POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS for the year 2017

(year)

(according to par. 82 s. 2 of the Decree of Minister of Finance dated 19 February 2009 - unified text Journal of Laws 2014, No. 133, with amendments)
for the issuers in sectors of production, construction, trade or services

for the **year 2017**, i.e. from **1 January 2017 to 31 December 2017**

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

date of issuance: **20 February 2018**

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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Ernst & Young Audyt Polska Sp. z o.o. sp.k.
(auditor)

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	year / 2017	year / 2016	year / 2017	year / 2016
I. Revenue	11 381 000	11 538 000	2 681 226	2 636 835
II. Operating income/(loss)	229 000	(1 354 000)	53 950	(309 436)
III. Loss before income tax	(75 000)	(1 713 000)	(17 669)	(391 480)
IV. Consolidated net loss	(60 000)	(1 746 000)	(14 135)	(399 022)
V. Net loss attributable to owners of Orange Polska S.A.	(60 000)	(1 746 000)	(14 135)	(399 022)
VI. Loss per share (in PLN/EUR) (basic and diluted)	(0.05)	(1.33)	(0.01)	(0.30)
VII. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VIII. Total comprehensive loss	(71 000)	(1 672 000)	(16 727)	(382 110)
IX. Total comprehensive loss attributable to owners of Orange Polska S.A.	(71 000)	(1 672 000)	(16 727)	(382 110)
X. Net cash provided by operating activities	2 064 000	2 549 000	486 254	582 535
XI. Net cash used in investing activities	(1 687 000)	(5 074 000)	(397 437)	(1 159 585)
XII. Net cash provided by financing activities	7 000	2 521 000	1 649	576 136
XIII. Net change in cash and cash equivalents	384 000	(4 000)	90 466	(914)
	Balance as at 31/12/2017	**Balance as at 31/12/2016**	**Balance as at 31/12/2017**	**Balance as at 31/12/2016**
XIV. Total current assets	3 273 000	2 639 000	784 723	596 519
XV. Total non-current assets	19 660 000	20 187 000	4 713 611	4 563 065
XVI. Total assets	22 933 000	22 826 000	5 498 334	5 159 584
XVII. Total current liabilities	6 043 000	4 386 000	1 448 848	991 410
XVIII. Total non-current liabilities	6 952 000	8 431 000	1 666 787	1 905 742
XIX. Total equity	9 938 000	10 009 000	2 382 699	2 262 432
XX. Equity attributable to owners of Orange Polska S.A.	9 936 000	10 007 000	2 382 220	2 261 980
XXI. Share capital	3 937 000	3 937 000	943 921	889 919

The consolidated statement of financial position data as at 31 December 2017 and 2016 presented in the table "Selected financial data" was translated into EUR at the average exchange rate of the National Bank of Poland on the end of the reporting period. The consolidated income statement data, together with the consolidated statement of comprehensive income and consolidated statement of cash flows data for the years ended 31 December 2017 and 2016, were translated into EUR 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 2017 and 2016.

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

1 EUR	31 December 2017	31 December 2016
Consolidated statement of financial position	4.1709 PLN	4.4240 PLN
Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows	4.2447 PLN	4.3757 PLN

Dear Shareholders,

In 2017 we made significant changes to our commercial approach and announced a new strategic plan called Orange.one which will take us through to 2020. Thanks to our focus on value, we improved our financial performance while still delivering very solid commercial results.

Orange.one: a new momentum

In September, we announced a new strategic plan for 2017–2020 called Orange.one. Our vision is to become Poland's first choice telecommunications operator for consumers and businesses, while creating a business model that will generate sustainable growth in both sales and profits. We expect to achieve these objectives by developing services and products of the highest quality, supported by the development of our fibre network and digital capabilities, and by significantly increasing our operational efficiency. Orange.one reaffirms the key priorities of the strategy we announced at the beginning of 2016, while giving them a new momentum. To achieve the goal of sustainable turnaround, we will need better execution, clearer focus and more agility. All our business decisions will be driven to a greater extent by value creation, and our customer propositions will be driven by simplicity and consistency. In order to further motivate our top managers to reach long-term goals, and to link their objectives more directly with the interests of our shareholders, we have introduced, for the first time in the history of Orange Polska, an incentive plan based purely on Orange Polska's stock price performance. More than 90% of eligible managers have joined this voluntary programme, a clear indicator of their confidence in Orange.one.

Orange Love: a new flagship offer for Polish households

The key to success in the B2C market will be convergence, or sales of mobile and fixed line service bundles. Convergence addresses the household telecommunication needs in a comprehensive manner, increases customer satisfaction and reduces churn. In 2017 we launched the Orange Love offer, which introduced our customers to a new approach to convergence. Instead of offering discounts on each additional service purchased, Orange Love is based on a predefined set of services - a "hard bundle". This bundle includes broadband access (via the best available technology in each customer's location), a package of around 100 TV channels, abundant mobile service and a home phone. The basic package can be extended to include various additional services, and supplemented by a broad portfolio of smartphones. Orange Love – a unique offer on the market – has become our flagship proposal for Polish households. It has been very well received: almost 600,000 customers signed up by the end of the year. In our view, the rest of the market is waking up to the success of convergence as a commercial formula. We believe that Cyfrowy Polsat's pending acquisition of Netia, as well as T-Mobile's intention to buy wholesale access to our fibre network, are signs that Orange Polska is leading the way.

More value-focused approach on the consumer market

As we highlighted in Orange.one strategy, our customer proposals need to be simple, consistent and at the same time reflect our focus on value generation. To address this, we radically revised our consumer market offers at the end of August. We now have fewer offers (for example, we cut the number of mobile voice tariffs from 18 to 4) and simpler offers. We have cancelled value-dilutive offers, rebates and promotions. We have introduced a charge for every additional SIM card. Both our mobile and convergent offers have become structured around a "more for more" approach. We have introduced subsidised smartphones, but they are available only as part of the Orange Love package. Growth of our post-paid mobile customer base in 2017 was still strong, at 5%; nevertheless it was lower than in the previous year, mainly reflecting our new commercial approach.

Fixed broadband: spectacular rebound thanks to fibre and wireless for fixed

I am particularly pleased with the performance of our fixed broadband business in 2017. Revenue from this business was up 4.5% year-on-year, after many years of decline as a result of rapid customer base expansion. Our customer base grew by almost 11%, the highest annual increase in a decade, which allowed us to grow market share. This impressive performance was made possible by our convergence strategy and investments in our fibre and mobile networks. We have expanded our fibre network by almost 70%, covering close to 2.5 million households at the end of 2017. Our fibre service is available in 75 cities, and in 21 of those we are present in more than 50% of households. Customer penetration in the fibre network keeps on increasing every quarter. Almost 80% of customers acquired were new customers to Orange Polska, which is evidence that we are winning market share from the competition. In pay-TV, we have improved our reputation as a reliable content provider, which has in turn contributed to our success in fixed broadband. Our TV customer base also increased by 11%, the highest growth rate in five years.

Customers trust us more

The customer is at the centre of everything we do. I am especially pleased to note that our Net Promoter Score (NPS) put us at number 2 in the market at the end of 2017, up from number 3 a year earlier. For us, this is the key measure of customer satisfaction and trust in Orange Polska, because it takes the whole customer experience into account. On one hand, customers appreciate the rapid improvements in connectivity thanks to the expansion of our fibre network (mentioned above), our convergent strategy, and the increasing simplicity of our offers. On the other hand, the score reflects our continual efforts to make the customer experience as simple as possible by eliminating unnecessary pain-points and procedures. Throughout 2017, our approach evolved: it is now driven by customer journeys (different types of experience, such as purchase, payment, termination or help). This has allowed us to provide a standardized and coherent quality of service across all customer touchpoints. In 2018 we will continue to work on improvements in this area, with special focus on the digitization of interactions and automation of processes behind the journeys. This reflects the fact that customers increasingly demand to be able do everything via digital channels.

Financial performance: substantial progress towards stabilisation

Our financial performance in 2017 reflected our focus on value generation. Adjusted EBITDA was slightly above PLN 3 billion, in line with our upgraded guidance. The year-on-year decline of 4.8% was less than half the rate a year ago (10.1%), despite continued pressure on legacy services and introduction of new roaming regulations which boosted interconnect expenses. This improving trend was a consequence of our switch in commercial policy combined with ongoing cost optimisations. Our shift in emphasis from volume to value resulted in significant reductions to handset subsidies, a much higher share of SIM-only transactions in customer acquisitions and retentions, as well as considerable optimisations in the distribution channel mix. These developments contributed to a very significant reduction of commercial costs. We believe that the improved EBITDA trend reinforces our strategic ambition of stabilisation and return to growth in the years ahead.

Focus for 2018: follow the priorities set in Orange.one

In 2018 we will continue to follow the priorities set in Orange.one. We need to execute our ambitious commercial plans, which include capitalisation on the new offer portfolio that we introduced in 2017, exploring further potential from convergence and increased monetisation of the fibre project. We want to maintain the speed at which we build our fibre network. It will include the first active year of the Digital Poland Operational Programme (POPC) which, through investment in less urban areas, will contribute to the development of local communities. Internally, we will continue to transform our business, increase efficiency and adapt our operations and internal culture for today's digital world.

Jean-Francois Fallacher
President of the Management Board and CEO
Orange Polska S.A.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting and Supervisory Board of Orange Polska S.A.

The audit report on the annual consolidated financial statements

We have audited the accompanying annual consolidated financial statements for the year ended 31 December 2017 of Orange Polska Group (the "Group"), in which the parent company is Orange Polska S.A. (the "Company") located in Warsaw at Al. Jerozolimskie 160, containing the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 January 2017 to 31 December 2017 and additional information to the financial statements, including a summary of significant accounting policies (the "accompanying consolidated financial statements").

Responsibilities of the Company's Management and members of the Supervisory Board for the consolidated financial statements

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Articles of Association. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act dated 29 September 1994 (the "Accounting Act"), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

In preparing the consolidated financial statements, the Company's Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The members of the Company's Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor’s responsibility

Our objective was to express an opinion on whether the consolidated financial statements give a true and fair view of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

1) Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (“Act on Statutory Auditors”),
2) National Auditing Standards in the form of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments,
3) International Auditing Standards,
4) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (“Regulation 537/2014”).

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit conducted in accordance with the above mentioned standards requires that the auditor exercises professional judgment and maintains professional scepticism throughout the audit. An audit includes also:

• Identification and assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designing and execution of audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

• Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

• Evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management.

• Concluding on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluation of the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the members of the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the members of the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the members of the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The scope of the audit does not include assurance on the future profitability of the audited Group nor effectiveness of conducting business matters now and in the future by the Company's Management Board.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the audit committee issued on the date of this report.

In accordance with International Auditing Standard 320 section 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the Code of Ethics for Professional Accountants of the Ethics Standards Board for Accountants (the "IESBA Code"), as well as, ethical requirements for the audits of financial statements in Poland in the form of the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors and we have fulfilled our other ethical responsibilities resulting from the above mentioned regulations as well as the IESBA Code.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to entities comprising the Group.

Appointment of the audit firm

We were appointed to audit the Group's consolidated financial statements based on the Company's Supervisory Board resolution dated 2 June 2017. We have been auditing the consolidated financial statements of the Group consecutively since the beginning of the financial year ended 31 December 2015; this is for 3 years.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks.

Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

Description of the nature of the risk of material misstatement (key audit matters)	Audit procedures in response to the identified risk
1. Goodwill impairment analysis Under IFRS, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because of the balance of goodwill of PLN 2 147m, which is significant to the financial statements. The Management assessment process is based on significant judgments, assumptions and estimates such as those underlying the strategy of the Orange Polska Group, future revenue streams, costs and operating cash flows, weighted average cost of capital (WACC) and perpetuity growth rate (PGR), which are affected by expected future market or economic conditions. *Reference to related disclosures in the financial statements* The Group's disclosures about identification of CGU and goodwill impairment test are included in Note 8 "Impairment", which specifically explains the main assumptions and results of the test together with a sensitivity analysis.	We have gained an understanding of the goodwill impairment calculation process, performed a walkthrough of the process and we evaluated the management's identification of the CGU and reviewed the impairment test. Our procedures included, among others, challenging management on the suitability of the impairment model and its assumptions, with particular attention paid to the following: • benchmarking the key assumptions in management's valuation models with industry range and market expectations including revenue, cost and margin trends, capital expenditure on network assets and spectrum, market share and customer churn and discount rates, against external data, where available; • testing the mathematical accuracy of the cash flow models and agreeing relevant data to forecasts approved by the Management Board; • assessing the adequacy of management's forecast through a review of actual performance against previous forecasts; • comparing both the WACC and PGR applied to the market range and discussing those with our valuation specialists; • assessing the sufficiency of the sensitivity analysis performed by the management and performing further sensitivity analyses, primarily focused on changes in operating cash flows; • assessing the adequacy of the disclosures made in the financial statements describing the impairment test and sensitivity analysis.

2. Deferred tax assets recoverability The Group performed detailed analysis of the deferred tax assets ("DTA") recoverability as at 31 December 2017. This matter was significant to our audit because the balance of the DTA of PLN 950 million as of 31 December 2017 is significant to the financial statements. In addition, management's assessment process is based on assumptions, specifically the timing and amount of the future taxable profits, against which deductible temporary differences and tax losses carried forward can be utilized. *Reference to related disclosures in the financial statements* The Group's disclosures on deferred tax and related significant assumptions are included in Note 24.2 "Deferred tax".	We have gained an understanding of the process of deferred tax calculation and identified key controls in the process. For selected controls we have performed tests of controls. We have analyzed the assumptions underlying the recognition and measurement of deferred tax assets. Our procedures also included, among others, the review of the deferred tax assets utilization model and have been aligned with our analysis of impairment test, as the deferred tax assets recoverability depends mainly on successful realization of the Board approved forecasts.
3. Claims, litigations and contingent liabilities The Group is subject to number of significant claims and litigations. Major risks identified by the Group in that area relate to anti-monopoly proceedings, compliance with regulatory requirements or customer protection proceedings. The amounts of claims may be significant and estimates of the amounts of provisions or contingent liabilities are subject to significant management judgement. *Reference to related disclosures in the financial statements* The Group's disclosures on the status of claims and proceedings are included in Note 28 "Litigation, claims and contingent liabilities".	We have gained an understanding of the process of identification of claims, litigations and contingent liabilities and identified key controls in the process. For selected controls we have performed tests of controls. Our procedures also included among others: • we have analysed with the Company's Legal Department material legal cases; • analysis of responses in legal letters obtained from the third party legal representatives of the companies comprising the Group; • discussion of relevant legal cases with EY independent legal specialists; • analysis of the minutes of meetings of the bodies of the companies comprising the Group (Management Board, Supervisory Board, General Shareholder Meeting);

	• our audit procedures included analysis of assessment of contingent liabilities and changes in provisions for claims and litigations which are on a quarterly basis submitted to the Audit Committee for review.
4. Accuracy of revenue recognition The accuracy of revenue recognition is an inherent industry risk. This is because telecoms billing systems are complex and process large volumes of data with a combination of different products sold and price changes in the year, through a number of different systems. Furthermore, the application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates. *Reference to related disclosures in the financial statements* The Group's disclosures on revenue are included in Note 5 "Revenue".	We have gained an understanding of the revenue recognition process and identified key controls in the process. For selected controls we have performed tests of controls. Our procedures also included among others: • evaluation of relevant IT systems; • review of the revenue recognition accounting policies, significant judgments and estimates; • detailed substantive testing, among others in the form of: – Analysis of monthly data and trends for significant revenue streams versus budgets and forecasts; – Reconciliation of significant deferred revenue balances; – Comparison of revenue accruals to actual sales; – Reconciliation of the appropriateness of revenue recognition for significant offers.

Opinion

In our opinion, the accompanying annual consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance and its cash flows for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report, except for the paragraph "Orange Polska Group's and Orange Polska S.A. Statements on Non-financial Information for 2017", was prepared in accordance with relevant laws and that it is consistent with the information contained in the annual consolidated financial statements. Our responsibility was also to make a statement, on whether based on our knowledge about the Group and its environment obtained during the audit of the consolidated financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the annual consolidated financial statements. Moreover, based on our knowledge of the Group and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the annual consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ("Regulation"). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Information on preparation of the statement on non-financial information

In accordance with the Act on Statutory Auditors, we inform, that the Company has prepared a statement on non-financial information mentioned in article 49b, section 1 of the Accounting Act as a separate element of the Director's Report.

We have not performed any attestation services in respect to the statement on non-financial information and do not express any assurance in its respect.

on behalf of:
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Partner

Łukasz Piotrowski
certified auditor
No. 12390

Mikołaj Rytel

Warsaw, 20 February 2018

ORANGE POLSKA GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

February 20, 2018

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Financial instruments excluding trade receivables and payables

Income tax

Equity and management of capital

Other explanatory notes

CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for loss per share)	*Note*	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Revenue	**5**	**11,381**	**11,538**
External purchases	6.1	(6,416)	(6,432)
Labour expense	6.2	(1,690)	(1,636)
Other operating expense	6.3	(559)	(587)
Other operating income	6.3	218	210
Gains on disposal of assets	7	81	70
Employment termination expense	13	(208)	-
Depreciation and amortisation	10,11	(2,572)	(2,725)
Impairment of non-current assets	8	(6)	(1,792)
Operating income/(loss)		**229**	**(1,354)**
Interest income	16	32	22
Interest expense and other financial charges	16	(279)	(282)
Discounting expense	16	(57)	(99)
Finance costs, net		**(304)**	**(359)**
Income tax	24.1	15	(33)
Consolidated net loss		**(60)**	**(1,746)**
Net loss attributable to owners of Orange Polska S.A.		(60)	(1,746)
Net loss attributable to non-controlling interests		-	-
Loss per share (in PLN) (basic and diluted)	**31.5**	**(0.05)**	**(1.33)**
Weighted average number of shares (in millions) (basic and diluted)	31.5	1,312	1,312

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)	*Note*	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Consolidated net loss		**(60)**	**(1,746)**
Items that will not be reclassified to profit or loss			
Actuarial losses on post-employment benefits	15	(3)	(1)
Income tax relating to items not to be reclassified		1	-
Items that may be reclassified subsequently to profit or loss			
Gains/(losses) on cash flow hedges	21	(11)	92
Income tax relating to items that may be reclassified		2	(17)
Other comprehensive income/(loss), net of tax		**(11)**	**74**
Total comprehensive loss		**(71)**	**(1,672)**
Total comprehensive loss attributable to owners of Orange Polska S.A.		(71)	(1,672)
Total comprehensive loss attributable to non-controlling interests		-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*Note*	*At 31 December 2017*	*At 31 December 2016 (see Note 31.5)*
ASSETS			
Goodwill	9	2,147	2,147
Other intangible assets	10	5,256	5,722
Property, plant and equipment	11	10,666	10,678
Trade receivables	12	532	433
Derivatives	21	37	206
Other assets		72	72
Deferred tax assets	24.2	950	929
Total non-current assets		**19,660**	**20,187**
Inventories		217	163
Trade receivables	12	2,266	2,033
Derivatives	21	-	36
Income tax assets		-	5
Other assets		78	60
Prepaid expenses		66	80
Cash and cash equivalents	20	646	262
Total current assets		**3,273**	**2,639**
TOTAL ASSETS		22,933	22,826
EQUITY AND LIABILITIES			
Share capital	25.1	3,937	3,937
Share premium		832	832
Other reserves		(40)	(29)
Retained earnings		5,207	5,267
Equity attributable to owners of Orange Polska S.A.		**9,936**	**10,007**
Non-controlling interests		2	2
Total equity		**9,938**	**10,009**
Trade payables	14.1	550	682
Loans from related party	18.1	5,485	7,087
Other financial liabilities at amortised cost	18.2	68	66
Derivatives	21	58	76
Employee benefits	15	139	144
Provisions	13	553	280
Other liabilities	14.2	16	15
Deferred income	14.3	83	81
Total non-current liabilities		**6,952**	**8,431**
Trade payables	14.1	2,421	2,642
Loans from related party	18.1	1,484	5
Other financial liabilities at amortised cost	18.2	45	36
Derivatives	21	42	-
Employee benefits	15	221	188
Provisions	13	854	850
Income tax liabilities		19	24
Other liabilities	14.2	479	132
Deferred income	14.3	478	509
Total current liabilities		**6,043**	**4,386**
TOTAL EQUITY AND LIABILITIES		22,933	22,826

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Other reserves			Retained earnings	Equity attributable to owners of OPL S.A.	Non-controlling interests	Total equity
			Gains/ (losses) on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax				
Balance at 1 January 2017	**3,937**	**832**	**9**	**(44)**	**6**	**5,267**	**10,007**	**2**	**10,009**
Total comprehensive loss for the 12 months ended 31 December 2017	-	-	(11)	(3)	3	(60)	(71)	-	(71)
Balance at 31 December 2017	**3,937**	**832**	**(2)**	**(47)**	**9**	**5,207**	**9,936**	**2**	**9,938**
Balance at 1 January 2016	**3,937**	**832**	**(83)**	**(43)**	**23**	**7,309**	**11,975**	**2**	**11,977**
Total comprehensive loss for the 12 months ended 31 December 2016	-	-	92	(1)	(17)	(1,746)	(1,672)	-	(1,672)
Dividend (see Note 25.2)	-	-	-	-	-	(328)	(328)	-	(328)
Other movements (see Note 25.3)	-	-	-	-	-	32	32	-	32
Balance at 31 December 2016	**3,937**	**832**	**9**	**(44)**	**6**	**5,267**	**10,007**	**2**	**10,009**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)	*Note*	*12 months ended 31 December 2017*	*12 months ended 31 December 2016 (see Note 31.5)*
OPERATING ACTIVITIES			
Consolidated net loss		(60)	(1,746)
Adjustments to reconcile net loss to cash from operating activities			
Gains on disposal of assets	7	(81)	(70)
Depreciation and amortisation	10,11	2,572	2,725
Impairment of non-current assets	8	6	1,792
Finance costs, net		304	359
Income tax	24.1	(15)	33
Change in provisions and allowances		111	(126)
Operational foreign exchange and derivatives (gains)/losses, net		8	(10)
Change in working capital			
(Increase)/decrease in inventories, gross		(53)	54
Increase in trade receivables, gross		(334)	(499)
Increase/(decrease) in trade payables		(106)	362
(Increase)/decrease in prepaid expenses and other receivables		(5)	67
Increase/(decrease) in deferred income and other payables		62	(39)
Interest received		32	22
Interest paid and interest rate effect paid on derivatives, net		(363)	(353)
Exchange rate and other effect received/(paid) on derivatives, net		(6)	10
Income tax paid		(8)	(32)
Net cash provided by operating activities		**2,064**	**2,549**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	10,11	(1,933)	(5,169)
Decrease in amounts due to fixed assets suppliers		(126)	(42)
Investment grants received	14.2	297	-
Investment grants paid to fixed assets suppliers	14.2	(1)	-
Exchange rate effect received/(paid) on derivatives economically hedging capital expenditures, net		(7)	15
Proceeds from sale of property, plant and equipment and intangible assets		113	119
Cash paid for subsidiaries, net of cash acquired	4	(31)	-
Decrease in other financial instruments		1	3
Net cash used in investing activities		**(1,687)**	**(5,074)**
FINANCING ACTIVITIES			
Issuance of long-term debt	19	-	2,702
Repayment of long-term debt	19	(31)	(1,225)
Increase in revolving credit line and short-term debt	19	39	1,355
Exchange rate effect received/(paid) on derivatives hedging debt, net	19	(1)	17
Dividend paid	19, 25.2	-	(328)
Net cash provided by financing activities		**7**	**2,521**
Net change in cash and cash equivalents		**384**	**(4)**
Cash and cash equivalents at the beginning of the period	20	262	266
Cash and cash equivalents at the end of the period	20	**646**	**262**

1. Corporate information

1.1. The Orange Polska Group

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

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

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

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

1.2. Entities of the Group

The Group comprises Orange Polska and the following subsidiaries:

Entity	*Location*	*Scope of activities*	*Share capital owned by the Group*	
			31 December 2017	*31 December 2016*
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100%	100%
TP TelTech Sp. z o.o.	Łódź, Poland	Design and development of telecommunications systems, servicing telecommunications network, monitoring of alarm signals.	100%	100%
Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	89.27%	89.27%
Orange Retail S.A.	Modlnica, Poland	Distributor of OPL S.A. products on mass and business market.	100%	100%
Orange Energia Sp. z o.o. [(1)]	Warsaw, Poland	Sale of electrical energy.	100%	-
Orange Real Estate Sp. z o.o.	Warsaw, Poland	Facilities management and maintenance.	100%	100%
Orange Szkolenia Sp. z o.o.	Warsaw, Poland	Training and hotel services, insurance agent.	100%	100%
Pracownicze Towarzystwo Emerytalne Orange Polska S.A.	Warsaw, Poland	Management of employee pension fund.	100%	100%
Fundacja Orange	Warsaw, Poland	Charity foundation.	100%	100%
Telekomunikacja Polska Sp. z o.o.	Warsaw, Poland	No operational activity.	100%	100%

[(1)] See Note 4.

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

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

During the 12 months ended 31 December 2017 and 2016, 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.

2. Statement of compliance and basis of preparation

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

These Consolidated Financial Statements have been prepared in millions of Polish złoty ("PLN"). Comparative amounts for the year ended 31 December 2016 have been compiled using the same basis of preparation.

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

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

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

These Consolidated Financial Statements were authorised for issuance by the Management Board on 20 February 2018 and are subject to approval at the General Meeting of Orange Polska S.A.

The principles applied to prepare financial data relating to the year ended 31 December 2017 are described in Note 31 and are based on:

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2017,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2017 but for which the Group has opted for earlier application,
- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of International Accounting Standard ("IAS") 8 (Use of judgements).

3. Segment information

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

Revenue from the Group's activities is adjusted for the impact of changes in the scope of consolidation. There was no adjustment for the 12 months ended 31 December 2017 and 2016.

Since the calculation of EBITDA, organic cash flows, capital expenditures and net financial debt is not defined by IFRS, the methodology adopted by the Group is presented below.

EBITDA is the key measure of operating profitability used by the Management Board and corresponds to operating income/loss before depreciation and amortisation expense and impairment of non-current assets. To give a better representation of underlying performance, EBITDA is adjusted for the impact of changes in the scope of consolidation, employment termination programs, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items. Adjustments for the 12 months ended 31 December 2017 and 2016 are presented in the table below.

Organic cash flows are the key measure of cash flow generation used by the Management Board and correspond to net cash provided by operating activities decreased by purchases of property, plant and equipment and intangible assets, changes in amounts due to fixed assets suppliers, impact of investments grants received/paid to fixed assets suppliers, impact of net exchange rate effect received/paid on derivatives economically hedging capital expenditures and increased by proceeds from sale of property, plant and equipment and intangible assets. To give a better representation of underlying performance, organic cash flows are adjusted for the payments for acquisition of telecommunications licences and payments relating to significant claims, litigation and other risks as well as for investment grants received/paid to fixed assets suppliers. Adjustments for the 12 months ended 31 December 2017 and 2016 are presented in the table below.

Capital expenditures are the key measure of resources allocation used by the Management Board and represent acquisitions of property, plant and equipment and intangible assets. To give a better representation of underlying performance, capital expenditures are adjusted for the impact of acquisition of telecommunications licences. Adjustments for the 12 months ended 31 December 2017 and 2016 are presented in the table below.

Net financial debt and net financial debt to adjusted EBITDA ratio are the key measures of indebtedness and liquidity used by the Management Board. The calculation of net financial debt is presented in Note 17.

Basic financial data of the operating segment is presented below:

(in PLN millions)	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Revenue [1]	11,381	11,538
Adjusted EBITDA	3,011	3,163
Net loss as per consolidated income statement	(60)	(1,746)
Adjusted organic cash flows	111	620
Adjusted capital expenditures	1,933	2,001

[1] There was no adjustment for the 12 months ended 31 December 2017 and 2016.

	At 31 December 2017	*At 31 December 2016*
Net financial debt (in PLN millions, see Note 17)	6,497	6,775
Net financial debt/adjusted EBITDA ratio	2.2	2.1

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

(in PLN millions)	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
EBITDA	2,807	3,163
- adjustment for the impact of Social Agreements, consisting of employment optimisation programme expense, net of resulting curtailment of long-term employee benefits (see Notes 13 and 15)	204	-
Adjusted EBITDA	3,011	3,163
Organic cash flows	407	(2,528)
- adjustment for investments grants received	(297)	-
- adjustment for investment grants paid to fixed assets suppliers	1	-
- adjustment for payments for acquisition of telecommunications licences (see Note 10)	-	3,148
Adjusted organic cash flows	111	620
Capital expenditures	1,933	5,169
- adjustment for expenditures on acquisition of telecommunications licences (see Note 10)	-	(3,168)
Adjusted capital expenditures	1,933	2,001

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

Acquisition of Multimedia Polska Energia Sp. z o.o.

On 5 September 2017, the Group acquired 100% shareholding in Multimedia Polska Energia Sp. z o.o. ("Multimedia Polska Energia"), a company that sells electrical energy. This acquisition is consistent with Group's strategy to develop services to households which are complementary to its core telecommunication services. The acquisition price amounted to PLN 44 million payable in cash, of which PLN 35 million was paid in September 2017, PLN 5 million in October 2017 and PLN 4 million will be paid in December 2018. As a result of the transaction, the Group recognised the following assets and liabilities:

(in PLN millions)

Assets:	
Intangible assets [(1)]	27
Trade receivables	23
Deferred tax assets	(4)
Cash and cash equivalents	9
Other	4
Total assets	**59**
Liabilities:	
Trade payables	13
Other	2
Total liabilities	**15**
Net assets acquired	**44**

[(1)] Includes PLN 25 million of customer contracts and the related customer relationships recognised at fair value.

There was no goodwill or gain on bargain purchase recognised on acquisition of Multimedia Polska Energia.

Multimedia Polska Energia was renamed to Orange Energia Sp. z o.o. in September 2017.

Other changes in scope of consolidation

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

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

5. Revenue

(in PLN millions)	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Mobile revenue	**6,141**	**6,324**
Retail revenue	3,791	4,238
Wholesale revenue (including interconnect)	1,147	1,037
Mobile equipment sales	1,203	1,049
Fixed services	**4,571**	**4,720**
Fixed narrowband	1,327	1,527
Fixed broadband, TV and VoIP (Voice over Internet Protocol)	1,617	1,548
Enterprise solutions and networks	894	892
Wholesale revenue (including interconnect)	733	753
Other revenue	**669**	**494**
Total revenue	**11,381**	**11,538**

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

From 2017 revenue from wireless for fixed offer was reclassified from mobile retail revenue to fixed broadband, TV and VoIP. Consequently, revenue from equipment sales related to this service is presented as other revenue (previously as mobile equipment sales). The comparative amounts were changed accordingly by PLN 58 million and PLN 39 million. Current presentation better reflects business substance of wireless for fixed offer, which constitutes substitution for fixed broadband.

Revenue is generated mainly in the territory of Poland. Approximately 3.6% and 3.2% of the total revenue for the 12 months ended 31 December 2017 and 2016, 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 2017*	*12 months ended 31 December 2016*
Commercial expenses	(2,545)	(2,839)
– *cost of handsets and other equipment sold*	*(1,793)*	*(1,901)*
– *commissions, advertising, sponsoring costs and other*	*(752)*	*(938)*
Interconnect expenses	(1,778)	(1,513)
Network and IT expenses	(652)	(670)
Other external purchases	(1,441)	(1,410)
Total external purchases	**(6,416)**	**(6,432)**

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

6.2. Labour expense

(in PLN millions)	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Average number of active employees (full time equivalent)	15,433	16,424
Wages and salaries	(1,501)	(1,528)
Social security and other charges	(348)	(350)
Long-term employee benefits (see Note 15.1)	6	82
Capitalised personnel costs	218	205
Other employee benefits	(65)	(45)
Total labour expense	**(1,690)**	**(1,636)**

6.3. Other operating expense and income

(in PLN millions)	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Taxes other than income tax	(305)	(304)
Orange brand fee (see Note 29.2)	(121)	(127)
Impairment losses on trade and other receivables, net	(86)	(89)
Other expense and changes in provisions, net	(47)	(67)
Total other operating expense	**(559)**	**(587)**
Total other operating income	**218**	**210**

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

6.4. Research and development

During the 12 months ended 31 December 2017 and 2016, research and development costs expensed in the consolidated income statement amounted to PLN 52 million and PLN 48 million, respectively.

7. Gains on disposal of assets

During the 12 months ended 31 December 2017 and 2016, gains on disposal of assets amounted to PLN 81 million and PLN 70 million, respectively, and included mainly gains on disposal of properties.

8. Impairment

8.1. Cash Generating Unit

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

The Group considers certain indicators, including regulatory and economic changes in the Polish telecommunications market, in assessing whether there is any indication that an asset may be impaired.

As at 31 December 2017 and 2016 the Group performed impairment tests of the CGU (including goodwill).

No impairment loss was recognised in the year 2017.

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

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

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

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

Telecom operator CGU

	At 31 December 2017	*At 31 December 2016*
Basis of recoverable amount	Value in use	Value in use
Sources used	Business plan	Business plan
	5 years cash flow projections	5 years cash flow projections
Perpetuity growth rate	1%	1%
Post-tax discount rate	8.25%	9.25%
Pre-tax discount rate [1]	9.64%	10.7%

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

Sensitivity of recoverable amount

The value in use of the telecom operator CGU as at 31 December 2017 exceeds its carrying value by PLN 3.6 billion. Any of the following changes in key assumptions:

- a 22% fall in projected cash flows after fifth year or
- a 1.2 p.p. decrease of growth rate to perpetuity or
- a 1.4 p.p. increase of post-tax discount rate

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

8.2. Other property, plant and equipment and intangible assets

During the 12 months ended 31 December 2017 and 2016, the (impairment)/reversal of impairment loss on property, plant and equipment and intangible assets included in the consolidated income statement amounted to PLN (6) million and PLN 1 million, respectively, primarily as a result of a review of certain of the Group's properties.

9. Goodwill

(in PLN millions)	*At 31 December 2017*			*At 31 December 2016*		
CGU	*Cost*	*Accumulated impairment*	*Net*	*Cost*	*Accumulated impairment* [(1)]	*Net*
Telecom operator	3,940	(1,793)	2,147	3,940	(1,793)	2,147
Total goodwill	**3,940**	**(1,793)**	**2,147**	**3,940**	**(1,793)**	**2,147**

(1) See Note 8.1.

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

10. Other intangible assets

(in PLN millions)	*At 31 December 2017*			
	Cost	*Accumulated amortisation*	*Accumulated impairment*	*Net*
Telecommunications licences	5,785	(2,085)	-	3,700
Software	5,736	(4,270)	-	1,466
Other intangibles	250	(148)	(12)	90
Total other intangible assets	**11,771**	**(6,503)**	**(12)**	**5,256**

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

Details of telecommunications licences are as follows:

(in PLN millions)	*Acquisition date*	*Years to expiration* [(2)]	*Net book value At 31 December 2017*	*Net book value At 31 December 2016*
800 MHz	2016	13.1	2,676	2,880
900 MHz	2014	11.5	276	300
900 MHz [(1)]	2013	0.6	7	20
1800 MHz [(1)]	2013	10.0	159	175
1800 MHz	1997	9.6	-	-
2100 MHz	2000	5.0	479	574
2600 MHz	2016	13.1	103	111
Total telecommunications licences			**3,700**	**4,060**

(1) Licences held under agreements with T-Mobile Polska S.A.
(2) Remaining useful life in years as at 31 December 2017.

On 25 January 2016, the Group received decisions in which the President of UKE granted Orange Polska the frequencies in the 800 MHz and 2600 MHz bands for a total amount of PLN 3,168 million declared in the auction. On the basis of these decisions, Orange Polska received the licenses for two blocks of 2x5 MHz each in the 800 MHz band and licenses for three blocks of 2x5 MHz each in the 2600 MHz band. The licenses are valid for 15 years from the date of receipt of the decisions. In February 2016, Orange Polska paid the whole amount less PLN 20 million of deposit paid in 2014 before the auction.

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2017 were as follows:

(in PLN millions)	*Telecommunications licences*	*Software*	*Other intangibles*	*Total other intangible assets*
Opening balance net of accumulated amortisation and impairment	**4,060**	**1,599**	**63**	**5,722**
Acquisitions of intangible assets	-	412	16	428
Amortisation	(360)	(546)	(15)	(921)
Reclassifications and other, net	-	1	26	27
Closing balance	**3,700**	**1,466**	**90**	**5,256**

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

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

On the basis of an annual review of estimated useful lives of fixed assets, the Group decided to extend useful lives for certain items of software from 2017. As a result, the amortisation expense was lower by PLN 45 million in the 12 months ended 31 December 2017.

11. Property, plant and equipment

(in PLN millions)	*At 31 December 2017*			
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*
Land and buildings	2,991	(1,887)	(30)	1,074
Network	38,218	(29,458)	-	8,760
Terminals	2,097	(1,622)	-	475
Other IT equipment	1,439	(1,162)	-	277
Other	278	(196)	(2)	80
Total property, plant and equipment	**45,023**	**(34,325)**	**(32)**	**10,666**

(in PLN millions)	*At 31 December 2016*			
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*
Land and buildings	3,060	(1,833)	(31)	1,196
Network	37,641	(29,025)	-	8,616
Terminals	1,984	(1,552)	-	432
Other IT equipment	1,486	(1,149)	-	337
Other	277	(178)	(2)	97
Total property, plant and equipment	**44,448**	**(33,737)**	**(33)**	**10,678**

In 2017, the Group reclassified some items of property, plant and equipment from terminals to network in the amount of PLN 142 million as at 1 January and 31 December 2016 due to former inappropriate classification.

As at 31 December 2017 and 2016, the amount of expenditures recognised in the carrying amount of items of property, plant and equipment in the course of their construction amounted to PLN 1,045 million and PLN 1,061 million, respectively.

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2017 were as follows:

(in PLN millions)	*Land and buildings*	*Network*	*Terminals*	*Other IT equipment*	*Other*	*Total property, plant and equipment*
Opening balance net of accumulated amortisation and impairment	**1,196**	**8,616**	**432**	**337**	**97**	**10,678**
Acquisitions of property, plant and equipment	24	1,190	222	51	18	1,505
Disposals and liquidations	(31)	(2)	-	(1)	-	(34)
Depreciation	(111)	(1,227)	(180)	(104)	(29)	(1,651)
Impairment	(6)	-	-	-	-	(6)
Dismantling costs, reclassifications and other, net	2	183	1	(6)	(6)	174
Closing balance	**1,074**	**8,760**	**475**	**277**	**80**	**10,666**

On the basis of an annual review of estimated useful lives of fixed assets, the Group decided to extend useful lives for certain terminals and network assets from 2017. As a result, the depreciation expense was lower by PLN 103 million in the 12 months ended 31 December 2017.

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

(in PLN millions)	*Land and buildings*	*Network*	*Terminals*	*Other IT equipment*	*Other*	*Total property, plant and equipment*
Opening balance net of accumulated amortisation and impairment	**1,322**	**8,790**	**430**	**374**	**109**	**11,025**
Acquisitions of property, plant and equipment	41	1,161	231	88	27	1,548
Disposals and liquidations	(48)	(5)	-	-	-	(53)
Depreciation	(120)	(1,309)	(233)	(123)	(32)	(1,817)
Impairment	1	-	-	-	-	1
Dismantling costs, reclassifications and other, net	-	(21)	4	(2)	(7)	(26)
Closing balance	**1,196**	**8,616**	**432**	**337**	**97**	**10,678**

The carrying value of equipment held under finance leases as at 31 December 2017 and 2016 amounted to PLN 86 million and PLN 58 million, respectively. During the 12 months ended 31 December 2017 and 2016, acquisitions of equipment financed through finance leases amounted to PLN 46 million and PLN 17 million, respectively. Leased assets cannot be sold, donated, transferred by title or pledged and are a collateral for the related finance lease liability.

12. Trade receivables

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016 (see Note 31.5)*
Non-current trade receivables, net	532	433
Current trade receivables, net	2,266	2,033
Trade receivables, net	**2,798**	**2,466**

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 consolidated statement of financial position. Non-current trade receivables relate mainly to sales of mobile handsets in instalments.

Movement in the impairment of trade receivables during the 12 months ended 31 December 2017 and 2016 is presented below:

(in PLN millions)	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Beginning of period	**159**	**138**
Impairment losses, net	80	87
Utilisation of impairment for receivables sold or written-off	(58)	(66)
End of period	**181**	**159**

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

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016 (see Note 31.5)*
Trade receivables collectively analysed for impairment, net:		
Not past due	1,965	1,501
Past due less than 180 days	271	281
Past due between 180 and 360 days	15	8
Past due more than 360 days	7	7
Total trade receivables collectively analysed for impairment, net	**2,258**	**1,797**
Trade receivables individually analysed for impairment, net: [1]		
Not past due	496	580
Past due	44	89
Total trade receivables individually analysed for impairment, net	**540**	**669**
Total trade receivables, net	**2,798**	**2,466**

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

13. Provisions

Movements of provisions for the 12 months ended 31 December 2017 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 2017	**793**	**62**	**275**	**1,130**
Increases	38	209	183	430
Reversals (utilisations)	(10)	(70)	(8)	(88)
Reversals (releases)	(42)	(1)	(10)	(53)
Foreign exchange effect	(32)	-	-	(32)
Discounting effect	10	1	9	20
At 31 December 2017	**757**	**201**	**449**	**1,407**
Current	736	110	8	854
Non-current	21	91	441	553

Movements of provisions for the 12 months ended 31 December 2016 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 2016	**728**	**132**	**301**	**1,161**
Increases	43	-	5	48
Reversals (utilisations)	(10)	(71)	(10)	(91)
Reversals (releases)	(7)	-	(32)	(39)
Foreign exchange effect	21	-	-	21
Discounting effect	18	1	11	30
At 31 December 2016	**793**	**62**	**275**	**1,130**
Current	780	62	8	850
Non-current	13	-	267	280

The discount rate used to calculate the present value of provisions amounted to 1.77% - 3.54% as at 31 December 2017 and 1.75% - 3.73% as at 31 December 2016.

Provisions for claims and litigation, risks and other charges

These provisions relate mainly to claims and litigation described in Note 28. As a rule, provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management Board, such disclosure could prejudice the outcome of the pending cases.

Provisions for employment termination expense

On 5 December 2017, OPL S.A. concluded with Trade Unions the Social Agreement under which up to 2,680 employees are entitled to take advantage of the voluntary departure package in years 2018 - 2019. The value of voluntary departure package varies depending on individual salary, employment duration, age 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 2019. Other commitments made by OPL S.A. in the Social Agreement are described in Note 15.

Increases of provisions for employment termination expense during 12 months ended 31 December 2017 included PLN 201 million of the estimated amount of termination benefits for employees scheduled to terminate employment in OPL S.A. under the 2018 - 2019 Social Agreement. Other movements of these provisions during the 12 months ended 31 December 2017 and 2016 relate to termination benefits for employees scheduled to terminate employment under the 2016 - 2017 Social Agreement.

Dismantling provisions

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

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

The Group revised estimate of dismantling provision due to the change of the agreement with dismantling services provider. Higher unit price of dismantling resulted in an increase of provision and fixed assets by PLN 178 million in the 12 months ended 31 December 2017.

14. Trade payables, other liabilities and deferred income

14.1. Trade payables

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016 (see Note 31.5)*
Trade payables	1,547	1,646
Fixed assets payables	730	841
Telecommunications licence payables	694	837
Total trade payables	**2,971**	**3,324**
Current	2,421	2,642
Non-current [1]	550	682

[1] Includes telecommunications licence payables only.

As at 31 December 2017 and 2016, trade payables subject to reverse factoring amounted to PLN 224 million and PLN 132 million, respectively. These payables are presented together with the remaining balance of trade payables, as analysis conducted by the Group indicates they have retained their trade nature.

14.2. Other liabilities

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016*
Investment grants received	301	8
VAT payables	90	53
Other taxes payables	22	22
Other	82	64
Total other liabilities	**495**	**147**
Current	479	132
Non-current	16	15

In the 12 months ended 31 December 2017, Orange Polska received PLN 297 million of advances for non-repayable investment grants for the development of the broadband telecommunications network under the Operational Programme “Digital Poland”. PLN 4 million of the grants was used and deducted from the cost of related assets, of which PLN 1 million was paid to fixed assets suppliers. Investment grants are presented separately within investing activities in the consolidated statement of cash flows.

14.3. Deferred income

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016 (see Note 31.5)*
Subscription (including unused balances in post-paid system)	191	223
Unused balances in pre-paid system	203	206
Connection fees	62	62
Other	105	99
Total deferred income	**561**	**590**
Current	478	509
Non-current	83	81

15. Employee benefits

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016*
Jubilee awards	94	104
Retirement bonuses	44	52
Salaries and other employee-related payables	222	176
Total employee benefits	**360**	**332**
Current	221	188
Non-current	139	144

On 5 December 2017, OPL S.A. concluded with Trade Unions the Social Agreement for years 2018 - 2019 (see Note 13) in which the Company, as a part of the negotiated employment optimisation programme, committed to make additional contributions in the fixed amount totalling PLN 21 million to the employee social programmes carried out by the Company. As a result, this amount was recognised as other employee-related payables as at 31 December 2017 and labour expense in the 12 months ended 31 December 2017.

15.1. Jubilee awards and retirement bonuses

Certain employees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 31.21). These benefits are not funded. Changes in the present and carrying value of obligations related to long-term employee benefits for the 12 months ended 31 December 2017 and 2016 are detailed below:

(in PLN millions)	*12 months ended 31 December 2017*		
	Jubilee awards	*Retirement bonuses*	*Total*
Present/carrying value of obligation at the beginning of the period	**104**	**52**	**156**
Current service cost [1]	6	3	9
Past service cost [1] [2]	(13)	(12)	(25)
Interest cost [3]	3	2	5
Benefits paid	(16)	(4)	(20)
Actuarial losses for the period	10 [1]	3 [4]	13
Present/carrying value of obligation at the end of the period	**94**	**44**	**138**
Weighted average duration (in years)	6	13	8

[1] Recognised under labour expense in the consolidated income statement.
[2] Curtailment resulting from the Social Agreement concluded on 5 December 2017 (see Note 13).
[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 2016*			
	Jubilee awards	*Retirement bonuses*	*Other post-employment benefits*	*Total*
Present/carrying value of obligation at the beginning of the period	**131**	**115**	**3**	**249**
Current service cost [(1)]	7	3	-	10
Past service cost [(1)]	(28) [(2)]	(66) [(2)]	(3)	(97)
Interest cost [(3)]	3	1	-	4
Benefits paid	(14)	(2)	-	(16)
Actuarial losses for the period	5 [(1)]	1 [(4)]	-	6
Present/carrying value of obligation at the end of the period	**104**	**52**	**-**	**156**
Weighted average duration (in years)	7	11	-	8

[(1)] Recognised under labour expense in the consolidated income statement.
[(2)] Impact of agreements with Trade Unions (see below).
[(3)] Recognised under discounting expense in the consolidated income statement.
[(4)] Recognised under actuarial losses on post-employment benefits in the consolidated statement of comprehensive income.

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

The valuation of obligations as at 31 December 2017 and 2016 was performed using the following assumptions:

	At 31 December 2017	*At 31 December 2016*
Discount rate	3.1%	3.5%
Wage increase rate	2.5%	2.5%

A change of the discount rate by 0.5 p.p. would increase by PLN 6 million or decrease by PLN 5 million the present/carrying value of obligations related to long-term employee benefits as at 31 December 2017.

15.2. Cash-settled share-based payment plan

On 4 September 2017, the Supervisory Board of OPL S.A. adopted the incentive programme ("the programme") for the key managers of Orange Polska Group ("the participants"), which is based on derivative instruments ("phantom shares"), whose underlying assets are the Orange Polska S.A. shares listed on the Warsaw Stock Exchange.

The purpose of the programme is to provide additional incentives to motivate senior managers to achieve mid-term commercial and financial objectives, resulting from Orange Polska's strategy and to lead to the increase of the value of the Company's shares.

The terms of the programme are as follows:

a. Participation in the programme is voluntary.
b. The participants can purchase at the beginning of the programme a total of up to 2,315,000 phantom shares from the basic pool for a price of PLN 1 per phantom share.
c. In case of meeting certain criteria regarding the average price of Orange Polska shares and NPS (Net Promoter Score), the participants shall purchase in the fourth quarter of 2020 additional packages of up to 1,438,500 and 616,500 phantom shares, respectively, for a price of PLN 1 per phantom share.
d. Phantom shares shall be bought back from the participants by the Company, at Orange Polska's average share price in the first quarter of 2021, only when it is not lower than the average of Orange Polska's closing share

prices in the third quarter of 2017. Otherwise, phantom shares shall not be bought back, resulting in the loss of invested funds by the participants.

The following table illustrates the number and average fair value of phantom shares and options for phantom shares granted by OPL S.A.:

(number)		*Options for additional phantom shares*	
	Phantom shares - basic pool	*NPS condition*	*Share price condition*
Outstanding at 1 January 2017	-	-	-
Granted during the year	2,000,000	558,000	1,302,000
Forfeited during the year	-	(9,000)	(21,000)
Outstanding at 31 December 2017	**2,000,000**	**549,000**	**1,281,000**
Average fair value per unit (in PLN) at 31 December 2017	**1.33**	**1.33**	**0.79**

The following table illustrates the key assumptions used in calculation of the fair value of phantom shares and options for phantom shares granted by OPL S.A.:

		Options for additional phantom shares	
	Phantom shares - basic pool	*NPS condition*	*Share price condition*
Exercise price (in PLN)	1.00	1.00	1.00
Barrier (in PLN)	5.46	5.46	7.50 – 13.00
Expected volatility	30%	30%	30%
Risk-free interest rate	2.25%	2.25%	2.25%
Dividend yield [(1)]	1.44%	1.44%	1.44%
Expiry date	1st quarter 2021	4th quarter 2020	4th quarter 2020
Model used	Black-Scholes	Black-Scholes	Black-Scholes
Vesting period	2 years	3 years	3 years

[(1)] Dividend yield assumes dividend payment of PLN 0.25 per share in 2020, which reflects mean expectation of market consensus and does not constitute any guidance or commitment from the Company regarding future dividend payments.

The fair value of services received recognised in labour expense in 2017 and the carrying amount of liabilities recognised as employee benefits as at 31 December 2017 amounted to PLN 0.5 million.

16. Finance income and expense

(in PLN millions)	*12 months ended 31 December 2017*						
	Loans and receivables		*Financial liabilities at amortised cost*	*Derivatives*		*Non-financial items* [2]	*Total*
	Trade receivables	*Other*		*Hedging*	*Held for trading* [1]		
Interest income	28	4	-	-	-	-	32
Interest expense and other financial charges, including:	-	(1)	35	(284)	(29)	-	(279)
– *interest expense*	-	-	*(138)* [3]	*(115)*	*(24)*	-	*(277)*
– *foreign exchange gains/(losses)*	-	*(1)*	*173*	*(169)*	*(5)*	-	*(2)*
Discounting expense	-	-	(27)	-	(5)	(25)	(57)
– *including foreign exchange gains/(losses)*	-	-	*20*	-	*(5)*	*5*	*20*
Total finance costs, net	**28**	**3**	**8**	**(284)**	**(34)**	**(25)**	**(304)**
Interest income/expense	12 [4]	-	(1)	-	-	-	11
Impairment losses	(80)	(6)	-	-	-	-	(86)
Foreign exchange gains/(losses)	(6)	-	23	-	(57)	32	(8)
Items recognised under operating income	**(74)**	**(6)**	**22**	**-**	**(57)**	**32**	**(83)**

[1] Derivatives economically hedging commercial or financial transactions.
[2] Includes mainly provisions and employee benefits.
[3] Includes mainly interest expense on loans from related party.
[4] Late payment interest on trade receivables.

(in PLN millions)	*12 months ended 31 December 2016*						
	Loans and receivables		*Financial liabilities at amortised cost*	*Derivatives*		*Non-financial items* [2]	*Total*
	Trade receivables	*Other*		*Hedging*	*Held for trading* [1]		
Interest income	18	4	-	-	-	-	22
Interest expense and other financial charges, including:	-	1	(240)	(12)	(31)	-	(282)
– *interest expense*	-	-	*(134)* [3]	*(117)*	*(33)*	-	*(284)*
– *foreign exchange gains/(losses)*	-	*1*	*(106)*	*105*	*2*	-	*2*
Discounting expense	-	-	(68)	-	5	(36)	(99)
– *including foreign exchange gains/(losses)*	-	-	*(13)*	-	*5*	*(2)*	*(10)*
Total finance costs, net	**18**	**5**	**(308)**	**(12)**	**(26)**	**(36)**	**(359)**
Interest income	11 [4]	-	-	-	-	-	11
Impairment losses	(87)	(2)	-	-	-	-	(89)
Foreign exchange gains/(losses)	2	-	(12)	-	41	(21)	10
Items recognised under operating loss	**(74)**	**(2)**	**(12)**	**-**	**41**	**(21)**	**(68)**

[1] Derivatives economically hedging commercial or financial transactions.
[2] Includes mainly provisions and employee benefits.
[3] Includes mainly interest expense on loans from related party.
[4] Late payment interest on trade receivables.

During the 12 months ended 31 December 2017 and 2016, there was no significant ineffectiveness on cash flow hedges.

17. Net financial debt

Net financial debt is a measure of indebtedness used by the Management Board. Calculation of this aggregate is not defined by IFRS. According to methodology adopted by the Group, net financial debt corresponds to the total gross financial debt (converted at the period-end exchange rate), after net derivative instruments (liabilities less assets), less cash and cash equivalents and including the impact of the effective portion of cash flow hedges.

The table below provides an analysis of net financial debt:

(in PLN millions)	*Note*	*At 31 December 2017*	*At 31 December 2016*
Loans from related party	18.1	6,969	7,092
Other financial liabilities at amortised cost	18.2	113	102
Derivatives – net (liabilities less assets)	21	63	(166)
Gross financial debt after derivatives		**7,145**	**7,028**
Cash and cash equivalents	20	(646)	(262)
Effective portion of cash flow hedges		(2)	9
Net financial debt		**6,497**	**6,775**

18. Financial liabilities at amortised cost excluding trade payables

18.1. Loans from related party

(in millions of currency)		*Amount outstanding at [1]*			
		31 December 2017		*31 December 2016*	
Creditor	*Repayment date*	*Currency*	*PLN*	*Currency*	*PLN*
Floating rate					
Atlas Services Belgium S.A. (EUR)	20 May 2019	480	2,000	480	2,119
Atlas Services Belgium S.A. (EUR)	20 May 2021	190	792	190	840
Atlas Services Belgium S.A. (PLN)	20 June 2021	2,697	2,697	2,695	2,695
Atlas Services Belgium S.A. (PLN)	30 March 2018	1,480	1,480	1,438	1,438
Total loans from related party			**6,969**		**7,092**
Current			1,484		5
Non-current			5,485		7,087

[1] Includes accrued interest and arrangement fees.

The weighted average effective interest rate on loans from related party, before and after swaps, amounted respectively to 1.87% and 3.40% as at 31 December 2017 (1.87% and 3.36% as at 31 December 2016).

18.2. Other financial liabilities at amortised cost

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016*
Finance lease liabilities	83	58
Bank borrowings and other	30	44
Total other financial liabilities at amortised cost	**113**	**102**
Current	45	36
Non-current	68	66

19. Liabilities arising from financing activities

Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

The tables below present the reconciliation of the Group's liabilities arising from financing activities and derivatives (liabilities less assets) hedging these liabilities:

(in PLN millions)	*Loans from related party*	*Other financial liabilities at amortised cost*	*Derivatives hedging liabilities from financing activities* [(1)]	*Total liabilities from financing activities*
Note	*18.1*	*18.2*	*21*	
Amount outstanding as at 1 January 2017	**7,092**	**102**	**(131)**	**7,063**
Net cash flows provided by:	(88)	(34)	(105)	(227)
– *financing activities*	*40*	*(32)*	*(1)*	*7*
– *operating activities* [(2)]	*(128)*	*(2)*	*(104)*	*(234)*
Non-cash changes:	(35)	45	262	272
– *foreign exchange (gains)/losses*	*(170)*	*(4)*	*172*	*(2)*
– *fair value change, excluding foreign exchange losses*	*-*	*-*	*90*	*90*
– *other changes*	*135* [(3)]	*49*	*-*	*184*
Amount outstanding as at 31 December 2017	**6,969**	**113**	**26**	**7,108**

[(1)] Includes derivatives economically hedging liabilities from financing activities.
[(2)] Includes interest paid.
[(3)] Includes accrued interest and arrangement fees.

(in PLN millions)	*Loans from related party*	*Other financial liabilities at amortised cost*	*Derivatives hedging liabilities from financing activities* [(1)]	*Dividend payable*	*Total liabilities from financing activities*
Note	*18.1*	*18.2*	*21*	*25.2*	
Amount outstanding as at 1 January 2016	**4,122**	**126**	**17**	**-**	**4,265**
Net cash flows provided by:	2,735	(43)	(86)	(328)	2,278
– *financing activities*	*2,872*	*(40)*	*17*	*(328)*	*2,521*
– *operating activities* [(2)]	*(137)*	*(3)*	*(103)*	*-*	*(243)*
Non-cash changes:	235	19	(62)	328	520
– *foreign exchange (gains)/losses*	*104*	*2*	*(105)*	*-*	*1*
– *fair value change, excluding foreign exchange gains*	*-*	*-*	*43*	*-*	*43*
– *other changes*	*131* [(3)]	*17*	*-*	*328*	*476*
Amount outstanding as at 31 December 2016	**7,092**	**102**	**(131)**	**-**	**7,063**

[(1)] Includes derivatives economically hedging liabilities from financing activities.
[(2)] Includes interest paid.
[(3)] Includes accrued interest and arrangement fees.

20. Cash and cash equivalents

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016*
Current bank accounts, overnight deposits and cash on hand	175	143
Bank accounts dedicated for investment grants (see Note 14.2)	304	8
Deposits with Orange S.A.	166	106
Bank deposits up to 3 months	1	5
Total cash and cash equivalents	**646**	**262**

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

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

21. Derivatives

As at 31 December 2017 and 2016, the Group's derivatives portfolio constituted financial instruments for which there was no active market (over-the-counter derivatives), mainly interest rate swaps, currency swaps, non-deliverable forwards and stock options. To price these instruments the Group applies standard valuation techniques. The fair value of swap/forward transaction represents discounted future cash flows, where the applicable market interest rate curves constitute the base for calculation of discounting factors and amounts in foreign currencies are converted into PLN at the National Bank of Poland period-end average exchange rate. The fair value of stock options is calculated on the basis of Black-Scholes model. Valuation of derivatives is also adjusted by counterparty (credit valuation adjustment - "CVA") or own (debit valuation adjustment - "DVA") credit risk. CVA and DVA estimates were not material compared to the total fair value of the related derivatives.

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

(in PLN millions)					*Fair value*	
Type of instrument [1]	*Hedged risk*	*Hedged item*	*Nominal amount (in millions)*	*Maturity*	*Financial asset*	*Financial liability*
			At 31 December 2017			
Derivative instruments - cash flow hedge						
CCIRS	Currency and interest rate risk	Loans from related party	667 EUR	2019-2021	20	(7)
IRS	Interest rate risk	Loans from related party	5,450 PLN	2019-2021	11	(51)
IRS	Interest rate risk	Forecast loan from related party	500 PLN	2022	2	-
NDF	Currency risk	Commercial transactions	105 EUR	2018	-	(10)
NDF	Currency risk	Commercial transactions	6 USD	2018	-	(1)
Stock options	Share price risk	Share-based payment plan (see Note 15.2)	2 shares	2021	2	-
Total cash flow hedges					35	(69)
Derivative instruments - held for trading [2]						
CCIRS	Currency and interest rate risk	Loans from related party	3 EUR	2021	-	-
NDF	Currency risk	2100 MHz licence payable	50 EUR	2018	-	(7)
NDF	Currency risk	Commercial transactions	30 EUR	2018	-	(3)
NDF	Currency risk	EC proceedings provision	125 EUR	2018	-	(19)
NDF	Currency risk	Bank borrowing	6 USD	2018	-	(1)
NDF	Currency risk	Commercial transactions	13 USD	2018	-	(1)
Stock options	Share price risk	Share-based payment plan (see Note 15.2)	2 shares	2020-2021	2	-
Total derivatives held for trading					2	(31)
Total derivative instruments					**37**	**(100)**
Current					-	(42)
Non–current					37	(58)

[1] CCIRS – cross currency interest rate swap, IRS – interest rate swap, NDF – non-deliverable forward, Stock option – purchased call option for OPL shares.
[2] Derivatives economically hedging commercial or financial transactions.

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

[(1)] CCIRS – cross currency interest rate swap, IRS – interest rate swap, NDF – non-deliverable forward.
[(2)] Derivatives economically hedging commercial or financial transactions.

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

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

(in PLN millions)	*12 months ended 31 December 2017*			*12 months ended 31 December 2016*		
	Before tax	*Tax*	*After tax*	*Before tax*	*Tax*	*After tax*
Effective part of gains/(losses) on hedging instrument	(301)	57	(244)	109	(21)	88
Reclassification to the income statement, adjusting:	273	(52)	221	(7)	2	(5)
- interest expense presented in finance costs, net	*104*	*(20)*	*84*	*97*	*(18)*	*79*
- foreign exchange differences presented in finance costs, net	*169*	*(32)*	*137*	*(105)*	*20*	*(85)*
- external purchases	-	-	-	*1*	-	*1*
Transfer to the initial carrying amount of the hedged item	17	(3)	14	(10)	2	(8)
Total gains/(losses) on cash flow hedges	**(11)**	**2**	**(9)**	**92**	**(17)**	**75**

Gains/losses on cash flow hedges cumulated in other reserves as at 31 December 2017 are expected to mature and affect the consolidated income statement in years 2018 - 2022.

22. Fair value of financial instruments

22.1. Fair value measurements

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

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

The Group's financial assets and liabilities that are measured subsequent to their initial recognition at fair value comprise derivative instruments presented in Note 21. The Group classifies derivatives to Level 2 fair value measurements.

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

As at 31 December 2017 and 2016, the carrying amount of cash and cash equivalents, trade receivables, current trade payables and current financial liabilities at amortised cost approximated their fair value due to relatively short term maturity of those instruments, cash nature or immaterial difference between the original effective interest rates and current market rates.

As at 31 December 2017 and 2016, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximated their fair value.

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

(in PLN millions)		*At 31 December 2017*		*At 31 December 2016*	
	Note	*Carrying amount*	*Estimated fair value Level 2*	*Carrying amount*	*Estimated fair value Level 2*
Telecommunications licence payables	14.1	694	807	837	989

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

23. Objectives and policies of financial risk management

23.1. Principles of financial risk management

The Group is exposed to financial risks arising mainly from financial instruments that are issued or held as part of its operating and financing activities. That exposure can be principally classified as market risk (encompassing currency risk, interest rate risk and OPL share price 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, interest rates and share price, to stabilise cash flows and to ensure an adequate level of financial liquidity and flexibility.

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

Financial Risk Management Policy defines principles and responsibilities within the context of an overall financial risk management and covers the following areas:

- risk measures used to identify and evaluate the exposure to financial risks,
- selection of appropriate instruments to hedge against identified risks,
- valuation methodology used to determine the fair value of financial instruments,
- transaction limits for and credit ratings of counterparties with which the Group concludes hedging transactions.

23.2. Hedge accounting

The Group has entered into numerous derivative transactions to hedge exposure to currency risk, interest rate risk and OPL share price risk. The derivatives used by the Group include: cross currency interest rate swaps, cross currency swaps, interest rate swaps, currency options, currency forwards, non-deliverable forwards and stock options.

Certain derivative instruments are classified as cash flow hedges and the Group applies hedge accounting principles as stated in IAS 39 (see Note 31.17). The cash flow hedges are used to hedge the variability of future cash flows that is attributable to particular risk and could affect the consolidated income statement.

Derivatives are used for hedging activities and it is the Group's policy that derivative financial instruments are not used for trading (speculative) purposes. However, certain derivatives held by the Group are not designated as hedging instruments as set out in IAS 39 and hedge accounting principles are not applied to those instruments. The Group considers those derivatives as economic hedges because they, in substance, protect the Group against currency risk, interest rate risk and OPL share price risk.

Detailed information on derivative financial instruments, including hedging relationship, that are used by the Group is presented in Note 21.

23.3. Currency risk

The Group is exposed to foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies, mainly loans from related party, bank borrowing (see Note 18), 2100 MHz licence payable and provision for the proceedings by the European Commission (see Note 28.b).

The Group's hedging strategy, minimising the impact of fluctuations in exchange rates, is reviewed on a regular basis. The acceptable exposure to a selected currency is a result of the risk analysis in relation to an open position in that currency, given the financial markets' expectations of foreign exchange rates movements during a specific time horizon.

Within the scope of the hedging policy, the Group hedges its exposure entering mainly into cross currency interest rate swaps, cross currency swaps and forward currency contracts, under which the Group agrees to exchange a notional amount denominated in a foreign currency into PLN. As a result, the gains/losses generated by derivative instruments compensate the foreign exchange losses/gains on the hedged items. Therefore, the variability of the foreign exchange rates has a limited impact on the consolidated income statement.

The table below presents the hedge ratio of the Group's major currency exposures. The ratio compares the hedged value of a currency exposure to the total value of the exposure.

	Hedge ratio	
Currency exposure	*At 31 December 2017*	*At 31 December 2016*
Loans from related party and bank borrowing	100.0%	99.5%
2100 MHz licence payable	41.0%	51.5%
EC proceedings provision (see Note 28.b)	83.6%	82.2%

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 2017		*At 31 December 2016*		*At 31 December 2017*		*At 31 December 2016*	
					+10%	*-10%*	*+10%*	*-10%*
Currency exposure	*Currency*	*PLN*	*Currency*	*PLN*	*PLN*		*PLN*	
2100 MHz licence payable (EUR)	72	300	69	304	30	(30)	30	(30)
EC proceedings provision (EUR) (see Note 28.b)	25	102	26	115	10	(10)	12	(12)
Bank borrowing (USD)	-	-	3	14	-	-	1	(1)
Total		**402**		**433**	**40**	**(40)**	**43**	**(43)**

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

- unhedged portion of the discounted amount of liabilities is exposed to foreign exchange risk (effective exposure),
- derivatives designated as hedging instruments and those classified as economic hedges are treated as risk-mitigation transactions,
- cash and cash equivalents are excluded from the analysis.

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect other reserves. The sensitivity analysis prepared by the Group indicated that the potential gains/(losses) impacting other reserves resulting from a hypothetical 10% depreciation/appreciation of the PLN against other currencies would amount to PLN 46/(46) million and PLN 56/(56) million as at 31 December 2017 and 2016, respectively.

23.4. Interest rate risk

The interest rate risk is a risk that the fair value or future cash flows of the financial instrument will change due to interest rates changes. The Group has interest bearing financial liabilities consisting mainly of loans from related party and bank borrowings (see Note 18).

The Group's interest rate hedging strategy, limiting exposure to unfavourable movements of interest rates, is reviewed on a regular basis. The preferable split between fixed and floating rate debt is the result of the analysis indicating the impact of the potential interest rates evolution on the financial costs.

According to the hedging strategy, the Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As a result of the hedge the structure of the liabilities changes to the desired one, as liabilities based on the floating/fixed interest rates are effectively converted into fixed/floating obligations.

As at 31 December 2017 and 2016, the Group's proportion between fixed/floating rate debt (after hedging activities) was 78/22% and 69/31%, respectively.

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

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

(in PLN millions)	*Sensitivity to 1 p.p. change of interest rates*							
	At 31 December 2017				*At 31 December 2016*			
	WIBOR		*EURIBOR*		*WIBOR*		*EURIBOR*	
	+1 p.p.	*-1 p.p.*	*+1 p.p.*	*-1 p.p.*	*+1 p.p.*	*-1 p.p.*	*+1 p.p.*	*-1 p.p.*
Finance costs, net	(12)	12	(3)	3	(20)	20	(2)	2
Other reserves	153	(158)	(12)	12	156	(161)	(14)	13

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

- finance costs, net include the following items exposed to interest rate risk: a) interest cost on financial debt based on floating rate (after hedging), b) the change in the fair value of derivatives not designated as hedging instruments and classified as held for trading (see Note 21),
- other reserves include the change in the fair value of derivatives that is determined as effective cash flow hedge (see Note 21),
- as at 31 December 2017, the gross financial debt based on floating rate (after hedging) amounted to PLN 1,514 million (as at 31 December 2016, PLN 2,172 million).

23.5. Share price risk

The Group is exposed to share price risk arising from cash-settled share-based payment plan (see Note 15.2). The Group hedges its exposure entering into stock options, under which the Group has right to receive cash if OPL share price exceeds certain level. As a result, the gains/losses generated by derivative instruments compensate the losses/gains on the hedged item. As at 31 December 2017, 100% of cash-settled share-based payment plan was hedged.

The sensitivity analysis prepared by the Group indicated that the potential gains/losses resulting from a reasonably possible change of OPL share price would have insignificant impact on the consolidated income statement and other reserves as at 31 December 2017.

23.6. 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 liquidity ratios and maintaining a diverse range of funding sources including back-up credit 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, the Cash Management Treasury Agreement with Orange S.A. enables the Group to deposit its cash surpluses with Orange S.A.

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. The above-mentioned Cash Management Treasury Agreement with Orange S.A. gives the Group access to back-up liquidity funding with headroom of up to PLN 1,750 million. No drawdown was made on this facility as at 31 December 2017. The Group also has a revolving credit line from the Orange Group for up to EUR 480 million and other credit lines for up to PLN 11 million, of which PLN 1,484 million was used as at 31 December 2017. Therefore, as at 31 December 2017, the Group had unused credit facilities amounting to PLN 2,289 million (as at 31 December 2016, PLN 2,435 million).

Liquidity risk is measured by applying following ratios calculated and monitored by the Group regularly:
- liquidity ratios,
- maturity analysis of undiscounted contractual cash flows resulting from the Group's financial liabilities,
- average debt duration.

The liquidity ratio (representing the relation between available financing sources, i.e. cash and cash equivalents and credit facilities, and debt repayments during next 12 and 18 months) and current liquidity ratio (representing the relation between unused credit facilities, current assets and current liabilities) are presented in the following table:

(in PLN millions)	*Liquidity ratios*	
	At 31 December 2017	*At 31 December 2016*
Liquidity ratio (incl. derivatives) - next 12 months	169%	1,332%
Unused credit facilities	2,289	2,435
Cash and cash equivalents	646	262
Debt repayments [(1)]	1,587	134
Derivatives repayments [(2)]	154	69
Liquidity ratio (incl. derivatives) - next 18 months	76%	154%
Unused credit facilities	2,289	2,435
Cash and cash equivalents	646	262
Debt repayments [(1)]	3,643	1,633
Derivatives repayments [(2)]	208	115
Current liquidity ratio (incl. unused credit facilities)	92%	116%
Unused credit facilities	2,289	2,435
Total current assets	3,273	2,639
Total current liabilities	6,043	4,386

[(1)] Undiscounted contractual cash flows on loans from related party and bank borrowings.
[(2)] Undiscounted contractual cash flows on derivatives.

In order to ensure an adequate level of financial liquidity and cover the excess of current liabilities over current assets of PLN 2,770 million as at 31 December 2017, Orange Polska and Orange Group concluded new loan agreements for PLN 2,250 million in February 2018. These loans, together with back-up credit facility of PLN 1,750 million, are sufficient to cover the excess of current liabilities over current assets as at 31 December 2017.

The maturity analysis for the contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2017 and 2016 is presented below.

As at 31 December 2017 and 2016, amounts in foreign currency were translated at the National Bank of Poland period-end average exchange rates. The variable interest payments arising from the financial instruments were calculated using the interest rates applicable as at 31 December 2017 and 2016, respectively.

(in PLN millions)		At 31 December 2017								
			Undiscounted contractual cash flows [1]							
				Non-current						
	Note	Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total non-current	Total
Loans from related party	18.1	6,969	1,578	2,097	96	3,547	-	-	5,740	7,318
Other financial liabilities at amortised cost	18.2	113	47	31	20	13	7	-	71	118
– *including finance lease liabilities*		*83*	*32*	*25*	*14*	*10*	*7*	-	*56*	*88*
Derivative assets	21	(37)	26	18	11	(28)	(1)	-	-	26
Derivative liabilities	21	100	128	45	(2)	(3)	-	-	40	168
Gross financial debt after derivatives		**7,145**	**1,779**	**2,191**	**125**	**3,529**	**6**	**-**	**5,851**	**7,630**
Trade payables	14.1	2,971	2,427	140	140	140	153	121	694	3,121
Total financial liabilities (including derivative assets)		**10,116**	**4,206**	**2,331**	**265**	**3,669**	**159**	**121**	**6,545**	**10,751**

[1] Includes both nominal and interest payments.

(in PLN millions)		At 31 December 2016								
			Undiscounted contractual cash flows [1]							
				Non-current						
	Note	Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total non-current	Total
Loans from related party	18.1	7,092	125	1,546	2,224	102	3,594	-	7,466	7,591
Other financial liabilities at amortised cost	18.2	102	39	32	20	10	4	-	66	105
– *including finance lease liabilities*		*58*	*21*	*20*	*14*	*4*	*1*	-	*39*	*60*
Derivative assets	21	(242)	31	59	(78)	10	(70)	-	(79)	(48)
Derivative liabilities	21	76	38	33	13	(3)	(2)	-	41	79
Gross financial debt after derivatives		**7,028**	**233**	**1,670**	**2,179**	**119**	**3,526**	**-**	**7,494**	**7,727**
Trade payables	14.1	3,324	2,648	157	148	148	148	281	882	3,530
Total financial liabilities (including derivative assets)		**10,352**	**2,881**	**1,827**	**2,327**	**267**	**3,674**	**281**	**8,376**	**11,257**

[1] Includes both nominal and interest payments.

The average duration for the existing debt portfolio as at 31 December 2017 was 2.2 years (3.2 years as at 31 December 2016).

23.7. 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.

24. Income tax

24.1. Income tax

(in PLN millions)	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Current income tax	(7)	12
Deferred tax	22	(45)
Total income tax	**15**	**(33)**

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 2017*	*12 months ended 31 December 2016*
Consolidated net loss before tax	**(75)**	**(1,713)**
Less: Impairment of goodwill [(1)]	-	*1,793*
Consolidated net income/(loss) before tax, adjusted	(75)	80
Statutory tax rate	19%	19%
Theoretical tax	**14**	**(15)**
Tax relief on new technologies	-	6
Not deductible interest expense on intragroup loan	-	(22)
Income not subject to/(other expenses not deductible for) tax purposes	1	(2)
Total income tax	**15**	**(33)**

[(1)] See Note 8.1.

Expenses not deductible for tax purposes consist of cost items, which, under Polish tax law, are specifically determined as non-deductible.

24.2. Deferred tax

(in PLN millions)	*Consolidated statement of financial position*		*Consolidated income statement*	
	At 31 December 2017	*At 31 December 2016*	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Property, plant and equipment and intangible assets	400	464	(59)	(73)
Unused tax losses	163	124	39	120
Receivables and payables	87	114	(28)	(65)
Deferred income	95	94	1	4
Employee benefits	58	53	4	(19)
Provisions	141	84	57	(12)
Net financial debt	16	5	9	-
Other	(10)	(9)	(1)	-
Deferred tax assets, net (1)	**950**	**929**		
Total deferred tax			**22**	**(45)**
Amount expected to be recovered within 12 months after the end of the reporting period	239	248		

(1) During the 12 months ended 31 December 2017, deferred tax assets, net were decreased by PLN 4 million as the effect of the acquisition of Multimedia Polska Energia (see Note 4). During the 12 months ended 31 December 2017 and 2016, PLN 3 million and PLN (17) million of change in deferred tax assets was recognised in the consolidated statement of comprehensive income, respectively.

In 2017, the Group changed the classification of temporary differences disclosed in the table above: accumulated impairment losses on receivables are not presented separately but are included in deferred tax assets on receivables. As a result, comparative amounts were adjusted.

Deferred tax assets are recognised in the amounts which are expected to be utilised using future taxable profits estimated on the basis of the business plan approved by the Management Board of Orange Polska and used to determine the value in use of the telecom operator CGU (key assumptions are described in Note 8.1).

Unrecognised deferred tax assets relate to temporary differences, which based on the Group's management assessment could not be utilised for tax purposes. As at 31 December 2017, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 42 million gross, including PLN 15 million gross of tax losses, which are expected to expire rather than to be realised. As at 31 December 2016 there were no deductible temporary differences, for which no deferred tax asset was recognised.

25. Equity

25.1. Share capital

As at 31 December 2017 and 2016, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital as at 31 December 2017 and 2016 was as follows:

(in PLN millions)	*At 31 December 2017*			*At 31 December 2016*		
	% of votes	*% of shares*	*Nominal value*	*% of votes*	*% of shares*	*Nominal value*
Orange S.A.	50.67	50.67	1,995	50.67	50.67	1,995
Other shareholders	49.33	49.33	1,942	49.33	49.33	1,942
Total	**100.00**	**100.00**	**3,937**	**100.00**	**100.00**	**3,937**

25.2. Dividend

In accordance with the recommendation of the Management Board of the Company there was no dividend paid in 2017.

On 12 April 2016, the General Meeting of Orange Polska S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.25 per share from the 2015 profit and retained earnings from previous years. The total dividend, paid on 7 July 2016, amounted to PLN 328 million.

OPL S.A.'s retained earnings available for dividend payments to the Group's shareholders amounted to PLN 3.2 billion as at 31 December 2017. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 0.1 billion of OPL S.A.'s subsidiaries retained earnings as at 31 December 2017 was available for dividend payments by subsidiaries to OPL S.A.

On 20 February 2018, the Management Board of Orange Polska S.A. adopted a resolution not to recommend payment of any dividend in 2018.

25.3. Other movements in retained earnings

Certain corrections resulting from immaterial errors in prior periods were recognised by the Group directly in retained earnings and presented as other movements in the consolidated statement of changes in equity. The correction of PLN 32 million (net of PLN (2) million of current income tax) in 2016 relates to recognition of trade receivables.

25.4. Equity-settled share-based payment plan

In the fourth quarter of 2017 Orange S.A. established long term incentive plan for years 2017 - 2019, under which key managers of Orange Polska Group were awarded a defined number of free shares of Orange S.A. (74 thousand shares in total), subject to performance conditions and continuous service in the Orange Group until 31 December 2019. The fair value of equity instrument at grant date was PLN 40.46 (an equivalent of EUR 9.55). The fair value of services rendered by managers for granting equity instruments of Orange S.A. recognised in labour expense in 2017 amounted to PLN 0.2 million. Total expense of the plan over the vesting period will not exceed PLN 3 million.

26. Management of capital

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

The Group's capital management policy takes into consideration the following key elements:
- business performance together with applicable investments and development plans,
- debt repayment schedule,
- financial market environment,
- distribution policy to the Group's shareholders.

In order to combine these factors the Group periodically establishes a framework for the financial structure. The Group regards capital as the total of equity and net financial debt. The Group monitors capital on the basis of net financial debt and net financial debt to adjusted EBITDA ratio (see Note 3). Management Board expects that net financial debt to adjusted EBITDA ratio will not exceed 2.6 for the full year 2018 calculated under accounting standards applicable as at 31 December 2017 and 2.8 including the impact of implementation of IFRS 15 from 1 January 2018 (see Note 31.2).

27. Unrecognised contractual obligations

27.1. Commitments related to operating leases

When considering the Group as a lessee, operating lease commitments relate mainly to the lease of buildings and land. Lease costs recognised in the consolidated income statement for the years ended 31 December 2017 and 2016 amounted to PLN 378 million and PLN 374 million, respectively. Most of the agreements are denominated in foreign currencies and some of them are indexed with price indices applicable for a given currency. Some of the agreements can be extended.

In 2017, the Group identified errors in the calculation of operating lease commitments as at 31 December 2016 in the amount of PLN 446 million related mainly to agreements with definite life. The operating lease commitment for buildings for agreements with definite life should have been based on the entire period remaining until the end of the contract and not on the conditional notice period. As a result, comparative amount of total future minimum lease payments as at 31 December 2016 was increased by PLN 446 million.

Future minimum lease payments under non-cancellable operating leases as at 31 December 2017 and 2016, were as follows:

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016 (restated)*
Within one year	286	254
After one year but not more than five years	686	685
More than five years	314	344
Total minimum future lease payments	**1,286**	**1,283**

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2017 and 2016 amounted to PLN 105 million and PLN 81 million, respectively, and related mainly to the lease of buildings and land.

27.2. Investment commitments

Investment commitments contracted for at the end of the reporting period but not recognised in the consolidated financial statements were as follows:

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016*
Property, plant and equipment	413	152
Intangibles	94	100
Total investment commitments	**507**	**252**
Amounts contracted to be payable within 12 months after the end of the reporting period	480	231

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

28. Litigation, claims and contingent liabilities

a. Proceedings by UOKiK and UKE and claims connected with them

According to the Act on Competition and Consumer Protection, in case of non-compliance with its regulations, the President of the Office of Competition and Consumer Protection ("UOKiK") is empowered to impose on an entity penalties of up to a maximum amount of EUR 50 million for refusal to provide requested information or up to a maximum amount of 10% of an entity's revenue for the year prior to the year of fine imposition for a breach of the law. According to the Telecommunications Act, the President of UKE may impose on a telecommunications operator a penalty of up to a maximum amount of 3% of the operator's prior year's tax revenue, if the operator does not fulfil certain requirements of the Telecommunications Act.

Proceedings by UOKiK related to pre-paid offers
In September 2016, UOKiK commenced proceedings against Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. claiming that rules on the Polish market applied to pre-paid offers, according to which top-ups are annulled in so-called "passive period", may violate consumers rights. UOKiK informed the Company that it prolonged the proceedings until 28 April 2018.
In the opinion of the Management, Orange Polska did not violate the law and offers are in line with rules which are applied also by other sectors having pre-paid offers.

Proceedings by UOKiK related to retail prices of calls to Play
On 18 March 2013, UOKiK commenced competition proceedings against Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. claiming that they abused collective dominant position in the domestic retail market of mobile telephony. UOKiK alleges that the retail prices of calls made by individual users from the network of each of the three operators to the network of P4 Sp. z o.o. ("P4"), operator Play, were relatively higher than the prices for such calls to the networks of the three operators and determined without sufficient consideration of the differentiation of the asymmetric wholesale termination rates determined by UKE. In the view of UOKiK, the applied prices could result in restricting the development of competition on the retail domestic mobile telephony market.
In addition, in May 2015, Orange Polska received a request for settlement filed by P4 with the Court under which P4 raised claims in the amount of PLN 258 million relating to the retail mobile prices for a period between April 2012 and 31 December 2014. On 2 July 2015, at the court session, the parties did not reach an agreement. In September 2015, Orange Polska also received a lawsuit filed by P4 with the Court under which P4 claims for damages, in the amount of PLN 316 million including interest in the amount of PLN 85 million, relating to the retail mobile prices for a period between July 2009 and March 2012. P4 raised both claims jointly and severally towards Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A.
On 2 January 2018, UOKiK discontinued the competition proceedings. UOKiK stated that there was no basis to determine that Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. acted in breach of the competition law.

Proceedings by UOKiK related to tenders for mobile services
On 20 December 2013, UOKiK commenced competition proceedings against Orange Polska and two other offerers in tenders for mobile services of data transmission conducted in 2012. UOKiK's proceedings relate to the assertion that the offerers agreed the terms of offers they made. UOKiK informed the Company that it further prolonged the proceedings. The indicated date of prolongation is 28 February 2018.
The Management Board of Orange Polska notes that they did not agree the terms of offers with the other companies.

Magna Polonia S.A. claim towards Orange Polska, T-Mobile Polska, Polkomtel and P4
In 2011, UOKiK determined that Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. concluded an agreement restricting competition on the domestic retail and wholesale market for mobile television based on DVB-H technology. By its decision, UOKiK also imposed fines on the four companies (on Orange Polska

PLN 35 million). Orange Polska appealed the decision of UOKiK. SOKiK repealed the decision and UOKiK appealed SOKiK verdict to the Appeal Court. In connection with the decision of UOKiK, Magna Polonia S.A. filed, in December 2013, a motion with a court for calling the four operators to conclude amicable settlements. Magna Polonia S.A. is the former owner of Info TV FM Sp. z o.o., a telecommunications operator that offered provision of wholesale services of mobile television DVB-H to Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. None of them decided to introduce mobile television services to its customers.
Magna Polonia demanded that Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. pay jointly and severally PLN 618 million to it. Magna Polonia asserted that its claim resulted from lost profits of Magna Polonia because DVB-H television was not launched (including lower value of its shares in Info TV FM) and costs of financing Info TV FM. In the Orange Polska Management's opinion, Magna Polonia's motion did not constitute any reasonable grounds on which to assess whether or not Magna Polonia suffered any damage. On 11 December 2013, at the session held at the Court the parties did not reach an agreement.
On 26 November 2016, Magna Polonia filed with the court a statement of claim against the four operators based in principle on the same grounds as the action of 2013 and for payment of the same amount. Magna Polonia applied to the court for staying of the proceedings until the proceedings regarding PLN 35 million fine imposed by UOKiK are concluded. On 15 March 2017, the Court of Appeal maintained the verdict of SOKiK repealing UOKiK's decision. On 13 October 2017, Orange Polska was served with the cassation claim that UOKiK lodged to the Supreme Court.

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.

Other proceedings by UOKiK and UKE
As at 31 December 2017, the Group recognised provisions for known and quantifiable risks related to proceedings against the Group initiated by UOKiK and UKE, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed as, in the opinion of the Company's Management, such disclosure could prejudice the outcome of the pending cases.

b. Proceedings by the European Commission related to broadband access

On 22 June 2011, the European Commission imposed on Orange Polska a EUR 127.6 million fine (approximately PLN 508 million) for abuse of dominant position on the wholesale broadband access market, before October 2009. Orange Polska has recorded a provision for the whole amount of the fine and accrued interest. In accordance with the decision the fine could have been provisionally paid or secured by a bank guarantee. On 27 September 2011, Orange Polska provided the bank guarantee to the European Commission.

The Company strongly disagrees with the decision and the disproportionate level of the fine, particularly as it believes that the European Commission did not take into account several important factors. The situation on the wholesale broadband market has been systematically improving since 2007. By constructing and providing fixed broadband infrastructure, the Company has been effectively remedying the difficulties on the Polish broadband market and it has been increasing the penetration rate of the broadband services. The irregularities pointed out by the European Commission were voluntarily removed by the Company in the past.

Orange Polska appealed against the decision of the European Commission to the General Court of the European Union on 2 September 2011. On 17 December 2015, the General Court issued a verdict dismissing Orange Polska's appeal from the decision of the European Commission. On 27 February 2016, Orange Polska appealed that verdict of the General Court to the Court of Justice.

On 22 November 2017, the hearing of the Court of Justice was held. The Advocate General of the Court of Justice will deliver his opinion to the Court on 21 February 2018.

c. Tax contingent liability

Tax settlements are subject to review and investigation by a number of authorities, which are entitled to impose fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes. These changes often lead to the lack of system stability. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts.

Tax authorities may examine accounting records up to five years after the end of the year in which the tax becomes due. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. Orange Polska and certain of its subsidiaries were subject to audits by the tax office in respect of taxes paid. Certain of these audits have not yet been finalised. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard.

d. Proceedings by the tax authorities

The Fiscal Audit Office completed control proceedings relating to OPL S.A.'s year 2009 and, on 31 March 2014, delivered results of the control. Results of the control ended the audit proceedings in front of the Fiscal Audit Office and confirmed the correctness of the Company's VAT tax settlements. The results also raised certain questions concerning other tax settlements made, but did not decide on the obligations of the Company. The Company believes that the issues raised by the Fiscal Audit Office as regards these tax settlements are without merit and the possibility of ultimate outflows of resources is low. This opinion is supported by external tax advisors.

e. Issues related to the incorporation of Orange Polska

Orange Polska was established as a result of the transformation of the state-owned organisation Poczta Polska Telegraf i Telefon ("PPTiT") into two entities – the Polish Post Office and Orange Polska S.A. The share premium in the equity of Orange Polska includes an amount of PLN 713 million which, in accordance with the Notary Deed dated 4 December 1991, relates to the contribution of the telecommunication business of PPTiT to the Company. During the transformation process and transfer of ownership rights to the new entities, certain properties and other assets that are currently under Orange Polska's control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that Orange Polska's rights to certain properties and other non-current assets may be questioned and, as a result, the share premium balance may be subject to changes.

f. Other contingent liabilities and provisions

Apart from the above-mentioned, operational activities of the Group are subject to legal, social and administrative regulations a breach of which, even unintentional, may result in sanctions imposed on the Group. In addition to fines which may be imposed by UOKiK and UKE described in Note 28.a also the President of Energy Regulatory Office may impose a penalty of up to a maximum amount of 15% of the revenues gained in the previous tax year among others for an infringement of certain provisions of Energy Law, a failure in fulfilment of obligations determined by the concession, a refusal to provide information.
The Group is a party to a number of legal proceedings and commercial contracts related to its operational activities. Some regulatory decisions can be detrimental to the Group and court verdicts within appeal proceedings against such decisions can have potential negative consequences for the Group. The Group monitors the risks on a regular basis and the Management Board believes that adequate provisions have been recorded for known and quantifiable risks.

29. Related party transactions

29.1. Management Board and Supervisory Board compensation

Compensation (remuneration, bonuses, post-employment and other long-term benefits, termination indemnities and share-based payment plans - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board Members is presented below:

(in PLN thousands)	*12 months ended 31 December 2017*		
	Fixed compensation expense	*Variable compensation expense*	*Total compensation expense*
Short-term benefits excluding employer social security payments	11,444	4,798 [1]	16,242
Post-employment benefits	5,251	-	5,251
Share-based payment plans	-	177	177
Total	**16,695**	**4,975**	**21,670**

[1] Includes bonuses accrued in 2017 to be paid in 2018, excludes bonuses accrued in 2016 and paid in 2017.

(in PLN thousands)	*12 months ended 31 December 2016*		
	Fixed compensation expense	*Variable compensation expense [1]*	*Total compensation expense*
Short-term benefits excluding employer social security payments	11,887	3,893	15,780
Post-employment benefits	4,255	-	4,255
Total	**16,142**	**3,893**	**20,035**

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

Additionally, Section 10.3 of the Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. for the year ended 31 December 2017 includes the Remuneration Report, where more details on Management Board and Supervisory Board compensation can be found.

29.2. Related party transactions

As at 31 December 2017, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board.

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

Orange Polska S.A. operates under the Orange brand pursuant to a licence agreement concluded with Orange S.A. and Orange Brand Services Limited (hereinafter referred to as "OBSL"). The brand licence agreement provides that OBSL receives a fee of up to 1.6% of the Company's operating revenue earned under the Orange brand. The agreement is valid until 24 July 2018 with the possibility of renewal.

The Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded loan agreements for EUR 670 million, PLN 2,700 million and Revolving Credit Facility Agreement for up to EUR 480 million (see Note 18.1). Additionally, the Group concluded an agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk related to the financing from Atlas Services Belgium S.A. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2017 was EUR 670 million and PLN 5,950 million, respectively, with a total negative fair value of PLN 25 million (as at 31 December 2016, nominal amount of EUR 670 million and PLN 4,750 million with a total fair value of PLN 130 million).

Financial receivables, payables, financial costs, net and other comprehensive income concerning transactions with the Orange Group relate mainly to the above-mentioned agreements. Cash and cash equivalents deposited with Orange S.A. relate to the Cash Management Treasury Agreement (see Note 23.6).

(in PLN millions)	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Sales of goods and services and other income:	**204**	**208**
Orange S.A. (parent)	127	124
Orange Group (excluding parent)	77	84
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(260)**	**(258)**
Orange S.A. (parent)	(89)	(91)
Orange Group (excluding parent)	(171)	(167)
- including Orange Brand Services Limited (brand licence agreement)	*(121)*	*(127)*
Financial costs, net:	**(232)**	**(246)**
Orange S.A. (parent)	(267)	(11)
Orange Group (excluding parent)	35	(235)
Other comprehensive income:	**11**	**76**
Orange S.A. (parent)	11	76
Dividend paid:	**-**	**166**
Orange S.A. (parent)	-	166

(in PLN millions)	*At 31 December 2017*	*At 31 December 2016 (see Note 31.5)*
Receivables:	**85**	**73**
Orange S.A. (parent)	50	46
Orange Group (excluding parent)	35	27
Payables:	**99**	**94**
Orange S.A. (parent)	49	49
Orange Group (excluding parent)	50	45
Financial receivables:	**33**	**206**
Orange S.A. (parent)	33	206
Cash and cash equivalents deposited with:	**166**	**106**
Orange S.A. (parent)	166	106
Financial payables:	**7,027**	**7,168**
Orange S.A. (parent)	58	76
Orange Group (excluding parent)	6,969	7,092

30. Subsequent events

On 14 February 2018, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 750 million with repayment date in March 2023 and Revolving Credit Facility Agreement for PLN 1,500 million with availability period to February 2022.

31. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2017.

31.1. Use of estimates and judgement

In preparing the Group's accounts, the Company's Management Board is required to make estimates, because many elements included in the financial statements cannot be measured with precision. Management Board 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 2017 may be subsequently changed. The main estimates and judgements made are described in the following notes:

Note		*Estimates and judgements*
5, 14.3, 31.9	Revenue	Allocation of revenue between each separable component of a packaged offer based on its relative fair value. Estimating fair value of components. Straight-line recognition of revenue relating to service connection fees. Reporting revenue on a net versus gross basis (analysis of Group's involvement acting as principal versus agent). Fair value of early termination fees charged to customers.
8, 31.16	Impairment of cash generating unit and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
10, 11, 31.13, 31.14	Useful lives of tangible and intangible assets	The useful lives and the method of depreciation and amortisation.
12, 31.17	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
13, 28, 31.20	Provisions	The assumptions underlying the measurement of provisions for claims and litigation. Provisions for employment termination expense: discount rates, number of employees, employment duration, individual salary and other assumptions.
13	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
15, 31.21, 31.22	Employee benefits	Discount rates, salary increases, retirement age, staff turnover rates and other. Model and assumptions underlying the measurement of fair values of share-based payment plan.
21, 22, 31.17	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
24, 31.19	Income tax	Assumptions used for recognition of deferred tax assets.
31.18	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

The Group considers that the most significant adjustments to the carrying amounts of assets and liabilities could result from changes in estimates and judgements relating to impairment (see Note 8) and provisions for claims, litigation and risks (see Notes 13 and 28).

Where a specific transaction is not dealt with in any standard or interpretation, Management Board 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 and
- are complete in all material respects.

31.2. Application of new standards and interpretations

<u>Adoption of standards or interpretations in 2017</u>

No new standards or interpretations were adopted by the Group since 1 January 2017.

Standards and interpretations issued but not yet adopted

- IFRS 9 "Financial Instruments". The aim of IFRS 9 is to supersede IAS 39 "Financial Instruments: Recognition and Measurement". The standard was issued on 24 July 2014 and will be effective for annual periods beginning on or after 1 January 2018. This standard has been endorsed by the European Union on 22 November 2016. In general (besides some limited exemptions), the standard is applicable on a retrospective basis in case of classification, measurement and impairment and prospectively in case of hedge accounting. IFRS 9 modifies the recognition criteria for hedging transactions and main financial assets and liabilities categories: given the nature of the Group's transactions, no major change is expected. IFRS 9 requires also the change in the credit risk recognition using the expected losses approach versus the incurred losses one. For the Group, this would imply impairment of receivables which have not yet reached their due date.
  The Management Board estimates that the application of the standard will have no material impact on the financial statements.

- IFRS 15 "Revenue from Contracts with Customers". This standard was issued on 28 May 2014 and will be effective for annual periods beginning on or after 1 January 2018. This standard was endorsed by the European Union on 22 September 2016.

  IFRS 15 implementation has been subject to a dedicated project within the Group. Work completion confirms the expected effects of IFRS 15 first application. The effects on Group's accounts primarily relate to the mobile phone market in Poland and notably to:
  a) the accounting for arrangements which bundle the sale of a handset sold with a discounted price and with customer subscription to a communication service for a defined period of time: the cumulative revenue will not change but the allocation between the handset sold and the communication service will change (higher equipment revenues up front, with an equivalent decrease in service revenues spread over time due to the subsidy mechanism embedded in the offers);
  b) the accelerated recognition of revenues, when the equipment is sold, offset by the supply of the service during the enforceable period, will lead to the recognition of a contract asset in the statement of financial position which would be settled against an asset receivable as the communication service is provided;
  c) some incremental subscriber acquisition and retention costs (i.e. payments to retailers directly attributable to the contract) will be recognised over the duration of the contractual relationship.

  The standard will be applied by the Group using the "modified retrospective approach" in which the cumulative effect of initially applying the standard is recognised as a contract asset and as an adjustment to retained earnings at the date of initial application, namely 1 January 2018. The "modified retrospective approach" is one of the possible methods specified in IFRS15.

  The application of IFRS 15 will result in the recognition of PLN 0.6 billion as assets related to contracts with customers (net of deferred tax) and as retained earnings on 1 January 2018. The Group's 2017 financial results are not impacted by IFRS 15 because of the use of the modified retrospective approach.

  Due to the fact that, in the years preceding IFRS 15 implementation, the level of handsets discounts given and incremental subscriber costs incurred was significantly higher than in 2017, the contract asset and retained earnings is expected to decrease from PLN 0.6 billion as a result of amortisation of handsets discounts and incremental subscribers costs which were given or incurred in previous periods. If discounts and incremental subscribers costs stabilize at the significantly lower level from 2018 onwards, the contract asset should decline and stabilize at much lower level than at the beginning of 2018.

– IFRS 16 “Leases” was issued on 13 January 2016. This standard has been endorsed by the European Union on 31 October 2017.
  This standard relates to the accounting for leases and will be compulsory applicable from 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 “Revenue from Contracts with Customers” at or before the date of initial application of IFRS 16. The Group plans to apply this standard from 1 January 2019 retrospectively with cumulative effect of applying the standard recognised at the date of initial application. The standard introduces a new basis for splitting supplier arrangements based on a new accounting definition of a lease and a service arrangement.
  It will mainly change the lease accounting for lessees with the recognition of an asset which represents the right of use at the delivery date granted by the lessor against a financial liability.
  It will also impact the presentation of the income statement (depreciation and interest expense instead of operating expense) and the statement of cash flows (interest expense will only impact the operating cash flows whereas the debt repayment will affect the financing cash flows in accordance with Group’s policy).
  The effect of implementation of IFRS 16 is being analysed as part of the project implementing this new standard.

– IFRIC Interpretation 22 “Foreign Currency Transactions and Advance Consideration”. This interpretation was issued on 8 December 2016 and will be effective for annual periods beginning on or after 1 January 2018. The interpretation will not be applied by the Group in 2018 as it has not yet been endorsed by the European Union.
  IFRIC 22 clarifies that in the case of receipt or payment of advance consideration in a foreign currency the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
  The impact of interpretation is currently being analysed by the Management Board.

– IFRS 17 “Insurance Contracts”. This standard was issued on 18 May 2017 and will be effective for annual periods beginning on or after 1 January 2021. This standard has not yet been endorsed by the European Union.
  IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The Group does not act as a principal in case of insurance contracts and this standard will have no impact on financial statements.

– IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”. This interpretation was issued on 7 June 2017 and will be effective for annual periods beginning on or after 1 January 2019. This interpretation has not yet been endorsed by the European Union.
  IFRIC 23 clarifies how to recognise and measure both current and deferred tax assets and liabilities, when there is uncertainty as regards tax treatment. This interpretation will have no impact on the Group’s financial statements.

31.3. Accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”

The accounting position described below is not specifically (or is only partially) dealt with by any IFRS standards or interpretations endorsed by the European Union. The Group has adopted accounting policies which it believes best reflect the substance of the transactions concerned.

Multiple-elements arrangements

When accounting for multiple-elements arrangements (bundled offers) the Group has adopted the provisions of Generally Accepted Accounting Principles in the United States, Accounting Standards Codification 605-25 “Revenue Recognition – Multiple-Element Agreements” (see Note 31.9 *Separable components of packaged and bundled offers*).

31.4. Options available under IFRSs and used by the Group

Certain IFRSs offer alternative methods of measuring and recognising assets and liabilities. In this respect, the Group has chosen:

Standards		*Option used*
IAS 2	Inventories	Recognition of inventories at their original cost determined by the weighted average unit cost method.
IAS 16	Property, plant and equipment	Property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.
IAS 20	Government grants and disclosure of government assistance	Non-repayable government grants related to assets decrease the carrying amount of the assets. Government grants related to income are deducted from the related expenses.

31.5. Presentation of the financial statements

Presentation of the statement of financial position

In accordance with IAS 1 "Presentation of financial statements", assets and liabilities are presented in the statement of financial position as current and non-current.

Presentation of the income statement

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

Earnings/loss per share

The net income/loss per share for each period is calculated by dividing the net income/loss for the period attributable to the equity holders of the Company by the weighted average number of shares outstanding during that period. The weighted average number of shares outstanding is after taking account of treasury shares.

Changes in presentation of the statement of financial position and the statement of cash flows

In the consolidated statement of financial position as at 31 December 2016, certain figures were adjusted to conform with the presentation as at 31 December 2017. Trade receivables and trade payables were increased by PLN 209 million due to reclassification of roaming discounts granted to and received from other operators, historically presented net of trade receivables and payables. Other assets were increased by PLN 32 million as a result of reclassification of balances related to free service periods from deferred income and trade receivables. The comparative amounts in the consolidated statement of cash flows were adjusted accordingly for the 12 months ended 31 December 2016, with no impact on net cash provided by operating activities.

31.6. Consolidation rules

Subsidiaries that are controlled by Orange Polska, directly or indirectly, are fully consolidated. Control is deemed to exist when Orange Polska or its subsidiary is exposed, or has rights, to variable returns from the involvement with the investee and has the ability to affect those returns through its power over the investee.

In order to have control over an investee, all the following criteria must be met:

- the Group has the power over the investee;
- the Group has exposure, or rights, to variable returns from its involvement with the investee;
- the Group has the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which the Group loses control over the subsidiary.

Intercompany transactions and balances are eliminated on consolidation.

31.7. Investments in joint arrangements

A joint arrangement is either a joint venture or a joint operation. The Group is involved in a joint operation. The Group recognises in relation to its interests in a joint operation its assets, liabilities, revenue and expenses, including its respective shares in the above.

31.8. Effect of changes in foreign exchange rates

The functional currency of Orange Polska is the Polish złoty.

Transactions in foreign currencies

Transactions in foreign currencies are converted into Polish złoty at the spot exchange rate prevailing as at the transaction date. Monetary assets and liabilities which are denominated in foreign currencies are re-measured at the end of the reporting period using the period-end exchange rate quoted by National Bank of Poland and the resulting translation differences are recorded in the income statement:
- in other operating income and expense for commercial transactions,
- in financial income or finance costs for financial transactions.

31.9. Revenue

Revenue from the Group's activities is recognised and presented in accordance with IAS 18 "Revenue". Revenue comprises the fair value of the consideration received or receivable for the sale of services and goods in the ordinary course of the Group's activities. When the inflow of cash and cash equivalents is deferred the fair value of the consideration may be less than the nominal amount of cash received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with IAS 39. Revenue is recorded net of value-added tax and discounts.

Separable components of packaged and bundled offers

For the sale of multiple products or services, the Group evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting. A delivered item is considered a separate unit of accounting if (i) it has value to the customer on a standalone basis and (ii) there is objective and reliable evidence of the fair value of the undelivered item(s). The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on its relative fair value. However, when an amount allocated to a delivered item is contingent upon the delivery of additional items or meeting specified performance conditions, the amount allocated to that delivered item is limited to the non-contingent amount. This case arises e.g. in the mobile business for sales of bundled offers including a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount allocable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue recognised for the handset sale is generally limited to the amount that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.

For offers that cannot be separated into identifiable components, revenues are recognised in full over the life of the contract. The main example is connection to the service: this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognised over the average expected life of the contractual relationship.

Equipment sales

Revenue from equipment sales is recognised when the significant risks and rewards of ownership are transferred to the buyer (see also paragraph *Separable components of packaged and bundled offers*). When equipment is sold in instalments the Group accounts for revenue in the amount of future instalments discounted by imputed interest rate.

When equipment associated with the subscription of telecommunication services is sold by a third-party retailer who purchases it from the Group, the related revenue is recognised when the equipment is sold to the end-customer.

Equipment leases

Equipment lease revenue is recognised on a straight-line basis over the life of the lease agreement, except for finance leases, in case of which revenue from sale of fixed assets, equal to the net investment in lease, is recognised at the commencement of lease and finance income is recognised over the lease term.

Revenues from the sale or supply of content

The accounting for revenue from the sale or supply of content (audio, video, games, etc.) depends on the analysis of the facts and circumstances surrounding these transactions. To determine if the revenue must be recognised on a gross or a net basis, an analysis is performed using the following criteria:

- if the Group has the primary responsibility for providing services desired by the customer;
- if the Group has inventory risk (the Group purchases content in advance);
- if the Group has discretion in establishing prices directly or indirectly, such as by providing additional services;
- if the Group has credit risk.

Revenue is recognised when the content is delivered to the customer.

Service revenue

Telephone service and Internet access subscription fees are recognised in revenue on a straight-line basis over the service period.

Charges for incoming and outgoing telephone calls are recognised in revenue when the service is rendered.

Revenue from the sale of phone cards in fixed and mobile telephony systems is recognised when they are used or expire.

Promotional offers

For certain commercial offers where customers do not pay for service over a certain period in exchange for signing up for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the fixed, non-cancellable period.

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

The Group's commercial contracts may contain service level commitments (such as delivery time, service reinstatement time). If the Group fails to comply with these commitments, it is obliged to grant a discount to the end-customer. Such discounts reduce revenue. Discounts are recorded when it becomes probable that they will be due based on the non-achievement of contractual terms.

Barter transactions

When goods or services are exchanged for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. The revenue from barter transactions involving advertising is measured in accordance with Interpretation 31 of the Standing Interpretations Committee "Revenue – Barter Transactions Involving Advertising Services".

31.10. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs are recognised as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred.

31.11. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. In the Group's assessment, the network roll-out does not generally require a substantial period of time.

31.12. Goodwill

Goodwill recognised as an asset in the statement of financial position for business combination before 1 January 2010 comprises:
- goodwill as the excess of the cost of the business combination over the acquirer's interest in the acquiree's identifiable net assets measured at fair value at the acquisition-date; and
- goodwill relating to any additional purchase of non-controlling interests with no purchase price allocation.

For business combination after 1 January 2010 goodwill recognised as an asset in the statement of financial position is the excess of (a) over (b) below:

(a) the aggregate of:
(i) the consideration transferred, measured at acquisition-date fair value;
(ii) the amount of any non-controlling interest in the acquiree, measured either at its fair value or at its proportionate interest in the net identifiable assets;
(iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at fair value, apart from limited exceptions provided in IFRS 3.

Goodwill represents a payment made in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised.

31.13. Intangible assets (excluding goodwill)

Intangible assets, consisting mainly of telecommunications licences, software and development costs, are initially stated at acquisition or production cost comprising its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any directly attributable costs of preparing the assets for their intended use, and, if applicable, attributable borrowing costs.

Identifiable intangible assets acquired in a business combination are recognised separately from goodwill at their acquisition date fair values. An intangible asset is identifiable if it is either separable, i.e. capable of being separated or divided from the acquired entity, or arises from contractual or other legal rights. Fair value of an intangible asset is measured using valuation techniques appropriate in the circumstances.

Internally developed trademarks and subscriber bases are not recognised as intangible assets.

Telecommunications licences

Expenditures regarding telecommunications licences are amortised on a straight-line basis over the reservation period from the date when the network is technically ready and the service can be marketed.

Research and development costs

Development costs are recognised as an intangible asset if and only if the following can be demonstrated:
- the technical feasibility of completing the intangible asset so that it will be available for use,
- the intention to complete the intangible asset and use or sell it and the availability of adequate technical, financial and other resources for this purpose,
- the ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits for the Group,
- the Group's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs not fulfilling the above criteria and research costs are expensed as incurred. The Group's research and development projects mainly concern:
- upgrading the network architecture or functionality;
- developing service platforms aimed at offering new services to the Group's customers.

Development costs recognised as an intangible asset are amortised on a straight-line basis over their estimated useful life, generally not exceeding four years.

Software

Software is amortised on a straight-line basis over the expected useful life, not exceeding five years.

Useful lives of intangible assets are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognised prospectively.

31.14. Property, plant and equipment

The cost of tangible assets corresponds to their purchase or production cost or price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, as well as including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including labour costs, and, if applicable, attributable borrowing costs.

The cost includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, representing the obligation incurred by the Group.

The cost of network includes design and construction costs, as well as capacity improvement costs. The total cost of an asset is allocated among its different components and each component is accounted for separately when the components have different useful lives or when the pattern in which their future economic benefits are expected to be consumed by the entity varies. Depreciation is established for each component accordingly.

Maintenance and repair costs (day to day costs of servicing) are expensed as incurred.

Investment grants

The Group may receive grants from the government or the European Union for funding of capital projects. These grants are deducted from the cost of the related assets and recognised in the income statement, as a reduction of depreciation, based on the pattern in which the related asset's expected future economic benefits are consumed.

Finance leases

Assets acquired under leases that transfer substantially all risks and rewards of ownership to the Group are recorded as assets and an obligation in the same amount is recorded in liabilities. Normally, the risks and rewards of ownership are considered as having been transferred to the Group when at least one condition is met:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the estimated economic life of the leased asset,
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Assets leased by the Group as lessor under leases that transfer substantially risks and rewards of ownership to the lessee are treated as having been sold.

Derecognition

An item of property, plant and equipment is derecognised on its disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in operating income/loss and equals the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation

Items of property, plant and equipment are depreciated to write-off their cost, less any estimated residual value on a basis that reflects the pattern in which their future economic benefits are expected to be consumed. Therefore, the straight-line basis is usually applied over the following estimated useful lives:

Buildings	10 to 30 years
Network	3 to 40 years
Terminals	2 to 10 years
Other IT equipment	3 to 5 years
Other	2 to 10 years

Land is not depreciated. Perpetual usufruct rights are amortised over the period for which the right was granted, not exceeding 99 years.

These useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognised prospectively.

31.15. Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. Those assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets and the sale is highly probable.

Non-current assets held for sale are measured at the lower of carrying amount and estimated fair value less costs to sell and are presented in a separate line in the statement of financial position if IFRS 5 requirements are met.

Those assets are no longer depreciated. If fair value less costs to sell is less than its carrying amount, an impairment loss is recognised in the amount of the difference. In subsequent periods, if fair value less costs to sell increases the impairment loss is reversed up to the amount of losses previously recognised.

31.16. Impairment tests and Cash Generating Units

Given the nature of Group's assets and operations, most of its individual assets do not generate cash inflows independently from other assets. As at 31 December 2017 the Group identified a single major CGU (see Note 8.1). For the purpose of impairment testing the Group allocates the whole goodwill to this CGU.

In accordance with IFRS 3 "Business Combinations", goodwill is not amortised but is tested for impairment at least once a year or more frequently when there is an indication that it may be impaired. IAS 36 "Impairment of Assets" requires these tests to be performed at the level of the cash generating unit (CGU).

Recoverable amount

To determine whether an impairment loss should be recognised, the carrying value of the assets and liabilities of the CGU, including allocated goodwill, is compared to its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is the best estimate of the amount realisable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. This estimate is determined on the basis of available market information taking into account specific circumstances.

Value in use is the present value of the future cash flows expected to be derived from the CGU, including goodwill. Cash flow projections are based on economic and regulatory assumptions, telecommunications licences renewal assumptions and forecast trading conditions drawn up by the Group management, as follows:
- cash flow projections are based on the business plan and its extrapolation to perpetuity by applying a growth rate reflecting the expected long-term trend in the market,
- the cash flows obtained are discounted using appropriate rates for the type of business concerned.

If the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the amount of the difference. The impairment loss is firstly allocated to reduce the carrying amount of goodwill and then to the other assets of CGUs.

Goodwill impairment losses are recorded in the income statement as a deduction from operating income/loss and are not reversed.

31.17. Financial assets and liabilities

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

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

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

Recognition and measurement of financial assets

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

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

<u>Loans and receivables</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables, cash and cash equivalents. They are carried in the statement of financial position under "Trade receivables" and "Cash and cash equivalents".

Cash and cash equivalents consist of cash in bank and on hand, cash deposits with Orange S.A. under the Cash Management Treasury Agreement and other highly-liquid instruments that are readily convertible into known amounts of cash and are subject to insignificant changes in value.

Loans and receivables are recognised initially at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

At the end of the reporting period, the Group assesses whether there is any objective evidence that loans or receivables are impaired. If any such evidence exists, the asset's recoverable amount is calculated. If the recoverable amount is less than the asset's book value, an impairment loss is recognised in the income statement.

Trade receivables that are homogenous and share similar credit risk characteristics are tested for impairment collectively. When estimating the expected credit risk the Group uses historical data as a measure for a decrease in the estimated future cash flows from the group of assets since the initial recognition. In calculating the recoverable amount of receivables that are individually material and not homogenous, significant financial difficulties of the debtor or probability that the debtor will enter bankruptcy or financial reorganisation are taken into account.

<u>Financial assets at fair value through profit or loss</u>
Financial assets at fair value through profit or loss include derivative assets not designated as hedging instruments as set out in IAS 39. Financial assets classified in this category are measured at fair value.

Recognition and measurement of financial liabilities

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

Trade payables include those that are subject to reverse factoring. The Group considers that these financial liabilities carry the characteristics of trade payables, in particular as the payment schedules are within the range of ordinary payment terms for a telecommunications operator.

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

Certain borrowings may be designated as being hedged by fair value hedges. Gain or loss on hedged borrowing attributable to a hedged risk adjusts the carrying amount of a borrowing and is recognised in the income statement.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities not designated as hedging instruments as set out in IAS 39. Financial liabilities classified in this category are measured at fair value.

Recognition and measurement of derivative instruments

Derivative instruments are measured at fair value and presented in the statement of financial position as current or non-current according to their maturity. Derivatives are classified as financial assets and liabilities at fair value through profit or loss or as hedging derivatives.

Derivatives classified as financial assets and liabilities at fair value through profit or loss

Except for gains and losses on hedging instruments (as explained below), gains and losses arising from changes in fair value of derivatives are immediately recognised in the income statement. The change in fair value (excluding interest rate component and credit risk adjustment) of derivatives held for trading is presented in operating income/loss or finance costs, net, depending on the nature of the economically hedged transaction. The interest rate component and credit risk adjustment of derivatives held for trading are presented under interest expense and other financial charges within finance costs, net.

Hedging derivatives

Derivative instruments may be designated as fair value hedges or cash flow hedges:

- a fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an identified portion of the asset or liability, that is attributable to a particular risk – notably interest rate and currency risks – and could affect profit or loss,
- a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (such as a future purchase or sale) and could affect profit or loss.

The effects of applying hedge accounting are as follows:

- for fair value hedges of existing assets and liabilities, the change in fair value of the hedged portion of the asset or liability attributable to the hedged risk adjusts the carrying amount of the asset or liability in the statement of financial position. The gain or loss from the changes in fair value of the hedged item and loss or gain from re-measuring the hedging instrument at fair value are recognised in profit or loss. The adjustment to the hedged item is amortised fully by maturity of the hedged item starting from the date when a hedged item ceases to be adjusted by a change in fair value of the hedged portion of liability attributable to the risk hedged,
- for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. Amounts recognised directly in other comprehensive income are subsequently recognised in profit or loss in the same period or periods during which the hedged item affects profit or loss. If a hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred

in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability.

31.18. Inventories

Inventories are stated at the lower of cost and net realisable value, except for mobile handsets or other terminals sold in promotional offers. Inventories sold in promotional offers are stated at the lower of cost or net realisable value, taking into account future revenue expected from subscriptions. The Group provides for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans.

Cost corresponds to purchase or production cost determined by the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

31.19. Income tax

The tax expense comprises current and deferred tax.

Current tax

The current income tax charge is determined in accordance with the relevant tax law regulations in respect of the taxable profit. Income tax liabilities/assets represent the amounts expected to be paid to/received from the tax authorities at the end of the reporting period.

Deferred taxes

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. Deferred tax assets are recognised only when their recovery is considered probable. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit nor loss.

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

31.20. Provisions

A provision is recognised when the Group has a present obligation towards a third party, which amount can be reliably estimated and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Group's actions.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Group to settle its obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded and the obligation is deemed to be a "contingent liability".

Contingent liabilities – corresponding to (i) possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control or (ii) to present obligations arising from past events that for which it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability – are not recognised but disclosed where appropriate in the notes to the Consolidated Financial Statements.

Provisions for dismantling and restoring sites

The Group is required to dismantle equipment and restore sites. In accordance with paragraphs 36 and 37 of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, the provision is based on the best estimate of the amount required to settle the obligation. It is discounted by applying a discount rate that reflects the passage of time and the risk specific to the liability. The amount of the provision is revised periodically and adjusted where appropriate, with a corresponding entry to the asset to which it relates.

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

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

The Group recognises termination benefits, which are provided in exchange for the termination of an employee’s employment as a result of either:

- the Group’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept an offer of benefits in exchange for the voluntary termination of employment.

Termination benefits are provided for when the Group terminates the employment or when the Group has offered to its employees benefits in exchange for voluntary termination of employment. Based on the past practice such offers are considered as constructive obligations and accounted for if it is probable that benefits will be paid out and they might be reliably measured. The basis for calculation of the provision for voluntary employment termination is expected payment dates and the estimated number, remuneration and service period of employees who will accept the voluntary termination.

In addition to post-employment and other long-term employee benefits, the Group also provides to its current and retired employees certain non-monetary benefits, including subsidised telecommunication services. In absence of specific guidance under IFRS, the Group’s policy is to value such employee benefits at their incremental cost net of related revenue generated from the service.

31.22. Share-based payments

In 2017 OPL S.A. has launched a cash-settled share-based payment plan under which employees render services to the Company in exchange for its obligation to transfer cash for amount that is based on the price of equity instruments of the Company. The fair value of services rendered by employees for granting share appreciation rights is recognised as an expense with a corresponding entry to employee benefits liabilities over the vesting period. The liability is re-measured until the date of settlement with any changes in fair value recognised in profit or loss for the period.
In 2017 Orange S.A. has launched an equity-settled share-based payment plan under which employees render services to the Company in exchange for equity instruments of Orange S.A. The fair value of the services rendered by employees for granting equity instruments of Orange S.A. is recognised as an expense with a corresponding increase in equity over the vesting period.

ORANGE POLSKA GROUP AND ORANGE POLSKA S.A.

MANAGEMENT BOARD'S REPORT ON THE ACTIVITY

FOR THE YEAR ENDED 31 DECEMBER 2017

This Report on the Activity of the Orange Polska Group ("the Group" or "Orange Polska"), including Orange Polska S.A. ("the Company" or "OPL"), in 2017 has been drawn up in compliance with Articles 83.7, 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 2014, item 133).

Disclosures on performance measures, including adjustments, are presented in the Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for the 12 months ended 31 December 2017.

In the most important aspects, this Report on the Activity of the Orange Polska Group contains also the data referring to the standalone financial statements of Orange Polska S.A. (sections 1.1, 1.2 and 1.4 below). However, owing to the fact that the differences between the basic/main standalone and consolidated data with respect to operating activities do not have any material impact on the assessment of the activity of both Orange Polska S.A. and the whole Orange Polska Group, the information presented in other sections will refer exclusively to the consolidated data.

FEBRUARY 20, 2018

CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2017 and for the twelve month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

	For 12 months ended				
	31 December 2017		31 December 2016		Change
	in PLN mln	in EUR[1]mln	in PLN mln	in EUR[2]mln	
Consolidated Income Statement					
Revenue	11,381	2,681	11,538	2,637	-1.4%
EBITDA	2,807	661	3,163	723	-11.3%
EBITDA margin	24.7%		27.4%		-2.7 pp
EBITDA (adjusted*)	3,011	709	3,163	723	-4.8%
EBITDA margin (adjusted*)	26.5%		27.4%		-0.9 pp
Operating income/(loss)**	229	54	(1,354)	(309)	n/a
Operating margin	2.0%		n/a		n/a
Consolidated net loss**	(60)	(14)	(1,746)	(399)	n/a
Net loss attributable to owners of Orange Polska S.A.	(60)	(14)	(1,746)	(399)	n/a
Weighted average number of shares (in millions)***	1,312		1,312		
Loss per share (in PLN) (basic and diluted)	(0.05)	(0.01)	(1.33)	(0.30)	n/a
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	2,064	486	2,549	583	-19.0%
Net cash used in investing activities	(1,687)	(397)	(5,074)	(1,160)	-66.8%
Net cash provided by financing activities	7	2	2,521	576	-99.7%
Net change in cash and cash equivalents	384	90	(4)	(1)	n/a
Capex	1,933	455	5,169	1,181	-62.6%
Capex (adjusted*)	1,933	455	2,001	457	-3.4%
Organic cash flow	407	96	(2,528)	(578)	n/a
Organic cash flow (adjusted*)	111	26	620	142	-82.1%

	As of				
	31 December 2017		31 December 2016		Change
	in PLN mln	in EUR[3]mln	in PLN mln	in EUR[4]mln	
Consolidated Statement of Financial Position					
Cash and cash equivalents	646	155	262	59	146.6%
Other intangible assets	5,256	1,260	5,722	1,293	-8.1%
Property, plant and equipment	10,666	2,557	10,678	2,414	-0.1%
Total assets	22,933	5,498	22,826	5,160	0.5%
Financial liabilities at amortised cost****, of which:	7,082	1,698	7,194	1,626	-1.6%
Current	1,529	367	41	9	3629.3%
Non-current	5,553	1,331	7,153	1,617	-22.4%
Other liabilities, current and non-current	5,913	1,418	5,623	1,271	5.2%
Total equity	9,938	2,383	10,009	2,262	-0.7%

Notes on data conversion:
1 – PLN/EUR fx rate of 4.2447 applied
2 – PLN/EUR fx rate of 4.3757 applied
3 – PLN/EUR fx rate of 4.1709 applied
4 – PLN/EUR fx rate of 4.4240 applied
** Disclosures on performance measures, including adjustments, are presented in the Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2017*
*** More information in the Note 8 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2017*
**** Weighted average number of shares in 12 months ended December 31, 2017 and December 31, 2016, respectively.*
***** Excluding trade payables.*

SUMMARISED STANDALONE FINANCIAL STATEMENTS

	For 12 months ended				
	31 December 2017		31 December 2016		Change
	in PLN mln	in EUR[1]mln	in PLN mln	in EUR[2]mln	
Income Statement					
Revenue	10,962	2,583	11,248	2.571	-2.5%
EBITDA	2,778	654	3,110	711	-10.7%
EBITDA margin	25.3%		27.6%		-2.3 pp
Operating income/(loss)*	195	46	(1.509)	(345)	n/a
Operating margin	1,8%		n/a		n/a
Net loss*	(69)	(16)	(1,762)	(403)	n/a
Weighted average number of shares (in millions)**	1,312		1,312		
Loss per share (in PLN) (basic and diluted)	(0.05)	(0.01)	(1.34)	(0.31)	n/a
Statement of Cash Flows					
Net cash provided by operating activities	1,991	469	2,655	607	-25.0%
Net cash used in investing activities	(1,709)	(403)	(5,026)	(1,149)	-66.0%
Net cash provided by financing activities	63	15	2,306	527	-97.3%
Net change in cash and cash equivalents	345	81	(65)	(15)	n/a
Capex	1,945	458	5,190	1,186	-62.5%

	As of				
	31 December 2017		31 December 2016		Change
	in PLN mln	in EUR[3]mln	in PLN mln	in EUR[4]mln	
Statement of Financial Position					
Cash and cash equivalents	568	136	223	50	154.7%
Other intangible assets	5,224	1,252	5,720	1,293	-8.7%
Property, plant and equipment	10,753	2,578	10,754	2,431	-0.0%
Total assets	22,716	5,446	22,628	5,115	0.4%
Financial liabilities at amortised cost***, of which:	7,149	1,714	7,208	1,629	-0.8%
Current	1,598	383	58	13	2655.2%
Non-current	5,551	1,331	7,150	1,616	-22.4%
Other liabilities, current and non-current	5,710	1,369	5,483	1,239	4.1%
Total equity	9,857	2,363	9,937	2,246	-0.8%

Notes on data conversion:
1 – PLN/EUR fx rate of 4.2447 applied
2 – PLN/EUR fx rate of 4.3757 applied
3 – PLN/EUR fx rate of 4.1709 applied
4 – PLN/EUR fx rate of 4.4240 applied
** More information in the Note 8 to the IFRS Financial Statements of the Orange Polska S.A. for 2017*
*** Weighted average number of shares in 12 months ended December 31, 2017 and December 31, 2016, respectively*
**** Excluding trade payables*

1.1 Comments on the Consolidated Income Statement and the Standalone Income Statement

Comments on the Consolidated Income Statement of the Group

Consolidated revenue amounted to PLN 11,381 million in 2017 and was lower by PLN 157 million compared to 2016. This decline was mainly attributable to the downward trend in traditional fixed telephony services. The contraction in mobile services was mainly due to a shift in the customer base to SIM-only and convergent offers. It was partially offset by growth in mobile equipment sales (driven by the sale of mobile handsets on instalment plans), significant improvement in fixed broadband revenues (owing to customer base expansion) and supported by the growth in other revenue, mainly related to the increase in sales of fixed equipment, including those linked to wireless for fixed, as well as ICT technologies.

Adjusted EBITDA (adjusted operating income before depreciation and amortisation expense and impairment of non-current assets; please see Note 3 to the IFRS Consolidated Financial Statements for 2017) amounted to PLN 3,011 million and was lower by PLN 152 million compared to 2016. The decrease in adjusted EBITDA was mainly attributable to a drop in revenues and much higher interconnect costs (mainly roaming costs). Additionally, EBITDA trend was affected by a credit of PLN 94 million, resulting from agreements with trade unions that amended the value of retirement bonuses and jubilee awards paid to employees, which was recognised in labour expense in Q1 2016.

Operating income (EBIT) was higher by PLN 1,583 million year-on-year, mainly owing to the fact that operating income in 2016 was heavily affected by PLN 1,793 million due to an impairment loss on Telecom Operator CGU.

Net finance costs in 2017 decreased by PLN 55 million compared to 2016, mainly as a result of favourable movements in foreign exchange rates.

As a result, consolidated net loss in 2017 amounted to PLN 60 million compared to PLN 1,746 million in 2016.

Please see more information regarding operating and financial performance in section 2 below.

Comments on the Income Statement of Orange Polska S.A.

Net loss of Orange Polska S.A. amounted to PLN 69 million in 2017 and was higher by PLN 9 million than the consolidated net loss of Orange Polska Group. This difference is attributable mainly to the margin earned by subsidiaries on transactions with external parties, which was partially offset by dividends paid by subsidiaries amounting to PLN 17 million.

In 2016, net loss of Orange Polska S.A. amounted to PLN 1,762 million and was higher by PLN 16 million than the consolidated net loss of Orange Polska Group. An impairment loss on Telecom Operator CGU higher by PLN 102 million and the margin earned by subsidiaries were partially offset by dividends paid by subsidiaries amounting to PLN 109 million.

1.2 Comments on the Consolidated Statement of Cash Flows and the Standalone Statement of Cash Flows

Comments on the Consolidated Statement of Cash Flows of the Group

Net cash from operating activities amounted to PLN 2,064 million in 2017 and was PLN 485 million lower year-on-year. Lower EBITDA and higher working capital requirement were the two key factors behind the deterioration in cash generation.

Net cash used in investing activities amounted to PLN 1,687 million in 2017 compared to PLN 5,074 million in 2016. This change is mainly attributable to a payment of PLN 3,148 million for the frequencies in the 800 MHz and 2600 MHz bands acquired in 2016 as well as investment grants received in advance in 2017 relating to the Operational Programme "Digital Poland" (please see note 4.5 to the Management Board's Report on the Activity in 2017).

Net cash inflows from financing activities amounted to PLN 7 million in 2017 compared to PLN 2,521 million in 2016. This change is mainly attributable to cash flows from related party loans.

Comments on the Statement of Cash Flows of Orange Polska S.A.

Net cash inflow in Orange Polska S.A. in 2017 was lower by PLN 39 million than the cash inflow in the Group, mainly as a result of higher working capital requirement of Orange Polska S.A., partially offset by PLN 55 million of net proceeds from short-term bonds issued to subsidiaries.

In 2016, net cash outflow in Orange Polska S.A. was higher by PLN 61 million than cash outflow in the Group, mainly as a result of PLN 222 million of net redemption of short-term bonds issued to subsidiaries. This impact was partially offset by PLN 109 million of dividends received from subsidiaries and PLN 65 million of proceeds from the reduction in share capital of Orange Szkolenia Sp. z o.o.

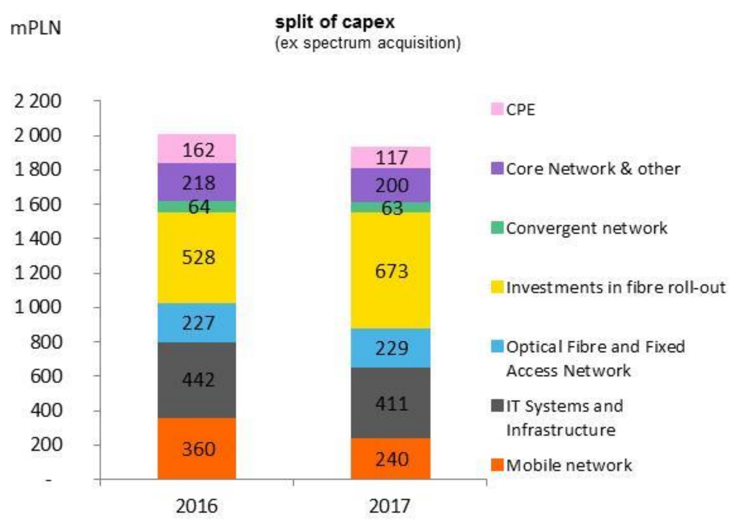
1.3 Capital Expenditures (CAPEX)

Group's adjusted capital expenditures in 2017 amounted to PLN 1,933 million and were lower by PLN 68 million year-on-year (amounts excluding spectrum payments).

The Group invested mainly in the following areas:

- Roll-out of the fibre access network in the announced investment programme, which covered 1 million households in 2017. Including the lines developed in 2014, 2015 and 2016, there are now almost 2.5 million households connectable with the fibre network, all together available in 75 cities compared to 37 cities at the end of 2016.
- Investments to enhance the range of LTE services and the quality of the mobile network, expand the capacity and range of GSM/UMTS services, and adapt the mobile access network to the 4G technology requirements, particularly in the areas not covered by the mobile access network consolidation project (i.e. strategic or underinvested regions);
- Expansion of the mobile transport and core network in order to handle the growing volume of data transmission and ensure the service quality expected by customers;
- Implementation of IT transformation programmes, including a common system for handling fixed-line and mobile service sales to B2C and SOHO customers;
- 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;
- Research and development.

The break-down of capital expenditures by main categories (excluding telecommunication licences) is presented in the diagram below.



1.4 Comments on the Consolidated Statement of Financial Position and the Standalone Statement of Financial Position

Comments on the Consolidated Statement of Financial Position of the Group

Total assets were higher by PLN 107 million than as at December 31, 2016. This change resulted mainly from a PLN 332 million increase in trade receivables and a PLN 296 million increase in cash held in bank accounts dedicated for investment grants. These impacts were partially offset by a decrease in the carrying amount of fixed assets by PLN 478 million, which resulted mainly from depreciation and amortisation expense being higher by PLN 639 million than capital expenditures. Additionally, the Group revised the estimate of dismantling provision due to an amendment to an agreement with dismantling services provider, which led to a PLN 178 million increase in dismantling provision and fixed assets.

Total liabilities increased by PLN 178 million as at December 31, 2017. This change resulted mainly from an increase in liabilities related to investment grants received in advance, increase in provisions for employment termination expense and dismantling provision. These impacts were partially offset by a decrease of PLN 353 million in trade payables and PLN 123 million in loans from a related party.

Comments on the Statement of Financial Position of Orange Polska S.A.

Total assets of Orange Polska S.A. amounted to PLN 22,716 million as at December 31, 2017 and were lower by PLN 217 million than total assets of the Group. This difference is attributed mainly to lower goodwill, trade receivables and cash and cash equivalents, which was partially offset by the value of investments in subsidiaries included in the statement of financial position of Orange Polska S.A. and eliminated on consolidation.

Total liabilities of Orange Polska S.A. as at December 31, 2017 amounted to PLN 12,859 million and were lower by PLN 136 million than total liabilities of the Group, mainly owing to lower trade payables.

As at December 31, 2016, total assets and total liabilities of Orange Polska S.A. were lower by PLN 198 million and PLN 126 million, respectively, than those of the Group. This difference is largely attributable to the same factors as explained above for balances as at December 31, 2017.

1.5 Related Parties Transactions

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

1.6 Description of Significant Agreements

Please see section 4.4 and 6.2.1 below for information on significant agreements concluded by the Group in 2017.

1.7 Unrecognised contractual obligations

Please see Note 27 to the Consolidated Full-Year Financial Statements for information about unrecognised contractual obligations.

1.8 Subsequent Events

Please see Note 30 to the Consolidated Full-Year Financial Statements for information on subsequent events.

1.9 Scope of Consolidation within the Group

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

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

In the twelve months ended December 31, 2017, neither the Company nor its subsidiaries granted guarantees or collateral of loans or borrowings to any entity or its subsidiary with a total value representing the equivalent of at least 10% of Orange Polska S.A.'s shareholders equity. Please see section 1.11.5 below for additional information.

1.11 Management of Financial Resources and Liquidity of the Group

In the reported period, the Group financed its activities by cash from operating activities, loans provided by the Orange SA Group and current account overdraft facilities.

In 2017, the Group repaid long-term bank loans totalling PLN 6 million and a revolving loan of PLN 480 million provided by the Orange SA Group.

In 2017, the value of the revolving credit facility used by the Group amounted PLN 520 million.

As of December 31, 2017, Group's interest-bearing liabilities (before derivatives) totalled PLN 6,991 million, which is a decrease of PLN 131 million compared to December 31, 2016.

The value of liabilities under financial lease and other financial liabilities as of December 31, 2017 amounted to PLN 91 million and was PLN 19 million higher compared to December 31, 2016.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 646 million at December 31, 2017, and available credit facilities totalling the equivalent of PLN 2,289 million.

On 14 February 2018, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 750 million with repayment date in March 2023 and Revolving Credit Facility Agreement for PLN 1,500 million with availability period to February 2022, which will refinance the Revolving Loan Agreement of EUR 480 million expiring in March 2018.

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 2018.

At December 31, 2017, Group's liquidity ratios decreased as compared to the end of 2016. The Group's lower financial liquidity resulted from an increase of PLN 1,684 million in current liabilities (less provisions and deferred credits), which was partially offset by an increase of PLN 634 million in current assets.

The liquidity ratios for the Group at December 31, 2017 and December 31, 2016, respectively, are presented in the table below.

	December 31, 2017	December 31, 2016
Current ratio Current assets / current liabilities*	0.69	0.87
Quick ratio Total current assets – inventories / current liabilities*	0.65	0.82
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.17	0.15

*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 6,497 million at December 31, 2017 (from PLN 6,775 million at the end of 2016).

1.11.1 Bonds

As part of Group liquidity management, in 2017 Orange Polska S.A. issued and redeemed short-term bonds which were acquired by Orange Polska S.A.'s subsidiaries under a program established in 2002 and totals PLN 2,500 million. Proceeds from the issue were used to ensure current liquidity in the scope of business operations. At the end of 2017, Orange Polska's liability on the account of outstanding bonds amounted to PLN 75 million.

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

1.11.2 Loan and Borrowings Agreements

Orange Polska S.A. concluded no additional loan agreements in 2017.

1.11.3 Unused Credit Facilities

As of December 31, 2017, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 539 million.

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

1.11.4 Loan Covenants

Agreements to which Orange Polska S.A. is a party do not impose any obligations on the Group to meet any financial ratios. For informational purposes, the ratio of net debt to adjusted EBITDA was 2.2 on December 31, 2017.

1.11.5 Guarantees and Collaterals

In 2017, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of TP Teltech Sp. z o.o., an Orange Polska's wholly-owned subsidiary, towards its business partners, while promising to cover any claims related to payments under the guarantee. As of December 31, 2017, those guarantees totalled PLN 3.4 million.

In the reported period, in connection with the acquisition of Orange Energia Sp. z o.o. (formerly Multimedia Polska Energia Sp. z o.o.) by the Group, Orange Polska S.A. requested banks to issue nine bank guarantees with respect to liabilities of this subsidiary towards its business partners, while promising to cover any claims related to payments under the guarantee. As of December 31, 2017, those guarantees totalled PLN 17.9 million.

Furthermore, pursuant to a collateral agreement of November 9, 2017, Orange Polska S.A. granted a collateral of PLN 20 million to BZ WBK Faktor Sp. z o.o. to secure the facility provided by the latter to TP Teltech Sp. z o.o. under a confirming agreement for payment management.

As of December 31, 2017, the following collaterals granted by Orange Polska S.A. were still valid:

- PLN 2.6 million granted in December 2015 to Bank Handlowy w Warszawie S.A. to secure a bank guarantee issued by the latter upon request of TP Teltech Sp. z o.o. as a proper performance bond;
- PLN 7 million granted in December 2016to Alior Bank S.A. to secure an overdraft facility provided by the latter to Orange Retail S.A., a subsidiary of Orange Polska S.A.

1.11.6 Hedging Transactions

In 2017, the Group continued to minimise its exposure to foreign exchange volatility by concluding and maintaining cross currency swap, currency option, cross currency interest rate swap and non-deliverable forward contracts, which at December 31, 2017 covered:

- 100% of debt denominated in foreign currencies,
- 41.0% of licence payable for the 2100 MHz spectrum (UMTS licence); and
- 83.6% of European Commission proceedings provision.

As a result of hedging, Group's effective currency exposure at December 31, 2016 was as follows:

- EUR 72 million of licence payable for the 2100 MHz spectrum (UMTS licence); and
- EUR 25 million of European Commission proceedings provision.

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

The Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As of December 31, 2017, the Group's proportion between fixed/floating rate debt (after hedging) was 78/22% as compared to 69/31% on December 31, 2016.

In addition, the Group has hedged the risk of Orange Polska share price increase with options. As of December 31, 2017, 100% of phantom shares for the incentive programme for managers were hedged.

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

in 2017

2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

The Group identifies a single operating segment in its business activity. Segment performance is evaluated mainly based on consolidated revenue, consolidated EBITDA, consolidated net income/(loss), consolidated organic cash flows, consolidated capital expenditures, consolidated net financial debt and consolidated net financial debt / EBITDA ratio based on cumulative EBITDA for the last four quarters. EBITDA corresponds to operating income/(loss) before depreciation and amortisation expense and impairment of non-current assets. Organic cash flows correspond to net cash provided by operating activities decreased by purchases of property, plant and equipment and intangible assets, changes in amounts due to fixed assets suppliers, impact of investments grants received/paid to fixed assets suppliers, impact of net exchange rate effect paid/received on derivatives economically hedging capital expenditures and increased by proceeds from sale of fixed and intangible assets. To enhance the performance presentation, these financial data can be adjusted to exclude the impact of significant non-recurring transactions or other events or changes in the scope of consolidation.

key figures (PLN million), IFRS	**2017**	**2016**	**Change**
revenue	11,381	11,538	-1.4%
EBITDA	2,807	3,163	-11.3%
EBITDA margin	24.7%	27.4%	-2.7 pp
adjusted EBITDA*	3,011	3,163	-4.8%
adjusted EBITDA margin*	26.5%	27.4%	-0.9 pp
operating income/(loss)**	229	(1,354)	n/a
Net loss**	(60)	(1,746)	n/a
capex	1,933	5,169	-62.6%
adjusted capex*	1,933	2,001	-3.4%
organic cash flow	407	(2,528)	n/a
adjusted organic cash flow*	111	620	-82.1%

** For adjustments of basic financial data please see Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2017.*
*** More information in the Note 8 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2017.*

Revenue totalled PLN 11,381million in 2017 and was down PLN 157million (or -1.4%) year-on-year. However, the rate of decline was lower than in 2016 (-2.4%).

The revenue erosion was almost evenly distributed between fixed line and mobile segments, whereas other revenues grew substantially.

There was a considerable improvement in the trend of fixed services revenues, as their erosion was contained at 3.2% vs. 7.5% in 2016, despite a continued slump of about 13% in traditional voice revenues, which were affected by negative structural factors. Fixed broadband revenues improved greatly with growth of 4.5% in 2017 vs. a decline of about 4% in 2016. This was driven by rapid customer base expansion, which increased almost 11%. A considerably lower decline was reported in wholesale revenues, which were positively affected by an increase in traffic termination on a fixed network.

The declining trend in mobile revenues can be attributed to the implementation of the value-driven commercial strategy. Focus on value and convergence was reflected in a radical reduction in handset subsidies, which resulted in a considerable rise in unit sales prices accompanied by a decline in sales volume and, consequently, a significant increase in the share of SIM-only transactions. This strategy led to an improvement in EBITDA, but had a negative impact on both mobile equipment sales and ARPU.

Other revenues jumped by 35% year-on-year, driven among others due to a rise in sales of ICT equipment, higher sales of wireless broadband equipment and consolidation of results of acquired Multimedia Polska Energia (for less than four months).

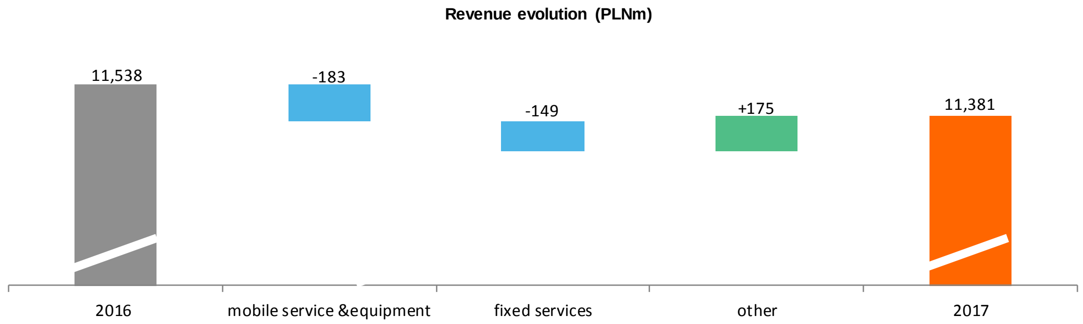
Total operating costs (determined as EBITDA less revenues) remained flat year-on-year. As a result, revenue erosion fully filtered through to adjusted EBITDA, which was down 4.8%. However, adjusted EBITDA erosion was significantly lower than in 2016, when it exceeded 10%. Adjusted EBITDA margin decreased by 0.9 percentage points year-on-year and stood at 26.5%.

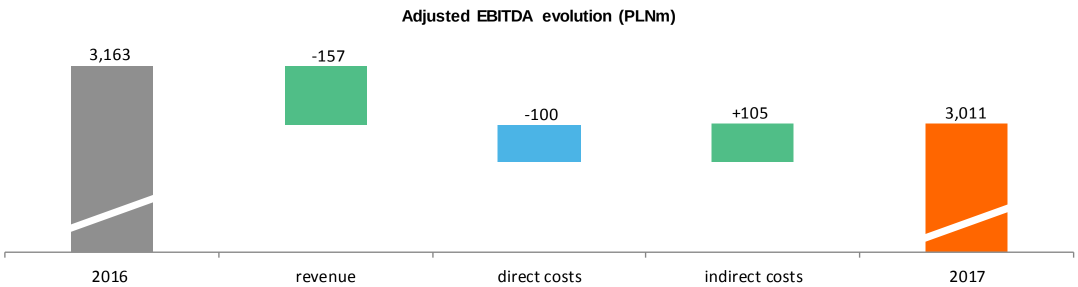
Cost evolution can be attributed mainly to the following factors:

- A decrease of over 10% in commercial expenses, resulting mainly from much lower volume of customer acquisition and retention transactions bundled with handsets as well as optimisation of the distribution channel mix and significant savings in advertising and promotion costs;
- An increase of over 18% in interconnect costs due to growth in retail and wholesale traffic, owing to a higher customer base and much higher usage per customer (particularly resulting from a massive increase in traffic following the introduction of free roaming within the EU);
- An increase of 3.3% (year-on-year) in labour costs (adjusted for the effect of revision related to the new Social Agreement). However, the increase resulted exclusively from recognition of low labour costs in 2016 following renegotiation of retirement bonuses (PLN 94 million). Excluding this one-off factor, labour costs decreased by more than 2%, mainly owing to workforce optimisation;
- A decrease of approximately 3% in network and IT expenses, resulting from savings in energy consumption, network maintenance and installation costs.

The margin decline resulted greatly from negative structural trends in high-margin traditional fixed line services (mainly fixed line voice services), the decrease in these services was almost entirely reflected in profit erosion. However, the implementation of the convergence strategy and the roll-out of the fibre network significantly improved broadband margins.

In September 2017, we announced our new strategy, *Orange.one*. In financial terms, the new strategic plan is to result in a gradual trend improvement in revenues and EBITDA and their sustainable growth from 2020. This will be supported mainly by concentration on the convergence strategy, monetisation of fibre network investments, development of complimentary business areas, focus on value generation and significant optimisation of underlying indirect costs. Please see section 3 below for more information.





2.1 Convergent Offer

One of the key strategic objectives of Orange Polska is to be the leader in telecommunication services sales to households. Convergence, or sales of mobile and fixed-line service bundles, addresses the household telecommunication needs in a comprehensive manner, increasing customer satisfaction and reducing churn (as churn rate is much lower than among single service users). It also contributes to revenue growth and increased efficiency of IT and marketing spending. Through our convergent offer, we are able to enter new households with our services as well as upsell additional services to the households where we are already present, displacing our competitors which cannot provide such a comprehensive offer.

In 2017, we considerably strengthened our convergent offer. The Orange Love offer, which was introduced in February, is based on a new formula. Instead of previous discounts on each additional service purchased, customers are now offered a predefined set of services ("a hard bundle"). The basic package includes:

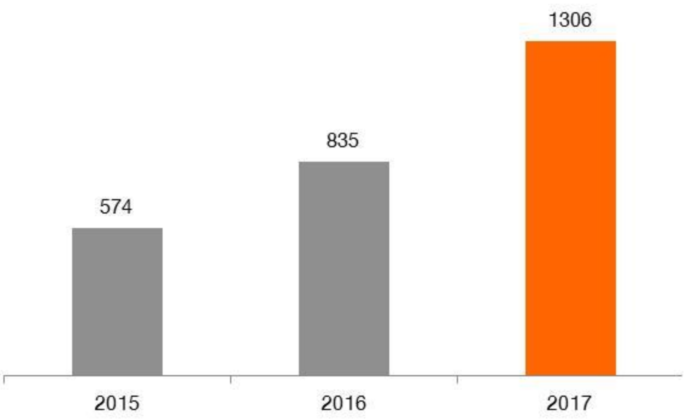
- broadband access in the copper, fibre or wireless for fixed technology;
- TV package of 98 channels;
- mobile post-paid service with unlimited calls and SMSs plus a 5 GB data pool; and
- home phone.

The basic package can be extended to include broader TV packages, additional mobile post-paid services at a discounted price or added-value services, such as Orange TV GO or multiroom. The offer is supplemented by a broad portfolio of smartphones offered in the instalment scheme. The launch of the Orange Love offer was accompanied by an intensive marketing campaign, which aimed to show it as our flagship proposal for households. The commercial results confirm that Orange Love has been well received by customers. By the end of June, that is four months after the launch, the offer take-up had exceeded 200,000, and by the end of December it approached 600,000. Currently significant number of mobile and fixed broadband service sales are effected in the convergent bundle formula.

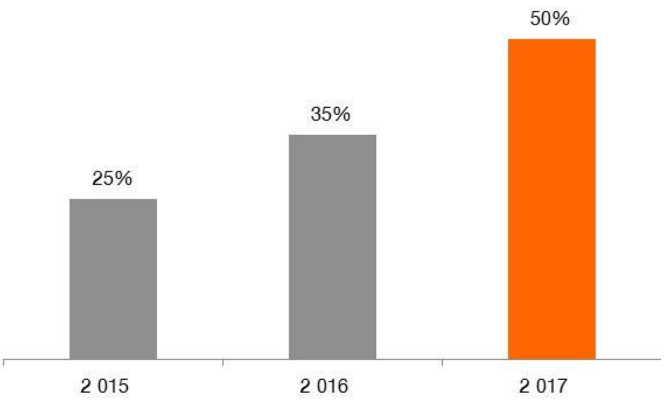
Our convergent offer is a very important element in ensuring the success of our broadband offer in the fibre technology. It is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. This is confirmed by the fact that penetration of convergence in the B2C fibre broadband customer base was 56% at the end of 2017, which is a significantly higher rate than in case of broadband services based on copper technologies.

At the end of December 2017, our convergent customer base reached 1,306 thousand (including 1,035 thousand of B2C customers), which is an increase of 471 thousand (or 56%) compared to the end of 2016. The total number of services provided in the convergence scheme among B2C customers is almost 4.2 million. On average, each convergent individual customer uses four Orange services. The share of convergent customers in the aggregate base of residential customers of fixed broadband and mobile voice services is shown in the diagram below. This share has considerably increased owing to the attractiveness of the Orange Love offer and the prioritisation of convergence at Orange Polska. Currently, half of B2C fixed broadband customers have convergent bundles. This rate has doubled over the last two years.

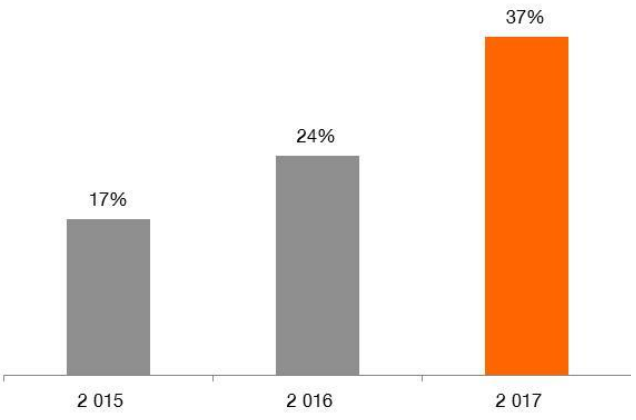
Orange Polska's convergent customer base (in thousand)



Convergence penetration in B2C fixed broadband customer base



Convergence penetration in B2C mobile handset post-paid customer base



2.2 Mobile Services

Revenues			
PLN million	**For 12 months ended**		**Change**
	December 31, 2017	**December 31, 2016**	
Mobile revenues*	6,141	6,324	-2.9%
o/w Retail services	3,791	4,238	-10.5%
o/w Wholesale services (including interconnect)	1,147	1,037	10.6%
o/w Equipment sales	1,203	1,049	14.7%

* Figures for 2016 adjusted after reclassification of wireless for fixed from retail mobile revenue to fixed broadband, TV and VoIP revenue and sales of mobile equipment to other revenue.

Key performance indicators					
in '000	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**	**Change 31.12.2017/ 31.12.2016**	**Change 31.12.2016/ 31.12.2015**
Total mobile services (SIM)*	14,424	15,799	15,867	-8.7%	-0.4%*
o/w Post-paid	9,726	9,262	8,322	5.0%	11.6%*
o/w Mobile handset	7,270	6,851	6,262	6.1%	9.8%*
o/w Mobile broadband	1,231	1,377	1,239	-10.6%	11.1%
o/w M2M	1,225	1,033	821	18.6%	25.8%
o/w pre-paid	4,698	6,537	7,545	-28.1%	-13.5%*

* For information about customer base revision please see section 11.

Key performance indicators					
in PLN	**2017**	**2016**	**2015**	**Change 2017/2016**	**Change 2016/2015**
SRC (post-paid), PLN	49.1	187.0	260.2	-73.7%	-28.1%
SAC (post-paid), PLN	101.2	209.9	327.2	-51.8%	-35.8%
Monthly blended ARPU, PLN	29.8	28.3	30.3	5.3%	-6.6%
post-paid (excluding M2M)	38.6	43.7	49.2	-11.7%	-11.2%
pre-paid	15.7	12.2	12.7	28.7%	-3.9%

As at the end of 2017, Orange Polska had a mobile services base of 14.4 million, which is a decrease of 1.4 million or almost 9% vs. end of December 2016. This was exclusively due to a sharp decline (-28%) in SIM cards in the pre-paid segment, where the introduction of the card registration obligation resulted in much lower new card activations. In addition, card registration by customers accelerated migration to post-paid. However, as the vast majority of new pre-paid activations are low usage one-time activations, the reduction did not affect our financial performance in a material way.

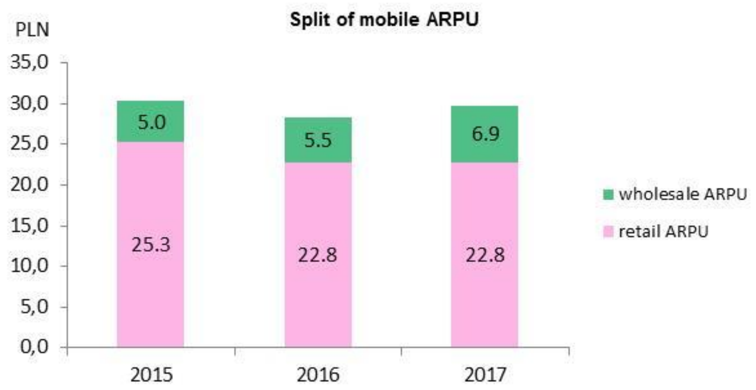
In the post-paid segment, the number of SIM cards increased by 5% as compared to the end of 2016. Sales of handset offers increased by 6%, that is less than in 2016, which resulted from a shift in commercial strategy from focus on volume to a more value oriented approach as well as concentration on the Orange Love convergent offer in customer acquisition (over 40% of new B2C customers purchased their mobile voice service in a bundle with fixed broadband). Conversely, the number of mobile broadband services decreased, following several periods of substantial growth. This was due to increased popularity of mobile broadband for fixed use offers as well as growing data pools for smartphones in mobile voice tariff plans. We expect this trend to continue in 2018.

Blended ARPU amounted to PLN 29.8 in 2017 and was up 5.3% (year-on-year). The increase was driven exclusively by a major improvement in pre-paid ARPU. This improvement, however, resulted not from some fundamental factors, but from a huge decline in SIM cards following the registration obligation. In the post-paid segment, ARPU erosion continued at a double-digit pace.

The post-paid ARPU decline in 2017 can be attributed to the following factors:

- growing take-up of SIM-only offers;
- focus on instalment sales in customer acquisition, while reducing sales of traditional subsidised offers (in the instalment scheme, a portion of revenue corresponding to the handset is reported as revenue from equipment sales rather than revenue from services, which is the basis for ARPU calculation);
- discounts granted to customers subscribing to convergent services;
- popularity of family offers, in which customers get several SIM cards;
- substantial decrease in mobile broadband ARPU, resulting from much lower take-up of this service;
- price competition.

Customer acquisition and retention costs (SAC, SRC) were falling, which was attributable mainly to further rapid growth in share of instalment schemes in the overall sales structure, higher handset sale prices and growing popularity of SIM-only offers.



2.2.1 Market and Competition[1]

In 2017, the saturated mobile market was significantly affected by regulatory changes. As a result, the estimated number of SIM cards fell by 3.5% year-on-year, reducing the mobile penetration rate (among population) to 135.4% at the end of December 2017.

The regulations imposing on mobile operators the obligation of pre-paid SIM card registration as from July 25, 2016 not only affected the total volume of SIM cards, but also modified the structure of the market by segments (post-paid vs. pre-paid). The impact of the new regulations on the mobile market was significant, but owing to differences among operators in reporting pre-paid SIM cards, their comparative analysis is still difficult.

According to Orange Polska's own estimates, the four leading operators' aggregated market share remained at 98.5% as of the end of December 2017, with Orange Polska's estimated market share of 27.9%.

2.2.2 Mobile Voice and Data Services

In connection with the market launch of the Orange Love offer in February, we focused on our convergent offer in customer acquisitions, as it enables up-sales of additional services and contributes to higher loyalty of customers. Currently, the convergent formula accounts for a major share in mobile voice acquisitions. Owing to the Orange Love attractiveness, there is a reduced need for handset subsidies in mobile customer acquisitions, which has led to a major increase in SIM-only acquisitions. Overall, the number of mobile voice acquisitions continued to grow. However, the pre-paid customer base decreased as a result of the introduction of the pre-paid SIM card registration obligation, which reflected the general market trend in this segment.

In 2017, there were no significant changes versus 2016 in the key trends in the mass market:

- Households became the main arena of competitive struggle in contrast to earlier competition for single customers. On the one hand, it resulted in relative stabilisation of prices of single services after years of fierce competition. On the other hand, customers can get price benefits, sometimes significant, for buying a bundle of several services, which contributes to the popularity of multi-SIM family offers, combining mobile voice and data services. A part of this trend is the growing take-up of convergent offers, which combine mobile and fixed-line services.
- A data package is an indispensable element of any offer and the data pool volume is one of the key competitive differentiators, particularly with the roll-out of the LTE network and rapidly growing demand for data transfer.
- An attractive portfolio of modern smartphones remains a differentiator in competition for customers, even though a growing number of them choose SIM-only offers.
- As a product category, mobile broadband has become less attractive, mainly due to the attractiveness of the wireless broadband for fixed offers as well as growing volumes of data packages in voice offers.
- Further portfolio simplification and reduction in the number of tariff plans continued.
- Looking for other differentiators, in addition to price, operators have been offering new services, such as access to music services or TV content.

At the end of August, our portfolio of post-paid tariff plans in the mass market was significantly modified in line with our strategy of offer simplification and focus on value. In particular, the number of voice and broadband tariff plans was reduced from 18 to 4 and from 14 to 3, respectively. In an attempt to focus on convergence and follow a value-based strategy, we were reducing handset subsidies very significantly throughout the year.

2.3 Fixed Services and Other Revenue

Revenue			
PLN million	**For 12 months ended**		**Change**
	December 31, 2017	**December 31, 2016**	
Fixed services*	4,571	4,720	-3.2%
of which fixed narrowband	1,327	1,527	-13.1%
of which fixed broadband, TV and VoIP	1,617	1,548	4.5%
of which enterprise solutions and networks	894	892	0.2%
of which wholesale (including interconnect)	733	753	-2.7%
Other revenue	669	494	35.4%

* Figures for 2016 adjusted after reclassification of wireless for fixed from retail mobile revenue to fixed broadband, TV and VoIP revenue and sales of mobile equipment to other revenue.

[1] Analysis of the mobile market, excluding wireless for fixed offers.

Key performance indicators					
in '000	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**	**Change 31.12.2017/ 31.12.2016**	**Change 31.12.2016/ 31.12.2015**
Fixed voice services (retail: PSTN and VoIP)	3,684	3,932	4,194	-6.3%	-6.2%*
Fixed broadband accesses (retail)	2,438	2,206	2,144	10.5%	4.0%*

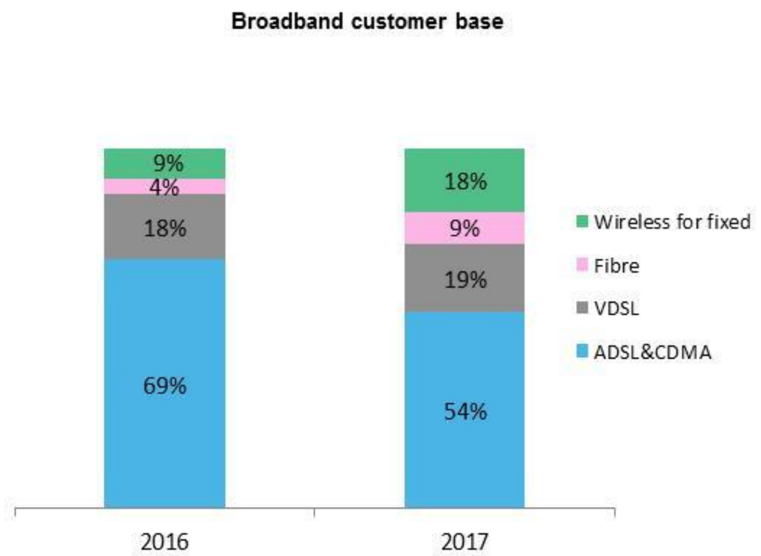
* For information about customer base revision please see section 11.

Key performance indicators					
in PLN	**2017**	**2016**	**2015**	**Change 2017/2016**	**Change 2016/2015**
Retail fixed voice ARPU	37.2	38.6	40.0	-3.6%	-3.5%
Fixed broadband, TV and VoIP ARPU	57.8	59.9	61.1	-3.5%	-2.4%*

* For information about customer base revision please see section 11.

In 2017, like in the previous periods, fixed-line revenue remained under pressure from both other market players and mobile technologies. However, revenue erosion in this segment slowed down very significantly, which was related mainly to a rebound in fixed broadband revenues, but also lower erosion in wholesale services.

Fixed broadband revenue began to grow as a result of customer base expansion. This was possible owing to investments in fibre and mobile networks. Decline in legacy technologies (ADSL and CDMA) was offset by growth in VDSL, fibre and wireless for fixed. This effect intensified during the year. The share of these growing technologies in the whole customer base increased to 46% at the end of 2017 (from 31% at the end of 2016). We expect this transformation to continue as a result of the steady implementation of our convergence strategy and further investments in the fibre network.



Erosion of fixed voice customer base (excluding VoIP) totalled 411 thousand in 2017 and was higher than in 2016 (312 thousand). The decline can be attributed mainly to structural demographic factors and growing attractiveness of mobile services with unlimited calls to all networks. It is also a result of our convergence strategy, which stimulates partial migration of customers to VoIP. Revenue erosion was 13%, remaining at a similar level as last year. We expect the downward trend in fixed-line to continue in subsequent periods.

The negative trends in fixed line voice affected also the wholesale segment (WLR, BSA, WLL). However, in 2017 a rate of decline in the number of lines was slightly lower than a year earlier. Furthermore, total wholesale revenues decreased less significantly than in 2016, as they were supported by higher volume of international traffic terminated in our fixed line network.

Other revenues jumped by 35% year-on-year, driven by sales of ICT equipment, higher sales of wireless broadband equipment and consolidation of results of acquired Multimedia Polska Energia (for less than four months).

2.3.1 Market and Competition

Fixed Voice Market

The Group estimates that the fixed line penetration rate was at 19.0% of Poland's population at the end of December 2017, as compared to 20.0% at the end of December 2016. The decline is still attributable mainly to growing popularity of mobile technologies. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a substitute to fixed line telephony. The aforementioned downward trend has been also affecting regulated fixed-line wholesale products based on traditional infrastructure (WLR and LLU).

Fixed Broadband Market

According to Group's estimates, the total number of fixed broadband access lines, including wireless for fixed technology, increased by a 0.5 million at the end of 2017 (year-on-year). This can be attributed mainly to the growing popularity of mobile broadband for fixed-line uses, which can successfully substitute for traditional cable lines. Orange Polska's wireless for fixed customer base increased by 242 thousand lines in 2017, to 433 thousand lines at the end of December 2017.

At the same time, the high-speed fixed broadband market has been constantly expanding and growing in Poland, especially in the urban areas, with Orange Polska contributing greatly to the growth. In 2017, Orange Polska's high-speed broadband customer base increased by 0.19 million. The key success factors were rapidly growing range of our fibre network, modernisation of our VDSL network as well as our convergent offer competitive to cable television (CATV) operators.

Orange Polska's increased activity in the high-speed broadband segment has stimulated the already highly competitive market environment and forced CATV operators to upgrade and enhance their offer even more quickly. In addition, local markets saw a number of dedicated marketing campaigns by CATV operators, offering additional discounts for discontinuation of services provided by other operators. As a result of such efforts, the position of CATV operators remains strong. According to Orange Polska's estimates, CATV operators' aggregate share in Poland's fixed broadband market was 32% by volume or 31% by value.

The intended acquisition of Multimedia Polska by UPC Polska, which was announced in October 2016, can be also considered a response to the weakening position of CATV operators in big cities and Orange Polska's plans of further fibre network roll-out. The transaction, if approved by UOKiK, will result in emergence of a cable network with 4 million households connectable to it, thus strengthening UPC's leadership position in the CATV segment. In addition, the transaction will enable expansion of UPC Polska in small to medium towns, where its position has not been significant so far. Orange Polska estimates that the aggregate share of the merged companies in the fixed broadband market will be approximately 19%.

The rapid growth of the high-speed fixed broadband customer base and the fixed LTE customer base was reflected in an increase in the aggregate number of Orange Polska's broadband users by over 0.23 million in 2017.

According to internal estimates Orange Polska had the following share in the fixed broadband market:

Fixed broadband market – key performance indicators

	Dec 31, 2017	Dec 31, 2016
Market penetration rate – broadband lines (in total population)	22%	21%
Total number of broadband lines in Poland ('000)	8,566	8,062
Orange Polska's market share by volume	28.5%	27.4%

Fixed voice market share in December 2017

	4Q 2017 (estimated)	4Q 2016	Change
Retail local access[2]	50.5%	51.2%	-0.7pp

2.3.2 Fixed Line Data Services

Due to great differences in the competitive environment, technological potential related to population density, our market shares and customer needs, Orange Polska uses local approach in its activities, which varies in big cities, medium to small towns and rural areas.

In big cities, we focus on the development of FTTH coverage and recovery of market share in fixed broadband by capitalising on our excellent position in the mobile market; whereas in rural areas mobile technologies,

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

supplemented by fixed ones, are the primary broadband access solution. Our main challenge is to defend the fixed broadband customer base, particularly by cross-sales of mobile services.

As at the end of 2017, almost 2.5 million households were connectable with the fibre network, with approximately 1 million households added in 2016 (in line with the plan presented at the beginning of the year). Our fibre services are already available in 75 cities. Our fibre customer base reached 214 thousand and increased by 143% year-on-year. The fibre service is a novelty in the Polish market and has low awareness among consumers. Our marketing efforts aim to raise this awareness and create demand for the service. Furthermore, it is specific to the Polish market that customers sign two-year loyalty agreements, which is a factor slowing down customer migration from cable networks to our fibre network.

As Poland's fixed broadband market in big cities is highly competitive, price is a very important differentiator of the offer attractiveness. As for portfolio developments, we have been greatly promoting convergence, using our strong position in the mobile market. It is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. The launch of the Orange Love offer in February 2017 greatly contributes to the achievement of these goals. At the end of 2017, penetration of convergence in our fibre customer base was 56%.

A major factor in competing for fixed broadband customers is the quality of the TV offer. Notably, the Polish market is characterised by very little exclusive content. Even expensive TV content (such as rights to broadcast sports events), which in Poland is acquired mainly by satellite platforms, is broadly distributed to cable televisions. In February 2017, the launch of the Orange Love offer was accompanied by the introduction of a new set-top box with expanded functionalities. In addition to improved menu ergonomics, the decoder enables recording up to three programmes simultaneously and watching 4K TV. Thus, Orange Polska became the first nationwide pay TV operator to provide content at 4K resolution. Furthermore, in March 2017 Orange IPTV customers gained access to Polsat channels, including Polsat Sport HD. Thus, the last missing piece was added to our TV portfolio. This is a subsequent step in our TV offer development plan, which has been implemented since the launch of new TV packages in 2016.

In rural areas, mobile technologies are the primary broadband access solution and constitute the base for our wireless for fixed offers. Owing to attractive prices and high quality of our mobile network, such offers are very popular among customers.

Our fixed broadband customer base has been subject to thorough transformation. The non-competitive ADSL technology has been increasingly replaced by growth technologies, mainly fibre and wireless broadband for fixed, which is possible owing to our investments in network quality.

3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

3.1 Market Outlook

According to Orange Polska's estimations, the retail telecommunications market is going to stabilise in the coming years. In a short-term perspective, the market will be driven mainly by: rapid expansion of very high-speed broadband access (above 30Mbps) owing to fibre infrastructure investments as well as an increase in LTE coverage. In the mobile segment, growing post-paid volume and increasing instalment sales of equipment will support market growth. At the same time, the telco services market will be under pressure due to continuing Fixed-to-Mobile substitution, both in terms of fixed telephony and traditional broadband (DSL below 30 Mbps).

In a medium-term perspective we expect the telecommunications market rebound, particularly owing to positive trends on the VHBB market stimulated by rapid growth of demand for data transmission, which is linked with digitisation of the society and economy, including development of e-commerce, Internet of Things, e-Administration etc. We expect growing penetration of fixed broadband in the coming years, as fixed access maximises profits from the Internet and services such as gaming on-line, HD/4K VoD or teleconferences. Also growing popularity of smartphones, tablets and other equipment with mobile Internet access positively affects the telecommunications market.

As for the mobile services market, we predict competition to shift from simple price cuts towards quality-based competition. We expect the market growth to be driven by bundled and convergent offers. On the B2B market we expect volume growth to continue as a result of an increase in the number of employees and companies as well as the development of the knowledge-based economy. We expect growing popularity of telco offers combined with ICT and machine-to-machine (M2M) services.

In 2017, the telecom market was subject to consolidation processes, as UPC Polska waited for UOKiK's approval of its acquisition of Multimedia Polska and the Cyfrowy Polsat Group announced its intention to acquire a controlling stake in Netia, taking a first step in this direction in December by acquiring a 32% stake in the operator from the major shareholder. These developments on one hand confirm Orange Polska's convergent strategy but on the other hand may result in increased market competition.

3.2 *Orange.one* Strategy

<u>Orange.one: A new momentum for Orange Polska</u>

In September 2017, we announced a new strategic plan for 2017–2020 called *Orange.one*. Our vision is to become Poland's first choice telecommunications operator for consumers and businesses by 2020, while creating a business model that will generate sustainable growth in both sales and profits. We expect to achieve these objectives by developing services and products of unmatched quality, supported by the comprehensive development of our fibre network and digital capabilities, and by significantly increasing our operational efficiency.

Orange.one reaffirms the key priorities of the strategy announced at the beginning of 2016, while giving them a new momentum. To achieve the goal of sustainable turnaround, we will need better execution, clearer focus and more agility. All our business decisions will be driven to a greater extent by value creation, and our customer propositions will be driven by simplicity and consistency. Poland's telecommunications market is characterised by very intense competition and even though there are some clear signs of a shift towards value-oriented strategies, we do not expect any significant change in the level of competition.

<u>We have right assets at hand</u>

We believe to have adequate assets to implement our strategy, and what we need is better execution to get the proper return and value out of these assets. We have Poland's largest base of mobile and fixed line customers, who have trusted us. For several years we have been heavily investing in our mobile and fixed networks and their connectivity has been appreciated by both retail and wholesale customers. We operate under a global and broadly recognised brand, which is a major source of competitive advantage, as it is considered innovative and enjoys very high awareness. The Company's another strength is highly motivated and skilled employees, in whom we invest to make them contribute to value creation.

<u>Consumer market strategy driven by convergence</u>

The key to success in the B2C market will be convergence, or sales of mobile and fixed line service bundles. Convergence addresses the household telecommunication needs in a comprehensive manner, increases customer satisfaction and reduces churn. We still see a great potential in convergence for both upselling additional services to the households where we are already present and entering new households with our services. According to our research, about 90% of Polish households still buy telecom services from several suppliers. A fast, modern and reliable network is a critical factor to success in convergence. Our ambition is to have over 5 million households, or about 40% of all households in Poland, connectable to our fibre network by 2020. While implementing our strategy in the mass market, we will also account for customers who for some reason do not need or do not want convergence, offering them attractive tariff plans and equipment at competitive prices. In customer acquisition and retention, our guiding principle will be to create value for the Company.

Business market strategy driven by digital transformation

In the B2B market, our main ambition is to become the first choice partner for our customers in digitisation. Digitisation is currently the key transformation process in business organisations with respect to both their internal environment and their products and services. This process involves increased demand for data transmission, business migration to the cloud, increased cybersecurity needs and demand for tailor-made and much more flexible ICT solutions. Development in these areas will be our priority. We will continue to improve connectivity, which provides the basis for digitisation of both corporations and small businesses. Convergence, which is the key growth engine in the B2C market, is also a pillar of our offer to small to medium companies, often supplemented by an ICT component. In the next few years, the Internet of Things will remain a major growth area. We will continue development also in this segment, benefiting from the fact that we are currently the market leader in machine-to-machine (M2M) services.

Our common ambition for both B2B and B2C segments is to achieve the number one position in NPS (Net Promoter Score) ranking on the Polish market by 2020.

Financial goal: Sustainable growth of revenue and EBITDA in 2020

Proper implementation of the *Orange.one* strategy is to lead to the development of a business model, which will enable us to return to a sustainable and stable growth path. In financial terms, this should result to a gradual improvement in trends, generating revenue and EBITDA growth in 2020.

Sales revenues stabilisation in 2019 and growth afterwards is to be driven by the following factors: significant growth of convergent customer base and convergent services, more focus on value generation, successful development in adjacent business areas (ICT, Orange Energy, Orange Finance, Orange Smart Care, sales of equipment) and a diminishing share of legacy services in total revenues.

The improving revenue trend will contribute to an improvement in the EBITDA trend, which will be also driven by operating leverage and continued cost optimisation. We forecast a reduction of underlying indirect costs by 12–15% by 2020 versus 2016. Savings will be generated across all cost groups, including labour, outsourcing, general & administrative, energy and network maintenance costs. They will result largely from comprehensive transformation of Orange Polska's processes at each stage of our business model: networks, products and services, distribution and customer care. The process transformation will aim at their simplification, automation and digitisation.

The intended capex will reflect our connectivity programme and business transformation needs. Our capex ambition is to spend at least PLN 2 billion annually by 2020, including ambition to spend ca PLN 2.8 billion on fibre network deployment in 2018–2020 to cover more than 5 million households by the end of 2020.

We believe that the financial performance in 2017 and the adjusted EBITDA forecast for 2018 confirm the success of the *Orange.one* strategy. The adjusted EBITDA erosion slowed down significantly, mainly owing to very large savings on handset subsidies, sales channel optimisation and a reduction of underlying indirect costs by almost 5% year-on-year. The expected stabilisation of adjusted EBITDA in 2018 will be the first time of non-decline in 9 years.

Key business objectives by 2020

Business-to-Consumer

– Increase of convergent customer base by an additional 1 million to 1.5 million by the end of 2020 (vs.858,000 in 1H2017)
– Increase of fibre customer base 5–6 times by the end of 2020 (vs. 140,000 in 1H2017)
– Increase of TV customer base by an additional 300,000 to 600,000 by the end of 2020 (vs. 792,000 in 1H2017)
– Achieving number one position in NPS (Net Promoter Score) ranking on the Polish market by 2020

Business-to-Business

– Reaching 55% of convergent customers in SOHO/SME segment by the end of 2020 (vs. 24% in 1H2017)
– Increase of mobile handset customer base an additional 0.6 million by the end of 2020 (vs. 2.4 million in 1H2017)
– Achieving number one position in NPS (Net Promoters Score) ranking on the Polish market by 2020

Key financial targets by 2020

– Revenues: stabilisation in 2019 and growth afterwards
– EBITDA: stabilisation in 2018 and growth afterwards
– Capex: PLN 2.0–2.2 billion
– Net debt reduction from 2019

The diagram below illustrates the expected gradual improvement in financial trends as well as our initial Capex expectations:

Return to growth backed by more focus on value creation

		2018	2019	2020
Revenue	Growth areas to increasingly offset pressure on legacy		stabilisation	growth
Adjusted EBITDA	To be supported by better revenue trend, operating leverage and continued cost optimisation	stabilisation	growth	growth
CAPEX	Reflects connectivity programme and business transformation needs	PLN2.0-2.2bn	PLN2.0-2.2bn*	PLN~2.0bn*
Net debt	Decreasing from 2019			

* ambitions

3.3 Listing of Orange Polska S.A. Shares on the Warsaw Stock Exchange

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

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

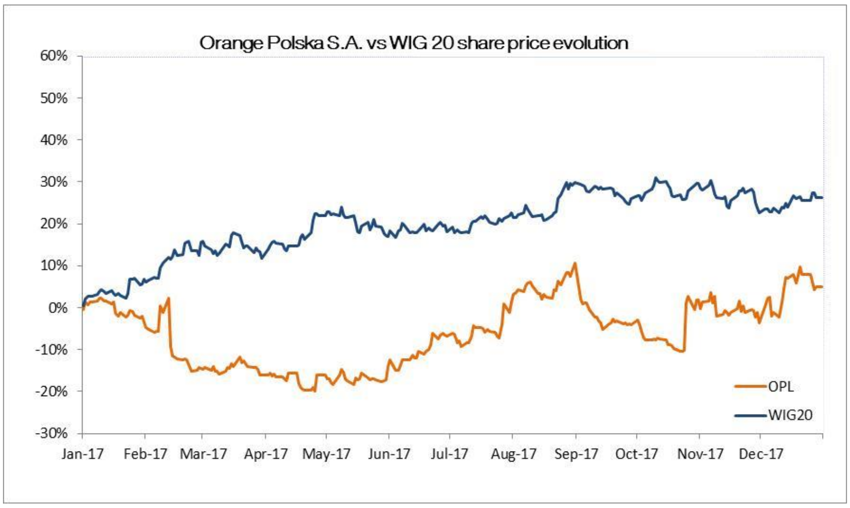
- WIG20 and WIG30 large-cap indices;
- WIG broad-market index;
- WIG-telecommunication industry index; and
- RESPECT Index of socially responsible companies.

In 2017, Orange Polska S.A. was once again included in a prestigious group of listed, socially responsible companies. The new portfolio of the RESPECT Index announced by the Warsaw Stock Exchange comprises 28 companies. Orange Polska S.A. has been present in the index portfolio since its first edition. The RESPECT Index has been increasingly popular among companies and investors, who have noticed a link between consideration for social and environmental impact and financial performance.

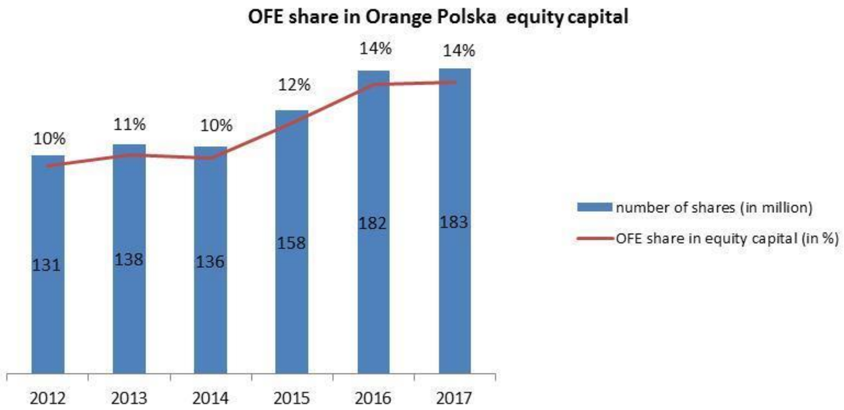
In addition, Orange Polska S.A. has been included in the global FTSE Russell's ESG Ratings, a global index that measures company's performance across environmental, social and governance (ESG) areas.

2017 saw gains in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were up 5.1%, while the large-cap index, WIG20, gained 26.4% in the period.

ORANGE POLSKA S.A. SHARE PRICE in the period from December 31, 2016 to December 31, 2017



A diagram of Polish Open Pension Funds'("OFE") total shareholding in Orange Polska S.A. as of the end of 2017 and previous years is shown below. The figures indicate that a stake held by these Funds in Orange Polska's share capital has been growing since 2012 and at the end of 2017 was on the historically highest level.



On September 4, 2017, the Supervisory Board adopted the Incentive Programme ("the Programme") for the Management Board Members, Executive Directors and key managers of Orange Polska S.A., including selected members of management boards of subsidiaries of Orange Polska S.A. ("the Participants"), which is based on derivative instruments ("phantom shares"), whose underlying asset is the Orange Polska S.A. share price on the regulated market operated by the Warsaw Stock Exchange.

The purpose of the Programme is to provide additional incentives to motivate senior managers to achieve mid-term commercial and financial objectives, resulting from Orange Polska's new strategy, which will lead to increasing the value of the Company's shares.

The terms of the Programme are as follows:

1. Participation in the programme shall be voluntary.

2. The Programme Participants can purchase a total of up to 2,315,000 phantom shares from the basic pool for a price of PLN 1 per phantom share.

3. In case of meeting certain criteria described in the detailed Regulations of the Programme regarding the average price of Orange Polska shares and NPS (Net Promoter Score), the Participants shall purchase additional packages of up to 1,438,500 and 616,500 phantom shares, respectively.

4. Phantom shares shall be bought back from the Participants by the Company, at Orange Polska's average share price in the first quarter of 2021, only in the case it is not lower than the arithmetic mean of Orange Polska's closing share prices in the third quarter of 2017. Otherwise, phantom shares shall not be bought back, resulting in the loss of invested funds by the Participants.

More than 90% of managers have chosen to participate in the Programme.

3.3.1 Orange Polska's Investor Relations

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

Orange Polska Group's financial results are quarterly presented during conferences which are available also via a live webcast. In 2017, the Company held four results presentations and one new strategy presentation as well as over 200 meetings with investors and analysts in Poland and a number of other countries.

Orange Polska's activity and performance are monitored by analysts representing both Polish and international financial institutions on a current basis. In 2017, a dozen or so financial institutions published their reports and recommendations concerning the Company.

On March 7, 2017, CFO of Orange Polska answered retail investors' questions during an investor chat held by the Association of Individual Investors (SII). Several dozen individual investors asked their questions during the chat.

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

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

In 2017, Orange Polska published its first integrated annual report. It covers both financial and non-financial aspects of the Company's business. The report presents the Company's business model, value creation story, the economic and social context of its operations, strategy implementation, governance model and environmental impact. The content and layout of the report are based on the International Integrated Reporting Council (IIRC) and Global Reporting Initiative (GRI.G4) guidelines, ISO 26000 and Global Compact Principles.

The report won the third prize in the Integrated Report category in The Best Annual Report contest organised by the Institute of Accounting and Taxes. The Warsaw Stock Exchange is a strategic partner of the contest.

Also, the report, as the only one representing CEE markets, reached the final stage of the prestigious Finance for the Future Awards 2017 in a category devoted to integrated thinking and reporting. This international competition aims to promote the highest financial reporting standards based on the sustained development concept.

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

BASED IN POLAND
Dom Maklerski BZ WBK
Dom Maklerski BDM S.A.
Dom Maklerski Banku Ochrony Środowiska S.A.
Dom Maklerski PKO Bank Polski
Pekao Investment Banking S.A.
Dom Maklerski mBanku
Trigon Dom Maklerski S.A.
Haitong Bank S.A.
Ipopema Securities S.A.
Wood & Company Financial Services, a.s.

BASED OUTSIDE POLAND
Berenberg
Citigroup
Erste Bank Investment
Goldman Sachs
HSBC
Raiffeisenbank AG
VTB Capital

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

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

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

4.1 Implementation of Orange Polska's New Strategy: *Orange.one*

In September 2017, Orange Polska announced *Orange.one*: new strategic plan for the years 2017–2020. According to the Company's strategic vision, Orange Polska aims to become Poland's telecommunications operator of first choice for consumers and businesses, while creating a corporate business model that will generate sustainable sales and profit growth. These objectives are to be achieved by developing unmatched quality of services and products, supported by comprehensive development of its fibre network and digital capabilities, and by increasing significantly its operational effectiveness and efficiency. Orange.one assumes continuation of the key efforts initiated by the action plan announced in February 2016, while giving them a new momentum. The key to success will be better execution, clearer focus and more speed and agility. All decisions will be influenced by long-term value creation and all customer propositions will be driven by simplicity and consistency.

In financial terms, the new strategic plan is to result in a gradual improvement in trends of revenues and EBITDA and their sustainable growth from 2020. This will be supported mainly by concentration on the convergence strategy, monetisation of fibre network investments, development of complimentary business areas, focus on value generation and significant optimisation of underlying indirect costs. The plan provides for considerable capital expenditures to 2020, resulting mainly from intensive roll-out of the fibre network. As part of *Orange.one*, the Company published new business objectives and financial targets, which are presented in detail in section 3.2 above.

4.2 New Roaming Regulations in the EU

On June 15, 2017, prices of retail mobile services in roaming in the European Union were set on the level of prices of services at home. Owing to the fact that most tariff plans in the domestic market feature unlimited calls and SMSs, these services within the EU are embedded in the domestic subscription. As for roaming data services, fees can be charged when the limits set by the Fair Usage Policy (FUP) are exceeded. The introduction of 'Roam Like at Home' regulations in the EU resulted in an increase by several times in the voice traffic volume and an over twenty-fold increase in roaming data transfer among Orange Polska's customers. A decline on the revenue side coupled with a robust increase in interconnect costs due to traffic growth had a major negative impact on the Company's financial results in 2017. As flow of tourists and businessmen from EU countries to Poland is far lower than the other way round, the erosion was not offset by an increase in incoming traffic.

4.3 Infrastructure Development

Fixed Line

In 2015, the Company commenced massive development of FTTH lines. This continued in 2017 in line with the medium term action plan. At the end of 2017, almost 2.5 million households and businesses in 75 Polish cities were connectable with the fibre network. The network roll-out has steadily accelerated, as it is the strategic priority of the Company. The number of households connectable to VDSL stood at over 5 million at the end of 2017. VDSL range did not change significantly as compared to plans of 2016, mainly due to the priority of the fibre network.

The strategy of development of services based on FTTH lines provides not only for the construction of the Group's own infrastructure but also for wholesale agreements with other fibre network operators, wherever it is technically possible and economically viable. Such agreements where concluded both in 2016 and 2017. The main benefits include quicker access to the fibre network and more efficient use of the existing fibre infrastructure in the relevant locations. This is in line with the aims of the Cost Directive of the European Commission, which recommends avoiding duplication of the existing facilities. In 2017, Orange Polska signed further such agreements. Under this scheme, we have been already using the infrastructure of 15 operators for more than 200,000 households.

In 2017, the capacity of backbone and aggregate networks was expanded to enable simultaneous handling of 1.7 Tbps traffic with full redundancy. Furthermore, in pursuit of our policy to provide the best quality Internet, we secured further key content providers, so that over 50% of the Internet traffic is available for customers from the nearest regional capitals on the Orange Polska network. Local content distribution enables our customers to access high-quality materials without delays caused by transfer from distant locations (sometimes even on another continent) and results in savings on development of international and domestic long-distance lines.

Orange Polska is the sole operator in Poland with a network to which all the regional Emergency Communication Centres, answering calls to the emergency numbers 112 and 999 (from November 2017), are connected. Furthermore, 91.3% of all other emergency numbers in Poland (over 1,000 locations) are also connected to Orange Polska's network. This provides the Company with revenue from alternative operators for emergency call termination on the Orange network as well as subscription revenue.

The Call Setup Success Rate on the fixed network reached 99.44% at the end of 2017. This confirms very high quality of Orange Polska's fixed-line services.

Mobile

Owing to investments in the mobile network, the 4G coverage for all bands was 99.8% of population on 97.7% of Poland's territory as of the end of December 2017. LTE services were provided by Orange Polska via over 10,200 base stations. In 2017, in addition to gradually expanding the network coverage and capacity, Orange Polska focused on increasing the number of sites enabling spectrum aggregation, their number reaching 3,916 on December 31, 2017.

LTE outdoor coverage evolution

Date	Geographical Coverage	Population Coverage	System
31 Dec 2016	90.21%	99.06%	All LTE bands
31 Dec 2017	97.67%	99.80%	All LTE bands

LTE indoor coverage evolution

Data	Geographical Coverage	Population Coverage	System
31 Dec 2016	57.33%	87.24%	All LTE bands
31 Dec 2017	83.58%	95.93%	All LTE bands

In 2017 Orange Polska decided not to extend the licence for the 450 MHz spectrum. As a result, the CDMA 450 network was finally switched off in April and commercial services based on the related technical infrastructure were discontinued. Orange Polska customers who had used CDMA services were migrated to new products and xDSL offers.

Following the launch of the VoLTE service in 2016, in the first half of 2017 Orange Polska introduced the WiFi Calling service, which enables customers to make calls via any WiFi network outside mobile network coverage.

4.4 Business opportunities in the Wholesale Market

In order to benefit from our investments made in mobile and fixed-line networks, we actively seek opportunities to improve return on these investments by establishing wholesale co-operation with other operators.

In July 2017, we signed an annex to the national roaming agreement with P4. The annex changed the existing terms of co-operation, particularly by departing from per-minute or per-gigabyte charges in favour of specific service packages in the take-or-pay scheme, which guarantees a minimum income for Orange Polska. The annex provides for a four-year term of co-operation from July 2017. The agreement will enable better monetisation of the network investments carried out by Orange Polska by guaranteeing a minimum revenue of PLN 321 million over the four-year period, including PLN 110 million in 2018.

In December 2017, we signed a letter of intent with T-Mobile Polska, pursuant to which we commenced negotiations on the terms and conditions of T-Mobile's bitstream access ("BSA") to the Orange Polska telecommunication network in multi-family houses in deregulated areas. The parties agreed to conclude negations by June 30, 2018. This wholesale co-operation will improve monetisation of our investments in the fibre network and maximise the use of our infrastructure.

4.5 Orange Polska's Participation in the Operational Programme "Digital Poland"

In the EU Financial Framework 2014-2020, funds have been allocated for the Operational Programme "Digital Poland", which aims to strengthen digital foundations for the national development. According to the Partnership Agreement of May 23, 2014, those foundations include: common access to high-speed Internet, effective and user-friendly public e-services and a continuously rising level of digital competences of the society. In the priority axis I: Common access to high-speed Internet, funds totalling PLN 1.2 billion have been allocated for adding last mile facilities which will meet the European Digital Agenda requirements to the existing infrastructure.

Following the first competition procedure for co-financing of investment projects in the Programme, in September 2016 Orange Polska concluded agreements with the "Digital Poland" Project Centre for co-financing of investment projects in 174 towns in 8 areas, which are located in the Lubuskie, Pomeranian and Lower Silesian Regions of Poland. The funds granted total almost PLN 24 million. The projects have been scheduled for implementation in 2017 and 2018.

The second competition procedure was announced on September 30, 2016. In this procedure, a total of PLN 3 billion was allocated for co-financing projects in 79 NUTS-3 regions (that is areas comprising of several districts each). Ultimately, 18 projects submitted by Orange Polska were selected for co-financing.

Orange Polska implements projects in seven regions of Poland, namely: Pomeranian Region (4 projects), West Pomeranian Region (4 projects), Lesser Poland Region (3 projects), Lubuskie Region (2 projects), Lower Silesian Region (2 projects), Mazovian Region (2 projects) and Silesian Region (1 project). These projects were granted a total of PLN 744.2 million from the Programme funds, which accounts for 83.95% of eligible costs. Over 363,000 households and 3,752 educational facilities are within the reach of the intended investments. The projects have been scheduled for implementation from 2017 to 2020.

4.6 Competition in the Telecommunications Market

Poland's mobile telecom market, with four infrastructure-based players, is still highly competitive. In addition to price, which is slowly ceasing to be the key offer differentiator, other elements of the operator's offer, such as value-added services (access to music services or TV content), connectivity and customer care, are gaining importance. Price competition over recent years has led to a relative balance in market shares of the main players and reduced mobile service prices in Poland to one of the lowest levels within the European Union. In 2017, the most visible price pressure was exerted by MVNO market players, which have been increasingly adding post-paid services to their service portfolio. The main infrastructure-based operators try to retain proper value proposition for customers, but owing to low prices they still affect market competitiveness.

In the competitive market, mobile operators have adopted various strategies for implementation of 'Roam Like at Home' (RLaH) regulations, which have been reflected in their roaming offers. Low price levels in the mobile market coupled with RLaH-related changes, resulting in losses, have forced some operators to apply to UKE for surcharges on roaming services provided within the EU.

Households have become the main arena of competitive struggle in contrast to earlier competition for single customers. Therefore, the service portfolio of both Orange Polska and alternative operators includes a number of dedicated services 'for home', including non-core services, such as electricity supply, personal finance, gas supply (a new service added to Cyfrowy Polsat Group's portfolio in 2017),insurance (e.g. Play's dedicated service),or sale of household appliances.

Customers signing up to a bundled offer, combining several services, are eligible for price benefits, which drives the popularity of multi-SIM family offers, combining voice and data services. Furthermore, in the area of services for home, there is a notable upward trend in take-up of convergent offers, which combine mobile and fixed-line services.

The market of Internet providers in Poland is still very fragmented, so further market consolidation and CATV operators' geographical expansion in smaller towns should be expected. These actions in combination with the intended fibre network roll-out by Orange Polska could result in even more fierce competition in the local markets where Orange Polska has had an established position.

UOKiK is currently investigating the intended acquisition of Multimedia Polska by UPC, together with the assessment of the potential market position of the merged operator.

Customers increasingly expect bundles of fixed line services (mainly broadband) and mobile services from the same provider, which forces operators to provide comprehensive convergent offers, particularly to incorporate an attractive mobile offer into their service portfolio. Hence, strategic alliances or mergers of CATV operators and mobile operators may be expected in the medium term. Such a development would reduce the competitive advantage of the Group as the sole provider of the convergent offer in the mass market. In anticipation of such a scenario, Orange Polska has made its priority to enhance the existing convergent offer.

Increase in investments in the fibre infrastructure based on EU funds was another major development in 2017. Owing to EU co-financing, such projects are possible even in low-urban areas, where investments in the fibre network have not been economically viable hitherto. From Orange Polska's perspective, development of the fibre infrastructure in less urban areas poses a major challenge to defend our market position, but at the same time a major opportunity to attract new customers to its retail offer by using the newly constructed networks on wholesale terms.

There are over 1.33 million households in the areas covered by the investments projects carried out in the Operational Programmes "Digital Poland" 1 & 2. These are largely areas out of reach of fixed line telecom networks or areas where provision of high-speed broadband service is not technically possible.

4.7 Pay TV Portfolio Development

In 2017, we continued the development our pay TV portfolio, which is a very important element for the success of our convergence strategy.

In February 2017, the launch of the Orange Love offer was accompanied by the introduction of a new set-top box with expanded functionalities. In addition to improved menu ergonomics, the decoder enables recording up to three programmes simultaneously and watching 4K TV. Thus, Orange Polska became the first nationwide pay TV operator to provide content at 4K resolution. Initially, Stingray Festival 4K channel, VoD film catalogue and HBO TV series (in premium packages) were made available to customers.

Furthermore, in March 2017 Orange IPTV customers gained access to Polsat channels, including Polsat Sport HD. Thus, the last missing piece was added to our TV portfolio. This is a subsequent step in our TV offer development plan, which has been implemented since the launch of new TV packages in 2016. So far, our accomplishments include the introduction of new IPTV package structure and the launch of the Orange TV Go service, providing Orange TV customers with access to over 100 TV channels which can be viewed on their computer, tablet or smartphone. Simultaneously, Orange Polska has continued its partnership with the *nc+* satellite platform, offering nc+ packages to Orange satellite TV customers and CANAL+ channels to its IPTV customers.

4.8 Development of ICT Services

Orange Polska's ICT strategy has been redefined as part of the Orange.one strategy announced in September 2017. ICT has been indicated as one of the areas with huge growth potential in the next few years, which can be attributed to potential of the market itself, driven by digital transformation of customers, as well as potential of Orange Polska as a player with great opportunities to increase its share in this market.

The Group's strategy provides for the development of the ICT portfolio in both the service-based and project-based model, while gradually adding new solutions and technologies. To implement its strategy in the ICT area, the Group uses its infrastructural and technological resources, offering safe end-to-end services to its customers. In particular, the ICT portfolio includes cloud services, data centre services, communications, network and IT security solutions as well as software development and integration.

2017 saw the execution of the adopted strategy and the development of competences and resources in the areas related to software development and sales. The strategy implementation resulted in a solid increase, by 18%, in ICT revenue as a whole. Projects related to software delivery in the large corporations segment and an increase in public sector orders were the main growth engines. Our strategy for 2018 assumes an improvement in margins on processes through further competence development in the area of specialist services related to data analysis, process automation and business digitisation provided to the largest companies in Poland.

Another major factor positively affecting ICT revenues was new strategic partnerships with Oracle and Google. As part of the Group's co-operation with Oracle, Integrated Solutions became one of the first companies in Poland to receive the status of Cloud Managed Service Provider. It means considerable potential in the large corporations segment for migration services to cloud solutions based on the Oracle technology. And our partnership with Google with respect to G Suite office packages and the IaaS platform enables us to address lower market segments by offering complete server and application solutions. At the same time, Orange Polska works on expanding its own portfolio of IT infrastructure services in the SaaS model so as to maximise margins and effectively address customer needs to the greatest extent possible.

Another rapid growth area was products and solutions related to cybersecurity. Massive global malware and ransomware attacks and the prospective coming into force of the General Data Protection Regulation (GDPR) led to a notable rise in the number of inquiries and projects in the IT security area. This enabled a considerable increase in the customer base saturation with cybersecurity services. Currently, the Company has the widest cybersecurity portfolio in the market and a large potential for sales of security solutions coupled with data transmission services.

In order to sustain dynamic growth and rapid expansion into new areas, the Company has decided to modify its organisational structure by establishing dedicated teams around 'competence centres' which specialise in particular fields. Owing to a change of the operating model, entering new areas and their operationalisation and commercialisation is now more smooth. As a result, the Company intends to offer more simple and repeatable ICT solutions not only to the largest corporations but also to lower market segments.

4.9 Evolution of the Group's Distribution Network

Omnichannel

As a customer-centric organisation, Orange Polska has maintained and developed a number of different contact channels in line with the omnichannel strategy. Customers can make purchases and settle service-related matters through:

1. Traditional points of sale:
   - Our own or agency outlets,
   - Orange POSs in electronic chain stores,
   - Fiber shops;
2. On-line sales in our Internet store;
3. By telephone, calling our sales/service hotline;
4. Direct sales.

Notably, in order to meet the expectations of our customers, Orange Polska enables them to carry out a single purchase process through several channels. For example, this is effected through:

- Scheduling a visit to an outlet on-line;
- Equipment pick-up or agreement signing in store, following an order made on-line or via hotline;
- Interactive communications with consultants (chat, call2page, etc.).

Such solutions contribute to the popularisation of our on-line platform as a tool for distribution of telecommunication services. Owing to gradually implemented omnichannel solutions, the co-operation between all our contact channels ensures uniform seamless customer experience at any time and any place.

POS Channel Strategy

In 2017, we finalised our sales strategy for the POS channel to 2020. According to this strategy, we are going to introduce a number of changes in Orange sales outlets.

We intend to increase the number of Smart Stores. There were 14 of them at the end of December 2017. Smart Stores provide customers with convenient, friendly and innovative space for settling any matters related to our telecommunication services.

As at the end of 2017, we had a chain of 752 points of sale. Due to a reduced number of outlets and changing purchase preferences of customers, we have introduced a completely new methodology for selecting sales outlet locations, which is based on customer traffic and saturation data in particular cities and towns.

Fiber Shops / Active

In connection with massive investments in the fibre infrastructure roll-out, we have introduced a new store format: Fiber Shops. These are stores located close to housing estates within the fibre network reach, which combine communication and sales functions. We operated 38 such stores as at the end of 2017. Fiber Shops support fibre service sales through the active sales channel, i.e. sales representatives. In this case, door-to-door sales are the most efficient sales channel and the most effective way to compete with cable operators.

AKA

Another sales channel enabling us to reach even wider group of customers is AKA, i.e. points of sale in electronic chain stores, such as Media Markt or Saturn. Through this co-operation we can offer complementary Orange services to consumers interested in buying a device.

Telesales

The telesales channel is used to contact customers (mainly for retention and cross-sales), while the product and agreement are subsequently delivered by courier free of charge or picked up in store. In addition, following our considerable investments in the fibre network roll-out we have continued to develop our door-to-door sales channel, which is one of the effective ways to compete with cable operators and sell our fibre services.

4.10 ‘5G for Poland’ Strategy

On June 29, 2017, an Agreement for the ‘5G for Poland’ Strategy was signed under the aegis of the Minister of Digital Affairs, with Orange Polska as one of the signatories. Orange Polska has been actively involved in the work of the task forces established pursuant to the Agreement. In January 2018, the Ministry of Digital Affairs released Draft Strategy ‘5G for Poland’ for public consultation. It is assumed that the document will ultimately become an official development programme adopted by the Council of Ministers. According to the Draft Strategy, a number of regulations will be amended to facilitate quick and efficient implementation of the 5G network in Poland. In addition, Łódź has been indicated as a candidate city for pilot launch of the 5G network and services on a large scale.

4.11 Regulatory Environment

The telecommunications market in Poland is subject to sector-specific regulations, which are adopted on the European Union level and subsequently transposed to domestic legislation. The market oversight is performed by the local regulatory agency, Office of Electronic Communications (UKE). According to a general rule, the telecom market is divided into individual retail and wholesale service markets referred to as ‘relevant markets’. UKE reviews the competitiveness of each of these markets and, based on the results of the review, determines the required extent of regulation. Orange Polska S.A. has been designated as an operator having significant market power (SMP) and has been imposed regulatory obligations with respect to certain telecom market segments. These regulatory restrictions significantly affect some of the services we provide. In the mobile market, Orange Polska S.A. and the other major operators are subject to the same regulations.

As we provide services to millions of customers, our business activity is monitored by the Office for Competition and Consumer Protection (UOKiK), mainly for proper protection of consumer rights.

Furthermore, as a company we have to comply with administrative decisions and general regulations.

Regulatory Obligations

Pursuant to the President of UKE’s decisions, Orange Polska S.A. is deemed to have a significant market power (SMP) on 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; and

- market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to business customers.

Orange Polska S.A. is a SMP operator on the following relevant wholesale markets:

- market for call origination on a fixed public telephone network;
- market for call termination on Orange Polska S.A.'s fixed line network (FTRs);
- market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (LLU);
- market for wholesale broadband access services, excluding 76 local administrative units (BSA), where the market was recognised as competitive;
- wholesale market for high quality access services at a fixed location, up to 2 Mbps.; and
- market for call termination on Orange Polska S.A.'s mobile network (MTRs).

Each SMP decision of the President of UKE's determines specific Orange Polska obligations related to each market.

On May 3, 2017, Orange Polska S.A. was relieved of regulatory obligations in the SMS termination market. The European Commission has launched a procedure against Poland regarding delays in market reviews.

As a consequence of significant market power decisions on the relevant markets, Orange Polska S.A. has an obligation to prepare regulatory accounting statements and costing description (for BSA service only), which are to be verified by independent auditors. In 2017, Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa conducted an audit of Orange Polska S.A. and issued an audit opinion without reservations.

Potential Regulatory Changes

Regulations affecting Orange Polska S.A. are subject to periodical reviews in order to adjust them to the current market needs and the existing competitive environment. At present, the regulator is reviewing the following areas:

- UKE is reviewing whether there are any SMP operators in the retail markets for provision of access services to a fixed network. The procedure is pending;
- UKE is reviewing whether there are any SMP operators in the wholesale market for call origination on a fixed network, which includes the WLR service. The procedure is pending;
- UKE is reviewing the market for wholesale broadband access services (BSA) and the wholesale market for provision of access to network infrastructure (LLU);
- UKE is also reviewing the markets for call termination on a fixed network with respect to networks operated by Orange Polska S.A. and other telecommunication operators. In addition, UKE has been working on the implementation on fixed termination rates (FTRs) based on the LRIC pure bottom-up costing model in order to implement the European Commission recommendation of 7 May 2009 on the Polish market. No deadline for completion of this process has been set.

UKE's new decisions introducing Orange Polska S.A.'s reference offers for cable and building infrastructure are expected in 2018, pursuant to Article 17 of the 'Investment Act', which obligates all network operators to provide access to their technical infrastructure. Similar decisions will be issued for 14 other operators, which UKE has classified as the largest operators of such infrastructure in Poland.

It is also expected that regulatory obligations may be imposed on CATV operators, especially the largest ones, such as UPC, Vectra, Inea and Toya. The President of UKE intends to impose regulations concerning access to technical infrastructure also on these players. Imposition of regulatory measures on the largest CATV operators in the BSA or LLU markets is also possible.

As part of revision of the EU telecoms package, it has been postulated to equal tariffs for international calls within EU with domestic rates under the European Electronic Communications Code (following the introduction of the RLaH rule for roaming services within the member states). Works on the Code are expected to finish in mid-2018.

Compensation for Universal Service Costs

From 2006 to 2011, Orange Polska S.A. was an operator designated to provide the universal service, which included access to a fixed network, domestic and international calls (including dial-up and fax services), payphone service and directory inquiry service. Owing to unprofitability of the universal service, Orange Polska S.A. applied to UKE for compensation, which is paid pro rata by all operators with revenues of more than PLN 4 million in the calendar year for which the compensation is due.

Between 2007 and 2012, the President of UKE issued decisions granting compensation lower than requested by Orange Polska S.A. Therefore, the Company exercised its right to appeal. Courts did not agree with UKE's arguments for partly rejecting compensation to Orange Polska S.A. and obligated UKE to re-examine the case. Following administrative courts' rulings, UKE initiated administrative proceedings regarding additional compensation for the universal service net cost deficit provision in 2006–2010. In September 2017, the President of UKE issued two decisions, granting to the Company additional compensation of PLN 45 million for 2006 and PLN 47 million for 2007. These amounts include a share contributed by Orange Polska S.A. itself. The decisions are final, but have been challenged in an administrative court by other operators, At present, it is difficult to assess when the cases will be decided and what amounts and when will be paid to Orange Polska S.A.

At the same time, procedures to determine the share of individual operators in the compensation of the universal service net cost deficit for 2009–2010 are pending. The President of UKE first determines a list of operators to share in the compensation for particular years, and then their share in the compensation by way of individual decisions. Operators have the right to appeal against such decisions.

Orange Polska S.A. also participates in compensating the deficit. Its share is typically about 41%. Furthermore, with respect to some operators, Orange Polska S.A. has reached agreements regulating the issue of mutual settlements on the account of the universal service obligation.

In 2017, Orange Polska S.A. collected deficit refinancing in the amount of PLN 206 thousand for 2007 and PLN 313 thousand for 2008. Compensation for subsequent years is expected to be collected in 2018.

Major Changes in Legislation

In 2017, there was a number of changes in legal environment with respect to both general law and provisions specific to the telecom sector. Such modification of legal environment entails constant and diligent monitoring as well as ensuring resources to implement new regulations.

The key acts include:

Domestic Law

- On January 10, 2017, the Act of September 23, 2016 on out-of-court consumer dispute resolution, which is based on the Directive 2013/11/EU on consumer ADR and Regulation (EC) No 524/2013 on consumer ODR. It establishes rules for out-of-court resolution of disputes between Poland-based companies and consumers from all EU countries.
- On January 13, 2017, the Act of December 15, 2016 amending the Act on gambling was promulgated. It imposed as of July 1, 2017 anew obligation to block access to each website listed in the Register of Prohibited Websites managed by the Ministry of Finance. Failure to perform this statutory obligation is subject to a fine of up to PLN 250,000.
- On June 27, 2017, the Act of April 21, 2017 on actions for damages for infringements of the competition law came into force. This regulates the rules of liability for infringements and of the related enforcement actions under civil law (implementation of the Damages Directive 2014/104/EU).
- On December 13, 2017, the Act on the National Educational Network (OSE) came into force. OSE is operated by the Research and Academic Computer Network– National Research Institute. The main purpose of the Act is to provide high-quality free Internet access, including ICT security services, to all schools in Poland. The OSE operator will use the existing telecommunication infrastructure to establish the network.

The following bills which may affect Orange Polska are currently at various stages of the legislative process:

- There are on-going legislative works on amendment to the Telecommunication Law, which will introduce a number of changes, particularly an option to digitalise customer care processes (conclusion and modification of agreements), more strict regulations regarding premium rate services as well as new obligations related to crisis management (sending warning messages) and reporting.
- Legislative works on the new Urban and Construction Code have been carried out since September 2017. The codification will thoroughly reform the investment planning process.
- The Ministry of Digitisation is working on a new Act on personal data protection and related Act introducing the act on personal data protection, which will amend the Telecommunication Law and the Labour Law. These acts will provide for harmonisation of Polish regulations by the transposition of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the General Data Protection Regulation), which shall be directly applicable in the EU from 25 May 2018.
- The Ministry of Digitisation has initiated works on the draft Act on the national cybersecurity system, which will implement the Directive of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union (the NIS Directive) and introduce additional IT security solutions. The purpose of the new act is to establish and regulate the functioning of the national cybersecurity system, particularly determine the rights and obligations of service providers in the ICT market in Poland.

EU Law

- EU institutions('trilogue') are working on a fundamental revision of the package of telecom directives. It will be in the form of a new directive. A proposal for the directive presented by the European Commission in 2016 establishes the European Electronic Communications Code. The Code will include revised regulations on access to infrastructure, radio spectrum, electronic communications services, universal service and competences of the relevant institutions.
- The European Commission presented a proposal for Regulation on privacy and electronic communications (e-Privacy). The Regulation will be parallel to the adopted General Data Protection Regulation (GDPR). Apart from specific provisions regarding communications usage data, the e-Privacy Directive is to include direct references to GDPR (e.g. conditions of the consent) and some identical provisions (e.g. sanctions). The legislative process is pending. The Commission assumed that the Regulation would come into force on May 25, 2018, but considering the current stage of the process this date may be unrealistic.

4.12 Claims and Disputes, Fines and Proceedings

Please see Note 28 to the Consolidated Full-Year Financial Statements for detailed information about material proceedings and claims against Group companies and fines imposed thereon, including a fine imposed by the European Commission, as well as issues related to the incorporation of Orange Polska S.A.

5 MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

Research and Development in Orange Labs

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

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. A part of Orange Labs' structure is the Polish Research and Development Centre (CBR), which consists of Orange Polska's R&D facilities and laboratories.

Major Achievements of the R&D Centre and Client Laboratories of Orange Labs Poland in 2017, Including Projects for Orange SA

1. Blue Space – Raising funds and launching a research project of major importance for the evaluation and development of trunk and access networks with the forthcoming implementation of the 5G technology (project carried out by the R&D Centre).
2. Smart Lights – Commercial implementation of a concept developed by the R&D Centre.
3. Home Cloud – A system for organising and processing the user's personal content. With this solution users get easy access to digital content at home, while retaining full control of where and how their pictures and documents are stored and processed. The system incorporates semantic and multimedia technologies based on the latest artificial intelligence achievements, helping users to tag, classify and search their content.
4. My Web Picture – 'Discover how others see you on the web.' This solution enables automatic detection and presentation of the data made public by the user on the web as well as identification of the user's personality, reputation, interests, lifestyle, etc. The application engine applies natural language processing techniques and artificial intelligence to the public information from social media (e.g. Facebook, LinkedIn, Twitter) in order to aggregate and present the 'image' of the user on the web.

   With this educational application users can verify their image and control their reputation on the web. It is also an enabler for interactive services in the human-machine interface, which can be customised depending on the user's personality.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

6 ORGANISATIONAL CHANGES IN 2017

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

In 2017, there were changes in the corporate structure of the following functions: Human Resources, Customer Care and Customer Excellence, Consumer Market, Strategy and Transformation, and Networks and Technology. The changes aimed at improving the efficiency of these functions.

6.1.1 Management Board of Orange Polska S.A.

As of December 31, 2017, the Management Board was composed of six 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 Consumer Market;
- Vice President of the Management Board in charge of Business Market;
- Management Board Member in charge of Finance;
- Management Board Member in charge of Human Resources; and
- Management Board Member in charge of Customer Care and Customer Excellence.

On February 7, 2017, Mariusz Gaca, Jacek Kowalski and Maciej Nowohoński were reappointed as Members of the Management Board for the next term of office. The reappointments were made before the expiration of the current term of office. The new term of office is three years, starting from April 19, 2017.

On November 24, 2017, Piotr Muszyński, Vice-President of the Orange Polska Management Board in charge of Strategy and Transformation resigned from his position due to personal reasons with immediate effect.

On February 7, 2018: the Supervisory Board of Orange Polska reappointed Ms. Bożena Leśniewska and Ms. Jolanta Dudek for the next terms of office as members of the Management Board. The renewals were made before the expiration of the current terms of office. The new terms of office start on the day of the next Annual General Meeting that will accept the financial statements of Orange Polska for 2017, for a period of three years.

6.1.2 Business Units of Orange Polska S.A.

As of December 31, 2017, Orange Polska had 94 business units, reporting directly to:

1) President of the Management Board: 1 business unit;
2) Vice President of the Management Board in charge of Business Market: 6 business units;
3) Vice President of the Management Board in charge of Consumer Market: 13 business units;
4) Management Board Member in charge of Finance: 9 business units;
5) Management Board Member in charge of Human Resources: 12 business units;
6) Management Board Member in charge of Customer Care and Customer Excellence: 12 business units;
7) Executive Officer in charge of Corporate Affairs: 7 business units;
8) Executive Officer in charge of Networks and Technology: 14 business units;
9) Executive Officer in charge of IT: 8 business units;
10) Executive Director in charge of Effectiveness: 5 business units; and
11) Executive Director in charge of Carriers Market: 7 business units.

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

There were no major organisational changes in Orange Polska S.A.'s subsidiaries in 2017.

6.2 Ownership Changes in the Group in 2017

6.2.1 Purchase of Shares in Multimedia Polska Energia sp. z o.o.

On September 5, 2017, Orange Polska and Tokida Investments sp. z o.o. concluded a final agreement for sale of 100% shares in Gdynia-based Multimedia Polska Energia sp. z o.o. As a result, the ownership of all the shares in the latter was transferred to Orange Polska. The company now operates under the business name of Orange Energia sp. z o.o. The purchase price paid, net of cash acquired amounted to PLN 35 million.

Multimedia Polska Energia is a company selling electricity to both residential and business customers. It provides services on a third party access (TPA) to the grid basis, which has been made possible by the progressive liberalisation of the electricity market. As of the date of the purchase, Multimedia Polska Energia had a customer base of approximately 75,000, generating average monthly revenue per user of PLN 46. The transaction is consistent with Orange Polska's strategy to develop services to households which are complementary to its core telecommunication services. It will enable the Company to expand its Orange Energy customer base to approximately 100,000, driving Orange Polska to the leadership position among alternative energy suppliers and enhancing its comprehensive service portfolio.

6.3 Orange Polska Shareholders

As of December 31, 2017, 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 February 20, 2018 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	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 February 20, 2018, Orange SA held a 50.67% stake in the Company. Orange SA has the power to appoint the majority of Orange Polska S.A. Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

Orange S.A. is one of the world's foremost telecommunications operators, with a turnover of over €30 billion at the end of the third quarter of 2017. Present in 28 countries, the Orange Group serves over 207 million customers all over the world (as of the end of Q3 2017). Its convergent customer base exceeded 10 million, driving Orange S.A. to a position of Europe's top convergent operator. The TV customer base amounted to nearly 9 million. The company is also the leading provider of global IT and telecommunication services to multinational corporations under its brand Orange Business Services.

Orange is listed on Euronext Paris (ORA) and on the New York Stock Exchange (ORAN).

As of December 31, 2017, the Company has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

Orange Polska S.A. did not issue any employee shares in 2017.

7 GROUP'S STRUCTURE AS OF DECEMBER 31, 2017

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

7.1 Corporate Governance Bodies of the Parent Company

For detailed information about the Management Board and Supervisory Board of Orange Polska please see section 10 below.

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

Managing Persons

As of February 20, 2018, Mr. Jean-François Fallacher, President of the Orange Polska Management Board, and Mr. Maciej Nowohoński, Management Board Member, held 25,000 shares of Orange Polska S.A. each.

Other Members of the Management Board did not hold any shares of Orange Polska S.A. as of February 20, 2018.

Shares held in related entities:

Jean-François Fallacher	1 share of Orange Money IFN S.A. of par value of RON 10
Mariusz Gaca	500 shares of Orange S.A. of par value of EUR 4 each
Bożena Leśniewska	80 shares of Orange S.A. of par value of EUR 4 each
Jolanta Dudek	80 shares of Orange S.A. of par value of EUR 4 each
Jacek Kowalski	350 shares of Orange S.A. of par value of EUR 4 each

Supervising Persons

As of February 20, 2018, Mr. Maciej Witucki, Chairman of the Orange Polska Supervisory Board, held 4,000 shares of Orange Polska S.A. No other persons who supervise Orange Polska S.A. held any shares in the Company.

Shares held in related entities:

Gervais Pellissier	34.527	shares of Orange S.A. of par value of EUR 4 each.
Gervais Pellissier	1	share of Orange Horizons of par value of EUR 10.
Marc Ricau	10.315	shares of Orange S.A. of par value of EUR 4 each.
Federico Colom Artola	4.121	shares of Orange S.A. of par value of EUR 4 each.
Jean-Marie Culpin	1	share of Orange Caraibe of par value of EUR 16.
Eric Debroeck	5.267	share of Orange S.A. of par value of EUR 4 each.
Ramon Fernandez	1.524	shares of Orange S.A. of par value of EUR 4 each.
Ramon Fernandez	1	share of Orange Maroc of par value of 100 Dirhams.
Valérie Thérond	340	shares of Orange S.A. of par value of EUR 4 each.

7.1.2 General Assembly

On April 19, 2017, the Annual General Meeting among others:

- Approved the Management Board's Report on the activity of Orange Polska S.A. in the 2016 financial year;
- Approved Orange Polska S.A. financial statements for the 2016 financial year;
- Approved of the Management Board's Report on the activity of Orange Polska Group in the 2016 financial year;
- Approved the consolidated financial statements for the 2016 financial year;
- Granted approval on performance of members of Orange Polska S.A governing bodies in the financial year 2016;
- Decided not to pay any dividend in 2017 for the year ended December 31, 2016 in order to maximise cash allocation to strategic investment projects (including fibre network and 4G/LTE network roll-out).

7.2 Workforce

As of December 31, 2017, Orange Polska employed 14,587 people (in full-time equivalents), which is a decrease of 6.1% compared to the end of December 2016.

Orange Polska's workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2016–2017 concluded by Orange Polska S.A. Pursuant to the Social Agreement, a total of 1,020 employees left the Company in 2017, 93% of whom under the voluntary departure programme. In 2017, severance pay in Orange Polska S.A. averaged PLN 74.6 thousand per employee.

In 2017, external recruitment in Orange Polska totalled 552 positions. External recruitment was mainly related to sale positions and customer service staff.

7.2.1 New Social Agreement

On December 5, 2017, the Management Board of Orange Polska concluded negotiations with the Social Partners on the terms of a new Social Agreement. This will remain in force for the next two years, that is 2018–2019. In parallel to negotiating the Social Agreement, Orange Polska completed negotiations on a Settlement for 2018 under the Act of 13 March 2003 on special rules on termination of employment for reasons not attributable to employees (Journal of Law of 2016, item 1474).

In particular, the Social Agreement for 2018–2019 sets the number of voluntary departures in the next two years at 2,680 people and determines a financial package for employees leaving Orange Polska under the voluntary departure scheme. It also provides for potential basic salary rises (2.5% in 2018 and 2019) and additional compensation for employees reaching retirement age, while specifying the position and role of internal mobility in supporting an allocation programme and offering participation in an outplacement programme to people whose employment contracts are to be terminated by the employer. In addition, the Social Agreement for 2018–2019 provides for the follow-up of the ‘Friendly Work Environment’ programme and continuation of medical coverage.

The negotiated Settlement sets the number of employees to leave Orange Polska in 2018 at 1,450 and determines the terms of voluntary departures in 2018 as well as the amount of severance pay and additional compensation for employees departing in 2018. The Settlement also specifies the rules and selection criteria to be applied to people whose employment will be terminated by the employer for reasons not attributable to employees.

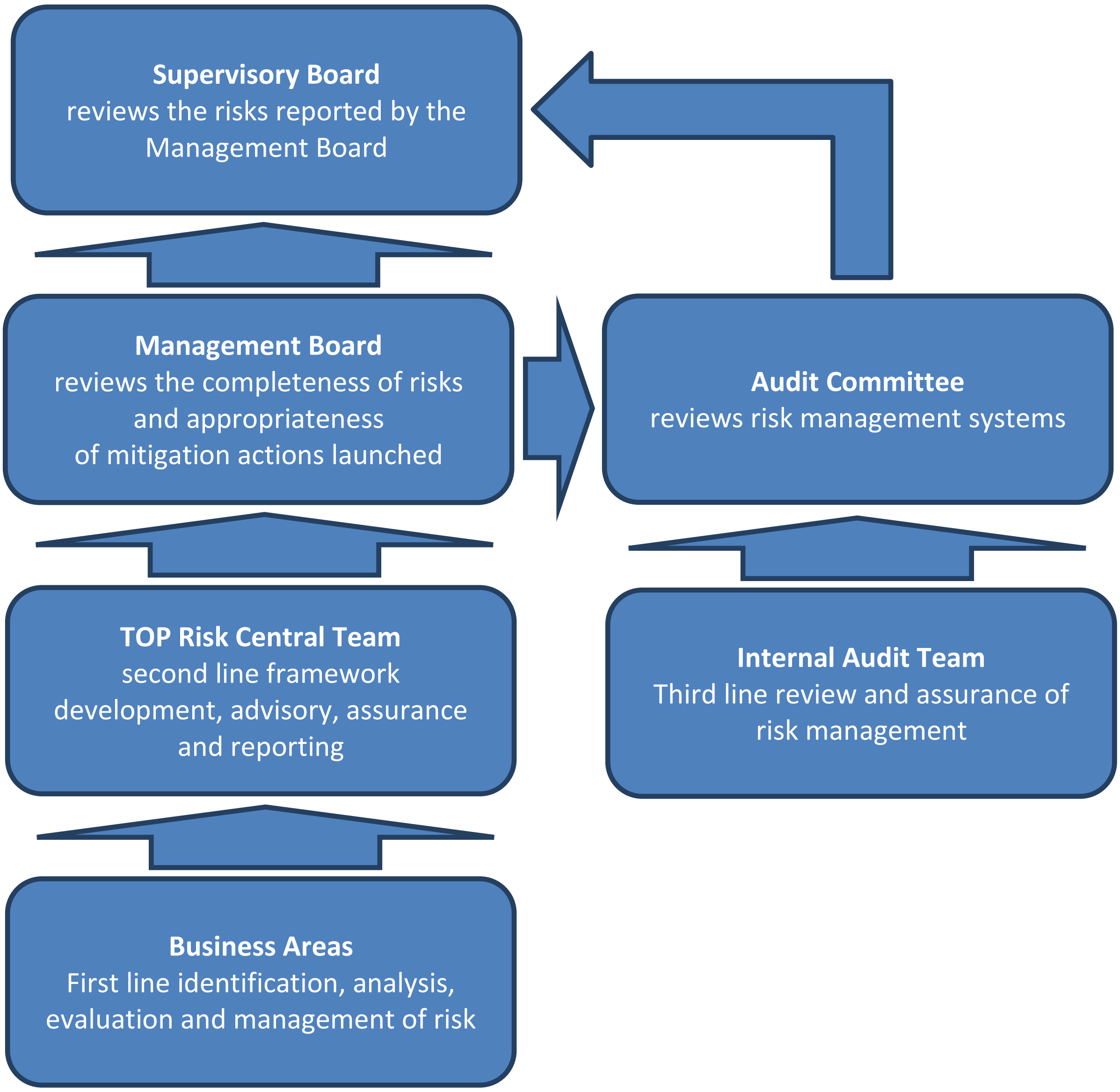
The amount of compensation package per departing employee will depend on their seniority in the Group in accordance with the Intragroup Collective Labour Agreement and will be increased in 2018 by additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 10,000 for employees with seniority of 15 to 20 years or PLN 26,000 for employees with seniority of more than 20 years.

CHAPTER IV
KEY RISK FACTORS

8 RISK MANAGEMENT FRAMEWORK IN ORANGE POLSKA

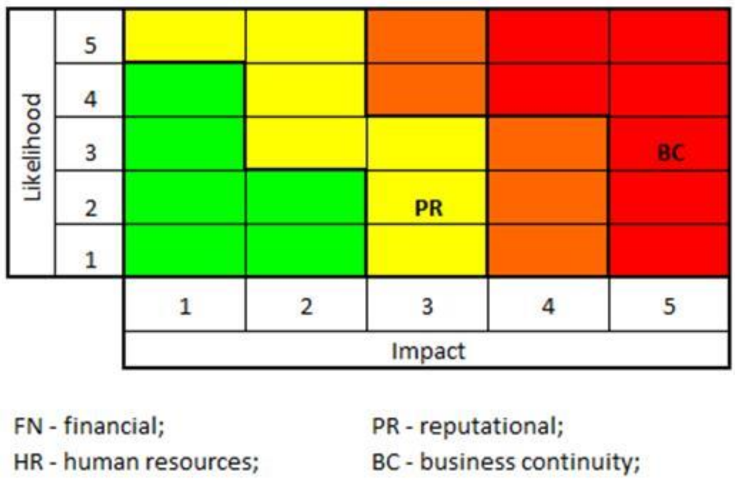
Orange Polska S.A. is exposed to a range of external and internal risks of varying types which can impact the achievement of its objectives. As a result, Company maintains the risk management framework to identify, assess and manage risks. This framework has been based on the ISO 31000:2009 standard. In addition, each subsidiary of the Group is subject to risk assessment. Leaders within the Group's individual business areas and functions are responsible for the assessment and management of risks including the identification and escalation of new/emerging circumstances and monitoring and reporting on the risks and control effectiveness. All events are considered in the context of the potential impact on the delivery of our business objectives.

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



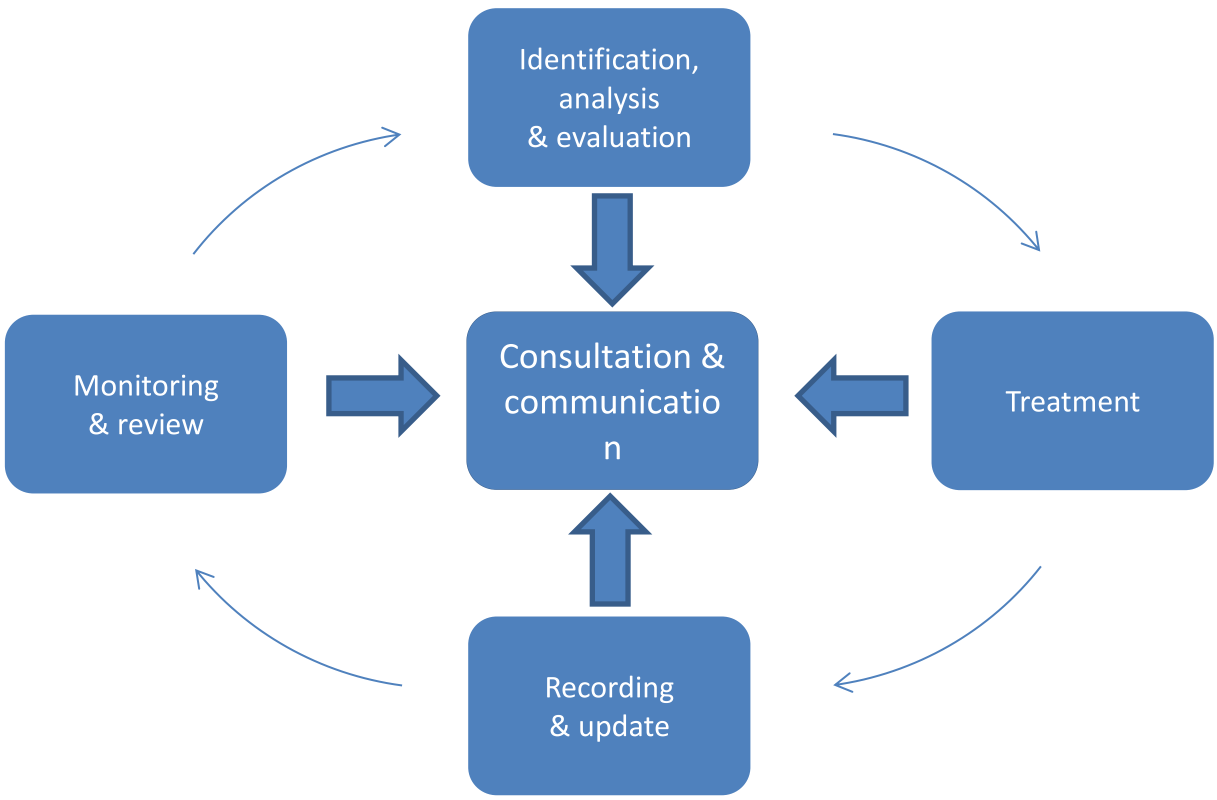
Event-based risks are subject to assessment based on their probability and impact in terms of financial, reputational, business continuity and human loss. If risk consequences are e.g. both financial and reputational, the risk is assessed according to the most negative consequence. The key risks, which have potentially the worst negative impact on the Company, are assigned mitigation measures in order to prevent or minimise losses. The effectiveness of such measures is verified on a current basis and they are adjusted as required. Indicative heat maps are used to report and evaluate risks. Results of assessment of top risks are reported to the Supervisory Board annually. In 2017, the Supervisory Board received such a report in October.

Sample heat map used as one of communication tools



This example presents a risk that have moderate reputational impact, but critical impact in terms of business continuity. Therefore, the overall assessment of the risk would be very high.

The risk management process at Orange Polska S.A. is shown in the diagram below.



8.1 RISK FACTORS AFFECTING THE OPERATING ACTIVITIES OF ORANGE POLSKA

8.1.1 Implementation of Orange Polska's New Strategy: *Orange.one*

Our strategic plan for the years 2017–2020, which was announced in September 2017, provides in financial terms for a gradual improvement in trends of revenues and EBITDA and their sustainable growth from 2020. These objectives are to be achieved by developing unmatched quality of services and products, supported by comprehensive development of the Company's fibre and mobile networks, digitisation and a significant improvement in operational efficiency. The key to success will be better execution, clearer focus, more speed and agility as well as long-term value creation.

Orange.one has set very ambitious objectives. Their achievement is a major challenge for the Company and is a subject to a number of risks. The Group may fail to achieve its goals due to strong market competition. The macroeconomic environment in Poland is currently favourable; however, both Poland's macroeconomic environment and the internal mood of consumers and businesses may change in the medium term. The regulatory environment may also add to pressure on the Group's operations and, consequently, its revenue and income levels as well as its general financial standing.

8.1.2 Increased Competition and Pressure on Services and Prices

The main markets in which Orange Polska operates are mature or even saturated. It therefore faces extremely tough competition, mainly on prices but nowadays it concentrates on assuring quality of products, as well as customer services. In response, Orange Polska has chosen to make significant investments in FTTH, pursue convergent strategy and continue to conduct a transformation and efficiency increase. The Group has also committed to developing new activities such as mobile financial and energy services. If Orange Polska is unable to successfully implement this strategy, it could suffer a loss of market share and / or shrinking margins. The same could occur in the event of a consolidation not involving the Group in a market where it operates.

For more information on competition, see section 8.3 below.

8.1.3 Loss of a Part of the Market Due to Introduction of New Services and Technologies

The rapid growth in broadband use (fix and mobile) and development of new technologies allow global players of the Internet sector to establish a direct link with telecommunications operators' customers, thus depriving the latter, including Orange Polska, of a share of their revenues and margins. If this phenomenon continues or intensifies, it could seriously impair the financial position and outlook of the operators.

The increased use of networks for value-added services has led to the emergence of new powerful players, the Over The Top providers (OTT) such as providers of special services (VoIP, video services/TV). Competition with these players to control customer relations is growing and could erode the operators' market position. This direct relationship with customers is a source of value for operators and to lose part or all of it to new entrants could affect revenues, margins, the financial position and outlook of telecommunications operators like Orange Polska.

8.1.4 Breach of Security of Information, Including Personal Data

Orange Polska has a considerable customer base and constantly undertakes actions aimed to ensure protection of its customers' personal data and information constituting telecommunications secrets. The Company has implemented a certified Information Security Management System, which complies with ISO/IEC 27001:2013 with respect to provision of telecommunication and ICT services, hosting, collocation, cloud computing, cybersecurity and cloud processing of personal data. In October 2017, Orange Polska S.A. obtained a certificate of compliance with ISO/IEC 27018:2014 *Code of practice for protection of personally identifiable information (PII) in public clouds acting as PII processors* with respect to personal data processing via UCaaS (Unified Communication as a Service), ICS (Integrated Computing Standard), ICM (Integrate Computing Managed) and smart CCaaS (Contact Center as a Service) cloud computing. Furthermore, the Company has maintained European CERT certification (for its CERT). Despite all the precautions taken, considering the modern threats related to information technologies used for processing of information, including personal data, it is not possible to fully exclude the risk of infringement of the security thereof.

Orange Polska's activities may trigger the loss, disclosure, unauthorised communication to the general public or third parties or inappropriate modification of the data of its customers. These losses could arise (i) from the accelerated implementation of new services or new applications, for example those relating to billing and customer relationship management, (ii) from the launch of new initiatives, especially in the field of Internet of Things (IoT), (iii) from malicious acts (including cyber attacks) particularly aimed at the theft of personal data, or (iv) possible negligence within the Group or its external partners.

Furthermore, the new General Data Protection Regulation (GDPR) released in April 2016 will become applicable on May 25, 2018. For infringement of GDPR protection rules, administrative fines of up to 4% of the annual global turnover may be imposed. Such incidents could have a considerable impact on the Group's reputation and a heavy impact on its liability, potentially including criminal liability, and hence have an adverse impact on Orange Polska's future financial performance. The Company has launched a programme to prepare the organisation to meet the GDPR requirements many months ago and the preparations are at a very advanced stage in order to be ready on time.

8.1.5 Increase in the Number and Duration of Service Interruptions Due to Orange Polska's IT&N Infrastructure Outage

Services provided by Orange Polska are directly dependent on the functioning of its IT and network infrastructure. Service disruption or interruption may occur following cyber attacks (on the IT&N infrastructure), outages (of hardware or software), human errors or sabotage of critical hardware or software, failure of a critical supplier, or if the network in question does not have sufficient capacity to meet the growing usage needs, or during the implementation of new applications or software. Among these risks of interruption, telecommunications operators are particularly exposed to attempts to breach security, cyber attacks and terrorist attacks on sites and staff because of the vital nature of telecommunications in the functioning of the economy. Despite the steps taken by Orange Polska to protect its network, the growing frequency of attempted attacks increases the risk of interruption to its services. The impact of such events could seriously damage Orange Polska's reputation and result in revenue erosion, affecting its profits and market position. Nationwide service disruption or interruption might also create a crisis potentially affecting the national security.

This risk is mitigated by proper network and IT systems development planning, investments in the development of disaster recovery solutions, insurance schemes as well as implementation of business continuity and crisis management plans. Orange Polska S.A. has become the first telecom operator in Poland to obtain an ISO 22301:2012 Certificate for its Business Continuity Management System in the scope of provision of telecommunication and ICT services.

8.1.6 Decrease in Quality or Non-performance of Services Due to Dependence on External Partners

Orange Polska concludes contracts with external partners, particularly for sales agency as well as development and maintenance of its networks, ICT infrastructure and IT systems.

Although adequate safeguard and protection clauses are included in the contracts, there is still a risk of non-performance by Orange Polska's partners, resulting in delays, a decrease in quality or non-performance of Orange Polska's services. At the same time, the Company has partially outsourced operation and supervision of its telecommunication networks, IT systems and processes to external suppliers. These processes are monitored on a regular basis in order to assure their optimum operation and take effective corrective actions, if required.

Despite Orange Polska's drive to strengthen its anti-corruption policy, corruption cases could occur due to a number of partners engaged and complex processes performed. This could have an adverse impact, particularly on Orange Polska's reputation.

8.1.7 Emergence of New Types of Fraud with New Technologies

Owing to its scope of activities, Orange Polska is highly exposed to the risk of fraud. As all operators, Orange Polska is subject to various fraud issues which can affect the Company or its customers. Moreover, with technologies and networks becoming increasingly more complex and the accelerated implementation of new applications or services, relating notably to interconnection or customer relationship management, new types of fraud which are more difficult to detect or combat could also emerge. This may result in loss of revenues.

8.1.8 Exposure to Electromagnetic Fields

Exposure to electromagnetic fields (EMF) from radio equipment (used mainly on mobile, but also fixed, networks) might raise concerns for their possible adverse effects on human health, even though the Polish EMF limit is much more restrictive than in most other countries, where the limit set in the Council Recommendation 1999/519/EC applies.

If the above-mentioned health risks were scientifically confirmed to a certain extent in the future, this would likely result in decline in use of mobile telecommunications services, difficulties and additional expense in rolling out base stations and other wireless equipment, and an increase in litigation.

Furthermore, legislative works on a bill tightening the regulations on electromagnetic fields from telecommunications equipment have been initiated in Poland. The legislation process is still at its initial stage, but the new regulations can expand operators' obligations, increasing the cost and time of network deployment (especially with respect to 5G systems).

8.1.9 Human Resources Risks and Alignment of Organisation Structure

Orange Polska and its managers continue transforming its internal culture in order to motivate the employees and drive the performance culture as well as streamlining the organisation and infrastructure in order to confront the competition and implement new technologies and new, more efficient business models through the transformation programme. If Orange Polska fails to complete these transformations successfully, its operating margins, financial position and results could be adversely impacted. Orange Polska has continued a voluntary departure programme and the workforce optimisation process. Regular staff satisfaction surveys are conducted by an external consultant.

8.2 REGULATORY, LEGAL AND TAX RISKS

8.2.1 Regulatory Risks

The Group must comply with various regulatory obligations governing the provision of its services and products, also relating to obtaining and renewing licences. The regulatory obligations result from law changes as well as from administrative decisions. Regulatory decisions and changes in the regulatory environment may have an adverse effect on the Group.

8.2.2 Risk related to repealing of the deregulation decision on the market for wholesale broadband access services

On 14 February 2018 Orange Polska S.A. received a decision of the Court of Appeal repealing a decision of the President of the Office of Electronic Communication of 7 October 2014 declaring effective competition in 76 communes on the market for wholesale broadband access services. The Court of Appeal repealed the decision exclusively on formal grounds and not on its merits. In addition, the remaining decisions relating to deregulation remain in force. Even though, the decision of the Court of Appeal does not change the conditions of operations of Orange Polska in 76 communes the risk exists that they may change if the remaining decisions relating to deregulation will also be repealed.

8.2.3 Fixed Termination Rate (FTR) Cuts

UKE is reviewing the market for call termination on a fixed network. The proceedings will involve determining FTRs on the basis of the LRIC pure bottom-up methodology. This will lead to reduction in FTRs. The FTR level and the date of its introduction have not been specified yet.

8.2.4 Changes of Wholesale Rates

President of UKE issued decisions obligating Orange Polska S.A. to (i) modify its reference offer on telecommunications access (“SOR”) by changing the monthly subscription fee for the WLR POTS service and (ii) eliminate a wholesale fee for number porting. Orange Polska has appealed against both decisions to the Regional Administrative Court.

Pursuant to the decisions, Orange Polska submitted draft amendments to SOR. The relevant proceedings are pending. The SOR amendment approval will be subject to market consultation and notification to the European Commission.

8.2.5 Risk Related to Acquisition of New Spectrum for High-tech Telecommunications Services

Growing demand for data services and future development of 5G systems will necessitate the allocation of new bandwidth both below and above 6 GHz.

In particular, there is uncertainty related to the distribution of the second digital dividend that is 700 MHz spectrum. Pursuant to the European Commission’s decision, all Member States should allow the use of this band for mobile services by June 30, 2020 (or June 2022 at the latest). The detailed plans of Polish administration in this respect remain unknown. Another risk is related to very high fragmentation of the 3.5 GHz and 3.7 GHz bands. Lack of comprehensive approach to the use of these bands and unavailability of wide frequency blocks may pose a major obstacle to quick introduction of 5G services in Poland.

8.2.6 Proceedings by UOKiK and European Commission Related to Network Sharing

In 2014 Polkomtel sent a letter to the European Commission informing about a potential breach by Orange Polska S.A. and T-Mobile Polska of the Treaty provisions prohibiting agreements which may distort competition within the internal market (Article 101(1) of the Treaty). The letter also indicated a potential breach of the jurisdiction provisions contained in the Council Regulation 139/2004 on the control of concentrations between undertakings. Polkomtel claimed that the establishment of NetWorkS! should have been, allegedly, subject to approval by the European Commission rather than by UOKiK. In the ensuing proceedings, Orange Polska S.A. submitted the information and documents requested by the Commission.

UOKiK, which in 2014–2016 investigated the co-operation between T-Mobile and Orange Polska S.A. within their joint venture Networks!, completed the proceedings and announced that, if needed, it would submit its findings to the European Commission.

The proceedings by the European Commission are pending.

8.2.7 Increased Tax Burden Resulting from Changes in Legislation

Polish tax laws and regulations, in particular regarding value added tax and income tax, are complex and subject to frequent changes and contradictory interpretations by tax authorities. Changes in regulations, leading to lack of reasonable certainty of the tax system, may adversely affect the legal, business and financial situation of the Group. Recently, the Ministry of Finance has not indicated any plans to change tax rates; in particular, return to VAT rates of 22% and 7% is not intended. 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. An example of such actions is the introduction of a clause against tax avoidance into the Tax Ordinance as from July 15, 2016.

Owing to the scale of the Company's operations, legislation changes in other areas, e.g. spatial planning, may also in the future negatively affect the amount of tax obligations of an infrastructure-based operator such as Orange Polska. Unclear provisions or unfavourable interpretations may result in an increase in tax burden.

Furthermore, owing to the implemented IT solutions, such as the Standard Audit File-Tax, a large portion of Orange Polska's business transactions are controlled in an automated manner. As a result of such control methods, there are few errors in records of business operations. However, sometimes such errors may necessitate corrections of tax returns.

8.2.8 Increase in Remuneration for the Use of Third Parties' Land for the Purpose of Development and Maintenance of Orange Polska S.A.'s Infrastructure

Infrastructure of Orange Polska S.A. is built on land belonging to third parties, and in some cases the Company does not possess or has difficulties to identify evidence that such third parties agreed to the infrastructure being located on their land. In particular, this is the case in relation to old infrastructure used for fixed line services. In principle, the Company has the right to demand that its infrastructure remains where it was originally located, though it has to pay for this. Also new investments are done on third parties' land and the Company has to acquire the right to use that land against payment. The Company cannot exclude that the payments for the use of land of third parties may increase.

8.3 COMPETITIVE RISKS

8.3.1 Failure to Obtain the Expected Return on Investment in Fibre and Loss of Broadband Market Share

Apart from the positive social impact of our investments in fibre under the Operational Programme "Digital Poland" (POPC), two related risks for Orange Polska have been identified. Firstly, there is a risk of failure to achieve the assumed sales objectives on the fibre infrastructure developed by Orange Polska and, consequently, the expected return on investment. Secondly, open access to the fibre infrastructure developed in the POPC framework may result in a loss of a market share in the broadband market, on which the Company provides services based on the ADSL technology.

8.3.2 Marginalisation of the Role of Mobile Network Operators Due to Implementation of the eSIM Technology

There is a growing risk from the eSIM technology, particularly in scenarios where new solutions are based on direct marketing relationship between the end user and the terminal / handset producer or the OS-based service ecosystem provider, eliminating the access infrastructure operator. Such solutions would marginalise the operator's role, reducing it to technical aspects invisible for the customer, and virtually prevent (or considerably hinder) the provision of value-added services by such an operator as Orange Polska to retail customers under its own brand.

8.3.3 Increased Competition from CATV Operators in the Convergent Market

In big cities, where cable TV (CATV) operators have an established position, Orange Polska has demonstrated that it can effectively compete with their comprehensive offer with its convergent service portfolio (Orange Love) and the growing reach of its fibre network. However, gradual expansion of CATV operators in local markets, where Orange Polska S.A. has had an established position hitherto, through organic growth or acquisitions, poses a risk for the Group. Therefore, the Orange Polska S.A.'s FTTH investment programme covers also smaller towns, where CATV operators have not consolidated their presence yet.

In 2017, UPC announced that it had concluded an agreement with Play for the development of an MVNO. In the long-term, this can partially reduce Group's competitive advantage related to convergence and mitigate growth of its fibre customer base.

8.3.4 Threat to convergence strategy coming from acquisition of Netia by Cyfrowy Polsat Group

In early December, the Cyfrowy Polsat Group announced the acquisition of a 32% stake in Netia, the second largest fixed line operator in Poland. At the beginning of 2018, the Cyfrowy Polsat Group intends to increase its stake in Netia to 66%, so as to take over the operating control of the operator. This will require prior approval by the Office for Competition and Consumer Protection. At the same time, the Cyfrowy Polsat Group informed about the purchase of five TV channels from the ZPR Media Group (i.e. (Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music) and the acquisition of a 34% stake in Fokus TV and Nowa TV (with an option to buy a further 15%).

As a result of these transactions, Cyfrowy Polsat will become a fully convergent operator. The acquisition of Netia supplements the missing fixed line arm in a service portfolio of the Cyfrowy Polsat Group and enhances its sales potential in middle to big cities, that is areas dominated by CATV operators. So far, Cyfrowy Polsat

Group's services have been most popular in rural areas and small towns. And additional TV content strengthens the operator's competitive advantage in terms of attractiveness of its offer, including its flagship convergent bundle, SmartDOM. The increased attractiveness of this bundle poses an additional threat to the implementation of convergent sales plans by Orange Polska.

8.3.5 Loss of Retail Market Share with Expansion of T-Mobile

After a period of active efforts in the business market (resulting directly from the merger with GTS Polska), T-Mobile announced that it would strengthen its presence in the mass market (particularly in terms of convergent offers, on the basis of the fixed line infrastructure of other operators, including Orange Polska, obtained in the wholesale scheme). Under a letter of intent announced on December 20, 2017, T-Mobile and Orange Polska promised to commence negotiations on access to our FTTH network. It will be possible to assess the impact of this co-operation on Orange Polska after the conclusion of the negotiations, which is intended in 2018. In 2017, T-Mobile launched a number of dedicated offers in the mass market (including a home broadband offer) and redeveloped its sales chain by increasing the number of outlets.

Furthermore, in 2017 T-Mobile acquired a 100% stake in T-Systems, which strengthened its position in the B2B segment of the ICT market.

8.3.6 Continued Fixed Line Customer Base Erosion Due to Fixed/Mobile Voice Substitution

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

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

Offers in which a fixed voice service is an added value to a broadband or mobile service as the equivalent of a 'traditional' fixed line have been clearly gaining popularity. Such services dedicated to fixed applications (at home or office) but based on mobile infrastructure are generally offered by mobile operators; yet, the mobile virtual network operator (MVNO) model has been increasingly used for this purpose, recently. Such operators as Netia, Novum or Telestrada gradually migrate their fixed-line customers to a mobile network.

8.4 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

Macroeconomic Factors

8.4.1 Risk of Lower Than Expected Economic Growth Due to Negative Internal and External Factors

In 2017, the Polish economy grew at a considerably faster pace than in 2016. The GDP growth rate was estimated at 4.6%. Like in previous years, the positive condition of the economy resulted mainly from growth in private consumption, which was significantly supported by accelerated investments (both public and private) and exports. These GDP growth engines will face difficult challenges in subsequent years, mainly due to labour shortages and wage pressure. In 2017, household consumption expenditure remained under strong inflationary pressure and was stimulated mainly by falling unemployment, growing wages, '500+' welfare programme and low interest rates. In subsequent years, continued high inflationary pressure may result in a decrease in household expenditure, particularly on modern and extra telecommunication services. Poland's economic outlook depends on the condition of other European economies and the economic climate in global markets. 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. An internal risk factor that may potentially mitigate economic growth is related to additional state expenditure resulting from the implementation of the welfare policy. This expenditure may increase the budget deficit, which in turn may reduce the direct contribution of public spending to domestic demand growth and reduce the volume of public investments.

8.4.2 Reduced Profitability of the Telecommunications Sector Due to Growing Inflationary Pressure and Falling Service Prices

Average annual CPI reached 2.0% in 2017, which was below the inflation target (2.5%). Throughout the year there was a rise in prices in all main segments of goods and services except clothing and footwear, with food prices growing the most.

Despite growing inflationary pressure, throughout the year the Monetary Policy Council kept the reference interest rate at the record low of 1.5% (set in March 2015), upholding an opinion that the current stable economic growth limited the risk of inflation remaining below the target in the medium term.

Compared with other branches, the telecommunications sector reported declining profitability in 2017, which was a result of a decrease in effective prices accompanied by significant capital expenditure required to upgrade obsolete infrastructure in line with the growing expectations of customers and ensure service availability in the areas of coverage gaps.

8.4.3 Negative Trends in the Labour Market

The labour market has been positively affected by the general macroeconomic climate, which was reflected in an increase in employment and a decrease in unemployment to 6.7% (-1.6 pp. y-o-y) at the end of 2017. At the same time, an increase in wages in the enterprise sector was reported. Between January and December 2017, these wages were up 5.9% in nominal terms.

A further decline in unemployment may be expected in 2018. However, unemployment will be approaching the natural rate of 5%, which, despite continued favourable economic outlook, may intensify the existing problems with labour shortage and growing labour costs due to wage pressure. This in turn may negatively affect the mood in some enterprise sectors and constitute a barrier to economic growth by limiting investments.

8.4.4 Risk of Reduced Influx of EU Funds for Infrastructure Investments

A potential decrease in influx of EU funds, which are of key importance for the development of the telecommunications infrastructure, poses a risk to the entire Polish economy, including the telecom market. This risk stems from the on-going discussion on linking the distribution of resources from the current framework (2017–2020) to the admission of immigrants by beneficiary countries or, in case of Poland, to the respect for the EU principles of the rule of law. Furthermore, there is a risk that the United Kingdom will refuse to contribute to the EU funds. This issue is the subject of negotiations over the United Kingdom's withdrawal from the European Union.

Factors Related to Financial Markets

8.4.5 Increase of Interest Rates

2017 did not bring any changes in the Central Bank's policy and interest rates remained stable at historical low. The Monetary Policy Council is expected to keep interest rates unchanged in 2018, while taking steps to prepare the market for increases in 2019. However, a potential increase in interest rates should not have any major influence on the Group's debt service costs owing to a high hedging ratio.

8.4.6 Appreciation of the Local Currency

Foreign exchange rate fluctuations affect Orange Polska's liabilities 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 2017, Polish zloty gained4.9% against euro and 19.7% against the US dollar. The fluctuations of the Polish currency were caused by both internal and external factors. The funds buying T-bonds returned to Poland, recognising our good economic perspectives. Low volatility served the local currency well. In the reported period, the exchange rate of zloty against euro was in the 4.1709 –4.3792 bracket, while its exchange rate against the US dollar oscillated between 3.4813 and 4.1667. NBP's mean exchange rates of PLN against the US dollar and euro were 3.7777 and 4.2576, respectively, in 2017. Potential depreciation of Polish zloty should not have any major influence on Orange Polska's liabilities denominated in foreign currencies or settlements with foreign operators owing to a high hedging ratio.

8.4.7 Risk of Asset Impairment

The recoverable amounts of enterprises, which affects the accounting value of fixed assets, including goodwill, is sensitive to valuation methods and model assumptions as well as to any changes in the business environment contrary to the assumptions made. For more information about goodwill impairment and recoverable amounts please see notes to the Consolidated Full-Year Financial Statements.

8.4.8 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 changes in Orange Polska share price:

- Successful implementation of Orange.one strategic plan
- Change in the outlook for dividend payments;
- Change in the Group's debt;
- Sale or purchase of significant assets by the Group;
- Significant changes in the shareholder structure; and
- Changes in the capital market analysts' forecasts and recommendations concerning the Group, its competitors and partners, or business sectors in which the Group operates.

CHAPTER V
STATEMENTS

9 STATEMENTS OF THE MANAGEMENT BOARD

9.1 Statement on Adopted Accounting Principles

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

1. Jean-François Fallacher - President of the Board
2. Bożena Leśniewska - Vice President in charge of Business Market
3. Mariusz Gaca - Vice President in charge of Consumer Market
4. Jolanta Dudek - Board Member in charge of Customer Care and Customers Excellence
5. Jacek Kowalski - Board Member in charge of Human Resources
6. Maciej Nowohoński - Board Member charge of Finance, Chief Financial Officer

hereby confirms that according to its best knowledge the annual consolidated financial statements and annual standalone financial statements of Orange Polska S.A. as well as comparable data have been drawn up in compliance with the accounting regulations in force and reflect the property, financial standing and financial result of Orange Polska S.A. and its Group in an accurate, reliable and transparent manner.

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

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

9.3 Agreement with the Licensed Auditor

On June 2, 2017, Orange Polska S.A. concluded an agreement with an entity licensed to audit financial statements, pursuant to which Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. has performed the following:

- reviews of the standalone financial statements of the Company and the consolidated financial statements of the Group for the first half of 2017 prepared in accordance with IFRS; and
- an audit of the standalone financial statements of the Company and the consolidated financial statements of the Group for 2017 prepared in accordance with IFRS; and
- procedures regarding the Magnitude reporting package of Orange Polska S.A.

Audits of financial statements of subsidiaries have been performed under separate agreements between Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and each subsidiary.

The aggregate remuneration payable for auditing and reviewing the above-mentioned financial statements and other services rendered by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. for 2017 is presented below (in PLN '000):

	2017
Audit of the standalone financial statements of Orange Polska S.A. and the consolidated financial statements of the Group and financial statements of its subsidiaries for the year ended December 31, 2017, as well as review of the standalone financial statements of Orange Polska S.A. and the consolidated financial statements of the Group as of June 30, 2017	3,073
Audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law	1,218
Other services	470
Total amount payable by the Group	4,761

The fees payable to Ernst & Young spółka z ograniczoną odpowiedzialnością Academy of Business sp.k. totalled PLN 3 thousand in 2017.

In 2016, the aggregate remuneration for auditing and reviewing the above-mentioned financial statements and other services rendered by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. was as follows: PLN 1,913 thousand for audit of financial statements of the Group, Orange Polska S.A. and its subsidiaries as well as review of financial statements of Orange Polska S.A. and the Group; PLN 742 thousand for other services to Orange Polska S.A.; PLN 1,665 thousand for audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law; and PLN 173 thousand of fees paid to Ernst &

Young spółka z ograniczoną odpowiedzialnością Business Advisory sp.k. and Ernst & Young spółka z ograniczoną odpowiedzialnością Academy of Business sp.k.

9.4 Management Board's Position as to the Achievement of the Previously Published Financial Projections for the Given Period

On 25 October 2017 based on the analysis of financial results for the 9 months ended 30 September 2017 and the outlook for the fourth quarter of 2017, the Group increased forecast for the adjusted EBITDA for 2017 to around PLN 3.0 billion. It previously forecasted the adjusted EBITDA for 2017 to be in the range of PLN 2.8–3.0 billion.

More favourable adjusted EBITDA outlook is mainly a consequence of changes in the commercial strategy towards more focus on value in customer acquisitions and retentions. This approach results in much lower handset subsidies, a higher share of SIM-only transactions and optimisation of the distribution channel mix. All these factors positively impact level of commercial costs.

As of December 31, 2017, the forecast was met. Adjusted EBITDA was PLN 3,011million in 2017.

10 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 *Best Practice for WSE Listed Companies 2016*. The version of the latter in force until December 31, 2017 is available at http://corp-gov.gpw.pl.

(b) Corporate governance compliance

In 2017, the Company complied with the corporate governance best practice referred to above.

Referring to the Recommendation IV.R.2 of the Best Practice, the Company informs that it provides the real-life broadcast of the general meeting but it provides neither real-time bilateral communication nor the possibility to exercise the right to vote for shareholders taking part in a meeting from a location other than the general meeting due to legal risks involved in providing electronic communication means of such type.

(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 Orange Polska S.A. has been designed 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 encompasses relations with customers, shareholders, employees, suppliers, competition and also with respect to the environment in which the Group operates. A whistleblowing system, which has been used effectively for years, is co-ordinated by the Ethics Committee of Orange Polska, which was established in 2007. The process enables problem identification through a number of communication channels for employees, associates and external partners, such as e-mails to the dedicated mailbox, letters to the Chairman of the Ethics Committee, contact with the Chairman of the Audit Committee of the Supervisory Board, anonymous reports on the dedicated intranet website or the Orange Group website. Regular training on ethics is provided to employees, which is confirmed by certification.

In accordance with the approach adopted by the Orange Group assuming gradual implementation of subsequent elements of the Compliance Programme, the Anti-Corruption Policy and Guidelines have been introduced in Orange Polska. These regulations contain detailed rules and standards as well as references to specific conditions and circumstances relating to the identification and mitigation of the risk of corruption. In addition, a number of information and training actions are carried out in order to raise employees' awareness of anti-corruption laws and rules. The Compliance Programme encompasses a mechanism for reporting cases of corruption, influence peddling and actual or suspected infringement of legal regulations. These may be reported through the same channels which are used for reporting unethical conduct. Reports are confidential and are examined with proper care. The Programme and the Policy are also supported by a due diligence process for screening business partners as well as a cyclic review of corruption risks.

The Group is diligent in its approach to reporting financial results and its ongoing communication with the Polish and international investment community, as well as fulfilling its disclosure obligations. Key managers responsible for the financial, legal, regulatory and internal control functions review financial statements and make comments thereto at the Disclosure Committee. The purpose of the Committee's meetings is to ensure that financial disclosures are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of both the Company and the Group. In 2017, the Disclosure Committee had five meetings. In addition the Audit Committee review the financial disclosures of the Company and the Group before they are published.

The key elements of the Orange Polska S.A.'s internal control and risk management system include the following procedures:

(1) An internal audit function, which functionally reports to the President of the Management Board. The internal audit programme is developed on the basis of the Company's key risks and 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 Company conducts ongoing assessments of the quality of the risk management system and controls. This process includes identification and classification of the Orange Polska S.A.'s financial and non-financial risks – see Chapter 4, section 8.

(3) Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental, financial reporting and operational) effectively on an ongoing basis. It provides a framework for ongoing risk-controlling activities.

In 2017, 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, 2017.

(d) Indication of shareholders holding, directly or indirectly, significant batches of shares, including the number of shares held, the interest in the Share Capital, the corresponding number of votes and the percentage of the total voting power at the General Assembly

Please see section 6.3 above for the information about major shareholders.

(e) Indication of holders of any securities granting special control rights and description of such rights

The Company has not issued any securities granting any special control rights to shareholders or other entities.

(f) Indication of any restrictions concerning the exercise of the voting rights on shares, such as restriction of the voting rights to a certain percentage or number of votes or temporary restriction of the voting rights, or regulations according to which, in conjunction with the Company, the rights on securities are separated from the ownership of securities

The Company has not introduced any specific restrictions concerning the exercise of the voting rights on shares.

(g) Indication of any restrictions concerning transfer of ownership of the securities issued by Orange Polska

The transfer of ownership of the securities issued by the Company is not subject to any restrictions.

(h) Description of procedures for appointment and removal of managing persons and their rights, particularly the right to make decisions regarding the issuance or redemption of shares

The Management Board consists of between 3 and 10 members, including the President. They are appointed and removed by the Supervisory Board by a simple majority of the votes cast. The term of office for the member of the Management Board is three years. The Management Board's remit comprises the management of all aspects of the Company's affairs, with the exception of the matters which under the Polish Commercial Companies Code or the Articles of Association shall be within the competence of the General Assembly or the Supervisory Board. In particular, the powers of the Management Board include development of the Group's strategy and budget; 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 2017

Composition on January 1, 2017:

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

On February 7, 2017, the Supervisory Board of Orange Polska, in view of the expiration on April 19, 2017 of the mandates of Messrs. Mariusz Gaca, Jacek Kowalski and Maciej Nowohoński, decided to re-appoint them as Members of the Management Board for the next term of office.

On November 24, 2017, Piotr Muszyński, Vice-President of the Orange Polska Management Board in charge of Strategy and Transformation resigned from his position due to personal reasons with immediate effect. During the transition period, Jean-François Fallacher, President of the Management Board, has taken over management responsibilities in the area of strategy and transformation.

On February 7, 2018: the Supervisory Board of Orange Polska reappointed Ms. Bożena Leśniewska and Ms. Jolanta Dudek for the next terms of office as members of the Management Board. The renewals were made before the expiration of the current terms of office. The new terms of office start on the day of the next Annual General Meeting that will accept the financial statements of Orange Polska for 2017, for a period of three years.

Composition on December 31, 2017:

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

Profiles of Management Board Members:

Mr. Jean-François Fallacher (born 1967) CEO and President of the Management Board of Orange Polska since 1st May 2016. In years 2011-2016 he was the CEO of Orange Romania, responsible for running Romania's leading mobile telecommunications company.

Prior to Orange Romania, Jean-François served in key leadership roles within Orange Group for 20 years, most recently as the CEO of Sofrecom, the Group's international consulting company, and in the Netherlands as COO of the internet provider Wanadoo and as Marketing manager B2B for EuroNet Internet.

Jean-François has an extensive professional know-how in the telecom market, on both business and residential sectors, gained in various European markets. Holding a strong academic background with engineering degrees from École Polytechnique, École Nationale Supérieure des Télécommunications in Paris, completed by the International Business Development program at ESSEC Business School, Jean-François was formed in the early days of the www expansion.

Mr. Mariusz Gaca (born in 1973); Vice President of the Board for Consumer Market since January 2017 and he is also chairman of the Ethics Committee Orange Poland. Since November 2013 he was Vice President for B2B Market. He is also Vice President of Employers of Poland and Chairman of the Polish Section of Business and Industry Advisory Committee to the OECD (BIAC). A member of Executive Volunteers Coalition since 2013, he is very active in voluntary work and promotes the principles of corporate social responsibility.

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

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

Ms. Bożena Leśniewska (born in 1965); Since January 2017 Vice-President of the Management Board in charge of Business Market Orange Polska. For over 20 years related to the telecommunications sector. She was performing the management functions in Polkomtel S.A., PTK Centertel Sp. z o.o. and Telekomunikacja Polska S.A.

She joined Orange Polska team in 2006 as Deputy Director of Sales for Business Market. One year later she became Business Market Sales Director. Since 2008 she has worked as Director in charge of Business Market and later as Sales Director in both PTK Centertel Sp. z o.o. and Telekomunikacja Polska S.A. In 2013, she became Executive Director in charge of Sales Orange Polska and two years later she was appointed a Member of Management Board in charge of Sales and Commercial Digitisation.

She graduated in Philology at the Jagiellonian University, Advanced Management Programme at INSEAD, the Academy of Leadership Psychology at Warsaw University of Technology Business School and the Open Academy of Mentoring. She is the Member of the Board of Supervisors of Orange Retail S.A., she participates in the activities of Programme Council of Polish National Sales Awards. Moreover, Bożena Leśniewska is a member of the European Network for Women in Leadership, THINKTANK Board of Experts and “Breakthrough” Mentors Association. She was the finalist of Women In Sales Awards 2014 in category Best Woman Sales Director and the finalist of the 7th edition of Business Woman of the Year competition. In 2016, she was recognised by the Institute of Innovative Economy as one of 10 most influential women in Polish institutions operating in the field of IT.

Ms. Jolanta Dudek (born in 1964); Since 2015 member of the Management Board in charge of Customer Service Strategy and Customer Relations. Since November 2013, until incorporation area Customer Service 2016 into structure OPL served as CEO of Orange Customer Service. She began her career in telecommunication industry in 2000 in PTK Centertel holding managerial positions related to Individual Customers Care and taking part in the development of the “Idea” mobile network customer service. Between 2004 and 2010 she served as Director of Business Clients Service at Orange. In October 2010 she was appointed Director of Mobile Business Client Service in Orange Customer Service and PTK Centertel. She was responsible for the strategy, transformation and operational launch of complex customer care for B2B clients of TP Group in the terms of processes and operational models in a wide range of mobile, fixed and Internet telephony.

She is a graduate of the Faculty of Philology at the University of Silesia and postgraduate studies in European Economy Management with a diploma from French Ecole des Hautes Etudes Commerciales (HEC), Jouy-en-Josas and Warsaw School of Economics. She is also a graduate of postgraduate studies at the Academy of Leadership Psychology of Warsaw University of Technology Business School. She is also experienced Lead Auditor of Quality Management System ISO 2002 (BSI) and Global Contact Center Excellence (COPCR®) Coordinator. In 2015 she graduated from School of Mentors at the Warsaw University of Technology Business School.

Mr. Jacek Kowalski (born in 1964); Since January 2011 he is the Management Board Member in charge of Human Resources. Previously, since 2009 he was Executive Director in charge of Human Resources at Telekomunikacja Polska (now Orange Polska). He has been working at the company for over 10 years. He started his career in TP Group in 2001 as Manager of Human Resources in Sales & Marketing at PTK Centertel. From 2005 he was Director of Employee Competence and Development Management Branch. Prior to that, he was Director of the Entrepreneurship and Human Resources School in Infor Training (Infor Media Group) and Director of the National In-Service Teachers Training Center, responsible for implementation of training programs supporting the development of education in Poland.

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

Mr. Maciej Nowohoński (born in 1973); Since March 2014 he is Member of the Management Board in charge of Finance at Orange Polska. He also sits on the supervisory boards of selected subsidiaries of Orange Polska. He has been with Orange Polska since 2003. He held several positions in finance, including Orange Polska Group Controller in 2006-2014. He was Management Board Member at Emitel and in 2011-2013 - Management Board Member in charge of Finance at PTK Centertel. He was Member of the Management Board at Emitel and in 2010-2011 and Member of the Management Board in charge of Finance at PTK

Centertel in 2011–2013. Prior to joining the Orange team, he worked for Arthur Andersen & Andersen Business Consulting.

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

II. Composition of the Supervisory Board and its Committees and changes thereof in 2017

There were no changes in the composition of the Supervisory Board in 2017. Composition on December 31, 2017:

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

On April 19, 2017, the mandates of Messrs. Federico Colom Artola, John Russell Houlden, Patrice Lambert de Diesbach and Ms. Valérie Thérond expired.

On the same day, Messrs. Federico Colom Artola, John Russell Houlden, Patrice Lambert de Diesbach and Ms. Valérie Thérond were appointed by the Annual General Assembly as Members of the Supervisory Board.

At present, Orange Polska has five independent members on the Supervisory Board, namely: Dr. Henryka Bochniarz, John Russell Houlden, Prof. Michał Kleiber, Dr. Maria Pasło-Wiśniewska and Dr. Wiesław Rozłucki.

Composition of the Committees of the Supervisory Board on December 31, 2017:

The Audit Committee

1. John Russell Houlden – Chairman
2. Federico Colom Artola
3. Prof. Michał Kleiber
4. Dr. Maria Pasło-Wiśniewska
5. Marc Ricau

The Audit Committee is chaired by Mr. John Russell Houlden, an independent Member of the Supervisory Board. He has relevant experience and qualifications in finance, accounting and audit.

The Remuneration Committee

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

The Strategy Committee

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

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

Below, is the list of the Members of Orange Polska Supervisory Board and Management Board together with the Annual General Assemblies on which their mandates expire.

Management Board	Year of AGM
Jean-François Fallacher – President	2019
Mariusz Gaca – Vice President	2020
Bożena Leśniewska – Vice President	2021
Jolanta Dudek	2021
Jacek Kowalski	2020
Maciej Nowohoński	2020

Supervisory Board	Year of AGM
Maciej Witucki – Chairman	2019
Gervais Pellissier – Deputy Chairman	2019
Marc Ricau – Secretary	2019
Henryka Bochniarz	2018
Federico Colom Artola	2020
Jean-Marie Culpin	2019
Eric Debroeck	2019
Ramon Fernandez	2018
John Russell Houlden	2020
Michał Kleiber	2019
Patrice Lambert de Diesbach	2020
Maria Pasło-Wiśniewska	2018
Wiesław Rozłucki	2018
Valérie Thérond	2020

III. Operations of the Management Board

The operations of the Management Board are managed by its President. Meetings of the Management Board are chaired by the President of the Management Board or, in case of his absence, another member of the Management Board designated by the President. Resolutions may be adopted if all members of the Management Board have been duly notified about the meeting. Resolutions of the Management Board shall be adopted by absolute majority of votes of all appointed members of the Management Board. Individual members of the Management Board shall manage the areas of the Company's operations assigned to them.

The responsibilities and obligations of the Management Board are detailed in the Management Board by-laws, available at www.orange-ir.pl.

IV. Operations of the Supervisory Board

The work of the Supervisory Board is co-ordinated by the Board Chairman with the assistance of the Board Secretary. The Supervisory Board shall hold a meeting at least once a quarter. The Management Board or a member of the Supervisory Board may demand convening a meeting, specifying a suggested agenda thereof. The Chairman of the Supervisory Board shall call a meeting within two weeks of the receipt of the aforementioned motion. In case the Chairman of the Supervisory Board fails to call a meeting within two weeks, the applicant may call it on his own, specifying the date, place and suggested agenda of the meeting. The Supervisory Board shall adopt resolutions by a simple majority of the votes cast and in the presence of at least half of all members of the Supervisory Board. In case of equal votes, the Chairman of the Supervisory Board shall have the decisive vote.

Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in further paragraphs.

The Supervisory Board by-laws are available at www.orange-ir.pl.

In particular, the Supervisory Board is responsible for the appointment and remuneration of the members of the Management Board, the appointment of the Company's independent auditors, and the supervision of the Group's business. As part of its supervisory responsibilities, it examines the Group's strategic plan and annual budget, monitors the Group's operating and financial performance, formulates opinions on incurring liabilities that exceed the equivalent of €100,000,000, formulates opinions on disposal of the Group's assets that exceed the equivalent of €100,000,000, evaluates the Management Board's report on the Company's activities and the Management Board's proposals regarding distribution of profits or covering losses. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to Group's businesses.

Furthermore, the Polish Accounting Act determines 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 financial reporting process;
   b. Performance of financial audit activities, particularly audits by an audit firm, taking into account the findings and conclusions of the Audit Oversight Commission from its audits of the audit firm;
   c. 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;
   d. Any changes to accounting standards, policies and practices;
   e. Major areas of financial reporting subject to judgment;
   f. Significant adjustments arising from the audit;
   g. Statements on going concern;
   h. 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) Controlling and monitoring the independence and objectivity of auditors and the audit firm, especially if the latter provides non-audit services to the Company;
8) Informing the Supervisory Board about the audit results and explaining how the audit has contributed to the accuracy of financial reporting in the Company as well as the Committee's role in the audit process;
9) Assessing the independence of auditors and accepting the provision of permitted non-audit services by the latter;
10) Developing the audit firm selection policy;
11) Developing the policy for provision of permitted non-audit services by the audit firm performing the audit or entities related to the audit firm or members of the audit firm chain;
12) Determining the audit firm selection procedure;
13) Reviewing the issues giving rise to the resignation of the external auditor;
14) Presenting the recommendations referred to in Article 16(2) of the Regulation No. 537/2014 to the Supervisory Board in line with the policies referred to in clauses 10) and 11) above;
15) Presenting the recommendations to the Supervisory Board aimed to ensure the accuracy of the financial reporting process in the Company;
16) 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;
17) 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;
18) Reviewing the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
19) Considering any other matter noted by the Audit Committee or the Supervisory Board;

20) Regularly informing the Supervisory Board about all important issues within the Committee's scope of activity.
21) 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.

10.1 Information about Sponsoring Policy

Orange Polska has adopted a sponsoring policy (pursuant to the Decision No. 49/16 of the Executive Director in charge of Corporate Affairs dated 17 November 2016). The sponsoring strategy of Orange Polska reflects the global sponsoring strategy of the Orange Group, focusing on the three main brand supporting fields: music, films and sports. In line with the adopted strategy, in these three fields Orange Polska develops long-term, comprehensive, nationwide projects addressed to a large group of its existing or prospective customers, acting as the titular sponsor. Orange Polska S.A. gets involved in various initiatives on a long-term rather than one-off basis. Implementation of one project in each of the three fields of sponsoring offers the highest efficiency in financial and image-building terms.

The implementation of our sponsoring policy is a responsibility of the Corporate Communication and CSR Director, to whom the CSR and Sponsoring Department reports. The key sponsoring projects are subject to approval by the Management Board of Orange Polska S.A. Each sponsoring project has its own target Key Performance Indicators (KPIs), such as attendance, advertising value equivalent (AVE), number of publications, etc. Upon completion of a project, it is evaluated by the Management Board. We established the Sponsoring Committee to centralise sponsoring project management in the Orange Polska Group.

Furthermore, Orange Polska carries out its charitable activities through a dedicated corporate foundation, the Orange Foundation, and the Donation Fund.

As part of its donation policy, Orange Polska has adopted formal rules for using the Donation Fund. These are specified in the Decision no. 50/16 of the Executive Director in charge of Corporate Affairs dated 17 November 2016.

Orange Polska S.A. follows clear and transparent rules in making donations:

- Any donation requires analysis and recommendation;
- Any donation is subject to approval by the President of the Management Board of Orange Polska;
- Any donation is made under a written donation agreement;
- All donations are effected by transfers and registered in the accounting systems of Orange Polska;
- Each agreement includes a requirement to confirm that the donation has been used in line with its purpose.

The Orange Foundation, which carries out charitable activities on behalf of Orange Polska, has adopted its own strategy. The Foundation works towards modern education of children and youth, carrying out its own nationwide educational and social programmes to support the comprehensive development of young people. All its programmes and projects are based on the results of research and implemented in consultation with renowned experts in specific fields. At least twice a year, the Foundation submits reports on its activities to the Foundation Board, which includes representatives of the Founder, i.e. Orange Polska S.A. Furthermore, on an annual basis the Foundation submits a report on its activities to the Ministry of Education and draws up a financial report, which is subject to an audit. Reports of the Foundation are publicly displayed on its website.

The Foundation's policy fits into Orange Polska's social responsibility strategy, which is part of the business strategy of the Company. Our corporate social responsibility (CSR) strategy focuses on four areas which are of key importance from the point of view of our sector and our operations on the Polish market: digital inclusion, safe network, clear environment and enquiring team. Conclusions from a dialogue with stakeholders as well as market trends and social challenges for our industry at home and abroad have been an important road sign in the development of our CSR strategy. Responsibility for the implementation of the strategy lies with the CSR Steering Committee, which is made up of managers from different areas within the organisation. Our CSR initiatives are presented annually in Orange Polska's Corporate Social Responsibility Reports, which are developed in compliance with the international non-financial reporting standards, Global Reporting Initiative (GRI). Each Report is subject to approval by the Disclosure Committee and an audit by independent auditors.

10.2 Description of the Diversity Policy

Orange Polska has adopted the Diversity Management Policy, which was determined in the Decision no. 36/16 of the President of the Management Board dated 19 September 2016.

Our Diversity Management Policy supports the achievement of our business objectives, addresses changes in the labour market and responds to the expectations of our employees. The Policy supports the implementation of the values enshrined in the Code of Ethics, the social responsibility goals and the commitments specified in the Diversity Charter, of which Orange Polska is a signatory. In addition, the Policy refers to the Global Diversity Management and Inclusion Policy in Orange.

The key diversity dimensions in Orange Polska identified in its Diversity Management Policy are as follows:

- gender;
- age;
- competence / expertise / experience / way of thinking;
- psychophysical skills – (dis)abilities;
- parental status.

Other diagnosed dimensions include:

- religion / beliefs;
- workplace location (HQ vs. region);
- type of employment;
- nationality / ethnic origin.

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

In the recruitment process, we follow transparent rules and criteria of candidate selection. Decisions to recruit particular employees are based on their qualifications and professional experience. We ensure that candidates represent diverse communities.

In terms of leadership, the diversity requirements include care for the diversity of decision-making bodies within the Company.

In complementary action plans to the Policy, we have assumed a requirement for analysis of management and supervisory bodies in terms of diversity with respect to such aspects as age, gender, education or professional experience.

The duties and responsibilities as well as the requirements related to qualifications, expertise and competence of Supervisory Board Members are specified in the Company's Articles of Association. In addition, Orange Polska applies the provisions of the *Best Practice for WSE Listed Companies 2016*.

The Supervisory Board currently consists of thirteen members, including five independent members. They are appointed by the General Assembly (or, in exceptional cases, by the Supervisory Board). The term of office for the member of the Supervisory Board is three years. There are three women on the Supervisory Board.

The Management Board currently consists of seven members, including the President. They are appointed by the Supervisory Board. The term of office for the member of the Management Board is three years. There are two women on the Management Board.

10.3 Report on the Remuneration Policy of Orange Polska S.A.

Remuneration Policy of Orange Polska S.A.

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

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

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

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

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

The remuneration system consists of the following components:

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

Employees leaving the Company under the voluntary departure programme are offered severance pay. The terms of severance pay for employees are determined in a separate agreement with trade unions in compliance with the law, whereas the terms of severance pay for the managers excluded from the Group Collective Labour Agreement are settled in individual agreements and codified in their employment contracts.

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

1. Basic salary

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

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

Orange Polska S.A. ensures the consistency of remuneration between job positions by taking into account the managerial and expert skills involved as well as job comparability between various parts of the organisation.

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

Individual basic salaries are determined in the following process:

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

Management Board Members and Executive Directors

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

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

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

2. Performance bonus

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

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

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

For key managers, bonus is more related to the Company's performance, and depends more on the achievement of solidarity goals shared by all, whereas for experts/line managers, bonus is related to their individual performance and depends less on the solidarity components shared by the particular function or the entire Company.

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

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

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

Management Board Members and Executive Directors

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

The performance and bonuses of individual Management Board Members and Executive Directors are monitored directly by the Remuneration Committee of the Supervisory Board.

A new element that was introduced in 2017 is a long-term incentive program dedicated to key managers, including the Management Board Members and Executive Directors. The success in the programme is measured as an increase in the Company's value and customer satisfaction. Participation in the programme is voluntary and requires managers to contribute their own resources. The programme will be settled in the first half of 2021.

3. Discretionary bonuses

The Company's long-term strategy is based on innovation and commitment to outstanding performance.

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

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

4. Benefits

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

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

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

The key areas influenced by Orange Polska S.A. through benefit schemes are as follows:

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

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

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

Management Board and Supervisory Board Compensation

Persons that were Members of the Management Board of the Company as at 31 December 2017:

(in PLN thousands)	*12 months ended 31 December 2017*			
	Fixed compensation expense in 2017	*Variable compensation expense in 2017*[1]	**Total compensation expense in 2017**	*Additionally: Variable compensation expense in 2016 , paid in 2017*
Jean-François Fallacher	2 831	973	**3 804**	391
Mariusz Gaca	1 697	847	**2 544**	339
Jolanta Dudek	908	431	**1 339**	194
Jacek Kowalski	1 196	580	**1 776**	271
Bożena Leśniewska	1 223	597	**1 820**	239
Maciej Nowohoński	1 231	552	**1 783**	271
Total	**9 086**	**3 980**	**13 066**	**1 705**

[1] Includes bonuses accrued in 2017 to be paid in 2018, excludes bonuses accrued in 2016 and paid in 2017.

Persons that were Members of the Management Board of the Company in 2017 and in previous years:

(in PLN thousands)	*12 months ended 31 December 2017*			
	Fixed compensation expense in 2017	*Variable compensation expense in 2017*[1]	**Total compensation expense in 2017**	*Additionally: Variable compensation expense in 2016 , paid in 2017*
Piotr Muszyński[2]	5 821	818	**6 639**	359
Total	**5 821**	**818**	**6 639**	**359**

[1] Includes bonuses accrued and paid in 2017, excludes bonuses accrued in 2016 and paid in 2017.
[2] Compensation until the termination date (including post-employment benefits).

Persons that were Members of the Management Board of the Company as at 31 December 2016:

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

[1] Includes bonuses accrued in 2016 to be paid in 2017, excludes bonuses accrued in 2015 and paid in 2016.
[2] From the date of appointment as the President of the Management Board of Orange Polska S.A..
[3] Mrs. Jolanta Dudek is the Member of Management Board of Orange Polska S.A. and she was also the Member of Management Board of Orange Customer Service Sp. z o.o. until the merger of Orange Customer Service Sp. z o.o. with Orange Polska S.A.

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

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

[1] Includes bonuses accrued in 2016, excludes bonuses accrued in 2015 and paid in 2016
[2] Compensation until the termination date (including post-employment benefits)

The Supervisory Board compensation was as follows:

(in PLN thousands)	*12 months ended 31 December 2017*	*12 months ended 31 December 2016*
Maciej Witucki	431	420
Gervais Pellissier [(1)]	-	-
Marc Ricau [(1)]	-	-
Dr. Henryka Bochniarz	214	218
Federico Colom Artola [(1)]	-	-
Jean-Marie Culpin [(1)]	-	-
Eric Debroeck [(1)]	-	-
Ramon Fernandez [(1)]	-	-
John Russell Houlden	394	394
Prof. Michał Kleiber	215	139
Patrice Lambert de Diesbach [(1)]	-	-
Dr. Maria Pasło-Wiśniewska	212	210
Dr. Wiesław Rozłucki	322	321
Valérie Thérond [(1)]	-	-
Dr. Mirosław Gronicki [(2)]	-	77
Prof. Andrzej K. Koźmiński [(2)]	-	154
Marie-Christine Lambert [(1) (2)]	-	-
Gérard Ries [(1) (2)]	-	-
Total	**1 788**	**1 933**

[(1)] Persons appointed to the Supervisory Board of the Company employed by Orange S.A. do not receive remuneration for the function performed.
[(2)] Persons that were not Members of the Supervisory Board of the Company as at 31 December 2017 but were Members of the Supervisory Board of Orange Polska S.A. in 2016.

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

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

In addition, the President of the Management Board is entitled to the Stretch Bonus based on the adjusted EBITDA as a financial trigger.

Furthermore, those Management Board Members and Executive Directors who are expatriates are eligible for benefits connected with staying in Poland as foreigners, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.

Orange Polska S.A. Incentive Programme in the form of phantom shares settled in cash

On September 4, 2017, the Supervisory Board of Orange Polska S.A. adopted the Orange.one Incentive Programme for the key executives of Orange Polska S.A., including the Management Board Members, based on derivatives (phantom shares), where the underlying instrument is the price of shares of Orange Polska S.A. on the regulated market maintained by the Warsaw Stock Exchange.

According to the Programme Regulations, Members of the Management Board are eligible to voluntary purchase of a total of 370,000 phantom shares of PLN 1 each from the initial pool, and they will acquire additional blocks of phantom shares after meeting the conditions for the average price of the shares of Orange Polska S.A. and the NPS ranking. A total maximum number of phantom shares in additional pools will be 126,000 and 54,000, respectively.

Phantom shares will be bought back at the average price of the shares of Orange Polska S.A. in the first quarter of 2021, provided that it is not less than the average price of the shares of Orange Polska S.A. in the third quarter of 2017, which amounted to PLN 5,46.

If the conditions for additional blocks of phantom shares are not met, the phantom shares will not be bought back and the participant will lose the invested funds.

The table below presents the number and payment cost based on the phantom shares granted by Orange Polska S.A. to the Management Board Members (included in the Orange Polska's costs).

	Options for additional phantom shares			*The cost of share-based payments for 12 months till December 31, 2017 (in PLN thousands)*[1]
	Phantom shares - initial pool (number)	*Condition of the share price (number)*	*Condition of NPS (number)*	
Jean - François Fallacher	70 000	21 000	9 000	14
Mariusz Gaca	50 000	21 000	9 000	11
Jolanta Dudek	50 000	21 000	9 000	11
Jacek Kowalski	50 000	21 000	9 000	11
Bożena Leśniewska	50 000	21 000	9 000	11
Maciej Nowohoński	50 000	21 000	9 000	11
Total	**320 000**	**126 000**	**54 000**	**69**

[1] For cost calculation assumptions please see Note 15.2 to the Orange Polska Group IFRS Consolidated Financial Statements for 2017.

Persons that were Members of the Management Board of the Company in 2017 and in previous years:

	Options for additional phantom shares			*The cost of share-based payments for 12 months till December 31, 2017 (n PLN thousands)*
	Phantom shares - initial pool (number)	*Condition of the share price (number)*	*Condition of NPS (number)*	
Piotr Muszyński	50 000	-	-	66
Total	**50 000**	**-**	**-**	**66**

Long Term Incentive Plan (LTIP) of the Orange Group

The table below presents the number of shares granted by Orange S.A. to the Management Board Members under LTIP.

	Phantoms (number)	*The cost of share-based payments for 12 months till December 31, 2017 (in PLN thousands)*
Jean-François Fallacher	2 000	7
Mariusz Gaca	2 000	7
Jolanta Dudek	2 000	7
Jacek Kowalski	2 000	7
Bożena Leśniewska	2 000	7
Maciej Nowohoński	2 000	7
Total	**12 000**	**42**

The Long Term Incentive Plan is a 3-year plan from 2017 to 2019.

Currently, LTIP includes key managers who occupy key positions in the Orange Group and is conjuncted with the Essentials 2020 strategic plan.

Selected Executives and Leaders are awarded a defined number of free shares of Orange S.A. under the following conditions: continuous service in the Orange Group throughout the plan until 31 December 2019 and performance conditions.

The aim of the Programme is to recognise the engagement of the Group's key Executives and Leaders, to share the value created by the Essentials 2020 strategic plan, to achieve a balance between short-term and long-term remuneration and to rely on well-known, monitored performance indicators.

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

The Management Board Members and Executive Directors are entitled to the following non-financial remuneration components: health care package, life insurance in Orange Polska, company car, legal indemnity in the event of personal liability, and access to Orange services in line with the relevant Company's policies. In addition, the Management Board Members and Executive Directors, having worked at Orange Polska for more than 6 months, are eligible for the Employee Pension Programme (PPE).

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

After enrolment to the Employee Pension Programme (PPE), the PPE contribution for all participants is paid by Orange Polska S.A.

In addition, French key managers are eligible for benefits connected with staying in Poland as foreigners, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.

Assessment of Remuneration Policy in 2017

Remuneration policy is one of an element in human resources management strategy which supports Orange Polska in achieving business results. Like in previous years, our remuneration systems allow to reward particularly for: EBITDA, NPS, transformation projects, sales targets for convergent offers and fiber services. The applied solutions have enabled us to involve employees of all functions into process of selling that is focused on fibre services; this way all employees recognised common direction of work in and outside of sales structures.

The Company offers a competitive level of remuneration in relation to the market, therefore the level of staff turnover at the initiative of employees remains relatively low. At the same time, we note a growing pressure on remuneration growth related to an increase in demand for labour on the market, especially in new technology professions and direct contact with the customer. Systematic salary reviews are based on setting remunerations in the Company against the market and allow us to respond flexibly according to market changes.

An important new element in motivation processes is strengthening the involvement of key managers in achieving long-term goals, where the increase in the value of the Company we find as the best indicator. The programme for key managers launched at the end of 2017 is very popular. Participation in the programme is voluntary and requires a significant contribution of own funds, and rewards resulting from participation are not guaranteed (possible loss of private funds of managers) and deferred in time (settlement of the programme in the first half of 2021). Nevertheless, 113 managers, out of 125 invited, decided to join the programme. In our opinion, it proves both that managers trust in the success of the Orange.one strategy, and they are engaged in building the Company's value.

10.4 Orange Polska Group's and Orange Polska S.A. Statements on Non-financial Information for 2017

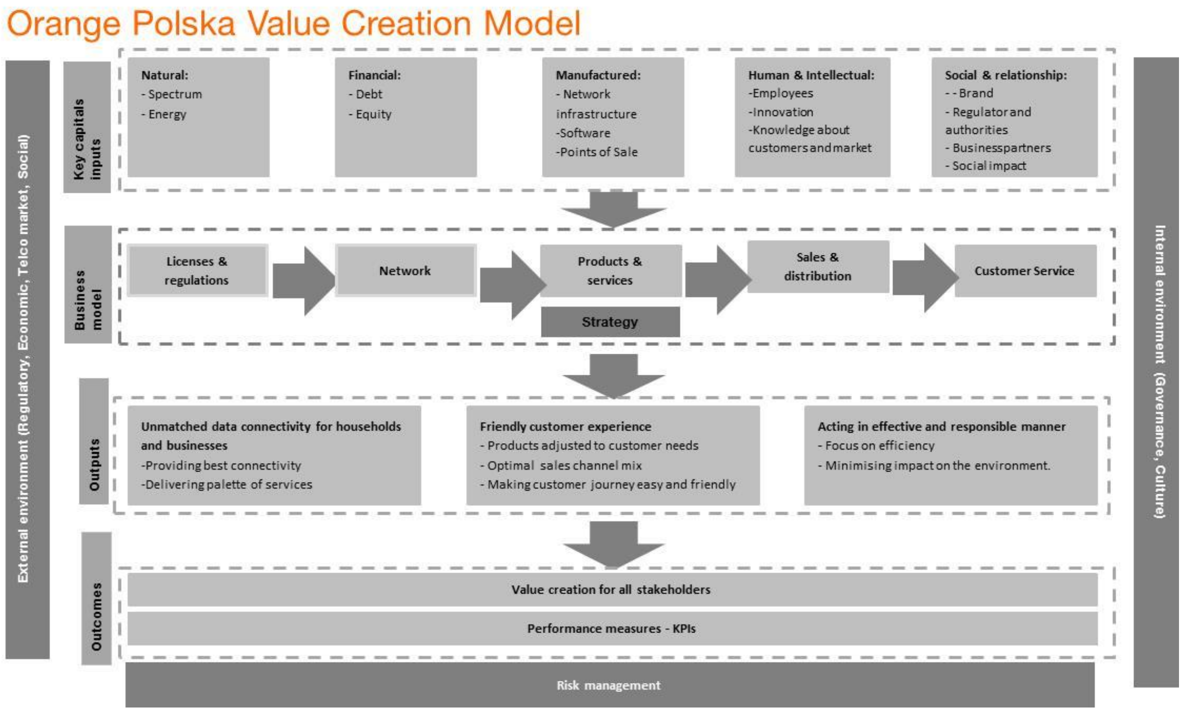
10.4.1 Group's Statement on Non-financial Information for 2017

This Statement presents the non-financial data identified during our dialogue with stakeholders and included in Orange Polska's corporate social responsibility strategy for 2016–2020 and other strategic documents. The content of this document reflects the importance of particular issues for our stakeholders. Stakeholders have been identified based on the strength of the impact on the Group and the attitude to the Group's activities (positive, neutral, negative).

This Statement is a continuation of the CSR Reports developed by Orange Polska from 2006.

- **Governance Area**

Orange Polska is Poland's leading telecommunication provider, operating in all segments of the Polish telecoms market. The Group owns the largest telecom infrastructure in Poland, rendering voice and data services on fixed and mobile networks. The Company's portfolio includes mobile and fixed line voice services, broadband services (including fibre), pay TV and convergent offers.



- **Business Model**

Orange Polska's business model consists of the following components:

Licences and Regulations

To be able to render mobile telecom services the Group needs access to radio spectrum. The Company holds licences for 800 MHz, 900 MHz, 1800MHz, 2100 MHz and 2600 MHz frequencies. The amount of spectrum that is at our disposal influences the competitiveness and quality of the services we render.

Network

We have the largest network infrastructure in Poland. Network topology consists of fibre backbone and aggregation networks as well as access network. This constitutes the basis for rendering fixed and mobile services. To increase the efficiency of our infrastructure, legacy technologies and solutions, which are mainly voice oriented, are being replaced with a converged network capable of handling all types of traffic: voice, data and video.

Products and Services

We offer a broad portfolio of telecommunication products and services for residential, business and wholesale customers. We combine fixed line and mobile services, offering fixed connectivity based on different technologies.

Sales and Distribution

We ensure easy access to our products and services, using different channels of contact with customers, including traditional points of sale (our own or our agents'), independent distribution chain outlets (e.g. stores with consumer electronics), on-line, telesales and door-to-door.

Customer Care

We deliver customer care across various channels of communication adapted to customer needs, from traditional (points of sale, Contact Center, face to face, field technicians, delivery couriers) and automated (USSD, IVR, SMS) to modern digital channels (mobile apps, social media, chat, e-mail).

- **Corporate Governance**

Orange Polska S.A., as a company listed on the Warsaw Stock Exchange (WSE), applies corporate governance rules, complying with Polish and international standards of proper governance. The corporate governance framework in the Company is regulated by a number of internal documents, including Articles of Association of Orange Polska, Regulations of the Management Board, Regulations of the Supervisory Board and Regulations of the General Assembly. The Company also complies with the Best Practice for Warsaw Stock Exchange (WSE) Listed Companies and the Code of Ethics.

The Management Board provides the leadership and introduces policies and rules for maintaining the internal cohesiveness of the organisation. All members of the Management Board act as executives, while the members of the Supervisory Board play an oversight role. These two roles are separable and strictly assigned to these governing bodies.

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

The aim of the corporate governance model described above is to properly distribute responsibilities within the company and establish the roles of the key governing bodies, which in turn enhance the decision making process.

Our values are enshrined in the Orange Polska Code of Ethics. The Code's principles are consistent with such fundamental acts as the Universal Declaration of Human Rights and the recommendations of the International Labour Organization. Adherence to ethical standards is scrutinised by the Ethics Committee, which submits reports to employees as well as the President of Orange Polska and the Audit Committee of the Supervisory Board.

The Company applies the certified internal control system and management systems. Orange Polska S.A.'s management system has been certified for compliance with the following international standards: ISO 9001, 22301, 27001, 27018, 14001 and 17025. The validity of certificates and the preparation to meet the requirements of international standards is regularly audited internally and confirmed through external audits conducted by ISO certified entities. Information security risk management is based on the ISO/IEC 27005:2011 standard. Orange Polska also holds the COPC (Customer Operations Performance Center) certificate.

Orange Polska S.A. maintains the risk management framework to identify, assess and manage risks. This framework has been based on the ISO 31000:2009 standard. In addition, each subsidiary of the Group is subject to risk assessment. Leaders within the Group's individual business areas and functions are responsible for the assessment and management of risks including the identification and escalation of new/emerging circumstances and monitoring and reporting on the risks and control effectiveness.

- **Attitude to Corporate Social Responsibility**

In Orange Polska, we have been successfully implementing a policy of corporate business responsibility in all areas of our business for several years now. Our CSR strategy accounts for the Group's business objectives and fits into their implementation. The conclusions from a dialogue with stakeholders as well as market trends and social challenges for our industry in Poland and abroad have been key elements in its development.

In 2016 we adopted the new CSR strategy for 2016-2020. A strong foundation of this strategy is responsible management – our values, ethics and compliance and our dialogue with stakeholders as a tool for understanding their expectations. On this foundation are based four pillars of our CSR strategy:

- **Digital inclusion** – for everyone, regardless of their skills, residence, age or ability, to be able to make use of the opportunities offered by the digital world
- **Safe network** – for the use of the latest technologies to be easy and risk-free

- **Clean environment** – to pursue our business objectives with respect for ecological principles and in harmony with the environment
- **Enquiring team** – to create a culture of co-operation, in which all employees feel respected and can freely pursue their professional goals and life passions.

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

1. Environmental Area

Orange Polska responds to global challenges related to the natural environment and natural resources. Within environmental protection policy we supervise compliance of our operations with the law and other regulations regarding ecology. We promote environmentally friendly solutions, which help to reduce greenhouse gas emissions through offering services that can replace traditional communications or written documents. Thanks to comprehensive ICT systems for business and administration, we make environmental protection part of everyday life.

Orange Polska has adopted an environmental policy that defines the key areas of use of natural resources and the impact on the environment. It is complemented by the Environmental Management System, which is consistent with the ISO 14001 standard for mobile services.

Pursuant to these documents, we:

- oversee the processes which may affect the environment in compliance with legal requirements and other environmental regulations;
- identify our negative impact on the environment;
- account for environmental issues while setting objectives and making decisions as well as carrying out initiatives reducing our impact on the environment;
- monitor the compliance of electromagnetic emissions with the relevant standards;
- attempt to reduce CO2 emissions related to our activity;
- improve our business practices and apply technological solutions enabling a reduction in the negative environmental impact;
- carry out dialogue with stakeholders and inform them about our initiatives related to environmental protection;
- raise environmental awareness among our employees and customers;
- co-operate with our suppliers to make them comply with our environmental policy.

Key environmental indicators

Environmental Data			
Energy	**Unit**	**2016**	**2017**
KPI: electricity consumption/customer	kWh/customer	25.9	27.4
Direct energy consumption by primary energy sources			
Fuel (all buildings, all uses)	‘000 m^3	2.1	2.2
Gas	‘000 m^3	5,075	3,103
Coal	tonnes	51.6	70.8
Energy produced during combustion, primary sources	GWh	78.5	57.0
Indirect energy consumption by primary energy sources			
Electricity	GWh	588	581
Greenhouse gas emissions			
CO2 emissions excluding transport	‘000 tonnes	462.7	454.7
CO2 emissions during transport	‘000 tonnes	12.3	10.7
Total CO2 emissions	‘000 tonnes	475	465
KPI: CO2 emissions during electricity consumption/customer	kg/customer	19.6	20.7
KPI: CO2 emissions (all energies)/customer	kg/customer	21.0	22.0
Materials			
Waste paper, cardboard boxes: internally and externally	‘000 tonnes	1.3	1.8
Water	‘000 m^3	393.9	315.0
Waste management			
Internal WEEE (network & tertiary)	tonnes	20.3	70.4

Wooden poles	tonnes	43.4	190.9
Cables	tonnes	345.1	287.9
Batteries	tonnes	138.8	101.8
Paper / cardboard	tonnes	45.4	13.8
Other hazardous waste (including PCB)	tonnes	4.64	7.0
Other non-hazardous waste	tonnes	834.1	1,050.4
Waste electrical and electronic equipment			
KPI EMS: ISO 14001	%	26.7	28.5
Electromagnetic field emissions			
Compliance with the relevant standards		yes	yes
Recycling and refurbishment			
Collected and recycled handsets	pcs.	77,542	42,869
Refurbished and relaunched handsets	pcs.	11,839	8,138
Refurbished and relaunched multimedia (broadband) devices	pcs.	571,981	465,994

* Due to the fact, that Orange Polska S.A. owns the majority of infrastructure, including buildings, the environmental indicators for the Group and Orange Polska S.A. are the same.

Key environmental commitments and their delivery

Key commitments related to the environmental impact defined in the Orange Polska CSR strategy for 2016–2020 in the 'Clean Environment' pillar

Commitments in the environmental area	Delivery in 2017
Energy	
Reduction in energy consumption by 1–5% year-on-year	-1.2%
Reduction in greenhouse gas emissions	
Reduction in CO2 emissions	-2.0%
Recycling and refurbishment	
Increase in refurbished and relaunched broadband devices year-on-year (%)	-18.5%*
Materials and natural resources	
Decrease in paper consumption / increase in % of customers using e-invoices	-3.2%
Management of the environmental impact	
Compliance with regulations: number of infringements	No infringements

*The decrease in refurbished devices resulted from the termination of the refurbishment project for devices from the Romanian market.

Reference to the Key Risks in the Environmental Area

Exposure to Electromagnetic Fields

Exposure to electromagnetic fields (EMF) from radio equipment (used mainly on mobile, but also fixed, networks) might raise concerns for their possible adverse effects on human health, even though the Polish EMF limit is much more restrictive than in most other countries, where the limit set in the Council Recommendation 1999/519/EC applies.

If the above-mentioned health risks were scientifically confirmed to a certain extent in the future, this would likely result in decline in use of mobile telecommunications services, difficulties and additional expense in rolling out base stations and other wireless equipment, and an increase in litigation.

Furthermore, legislative works on a bill tightening the regulations on electromagnetic fields from telecommunications equipment have been initiated in Poland. The legislation process is still at its initial stage, but the new regulations can expand operators' obligations, increasing the cost and time of network deployment (especially with respect to 5G systems).

2. Employment Area

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

Staff Regulations

The key generally binding legal act which regulates the employment area is the Labour Code. The organisation and order of work in Orange Polska as well as the rights and obligations of its employees are regulated by the Staff Regulations, which in particular address the following:

- work organisation and equipping employees with tools and materials;
- working time systems and schedules as well as adopted working time settlement periods;
- date, place, time and frequency of remuneration payments;
- list of works prohibited to young persons and women;
- types of works and list of positions allowed to young persons for the purpose of occupational training;
- obligations related to occupational health and safety and fire safety, including the procedure for informing employees about occupational risks;
- procedures for confirming the arrival and presence at work as well as justifying the absence at work by employees.

The Staff Regulations and any amendments thereto are consulted by the employer with trade unions.

Key workforce indicators

Workforce*	2016	2017
Workforce	15,571	14,615
Full-time positions	15,537	14,587
Full-time employees	15,457	14,514
Part-time employees	114	101
Outsourced employees (full-time positions)**	5,823	5,480
Employees in managerial positions	2,032	1,819

*A change in methodology compared to earlier CSR reports and the integrated report: NetWorkS! joint venture not included (as in the Management Board's Report)
**A change in methodology compared to earlier CSR reports and the integrated report: outsourced FTPs are now reported on an annual average basis

Mobility Policy

The Mobility Policy effectively supports the pursuit of Orange Polska's business objectives through HR processes, such as recruitment, carrier management as well as identification and development of employees with high professional potential.

The Mobility Policy aims to prepare employees to perform new professional roles in accordance with the Company's needs through:

(1) recruitment in line with the identified needs of the Company;
(2) competence transfer in and between Group companies; and
(3) scheduled exchange of employees identified to have the highest development potential between Orange Group's international structures.

This policy is implemented through:

- counselling on employees' development paths;
- training programmes supporting competence development in various professional roles;
- trainship and development programmes within the Group.

Key mobility indicators

Professional mobility	2016	2017
Total number of new employee hires	540	552

Departures*	1,231	1,302
Turnover**	2.5%	2.8%

* Total number of employees leaving, including voluntary departures (for reasons unrelated to the employee) and departures at the employer's initiative, but excluding intra-group transfers (e.g. an Orange Polska's employee departing for TP TELTECH)
** Rate of turnover, excluding voluntary departures (for reasons unrelated to the employee) and departures at the employer's initiative as well as intra-group transfers

Development and Training

We have a number of training programmes, which aim to develop competence and prepare employees to face the Group's strategic challenges. The terms of training attendance are regulated by our training policies, including the Professional Skills Development Policy and the Language Training Policy.

All employees increase their qualifications and some of them improve their language skills and are eligible for financing of graduate or postgraduate studies, including MBA. We have Professional Schools in different areas that offer opportunities for professional improvement and development. We promote knowledge sharing programmes, such as Knowledge Highway, which supports the development of a know-how sharing culture among Orange Polska's internal experts. Our employees can use the Development Products Library, which offers over 2,000 e-learning courses and books. We have a programme that identifies and develops managerial Talents. It supports people with initiative, concrete achievements and management potential. These people are covered by dedicated development programmes, participate in critical projects and are taken into account at the first stage of recruitment for managerial positions.

Since 2011, we have carried out an international development programme, Orange Campus, to promote uniform management standards across the Orange Group.

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

We also train outsourced employees in knowledge specific to Orange Polska and necessary to perform their duties.

Key development and education indicators

Development and education*	2016	2017
Total number of employees trained (in '000)	15.2	15.3
Total number of partners trained (in '000)	21.9	24.2
Total hours of employee training (in '000)	402.2	487.3
Total hours of partner training (in '000)	527.3	615.8
Employee assessment		
% of regularly evaluated employees	97.2%	94.4%
% of employees with individual development plans	81.3%	82.3%
Scheduled development tasks	21,946	22,607
% of regularly evaluated outsourced employees	99.8%	97.8%
% of outsourced employees with individual development plans	75.4%	73.4%
% of managers trained in the Orange Campus programme	61.0%	76.0%

* The development and education data account for the following entities: Orange Polska S.A., TP TELTECH, Integrated Solutions and Orange Foundation.

Remuneration

The Remuneration Policy regulates the main guidelines and principles for remuneration in Orange Polska. By enabling the recruitment, retention and motivation of the best managers and professionals in the specialised areas existing in Orange Polska S.A. it provides people prepared to achieve the strategic goals of the Company. Remunerations are determined in a manner ensuring balance and consistency across the Orange Group.

Our Remuneration Policy complies with the labour law and corporate governance regulations.

The remuneration system consists of the following components:

1. Basic salary

Basic salary terms take into account the job remuneration standards related to the scope of tasks assigned to a particular job position as well as the market value of the work performed. Orange Polska develops remuneration terms based on non-discrimination.

2. Performance bonus

Bonus is a variable component of remuneration, which is dependent on performance. The purpose of the bonus system is to motivate employees to achieve high performance by attaining the predefined and agreed goals which support the implementation of the Company's strategy and growth of customer satisfaction.

All employees are eligible for performance bonuses. Individual groups of employees are subject to different bonus criteria. Depending on the group, performance goals of employees are settled on a monthly, quarterly or semi-annual basis.

3. Discretionary bonuses

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

Key remuneration indicators

Wages	2016	2017
Average basic salary (in PLN)	6,550	6,791
Ratio of wages at the lowest positions to the legal minimum wage	147%	149%

Diversity

The Diversity Management Policy aims to bolster the pursuit of our business objectives, address changes in the labour market and respond to the expectations of our employees. The policy also supports compliance with the values enshrined in the Code of Ethics, CSR goals and the obligations under the Diversity Charter, of which we are a signatory.

The key diversity dimensions in the Group are as follows: gender, age, competence / expertise / experience / way of thinking, psychophysical skills – (dis)abilities, and parental status. Other diagnosed dimensions include: religion / beliefs, workplace location (HQ vs. region), type of employment, and nationality / ethnic origin.

With respect to administering, managing and supervising bodies, the rules specified in the Policy include proper selection of employees and leadership. In the recruitment process, we follow transparent rules and criteria of candidate selection. Decisions to recruit particular employees are based on their qualifications and professional experience. We ensure that candidates represent diverse communities. In terms of leadership, the diversity requirements include care for the diversity of decision-making bodies within the Company.

In complementary action plans to the Policy, we have assumed a requirement for analysis of management and supervisory bodies in terms of diversity with respect to such aspects as age, gender, education or professional experience.

The duties and responsibilities as well as the requirements related to qualifications, expertise and competence of Supervisory Board Members are specified in the Company's Articles of Association. In addition, Orange Polska S.A. applies the provisions of the *Best Practice for WSE Listed Companies 2016*.

The Supervisory Board currently consists of fourteen members, including five independent members. They are appointed by the General Assembly (or, in exceptional cases, by the Supervisory Board). The term of office for the member of the Supervisory Board is three years. There are three women on the Supervisory Board.

The Management Board currently consists of six members, including the President. They are appointed by the Supervisory Board. The term of office for the member of the Management Board is three years. There are two women on the Management Board (as of December 31, 2017).

Key diversity indicators

Diversity	2016	2017
Access to positions		
% of women in the Group	40.8%	40.5%
% of women in managerial positions	33.4%	32.7%
Ratio of basic salary of women to men by positions (men's salary = 100%)		
General	79.4%	79.4%

Non-managerial positions	82.5%	82.0%
Managerial positions	80.1%	83.5%
People with disabilities		
% of employees with disabilities	1.6%	1.7%

Working Environment

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

The key areas influenced by Orange Polska through benefit schemes are health and physical activity, financial stability, improved quality of life and employee development.

The Policy of Investing in Health Quality and Wellbeing of Orange Polska's Employees provides for developing friendly working environment, ensuring balance between professional and personal life, promoting healthy lifestyle, supporting employees' physical activity and hobbies as well as creating a culture of co-operation in which all employees feel respected, freely pursue their professional goals and life passions and get involved in social initiatives.

Orange Polska ensures safe and friendly working conditions for its employees:

- Orange Polska employees are offered broad medical services at LUXMED Group and CM LIM clinics and partner medical facilities;
- Orange Polska's employees are eligible for participation in the Employee Retirement Plan;
- Orange Polska has the Company Social Benefits Fund as a means of social welfare addressed to employees and retired employees in need;
- In addition to the Company Social Benefits Fund, employees can use the Central Housing/Welfare Funds;
- Orange Polska's employees and their families are offered discounts by the Group's partners as well as discounts for Orange products and services in the 'Offer for You' programme;
- Employees are also eligible for financing of sports, tourist and cultural events and can use FitProfit cards.

Both full-time and part-time employees are eligible for all the aforementioned benefits. Employees working under a fixed-term employment contract are eligible for health care and promotional offers, but are not eligible for benefits that require long-term commitments, such as the Central Welfare Fund or the Employee Retirement Plan.

Key working environment indicators

Working Conditions	2016	2017
% of employees eligible for health care	100%	100%
% of employees covered by the Employee Retirement Plan*	80.2%	81.5%

* Only employees of Orange Polska, Telefony Podlaskie, Orange Szkolenia and TP TELTECH are eligible for participation in the Employee Retirement Plan.

Occupational Health and Safety

The Occupational Health and Safety (OHS) Policy regulates activities aimed to ensure work safety, health protection and constant improvement in working conditions to all employees. We aim to incorporate OSH elements into all activities of Orange Polska and on all management levels in order to ensure safe working conditions so that all our employees can actively perform their day-to-day duties in a friendly working environment.

Key OSH indicators

Occupational Health and Safety	2016	2017
Number of accidents	38	48
Days off due to accidents at work	1,321	1,203

Social Dialogue

We respect the employees' right to associate and we run regular broad dialogue with our social partners. As part of a dialogue within Orange Polska, we negotiate settlements, agreements or other documents with trade unions. The most important of them is the Intragroup Collective Labour Agreement for the Employees of Orange Polska S.A. This document regulates, among others, the rules for concluding and terminating employment contracts, working hours, holiday entitlement, rules of remuneration and obtaining extra benefits connected with work, occupational safety and health issues, training, social care and health care.

There is also the Employee Council in Orange Polska S.A. Pursuant to mandatory regulations, the Company has an obligation to consult the Council on matters related to the level, structure and intended changes of workforce, actions aimed at maintaining the workforce level, as well as any significant changes in the work organisation or employment terms.

An important document developed in consultation with trade unions is the Intragroup Collective Labour Agreement in Orange Polska S.A. This document regulates, among others, the rules for concluding and terminating employment contracts, working hours, holiday entitlement, rules of remuneration and obtaining extra benefits connected with work, occupational safety and health issues, training, social care and health care. Also the Social Agreement is developed in consultation with trade unions.

The Social Agreement, which remain valid in 2016–2017, addressed in particular the following issues: investments in a friendly work environment, pay rises in 2016 and 2017, financial compensation for employees leaving Orange Polska and support for outplacement. The implementation of the Social Agreement for 2016–2017 continued throughout 2017, and under the Settlement for 2017 up to 1,020 employees of Orange Polska were eligible for the voluntary departure package in 2017. In December 2017, a new Social Agreement for 2018–2019 and Settlement for 2018 were concluded, determining the detailed terms of voluntary departures of Orange Polska's employees in 2018. In addition, there is a Collective Labour Agreement at TP TELTECH Sp. z o.o.

Key social dialogue indicators

Social Dialogue	2016	2017
Number of trade unions*	18	18
% of employees in trade unions*	33.5%	30.8%
% of employees covered by the Collective Labour Agreement	96.0%	95.7%

* Based on figures for Orange Polska S.A., TP TELTECH Sp. z o.o. and ORE Sp. z o.o.

Key employment commitments and their delivery

Key commitments related to employment defined in the Orange Polska CSR strategy for 2016–2020 in the 'Enquiring Team' pillar and particular policies

Commitments in the employment area	Delivery in 2017
Development and Education	
No disparity in access to training on account gender or age	No disparity
100% of managers trained in the Orange Campus programme by 2020	76.0%
Diversity Policy	
35% of women in managerial positions by 2020	32.7%
1.5% of people with disabilities employed in Orange Polska by 2020	1.7%

Reference to the Key Risks in the Employment Area

Human Resources Risks and Alignment of Organisation Structure

Orange Polska and its managers continue transforming its internal culture in order to motivate the employees and drive the performance culture as well as streamlining the organisation and infrastructure in order to confront the competition and implement new technologies and new, more efficient business models through the transformation programme. If Orange Polska fails to complete these transformations successfully, its operating margins, financial position and results could be adversely impacted. Orange Polska has continued a voluntary departure programme and the workforce optimisation process. Regular staff satisfaction surveys are conducted by an external consultant.

3. Social Area

Access to new technologies is a major step in the digitisation process, but other important elements include web security, education, participation in culture, local development and enhancement of competences required to build the society of the 21st century. In 2004, we established the Orange Foundation, whose mission is to disseminate knowledge and implement social projects through which new technologies will become conducive of social development.

The activity of the Orange Foundation has been defined in the relevant Strategy for 2016–2018. It provides for the pursuit of digital education and digital inclusion goals through long-term social programmes based on accurate identification of social needs and expectations. The Orange Foundation's key initiatives include

Safety Here and There, *MegaMission* and *Orange Studios*, which are complemented by the corporate volunteering programme.

Safety Here and There

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

Adults (especially educators and specialists) can participate in conferences, seminars and workshops, as well as use an online interactive course for parents and guardians teaching them how to protect their children online.

Key indicators and goals of the *Safety Here and There* programme

Safety Here and There	**2016**	**2017**
Parents and guardians using the educational materials	387,985	190,750
Children involved in educational initiatives	662,960	403,388
Schools participating in the programme	1,000	2,132

MegaMission

MegaMission is a nationwide educational programme for primary schools offering after-school care. It is addressed to teachers and kids aged 6 to 10, who spend time in after-school facilities. Through this programme we expand educators' knowledge about the ten key areas of development of media, digital and IT competence. While analysing social needs, we were looking for space in schools that would enable digital education of children in an innovative form outside regular lessons to supplement the core curriculum recommended by the Ministry of National Education. We have identified such space in after-school clubs, where kids spend time before and after their lessons.

Key indicators and goals of the *MegaMission* programme

MegaMission	**2016**	**2017**
Children trained in the programme	6,750	8,250
Teachers trained in the programme	350	250
School facilities provided with IT equipment and educational tools	350	250

Orange Studios

In order to facilitate access to information, knowledge and technology among local communities, we have developed Orange Studios. Orange Studios are public multimedia studios in small towns and villages, which we create and help to manage. The purpose is to provide members of local communities with access to new technologies, courses and workshops. Leaders of the studios are provided with professional training and financial aid to help them manage these modern and attractive meeting places. A total of 100 studios have been created across the country up to now. In addition, we have launched an on-line knowledge-sharing platform for Orange Studio users. It features a portfolio of ready-to-implement projects and a gamification module that uses game mechanisms to foster social competence and motivate residents to work for the benefit of their neighbourhoods. The initiatives are aimed at different target groups: children and youth, people with disabilities, young mothers and senior citizens.

Key indicators and goals of the *Orange Studios* programme

Orange Studios	**2016**	**2017**
Managed active Studios	75	100
Local leaders trained in digital and organisational skills	148	143
Population with access to Studios	600,000	900,000

Corporate Volunteering

In Orange Polska we have the biggest employee volunteering programme in Poland. It has been running for 14 years. Our employees share their knowledge, skills and experience and teach children and seniors how to use the Internet safely and wisely. Orange volunteers develop Fairy Tale Corners: colourful and friendly spaces for children in hospitals, hospices and single mothers' homes. Our volunteers take part in important social actions and events organised by Orange Polska (e.g. Orange Warsaw Festival). Moreover, our employees can develop their own volunteering projects and apply for grants for their implementation.

Key indicators and goals of the corporate volunteering programme

Corporate volunteering	2016	2017
Volunteers	3,517	3,258
Volunteers' working hours	26,225	24,293

Sponsoring

Orange Polska has adopted a sponsoring policy (pursuant to the Decision No. 49/16 of the Executive Director in charge of Corporate Affairs dated 17 November 2016). The sponsoring strategy of Orange Polska reflects the global sponsoring strategy of the Orange Group, focusing on the three main brand supporting fields: music, films and sports. In line with the adopted strategy, in these three fields Orange Polska develops long-term, comprehensive, nationwide projects addressed to a large group of its existing or prospective customers, acting as the titular sponsor. Orange Polska gets involved in various initiatives on a long-term rather than one-off basis. The key sponsoring projects are subject to approval by the Management Board of Orange Polska S.A. We established the Sponsoring Committee to centralise sponsoring project management in the Orange Polska Group.

Key sponsoring indicators

Sponsoring	2016	2017
Music sponsoring: Orange Warsaw Festival and Open'er Festival Powered by Orange		
Number of participants	170,000	175,000
Advertising value equivalent (in PLN millions)	11.2	10.6
Number of publications	7,590	6,165
Film sponsoring: Wednesdays with Orange		
Number of participants	1,160,000	750,000
Advertising value equivalent (in PLN millions)	0.1	0.4
Number of publications	54	267
Sports sponsoring		
Number of participants	7,000	7,400
Number of sports clubs	100	100
Advertising value equivalent (in PLN millions)	4.9	0.6
Number of publications	1,841	546

Grants

As part of its donation policy, Orange Polska has adopted formal rules for using the Donation Fund. These are specified in the relevant Decision of the Executive Director in charge of Corporate Affairs.

Orange Polska S.A. follows clear and transparent rules in making donations:

- Any donation requires analysis and recommendation;
- Any donation is subject to approval by the President of the Management Board of Orange Polska;
- Any donation is made under a written donation agreement;
- All donations are effected by transfers and registered in the accounting systems of Orange Polska;
- Each agreement includes a requirement to confirm that the donation has been used in line with its purpose.

Key grant indicators

Grants	2016	2017
Total support granted, (in PLN millions)	13.3	13.4

Key social commitments and their delivery

Key social commitments defined in the Orange Foundation strategy for 2016–2018 and the sponsoring strategy

Commitments in the social area	Delivery in 2017	Goal by 2018
Safety Here and There		
Parents and guardians using the educational materials	578,735	1,000,000
Children involved in educational initiatives	1,066,348	500,000
Schools participating in the programme	3,132	1,000
MegaMission		
Children trained in the programme	15,000	15,000
Teachers trained in the programme	600	950
School facilities provided with IT equipment and educational tools	600	950
Orange Studios		
Developed new Studios	25	50
Managed active Studios	100	100
Local leaders trained in digital and organisational skills	143	150
Population with access to Studios	900,000	800,000
Corporate volunteering		
% of employees involved in corporate volunteering	22%	20%
% of volunteers involved in competence volunteering	21%	23%
% of volunteers declaring greater satisfaction from work	99%	80%
Music sponsoring		
Number of participants	175,000	180,000

Reference to the Key Risks in the Social Area

Transparency of Social Policy

The Group's Social Policy transparently defines the areas of our social commitment, focusing on the dissemination of knowledge and implementation of social and educational projects through which new technologies will become conducive of social development. Our initiatives are addressed mainly to children and young people; to help them we support schools, parents and entire communities of small towns and villages. We also co-operate with various social organisations, supporting their valuable programmes in the digital education area.
The Group focuses on the implementation of long-term social projects based on the results of research and consultation with experts in particular areas. An important aspect is the transparency of a process of selecting reliable social partners and programme beneficiaries, so that the funds committed to our programmes are not misused, which could also jeopardise Orange Polska's reputation.
Social programmes are implemented chiefly through open competitions, the outcome of which is evaluated by the independent Programme Board and announced to the public. The Orange Foundation publishes annual financial reports on its activity.

4. Human Rights

Owing to the nature of our business model and supply chain, the human rights policy is formulated on the international level by the Orange Group. In addition to the general framework of the International Labour Organization conventions, the Universal Declaration of Human Rights and the Global Impact principles, Orange Group complies with the UN Guiding Principles on Business and Human Rights adopted in 2011. The Group's activities contributing to respect for fundamental human rights focus on three main areas:

- Relations with employees;
- Relations with suppliers; and
- Privacy and freedom of expression.

The issues related to respect for human rights are addressed in the Orange Polska Code of Ethics. We respect all people and their right to privacy. We accept diversity in terms of background, race, gender, culture, age and marital status as well as religious beliefs, political views and membership of social or professional organisations.

Key human rights indicators

Human Rights	2016	2017
Total hours of ethical training of employees	386	640
Total hours of ethical training of partners	560	653
Child labour		
Operations identified as having significant risk for incidents of child labour	None were identified in the Group	
Forced labour		
Operations identified as having significant risk for incidents of forced labour	None were identified in the Group	
Discrimination		
Total number of incidents of discrimination	None	None
Right to privacy		
Number of reasonable grievances and violations with respect to privacy	None	None
Right to safety		
% of products evaluated for safety standards	100%	100%
Number of grievances and violations regarding product safety	None	None
Human rights violations		
Number of grievances about human rights	None	None

Key human rights commitments and their delivery

Key human rights commitments defined in the Orange Polska CSR strategy for 2016–2020

Commitments in the human rights area	2017	2020
% of employees trained in business ethics	100%	100%
Compliance clauses as a standard in agreements with suppliers	Yes	Yes

Reference to the Key Risks in the Human Rights Area

Orange Polska takes all issues related to human rights very seriously, paying particular attention to the rights to privacy and personal data protection. In order to prevent theft or unauthorised modification or processing of personal data of its customers and employees, or personal data entrusted by Orange Polska, we have implemented security measures consistent with international standards. In addition, we are introducing a process to identify and prevent violation of rights and liberties of data subjects.

Breach of Security of Information, Including Personal Data

Orange Polska has a considerable customer base and constantly undertakes actions aimed to ensure protection of its customers' personal data and information constituting telecommunications secrets. The Company has implemented a certified Information Security Management System, which complies with ISO/IEC 27001:2013 with respect to provision of telecommunication and ICT services, hosting, collocation, cloud computing, cybersecurity and cloud processing of personal data.

In October 2017, Orange Polska S.A. obtained a certificate of compliance with ISO/IEC 27018:2014 *Code of practice for protection of personally identifiable information (PII) in public clouds acting as PII processors* with respect to processing of personal data (also entrusted by other entities) via UCaaS (Unified Communication as a Service), ICS (Integrated Computing Standard), ICM (Integrate Computing Managed) and smart CCaaS (Contact Center as a Service) cloud computing. Furthermore, the Company has maintained European CERT certification (for its CERT). Despite all the precautions taken, considering the modern threats related to information technologies used for processing of information, including personal data, it is not possible to fully exclude the risk of infringement of the security thereof.

Orange Polska's activities may trigger the loss, disclosure, unauthorised communication to the general public or third parties or inappropriate modification of the data of its customers. These losses could arise (i) from the accelerated implementation of new services or new applications, for example those relating to billing and customer relationship management, (ii) from the launch of new initiatives, especially in the field of Internet of Things (IoT), (iii) from malicious acts (including cyber attacks) particularly aimed at the theft of personal data, or (iv) possible negligence within the Group or its external partners.

Recourse to liability proceedings is facilitated by legislation that has strengthened operators' obligations, such as those stipulated in the new General Data Protection Regulation (GDPR) released in April 2016, to become applicable on May 25, 2018. For infringement of GDPR protection rules, administrative fines of up to 4% of the annual global turnover may be imposed. Such incidents could have a considerable impact on the Group's reputation and a heavy impact on its liability, potentially including criminal liability, and hence have an adverse impact on Orange Polska's future financial performance. The Company has launched a programme to prepare the organisation to meet the GDPR requirements. Furthermore, in accordance with GDPR and ISO 29134:2017, we are implementing a process to identify and prevent violation of rights and liberties of data subjects.

5. Anti-bribery and Corruption

Orange Polska operates in an increasingly competitive market. This market demands that we apply high standards and rules not only when it comes to the quality and innovation of our services, but also our way of doing business and maintaining business relationships.

Therefore, as part of our Corporate Governance framework we have introduced the Compliance Management Programme.

An important responsibility of the Compliance function is the Anti-Corruption Policy. Its purpose is to provide all employees of Orange Polska with a code of conduct, that is specify a set of rules to be complied with in any business activity and indicate prohibited behaviours which may be considered corruption or influence peddling.

The Policy is supplemented by the Anti-Corruption Guidelines, which include detailed rules and procedures with reference to specific conditions and situations. As enshrined in the Anti-Corruption Policy, Orange Polska takes a zero-tolerance approach towards corruption, which must be followed by all employees, co-workers and business partners who act on our behalf.

To support the Compliance Management Program, we have implemented a new process to optimise and harmonise the due diligence procedures relating to compliance and fraud. Its goal is to thoroughly screen our partners for risks of corruption, fraud, non-compliance with economic sanctions, money laundering and terrorism financing. Matters related to Compliance are reported to the Audit Committee of the Supervisory Board in the following areas: ethics, general compliance with laws and regulations, anti-fraud, security and anti-corruption. The activities of the Compliance Management function, the results of planned inspections, as well as the results of inspections initiated by notification of irregularities (whistle -blowing) are monitored by the Audit Committee on the basis of periodic reports.

To promote knowledge about the Program, we have introduced many training plans, including an obligatory e-learning course "Compliance - anti-corruption". Since 2015, over 1050 employees and partners have completed this training.

Key compliance indicators

Anti-bribery and Corruption	2016	2017
Total number of employees trained in compliance	1,023	508
Total number of partners trained in compliance	977	588
Total hours of compliance training of employees (in '000)	3.0	1.8
Total hours of compliance training of partners (in '000)	1.5	1.0
Total value of cash donations or donations in kind to political parties, politicians or related institutions	The Group does not finance such entities	

Key compliance commitments and their delivery

Key compliance commitments defined in the Orange Polska CSR strategy for 2016–2020

Commitments in the anti-bribery and corruption area	2017	2020
Corruption risk reduction (zero-tolerance approach towards corruption)	No infringements	

Reference to the Key Compliance Risks

Bribery and Corruption Risks

As part of compliance management, we undertake actions aimed at identification and effective mitigation of bribery and corruption risks. Orange Polska performs regular analysis and assessment of the corruption risk exposure. The annually updated heat maps indicate risks and their probability in various areas of the organisation. The applied process for the analysis of corruption risk indicates also the proper measures for its mitigation. The areas particularly exposed to corruption risk are monitored for compliance with the relevant internal and external regulations as well as the efficacy of the applied risk mitigation measures.

The Company and its Management Board take a zero-tolerance approach towards corruption, as enshrined in the Anti-Corruption Policy. This principle has been supplemented by a system of detailed internal procedures and instructions addressed either generally to the entire organisation or to particular functions and groups of employees owing to their specific duties.

The adopted internal regulations define standards of co-operation with third parties, especially public officers (particularly with respect to accepting and offering gifts or invitations) as well as procedures for effecting transactions, establishing co-operation with suppliers or providing grants or support.

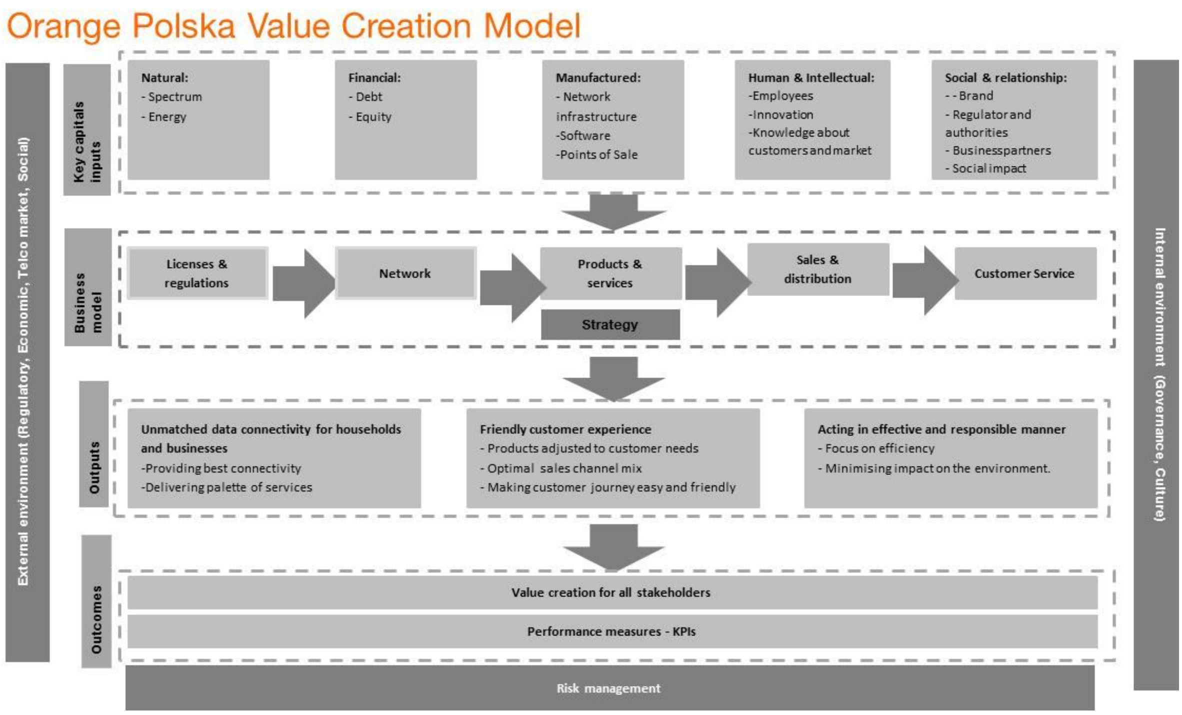
10.4.2 Orange Polska S.A.'s Statement on Non-financial Information for 2017

This Statement presents the non-financial data identified during our dialogue with stakeholders and included in Orange Polska S.A.'s corporate social responsibility strategy for 2016–2020 and other strategic documents. The content of this document reflects the importance of particular issues for our stakeholders. Stakeholders have been identified based on the strength of the impact on the Company and the attitude to the Company's activities (positive, neutral, negative).

This Statement is a continuation of the CSR Reports developed by Orange Polska from 2006.

- **Governance Area**

Orange Polska is Poland's leading telecommunication provider, operating in all segments of the Polish telecoms market. The Company owns the largest telecom infrastructure in Poland, rendering voice and data services on fixed and mobile networks. The Company's portfolio includes mobile and fixed line voice services, broadband services (including fibre), pay TV and convergent offers.



- **Business Model**

Orange Polska's business model consists of the following components:

Licences and Regulations

To be able to render mobile telecom services the Company needs access to radio spectrum. The Company holds licences for 800 MHz, 900 MHz, 1800MHz, 2100 MHz and 2600 MHz frequencies. The amount of spectrum that is at our disposal influences the competitiveness and quality of the services we render.

Network

We have the largest network infrastructure in Poland. Network topology consists of fibre backbone and aggregation networks as well as access network. This constitutes the basis for rendering fixed and mobile services. To increase the efficiency of our infrastructure, legacy technologies and solutions, which are mainly voice oriented, are being replaced with a converged network capable of handling all types of traffic: voice, data and video.

Products and Services

We offer a broad portfolio of telecommunication products and services for residential, business and wholesale customers. We combine fixed line and mobile services, offering fixed connectivity based on different technologies.

Sales and Distribution

We ensure easy access to our products and services, using different channels of contact with customers, including traditional points of sale (our own or our agents'), independent distribution chain outlets (e.g. stores with consumer electronics), on-line, telesales and door-to-door.

Customer Care

We deliver customer care across various channels of communication adapted to customer needs, from traditional (points of sale, Contact Center, face to face, field technicians, delivery couriers) and automated (USSD, IVR, SMS) to modern digital channels (mobile apps, social media, chat, e-mail).

- **Corporate Governance**

Orange Polska, as a company listed on the Warsaw Stock Exchange (WSE), applies corporate governance rules, complying with Polish and international standards of proper governance. The corporate governance framework in the Company is regulated by a number of internal documents, including Articles of Association of Orange Polska, Regulations of the Management Board, Regulations of the Supervisory Board and Regulations of the General Assembly. The Company also complies with the Best Practice for Warsaw Stock Exchange (WSE) Listed Companies and the Code of Ethics.

The Management Board provides the leadership and introduces policies and rules for maintaining the internal cohesiveness of the organisation. All members of the Management Board act as executives, while the members of the Supervisory Board play an oversight role. These two roles are separable and strictly assigned to these governing bodies.

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

The aim of the corporate governance model described above is to properly distribute responsibilities within the company and establish the roles of the key governing bodies, which in turn enhance the decision making process.

Our values are enshrined in the Orange Polska Code of Ethics. The Code's principles are consistent with such fundamental acts as the Universal Declaration of Human Rights and the recommendations of the International Labour Organization. Adherence to ethical standards is scrutinised by the Ethics Committee, which submits reports to employees as well as the President of Orange Polska and the Audit Committee of the Supervisory Board.

The Company applies the certified internal control system and management systems. Orange Polska S.A.'s management system has been certified for compliance with the following international standards: ISO 9001, 22301, 27001, 27018, 14001 and 17025. The validity of certificates and the preparation to meet the requirements of international standards is regularly audited internally and confirmed through external audits conducted by ISO certified entities. Information security risk management is based on the ISO/IEC 27005:2011 standard. Orange Polska also holds the COPC (Customer Operations Performance Center) certificate.

Orange Polska S.A. maintains the risk management framework to identify, assess and manage risks. This framework has been based on the ISO 31000:2009 standard. In addition, each subsidiary of the Group is subject to risk assessment. Leaders within the Group's individual business areas and functions are responsible for the assessment and management of risks including the identification and escalation of new/emerging circumstances and monitoring and reporting on the risks and control effectiveness.

- **Attitude to Corporate Social Responsibility**

In Orange Polska, we have been successfully implementing a policy of corporate business responsibility in all areas of our business for several years now. Our CSR strategy accounts for the Company's business objectives and fits into their implementation. The conclusions from a dialogue with stakeholders as well as market trends and social challenges for our industry in Poland and abroad have been key elements in its development.

In 2016 we adopted the new CSR strategy for 2016-2020. A strong foundation of this strategy is responsible management – our values, ethics and compliance and our dialogue with stakeholders as a tool for understanding their expectations. On this foundation are based four pillars of our CSR strategy:

- **Digital inclusion** – for everyone, regardless of their skills, residence, age or ability, to be able to make use of the opportunities offered by the digital world
- **Safe network** – for the use of the latest technologies to be easy and risk-free

- **Clean environment** – to pursue our business objectives with respect for ecological principles and in harmony with the environment
- **Enquiring team** – to create a culture of co-operation, in which all employees feel respected and can freely pursue their professional goals and life passions.

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

1. Environmental Area

Orange Polska S.A. responds to global challenges related to the natural environment and natural resources. Within environmental protection policy we supervise compliance of our operations with the law and other regulations regarding ecology. We promote environmentally friendly solutions, which help to reduce greenhouse gas emissions through offering services that can replace traditional communications or written documents. Thanks to comprehensive ICT systems for business and administration, we make environmental protection part of everyday life.

Orange Polska S.A. has adopted an environmental policy that defines the key areas of use of natural resources and the impact on the environment. It is complemented by the Environmental Management System, which is consistent with the ISO 14001 standard for mobile services.

Pursuant to these documents, we:

- oversee the processes which may affect the environment in compliance with legal requirements and other environmental regulations;
- identify our negative impact on the environment;
- account for environmental issues while setting objectives and making decisions as well as carrying out initiatives reducing our impact on the environment;
- monitor the compliance of electromagnetic emissions with the relevant standards;
- attempt to reduce CO2 emissions related to our activity;
- improve our business practices and apply technological solutions enabling a reduction in the negative environmental impact;
- carry out dialogue with stakeholders and inform them about our initiatives related to environmental protection;
- raise environmental awareness among our employees and customers;
- co-operate with our suppliers to make them comply with our environmental policy.

Key environmental indicators

Environmental Data			
Energy	**Unit**	**2016**	**2017**
KPI: electricity consumption/customer	kWh/customer	25.9	27.4
Direct energy consumption by primary energy sources			
Fuel (all buildings, all uses)	‘000 m^3	2.1	2.2
Gas	‘000 m^3	5,075	3,103
Coal	tonnes	51.6	70.8
Energy produced during combustion, primary sources	GWh	78.5	57.0
Indirect energy consumption by primary energy sources			
Electricity	GWh	588	581
Greenhouse gas emissions			
CO2 emissions excluding transport	‘000 tonnes	462.7	454.7
CO2 emissions during transport	‘000 tonnes	12.3	10.7
Total CO2 emissions	‘000 tonnes	475	465
KPI: CO2 emissions during electricity consumption/customer	kg/customer	19.6	20.7
KPI: CO2 emissions (all energies)/customer	kg/customer	21.0	22.0
Materials			
Waste paper, cardboard boxes: internally and externally	‘000 tonnes	1.3	1.8
Water	‘000 m^3	393.9	315.0
Waste management			
Internal WEEE (network & tertiary)	tonnes	20.3	70.4

Wooden poles	tonnes	43.4	190.9
Cables	tonnes	345.1	287.9
Batteries	tonnes	138.8	101.8
Paper / cardboard	tonnes	45.4	13.8
Other hazardous waste (including PCB)	tonnes	4.6	7.0
Other non-hazardous waste	tonnes	834.1	1,050.4
Waste electrical and electronic equipment			
KPI EMS: ISO 14001	%	26.7	28.5
Electromagnetic field emissions			
Compliance with the relevant standards	compliance	yes	yes
Recycling and refurbishment			
Collected and recycled handsets	pcs.	77,542	42,869
Refurbished and relaunched handsets	pcs.	11,839	8,138
Refurbished and relaunched multimedia (broadband) devices	pcs.	571,981	465,994

* Due to the fact, that Orange Polska S.A. owns the majority of infrastructure, including buildings, the environmental indicators for the Group and Orange Polska S.A. are the same.

Key environmental commitments and their delivery

Key commitments related to the environmental impact defined in the Orange Polska CSR strategy for 2016–2020 in the ‘Clean Environment’ pillar

Commitments in the environmental area	Delivery in 2017
Energy	
Reduction in energy consumption by 1–5% year-on-year	-1.2%
Reduction in greenhouse gas emissions	
Reduction in CO2 emissions	-2.0%
Recycling and refurbishment	
Increase in refurbished and relaunched broadband devices year-on-year (%)	-18.5%*
Materials and natural resources	
Decrease in paper consumption / increase in % of customers using e-invoices	-3.2%
Management of the environmental impact	
Compliance with regulations: number of infringements	No infringements

*The decrease in refurbished devices resulted from the termination of the refurbishment project for devices from the Romanian market.

Reference to the Key Risks in the Environmental Area

Exposure to Electromagnetic Fields

Exposure to electromagnetic fields (EMF) from radio equipment (used mainly on mobile, but also fixed, networks) might raise concerns for their possible adverse effects on human health, even though the Polish EMF limit is much more restrictive than in most other countries, where the limit set in the Council Recommendation 1999/519/EC applies.

If the above-mentioned health risks were scientifically confirmed to a certain extent in the future, this would likely result in decline in use of mobile telecommunications services, difficulties and additional expense in rolling out base stations and other wireless equipment, and an increase in litigation.

Furthermore, legislative works on a bill tightening the regulations on electromagnetic fields from telecommunications equipment have been initiated in Poland. The legislation process is still at its initial stage, but the new regulations can expand operators’ obligations, increasing the cost and time of network deployment (especially with respect to 5G systems).

2. Employment Area

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

Staff Regulations

The key generally binding legal act which regulates the employment area is the Labour Code. The organisation and order of work in Orange Polska S.A. as well as the rights and obligations of its employees are regulated by the Staff Regulations, which in particular address the following:

- work organisation and equipping employees with tools and materials;
- working time systems and schedules as well as adopted working time settlement periods;
- date, place, time and frequency of remuneration payments;
- list of works prohibited to young persons and women;
- types of works and list of positions allowed to young persons for the purpose of occupational training;
- obligations related to occupational health and safety and fire safety, including the procedure for informing employees about occupational risks;
- procedures for confirming the arrival and presence at work as well as justifying the absence at work by employees.

The Staff Regulations and any amendments thereto are consulted by the employer with trade unions.

Key workforce indicators

Workforce	2016	2017
Workforce	14 855	13 894
Full-time positions	14 826	13 872
Full-time employees	14 751	13 805
Part-time employees	104	89
Outsourced employees (full-time positions)*	5 616	5 204
Employees in managerial positions	1 873	1 664

*A change in methodology compared to earlier CSR reports and the integrated report: outsourced FTPs are now reported on an annual average basis

Mobility Policy

The Mobility Policy effectively supports the pursuit of Orange Polska's business objectives through HR processes, such as recruitment, carrier management as well as identification and development of employees with high professional potential.

The Mobility Policy aims to prepare employees to perform new professional roles in accordance with the Company's needs through:

(1) recruitment in line with the identified needs of the Company;
(2) competence transfer in and between Group companies; and
(3) scheduled exchange of employees identified to have the highest development potential between Orange Group's international structures.

This policy is implemented through:

- counselling on employees' development paths;
- training programmes supporting competence development in various professional roles;
- trainship and development programmes within the Group.

Key mobility indicators

Professional mobility	2016	2017
Total number of new employee hires	421	466
Departures*	929	1 247
Turnover**	1.9%	2.6%

* Total number of employees leaving, including voluntary departures (for reasons unrelated to the employee) and departures at the employer's initiative, but excluding intra-group transfers (e.g. an Orange Polska's employee departing for TP TELTECH)
** Rate of turnover, excluding voluntary departures (for reasons unrelated to the employee) and departures at the employer's initiative as well as intra-group transfers

Development and Training

We have a number of training programmes, which aim to develop competence and prepare employees to face the Company's strategic challenges. The terms of training attendance are regulated by our training policies, including the Professional Skills Development Policy and the Language Training Policy.

All employees increase their qualifications and some of them improve their language skills and are eligible for financing of graduate or postgraduate studies, including MBA. We have Professional Schools in different areas that offer opportunities for professional improvement and development. We promote knowledge sharing programmes, such as Knowledge Highway, which supports the development of a know-how sharing culture among Orange Polska's internal experts. Our employees can use the Development Products Library, which offers over 2,000 e-learning courses and books. We have a programme that identifies and develops managerial Talents. It supports people with initiative, concrete achievements and management potential. These people are covered by dedicated development programmes, participate in critical projects and are taken into account at the first stage of recruitment for managerial positions.

Since 2011, we have carried out an international development programme, Orange Campus, to promote uniform management standards across the Company.

The Company follows the employee Development & Assessment (D&A) process, which combines annual evaluation results with the employee's career development plans; it also involves progress monitoring throughout the year.

We also train outsourced employees in knowledge specific to Orange Polska S.A. and necessary to perform their duties.

Key development and education indicators

Development and education	**2016**	**2017**
Total number of employees trained (in '000)	14.8	15.1
Total number of partners trained (in '000)	21.0	24.2
Total hours of employee training (in '000)	398.6	484.5
Total hours of partner training (in '000)	496.4	615.8
Employee assessment		
% of regularly evaluated employees	97.2%	94.4%
% of employees with individual development plans	81.3%	82.4%
Scheduled development tasks	21,946	22,578
% of regularly evaluated outsourced employees	99.8%	97.8%
% of outsourced employees with individual development plans	75.4%	73.4%
% of managers trained in the Orange Campus programme	61.0%	76.0%

Remuneration

The Remuneration Policy regulates the main guidelines and principles for remuneration in Orange Polska. By enabling the recruitment, retention and motivation of the best managers and professionals in the specialised areas existing in Orange Polska S.A. it provides people prepared to achieve the strategic goals of the Company. Remunerations are determined in a manner ensuring balance and consistency across the Orange Group.

Our Remuneration Policy complies with the labour law and corporate governance regulations.

The remuneration system consists of the following components:

1. Basic salary

   Basic salary terms take into account the job remuneration standards related to the scope of tasks assigned to a particular job position as well as the market value of the work performed. Orange Polska develops remuneration terms based on non-discrimination.

2. Performance bonus

   Bonus is a variable component of remuneration, which is dependent on performance. The purpose of the bonus system is to motivate employees to achieve high performance by attaining the predefined and agreed goals which support the implementation of the Company's strategy and growth of customer satisfaction.

All employees are eligible for performance bonuses. Individual groups of employees are subject to different bonus criteria. Depending on the group, performance goals of employees are settled on a monthly, quarterly or semi-annual basis.

3. Discretionary bonuses

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

Key remuneration indicators

Wages	2016	2017
Average basic salary (in PLN)	6,554	6,790
Ratio of wages at the lowest positions to the legal minimum wage	147%	148%

Diversity

The Diversity Management Policy aims to bolster the pursuit of our business objectives, address changes in the labour market and respond to the expectations of our employees. The policy also supports compliance with the values enshrined in the Code of Ethics, CSR goals and the obligations under the Diversity Charter, of which we are a signatory.

The key diversity dimensions in the Company are as follows: gender, age, competence / expertise / experience / way of thinking, psychophysical skills – (dis)abilities, and parental status. Other diagnosed dimensions include: religion / beliefs, workplace location (HQ vs. region), type of employment, and nationality / ethnic origin.

With respect to administering, managing and supervising bodies, the rules specified in the Policy include proper selection of employees and leadership. In the recruitment process, we follow transparent rules and criteria of candidate selection. Decisions to recruit particular employees are based on their qualifications and professional experience. We ensure that candidates represent diverse communities. In terms of leadership, the diversity requirements include care for the diversity of decision-making bodies within the Company.

In complementary action plans to the Policy, we have assumed a requirement for analysis of management and supervisory bodies in terms of diversity with respect to such aspects as age, gender, education or professional experience.

The duties and responsibilities as well as the requirements related to qualifications, expertise and competence of Supervisory Board Members are specified in the Company's Articles of Association. In addition, Orange Polska S.A. applies the provisions of the *Best Practice for WSE Listed Companies 2016*.

The Supervisory Board currently consists of fourteen members, including five independent members. They are appointed by the General Assembly (or, in exceptional cases, by the Supervisory Board). The term of office for the member of the Supervisory Board is three years. There are three women on the Supervisory Board.

The Management Board currently consists of six members, including the President. They are appointed by the Supervisory Board. The term of office for the member of the Management Board is three years. There are two women on the Management Board (as of December 31, 2017).

Key diversity indicators

Diversity	2016	2017
Access to positions		
% of women in the Company	41.4%	41.1%
% of women in managerial positions	34.4%	33.5%
Ratio of basic salary of women to men by positions (men's salary = 100%)		
General	78.9%	78.9%
Non-managerial positions	82.0%	81.5%
Managerial positions	78.6%	81.9%
People with disabilities		
% of employees with disabilities	1.6%	1.7%

Working Environment

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

The key areas influenced by Orange Polska S.A. through benefit schemes are health and physical activity, financial stability, improved quality of life and employee development.

The Policy of Investing in Health Quality and Wellbeing of Orange Polska's Employees provides for developing friendly working environment, ensuring balance between professional and personal life, promoting healthy lifestyle, supporting employees' physical activity and hobbies as well as creating a culture of co-operation in which all employees feel respected, freely pursue their professional goals and life passions and get involved in social initiatives.

Orange Polska ensures safe and friendly working conditions for its employees:

- Orange Polska S.A. employees are offered broad medical services at LUXMED Group and CM LIM clinics and partner medical facilities;
- Orange Polska S.A's employees are eligible for participation in the Employee Retirement Plan;
- Orange Polska S.A. has the Company Social Benefits Fund as a means of social welfare addressed to employees and retired employees in need;
- In addition to the Company Social Benefits Fund, employees can use the Central Housing/Welfare Funds;
- Orange Polska S.A's employees and their families are offered discounts by the Group's partners as well as discounts for Orange products and services in the 'Offer for You' programme;
- Employees are also eligible for financing of sports, tourist and cultural events and can use FitProfit cards.

Both full-time and part-time employees are eligible for all the aforementioned benefits. Employees working under a fixed-term employment contract are eligible for health care and promotional offers, but are not eligible for benefits that require long-term commitments, such as the Central Welfare Fund or the Employee Retirement Plan.

Key working environment indicators

Working Conditions	2016	2017
% of employees eligible for health care	100%	100%
% of employees covered by the Employee Retirement Plan	84.1%	85.7%

Occupational Health and Safety

The Occupational Health and Safety (OHS) Policy regulates activities aimed to ensure work safety, health protection and constant improvement in working conditions to all employees. We aim to incorporate OSH elements into all activities of Orange Polska S.A. and on all management levels in order to ensure safe working conditions so that all our employees can actively perform their day-to-day duties in a friendly working environment.

Key OSH indicators

Occupational Health and Safety	2016	2017
Number of accidents	32	45
Accident frequency rate"	2.3	3.0
Days off due to accidents at work	1,026	994
Accident severity rate**	33.1	22.1
Fatal accidents	1	0
Serious accidents	0	0
Other accidents	31	45
% of employees represented on OHS committees and in trade union agreements	100%	100%
Employees exposed to particularly difficult conditions	No such positions	

* Number of persons injured in work-related accidents per 1,000 employees
** Number of days off per accident

Social Dialogue

We respect the employees' right to associate and we run regular broad dialogue with our social partners. As part of a dialogue within Orange Polska S.A., we negotiate settlements, agreements or other documents with trade unions. The most important of them is the Intragroup Collective Labour Agreement for the Employees of Orange Polska S.A. This document regulates, among others, the rules for concluding and terminating employment contracts, working hours, holiday entitlement, rules of remuneration and obtaining extra benefits connected with work, occupational safety and health issues, training, social care and health care.

There is also the Employee Council in Orange Polska S.A. Pursuant to mandatory regulations, the Company has an obligation to consult the Council on matters related to the level, structure and intended changes of workforce, actions aimed at maintaining the workforce level, as well as any significant changes in the work organisation or employment terms.

An important document developed in consultation with trade unions is the Intragroup Collective Labour Agreement in Orange Polska S.A. This document regulates, among others, the rules for concluding and terminating employment contracts, working hours, holiday entitlement, rules of remuneration and obtaining extra benefits connected with work, occupational safety and health issues, training, social care and health care. Also the Social Agreement is developed in consultation with trade unions.

The Social Agreement, which remain valid in 2016–2017, addressed in particular the following issues: investments in a friendly work environment, pay rises in 2016 and 2017, financial compensation for employees leaving Orange Polska S.A. and support for outplacement. The implementation of the Social Agreement for 2016–2017 continued throughout 2017, and under the Settlement for 2017 up to 1,020 employees of Orange Polska S.A. were eligible for the voluntary departure package in 2017. In December 2017, a new Social Agreement for 2018–2019 and Settlement for 2018 were concluded, determining the detailed terms of voluntary departures of Orange Polska S.A's employees in 2018.

Key social dialogue indicators

Social Dialogue	2016	2017
Number of trade unions	17	17
% of employees in trade unions	34.2%	31.4%
% of employees covered by the Collective Labour Agreement	97.7%	97.6%

Key employment commitments and their delivery

Key commitments related to employment defined in the Orange Polska CSR strategy for 2016–2020 in the 'Enquiring Team' pillar and particular policies

Commitments in the employment area	Delivery in 2017
Development and Education	
No disparity in access to training on account gender or age	No disparity
100% of managers trained in the Orange Campus programme by 2020	91.0%
Diversity Policy	
35% of women in managerial positions by 2020	33.5%
1.5% of people with disabilities employed in Orange Polska by 2020	1.7%

Reference to the Key Risks in the Employment Area

Human Resources Risks and Alignment of Organisation Structure

Orange Polska and its managers continue transforming its internal culture in order to motivate the employees and drive the performance culture as well as streamlining the organisation and infrastructure in order to confront the competition and implement new technologies and new, more efficient business models through the transformation programme. If Orange Polska fails to complete these transformations successfully, its operating margins, financial position and results could be adversely impacted. Orange Polska has continued a voluntary departure programme and the workforce optimisation process. Regular staff satisfaction surveys are conducted by an external consultant.

3. Social Area

Access to new technologies is a major step in the digitisation process, but other important elements include web security, education, participation in culture, local development and enhancement of competences required to build the society of the 21st century. In 2004, we established the Orange Foundation, whose mission is to disseminate knowledge and implement social projects through which new technologies will become conducive of social development.

The activity of the Orange Foundation has been defined in the relevant Strategy for 2016–2018. It provides for the pursuit of digital education and digital inclusion goals through long-term social programmes based on accurate identification of social needs and expectations. The Orange Foundation's key initiatives include

Safety Here and There, *MegaMission* and *Orange Studios*, which are complemented by the corporate volunteering programme.

Safety Here and There

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

Adults (especially educators and specialists) can participate in conferences, seminars and workshops, as well as use an online interactive course for parents and guardians teaching them how to protect their children online.

Key indicators and goals of the *Safety Here and There* programme

Safety Here and There	2016	2017
Parents and guardians using the educational materials	387,985	190,750
Children involved in educational initiatives	662,960	403,388
Schools participating in the programme	1,000	2,132

MegaMission

MegaMission is a nationwide educational programme for primary schools offering after-school care. It is addressed to teachers and kids aged 6 to 10, who spend time in after-school facilities. Through this programme we expand educators' knowledge about the ten key areas of development of media, digital and IT competence. While analysing social needs, we were looking for space in schools that would enable digital education of children in an innovative form outside regular lessons to supplement the core curriculum recommended by the Ministry of National Education. We have identified such space in after-school clubs, where kids spend time before and after their lessons.

Key indicators and goals of the *MegaMission* programme

MegaMission	2016	2017
Children trained in the programme	6,750	8,250
Teachers trained in the programme	350	250
School facilities provided with IT equipment and educational tools	350	250

Orange Studios

In order to facilitate access to information, knowledge and technology among local communities, we have developed Orange Studios. Orange Studios are public multimedia studios in small towns and villages, which we create and help to manage. The purpose is to provide members of local communities with access to new technologies, courses and workshops. Leaders of the studios are provided with professional training and financial aid to help them manage these modern and attractive meeting places. A total of 100 studios have been created across the country up to now. In addition, we have launched an on-line knowledge-sharing platform for Orange Studio users. It features a portfolio of ready-to-implement projects and a gamification module that uses game mechanisms to foster social competence and motivate residents to work for the benefit of their neighbourhoods. The initiatives are aimed at different target groups: children and youth, people with disabilities, young mothers and senior citizens.

Key indicators and goals of the *Orange Studios* programme

Orange Studios	2016	2017
Managed active Studios	75	100
Local leaders trained in digital and organisational skills	148	143
Population with access to Studios	600,000	900,000

Corporate Volunteering

In Orange Polska we have the biggest employee volunteering programme in Poland. It has been running for 14 years. Our employees share their knowledge, skills and experience and teach children and seniors how to use the Internet safely and wisely. Orange volunteers develop Fairy Tale Corners: colourful and friendly spaces for children in hospitals, hospices and single mothers' homes. Our volunteers take part in important social actions and events organised by Orange Polska (e.g. Orange Warsaw Festival). Moreover, our employees can develop their own volunteering projects and apply for grants for their implementation.

Key indicators and goals of the corporate volunteering programme

Corporate volunteering	2016	2017
Volunteers	3,517	3,258
Volunteers' working hours	26,225	24,293

Sponsoring

Orange Polska has adopted a sponsoring policy (pursuant to the Decision No. 49/16 of the Executive Director in charge of Corporate Affairs dated 17 November 2016). The sponsoring strategy of Orange Polska reflects the global sponsoring strategy of the Orange Group, focusing on the three main brand supporting fields: music, films and sports. In line with the adopted strategy, in these three fields Orange Polska develops long-term, comprehensive, nationwide projects addressed to a large group of its existing or prospective customers, acting as the titular sponsor. Orange Polska gets involved in various initiatives on a long-term rather than one-off basis. The key sponsoring projects are subject to approval by the Management Board of Orange Polska S.A. We established the Sponsoring Committee to centralise sponsoring project management in the Orange Polska Group.

Key sponsoring indicators

Sponsoring	2016	2017
Music sponsoring: Orange Warsaw Festival and Open'er Festival Powered by Orange		
Number of participants	170,000	175,000
Advertising value equivalent (in PLN millions)	11. 2	10.6
Number of publications	7,590	6,165
Film sponsoring: Wednesdays with Orange		
Number of participants	1,160,000	750,000
Advertising value equivalent (in PLN millions)	0.1	0.4
Number of publications	54	267
Sports sponsoring		
Number of participants	7,000	7,400
Number of sports clubs	100	100
Advertising value equivalent (in PLN millions)	4.9	0.6
Number of publications	1,841	546

Grants

As part of its donation policy, Orange Polska has adopted formal rules for using the Donation Fund. These are specified in the relevant Decision of the Executive Director in charge of Corporate Affairs.

Orange Polska S.A. follows clear and transparent rules in making donations:

- Any donation requires analysis and recommendation;
- Any donation is subject to approval by the President of the Management Board of Orange Polska;
- Any donation is made under a written donation agreement;
- All donations are effected by transfers and registered in the accounting systems of Orange Polska;
- Each agreement includes a requirement to confirm that the donation has been used in line with its purpose.

Key grant indicators

Grants	2016	2017
Total support granted, (in PLN millions)	13.3	13.4

Key social commitments and their delivery

Key social commitments defined in the Orange Foundation strategy for 2016–2018 and the sponsoring strategy

Commitments in the social area	Delivery in 2017	Goal by 2018
Safety Here and There		
Parents and guardians using the educational materials	578,735	1,000,000
Children involved in educational initiatives	1,066,348	500,000
Schools participating in the programme	3,132	1,000
MegaMission		
Children trained in the programme	15,000	15,000
Teachers trained in the programme	600	950
School facilities provided with IT equipment and educational tools	600	950
Orange Studios		
Developed new Studios	25	50
Managed active Studios	100	100
Local leaders trained in digital and organisational skills	143	150
Population with access to Studios	900,000	800,000
Corporate volunteering		
% of employees involved in corporate volunteering	22%	20%
% of volunteers involved in competence volunteering	21%	23%
% of volunteers declaring greater satisfaction from work	99%	80%
Music sponsoring		
Number of participants	175,000	180,000

Reference to the Key Risks in the Social Area

Transparency of Social Policy

The Company's Social Policy transparently defines the areas of our social commitment, focusing on the dissemination of knowledge and implementation of social and educational projects through which new technologies will become conducive of social development. Our initiatives are addressed mainly to children and young people; to help them we support schools, parents and entire communities of small towns and villages. We also co-operate with various social organisations, supporting their valuable programmes in the digital education area.

The Company focuses on the implementation of long-term social projects based on the results of research and consultation with experts in particular areas. An important aspect is the transparency of a process of selecting reliable social partners and programme beneficiaries, so that the funds committed to our programmes are not misused, which could also jeopardise Orange Polska's reputation..

Social programmes are implemented chiefly through open competitions, the outcome of which is evaluated by the independent Programme Board and announced to the public. The Orange Foundation publishes annual financial reports on its activity.

4. Human Rights

Owing to the nature of our business model and supply chain, the human rights policy is formulated on the international level by the Orange Group. In addition to the general framework of the International Labour Organization conventions, the Universal Declaration of Human Rights and the Global Compact principles, Orange Polska complies with the UN Guiding Principles on Business and Human Rights adopted in 2011. The Group's activities contributing to respect for fundamental human rights focus on three main areas:

- Relations with employees;
- Relations with suppliers; and
- Privacy and freedom of expression.

The issues related to respect for human rights are addressed in the Orange Polska Code of Ethics. We respect all people and their right to privacy. We accept diversity in terms of background, race, gender, culture, age and marital status as well as religious beliefs, political views and membership of social or professional organisations.

Key human rights indicators

Human Rights	2016	2017
Total hours of ethical training of employees	384	635
Total hours of ethical training of partners	560	653
Child labour		
Operations identified as having significant risk for incidents of child labour	None were identified in the Company	
Forced labour		
Operations identified as having significant risk for incidents of forced labour	None were identified in the Company	
Discrimination		
Total number of incidents of discrimination	None	None
Right to privacy		
Number of reasonable grievances and violations with respect to privacy	None	None
Right to safety		
% of products evaluated for safety standards	100%	100%
Number of grievances and violations regarding product safety	None	None
Human rights violations		
Number of grievances about human rights	None	None

Key human rights commitments and their delivery

Key human rights commitments defined in the Orange Polska CSR strategy for 2016–2020

Commitments in the human rights area	2017	2020
% of employees trained in business ethics	100%	100%
Compliance clauses as a standard in agreements with suppliers	Yes	Yes

Reference to the Key Risks in the Human Rights Area

Orange Polska takes all issues related to human rights very seriously, paying particular attention to the rights to privacy and personal data protection. In order to prevent theft or unauthorised modification or processing of personal data of its customers and employees, or personal data entrusted by Orange Polska S.A., we have implemented security measures consistent with international standards. In addition, we are introducing a process to identify and prevent violation of rights and liberties of data subjects.

Breach of Security of Information, Including Personal Data

Orange Polska has a considerable customer base and constantly undertakes actions aimed to ensure protection of its customers' personal data and information constituting telecommunications secrets. The Company has implemented a certified Information Security Management System, which complies with ISO/IEC 27001:2013 with respect to provision of telecommunication and ICT services, hosting, collocation, cloud computing, cybersecurity and cloud processing of personal data.

In October 2017, Orange Polska obtained a certificate of compliance with ISO/IEC 27018:2014 *Code of practice for protection of personally identifiable information (PII) in public clouds acting as PII processors* with respect to processing of personal data (also entrusted by other entities) via UCaaS (Unified Communication as a Service), ICS (Integrated Computing Standard), ICM (Integrate Computing Managed) and smart CCaaS (Contact Center as a Service) cloud computing. Furthermore, the Company has maintained European CERT certification (for its CERT). Despite all the precautions taken, considering the modern threats related to information technologies used for processing of information, including personal data, it is not possible to fully exclude the risk of infringement of the security thereof.

Orange Polska's activities may trigger the loss, disclosure, unauthorised communication to the general public or third parties or inappropriate modification of the data of its customers. These losses could arise (i) from the accelerated implementation of new services or new applications, for example those relating to billing and customer relationship management, (ii) from the launch of new initiatives, especially in the field of Internet of Things (IoT), (iii) from malicious acts (including cyber attacks) particularly aimed at the theft of personal data, or (iv) possible negligence within the Company or its external partners.

Recourse to liability proceedings is facilitated by legislation that has strengthened operators' obligations, such as those stipulated in the new General Data Protection Regulation (GDPR) released in April 2016, to become applicable on May 25, 2018. For infringement of GDPR protection rules, administrative fines of up to 4% of the annual global turnover may be imposed. Such incidents could have a considerable impact on the Group's reputation and a heavy impact on its liability, potentially including criminal liability, and hence have an adverse impact on Orange Polska's future financial performance. The Company has launched a programme to prepare the organisation to meet the GDPR requirements. Furthermore, in accordance with GDPR and ISO 29134:2017, we are implementing a process to identify and prevent violation of rights and liberties of data subjects.

5. Anti-bribery and Corruption

Orange Polska operates in an increasingly competitive market. This market demands that we apply high standards and rules not only when it comes to the quality and innovation of our services, but also our way of doing business and maintaining business relationships.

Therefore, as part of our Corporate Governance framework we have introduced the Compliance Management Programme.

An important responsibility of the Compliance function is the Anti-Corruption Policy. Its purpose is to provide all employees of Orange Polska with a code of conduct, that is specify a set of rules to be complied with in any business activity and indicate prohibited behaviours which may be considered corruption or influence peddling.

The Policy is supplemented by the Anti-Corruption Guidelines, which include detailed rules and procedures with reference to specific conditions and situations. As enshrined in the Anti-Corruption Policy, Orange Polska takes a zero-tolerance approach towards corruption, which must be followed by all employees, co-workers and business partners who act on our behalf.

To support the Compliance Management Program, we have implemented a new process to optimise and harmonise the due diligence procedures relating to compliance and fraud. Its goal is to thoroughly screen our partners for risks of corruption, fraud, non-compliance with economic sanctions, money laundering and terrorism financing. Matters related to Compliance are reported to the Audit Committee of the Supervisory Board in the following areas: ethics, general compliance with laws and regulations, anti-fraud, security and anti-corruption. The activities of the Compliance Management function, the results of planned inspections, as well as the results of inspections initiated by notification of irregularities (whistle -blowing) are monitored by the Audit Committee on the basis of periodic reports.

To promote knowledge about the Program, we have introduced many training plans, including an obligatory e-learning course "Compliance - anti-corruption". Since 2015, over 1,050 employees and partners have completed this training.

Key compliance indicators

Anti-bribery and Corruption	2016	2017
Total number of employees trained in compliance	1,022	497
Total number of partners trained in compliance	977	588
Total hours of compliance training of employees (in '000)	3.0	1.7
Total hours of compliance training of partners (in '000)	1.5	1.0
Total value of cash donations or donations in kind to political parties, politicians or related institutions	The Company does not finance such entities	

Key compliance commitments and their delivery

Key compliance commitments defined in the Orange Polska CSR strategy for 2016–2020

Commitments in the anti-bribery and corruption area	2017	2020
Corruption risk reduction (zero-tolerance approach towards corruption)	No infringements	

Reference to the Key Compliance Risks

Bribery and Corruption Risks

As part of compliance management, we undertake actions aimed at identification and effective mitigation of bribery and corruption risks. Orange Polska performs regular analysis and assessment of the corruption risk exposure. The annually updated heat maps indicate risks and their probability in various areas of the organisation. The applied process for the analysis of corruption risk indicates also the proper measures for its mitigation. The areas particularly exposed to corruption risk are monitored for compliance with the relevant internal and external regulations as well as the efficacy of the applied risk mitigation measures.

The Company and its Management Board take a zero-tolerance approach towards corruption, as enshrined in the Anti-Corruption Policy. This principle has been supplemented by a system of detailed internal procedures and instructions addressed either generally to the entire organisation or to particular functions and groups of employees owing to their specific duties.

The adopted internal regulations define standards of co-operation with third parties, especially public officers (particularly with respect to accepting and offering gifts or invitations) as well as procedures for effecting transactions, establishing co-operation with suppliers or providing grants or support.

11 APPENDIX: IMPACT OF CUSTOMER BASE REVISION

Customer base revision resulted from an internal audit of the accuracy of reporting processes. These processes were amended to ensure the correctness of reporting going forward. This revision has no impact on revenues.

Effect of revisions of customer base

customer base (in thousands)	*2Q2016*	*effect of base revision*	*net change of customers in Q3*	*3Q2016*
Fixed telephony accesses				
POTS, ISDN & WLL	3 415	-1	-77	3 337
VoIP first line	644	-2	9	651
Total retail main lines	**4 059**	**-3**	**-68**	**3 988**
Fixed broadband access				
ADSL	1 613	-5	-46	1 562
VHBB	409	-17	44	436
o/w VDSL	*370*	*-17*	*26*	*379*
o/w FTTH	*39*	*0*	*18*	*57*
CDMA	35	0	-8	27
Retail broadband - total	**2 057**	**-22**	**-10**	**2 025**
TV client base				
IPTV	213	-15	16	214
DTH (TV over Satellite)	590	-32	-10	548
TV client base - total	**803**	**-46**	**4**	**761**
-o/w 'nc+' packages	194	0	0	194
Mobile accesses				
Post-paid	8 798	-22	309	9 085
Pre-paid	7 898	11	-600	7 309
Total	**16 696**	**-12**	**-290**	**16 394**

GLOSSARY OF TELECOM TERMS

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

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

ARPU – Average Revenues per User

AUPU – Average Usage per User

BSA – Bitstream Access Offer

CATV – Cable Television

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

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

F2M – Fixed to Mobile Calls

FBB – Fixed Broadband

FTE – Full time equivalent

FTTH – Fibre To The Home

FVNO – Fixed Virtual Network Operator

Home Zone (or Office Zone for business customers) – area within range of predefined base stations which cover the particular location (home/office).

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

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

LLU – Local Loop Unbundling

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

M2M – Machine to Machine, telemetry

MTR – Mobile Termination Rates

MVNO – Mobile Virtual Network Operator

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

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

RAN agreement – agreement on reciprocal use of radio access networks

RIO – Reference Interconnection Offer

SAC – Subscriber Acquisition Costs

SIMO – mobile SIM only offers without devices

SMP – Significant Market Power

SRC – Subscriber Retention Cost

UKE – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

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

USO – Universal Service Obligation

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

VHBB – Very high speed broadband, above 30 Mbps

VoIP – Voice over Internet Protocol

Wireless for fixed – LTE broadband access offers dedicated to use within the Home/Office Zone, consisting of a fixed router (Home Zone) plus large or unlimited data packages, which are a substitute for fixed broadband and are provided by all mobile operators in Poland, including Orange Polska.

WLL – Wireless Local Loop

WLR – Wholesale Line Rental