2008, the European Commission conducted an inspection at the premises of Orange Polska. The aim of the inspection was to gather evidence of a possible breach by Orange Polska of competition rules on the broadband Internet market. On 17 April 2009, the European Commission notified Orange Polska of initiation of proceedings on the supposed refusal to provide services and non-price discrimination on the Polish wholesale market of broadband access to the Internet. On 1 March 2010, Orange Polska received a Statement of Objections from the European Commission regarding an alleged abuse of dominant position, by refusing to supply access to its wholesale broadband services. The Company responded to the Statement of Objections and provided the European Commission with requested information. Orange Polska received from the European Commission the letter of facts dated 28 January 2011 presenting evidence collected after the issue of the Statement of Objections as well as findings of the European Commission. Orange Polska responded to the letter of facts on 7 March 2011.

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.

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. In the Orange Polska Management's opinion, Netia S.A.'s motion did not constitute any reasonable grounds on which to assess whether or not Netia S.A. suffered any damage. At the court session held on 10 May 2012, the parties did not reach an agreement.

The Management assesses the described above matters on a regular basis taking into account their developments.

e. 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.

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.

f. Proceedings by the tax authorities

The Fiscal Audit Office completed a control relating to Orange Polska's year 2009 and, on 16 April 2013, issued a protocol. A protocol does not end the audit proceedings and does not decide on the obligations of the Company. The protocol raises certain questions as regards tax settlements made. The Company filed its objections to this on 30 April 2013. The Company believes that the issues raised by the Fiscal Audit Office as regards tax settlements are without merit. This opinion is supported by external tax advisors. Based on the Company's assessment the possibility of an ultimate outflow of resources is remote.

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.

30. Related party transactions

30.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

(in PLN thousands)	*12 months ended 31 December 2013*		*12 months ended 31 December 2012*	
	Paid	*Accrued but not paid*	*Paid*	*Accrued but not paid*
Short-term benefits excluding employer social security payments [1]	11,045	1,302	11,044	656
Post-employment benefits	3,310	-	-	-
Total	**14,355**	**1,302**	**11,044**	**656**

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

Compensation (remuneration, bonuses 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 2013 and 2012 (including PLN 0.7 million and PLN 1.4 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 2013:

(in PLN thousands)	*12 months ended 31 December 2013*		*12 months ended 31 December 2012*	
	Paid	*Accrued but not paid*	*Paid*	*Accrued but not paid*
Bruno Duthoit	494 [1]	315	-	-
Vincent Lobry	2,188	213	2,324	119
Piotr Muszyński	2,200	325	2,188	169
Jacques de Galzain	2,100	243	2,245	70
Jacek Kowalski	1,495	206	1,480	176
Total	**8,477**	**1,302**	**8,237**	**534**

[1] From the date of appointment.

Persons that were Members of the Management Board of the Company in 2013 and in previous periods:

(in PLN thousands)	*12 months ended 31 December 2013*		*12 months ended 31 December 2012*	
	Paid	*Accrued but not paid*	*Paid*	*Accrued but not paid*
Maciej Witucki	5,878 [1]	-	2,807	122
Total	**5,878**	**-**	**2,807**	**122**

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

In the years ended 31 December 2013 and 2012, the Members of OPL S.A.'s Management Board did not receive any compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) from the Group's subsidiaries or associates.

Supervisory Board compensation was as follows:

(in PLN thousands)	*12 months ended 31 December 2013*	*12 months ended 31 December 2012*
Maciej Witucki [1]	71	-
Prof. Andrzej K. Koźmiński [2]	367	363
Benoit Scheen [3]	-	-
Marc Ricau [3]	-	-
Timothy Boatman	322	272
Dr. Henryka Bochniarz	186	113
Jean-Marie Culpin [3]	-	-
Eric Debroeck [3]	-	-
Dr. Mirosław Gronicki	186	181
Sławomir Lachowski	186	79
Marie-Christine Lambert [3]	-	-
Pierre Louette [3]	-	-
Gervais Pellissier [3]	-	-
Gerard Ries [3]	-	-
Dr. Wiesław Rozłucki	278	238
Thierry Bonhomme [3] [4]	-	-
Jacques Champeaux [4]	69	181
Nathalie Clere [3] [4]	-	-
Ronald Freeman [4]	-	16
Henri de Joux [3] [4]	-	-
Prof. Jerzy Rajski [4]	-	69
Total	**1,665**	**1,512**

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

In the years ended 31 December 2013 and 2012, the Members of OPL S.A.'s Supervisory Board did not receive any compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) from the Group's subsidiaries or associates.

In the years ended 31 December 2013 and 2012, 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 2013 and 2012, 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.

30.2. Related party transactions

As at 31 December 2013, Orange S.A. (previously France Telecom 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 (previously France Telecom Group) comprises mainly interconnect, research and development services, data transmission (and reimbursement of rebranding expenditures in 2012). The purchases from the Orange Group comprise mainly costs of interconnect and leased lines, network services, IT services, consulting services and brand fees.

Financial receivables, payables and financial expense concerning transactions with the Orange Group in 2013 relate to financing and hedging agreements (see Notes 19.3 and 22). The impact on financial expense, net, amounting to PLN (31) million consists of PLN (10) million of interest expense (including amortized fees) and foreign exchange gains on loans from Atlas Services Belgium S.A. and PLN (21) million of foreign exchange losses and interest expense on cross currency interest rate swaps and interest rate swaps concluded with Orange S.A. to hedge exposure to foreign currency risk and interest rate risk related to the abovementioned loans. 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 21).

(in PLN millions)	*12 months ended 31 December 2013*	*12 months ended 31 December 2012*
Sales of goods and services and other income:	**216**	**335**
Orange S.A. (parent)	148	136
Orange Group (excluding parent)	68	199
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(334)**	**(312)**
Orange S.A. (parent)	(112)	(99)
Orange Group (excluding parent)	(222)	(213)
- including Orange Brand Services Limited (brand licence agreement)	*(164)*	*(140)*
Financial income:	**2**	**-**
Orange S.A. (parent)	2	-
Financial expense, net:	**(31)**	**(1)**
Orange S.A. (parent)	(21)	(1)
Orange Group (excluding parent)	(10)	-
Dividends paid:	**332**	**997**
Orange S.A. (parent)	332	997

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. OPL S.A. introduced Orange as its brand for fixed services in 2012.

(in PLN millions)	*At 31 December 2013*	*At 31 December 2012*
Receivables:	**79**	**82**
Orange S.A. (parent)	61	47
Orange Group (excluding parent)	18	35
Payables:	**112**	**116**
Orange S.A. (parent)	54	49
Orange Group (excluding parent)	58	67
Financial receivables:	**5**	**-**
Orange S.A. (parent)	5	-
Cash and cash equivalents deposited with:	**37**	**-**
Orange S.A. (parent)	37	-
Financial payables:	**1,403**	**-**
Orange S.A. (parent)	9	-
Orange Group (excluding parent)	1,394	-

31. Subsequent events

There was no significant event after the end of the reporting period.

32. 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 2013.

32.1. Use of estimates

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 2013 may be subsequently changed. The main estimates made are described in the following notes:

Note		Type of information disclosed
8, 32.14, 32.18	Impairment of cash generating units and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
32.14, 32.19	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
26, 32.21	Income tax	Assumptions used for recognition of deferred tax assets.
16, 32.23	Employee benefits	Discount rates, salary increases.
22, 23, 32.19	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
14, 29, 32.22	Provisions	Provisions for employment termination expense: discount rates and other assumptions. The assumptions underlying the measurement of provisions for claims and litigation.
32.15, 32.16	Useful lives of tangible and intangible assets	The useful lives and the method of depreciation and amortisation.
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.
5, 32.10	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).
32.20	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

32.2. Use of judgments

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.

32.3. Application of new standards and interpretations

<u>Adoption of standards in 2013</u>

The following standards endorsed by the European Union were adopted by the Group as at 1 January 2013:

- IFRS 10 “Consolidated Financial Statements”. This standard deals with the consolidation of subsidiaries and structured entities, and redefines control (see Note 32.7) which is the basis of consolidation. Adoption of IFRS 10 did not impact the scope of consolidation.

- IFRS 11 “Joint Arrangements”. This standard deals with the accounting for joint arrangements. The definition of joint control is based on the existence of an arrangement and the unanimous consent of the parties which share the control. There are two types of joint arrangements:
  - joint ventures: the joint venturer has rights to the net assets of the entity to be accounted for using the equity method, and
  - joint operations: the parties to joint operations have direct rights to the assets and direct obligations for the liabilities of the entities which should be accounted for as arising from the arrangement.

Adoption of IFRS 11 changed the accounting treatment of the 50% interest in NetWorkS! Sp. z o.o. (see Note 2).

- IFRS 12 “Disclosure of Interests in Other Entities”. This standard combined disclosure requirements for all forms of interests in other entities and unconsolidated structured entities. The implementation of this standard did not substantially change the disclosures provided by the Group.

- IFRS 13 “Fair value measurement”. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurement. It:
  - defines fair value;
  - sets out a framework for measuring fair value; and
  - requires disclosures about fair value measurements, including the fair value hierarchy already set out in IFRS 7.

Adoption of IFRS 13 did not have significant impact on financial statements.

<u>Standards and interpretations issued but not yet adopted</u>

Management has not opted for early and full application of the following standard and interpretation:

- IFRS 9 “Financial Instruments”. The aim of IFRS 9 is to supersede IAS 39 “Financial Instruments: Recognition and Measurement”. Development of the new standard is divided in three phases. Until now, two phases have been completed by IASB, i.e. parts regarding classification and the measurement of financial instruments and hedge accounting. The effects of application of IFRS 9 cannot be analysed separately from the last part not yet published, which will address the impairment methodology. This standard has not been endorsed by the European Union.

- IFRIC 21 “Levies”. This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. IFRIC 21 is applicable for financial years beginning on or after 1 January 2014. This interpretation has not been endorsed by the European Union. Its application will not have a significant impact on financial statements.

32.4. 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 32.10 *Separable components of packaged and bundled offers*).

32.5. 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.

32.6. Presentation of the financial statements

<u>Presentation of the statement of financial position</u>

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.

<u>Presentation of the income statement</u>

As allowed by IAS 1 "Presentation of financial statements", expenses are presented by nature in the consolidated income statement.

<u>Earnings per share</u>

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 27.4).

32.7. 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.

32.8. 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.

32.9. 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 NBP 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.

32.10. 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. 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 recognized 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 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.

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.

Revenue from Internet advertising is recognised over the period during which the advertisement appears.

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 and is recognised when the third party becomes obliged to supply the awards and is entitled to receive consideration for doing so.

Loyalty programs that exist in the Group are without a contract renewal obligation.

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".

32.11. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs, other than loyalty program costs (see Note 32.10), 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.

32.12. 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.

32.13. 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.

32.14. 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 acquiree.

(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.

32.15. 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.

When intangible assets are acquired in a business combination, they are initially stated at their fair values. They are generally determined in connection with the purchase price allocation. When their market value is not readily determinable, cost is determined using generally accepted valuation methods based on revenue, costs or other appropriate criteria. The intangible assets are recognised at the acquisition date separately from goodwill if the asset's fair value can be measured reliably, is identifiable, (i.e. is separable) or arises from contractual or the legal rights irrespective of whether the assets had been recognised by the acquiree before the business combination.

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 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.

32.16. 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, and, if applicable, attributable borrowing costs.

When tangible assets are acquired in a business combination, their cost is determined in connection with the purchase price allocation based on their respective fair market value. When their fair market value is not readily determinable, cost is determined using generally accepted valuation methods.

It also 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	2 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.

32.17. 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.

32.18. 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.

32.19. Financial assets and liabilities

Financial assets are classified as assets at fair value through profit or loss, hedging derivative instruments and loans and receivables.

Financial liabilities are classified as financial liabilities at amortised cost, liabilities at fair value through profit or loss and hedging derivative instruments.

Financial assets and liabilities are recognised and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Recognition and measurement of financial assets

When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A regular way purchase or sale of financial assets is recognised using settlement date accounting.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables, 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.

Assets at fair value through profit or loss
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

Financial liabilities at amortised cost
Financial liabilities measured at amortised cost include borrowings, trade payables and fixed assets payables, including the telecommunications licence payables and are carried in the statement of financial position under “Trade payables”, “Loans from related party” and “Other financial liabilities at amortised cost”.

Borrowings and other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Certain borrowings 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.

<u>Financial liabilities at fair value through profit or loss</u>
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.

<u>Derivatives classified as financial assets and liabilities at fair value through profit or loss</u>
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.

<u>Hedging derivatives</u>
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.

32.20. 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.

32.21. 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 payable represents the amounts payable 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 liabilities are not recognised if they arise from the initial recognition of goodwill, deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred tax assets and liabilities are not discounted. Deferred income tax is calculated using the enacted or substantially enacted tax rates at the end of the reporting period.

32.22. 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.

32.23. 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, rates of future salary increases, staff turnover rates, and financial assumptions concerning 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.

32.24. 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 ON THE ACTIVITY

IN 2013

11 February 2014

This report on the activity of the Orange Polska Group ("the Group" or " Orange Polska") in 2013 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).

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.(TP 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. As at December 31, TP S.A., as the acquiring company, entered into all the rights and obligations of the target companies, changing the company's name to Orange Polska S.A.

CHAPTER I.
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2013 and for the twelve month period ended thereon

1. SUMMARISED FINANCIAL STATEMENTS

	For 12 months ended				
	31 December 2013		31 December 2012		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue	12,923	3,069	14,141	3,388	-8.6%
EBITDA (restated *)	4,084	970	4,857	1,164	-15.9%
EBITDA margin	*31.6%*		*34.3%*		*-2.7 p.p.*
Operating income	788	187	1,574	377	-49.9%
Operating margin	*6.1%*		*11.1%*		*-5.0 p.p.*
Consolidated net income	294	70	855	205	-65.6%
Net income attributable to owners of Orange Polska SA	*294*	*70*	*855*	*205*	*-65.6%*
*Weighted average number of shares (in millions)***	*1,312*		*1,316*		*-0.3%*
Earnings per share (in PLN) (basic and diluted)	*0.22*	*0.05*	*0.65*	*0.16*	*-66.1%*
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	3,292	782	1,879	450	75.2%
Net cash used in investing activities, including	(2,166)	(514)	(2,742)	(657)	-21.0%
Capital expenditures (on the accrual basis) financed with internal cash	(2,180)	(518)	(2,344)	(562)	-7.0%
Net cash used in financing activities	(1,324)	(314)	(1,620)	(388)	-18.3%
Net change in cash and cash equivalents	(198)	(47)	(2,483)	(595)	- 92.0%

	As of				
	31 December 2013		31 December 2012		Change
Consolidated Statement of Financial Position	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Cash and cash equivalents	198	48	406	99	-51.2%
Other intangible assets	3,081	743	2,967	726	3.8%
Property, plant and equipment	12,768	3,079	13,951	3,413	-8.5%
Total assets	22,802	5,498	24,163	5,910	-5.6%
Financial liabilities at amortised costs, of which:	3,185	768	5,185	1,268	-38.6%
Current	3,106	749	2,195	537	41.5%
Non-current	79	19	2,990	731	-97.4%
Other liabilities, current and non-current	6,986	1,685	6,020	1,473	16.0%
Total equity	12,631	3,046	12,958	3,170	-2.5%

Notes on data conversion:

1 – PLN/EUR fx rate of 4.2110 applied

2 – PLN/EUR fx rate of 4.1736 applied

3 – PLN/EUR fx rate of 4.1472 applied

4 – PLN/EUR fx rate of 4.0882 applied

** Restatement in 2013 relates mainly to the impact of the 2014 – 2015 Social Agreement consisting of employment termination expense and related decrease in labour expense resulting from a curtailment of long-term employee benefits*

*** Weighted average number of shares in 12 months ended December 31, 2013 and December 31, 2012, respectively*

1.1 Comments to the Consolidated Income Statement Items

The Group's consolidated revenue amounted to PLN 12,923 million in 2013 and was lower by PLN 1,218 million or -8.6% as compared to 2012.

Operating income before depreciation and amortisation expense and impairment of non-current assets (EBITDA restated) amounted to PLN 4,084 million in 2013 and was PLN 773 million lower than in 2012.

Operating income (EBIT) amounted to PLN 788 million in 2013 and was PLN 786 million lower than in 2012.

In particular, year-on-year, in 2013:

- Mobile voice traffic revenue decreased by PLN 402 million; due to price pressure
- Mobile data, messaging, content and M2M revenue increased by PLN 117 million, driven up by a growing demand for mobile data;
- Wholesale mobile revenue decreased by PLN 452 million, mainly due to a decrease of the Mobile Termination Rates;
- Fixed narrowband revenue decreased by PLN 450 million; mainly due to substitution of fixed traffic and lines to mobile;
- Fixed broadband, TV and VoIP revenue increased by PLN 101 million;
- Wholesale fixed revenue decreased by PLN 114 million
- Interconnect expenses decreased by PLN 520 million, mainly due to a decrease of the Mobile Termination Rates;
- Commercial costs increased by PLN 26 million due to higher customer net additions in mobile that drove subscriber acquisition costs up;
- Labour costs decreased by PLN 119 million, mainly due to lower headcount;
- Employment termination expenses were higher by PLN 194 million; mainly due a PLN 176 million provision for employee termination expenses linked with the voluntary leaves program for 2014-2015 (see p.9.2.1);
- Other operating income decreased by PLN 159 million, mainly due to reimbursement of rebranding expenses in 2012;
- Depreciation and amortisation decreased by PLN 160 million.

Net finance charges were PLN 78 million lower than in 2012, which resulted mainly from a decrease in interest expense of PLN 129 million which was partially offset by a decrease in net foreign exchange gains/(losses) of PLN 30 million.
Consolidated net income amounted to PLN 294 million in 2013, which is a decrease of PLN 561 million compared to 2012. Earnings per share decreased from PLN 0.65 to PLN 0.22.

1.2 Comments to the Consolidated Cash Flow Statement Items

Net cash from operating activities totalled PLN 3,292 million in 2013 and was higher by PLN 1,413 million year-on-year. The increase was mainly due to the impact of the settlement agreement with DPTG that resulted in a payment of EUR 550 million (PLN 2,449 million) in 2012, which was partially offset by the decrease of EBITDA.
Net cash used in investing activities amounted to PLN 2,166 million in 2013 and was lower by PLN 576 million compared to 2012, which was mainly due to PLN 554 million lower cash outflows to fixed assets suppliers.
Net cash used in financing activities amounted to PLN 1,324 million in 2013 and was lower by PLN 296 million compared to 2012.

1.2.1 Capital Expenditures (CAPEX)

Orange Polska's capital expenditures in 2013 amounted to PLN 2,180 million.

The Group invested mainly in the following areas:

- mobile access network consolidation jointly with T-Mobile, facilitating the management and expansion of Orange and T-Mobile networks infrastructure in order to expand the range and capacity of GSM/UMTS services, enhance their quality and adapt the mobile access network to the 4G technology requirements;
- indefeasible right to use the 1800MHz spectrum owned by T-Mobile for a period of 14.5 years, in order to render 4G mobile services
- further development 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;
- further development of the fibre-optic network and transmission equipment in order to launch new backbone and access lines as well as further development of the IP new generation network in order to enhance the quality and transfer rate of broadband services;
- development of the broadband access network, which also enables provision of television services, as well as related purchases of subscriber terminals;

- completing and strengthening of the mobile access network in the areas not covered by the mobile access network consolidation project (i.e. in strategic or under-invested regions);
- 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;
- development of a sales portal for mobile services offered under a new brand, nju.mobile;
- implementation of investment projects related to the development of the Wirtualna Polska portal and on-line content;
- research and development.

1.3 Comments to the Consolidated Statement of Financial Position Items

As at 31 December 2013, total equity amounted to PLN 12,631 million and was lower by PLN 327 million than one year before. The change is attributable mainly to the dividend payment of PLN 656 million, which was partially offset by net income (PLN 294 million) generated in 2013.
Property, plant, equipment and other intangible assets decreased by PLN 1,069 million year-on-year, mainly as a result of depreciation charge that was higher by PLN 927 million than capital expenditures.
Total assets decreased by PLN 1,361 million in the reported period. The change resulted mainly from the aforementioned decrease of PLN 1,069 million in property, plant, equipment and other intangible assets, a decrease of PLN 214 million in trade receivables and a decrease of PLN 208 million in cash and cash equivalents.
Total non-current and current liabilities decreased by PLN 1,072 million to PLN 10,133 million as at 31 December 2013. The primary factors that contributed to the change included a decrease of PLN 2,000 million in other financial liabilities at amortised cost, which was partially offset by an increase of PLN 1,394 million in loans from related party.

1.4 Related Parties Transactions

Please see Note 30.2 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 2013.

1.6 Subsequent Events

Please see Note 31 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

Please see Note 29.d to the IFRS Consolidated Financial Statements for information about the loan or borrowing collaterals or guarantees provided by the issuer or its subsidiaries.

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, a revolving bank loan and, upon the repayment thereof, a revolving loan and a term loan provided by the Orange SA Group, as well as funds raised from bond issues in previous years.

In 2013, the Group repaid long-term bank loans totalling PLN 931 million and short-term bank loans totalling PLN 1,660 million.

The Group benefited from a loan provided under a syndicated revolving loan facility agreement and, upon the repayment thereof (totalling PLN 1,140 million), from a long-term loan provided by the Orange

SA Group, of which a total of PLN 1,172 million was used and from a revolving loan used in total amount of PLN 760 million.

As of December 31, 2013, Group's interest-bearing liabilities (before derivatives) totalled PLN 4,517 million, which is a decrease of PLN 659 million compared to December 31, 2012.

The value of liabilities under financial lease as of December 31, 2013 amounted to PLN 23 million and was 14 million higher compared to December 31, 2012.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 198 million at December 31, 2013, and available credit facilities totalling the equivalent of PLN 2,571 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 2014.

1.9.1 Bonds

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 2013, Group companies concluded the following main loan agreements:

- On April 17, 2013, the Parent Company ("Orange Polska S.A., "Company") concluded a term 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 400 million, with the maturity date of March 31, 2016;
- On April 17, 2013, the Parent Company concluded a revolving loan agreement with Atlas Services Belgium SA, which provided the Group with financing of up to EUR 250 million (available in EUR or PLN) for a period of three years, i.e. to March 31, 2016;
- On April 17, 2013, the Parent Company concluded a cash-pool agreement with Orange SA, which enabled the Group to invest surplus cash in Orange SA's account and provided access to backup liquidity financing of up to PLN 1,750 million;
- Two current account overdraft agreements concluded by the Parent Company with RBS Bank (Polska) S.A. for PLN 62 million each, which provided an overdraft facility to secure the Parent Company's liquidity and current financing in two periods: from January 2, 2013 to June 28, 2013 and from July 2, 2013 to December 27, 2013, respectively;
- An annex to a loan agreement with the Polish Branch of Societe Generale S.A. extending the term of a loan of PLN 20 million, which secures PTK Centertel sp. z o.o.'s liquidity and current financing, to 31 December 2014.

In 2013, the Parent Company repaid an outstanding debt of PLN 1,139 million (as of December 31, 2012) under a revolving loan agreement with an international syndicate of banks dated October 22, 2010, effecting early termination of the agreement. A part of the loan was repaid using funds received under a term loan agreement with Atlas Services Belgium SA.

A loan from the European Investment Bank under a loan agreement concluded in 2007 was fully repaid in the reported period.

Loan repayments totalled PLN 2,591 million in 2013.

Please see Notes 19.2 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, 2013, the Group had outstanding general-purpose credit facilities amounting to an equivalent PLN 821 million, specifically (by Group companies):

- Orange Polska S.A.: EUR 192 million (revolving loan) and PLN 20 million (current account overdraft);
- Ramsat: PLN 1.4 million (current account overdraft); and
- OPCO: 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 EBITDA not higher than 3.5:1 (tested for the Group on a six months' basis). The value of the ratio on December 31, 2013 was met.

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., a TP wholly-owned subsidiary, towards its business partners, while TP promised to cover any claims related to payments under the guarantee. As of December 31, 2013, those guarantees totalled PLN 17 million.

1.9.6 Ratings

The ratings at December 31, 2013 were as follows:

Moody's Investor Services	Baa1, negative outlook (in 2013, the agency downgraded the rating by one level from A3, the outlook remaining the same)
Standard and Poor's Rating Services	BBB, stable outlook (in 2013, the agency downgraded the rating by one level from BBB+, while changing the outlook from negative to stable)

1.9.7 Hedging Transactions

In 2013, 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, 2013 covered:

- 99.8% of debt denominated in foreign currencies,
- 49.5% of UMTS licence payable; and
- 77.5% of European Commission proceedings provision.

As a result of hedging, Group's effective currency exposure at December 31, 2013 was as follows:

- USD 3 million of debt;
- EUR 129 million of UMTS licence payable; and
- EUR 31 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, 2013 the Group's proportion between fixed/floating rate debt (after hedging) was 67/33% as compared to 47/53% on December 31, 2012.

Please see Notes 22 and 24 to the IFRS Consolidated Financial Statements for the detailed information about foreign exchange and interest rate hedging.

1.9.8 Group's Financial Liquidity and Net Financial Debt

At December 31, 2013, Group's quick and current ratios decreased as compared to the end of 2012. Lower liquidity of the Group was driven by a decrease of PLN 358 million in current assets, including a decrease of PLN 208 million in cash, as well as an increase of PLN 974 million in current liabilities (less provisions and deferred income).

The liquidity ratios for the Group at December 31, 2013 and December 31, 2012, respectively, are presented in the table below.

	31 December 2013	31 December 2012
Current ratio Current assets / current liabilities*	0.31	0.44
Quick ratio Total current assets – inventories / current liabilities*	0.28	0.40
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.08	0.12

*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 4,512 million at the end of 2013 (from PLN 5,026 million at the end of 2012).

2 STATEMENTS OF THE MANAGEMENT BOARD

2.1 Statement on Adopted Accounting Principles

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

1. Bruno Duthoit - President of the Board
2. Vincent Lobry - Vice President in charge of Value Management and Convergence
3. Piotr Muszyński - Vice President of the Board in charge of operations
5. Mariusz Gaca - Board Member in charge of Business Market
4. Jacques de Galzain - Board Member in charge of finance
6. Jacek Kowalski - Board Member in charge of human resources

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.

2.2 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 statements in compliance with the relevant regulations and professional standards.

2.3 Agreement with the Licensed Auditor

On July 1, 2013 and September 24, 2013, TP 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 2013. 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 2013;
- the audit of the standalone financial statements of the Company and the consolidated financial statements of the Group for 2013 prepared in accordance with IFRS; and
- agreed procedures concerning audit and reviews of standalone and consolidated financial statements in 2013.

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 2013 is presented below:

	2013
Audit of annual financial statements of the Group, including:	4,446
- Audit of annual financial statements of TP S.A. and the consolidated financial statements of the Group	2,460
- Audit of annual financial statements of subsidiaries*	1,946
Other authentication services to the Group, including:	1,134
- Review of financial statements of TP S.A. and the consolidated financial statements of the Group as of 30 June 2013	1,094
- Other authentication services**	40
Total amount payable by Group	5,540

** 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 2012 was as follows: PLN 4,169 thousand for audits/reviews of TP S.A.; PLN 105 thousand for audit-related and other services to TP S.A.; PLN 1,991 thousand for audits of Poland-based subsidiaries; and PLN 76 thousand for audits of foreign-based companies conducted by other Deloitte companies than already mentioned.

2.4 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 2013 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).

3 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 2013, 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.

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 the Group. In 2013, the Disclosure Committee had six meetings. In addition the Audit Committee review the financial diclosures 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, enables identification and classification of the Group's financial and non-financial risks - see section 10 chapter 4.

(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 2013, 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, 2013.

(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 8.3 below 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 2013

Composition on January 1, 2013:

1. Maciej Witucki - 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 September 10, Mr. Maciej Witucki submitted his resignation from the position of the President of the Management Board effective as of September 19, on which day, the Supervisory Board appointed Mr. Bruno Duthoit as the President of the Management Board.

On February 6, 2014 the Supervisory Board appointed Mr. Mariusz Gaca as Member of the Management Board.

Composition on December 31, 2013:

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

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.
- Mr. Vincent Lobry (born 1955) joined France Telecom in 1979 as a systems and network management engineer. He worked for FT in Indonesia, then in the US (until 1994) and Spain and Italy (until 2003). Mr. Lobry managed Business Teams in the B2C/B2B Marketing Divisions to January 2006, when he was appointed B2C Marketing Director at FT France. From September 2007 he served as B2C (Home and Mobile) Marketing Director at FT France. He is a Knight of the Order of Merit and a graduate of École Polytechnique and École Nationale Supérieure des Télécommunication (Telecom ParisTech). He joined Orange Polska Management Board in September 2009.
- 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 since 2009.
- Mr. Jacques de Galzain (born 1958) graduated from Bordeaux University in 1981 and qualified as a Certified Accountant in 1989. After nine years spent in audit firms, from 1991 to 2000 he worked for USINOR, where he held several accounting positions. In 2000-2001 he worked for ALSTOM as Deputy Chief Accounting Officer. From the end of 2001 until 2005 he was Vice President Finance of High Voltage Products business in ALSTOM T&D, sold to AREVA Group early 2005. He was then appointed Vice President Finance of the FCI Automotive Division subsidiary of AREVA. In both cases he was a member of the Management Committee. He joined France Telecom – Orange in March 2006 as Group Chief Accounting Officer, head of the financial information system. In December 2009 he joined Orange Polska as Group Director in charge of Accounting and PTK Centertel Management Board Member in charge of Finance, and he was appointed Chief Financial Officer of Orange Polska in January 2011.
- Mariusz Gaca, (born 1973), is a graduate of 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 TP Group as the Director of Multimedia Branch, responsible for the development of the internet access portfolio for the mass market. Since 2005, he has been responsible for TP Group's business market,. Since 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 is responsible for the Business Market of Orange Polska. Since 2011 he has served as Vice-President of Employers of Poland and was appointed as a Chairman of the Polish Section of Business Industry Advisory Committee to the OECD.

- Mr. Jacek Kowalski was born in 1964. Since January 2011, he has been the Management Board Member in charge of Human Resources. Mr Kowalski has worked for the Group for over 10 years. From November 2009 he served as the TP 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 Center, 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.

II. Composition of the Supervisory Board and its Committees and changes thereof in 2013

Composition on January 1, 2013:

1. Prof. Andrzej K. Koźmiński - Chairman and Independent Board Member
2. Benoit Scheen - Deputy Chairman and Chairman of the Strategy Committee
3. Marc Ricau - Board Member and Secretary
4. Timothy Boatman - Independent Board Member and Chairman of the Audit Committee
5. Dr. Henryka Bochniarz - Independent Board Member
6. Thierry Bonhomme - Board Member
7. Jacques Champeaux - Board Member
8. Dr. Mirosław Gronicki - Independent Board Member
9. Sławomir Lachowski - Independent Board Member
10. Marie-Christine Lambert - Board Member
11. Pierre Louette - Board Member
12. Gérard Ries - Board Member
13. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee

On April 11, 2013, the mandates of Messrs. Thierry Bonhomme, Jacques Champeaux, Mirosław Gronicki and Mark Ricau expired.

On the same day, Ms. Henryka Bochniarz, Messrs. Erik Debroeck, Mirosław Gronicki, Gervais Pellissier and Mark Ricau were appointed by the Annual General Assembly as Members of the Supervisory Board.

On September 19, 2013, Messrs. Jean-Marie Culpin and Maciej Witucki were appointed by the Extraordinary General Assembly as Members of the Supervisory Board.

Composition on December 31, 2013:

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

At present, Orange Polska has six independent members in the Supervisory Board, namely: Prof. Andrzej K. Koźmiński, Timothy Boatman, Dr. Henryka Bochniarz, Dr. Mirosław Gronicki, Sławomir Lachowski and Dr. Wiesław Rozłucki.

Composition of the Committees of the Supervisory Board on December 31, 2013:

The Audit Committee

1. Timothy Boatman – Chairman
2. Marc Ricau
3. Sławomir Lachowski
4. Marie-Christine Lambert

The Audit Committee is chaired by Mr. Timothy Boatman, 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. Benoit Scheen
4. Marc Ricau

The Strategy Committee

1. Benoit Scheen – Chairman
2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Dr. Mirosław Gronicki
5. Sławomir Lachowski
6. Gérard Ries

Maciej Witucki, Chairman of the Supervisory Board, and Mr. Timothy Boatman, 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 shall be 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 in 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.

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

in 2013

4 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

Selected financial data (PLN million) IFRS	**31 December 2013**	**31 December 2012**	**Change**
Group's revenue	12,923	14,141	-8.6%
EBITDA (restated *)	4,084	4,857	-15.9%
EBITDA (as % of revenue)	31.6%	34.3%	-2.7 pp
EBIT	788	1,574	-50.0%
Consolidated net income	294	855	-65.6%

** Restatement in 2013 relates mainly to the impact of the 2014 – 2015 Social Agreement consisting of employment termination expense and related decrease in labour expense resulting from a curtailment of long-term employee benefits*

Group's revenue totalled PLN 12,923 million in 2013 and were down PLN 1,218 million (-8.6%) year-on-year. This predominantly reflected the impact of regulatory decisions (mostly MTR cuts[1]), which decreased the Group's revenues by PLN 693 million, loss of 345 thousand fixed voice subscribers since December 31, 2012, as well as price pressure that affected mobile voice traffic revenue. This was only partly offset by a PLN 101 million year-on-year increase of revenue from broadband, TV and VoIP and a PLN 117 million increase ofrevenue from mobile data, messaging, content and M2M .

The Group's EBITDA margin decreased by 2.7 percentage points year-on-year, while restated EBITDA was by PLN 773 million lower than in 2012. This can be attributed mainly to the following factors:

- a revenue decrease, as described above
- a PLN 520 million year-on-year decrease of interconnect costs, mainly as a result of lower MTR rate, which has offset the impact of higher volume of outgoing traffic generated by unlimited plan subscribers;
- a decline of PLN 119 milion in labour costs, mainly due to lower headcount;
- a PLN 26 million increase in commercial costs due to higher customer net additions in mobile that drove subscriber acquisition costs up;
- a PLN 194 million increase in employment termination expenses, mainly due a PLN 176 million provision for employment termination expenses linked with the voluntary leaves program for 2014-2015 (see p.9.2.1);
- a PLN 159 million decline in other operating income, mainly due to reimbursement of rebranding expenses in 2012;

Striving to reverse the negative trends, Orange Polska is 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. These initiatives are based on the assumptions for the medium-term action plan for 2013–2015, which was adopted in February 2013 (see section 6.3 below).

4.1 Mobile Services

Revenue			
PLN million	For 12 months ended		
	31 December 2013	31 December 2012	Change
Mobile services revenue	6,110	6,847	-10.8%
of which voice traffic revenue	3,545	3,947	-10.2%
of which data, messaging, content and M2M	1,794	1,677	7.0%
of which wholesale	771	1,223	-37.0%
Mobile equipment sales	149	141	5.7%

[1] Voice mobile termination rate (MTR) was cut from PLN 0.1223 / minute to PLN 0.0826 / minute on January 1, 2013 and to PLN 0.0429 / minute in July. In 1H 2012 MTR amounted to PLN 0.1520 / minute. SMS MTR was decreased from PLN 0.06 to PLN 0.05 on July 1, 2012.

Key performance indicators			
PLN '000, unless indicated otherwise	31 December 2013	31 December 2012	Change
Orange Open customers*	286	33	8.7x
Total mobile customers (SIM)	15,325	14,895	2.9%
of which post-paid	7,221	6,911	4.5%
of which pre-paid	8,104	7,984	1.5%
SRC (post-paid), PLN	403.9	405.1	-0.3%
SAC (post-paid), PLN	516.4	543.4	-5.0%
Monthly blended ARPU, PLN	34.5	39.2	-12.0%
post-paid	59.9	65.8	-9.0%
pre-paid	13.9	16.8	-17.3%

* Orange Open is a bundle of fixed and mobile services

As at the end of 2013, Orange Polska had 15.3 million mobile customers, which is an increase of 430 thousand or +2.9% year-on-year. The increase since 2012, consisted of 120 thousand prepaid customers, but more importantly it included a 310 thousand expansion of the post-paid customer base, which grew by +4.5% year-on-year.Growth of the customer base is a positive sign, especially in the context of very aggressive competition; e.g. P4 (the Play network operator) changed its offer four times in 2013. Orange's progress in the mobile market was helped by the success of its second mobile brand, nju.mobile. Its take-up had exceeded 353 thousand (including 75 thousand in post-paid) since its launch in April 2013.

Blended ARPU amounted to PLN 34.5 in 2013 and was 12.0% lower than in 2012. The decline can be attributed mainly to regulatory voice and SMS MTR cuts as well as market price pressure, fuelled by the aforementioned MTR reductions and aggressive offers of competitors.

4.1.1 Market and Competition

The mobile voice market is in a saturation phase in terms of the number of users. The number of active mobile SIM cards increased by 4.1% from December 31, 2012, driving the mobile penetration rate (among population) to 147% at the end of December 2013.

The three leading operators continued to lose market share to P4 and minor operators. Between December 31, 2012 and December 31, 2013, their total volume market share decreased from 83% to 80%. Orange Polska's mobile market share amounted to 27.3% by volume at the end of December 2013.

Due to growing differences in methodology, such as different definitions of an active prepaid SIM card or different rules of recognising revenue and costs for instalment sales of terminals, positioning of the data sets presented by various operators against one another is becoming increasingly unreliable.

4.1.2 Mobile Voice Services

The most important initiatives in 2013 included:

Development of the *Orange Open* convergent offer, combining mobile and fixed line products and addressing the need to use a number of different communication services, such as mobile and fixed line telephony, mobile and fixed broadband access and TV. The offer was expanded to enable bundling of only fixed and mobile voice services in order to promote sales of Orange Open to customers who do not have and do not wish to have a fixed broadband in their households. In addition, *Orange Open Family* offer was launched; it provides discounts on purchases of subsequent mobile voice or broadband products by the same household.

Launch of a new mobile brand, *nju.mobile*

The *nju.mobile* portfolio consists of a single post-paid tariff without subsidised handsets and with an innovative charging mechanism, as well as of a single pre-paid tariff based on a simple price list. Its key differentiators include low prices, no limits for calls and SMSs as well as cost control, transparency and simplicity of the offer ('no catch'), as well as an option to discontinue the service quickly (even in post-paid). The *nju.mobile* sales are carried out via the Internet only.

- In the post-paid offer, there is no subscription fee or services embedded in the subscription. The services are charged according to the price list (PLN 0.19 per minute, PLN 0.09 per SMS, PLN

0.19 per MMS and PLN 0.19 per Mb of data transfer) until the maximum amounts are reached. Hence, nju.mobile post-paid users know that the bill will never exceed the set maximum amount: PLN 29 (incl. VAT) for domestic calls, PLN 9 (incl. VAT) for SMSs/MMSs and PLN 19 (incl. VAT) for mobile broadband access. At the end of 2013 an additional promotion was introduced for customers interested only in calls to mobile networks with limit of the maximum payment of PLN 19. Another innovative solution is that a nju.mobile agreement is valid for 30 days only, and then automatically renewed. Thus, it can be terminated at any time, effective at the end of the next settlement period, without any penalty fees.

- In pre-paid offer, nju.mobile offers equal prices of calls and SMSs to all networks, and prices of broadband access the same as in the post-paid offer. All that is needed to start is to purchase a starter for PLN 5 or PLN 20, or transfer a number to nju.mobile. Nju.mobile users can choose from among eight recharge amounts. Depending on the recharge amount, the validity of the account may be extended for over 12 months. For heavy users, nju.mobile pre-paid offers 'To Everyone' service. If activated for PLN 6, it offers unlimited calls and SMSs to all networks as well as mobile Internet access (up to 100 MB at full transfer rate) for subsequent 62 days at a price of PLN 2 per day. For customers interested only in calls to mobile phones more attractive version of service is available with a lower daily limit of PLN 0.99. This service can be activated repeatedly, without limitations.

Pre-paid Offer

Free calls to a chosen number for an indefinite period of time, that is as long as the customer uses Orange pre-paid services, was the flagship product in 2013. Owing to the indefinite validity aspect, similar offers of the competitors are no match to his offer in terms of attractiveness.

4.1.3 Mobile Data Services

2013 saw a high share of *Orange Free Set* (subsidised tablets, netbooks or notebooks) in the sales structure; it accounted for approximately 50% of the total sales of mobile broadband services.

In addition, the *Orange Free without Terminal: Twice as Much Benefits for the Customer* offer was launched in two options:

- Two-fold higher pool of GB in case of 12-month or 16-month loyalty agreement; or
- Two-fold lower monthly fee in case of 24-month loyalty agreement.

The second half of 2013 saw the launch of an innovative offer combining the advantages of mobile broadband and home wireless Internet access, *Orange Free Net*, which replaced the former *Orange Freedom Pro* service. *Orange Free Net* subscribers are offered a common data package, which they can use also on their smartphones or other mobile devices on Orange post-paid tariff plans.

A new feature of *Orange Free Net* is larger GB packages in different tariff plans: up to 35 GB in case of *Orange Free Net* for PLN 89.90; these packages can be used on any mobile devices assigned to the given subscriber account. The low-end option is just PLN 9.90 per month (in the offer without a modem).

The new mobile broadband portfolio includes 3G, CDMA and LTE modems and routers as well as tablets.

The *Orange Free Net* offer is available to both new and existing mobile broadband customers. It is also offered to customers renewing their *Orange Freedom Pro* agreements.

In 2013, Smart Plan Multi was particularly popular, generating growth in both new additions and retention. The plan offers a data transmission package in addition to minutes and SMSs, which is included in the subscription fee. Customers of the 'Hello' and 'Mix' Smart Plans are protected against unexpectedly high charges for Internet access via smartphones through a fair usage policy, as the data transfer is charged at PLN 3 for up to 1 MB, PLN 10 for up to 300 MB and PLN 20 for up to 1 GB, while data transmission above 1GB is free, though the speed is reduced – to 16 kb/s.

Launch of a new service, *Orange Cloud*: Since October 2013, each user of the orange.pl portal has had access to cloud storage free of charge. Orange Cloud offers storage, synchronisation, contact data backup as well as sharing and management of various data (pictures, films, music, documents). The files stored in the Orange Cloud are available to any type of equipment connected to the Internet. Owing to automatic data synchronisation, any photo taken with a phone is instantly saved in the Cloud. Post-paid customers (using post-paid or mix data tariffs, *Neostrada* or *Neostrada* bundles) get 5 GB of free disk space plus free data transfer to and from the Cloud, while other orange.pl users (including pre-paid customers) get 1 GB of free disk space. Additional disk space is billable.

In 2013, the mobile service portfolio addressed to business customers was expanded to include a number of new services and attractive promotional offers.

The ***Super Signal*** service was launched in February. This solution provides for good coverage indoors and is dedicated to customers who experience problems with coverage e.g. in the company's headquarters or branches.

The 'Smartphones for PLN 0 for Starters' promotion was launched in September. In this offer, customers could receive a smartphone at no initial cost, as the relevant monthly instalments were to be charged in phone bills only after January 1, 2014.

A new service in the business portfolio is 'Cloud for Business', which was introduced in November. It is a platform with business applications which support and facilitate running a business. Customers can access the applications they choose via any computer, tablet or smartphone connected to the Internet. The applications operate on-line, which means that customers do not need to install them on their computers or download any upgrade packs.

4.2 Fixed Line Services

Revenue			
	For 12 months ended		
PLN million	31 December 2013	31 December 2012	Change
Fixed line revenue	6,057	6,593	-8.1%
of which narrowband	2,297	2,747	-16.4%
of which broadband, TV and VoIP	1,687	1,586	6.4%
of which enterprise solutions and networks	1,020	1,093	-6.7%
of which wholesale	1,053	1,167	-9.8%
Other revenue	607	560	8.4%

Key performance indicators	31 December 2013	31 December 2012	Change
Fixed voice lines (retail PSTN and VoIP lines)	4,759	5,104	-6.8%
Orange Open customers*	286	33	8.7x
3P customers (broadband, TV & VoIP)	351	248	41.5%
Fixed broadband accesses (retail)	2,301	2,345	-1.9%
TV customers	707	706	0.1%
Retail fixed voice ARPU, PLN	44.0	46.0	-4.3%
Broadband, TV and VoIP ARPU, PLN	60.3	56.2	7.3%

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

Fixed-line services benefited mainly from the strategy of product bundling and convergence. Net loss of fixed voice customers was limited to 345 thousands in the 2013 as compared to -590 thousands in 2012. In addition, continued rapid growth in the 3P offer take-up (+42% year-on-year) supported growth in ARPU from broadband, TV and VoIP services and contributed to growth of revenue from these services by PLN 101 million or 6.4% year-on-year. As of the end of December 2013, revenue from broadband, TV and VoIP services accounted for 13.1% of Group's total revenue.

4.2.1 Market and Competition

Fixed Line Voice Market

The fixed line penetration rate was at 23.0% of Poland's population at the end of December 2013, as compared to 23.8% at the end of December 2012. The decline is mainly attributable to growing popularity of mobile technologies, which leads to migration of fixed customers and traffic to mobile networks. 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 is also affecting fixed lines regulated wholesale products (Wholesale Line Rental and Local Loop Unbundling)..

Broadband Internet Access Market

According to Group's estimates, the total number of fixed broadband access lines at the end of 2013 was up by 1.8% year-on-year. Consequently, this shows that the market grew at a much slower pace than in 2012 (+3.6% year-on-year). The slowdown was mainly caused by the popularisation of mobile broadband access, which owing to low price seems to be a substitute of fixed broadband access. The penetration of fixed broadband services in Poland's population reached 18.8% by the end of 2013, compared to 18.5% the year before.

According to Group's estimates, the value of the fixed broadband market in 2013 grew by 5.1% year-on-year, versus a 6.3% increase the year before. Higher growth rate of the market value versus its increase in volume resulted mainly from an increase in ARPU, which was boosted by a growing popularity of higher broadband speed options and upsell of television and VoIP as part of bundle with broadband.

Competitive pressure from cable television (CATV) operators has remained strong and their total market share has been steadily growing. It is estimated at 32% by volume or 30% by value (in Q4 2013), as compared to 31.1% by volume and 29.6% by value a year ago. 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. Another important factor is 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 2013 declined by 17 thousand year-on-year, while the total of LLU-based lines at the end of 2013 amounted to 172 thousand as compared to 185 thousand the year before.

4.2.2 Fixed Line Voice Services

In 2013, Orange Polska continued efforts to contain the erosion of its fixed-line subscriber base. It attempted to further increase the loyalty of its fixed voice customers, mainly through sales of *Customised Home Plans* with loyalty agreements.

On March 1, 2013, when the *No Limit Plan* was added to the portfolio, TP S.A. became the first fixed operator in the Polish market to offer a plan with unlimited F2M calls.

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.

The fixed voice service was added to the Orange Open convergent offer, which is a very significant development for the fixed voice offer. As a result, fixed line subscribers are offered a discount on monthly fees if they use fixed services while simultaneously using a mobile phone or mobile broadband provided by Orange Polska.

On May 1, 2013, prices of fixed-to-mobile calls were reduced. In *Customised Plans*, the price is now at PLN 0.20 (incl. VAT) per minute, as compared to PLN 0.30 (incl. VAT) before the change. In addition, the difference in prices depending on to which mobile networks was terminating the traffic was also eliminated.

2013 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. Since May 2013, bundled offer subscribers can purchase a pool of 3,000 minutes for F2M calls at an attractive price.

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

Fixed voice market share in December 2013

	4Q 2013 (estimated)	4Q 2012	Change
Retail local access[2]	53.8%	55.6%	-1.8pp

In January 2013, Orange Polska launched another unlimited offer for business customers. The *No Limit Plan* with a 24-month loyalty agreement offers unlimited local, DLD, F2M and international calls to fixed and mobile networks in zone 1 countries, for a monthly fee of PLN 79 (net of VAT).

In May, the prices of calls to all mobile networks were unified. The change, which had been agreed upon with UKE and UOKiK, was introduced as soon as possible for technical reasons. Simultaneously, in the Orange portfolio, prices for M2M calls were reduced to PLN 0.16 (net of VAT) per minute.

A new tariff plan, *No Limit Plan*, was added to the popular Orange Open for Business offer. Customers who sign up for the *No Limit* / *No Limit to Fixed Plans*, *Business Plan for POTS* or *Business Plans for ISDN* are offered a discount of up to PLN 36 (net of VAT) per month if they simultaneously use mobile services from the *Open for Business* portfolio.

4.2.3 Fixed Line Data Services

Fixed broadband market – key performance indicators:

	31 Dec 2013	31 Dec 2012
Market penetration rate in Poland – broadband lines (in total population)	18.8%	18.5%
Total number of broadband lines in Poland ('000)	7,252	7,125
Market share of Orange Polska	32.6%	32.9%

2013 saw the continuation of efforts aimed at increasing broadband speeds, with particular focus on initiatives which were to increase the popularity of high speed Internet access options based on the VDSL technology (speed options of up to 40 Mb/s and 80 Mb/s). This was accompanied by a decrease in prices of VDSL services. Furthermore, a project which offers Internet access using the FTTH technology, with speeds up to 1 Tb/s, was launched in 2013.

Orange Polska introduced a number of additional benefits and functionalities, such as *Orange Cloud* (5 GB of disk space in a cloud for saving files) or *Orange FunSpot* (access to home Internet also out-of-home via a network of numerous access spots in the form of Livebox modems).

Orange Polska continued to promote bundles of fixed broadband and digital TV, offered in both IPTV and DTH (satellite digital TV) technologies. In addition, the Orange Open convergent offer, which offers additional discounts to customers who use both fixed and mobile services, was further expanded.

The Group continued to develop its television service portfolio, particularly in co-operation with the *n* platform (rebranded to *nc+* after the merger of 'n' with Canal+ Cyfrowy), which remains the key area of co-operation with the TVN Group.The *nc+* television portfolio, which is distributed also in bundles with fixed broadband services, fully reflects the TV packages of the *nc+* platform, including channels offered under the Canal+ brand. Orange Polska customers who use FunPack or *Neostrada* can now buy Canal+ Platinum, which is the high-end package of 128 channels provided by the *nc+* platform. Thus, they have access to full portfolio of five different packages.

The sales of the bundled offer were significantly boosted by an offer that enables customers to buy a tablet for PLN 1 when signing up for *Neostrada* or FunPack HD. This offer was improved by replacing a 7-inch tablet with a 10-inch model of much higher technical parameters.

Orange Polska offers a broad service portfolio for small to medium companies as well as sophisticated solutions for large corporations. The Business Package service, which has been most popular among small to medium enterprises, received a new formula on May 1, 2013. It is based on the ADSL technology, offering broadband access with download speed of up to 10 Mb/s. In addition, Orange Polska launched two promotions for this service, *Small Office* and *Company Office*.

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

Neostrada Business customers were also eligible for the ‘More Benefits for Less’ promotional offer, which was launched on July 1.

A number of marketing campaigns were carried out in 2013 to promote both *Neostrada Business* and DSL Internet Access, which is a service dedicated to the high-end segment. In these campaigns, customers were offered additional benefits, such as a *Business Everywhere* Starter (‘*Neostrada Business* with Mobile Broadband’), a tablet (‘Tablet for TURBO DSL Internet Access’), a portable disk (‘DSL with a Gadget’) or other accessories or gifts (‘Accessories for *Neostrada Business* and DSL Internet Access Service’).

In August, new service options, SDSL 5000, SDSL 10000 and SDSL 20000, were added to the ‘SDSL Advanced Business Internet’ service portfolio in a pilot offer, which is dedicated to the existing customers who want to upgrade the service.

Also the largest business customers using VPNs in their business activity were offered new solutions. A new service option, ‘Advanced Management’, was added to the ‘VPN Optimisation’ service portfolio, while customers using mobile access to their corporate VPNs could sign up for the ‘Business Everywhere Intranet – Have Your Office with You’ promotional offer.

A new tariff plan, *No Limit Plan*, was added to the popular Orange Open for Business offer. Customers who sign up for the *No Limit* / *No Limit to Fixed Plans*, *Business Plan for POTS* or *Business Plans for ISDN* are offered a discount if they simultaneously use mobile services from the *Open for Business* portfolio.

In April 2013, the latest broadband service for business, *Neostrada Business*, as well as *Business Package* were added to the Orange Open for Business offer. Customers who subscribe to these two services as well as to mobile services included in the Orange Open for Business portfolio are offered an attractive discount according to the convergent offer formula.

5 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.

5.1 Regulatory Obligations

Pursuant to President of UKE's decisions issued in 2007, TP S.A. (now Orange Polska) 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 Mb/s (market 7/2003).

With respect to the markets 3/2003 to 6/2003, TP S.A. has an obligation to submit costing results and regulatory accounting statements to an independent audit. TP S.A. 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 ban on both underpricing (to restrain competition) and overpricing.

In decision of July 10, 2013, the President of UKE recognised that some regulatory obligations with respect to the market 7/2003, namely an obligation to submit price lists and terms of service provision for the President of UKE's approval, an obligation to carry out costing and regulatory accounting as well as an obligation to set prices of the minimum set of leased lines based on the justified costs of the service provision, had expired on April 21, 2013 by virtue of law, pursuant to the Amendment of November 16, 2012 to the Telecommunication Law.

On December 17, 2013, the President of UKE commenced consultation of her draft decision recognising the market 7 as effectively competitive in lifting the regulatory obligations imposed on TP S.A. under the President of UKE's decision of May 29, 2007. According to the draft decision, the regulatory obligations are to be lifted 30 days after the delivery of the decision to TP S.A. Considering the formal procedures preceding the issuance of the decision (e.g. European Commission's approval), the ultimate decision may be expected in Q1 2014.

The markets 3/2003 to 6/2003 are currently being reviewed by the President of UKE.

Pursuant to President of UKE's decisions issued in 2012, TP S.A. 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).

In particular, TP S.A. 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 President of UKE's decisions, TP S.A. 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 TP S.A.'s network, 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 TP S.A.'s network, including the use of network elements and associated facilities, in order to provide leased line trunk segment services.

In addition, the President of UKE has issued the following decisions designating TP S.A. as an SMP operator in the relevant wholesale markets according to the Commission's recommendation of 2007:

- 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;
- 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. With respect to fibre optic loops, UKE has imposed on TP S.A. an obligation to provide conditional access. As a consequence of the decision, on April 29, 2011 the President of UKE declared that the previous SMP decision for TP S.A. with respect to the market 11/2003 had expired;
- In the domestic market for wholesale broadband access services, excluding some local administrative units (market 5/2007). TP S.A. has been designated as an SMP operator for the whole territory of Poland except for 11 local municipalities, including the City of Warsaw. Other areas, which have been subjected to regulation, have been differentiated in terms of regulatory obligations. TP S.A. has the obligation to provide access within all areas, but in 10 rural municipalities it has no costing or equal treatment obligations. Furthermore, in 230 municipalities (less dominated by TP S.A.), the Company does not have an obligation to apply a reference offer; however, it has the obligation of equal treatment: on the same terms and conditions as in the areas where the reference offer is required. Fibre optic technology has been included into the product range of the market.

The SMP decision for the market 12/2003 is still in force and applies to 11 geographical areas (administrative units) which are not regulated pursuant to the decision for the market 5/2007. In November 2012, the President of UKE notified a draft decision recognising effective competition in the aforementioned 11 geographical areas to the European Commission. The Commission has expressed serious doubts about the draft decision, pointing to out-dated market assessment by the regulator and lack of sufficient evidence to support exclusion of these areas into a separate relevant market. On July 10, 2013, the President of UKE discontinued the proceeding on lifting obligations in 11 geographical areas.

Pursuant to SMP decisions for the markets 2/2007, 3/2007, 4/2007 and 5/2007 as well as 13/2003 and 14/2003, TP S.A. 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 12/2003 (with respect to 11 geographical areas which are not regulated pursuant to the decision for the market 5/2007), TP S.A. 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.

Regulatory Obligations Related to the Market Position of PTK Centertel (currently Orange Polska)

PTK Centertel is an SMP operator in the market for call termination on PTK Centertel's mobile network. The key regulatory obligations imposed on PTK Centertel 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 PTK Centertel's network according to the time schedule set in the SMP decision of December 14, 2012 (i.e. PLN 0.0826 / minute in the first half of 2013 and PLN 0.0429 / minute from July 1, 2013). Moreover, as a result of SMP decisions issued for other mobile operators, the asymmetry of mobile termination rates has been abolished and MTR rates to be charged by different operators are symmetrical as from January 1, 2013.

On December 31, 2012, PTK Centertel appealed from the UKE's decision. However, owing to the immediate enforceability of the decision, PTK Centertel has performed the obligations imposed thereon. The appeal proceedings are pending.

On December 14, 2010, the President of UKE designated PTK Centertel as an SMP operator in the market for SMS termination on PTK Centertel's mobile network. The most important regulatory obligation is to provide SMS termination services based on costs. PTK Centertel has appealed from the decision. In its ruling of December 3, 2012, the Court of Competition and Consumer Protection rejected PTK Centertel's appeal. On December 27, 2012, PTK Centertel appealed against the ruling. On October 10, 2013, the Court of Appeal rejected PTK Centertel's appeal. The ruling is final and binding.

5.2 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.

5.3 Agreement on the Reciprocal Use of Network Infrastructure and Radio Frequencies

Orange Polska (through PTK Centertel) has continued its technical co-operation with T-Mobile Polska ("T-Mobile", previously "PTC") based on:

- agreement on reciprocal use of radio access networks ("RAN Agreement") signed in July 2011; and
- joint venture 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.

All the works related to base stations on the shared networks scheduled for 2013 were completed. Currently, almost 8,200 sites transmit the signal of both operators. As a result, Orange customers in the areas where the project has been completed may now use a network which has over 60% more sites than before the project.

In August 2013, as part of the co-operation, Orange launched 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 already been implemented in 32 zones (out of 51 intended) and cover almost 60% of the country.

All these efforts resulted in a very significant increase in service coverage, particularly the availability of modern mobile data transmission services. As of December 31, 2013, the coverage for these services was as follows:

- Population:
  - 90.2% outdoors (up 27.7 p.p. since the start of the project)
  - 78.1% indoors (up 32.1 p.p.)
- Territory:
  - 70.8% outdoors (up 58.6 p.p. since the start of the project)
  - 45.8% indoors (up 42.6 p.p.)

By mid-2014, the full implementation of the agreement between Orange Polska and T-Mobile will result in a total of ca. 10,000 base stations transmitting the signal for both operators.

In September 2013, the RAN Agreement was extended to include sharing of radio access networks based on the 4G (LTE) technology. Under the agreement, the parties shall invest in the LTE network development and Orange 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 year-end, such services were provided via 870 base stations, which provided coverage of 16% of Poland's population.

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

5.4 Co-operation with TVN and ITI Neovision

In 2013, 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 have added Orange Free mobile broadband access and the 'Multi' Smart Plan to the service portfolio that is bundled with the *nc+* platform offer. These are further steps in a process of implementation of the long-term framework co-operation agreement signed by the Group and TVN.

Owing to the co-operation, both companies intend to benefit from enhanced attractiveness of the multi-play offering and up-selling potential as well as cost synergies.

5.5 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.

In order to additionally strengthen its competence in the IT integration area, Orange Polska acquired a software company, Datacom System, on March 15, 2013 and commenced its integration with Integrated Solutions. In October 2013, the integration programme was completed, the employees of the combined structures of both companies moved to new headquarters and Datacom System formally merged with Integrated Solutions. As a result of the acquisition, the Group has gained new competence and opportunities to carry out high-margin IT services.

2013 saw the launch of new ICT services. The key development was the security portfolio enhancement, including the launch of Poland's first operator-class platform for protection against DoS / DDoS (Denial of Service / Distributed Denial of Service) attacks. In addition to access to the platform as well as monitoring and security on a 24/7/365 basis, the portfolio includes a number of other services, such as attack resistance tests or customer system vulnerability tests. The new offer was welcomed by the market and will be further developed in the subsequent year. Another major development related to the security portfolio was the fact that Signet Certification Centre, Orange Polska's specialised unit responsible for the maintenance of cryptographic security solutions, obtained global security certification. Since November 2013, the certificates issued by Signet's public infrastructure are considered trustworthy worldwide, e.g. in products of such giants as Microsoft or Google.

Other platforms for providing "as a service" products to customers which premiered in 2013 include BaaS (Backup as a Service), which offers automatic backup of workstations, and IaaS (Infrastructure as a Service), which provides companies with the IT infrastructure on demand. Among the solutions introduced in 2013, UCaaS (Unified Communication as a Service), which offers a full range of corporate telecommunication services in the "as a service" model, and MDM (Mobile Device Management), which enables medium to large companies to manage their mobile device fleets in a comprehensive manner, were the most popular among customers.

The IT for Business service, i.e. bundled offer of software, hardware and IT support (or support only), continued to be a success in 2013. The service was modified and expanded to include new options in order to enhance its attractiveness among the target group. Sales of the Ultrabook Package with a professional notebook dedicated to mobile corporate users were launched in January (the package was added to the portfolio late in 2012). In April, the offer was expanded to include additional options: Tablet Package (offering a tablet with pre-installed software), Printer Package (offering a printer with IT support) and TV Package. Since May, in addition to the standard IT for Business portfolio, Orange Polska has been offering the Tablet Package with the Android system.

In July, Lenovo became a hardware supplier for all six IT for Business packages. In addition, the Printer Package, which used to be an element of the non-standard offer, was included into the standard commercial portfolio; currently, customers are offered Kyocera multi-function printing devices.

Other technological domains of the ICT solutions offered included LAN networks, corporate unified communication, contact center and IT outsourcing.

5.6 Machine to Machine (M2M)

According to the results of the market research conducted by TNS upon Orange Polska's request, Orange Polska maintained the leadership position in the M2M market in the third quarter of 2013. This achievement reflects further rapid growth of M2M in Poland and customers' trust in Orange as a supplier of M2M solutions.

In 2013, Orange Polska continued its M2M sales through a dedicated partner channel, in close co-operation with major suppliers of M2M solutions in Poland, which operate also outside Poland. At the same time, in the key account channel the Group co-operated increasingly closer with the industries of key importance for M2M development, such as the power industry.

5.7 Development of Infrastructure-based Operators in the Mobile Market

The mobile operator P4 continued rapid growth of its customer base and market position in 2013. In an increasingly saturated mobile market, P4's main objective has been to win customers from other operators. As a result of aggressive marketing and pricing policy, P4 has become the leader in the mobile number portability market.

5.8 Development of the 4G Technology and Orange Polska's Participation in a Bidding Procedure for Frequencies

Since 2011, commercial 4G services based on 1800 MHz frequencies have been provided by Cyfrowy Polsat and Polkomtel, which are both controlled by Zygmunt Solorz-Żak.
In February 2013, UKE completed a bidding procedure, assigning five blocks in the 1800 MHz band for a period of 15 years. The frequencies are intended mainly for urban areas. The bids submitted by P4 (3 bids) and T-Mobile (2 bids) scored highest.
In June 2013, the President of UKE issued the relevant decisions assigning frequencies from the 1729.9–1754.9 MHz and 1824.9–1849.9 MHz range to P4 and T-Mobile. Each reservation is 5 MHz wide and, to

be used for provision of telecommunication services nationwide, as part of mobile or fixed radio communications, in a period ending on December 31, 2027.
P4 and T-Mobile are obliged to start using the frequencies within 12 months and pay fees declared in the bidding procedure (P4 – PLN 498 million; T-Mobile – PLN 453.5 million) to the State Treasury within 14 days after the delivery of the allotment decisions.
Pursuant to an annex to the RAN Agreement referred to in section 5.3 above, Orange has gained an opportunity to provide data services in the LTE technology, using the 1800 MHz band. In September, the Group launched LTE services reaching 16% population coverage as of end 2013. At present intensive rollout of LTE technology is being conducted. Similar services are provided by T-Mobile. Play launched LTE services in November 2013, though in a limited geographical area. Thus, all infrastructure-based operators in Poland now offer access to 4G services to their retail customers.

Frequencies from the 800 MHz and 2600 MHz bands, intended for the further development of coverage and capacity of the 4G network, will be allocated through an auction process, announced by the President of UKE (Office of Electronic Communication) on 30 December 2013. Its participants will compete for reservation of 5 blocks of frequencies in the 800 MHz spectrum, each 5 MHz wide and 14 blocks of frequencies in the 2.6 GHz spectrum, each 5 MHz wide. In documentation concerning the auction UKE has described the investment obligations that should be fulfilled by winners of the auction.
An auction participant is allowed to bid for maximum 2 reservations of 2 x 5 MHz in the 800 MHz band and 4 reservations of 2 x 5 MHz in the 2.6 GHz band. The Regulator has defined additional limitation regarding spectrum assets held by entities within capital groups; frequency licenses within the 800 MHz band and the 900 MHz band granted to the entities included in the same capital group shall not exceed 2x20 MHz.

As for coverage obligations, the President of UKE has assigned coverage gaps to particular frequency blocks in the 800 MHz band. The auction participant who is granted the given frequency licence will be committed to cover with the network the area assigned to this frequency.
All the blocks defined in the auction documentation are abstract (exact position in the 800 MHz band is not defined). Allocation of the blocks will be the subject to a separate administrative procedure. The reserve prices of the blocks are PLN 250 million and PLN 25 million for the 800 MHz and 2.6 GHz bands respectively. During the auction the participants are obliged to pay deposits when the total offered price reaches thresholds defined in the documentation.

Bidders will be required to begin using the frequencies and offer commercial services within 12 months from the date of booking frequency of 800 MHz and not later than 36 months from the date of booking frequency of 2.6 GHz. Deadline for submitting initial offers in the auction process is February 13, 2014. Each frequency assignment will allow for 15 years of spectrum usage.

5.9 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 December 2013 and their aggregate market share in Poland’s mobile market was approximately 2%.

5.10 Nju.mobile

Nju.mobile aims to adapt Orange’s marketing activity to the current market environment and maintain its leadership position. Nju.mobile is offered separately from the Orange brand. It is a price attractive alternative to all leading brands.

The main goal for the introduction of the new brand and its offer, was to attract a new group of customers, who are not interested in the current services offered by Orange. The target group for nju.mobile consists of customers, who are predominantly attracted by low prices and lack of obligations (e.g. long-term agreement or spending commitment). These are predominantly customers with low brand attachment or even clients seeking for new brands rather considering services offered by the leading mobile providers. The nju.mobile brand, with independent communication based on innovative and very simple concepts can reach these price sensitive customers (for offer characteristics please see section 4.1.2 above).

Nju.mobile can also contribute to cost optimisation. The nju.mobile post-paid offer is available exclusively on-line and is sold in the SIM-only option (i.e. without subsidised handsets). Hence, it does not involve a large portion of the traditional subscriber acquisition/retention costs, - handset subsidy cost and sales commission. Moreover, nju.mobile encourages customers to use on-line customer service and account management options (self care); customer care is not provided in Orange shops and the customer service help line is a paid service.

5.11 New Brands in the Mobile Market

Six new virtual operators launched their services in 2013:

- Telestrada launched the White Mobile offer of mobile services. It operates as an MVNO using Polkomtel's infrastructure. The accounts can be charged using Plus network scratch cards;
- Klucz Telekom is an MVNO hosted on Polkomtel's network; its target group is immigrant communities as well as frequently travelling businessmen, students and tourists from Ukraine, Belarus, Russia and other CIS countries;
- Truphone is an international operator with a dedicated business offer based on the 'Truphone Zone' free of roaming fees. In Poland, this MVNO uses P4's network;
- Lebara Mobile is an international operator offering pre-paid services and cheap domestic and international calls; it is hosted on Polkomtel's network;
- Vectone Mobile is an international virtual operator using T-Mobile Polska's network in the full MVNO scheme. The operator's offer is focused on cheap domestic and international calls;
- Mobile Vikings is a virtual operator present in Belgium and the Netherlands; in Poland, it uses P4's network and its pre-paid offer is addressed to selected customers; the operator focuses on flexibility and large bonuses, such as free data transfer;
- Multimedia Polska, MVNO controlled by a CATV operator, intends to launch commercial services based on Polkomtel's network in 2014.

5.12 CATV Operators

Despite the growing market saturation and the launch of terrestrial digital TV, CATV operators, who hold an 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 not only TV, broadband and voice services, but also entertainment. This leads to the growing customisation of content and the development of services on demand, such as IPTV, HD channel portfolio, music and video-on-demand. Since usage of such services can contribute to the growing demand for higher broadband capacities, CATV operators continuously modernise and expand their networks and, more and more frequently, they also lease third party's fibre-optic lines.

The 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.

Further acquisitions in the fragmented CATV market were reported in 2013 and the trend is likely to continue in 2014, as UPC, Multimedia Polska, Vectra and Inea have all announced their acquisition potential.

5.13 Infrastructure Development

By the end of 2013, Orange Polska provided services based on the VDSL technology in over 3,160 network sites. At the same time, migration of the aggregation network from ATM to the IP standard was

continued. By the end of 2013, approximately 66% of *Neostrada* customers were handled using access nodes connected via the IP aggregation network.
A new architecture of the *Neostrada* service, handling IPv6 addressing, was commercially launched in 2013. The new architecture enables Orange customers to use both protocols, IPv4 and IPv6, and enables evolutionary migration of the whole IP network to the IPv6-only solution. In September 2013, broadband access based on the IPv6 protocol for the 2G, 3G and LTE technologies was launched commercially in the mobile network.
As part of the development of the transport infrastructure, the capacity of the IP backbone network was increased in 2013, reaching the transfer rate of 502 Gbps with protection mechanisms. In consideration of the growing traffic, the backbone network equipment has been prepared to set up IP connections at 100 Gbps and a first such connection was commercially launched between Warsaw and Poznań.
Furthermore, a process of adjustment of the IP network infrastructure to the future traffic requirements started in 2013. This involves simplification of the network topology and adaptation of PoPs on the IP network to the 100 Gbps technology. The optimisation of the first PoP (in Lublin) was completed in December.
In November, Orange Polska launched the FunSpot service. At present, it is addressed to *Neostrada* users, who become members of the 'WiFi-community', mutually sharing their Internet access. The service implementation involved an addition of a new piece of network equipment, WiFi Gateway.
As a result of efforts to maintain the stability of its CDMA network, as of the end of 2013 Orange Polska continued to provide the CDMA service with the maximum capacity of the Evdo Rev. B Phase I standard network, while offering Orange customers the maximum speed of 9.3 Mb/s from each of 802 CDMA sites (2,379 sectors). In the ongoing process of consolidation of the mobile network, developed jointly with T-Mobile, a total of 305 out of 363 clusters, covering 80.1% of Poland's territory, were consolidated by the end of 2013. As a result, the UMTS/HSPA co-used networks covered approximately 90.24% of Poland's population as of the end of 2013. The development of the LTE network in the 1800 MHz band began in the second half of 2013. By the end of 2013, its coverage had reached 16.03% of Poland's population.
The consolidation of the radio network achieved its target in 2013, owing to the fact that 2,350 transmission lines of the capacity of 1 Gbps operating in the packet technology were provided.
In addition, further 1,874 fibre-optic leased lines within Orange Polska (for PTK Centertel) and 128 lines for T-Mobile were provided in 2013 for connecting the stations of the commonly used mobile access network. In 2013, packet data transmission was provided for the purpose of the LTE service with respect to 847 base stations nationwide. The radio network consolidation goals were met, as both the radio network coverage and the transmission rate available to end users increased.

5.14 Claims and Disputes, Fines and Proceedings

Please see Note 29 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.

5.15 Cost Calculation Results

Under the regulatory obligations resulting from having significant market power in the relevant markets for bitstream access (market 12/2003) and retail services (markets 3/2003 to 6/2003), in 2013 TP S.A. had an obligation to carry out costing of services covered by the aforementioned markets for 2014, and submit the results thereof to an independent auditor selected by UKE. In addition, TP S.A. had an obligation to prepare regulatory accounting statements for 2012 and submit them to an independent audit.

In performance of its regulatory obligations, TP S.A. submitted a manual for drawing up regulatory statements for 2012 as well as descriptions of service costing for 2014, including changes proposed by TP S.A., for the President of UKE's approval. The President of UKE accepted these changes and on May 31, 2013 issued a decision approving TP S.A.'s service costing description and regulatory reporting manual.

On May 31, 2013, the President of UKE called upon Ernst&Young Audit sp. z o.o. to audit TP S.A.'s service costing for 2014 and regulatory accounting statements for 2012. The audit ended on August 6, 2013 with the submission of the audit report together with the auditor's opinion to the President of UKE and TP S.A. The auditor's opinion confirms that TP S.A.'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 TP S.A.'s complaint against the President of UKE's decision approving service costing descriptions for 2010 and the regulatory reporting manual for 2008. Consequently, on December 14, 2010, TP S.A. filed a cassation appeal against the Regional Administrative Court's ruling with the Supreme Administrative Court. 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.

5.16 Functional Separation

On October 22, 2009, TP S.A. and the President of UKE signed a Memorandum of Understanding, under which the President of UKE decided to suspend works on the functional separation of TP S.A.

In 2009, functional separation was included into the EU regulatory framework. However, it is a non-standard obligation and its imposition requires a prior acceptance procedure. Member states should have implemented the package within eighteen months. The European Commission holds that implementation of functional separation and its imposition on an SMP operator shall be considered only after careful market analysis, provided that other remedies have clearly failed to establish effective competition and prospectively will fail to do it in the future. Therefore functional separation shall be only regarded as a last resort remedy. A decision by the President of UKE on imposing extraordinary measures, such as functional separation, can be made only based on agreement from the European Commission. TP S.A. would have a right to appeal from such a potential decision.

On November 16, 2012, the Polish Parliament passed an amendment to the Telecommunication Law, implementing to the Polish law a new package of directives (revised in 2009), which regulates a procedure for the imposition of the functional separation obligation.

On November 13, 2012, the President of UKE decided to discontinue two sets of proceedings initiated on January 6, 2009, which UKE viewed as potentially leading to a functional separation of TP S.A., namely proceedings to designate TP S.A. as an SMP operator in the market for unbundled access to the local loop (equivalent of the market 11 of the European Commission's recommendation on the relevant markets of 2003) and impose the relevant regulatory obligations as well as proceedings to designate TP S.A. as an SMP operator in the bitstream access market (equivalent of the market 12 of the Commission's recommendation of 2003) and impose the relevant regulatory obligations. According to the reasons specified in the decisions, both sets of proceedings were discontinued as pointless in the wake of decisions issued for the market 4 and market 5.

5.17 Memorandum of Understanding with UKE

On October 22, 2009, the Presidents of TP S.A. and the Office of Electronic Communications ("UKE") signed a memorandum of understanding ("MoU") for the implementation of transparency and non-discrimination procedures in inter-operator relations. Pursuant to MoU, TP S.A. was to implement a number of technical, organisational and process solutions ("Chinese Walls") to assure non-discrimination with respect to regulated services, that is equal treatment of alternative operators vs. TP S.A.'s retail arm and Group companies. In addition, TP S.A. was to invest in adding or upgrading 1.2 million broadband access lines in both urban and rural areas. The President of UKE declared freezing wholesale rates at the level resulting from the then effective reference offers till the end of 2012.

In the first half of 2013, TP S.A. completed all its investment commitments declared in MoU, as modified by the Steering Committee on January 30, 2012. It has built a total of 1,290,289 broadband lines (against the target of 1.2 million), including 239,655 lines of capacity of 30 Mb/s or higher (against the target of 220,000). The new lines of capacity of 30 Mb/s or higher include 143,174 FTTx fibre-optic lines.

On May 15, 2013, an external audit of the fulfilment of TP S.A.'s investment declaration was completed. In the auditor's opinion, TP S.A. has met almost all commitments. Out of three segments, namely rural areas, small to medium towns and big cities, it has failed to meet the MoU conditions only with respect to investment target in the small to medium town segment. At the same time, the auditor has stated that the shortage of investments in small to medium towns (49.3 thousand lines) has been offset by investment surplus in rural areas (34 thousand lines) and significant investment surplus in big cities (106 thousand lines), higher than planned number of FTTx lines as well as that fact that the overall investment target of 1.2 million lines has been exceeded by 8%.

During the execution of MoU, the implementation of its terms was verified by an external auditor on a quarterly basis. In addition, TP S.A. delivered monthly reports to the President of UKE, describing progress in the implementation of MoU. These reports were published by UKE on its website. In the first half of 2013, two last reports on the implementation of MoU by TP S.A. were delivered to the President of UKE (on January 15, 2013 and May 15, 2013, respectively).

In addition, TP S.A. requested an external auditor to verify the performance of its obligations specified in MoU (in line with expectations of and in agreement with the regulator). The final report on the MoU implementation was completed on June 27, 2013. The report summarised the overall implementation (over 3 years) of individual commitments throughout the term of the MoU. In the auditor's opinion, TP S.A. has fulfilled its commitments, implementing an efficient environment for business relations with alternative operators and meeting the investment targets. The auditor only formulated some reservations regarding the investments in broadband lines in small to medium towns. However, the targets for big cities and rural areas have been greatly exceeded and the overall target (1.2 million lines) has been achieved. The report was submitted to UKE on July 1, 2013.

5.18 Compensation for Universal Service Costs

In 2012, the Regional Administrative Court rejected TP S.A.'s complaints against the President of UKE's decision of 6 September 2011 regarding compensation of the net cost deficit for the years 2006, 2007, 2008 and 2009. TP S.A. has filed cassation appeals with the Supreme Administrative Court with respect to the aforementioned rulings of the Regional Administrative Court.

On December 5, 2013, the Supreme Administrative Court examined TP S.A.'s appeal and transferred the case of universal service cost compensation for the years 2006 and 2007 for the re-examination by the Regional Administrative Court.

On June 30, 2011, TP S.A. filed an application with UKE for compensation of PLN 269 million for 2010. On January 10, 2012, the President of UKE issued a decision on the net cost deficit for 2010, granting TP S.A. compensation of PLN 55,1 million. Then, on April 11, 2012, having reviewed TP S.A.'s request for the re-examination of the case, the President of UKE upheld his decision. On May 15, 2012, TP S.A. filed a complaint with the Regional Administrative Court against the President of UKE's decisions of April 11, 2012 and January 10, 2012. The Court rejected the complaint and on April 9, 2013, TP S.A. filed a cassation appeal with the Supreme Administrative Court. The proceedings are pending.

On June 29, 2012, TP S.A. filed an application with UKE for compensation of the net cost deficit for the period from January 1, 2011 to May 8, 2011 in the amount of PLN 33,8 million. On April 5, 2013, the President of UKE refused to grant compensation of the net cost deficit for the January 1, 2011 to May 8, 2011 period. TP S.A. has requested the re-examination of the case. Following the relevant procedure, on September 17, 2013, the President of UKE cancelled the initial decision, pointing out to incorrect calculation of indirect benefits therein, and granted compensation of PLN 14.9 million to TP S.A. On October 23, 2013, TP S.A. filed a complaint against the decision with the Regional Administrative Court and the relevant proceedings are pending.

The compensation is paid pro rata by all the operators (including TP S.A. and PTK Centertel) with revenues of more than PLN 4 million in the year for which the compensation is due. The President of UKE determines the share of particular operators in the compensation to be paid to the Company by way of individual decisions.

With regards to some operators, TP S.A. has reached an agreement regulating the issue of mutual settlements on the account of the universal service obligation. Simultaneously, the President of UKE has initiated proceedings to determine the share of particular operators in the compensation for the years 2006 to 2011. All these proceedings are pending.

6 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

6.1 Market Outlook

According to Group's estimates, the value of Poland's telecommunication market decreased by 4.7% in 2013 as compared with 2012. The main factors contributing to the decline were an MTR reduction and a decrease in roaming fees. There is still a downward trend in the fixed-line voice market, though the decline is gradually slowing down and is partly offset by growth in the fixed broadband market.

On July 1, 2013, MTR rates were reduced to PLN 0.0429 / minute. The reduction caused a significant decline in wholesale revenue of mobile operators, while resulting in a decrease in prices of calls off-net. Earlier (on January 1, 2013), the MTR asymmetry favouring the Play network was eliminated; previously, it used to be an element of regulatory preferences for P4 (Play network operator) over other mobile 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 could potentially strengthen the substitute role of mobile services to fixed line services.

In subsequent years, the expected market trends include growing importance of fixed-mobile convergence, further bundling of telecommunication services with televisin and entertainment, as well as growing importance 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. .

There was a number of major ownership changes in the telecommunication market in 2013. Deutsche Telecom (owner of T-Mobile Polska) acquired GTS Central Europe. Polsat Cyfrowy took over control of Polkomtel., thus increasing its potential for offering convergent services. TP S.A. signed an agreement for the sale of 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. These processes are expected to be continued further in the future.

6.2 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);
- Unique service portfolio, which includes services from outside the core telecommunication sector (multimedia, e-health, e-insurance, smart home and dedicated applications);
- 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 and *nc+*);
- 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 TP S.A.'s partners from the Orange Group, including use of the Buy-In company (a joint venture of Orange and Deutsche Telecom) 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.

6.3 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 systematically develop convergent infrastructure required to offer cutting-edge technological solutions to customers;
- To provide for rapid growth of value-added services (multimedia, cloud, smart home, etc.), which contribute to an increase in data transmission volume and revenue;
- 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:

customer customer-oriented, total telecom solutions	**our commitments** – sign up 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 12-13% of sales (excl. spectrum acquisition) – 2013 capex below PLN 2 billion (excl. spectrum acquisition) – 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 - provide reasonable remuneration 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

7 THE GROUP'S MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

7.1 Research and Development

Orange Polska's Research and Development Centre (R&D) is a member of the international Orange Labs network, which consists of 15 Orange R&D units and laboratories in 9 countries (France, Spain, UK, Poland, China, Japan, Egypt, Jordan and USA). Since September 1, 2013, R&D has been part of the Network and Service Platform Research and Development (NSPRD) unit.

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 2013, in the Innovation Gardens programme, it presented 29 prototype or commercial solutions (premières) and carried out 11 major events with the participation of representatives of Orange SA, universities, suppliers and government administration. The Innovation Gardens were attended by a total of 7,272 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 (Innovation Days, Innovative Technology) and presentations as well as by organising or co-organising numerous training workshops and competitions (Telecreator, OpenApiHackathon).

Orange Labs Poland's Major Achievements in 2013:

- Commercial launch of the Orange Super Signal service based on the Small Cells technology, which enables Orange customers to improve 3G network coverage indoors in spots where the use of Orange mobile network is not possible due to technical or economic reasons (February 2013);
- Launch, in conjunction with B2B, of the first BTB TV service for Totolotek SA, which has a chain of almost 450 outlets in Poland (April 2013);
- Successful completion of GreenBox tests in Jordan and confirming the readiness to introduce the system in other countries in which the Orange Group is present (April 2013);
- Smart Home: review and launch of smart home services for Orange customers (May 2013);
- HoD (Help on Demand): completion of the diagnostic application trial (May 2013) and confirming its benefits, including a reduction in time of conversation with a customer, an increase in the number of cases closed during the initial contact and a decrease in the number of the Livebox modems replaced;
- Implementation of the automatic tool Proactive Fault Center as well as proactive initiatives aimed at improving the quality of broadband services (September 2013);
- Commercial launch of broadband service at 300 Mbps, based on optic-fibre technology, to customers in Warsaw;;
- Completion of Poland's first investment project in the energy-telecom infrastructure area and development of the Model of Investment Co-operation with the Power Industry (November 2013);
- Implementation of the Funspot service for *Neostrada* customers (November 2013);
- Trial, in conjunction with Provident, of a service based on USSD calls and positioning; transfer of the 'Emergency Button' innovation from Open Middleware 2.0 Community (December 2013);
- Implementation of a new forwarding scheme for traffic to the 112 emergency telephone number: (December 2013);
- Implementation and launch of the innovative service 'Choose Your Number', which provides for numbering savings (December 2013);
- Ensuring package transmission for the purpose of LTE service provision (December 2013);
- Implementation of the IPv6 address handling and a new generation media gateway for the xDSL/FTTH technology, which is called LiveBox 3.0 (December 2013);

Involvement in Standardisation Works:

Orange Labs Poland has been involved in the work of standardisation organisations, such as ITU-T, ITU-R, ISO/IEC, IEC/CENELEC, ETSI, 3GPP, Broadband Forum or Home Gateway Initiative. Two representatives of OLP hold managerial positions in the standardisation area. These are Marcin Drzymała, Vice President and Member of the Board of Directors of Broadband Forum and Fryderyk Lewicki, Vice Chairman of ITU-T SG 5 WP2.

The following standardisation works have been successfully completed: three initial guidelines for cloud computing, interworking between NGN and IP networks, radio wave effects on the human body (ITU-T), VDSL test specifications (Broadband Forum), radio propagation models (ITU-R) and quality of optical connectors in fast transmission systems (IEC/CENELEC).

7.2 R&D Co-operation with Orange SA

Key projects for Orange SA (for which appropriate fee is charged):

- Corporate responsibility within Orange SA Group over selected network solutions: Huawei Media Gateways, DSL, GPON Access, ZTE IN platforms, IP, IMS, ALU, Ericsson and NSN Routers, mobile core, NSN STP and Optical Transmission;
- VDSL2 and FTTH technologies: validation and pilot implementations;
- Seamless Wireless Access (SWA): particularly WiFi and Offload areas;
- CDMA-based projects for Poland and AMEA countries;
- Femtocells;
- Mobile applications for Android and iPhone systems;
- New TV: platforms and services for Poland;
- Broadband Network Gateway;
- Content Delivery Network;
-
- Dynamic Social Network:;
- Content Aggregation Services;
- Cloud Platforms;
- Networks Management & Services;
- Digital Society (Hybrid positioning algorithms);
- Sustainable Digital World (E2E security and dependability);
- Rich Communications Suite Architecture;
- Android OS-based Set Top Box;
- Accessibility solutions;
- Participation in standardisation works in 3GPP RAN2;
- Software Defined Networks;
- ‘E2E Security and Dependability’ project: responsibility for ‘Trust Based Security’.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

8 CHANGES IN THE GROUP'S STRUCTURE IN 2013

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

In October 2013, the following positions reporting directly to the President of the Management Board were established:

- Executive Director in charge of Brand and Marketing Communications;
- Executive Director in charge of Effectiveness and Customer Excellence;
- Executive Director in charge of Consumer Marketing;
- Executive Director in charge of Carriers Market;
- Executive Director in charge of Sales;
- Executive Director in charge of Customer Care;
- Executive Director in charge of Business Market.

In February 2013, the Management Board of TP S.A. adopted a resolution on the implementation of a compliance programme and appointment of the Orange Polska Chief Compliance Officer. Pursuant to the resolution, the Orange Polska Chief Compliance Officer and the Orange Polska Compliance Officer were appointed. The latter manages the Compliance Management Office, a new business unit responsible for compliance management at Orange Polska.

The tasks of the new business unit include assurance of an effective non-compliance risk management system, risk identification, incident monitoring and implementation of corrective actions. Compliance Management Office, participates in the process of the implementation of the Group Compliance Program through the implementation of successive stages of the Program in Orange Polska.

8.1.1 Management Board of Orange Polska S.A.

As of December 31, 2013, 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 Value Management and Convergence;
- Vice President of the Management Board in charge of Operations;
- Management Board Member in charge of Finance, and
- Management Board Member in charge of Human Resources.

8.1.2 Business Units of Orange Polska S.A.

The total number of business units within the organisation changed in 2013.

As of December 31, 2013, Orange Polska had 78 business units, reporting directly to:

1) President of the Management Board: 3 business units;

2) Vice President of the Management Board in charge of Value Management and Convergence: 4 business units;

3) Vice President of the Management Board in charge of Operations: 9 business units;

4) Management Board Member in charge of Finance: 7 business units;

5) Management Board Member in charge of Human Resources: 9 business units;

6) Executive Director in charge of Business Market: 6 business units;

7) Executive Director in charge of Corporate Matters: 7 business units;

8) Executive Director in charge of Service Centre: 7 business units;

9) Executive Director in charge of Effectiveness and Customer Excellence: 4 business unit;

10) Executive Director in charge of Consumer Marketing: 9 business units;

11) Executive Director in charge of Carriers Market: 6 business units; and

12) Executive Director in charge of Sales: 7 business units.

8.1.3 Group's New Premises

In September 2013, 3,350 employees of Orange in Warsaw moved to Orange Polska's new headquarters, Orange Campus.

The Orange Campus has been designed and constructed with employee comfort and environmental protection in mind. The complex consists of five buildings,. Employees have at their disposal a canteen for over 300 people, a grocery store, a kiosk, an ATM, a café, a car wash and a tree garden. On each floor there are numerous conference halls, informal meeting places and kitchens for employee. Already at the design stage, the Campus was BREEAM certified with the 'Very Good' rating, which confirmed compliance with the strictest environmental norms and European construction standards.

The Orange Campus, was developed as a lease project, was initially owned by Bouygues Immobilier (BI). The lease period was set at ten years, with extension options secured. Orange Polska, which has hired the developer to erect the complex and signed an agreement for the lease thereof, has decided not to exercise its right of first purchase. The project has been purchased by Qatar Holding LCC, a subsidiary of Qatar Investment Authority. For the Group, the existing mutual obligations agreed upon with the developer remain binding.

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

In 2013, organisational changes were carried out in TP S.A. and PTK Centertel to prepare the merger of the both companies.

8.2 Ownership Changes within the Group in 2013

8.2.1 Acquisition of Datacom System S.A. by TP S.A.

On March 15, 2013, TP S.A. purchased all shares of Datacom System S.A.

8.2.2 Sale of Otwarty Rynek Elektroniczny S.A.

On July 9, 2013, TP S.A. soled a 100% stake in Otwarty Rynek Elektroniczny S.A. The company was acquired by Avallon Private Equity Fund.

8.2.3 Wind-up of TPSA Finance B.V. and TPSA Eurofinance B.V.

TPSA Finance B.V. and TPSA Eurofinance B.V. were deleted from the Dutch commercial register on August 2, 2013 and August 1, 2013, respectively.

8.2.4 Merger of Integrated Solutions sp. z o.o. and Datacom System S.A.

On October 1, 2013, Integrated Solutions sp. z o.o. merged with Datacom System S.A.

8.2.6 Sale of Wirtualna Polska S.A.

On October 23, 2013, the Group signed a sale agreement with Warsaw-based O2 sp. z o.o. for all shares in Gdańsk-based Wirtualna Polska S.A. The ownership of shares will be transferred after the buyer obtains the acceptance of the Office for Competition and Consumer Protection. The total sale price is PLN 375 million (and may be subject to slight adjustments at the transaction closure).

8.2.7 Establishment of Telekomunikacja Polska sp. z o.o.

On December 3, 2013, the deed of establishment of Telekomunikacja Polska sp. z o.o., a wholly-owned subsidiary of TP S.A., was executed. The share capital of the company totals PLN 5,000.

Changes of Equity in Group Companies

Integrated Solutions sp. z o.o.

On April 2, 2013, the Extraordinary General Assembly increased the share capital of Integrated Solutions sp. z o.o. from PLN 7,500,000 to PLN 20,473,000, i.e. by PLN 12,973,000, through issuance of 25,946 shares of the nominal value of PLN 500 each. All the new shares have been acquired by TP S.A. against a contribution in kind of 500,000 shares of Datacom System S.A., totalling PLN 12,973,672.

8.3 Parent Company's Shareholders

As of December 31, 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 based on information available on December 31, 2013 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 (previously 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, 2013, Orange SA held a 50.67% stake in the Company. Orange 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, 2013, 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.

On October 27, 2011, the Company began the execution of a programme of the buy back of the Company's own shares for the purpose of their redemption. In line with the authorisation granted by the Extraordinary General Meeting held on October 13, 2011, the programme was to be carried out until the total amount of funds utilised for its execution reached PLN 800,000,000, but not later than December 31, 2012. TP S.A. Management Board was informed by France Telecom S.A. (now Orange S.A.), the reference shareholder of the Company, that France Telecom did not intend to participate in the programme. On November 27, 2012, in line with the authorisation granted in clause 1.7.a of the Resolution no. 3 of the Extraordinary General Assembly of Telekomunikacja Polska S.A. dated October 13, 2011 on authorisation for the Management Board to buy back the Company's own shares for the purpose of their redemption, the Management Board of TP S.A. passed a resolution, after receiving a positive opinion of the Supervisory Board, concerning the programme termination at PLN 400 million. On June 18, 2013, the Court redeemed 23,291,542 treasury shares pursuant to the General Assembly's resolution no. 30 dated April 11, 2013.

TP S.A. did not issue any employee shares in 2013, but an Incentive Programme for the Key Managers was launched in 2007 (for more information please see section 9.2.2 below).

9 GROUP'S STRUCTURE AS OF DECEMBER 31, 2013

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

9.1 Corporate Governance Bodies of the Parent Company

For detailed information about the Management Board and Supervisory Board of Orange Polska please see section 3 above.

9.1.1 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, 2013.

Maciej Wiucki Chairman of the Supervisory Board held 4,000 shares of Orange Polska S.A. as of December 31, 2013.

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, 2013 was as follows:

Piotr Muszyński	190,896
Jacek Kowalski	25,241

The members of the Supervisory Board of Orange Polska S.A. do not participate in the Company's incentive program and as at December 31, 2013 held no first option bonds.

9.1.2 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 30.1. to the IFRS Consolidated Financial Statements.

9.1.3 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 (and in some cases due to the resignation of a Board Member) 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).

9.1.4 General Assembly

- On April 11, 2013, 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 11, 2013.
- On November 7, 2013, the Extraordinary General Assembly decided on a merger between TP S.A. and its subsidiaries: PTK Centertel and Orange Polska sp.z o.o.

9.2 Workforce

As of December 31, 2013, Orange Polska employed 19,923 people (in full-time equivalents), which is a decrease of 9.1% compared to the end of December 2012.

The workforce reduction (year-on-year) resulted from a decrease in TP S.A. (by 983 employees), OCS (332 employees), Ramsat (347 employees), PTK Centertel (99 employees), Exploris (69 employees) and Contact Center (151 employees).

TP S.A.'s workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2012-2013. Pursuant to the Social Agreement, a total of 1,124 employees left TP S.A. in 2013, 95% of whom under the voluntary departure programme. Severance pay was paid to 1,063 departing employees and averaged PLN 67 thousand per employee in 2013.

The voluntary departure programme was also effected in Orange Customer Service (OCS). In line with agreements reached in 2013 between the OCS Management Board and trade unions, a total of 494 people left the company in 2013, 88% of whom on a voluntary departure basis. Severance pay averaged PLN 48.7 thousand in 2013. Voluntary departures at OCS were effected on the same terms as at TP S.A.

Management Board and trade unions have also reached an agreement in 2013 at PTK Centertel. A total of 86 employees left PTK Centertel in 2013. Severance pay averaged PLN 27.1 thousand. Voluntary departures at PTK Centertel were effected on the same terms as at TP S.A.

In 2013, external recruitment in Orange Polska totalled 991 positions. External recruitment was mainly related to sale positions and customer service staff.

On December 9, 2013, The Management Board and trade unions have reached a new social agreement for 2014-2015. Please read section 9.2.1 for more details.

9.2.1 Social Agreement

On December 9, 2013, the TP S.A. Management Board 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 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 and 700 employees of Orange Customer Service sp. z o.o. (a wholly-owned subsidiary of Orange Polska) 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 and 380 employees of Orange Customer Service sp. z o.o. could make use of the package in 2014. In Orange Polska, 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 will be 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.

The Group created a provision for employment termination expenses at TP S.A. and OCS, which after discount and utilisation and including the relevant adjustment to provisions for retirement and jubilee awards, resulted in a net increase in provisions of PLN 147 million.

9.2.2 Stock Option Plan

On April 28, 2006, the General Assembly of TP S.A. approved an Incentive Program based on a "Stock Option Plan". On December 12, 2006, the Management Board of TP S.A. adopted the resolution No. 149/0/06 on adopting the Incentive Program Rules for the Members of the Management Board of TP S.A. and the Incentive Program Rules for the Key Managers of the Group.

The main purpose of the Program is to link the remuneration of key managers with their contribution into Group's development through enabling them to benefit from the planned growth of the Company's value; getting them more involved in the active management of the Group in order to increase its profitability.

First Option Bonds

The Program is carried out through issuing TP S.A. first option bonds. The issued bonds are registered bonds giving the right to subscribe, before the existing shareholders, for B-series shares issued by TP S.A.

Pursuant to the resolution on the issue of bonds proposed by the Management Board the bonds have the nominal value of PLN 0.01 per piece and are to be issued at the issue price equal to the nominal value. Owing to the purpose of the Program, the bonds will not bear coupons. One bond will enable the subscription for one B-series share.

B-series shares carry the right to the dividend on the terms described in the information memorandum.

The issue of new B-series shares has an impact on reducing the percentage share of the existing shareholders in the share capital of TP S.A. In the case that the bondholders exercise the rights under all the bonds, the percentage share in the share capital of all existing shareholders will be reduced by 0.508%.

Size of the Program

Initially in total, 7,113,000 of bonds enabling the subscription for 7,113,000 B series shares were planned to be issued in the Program.

Size of Individual Award

The number of bonds granted to particular Beneficiaries depends on the assessment of performance and operational involvement of each Beneficiary and the level of responsibility.

Exercise Period

The bondholders' right to subscribe for B-series shares might be exercised within seven years, i.e. from the third anniversary of the bonds issue date to the 10th anniversary of this date. The exercise of this right will be possible, in principle, only if the Beneficiary, on the day of its exercise, is the employee or member of the governing bodies of the Company or companies from the Group covered by the Program. As a general rule, if the Beneficiary stops being the employee or the member of TP S.A. governing bodies or those companies before the subscription date of B-series shares, all their bonds will be redeemed by way of payment of the nominal value of these bonds.

Issue Price of Shares

The issue price of B-series shares taken up by the bondholders was set by the Management Board of TP S.A. on the bonds issue day and was equal to the average market price of TP S.A. shares from 20 sessions on the Warsaw Stock Exchange immediately preceding the bonds issue day.

In September 2007, TP S.A. Management Board implemented the Program and the information memorandum was sent to potential Beneficiaries. Subscription letters were sent to 356 employees, out of which 339 managers subscribed for options (96% of potential Beneficiaries). The grant date was set up on October 9, 2007 and the option exercise price at PLN 21.57 (average TP S.A. close price of 20 sessions on Warsaw Stock Exchange proceeding the grant date). 6,047,710 A-series bonds were allotted to eligible managers and 154,698 bonds were taken by the trustee (KBC Securities). 0.9 million options out of 7.1 million were not issued. Cost of the Program of PLN 25 million has been booked over the vesting period.

By the end of December 2013, a total of 2,951,479 options had been redeemed as a result of the termination of Beneficiaries' contracts of employment in the cases set out in the Program.

The Program is secured by a control system according to the resolution that implemented the Program in the Group. The Program is subject to a special procedure consistent with the reporting standards that is implemented across Orange Group (previously France Telecom Group). The controls will include the verification of the number of Program beneficiaries, Program revaluation and settlements with the employees leaving the Company.

CHAPTER IV
KEY RISK FACTORS

10 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 29 to the IFRS Annual 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.

10.1 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 fierce 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 ability to protect its margins will also depend on the transformation of its cost structure.

10.2 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.

As provided in the Law of February 16, 2007 on competition and consumer protection, in case of confirmed monopolistic practices or abuse of the collective interest of customers, the President of the Office of Competition and Consumer Protection (UOKiK) may impose a penalty of 10% of its prior financial year's revenues on a company, for failing to provide the information requested or a penalty of up to EUR 50 million for providing misleading information.

Further information on the regulatory risks is set out in Section 11.

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

Fierce competition in the market and technological developments of new services result in strong pressure on price reductions in the mobile segment and also in the fixed segment. There is a risk that the effect of 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 companies but also players from outside the industry, such as providers of special services (VoIP, video services/TV Over-The-Top). Due to new challenges Orange Polska faces increased pressure on Group revenues and market shares.). Despite its efforts, the Group is still at risk of erosion of its revenues and market shares.

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. The Group continues to introduce further convergent offers like Orange Open which combines multi contract packages of fixed/mobile voice and data services, Internet and television. The Group has introduced new mobile brand on Polish telecom market: nju.mobile. It was created mainly for customers looking for smarter and cheaper solutions, in prepaid and postpaid segment. The Group continues to offer IT and telecommunication system integration services and provides solutions for business clients' needs. The uncertainty remains with regard to not being able to successfully monetize new services offered to customers and profit 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.

10.4 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 collection and transfer 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.

10.5 New Investments in Network Infrastructure

In 2014 the Group expects to invest substantial amounts over the next years in acquiring new reservation of frequencies or renewing the existing reservation of frequencies. There is a risk concerning the costs of acquiring frequencies resources 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, Polska Telefonia Komórkowa Centertel Sp. z. o.o. has established a joint venture Networks! with Polska Telefonia Cyfrowa Sp. z o.o. with the objective to build the best-in-class mobile network development by 2014.

The Group continues the development of HSPA+ DC and deployment of fixed and radio IP backhaul to handle increasing traffic. At the same time the investments in LTE technology have been launched.

10.6 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 or 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 the proper network development planning, preventive maintenance, implementation of business continuity and crisis management plans and insurance schemes. The Group is generally covered by an insurance policy which protects it against loss of assets and profit if the Group's telecom infrastructure has been damaged. 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.

10.7 System security and Data Protection

Any material failure in maintaining the security of technical infrastructure 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 technical infrastructure from cyber-attacks and to detect the disclosure of sensitive data to unauthorised parties and to promptly react to security incidents.

10.8 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.

10.9 Dependence on External Partners

The Group concludes contracts with external partners, particularly for development and maintenance of its networks and telecommunication and IT infrastructure. Although adequate safety 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 and networks systems and processes to external suppliers. This process has been monitored on a current basis in order to assure its optimum operation and taking effective corrective actions, if required.

10.10 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, Orance 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.

10.11 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.

10.12 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. Furthermore, Orange Polska S.A. Management Board is negotiating with trade unions on a number of issues, such as wage level and potential further optimisation in the future. It may result in social tension that could slow down the optimisation process. Orange Polska S.A.’s management constantly consults with trade unions on such matters and in case of reorganisations takes action to clarify the goals and expectations. Regular staff satisfaction surveys are conducted by an outside consultant.

10.13 Issues Related to the Incorporation of TP S.A.

TP S.A. was established as a result of the transformation of the former state-owned organisation PPTiT into two entities – Poczta Polska and TP S.A. During the transformation process and transfer of ownership rights to the new entities, certain items of property and other assets that are currently under the Company'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.A.'s rights to certain properties may be questioned. A process of dissolution of co-ownership and regulation of limited rights in property (e.g. entering them in land and mortgage registers) is going on and will be continued for a few more years.

In addition, as the regulations concerning the transformation of PPTiT are unclear, the division of certain liabilities of PPTiT may be ineffective, which may result in joint liability in respect of Orange Polska S.A.'s predecessor's obligations existing at the date of transformation.

10.14 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 causing considerable volatility of the tax system. 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 final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. Orange Polska S.A. 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.

10.15 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 complies with the relevant regulations, 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.

10.16 Environmental Risks

Orange Polska believes that 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.

Procedures for monitoring and reporting environmental impact have been implemented in Orange Polska. These procedures are aimed at limiting the impact of the Group's activities on the environment and at maintaining compliance with Polish regulations on environment protection. The Group has been subject to environmental audits which have confirmed its compliance with Polish regulations and highlighted achievements in the field of limiting the impact on the environment. In addition, a team has been established to carry out on going 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.

10.17 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 annual consolidated financial statements of the Group.

10.18 Sovereign Debt and Banking Crisis in Euro Zone

The risk of economic slow-down in Europe as a result of sovereign debt and banking crisis in certain Euro countries that had a negative impact on the companies’ spending and increased fiscal pressure on households also in Poland is slowly decreasing.

11 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 10 above.

11.1 Regulatory Risks

Changes in the regulatory environment combined with increasing competition caused pressure on the Group's top line in 2013.

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 interest. Orange Polska intends to turn to relevant European Union institutions whenever it believes that European law is being breached.

11.1.1 Regulatory Changes in the BSA Market

On March 26, 2012, UKE notified its new draft decision for the market 5/2007 (Bitstream) to the European Commission. According to the draft decision, TP S.A. would be subject to regulation throughout Poland with no geographical segmentation. In four geographical areas (municipalities), namely Warsaw, Lublin, Wrocław and Toruń, regulatory obligations would be limited to access and non-discrimination. BSA in the FTTH technology would be subject to access and non-discrimination obligations.

On April 26, 2012, the European Commission communicated its serious doubts about the draft decision, and then, on August 28, 2012, sent recommendations for a change thereof. The Commission questioned lack of obligations of cost-orientation, KPI publication and regulatory accounting as well as non-publication of the terms of FTTH access. The Commission did not object lack of geographical segmentation. Due to the Commission's objections, the President of UKE withdrew the draft decision from notification. A new analysis of the market 5 commenced in 2013 and the relevant decision is expected in 2014.

On November 9, 2012, UKE notified a draft decision recognising the effective competition in 11 geographical areas (*gminas*) excluded from the market 5 to the European Commission. The decision was the first stage of the proceedings to fully deregulate these areas, that is lift the regulatory obligations related to the xDSL technology. On December 10, 2012, the Commission expressed serious doubts about the draft decision, mainly due to out-dated market data. On February 8, 2013, the Commission vetoed the draft decision. The regulatory status of these 11 areas will be determined in a new process of assessment of the market 5.

11.1.2 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. The decision was made immediately enforceable. The approved offer differs from the draft submitted by TP S.A. for approval, as it covers the IP DSLAM-based access to BSA services and fails to provide a time schedule for the implementation of the new functionalities, a fee of PLN 1.95 for interconnect settlements, changes in the Interconnection Co-operation Model or changes in the WLR price list.

Upon the re-examination of the decision, on May 5, 2011, TP S.A. filed a complaint with the Regional Administrative Court against the decision of April 5, 2011, petitioning for cancellation of the decision in part, particularly with respect to the provisions which have a negative financial effect on TP S.A. The Regional Administrative Court rejected the complaint, ruling that the issue of reference offer approval should be rather examined by the Court of Competition and Consumer Protection. TP S.A. has filed a cassation appeal against the ruling as well as an appeal to the Court of Competition and Consumer Protection. The Supreme Administrative Court cancelled the Regional Administrative Court's ruling. However, having re-examined the case on December 1, 2012, the Regional Administrative Court rejected TP S.A.'s complaint. The Court of Competition and Consumer Protection proceedings are pending.

On October 4, 2011, the President of UKE amended SRO with respect to the VDSL service. The procedure had been opened upon TP S.A.'s request following the TTM procedure. The key change in

SRO is the introduction of new speed options of 40 Mb/s and 80 Mb/s for the managed IP level of service.

In particular, pending proceedings at UKE for SRO changes concern the following:

- LLU service – change resulting from an obligation imposed on TP S.A. in the market 4/2007 (status: further public consultation was launched on December 9, 2013);
- BSA service – change resulting from an obligation imposed on TP S.A. in the market 5/2007 (status: further public consultation was launched on December 9, 2012);
- 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 TP S.A. to amend its SRO in this respect (status: pending consultation of the draft decision);
- provision of increased-charge services as a result of amendment to the Telecommunication Law in this respect (status: further public consultation of the draft decision);
- changes in penalty fee provisions (status: consultation of the draft decision has ended);
- reflecting regulated retail services in wholesale services and, consequently, TTM process.

11.1.3 Leased Lines (RLLO)

On April 22, 2013, TP S.A. submitted an application for approval of an amendment to RLLO, which in particular provides for a reduction in prices for selected capacities as well as introduction of price flexibility for lines that require investments (in cases when 24-month subscription revenue is not sufficient to ensure the return of capital expenditure). The relevant procedure before the President of UKE is pending.

The President of UKE is also carrying out proceedings, initiated upon NASK's request of February 6, 2013, to obligate TP S.A. to prepare an amendment to RLLO with respect to digital and analogue line parameters.

In November 2013, the President of UKE initiated proceedings to obligate TP S.A. to amend RLLO by introducing the terms of lease of lines between Ethernet nodes.

11.1.4 Cable Ducts (ROI)

On November 23, 2012, the President of UKE introduced the new ROI. 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, TP S.A. filed a request for the re-examination of a decision which implemented ROI, questioning the IRU-DRPU scheme and technical solutions which weaken TP S.A.'s control of its assets. The proceedings are pending.

11.1.5 Mobile Termination Rates (MTR)

On December 14, 2012, the President of UKE issued an SMP decision for PTK Centertel setting MTRs at PLN 0.0826 / minute (determined on the basis of the current mean rate and a rate resulting from the pure LRIC model) in the first half or 2013 and at PLN 0.0429 / minute (determined on the basis of the pure LRIC model) from July 1, 2013. In addition, the decision provided for MTR symmetry from January 1, 2013; MTRs charged by all operators have been symmetrical since January 1, 2013.

On December 31, 2012, PTK Centertel appealed against UKE's decision. The proceedings are pending.

PTK Centertel has signed annexes with other operators, implementing the rate of PLN 0.0826 / minute from January 1, 2013. Negotiations on the implementation of the PLN 0.0429 / minute rate, in force since July 1, 2013, resulted in signing of annexes to the agreements with the majority of mobile and fixed operators. The negotiations were not completed with Cyfrowy Polsat, even though, like in case of other operators, PTK Centertel submitted to Cyfrowy Polsat an annex offering the rate set in the SMP decision (i.e. PLN 0.0429 / minute from July 1, 2013).

In June 2013, UKE carried out an inspection regarding the implementation of SMP decisions of December 2012 by all operators.

TP S.A. has signed annexes to interconnect agreements with mobile operators, implementing the rate of PLN 0.0826 / minute from January 1, 2013 and the rate of PLN 0.0429 / minute from July 1, 2013.

11.1.6 Frequencies of PTK Centertel (Currently Orange Polska)

On September 6, 2013, the President of UKE changed the allocation of 450, 900, 1800 and 2100 MHz frequencies to PTK Centertel granting the right to manage these frequencies to TP S.A. as from December 1, 2013 (i.e. 'transferred' the allocated frequencies from PTK Centertel to TP S.A.).

On November 28, 2013, the President of UKE 'transferred' the radio licences which had been granted to PTK Centertel pursuant to the aforementioned frequency allocation to TP S.A. as from December 1, 2013.

Allocation of the 900 MHz frequency to PTK Centertel will expire in July 2014. According to the Telecommunication Law, an application for renewing the allocation for another period shall be filed not less than 12 months and not later than 6 months before the expiration of the frequency allocation. On December 23, 2013, TP S.A., managing the frequencies since December 1, 2013, filed an application for renewing the allocation for another period of 15 years. According to the Telecommunication Law amended on November 16, 2012, the allocation for another period will involve a fee. The fee will be determined by the President of UKE on the basis of an amount obtained in the previous auction for the same band.

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 (see also section 5.8 above).

11.1.7 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, 2012: data transfer (per MB) – 70c; outgoing calls – 29c; incoming calls – 8c; SMS – 9c
- 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, 2012: data transfer (per MB) – 25c; calls – 14c; SMS – 3c
- 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.

On July 1, 2013, PTK Centertel reduced the wholesale rates and retail prices for its roaming services in conformity with the caps specified in the regulation (retail prices in PLN, including VAT: outgoing calls – PLN 1.22 / minute; incoming calls – PLN 0.36 / minute; SMS – PLN 0.41; MMS – PLN 2.30; data transfer – PLN 2.30 per MB).

In line with the Regulation, on January 1, 2013, PTK Centertel published a reference offer for wholesale roaming access, involving either direct wholesale access or wholesale roaming resale.

In addition, the Regulation provides for separating roaming from other services to enable separate sales (i.e. customers will not have to buy roaming services exclusively from their operator, but will be able to buy them from any provider). This option may be exercised from July 1, 2014. PTK Centertel has commenced organisational and technical efforts to implement this obligation within the deadline set by the Regulation.

The draft regulation on a single market for electronic communications, 'Connected Continent', presented by the European Commission in September 2013, introduces a number of changes in the roaming regulation. In particular, the draft package provides for eliminating roaming charges for calls received within EU from 1 July 2014.

11.1.8 Telecommunication Law Amendment

The Act of November 16, 2012 on amending the Telecommunication Law and some other acts came into force on January 21, 2013. The purpose of the bill is to implement a package of telecommunication directives: Directive 2009/140/EC of the European Parliament and of the Council of November 25, 2009, Directive 2009/136/EC of the European Parliament and of the Council of November 25, 2009 and Regulation (EC) 1211/2009 of the European Parliament and of the Council of November 25, 2009 establishing the Body of European Regulators for Electronic Communications (BEREC).

The bill has introduced a new regulatory tool of functional separation; granted the President of UKE a power to determine the terms of providing infrastructure (particularly network connections and indoor facilities) to other operators irrespective of the company's market position; introduced a new procedure for approval of regulatory means; extended subscriber's rights with respect to telecommunication agreements; introduced changes in the frequency area; implemented a number of new regulations related to personal data protection; and reduced the data retention period from 24 to 12 months.

Pursuant to the amendment, the Council of Ministers or the minister competent for communications are to issue a dozen or so secondary regulations to the bill, which according to the relevant delegation shall replace the existing secondary regulations within 24 months after coming into force of the amendment to the Telecommunication Law. The following secondary regulations were promulgated in 2013:

- Decree of the Minister of Administration and Digitalisation of March 19, 2013 on a form for reporting violation of security or integrity of telecommunication networks or services, having a major effect on the functioning thereof (Journal of Law of 2013, item 386);
- Decree of the Minister of Administration and Digitalisation of July 19, 2013 on tender procedures, auctions and competitions for allotment of frequencies or orbit resources (JoL of 2013, item 835);
- Decree of the Council of Ministers of August 26, 2013 on annual fees for the right to use frequencies for government services paid by organisational entities, bodies and units (JoL of 2013, item 1079);
- Decree of the Minister of Administration and Digitalisation of August 30, 2013 on a form for data access reporting by a telecommunication operator to the President of the Office of Electronic Communications (JoL of 2013, item 1201);
- Decree of the Minister of Administration and Digitalisation of September 10, 2013 on application forms used in telecommunications registers (JoL of 2013, item 1174);
- Decree of the Minister of Administration and Digitalisation of October 30, 2013 on a domestic numbering plan for public telecommunication networks on which public telephone services are provided (JoL of 2013, item 1281);
- Decree of the Minister of Administration and Digitalisation of December 4, 2013 amending the decree on the amount, the procedure for determination and the terms and manner of payment of the annual telecommunication fee (JoL of 2013, item 1510);
- Decree of the Council of Ministers of December 6, 2013 on annual fees for the right to use frequencies (JoL of 2013, item 1586); and
- Decree of the Minister of Administration and Digitalisation of December 18, 2013 on the amount and the terms and manner of payment of fees for the use of numbering resources (JoL of 2013, item 1697).

Currently, the Government is working on further secondary regulations to the Telecommunication Law, including:

1) draft Decree of the Minister of Administration and Digitalisation amending the Decree on the complaint-handling procedure and the requirements for telecommunication service complaints (pursuant to Article 106(4) of the Telecommunication Law);

2) draft Decree of the Council of Ministers on the requirements and procedures for providing access to and recording telecommunication messages and data as well as the types of telecommunication activity and types of telecommunication operators excluded from this obligation (pursuant to Article 179(12) of the Telecommunication Law);
3) draft Decree of the Council of Ministers on the National Frequency Allocation Table (pursuant to Article 111(3) of the Telecommunication Law);
4) draft Decree of the Minister of Administration and Digitalisation on the detailed requirements for numbering management on public telecommunication networks (pursuant to Article 126(12.2) of the Telecommunication Law); and
5) draft Decree of the Minister of Administration and Digitalisation on the detailed requirements for facilities for the handicapped provided by suppliers of public telephone services (pursuant to Article 75c(3) of the Telecommunication Law).

11.2 Competitive Risks

11.2.1 CATV Operators

CATV operators are one of the major risks to Orange Polska on the broadband market.

Holding an aggregate share of approximately 40% in the pay TV market and controlling one third of the broadband market, CATV operators aspire to further strengthen their market position as providers of not only TV, broadband and voice services, but also entertainment. Hence, growing customisation of the content they provide as well as development of services on demand, IPTV, HD channel portfolio and music and video-on-demand. As usage of such services may generate demand for higher throughput of broadband lines, CATV operators modernise and expand their own networks and, more and more frequently, lease third party’s fibre-optic lines.

A common practice of CATV operators, which operate in Poland’s biggest cities and make use of the technological potential of their infrastructure, is to offer higher speeds or increase the scope of services within a package without increasing the service price.

Further acquisitions in the fragmented CATV market were reported in 2013 and the trend is likely to continue in 2014, as UPC, Multimedia Polska, Vectra and Inea have all announced their acquisition potential.

11.2.2 Cross-selling of Cyfrowy Polsat and Polkomtel’s offers

Several cross-selling offers (including a bundled offer combining mobile telephony, mobile broadband and television) were launched during 2013 by Cyfrowy Polsat and Polkomtel (both controlled by Zygmunt Solorz-Żak) in order to strengthen marketing relationship with existing and new customers and to build joint customer base for future actions. Customers receive a number of benefits in exchange for the simultaneous use of telco-media services from both operators.

In 2H 2013 to diversify revenue sources combined offers including electrical energy (for business customers in the first step) and financial services were introduced with the involvement of other companies controlled by Mr. Solorz-Żak (ZE PAK power station group and Invest-Bank rebranded into Plus Bank).

11.2.3 Fixed/Mobile Substitution

Fixed/mobile substitution is one of the major challenges for telecom operators. The process of F2M substitution has been particularly intensive 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.

F2M substitution depends mainly on two factors:

- ratio of fixed line to mobile penetration; and
- the relation between mobile and fixed line prices.

A major factor is habits of customers, who prefer to use fixed line phones to call fixed line numbers and mobile phones to call mobile numbers, which owing to high mobile penetration stimulates the process. Consequently, a great number of customers prefers to purchase a bundle of mobile/broadband/convergent services rather than use fixed line services alone.

Another factor contributing to the fixed/mobile substitution is growing popularity of bundled offers which combine the functionality and price terms of both mobile and fixed services, which are provided by mobile operators via their mobile networks.

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

11.2.4 WLR, BSA and LLU Wholesale Markets

In September 2010, the President of UKE approved 'SRO 1', which in particular introduced the functionalities set forth in MoU. On April 5, 2011, the President of UKE issued another decision ('SRO 2'), partly amending the Single Reference Offer of 2010 (particularly with respect to operator relations and process handling). SRO was updated once again by the President of UKE on October 5, 2011. The last amendment resulted from the fact that on June 1, 2011 TP S.A. launched the BSA service based on the VDSL technology using IP DSLAM equipment. Due to the fact that not all alternative operators using WLR, BSA and LLU services have signed service agreements in line with the SRO in force, Orange Polska has to provide these services in two different models. Provision of services based on offers from before SRO results in non-uniformity of processes and increased costs of service provision (costs of IT systems).

WLR Service

The access to Orange Polska's network based on wholesale line rental (WLR) has been provided since 2006. By the end of 2013, Orange Polska had provided WLR services to 24 operators. The SRO agreements with respect to WLR have been signed by DID, EasyCall, TIWS (Telefonica), Novum, GTS Poland, Netia, Dialog and G1.

As at the end of 2013, Orange Polska handled about 1.3 million WLR lines.

BSA Service

The broadband access to a local subscriber loop (bitstream access – BSA) has been provided by Orange Polska since 2006. By the end of June 2013, Orange Polska had provided BSA services to 25 operators. The SRO agreements with respect to BSA have been signed by TIWS (Telefonica), GTS Poland, Netia, Dialog and G1.

As at the end of 2013, Orange Polska handled approximately 330,000 BSA lines.

LLU Service

The access to Orange Polska's local subscriber loop (LLU service) has been provided since 2005. By the end of 2013, 8 operators had made active use of the LLU offer (while 28 operators had signed the relevant agreements), and Orange Polska handled over 172,000 LLU lines.

11.2.5 Mobile Broadband Access

In 2013, Poland's mobile broadband segment continued to grow. Orange Polska estimates that the mobile broadband penetration of Poland's population exceeded 13% at December 31, 2013. In Poland, mobile broadband access seems to be a substitute to fixed broadband access, and it has slowed down growth of the latter for the last two 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.

A bidding procedure announced by UKE for five segments from the 1800 MHz band was completed in February and the allocation decision was announced in June 2013.

Commercial services based on fast LTE technology are currently provided by Cyfrowy Polsat, Polkomtel and Play. Orange and T-Mobile intend to launch LTE services in Q1 2014.

A bidding procedure for frequencies from the 800 MHz and 2600 MHz bands, which are predestined for the development of LTE coverage in sub-urban and rural areas, is scheduled to be carried out in 2014.

11.2.6 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. 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 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 preferential wholesale price list. The existing regulations, especially in terms of pricing, contribute to the market erosion by value.

There has been 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.

11.2.7 Interconnect Market

Mobile Termination Rates (MTR)

Based on the decisions for MNOs issued since July 1, 2013, the mobile termination rate of PLN 0.0429 / minute has been implemented in the existing agreements.

Fixed Termination Rates (FTR)

In 2012, TP S.A., performing its obligation to prepare changes in the reference offer, submitted a draft reference offer to UKE, introducing the relevant changes with respect to the call initiation and termination market. The decision with the new obligations has not been issued yet. This change in SRO will eliminate asymmetry resulting from a schedule for reaching symmetry of rates on alternative operators' networks which does not account for a division into three charge periods.

In 2013, TP S.A. began preparations to provide interconnect services based on the IP technology. This involved selecting two operators for tests through a competition. The works for launching traffic exchange are going on. The tests aim at getting knowledge required to launch the service for the whole market on a commercial basis.

11.2.8 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 82 foreign operators.

These efforts increase Orange Polska’s bargaining 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, TP S.A. launched its first IP-based interconnect gateways. Such interconnections with a total of 18 foreign operators have been launched so far. In addition, Orange Polska has been working on attracting further international operators to co-operate with TP S.A. 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.

Another MTR reduction implemented in the domestic market in July 2013 will also affect transit revenues in the international segment from voice traffic terminated on Polish GSM networks.

11.2.9 International IP Transit Market

TP S.A.'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.

11.2.10 VoIP services

Constant growth in voice-over-Internet Protocol (VoIP) services in Poland is driven mostly by subscribers’ pursuit of lower voice rates. Owing to VoIP technology, some calls, namely between the users of the same VoIP application, are fully free of charge. This largely contributes to the popularity of this channel of communications, as reflected in the number of communicator users.

For many years the VoIP technology has been widely used in Poland 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 approximately 470,000, Orange Polska is among the top VoIP providers (including CATV operators).

The VoIP technology has been gaining popularity also 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.

12 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

12.1 Macroeconomic Factors and Factors Related to Poland

12.1.1 Economic Growth

Better than expected reports on the GDP growth in 2013 (+1.6% according to preliminary estimation of GUS-Central Statistical Office) confirm that the slowdown observed early in 2013 is over and the Polish economy is entering the growth stage, which should continue throughout 2014. The increase in the GDP growth rate resulted mainly from growing exports as well as gradually improving domestic demand, driven by individual consumption and private investments. A reduction in the volume of public investments reported in 2013 may be mitigated in subsequent years by the Polish Investments project and new inflow of European funds.

Poland's budget for 2014 is based on 2.5% GDP growth assumption. However, both the size of the economic recovery and market forecasts indicate that this growth rate may be exceeded. 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. 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.

12.1.2 Inflation

CPI fell to 0.9% in 2013. The decrease in inflation rate observed from the beginning of 2013 was a result of lower consumer demand, slower growth in food and energy prices.

The fact that the Monetary Policy Council maintained interest rates at the record low (to which they had been reduced in July) and declared that they would remain stable at least until the end of the first half of 2014 implies that the Central Bank does not expect significant inflationary pressure in the coming months and that inflation does not pose a threat to the Polish economy in the nearest future.

Potential demand shocks in the global market for raw materials remain a risk factor. In addition, a higher than expected inflation rate may also result from potential depreciation of the Polish zloty in case of a significant increase in risk aversion in global financial markets.

12.1.3 Unemployment and Labour Costs

The labour market has been positively affected by the economic recovery observed since mid-2013, which was reflected in an increase in employment towards the end of the year and a lower-than-usual seasonal increase in unemployment rate, which reached 13.4% in December (the same level as of the end 2012). At the same time, wages in the enterprise sector were up 2.7% in nominal terms or 2.0% in real terms (y-o-y).

A further improvement in the labour market, driven by growing GDP and enhanced mood in the enterprise sector, may be expected in 2014.

12.1.4 Political and Economic Factors

Poland is a country which has been doing relatively well in the midst of the global economic crisis raging since 2008 and the related political and economic tension within the European Union. In this stable political and economic environment, the position and performance of Orange Polska have been affected by fierce competition, activity of the telecommunications market regulator and though the economic slowdown, reflected in the growing fatigue of the society has been a contributing factor as well. The resulting animated public debate may have a negative impact on the attitude of foreign capital and investors. 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.

12.1.5 Changes in Regulations

The following bills which may affect the Company's operations are currently at various stages of the legislation process:

1) draft bill on consumer rights;
2) draft bill amending the act on competition and consumer protection;
3) draft bill on transmission corridors;
4) draft bill on landscape protection.

Furthermore, regulations resulting from the EU law, 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.

12.1.6 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 stability of the tax system, may adversely affect the legal, business and financial situation of the Group. The growing public debt and budget deficit influenced the decision to raise VAT by 1pp, to 23% and 8%, as from January 1, 2011. The return to the initial 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.

12.2 Factors Related to Financial Markets

12.2.1 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.

12.2.2 Interest Rates

In 2013, the Monetary Policy Council gradually reduced interest rates, continuing the process which started in 2012. Overall, the reference interest rate fell by 1.75% to 2.50%, then remained stable from the end of July to the year-end. The Monetary Policy Council's decisions were influenced by continued deflationary pressure and clear economic slowdown. At present, the central bank declares that the cycle of interest rate cuts has ended, and financial markets do not expect any increase before the third quarter of 2014. The initial expectation is that the monetary policy will be tightened by 25–50 basis points over the whole year.

A potential increase in interest rates should not have any major influence on the Group's debt service costs, owing to high hedging ratio.

12.2.3 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 2013, Polish zloty lost slightly (2%) against euro and was subject to fluctuations caused mainly by external factors. In the future, further pressure on the Polish currency may be expected due to gradual withdrawal from quantitative easing in the US monetary policy. On the other hand, Polish zloty should benefit from improving balance of payments. In the reported period, the exchange rate of zloty against euro was in the 4.0671 – 4.3432 bracket, while its exchange rate against the US dollar oscillated between 3.0105 and 3.3724. NBP's mean exchange rates of PLN against the US dollar and euro were 3.1615 and 4.1976, respectively, in 2013.

12.2.4 Situation at the Warsaw Stock Exchange

Since November 1998, TP S.A. shares 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:

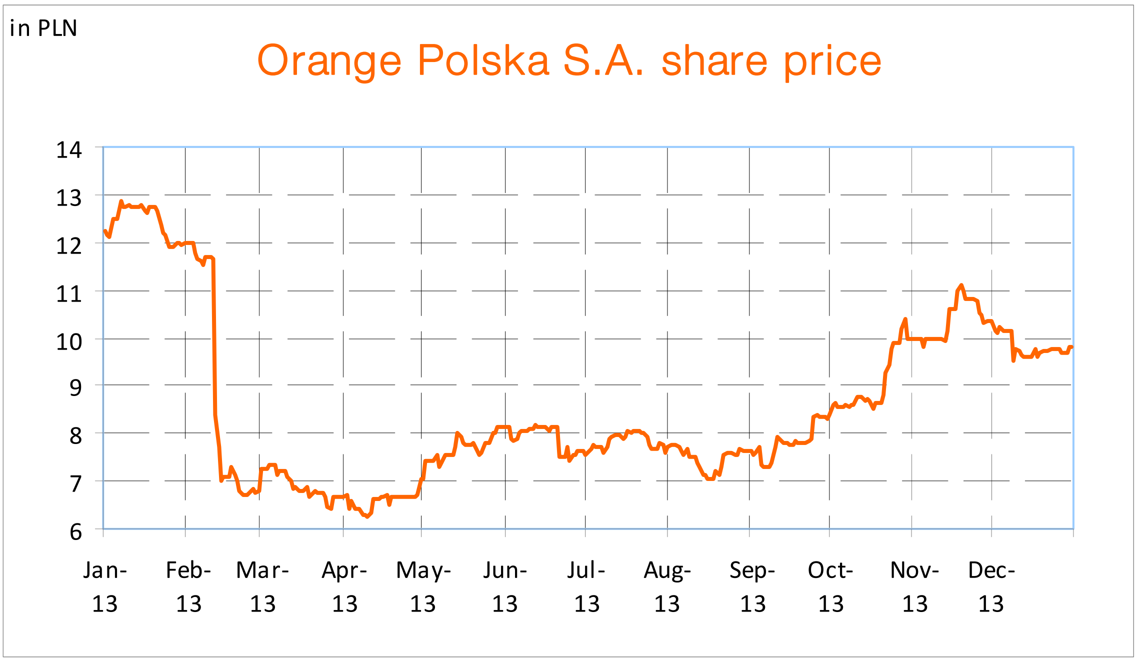
- WIG20 large-cap index;
- WIG broad-market index;
- WIG-telekommunication industry index; and
- RESPECT Index of socially responsible companies.

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.

2013 saw a contraction of the value of indices on the Warsaw Stock Exchange (WSE). The value of TP S.A. shares was down 16.5% since the beginning of the year (after the dividend-related reference price change), while the large-cap index, WIG20, lost 7.1%.

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 index WIG20, including Orange Polska shares.



12.2.5 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 ratings;
- 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.

APPENDIX. PRODUCTS AND SERVICES

FIXED LINE VOICE

Business Customers

2013 started with the launch of another unlimited offer to business customers, the *No Limit Plan*, in January. In this plan, unlimited calls include also F2M ones.

In May, prices of calls to all mobile networks were unified.

Residential Customers

Promotional Offers and Campaigns

- On March 18, 2013, 'The happy know no hours. They make home to fixed and mobile calls without limits' campaign started. It aimed at highlighting changes in the offer, namely a possibility to make unlimited calls to domestic and international fixed-line and mobile networks within the subscription fee (i.e. for no extra cost). The campaign lasted one month and involved press, TV and radio advertising;
- On November 28, 2013, a communication campaign for the 'Phone Care' service started. The campaign aimed to build the awareness of the availability of such a service in Orange Polska's fixed-line portfolio, demonstrate that a fixed telephone does not only enable making and receiving calls but also improves the comfort of everyday life and enhances the feeling of safety, and educate customers about the functioning of the service and the structure of the offer. The campaign lasted to December 30, 2013.

New Services and Tariff Plans

The following offers were launched in 2013:

- On February 7, 2013, a new value-added service, 'Phone Care', was added to Orange's fixed-line portfolio. The service enables customers to get support or call for help e.g. if they suddenly feel bad, fall or collapse, when it would not be possible to use a traditional phone to call a relative or an ambulance. In such case, thanks to the 'Phone Care' service, by pressing a single alarm button they can contact the Emergency Centre, which will quickly organise help.
- In March 2013, the Company launched a new tariff plan, *No Limit Plan*, which offers unlimited calls not only to domestic and international fixed-line networks, but also to domestic mobile networks.
- In March 2013, the 'Minutes For Everyone's Budget' offer was introduced for subscribers of the *For Everyone's Budget Plan*. In this offer, customers can activate a pool of 30 minutes for domestic calls for PLN 2 per month. The offer will last to March 2014.

Connection Offers

With respect to the network connection service, in 2013 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.

F2M Price Reductions

On May 2013, prices of F2M calls were reduced. In *Customised Plans*, the price per minute of F2M calls is now PLN 0.20 (incl. VAT), while it used to be PLN 0.30 (incl. VAT) before the reduction. Furthermore, differences in prices of calls to different mobile networks were eliminated.

DATA SERVICES

Business Customers

VPN

In July 2013, a new value-added service, VPN IPSec, was added to the Business VPN portfolio. The new service enables access to a corporate VPN also from locations where there are no conditions for standard options. In the same month, a new option, 'Advanced Management', was added to the 'VPN Optimisation' service. In this option, customers are offered proactive monitoring, consultation, set-up files storage and regular reports on device performance. In October, the 'Business Everywhere Intranet – Have Your Office with You' promotional offer was launched. The Business Everywhere Intranet service enables mobile access to corporate VPNs.

Quality Assurance (SLA) Services for Business

The SLA (Service Level Agreement) Quality Certificate for the 'VPN Optimisation' service was added to the quality assurance service portfolio in January. In July, in the wake of the introduction of the new option 'Advanced Management' of the 'VPN Optimisation' service, the corresponding SLA service was expanded accordingly.

Broadband Internet Access

A number of promotional and sale campaigns were carried out in 2013.

- January: 'DSL with a Gadget' sale campaign;
- March: '*Neostrada Business* with Mobile Broadband' sale campaign;
- June: introduction of the 'DSL 40M with Mobile Broadband' promotional offer in the 'DSL Internet Access' service portfolio;
- June: '*Neostrada Business* with a Gadget' sale campaign;
- July: launch of the 'More Benefits for Less' promotional offer;
- September: '*Neostrada Business* with Mobile Broadband 2' sale campaign;
- November: 'Tablet for TURBO DSL Internet Access' sale campaign;
- December: 'Accessories for *Neostrada Business* and DSL Internet Access Service' sale campaign.

In August, new service options, SDSL 5000, SDSL 10000 and SDSL 20000, were added to the 'SDSL Advanced Business Internet' service portfolio in a pilot offer, which is dedicated to the existing customers who want to upgrade the service.

Business Package: Service Bundle for SME

For the 'Business Package' service, the year 2013 started with the pilot launch of new bundles in February. After the completion of the pilot project in May, the formula of the 'Business Package' was changed. It is now based on the ADSL Internet access at the download speed of up 10 Mbps and SHDSL (symmetric) access of up to 4 Mbps.

Also in May, two very attractive promotional offers for Business Package customers were launched. These are 'Company Office' and 'Small Office', which fit the requirements of small to medium companies.

ICT Services

In 2013, the product portfolio was expanded to include new security offers. In particular, Poland's first operator-class platform for protection against DoS / DDoS (Denial of Service / Distributed Denial of Service) attacks was launched. In addition to access to the platform as well as monitoring and security on a 24/7/365 basis, the portfolio includes a number of other services, such as attack resistance tests or customer system vulnerability tests.

Another major development related to the security portfolio was the fact that Signet Certification Centre, Orange Polska's specialised unit responsible for the maintenance of cryptographic security solutions, obtained global security certification. Since November 2013, the certificates issued by Signet's public infrastructure are considered trustworthy worldwide, e.g. in products of such giants as Microsoft or Google.

In addition, “as a service” products were introduced onto the market. These include BaaS (Backup as a Service), which offers automatic backup of workstations, and IaaS (Infrastructure as a Service), which provides companies with the IT infrastructure on demand. Among the solutions introduced in 2013, UCaaS (Unified Communication as a Service) and MDM (Mobile Device Management) were particularly important.

Last year saw further rapid development of the ‘IT Workstation for Business’ service. In April, additional options: TV, printers and other IT devices were added to the portfolio. Customers who use TV sets in their business (e.g. hotel chains) may receive them together with technical support if they choose the TV Other options offer printers and other IT devices with IT support as well. Another option, ‘Tablet plus Android/iOS’, was added to the portfolio in September. In July, Lenovo became a hardware supplier for all six ‘IT for Business’ packages.

M2M Services

In March 2013, Orange Polska’s pre-paid M2M portfolio was expanded to include starter packs with pools which can be used for calls to any mobile or fixed-line networks. As a result, M2M customers are offered an even broader mass market solution, which enables them to use M2M devices without the need to remember about bills or regular payments of invoices.

Since October 2013, the biggest M2M customers can use API (Application Programming Interface). Using this solution, they can integrate Orange SIM-card fleet management with their own IT systems (e.g. used for M2M management).

Since the beginning of 2013, owing to Orange Labs (Orange’s R&D centre), M2M customers can use tests of their terminals in order to verify and then enhance the terminal compatibility with the GSM network. As a result, customers can significantly reduce the frequency of technical problems with terminals, which directly contributes to their competitive position in the market.

Residential Customers

Broadband Internet Access

2013 saw further development of the broadband portfolio and attractive promotions aimed at making Orange Polska’s portfolio competitive in the market:

- ‘Exceptional Internet Power’: 12-month or 24-month agreements for 10 to 80 Mb/s options. For a 24-month agreement, the prices were PLN 49.00 for 10 Mb/s, PLN 63.77 for 20 Mb/s, PLN 69.00 for 40 Mb/s and PLN 79.00 for 80 Mb/s.
- ‘Simply Internet’: 24-month agreements for 10 to 80 Mb/s options. The monthly prices were PLN 49.00 for 10 Mb/s, PLN 63.77 for 20 Mb/s, PLN 64.00 for 40 Mb/s and PLN 79.00 for 80 Mb/s.

Initiatives aimed at improving the offer were not limited to price promotions. Customers who sign up for *Neostrada*, standalone or in a bundle, get access to 5 GB of free disk space in a cloud for saving any types of files, data or backup copies.

In addition, the WiFi Community project was launched in 2013. It enables any *Neostrada* subscriber to use the Orange FunSpot service, that is free access to their home Internet without limits out-of-home. Orange FunSpot is a network of access spots consisting of Livebox modems of *Neostrada* users.

An important development for the broadband portfolio was the introduction of a convergent offer, Orange Open, which accompanied the rebranding process. It offers a discount on a monthly access fee if a customer uses at least fixed broadband service plus mobile voice and/or broadband service. In such case, the aggregate monthly fee is reduced by PLN 15 in case of subscribing to *Neostrada* plus one Orange service or PLN 30 in case of subscribing to *Neostrada* plus two Orange services.

Multimedia Services

2013 saw further development of the FunPack offer:

- ‘Exceptional Internet Power in FunPack’: 12-month or 24-month agreements for 10 to 80 Mb/s options. For a 24-month agreement, the prices were PLN 104.00 for 10 Mb/s, PLN 119.90 for 20 Mb/s, PLN 119.01 for 40 Mb/s and PLN 129.01 for 80 Mb/s;
- ‘Internet in FunPack’: 24-month agreements for 10 to 80 Mb/s options. For a 24-month agreement, the prices were PLN 104.00 for 10 Mb/s, PLN 119.90 for 20 Mb/s, PLN 115.26 for 40 Mb/s and PLN 129.01 for 80 Mb/s.

In particular, the scope of the fixed line voice service was extended. In addition to the existing feature of unlimited F2F calls within Poland for no extra fee, also unlimited F2F calls to EU countries, US and Canada as well as F2M calls to US and Canada were embedded in the monthly fee.

The number of channels in TV packages was increased, e.g. to 54 on DTH or 59 on IPTV (including two HD channels) in the ‘TV Basic’ package.

- *n Television* packages: ‘Welcome to HD’ (84 channels on IPTV/79 on DTH, including 14 HD), ‘HD World’ (116 channels on IPTV, including 25 HD channels/121 on DTH, including 26 HD), ‘HD Movies’ (120 channels on IPTV, including 29 HD channels/125 on DTH, including 30 HD), ‘Full HD’ (123 channels on IPTV, including 32 HD channels/128 on DTH, including 33 HD) and ‘All Inclusive’ (128 channels on IPTV, including 35 HD channels/133 on DTH, including 36 HD).

Communication of functionalities such as ‘Set-Top Box for PLN 0’, started in ATL channels. In subsequent months, it was coupled by ‘Hard Disc for PLN 0’ offer, adding a PVR functionality to the set-top box.

An offer enabling customers to buy a tablet for PLN 1 when signing up for *Neostrada* or ‘FunPack HD’ (with a higher subscription fee and increased activation fee) was further developed:

- ‘Internet in FunPack with Tablet for PLN 1’: only 24-month agreements for 10 to 80 Mb/s options. The activation fee is increased to PLN 49.90. The monthly prices are 124.90 for 10 Mb/s, PLN 139.90 for 20 Mb/s, PLN 136.09 for 40 Mb/s and PLN 149.90 for 80 Mb/s.

Initially, a 7-inch tablet was offered, but it was replaced with a 10-inch model of higher technical parameters in the first half of the year.

VoIP Services

In 2013, Orange Polska introduced a number of changes in its portfolio of VoIP services. In the second quarter of 2013, the existing offer was withdrawn and the new ‘Plan for Everyone’ was introduced at PLN 29.90 (incl. VAT) per month. The plan is offered in the *Neophone* service, which is available to customers regardless of their Internet access provider.

MOBILE SERVICES

Owing to a broad range of offers based on loyalty agreements, with or without subsidised handsets (in the latter case, a customer is offered more attractive prices of services), it is possible to adapt to the requirements of both existing and new customers.

In 2013, the most popular post-paid offers for residential customers were:

- Smart Plans, 'Multi', 'Hello' and 'Mix', for voice services; and
- Orange Free for mobile broadband services.

In the pre-paid segment, Orange offers a number of services tailored to individual needs of customers and grouped in tariff plans: Orange POP, New Orange Go, Orange Free Pre-paid, Orange ONE, Orange Smart and Orange Yes.

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.

Residential Customers

In order to sustain the upward trend in customer acquisition and retain the existing customers, Orange regularly introduces new and attractive offers. The following projects were launched in 2013 in the mass-market post-paid voice segment:

- The beginning of the year was a period of winter sales. Orange promoted equipment at lower prices and offered reduced subscription fees. This was supported by the '100 Ways to Save' communication campaign;
- Addressing the churn risk by early retention, even 9 months before the end of the agreement, and focusing on winning customers who switch operators. The campaign was supported with the '21 Proofs That Orange Is Worth Being With' slogan;
- Offer improvement by the introduction of one free number on any network (April). This promotional offer has been used in promoting number migration to Orange as one of differentiators against the competition;
- Introduction of a new SIM-only offer at attractive price levels for customers who seek offers without a handset. The main benefit is a PLN 15 discount on the subscription fee;
- Enhancement of the 'Multi' and 'Hello' Smart Plan portfolio by introduction of unlimited SMSs on the Orange network (October) and unlimited calls to all networks (November) in selected tariff plans;
- Launch of an attractive Christmas promotion at the beginning of November, which offered a handset plus tablet set for PLN 2 in the 'Multi' and 'Hello' Smart Plans starting from the PLN 39.9 subscription fee, which significantly increased customer acquisition. The promotion was supported by a very intensive ATL and BTL advertising campaign;
- Launch of a project aimed at withdrawal of the oldest tariff offers (from before 2010) in order to clarify offers handled by billing systems. The project provides for customer migration to new, more cost-attractive tariff plans from the current portfolio;
- Development of an offer addressed to resigning customers: introduction of special limited discounts of up to 25%, available in the on-line channel;
- Throughout the year, the 'Crazy Days' campaign was carried out each month in the e-store sklep.orange.pl. This involved offering selected handsets for very attractive prices for a few days. Each time, the campaign was supported with communications. The purpose of the campaign was to build the position of e-store in new sales and retention.

Major developments related to Orange Polska's pre-paid offer in 2013 were as follows:

- In April, Orange introduced the 'Smart' tariff onto the market. It has been designed for a growing population of smartphone users, who are characterised by higher-than-average data consumption accompanied by demand for higher volumes of minutes and SMSs at attractive prices;

- The entire first half of 2013 saw a series of promotional unlimited offers for both voice and texting traffic. These offers, though limited in time, were popular among customers. As a follow-up, a long-term unlimited offer on non-promotional nature in the form of a new tariff plan, 'Orange Yes', was introduced in September. It is unique in the market in offering an unlimited scheme which may be combined with annual validity of an account;
- The second half of the year saw investments in the data portfolio. Owing to a growing population of smartphone users, operators undertake initiatives to educate them about the possibilities offered by the devices they use. These efforts include seasonal offers of cheap high-volume data pools to enable customers to test the potential of their smartphones, such as 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.

Business Customers

The following offers were introduced in 2013:

- February: Launch of the 'Super Signal' service, which provides for coverage indoors. It is dedicated to customers who experience problems with coverage e.g. in the company's headquarters or branches;
- February: New 'Business Everywhere with a Computer' offer, which combines mobile broadband with a netbook or laptop and, in addition, a TV package and Orange Basic positioning service;
- March: Addition of the 'Beneficial 700' plan with a pool of 700 minutes embedded in the subscription to the Beneficial Plans portfolio;
- April: Introduction of the free 'Equal Rates' service. Customers can activate it free of charge, reducing the rate per minute for calls to the networks of Play, Centernet, Mobyland and other infrastructure-based operators to that charged for calls to the Plus and T-Mobile networks;
- April: Addition of the 'Orange Positioner' service to the portfolio. It facilitates positioning and monitoring of business phones and is based on the LBS (Location Base Service) technology;
- June: Introduction of the 'Business without Boundaries' offer with services grouped into data and voice packages;
- June: Reduction in activation and subscription fees for the 'Mobile Office Network' and 'Virtual Local Network' services;
- July: Introduction of 'Maximum Profits' and 'Maximum Profits with Internet' promotions for mobile voice services;
- August: Addition of the *Business Everywhere* pool, in which a data transmission limit can be shared by all numbers used within a company, to the mobile data portfolio;
- September: Launch of the 'Smartphones for PLN 0 for Starters' promotional offer, in which customers could receive a smartphone at no initial cost, as the relevant monthly instalments were to be charged in phone bills only after January 1, 2014;
- October: 'No Limit with Chosen Number' offer, enabling unlimited calls to a chosen number on any network in Poland;
- October: Launch of the 'Answer across EU without Limits' promotion, which offered unlimited incoming calls in the roaming scheme within the EU;
- November: Introduction of the new 'Cloud for Business' service. It is a platform with business applications which support and facilitate running a business. Customers can access the applications they choose via any computer, tablet or smartphone connected to the Internet. The applications operate on-line, which means that customers do not need to install them on their computers or download any upgrade packs;
- November: Improvement of the earlier promotions: 'More Minutes in Beneficial Mix' and 'Business without Limits'.

GLOSSARY OF TELECOM TERMS

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

ARPL – Average Revenues per Line

ARPU – Average Revenues per User

AUPU – Average Usage per User

BSA – Bitstream Access Offer

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

DLD – Domestic Long Distance Calls

DSLAM – Digital Subscriber Line Access Multiplexer

F2M – Fixed to Mobile Calls

FVNO – Fixed Virtual Network Operator

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

LC – Local Calls

LLU – Local Loop Unbundling

LTE – Long Term Evolution, standard of data transmission on mobile networks

MAN – Metropolitan Area Network

MPLS – MultiProtocol Label Switching

M2M – Machine to Machine, telemetry

MTR – Mobile Termination Rates

MVNO – Mobile Virtual Network Operator

Net FCF – Net Free Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables)

POTS – Plain Old Telephone Service

RAN agreement - agreement on reciprocal use of radio access networks

RIO – Reference Interconnection Offer

SAC – Subscriber Acquisition Costs

SDI – Permanent (Rapid) Access to Internet

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

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental