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POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS for the year 2019

(year)

(according to par. 60 s. 2 of the Decree on current and periodic information)
for the issuers in sectors of production, construction, trade or services
(type of issuer)

for the year **2019**, i.e. from **1 January 2019 to 31 December 2019**

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

date of issuance: **12 February 2020**

ORANGE POLSKA SA
(full name of issuer)

ORANGEPL (abbreviated name of the issuer)

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

02-326 (post code)

Warsaw (location)

Al. Jerozolimskie (street)

160 (number)

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012100784 (REGON)

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

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	2019	2018	2019	2018
I. Revenue	11 406 000	11 101 000	2 651 448	2 601 655
II. Operating income	416 000	345 000	96 704	80 855
III. Profit before income tax	118 000	40 000	27 430	9 374
IV. Net income	91 000	10 000	21 154	2 344
V. Net income attributable to owners of Orange Polska S.A.	91 000	10 000	21 154	2 344
VI. Earnings per share (in PLN/EUR)	0.07	0.01	0.02	-
VII. Weighted average number of shares (in millions)	1 312	1 312	1 312	1 312
VIII. Total comprehensive income/(loss)	63 000	(3 000)	14 645	(703)
IX. Total comprehensive income/(loss) attributable to owners of Orange Polska S.A.	63 000	(3 000)	14 645	(703)
X. Net cash provided by operating activities	2 776 000	1 812 000	645 311	424 664
XI. Net cash used in investing activities	(1 919 000)	(2 066 000)	(446 092)	(484 192)
XII. Net cash provided by/(used in) financing activities	(1 064 000)	219 000	(247 338)	51 325
XIII. Net change in cash and cash equivalents	(207 000)	(35 000)	(48 119)	(8 203)
	Balance as at 31/12/2019	Balance as at 31/12/2018	Balance as at 31/12/2019	Balance as at 31/12/2018
XIV. Total current assets	3 493 000	3 969 000	820 242	923 023
XV. Total non-current assets	20 847 000	19 326 000	4 895 386	4 494 419
XVI. Total assets	24 340 000	23 295 000	5 715 628	5 417 442
XVII. Total current liabilities	4 092 000	5 946 000	960 902	1 382 791
XVIII. Total non-current liabilities	9 682 000	6 846 000	2 273 571	1 592 093
XIX. Total equity	10 566 000	10 503 000	2 481 155	2 442 558
XX. Equity attributable to owners of Orange Polska S.A.	10 564 000	10 501 000	2 480 686	2 442 093
XXI. Share capital	3 937 000	3 937 000	924 504	915 581

The consolidated statement of financial position data as at 31 December 2019 and 2018 presented in the table "Selected financial data" was translated into EUR at the average exchange rates of the National Bank of Poland ("NBP") at 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 2019 and 2018, were translated into EUR at an exchange rates 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 2019 and 2018.

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 2019	31 December 2018
Consolidated statement of financial position	4.2585 PLN	4.3000 PLN
Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows	4.3018 PLN	4.2669 PLN

Dear Shareholders,
2019 was a very successful year for Orange Polska. We delivered on our financial commitments, thanks to consistent execution of our strategy. This gives us confidence that despite numerous challenges we are well on our way to a return to sustainable growth.

2019 confirms our financial turnaround
Our financial results for 2019 confirm our growth ambitions. Our operating profitability measure (under accounting standard IFRS16 it is EBITDAaL – EBITDA after Leases) increased for the second consecutive year. Moreover, for the first time we generated growth even excluding gains on sale of assets. This achievement was driven by better revenue evolution and continued strong cost optimisation. I am pleased to say that our revenues increased 2.9% in 2019, and this was the first reported growth of revenues in 13 years. This is compelling evidence that the strategy we adopted in 2017 is working, and is being executed well in a challenging environment and with constant pressure on our legacy business. Gains in efficiency are being driven by the comprehensive transformation of business processes in all areas of operations (e.g. network, commercial activity, distribution network and customer service), implemented within the framework of our Orange.one strategy.

Change of landscape in the Polish telecom market
Last year saw a changing landscape in the Polish telecom market, with operators implementing a 'more for more' approach. We revised our prices for the majority of services for mass-market customers, and we were the first on the market to make these price changes. We strongly believe that our 'more for more' strategy is key to long-term value creation at Orange Polska, and its implementation builds more confidence in the success of our turnaround. We are pleased that our approach was well received by our customers, especially in mobile. Net customer additions in post-paid handset offers were better than in 2018 and churn rate was lower. In this context, it is also significant that we have advanced from third to second position in NPS (Net Promoter Score), vindicating our customer-centric approach.

Fibre: an investment in long-term value creation
Our truly fibre-to-the-home network reached 4.2 million households at the end of 2019 in 142 cities. This already represents around 30% of all Polish households, and means that we have completed more than 80% of our end-of-2020 target of 5 million households connectable. The fibre customer base reached 520 thousand and increased more than 40% year-on-year. It already constitutes 20% of our total broadband customer base versus 14% a year ago. The service adoption rate has exceeded 12% and keeps on increasing every quarter. There are already 40 cities where it exceeds 15%, and 16 cities with more than 20% penetration. It is important to note that over 80% of the fibre customers we acquired last year are new to Orange Polska, which is evidence that we are winning market share from the competition and that customers recognise the superiority of fibre. We are deeply convinced that we have invested in future-proof technology that will constitute our competitive advantage for decades to come.

Acquisition of BlueSoft strengthens B2B operations
In our Orange.one strategy we emphasised our intention to develop our ICT offer, as we saw significant synergies with our core telco services for business customers. In recent years, these synergies have become greater than ever as Polish enterprises digitise their businesses. This means that on top of connectivity and infrastructure they also need software engineering, cloud and other digital enablers. We have been successfully

developing ICT business for a few years in Orange Polska through a subsidiary, Integrated Solutions, which is among top three IT integrators in Poland. We were missing a software element in our portfolio and we filled this gap with the acquisition of BlueSoft. It perfectly complements our existing capabilities, and significantly increases our competitive edge against both other telecom operators and pure ICT companies. BlueSoft is an agile and efficient business with a proven growth track record, a team of highly skilled IT consultants, and established business relationships with a number of renowned companies. We expect the first revenue synergies to be realised in 2020.

Preparing for the launch of 5G
Poland's 5G spectrum auction is scheduled for 2020, but last year was already important for our development in this area. After conducting the first out-of-laboratory tests on 3.5GHz frequency in 2018, at the beginning of 2019 we conducted tests on 26GHz frequency in the city of Zakopane. These were the first 5G network tests in Poland on this frequency. It will be used mainly to support the functioning of the network in the most densely populated areas, as well as to provide fixed wireless access for numerous business applications. Later in the year we started the largest tests conducted so far with customers, in Warsaw (with Ericsson) and Lublin (with Nokia) on 3.4-3.6 GHz frequencies. The average transfer speed was around 350 Mb/s – ten times faster than the current average transfer speed with 4G. We were very satisfied with these tests, which confirmed that we will be ready for 5G rollout as soon as we obtain frequencies. The auction for this spectrum is imminent and will be a very significant 2020 milestone. We are counting on an efficient and transparent auction process.

Focus for the year ahead: to fulfil our 2020 strategic goals
2020 will be the last year of our current strategy implementation. Our key goal is obviously to sustain the growth that we achieved in the past two years. We will continue to execute our value strategy in all business areas. Poland's macroeconomic situation continues to be favourable, even if the growth rate is forecast to subside slightly. This year's challenges will come mainly from the external inflationary environment. This motivates us to implement more efficiency improvements that will boost our capacity for growth in the years to come. We will also work intensively on our new strategy, which we will present to the market in due course.

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

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

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

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of Orange Polska Group (the 'Group'), for which the holding 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 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2019 to 31 December 2019 and additional information to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2019 to 31 December 2019 in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union 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 Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 12 February 2020.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the 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 (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the *'Auditor's responsibilities for the audit of the financial statements'* section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	**How the matter was addressed in our audit**
Goodwill impairment analysis	
The balance of goodwill in the consolidated financial statements of the Group amounts to PLN 2,263 million. In accordance with International Accounting Standard 36 "Impairment of Assets", the Company's Management is required to annually test the amount of goodwill for impairment. Furthermore, impairment tests are largely based on assumptions made by the Company's Management in respect	In the course of the audit of the consolidated financial statements we have performed, among others, the following audit procedures in response to the goodwill impairment analysis prepared by the Company's Management: • understanding of the goodwill impairment testing process and evaluation of the identification of the Cash Generating Units made by the Company's Management; • assessing of the impairment model and its assumptions, including benchmarking of the key assumptions with industry range

to: future cash flows, including planned capital expenditures, weighted average cost of capital and perpetuity growth rate. As these assumptions are affected by future events they are related with significant risk considering changing market conditions. Considering the inherent uncertainty related to the realization of significant assumptions in the future and the significance of goodwill we have considered goodwill impairment analysis as a key audit matter. *Reference to related disclosures in the consolidated financial statements* The disclosure about the adopted accounting policy in respect to the goodwill impairment test is included in Note 32.16 "Impairment tests and Cash Generating Units" of the consolidated financial statements. The disclosures about the identification of the Cash Generating Unit and goodwill impairment test are included in Note 8 "Impairment test" of the consolidated financial statements, which specifically explains the key judgments, estimates and results of the test together with a sensitivity analysis.	and market expectations including benchmarking of future revenue, cost and margin trends, capital expenditure on network assets and spectrum, market share, customer churn and discount rates, against external data; • analyzing the Company's Management's forecast through a review of actual performance against previous forecasts; • review of the mathematical accuracy of the cash flow model and agreeing relevant underlying data to forecasts approved by the Company's Management; • assessing the applied levels of the weighted average cost of capital and perpetuity growth rate; • assessing of the sensitivity analysis prepared by the Company's Management and performing further sensitivity analysis, focused among others on changes in operating cash flows; Furthermore, we have assessed the adequacy of the disclosures made in respect to the impairment test and sensitivity analysis.
<u>Deferred tax assets recoverability</u>	
The balance of deferred tax assets in the consolidated financial statements of the Group amounts to PLN 808 million. In accordance with International Accounting Standard 12 "Income Tax",	In the course of the audit of the consolidated financial statements we have performed, among others, the following audit procedures in response to the deferred tax assets

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the Company's Management performed a detailed analysis of the deferred tax assets recoverability as at 31 December 2019. This matter was a key audit matter because the balance of the deferred tax assets as at 31 December 2019 was significant to the consolidated financial statements. Furthermore, the assessment of recoverability of deferred tax assets is based on significant assumptions in respect to the amount and timing of future taxable profits, against which deductible temporary differences and tax losses carried forward can be utilized. *Reference to related disclosures in the consolidated financial statements* The disclosure about deferred tax are included in Note 25.2 "Deferred Tax" of the consolidated financial statements.	recoverability analysis prepared by the Company's Management: • understanding of the deferred tax calculation process and evaluation of the Group's key controls in this respect; • performing tests of selected controls; • assessing of the deferred tax asset utilization model; • analysis of the assumptions underlying the recognition and measurement of deferred tax assets and assessment of the alignment of the assumptions used to those supporting the goodwill impairment test. Furthermore, we have assessed the adequacy of the disclosures made in respect to the recoverability of deferred tax assets.
Accuracy of revenue recognition	
The revenues of the Group in the consolidated financial statements for the year ended 31 December 2019 amounted to PLN 11,406 million. The accuracy of revenue recognition was considered as a key audit matter because it is an inherent industry risk. This is also because telecoms billing systems are complex and process large volumes of data with a combination of different products sold and price changes	In the course of the audit of the consolidated financial statements we have assessed the appropriateness of the adopted accounting policies and related judgments and estimates in respect to revenue recognition and their adherence to International Financial Reporting Standards. Furthermore, our audit procedures included also among others:

in the year, through a number of different IT systems. The Group also enters into significant sales contracts with other telecommunications operators in respect to access to telecommunications infrastructure and wholesale, which due to complex contractual terms require application of professional judgment into how they are accounted for. Furthermore, the accuracy of revenue recognition in accordance with International Financial Reporting Standard 15 "Revenue from Contracts with Customers" ("IFRS 15") requires the Company's Management to undertake significant judgments in relation to sales contracts, such as e.g. identification of performance obligations and allocation of the transaction price towards them. *Reference to related disclosures in the consolidated financial statements* The disclosure about the adopted accounting policies and significant judgments in respect to revenue recognition is included in Note 32.8 "Revenue" of the consolidated financial statements. The disclosures about revenue are included in Note 5 "Revenue" of the consolidated financial statements. The disclosures about assets and liabilities related to contracts with customers are included in note 13 "Assets and liabilities relating to	• understanding of the process and assessment of the Group's key controls in respect to revenue recognition; • performing tests of selected controls; • evaluation of IT systems relevant to revenue recognition; • assessment of the applied methods of revenue recognition in respect to significant sales contacts and offers; • analysis of monthly data and trends for significant revenue streams versus budgets and forecasts; • testing of significant balances of contract assets, contract costs and contract liabilities; • comparison of revenue accruals to actual sales. Furthermore, we have assessed the adequacy of the disclosures made in respect to revenue recognition and presentation of revenues in the consolidated financial statements.

contracts with customers" of the consolidated financial statements.	
Initial application of IFRS 16 "Leases"	
IFRS 16 "Leases" ("IFRS 16") requires analysis of contracts and business relationships, as well as making a significant number of key judgements and estimates relating to among others determination of the scope of the new standard, duration of the leases, lease payments or discount rates. Considering the above, the significance of the impact on the consolidated financial statements, the amount and diversity of contracts as well as since the Group adopted the standard for the purpose of the preparation of the consolidated financial statements for the first time, the matter was considered as a key audit matter. The Company's Management decided to adopt IFRS 16 using the modified retrospective approach. As a result of the recognition of right-of-use assets and lease liabilities related to the adoption of IFRS 16, the Group's total assets reported in the consolidated statement of financial position increased by PLN 1,394 million as at 1 January 2019 compared to the financial data presented in the consolidated financial statements for the prior financial year.	In the course of the audit of the consolidated financial statements we have analysed the accounting policies in respect to accounting for contracts subject to IFRS 16 and related judgments and estimates such as among others: • assessment of the scope of agreements subject to accounting under IFRS 16; • determination of the lease payments; • assessment of the duration of leases; • discount rates; • applied practical expedients. Furthermore, our audit procedures included also among others: • understanding of the process of the adoption of IFRS 16, accounting for contracts subject to IFRS 16 and assessment of the key controls in this respect; • performing tests of selected controls in relation to accounting for contracts under IFRS 16; • performing tests of details for a sample of contracts in order to verify the accuracy of parameters used in the calculation of lease liabilities and right-of-use assets and calculations of lease liabilities and right-of-use assets; • analysis of the completeness of identification of contracts in scope of IFRS 16.

Reference to related disclosures in the consolidated financial statements The disclosure related to the impact of the initial application of IFRS 16 is included in Note 2.2 "Adoption of IFRS 16 "Leases"" of the consolidated financial statements. The disclosures related right-of-use assets and lease liabilities related to the initial application of IFRS 16 are included in Note 12 "Leases" of the consolidated financial statements. The disclosure about the accounting policies related to the application of IFRS 16 including key judgments and estimates is included in Note 32.14 "Leases" of the consolidated financial statements.	Furthermore, we have assessed the adequacy of the disclosures made in the consolidated financial statements in respect to the guidelines provided in IFRS 16, as well as, the key judgments related to accounting for lease contracts and the impact of the adoption of the new standard on the Group's consolidated financial statements.

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

The Company's Management is responsible for the preparation of the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about 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 that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

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 are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

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

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,

- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent 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 independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the 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 obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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 provide the Audit Committee 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 Audit Committee, 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.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2019 to 31 December 2019, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation of the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.
In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),

- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree 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 non-financial information

In accordance with the Act on Statutory Auditors, we confirm, that the Company has prepared a statement on non-financial information mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report.

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

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which we have provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the Directors' Report.

Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of the Company's Supervisory Board from 15 June 2015 and reappointed based on the resolution from 5 July 2018. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2015, i.e. for the past 5 consecutive years.

Warsaw, 12 February 2020

Key Certified Auditor

Łukasz Piotrowski
certified auditor
no in the register: 12390

on behalf of:
Ernst & Young Audyt Polska
spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
no on the audit firms list: 130

ORANGE POLSKA GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

February 12, 2020

Contents

Current assets and liabilities

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 earnings per share)	*Note*	*12 months ended 31 December 2019 IFRS 16 basis*	*12 months ended 31 December 2018 IAS 17 basis (see Note 2.2)*
Revenue	**5**	**11,406**	**11,101**
External purchases	6.1	(6,514)	(6,449)
Labour expense	6.2	(1,488)	(1,582)
Other operating expense	6.3	(420)	(472)
Other operating income	6.3	238	253
Impairment of receivables and contract assets	6.3,17	(138)	(162)
Gains on disposal of assets	7	270	192
Employment termination expense	14	(190)	5
Depreciation and impairment of right-of-use assets	12.1	(300)	-
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets, including:	8,10,11	(2,448)	(2,541)
- depreciation of property, plant and equipment financed by finance lease		-	*(41)*
Operating income		**416**	**345**
Interest income	17	40	39
Interest expense on lease liabilities	17	(50)	(4)
Other interest expense and financial charges	17	(240)	(257)
Discounting expense	17	(48)	(83)
Finance costs, net		**(298)**	**(305)**
Income tax	25.1	(27)	(30)
Net income		**91**	**10**
Net income attributable to owners of Orange Polska S.A.		91	10
Net income attributable to non-controlling interests		-	-
Earnings per share (in PLN)	**32.4**	**0.07**	**0.01**
Weighted average number of shares (in millions)	26.1	1,312	1,312

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)	*Note*	*12 months ended 31 December 2019 IFRS 16 basis*	*12 months ended 31 December 2018 IAS 17 basis*
Net income		**91**	**10**
Items that will not be reclassified to profit or loss			
Actuarial losses on post-employment benefits	16	(8)	(4)
Income tax relating to items not to be reclassified		2	1
Items that may be reclassified subsequently to profit or loss			
Losses on cash flow hedges	22	(27)	(13)
Income tax relating to items that may be reclassified		5	3
Other comprehensive loss, net of tax		**(28)**	**(13)**
Total comprehensive income/(loss)		**63**	**(3)**
Total comprehensive income/(loss) attributable to owners of Orange Polska S.A.		63	(3)
Total comprehensive income/(loss) attributable to non-controlling interests		-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*Note*	*At 31 December 2019 IFRS 16 basis*	*At 31 December 2018 IAS 17 basis (see Note 2.2)*
ASSETS			
Goodwill	9	2,263	2,147
Other intangible assets	10	4,545	4,871
Property, plant and equipment	11	10,402	10,738
Right-of-use assets	12.1	2,101	-
Trade receivables	13.1	455	552
Contract assets	13.2	65	27
Contract costs	13.3	99	56
Derivatives	22	44	48
Other assets		65	53
Deferred tax assets	25.2	808	834
Total non-current assets		**20,847**	**19,326**
Inventories		218	240
Trade receivables	13.1	2,132	2,371
Contract assets	13.2	117	138
Contract costs	13.3	329	297
Derivatives	22	1	52
Other assets		227	214
Prepaid expenses		65	46
Cash and cash equivalents	21	404	611
Total current assets		**3,493**	**3,969**
TOTAL ASSETS		**24,340**	**23,295**
EQUITY AND LIABILITIES			
Share capital	26.1	3,937	3,937
Share premium		832	832
Other reserves		(89)	(58)
Retained earnings		5,884	5,790
Equity attributable to owners of Orange Polska S.A.		**10,564**	**10,501**
Non-controlling interests		2	2
Total equity		**10,566**	**10,503**
Trade payables	15.1	348	473
Lease liabilities	12.1	1,633	112
Loans from related party	19	6,431	5,258
Other financial liabilities at amortised cost		8	11
Derivatives	22	55	31
Provisions	14	649	468
Contract liabilities	13.4	344	331
Employee benefits	16	164	136
Other liabilities	15.2	50	26
Total non-current liabilities		**9,682**	**6,846**
Trade payables	15.1	2,367	2,469
Lease liabilities	12.1	348	66
Loans from related party	19	11	2,074
Other financial liabilities at amortised cost		61	10
Derivatives	22	20	19
Provisions	14	242	217
Contract liabilities	13.4	471	460
Employee benefits	16	185	201
Income tax liabilities		28	54
Other liabilities	15.2	359	376
Total current liabilities		**4,092**	**5,946**
TOTAL EQUITY AND LIABILITIES		**24,340**	**23,295**

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
			Cash flow hedge reserve	Actuarial losses on post-employment benefits	Deferred tax				
Balance at 1 January 2019	**3,937**	**832**	**(20)**	**(51)**	**13**	**5,790**	**10,501**	**2**	**10,503**
Total comprehensive income for the 12 months ended 31 December 2019	-	-	(27)	(8)	7	91	63	-	63
Share-based payments (see Note 26.3)	-	-	-	-	-	3	3	-	3
Transfer to inventories	-	-	(3)	-	-	-	(3)	-	(3)
Balance at 31 December 2019	**3,937**	**832**	**(50)**	**(59)**	**20**	**5,884**	**10,564**	**2**	**10,566**
Balance at 1 January 2018	**3,937**	**832**	**(2)**	**(47)**	**9**	**5,779**	**10,508**	**2**	**10,510**
Total comprehensive loss for the 12 months ended 31 December 2018	-	-	(13)	(4)	4	10	(3)	-	(3)
Share-based payments (see Note 26.3)	-	-	-	-	-	1	1	-	1
Transfer to inventories	-	-	(5)	-	-	-	(5)	-	(5)
Balance at 31 December 2018	**3,937**	**832**	**(20)**	**(51)**	**13**	**5,790**	**10,501**	**2**	**10,503**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)		*12 months ended*	
		31 December 2019	*31 December 2018*
		IFRS 16 basis	*IAS 17 basis*
	Note		*(see Note 2.2)*
OPERATING ACTIVITIES			
Net income		91	10
Adjustments to reconcile net income to cash from operating activities			
Gains on disposal of assets	7	(270)	(192)
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets	8,10,11, 12.1	2,748	2,541
Finance costs, net		298	305
Income tax	25.1	27	30
Change in provisions and allowances		74	(685)
Operational foreign exchange and derivatives gains, net		(7)	(3)
Change in working capital			
(Increase)/decrease in inventories, gross		29	(25)
(Increase)/decrease in trade receivables, gross	13.1	367	(225)
(Increase)/decrease in contract assets, gross	13.2	(18)	166
(Increase)/decrease in contract costs	13.3	(75)	51
Decrease in trade payables		(67)	(1)
Increase in contract liabilities	13.4	24	232
Increase in prepaid expenses and other receivables		(96)	(34)
Increase/(decrease) in other payables	15.2	9	(22)
Interest received		40	39
Interest paid and interest rate effect paid on derivatives, net		(371)	(363)
Exchange rate effect paid on derivatives, net		-	(5)
Income tax paid		(27)	(7)
Net cash provided by operating activities		**2,776**	**1,812**
INVESTING ACTIVITIES			
Payments for purchases of property, plant and equipment and intangible assets	10,11	(2,272)	(2,166)
Investment grants received	15.2	136	5
Investment grants paid to property, plant and equipment and intangible assets suppliers	15.2	(153)	(64)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		5	5
Proceeds from sale of property, plant and equipment and intangible assets		500	156
Cash paid for subsidiaries, net of cash acquired	4	(132)	(2)
Payments on other financial instruments, net		(3)	-
Net cash used in investing activities		**(1,919)**	**(2,066)**
FINANCING ACTIVITIES			
Repayment of long-term loans from related party	20	(17)	-
Repayment of lease liabilities	20	(279)	(42)
Increase/(decrease) in revolving credit line and other debt	20	(826)	261
Exchange rate effect received on derivatives hedging debt, net	20	58	-
Net cash provided by/(used in) financing activities		**(1,064)**	**219**
Net change in cash and cash equivalents		**(207)**	**(35)**
Cash and cash equivalents at the beginning of the period	21	611	646
Cash and cash equivalents at the end of the period	21	**404**	**611**

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. The Group is a part of Orange Group based in France. 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 IT and integration services, leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, constructs telecommunications infrastructure and sells electrical energy.

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 2019	*31 December 2018*
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%
BlueSoft Sp. z o.o. [(1)]	Warsaw, Poland	Provision of IT services and solutions.	100%	-
Orange Energia Sp. z o.o.	Warsaw, Poland	Sale of electrical energy.	100%	100%
Essembli Sp. z o.o. [(1)]	Warsaw, Poland	Provision of IT services and solutions.	100%	-
Orange Szkolenia Sp. z o.o.	Warsaw, Poland	Training and hotel services, insurance agent.	100%	100%
Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	89.3%	89.3%
Orange Retail S.A.	Modlnica, Poland	Points of sale rental.	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%
Orange Real Estate Sp. z o.o. [(2)]	Warsaw, Poland	Facilities management and maintenance.	-	100%

[(1)] The subsidiary was acquired in June 2019 (see Note 4).
[(2)] The subsidiary was disposed of in January 2019.

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 2019 and 2018, 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

2.1. 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 2018 have been compiled using the same basis of preparation, except for impact of adoption of new standard in 2019 described below (see Note 2.2).

The Consolidated Financial Statements have been prepared under the historical cost convention, except for the fair value applied to derivative financial instruments and selected trade receivables arising from sales of mobile handsets in instalments.

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 12 February 2020 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 2019 are described in Note 32 and are based on:

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2019,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2019 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).

Adoption of standards and interpretations in 2019

The following standards and interpretations endorsed by the European Union were adopted by the Group as at 1 January 2019:

- IFRS 16 "Leases". This standard has been endorsed by the European Union on 31 October 2017 and is applicable for financial years beginning on or after 1 January 2019.

- IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”. This interpretation has been endorsed by the European Union on 23 October 2018 and is effective for annual periods beginning on or after 1 January 2019. There is no impact of the interpretation on the Group’s financial statements.

2.2. Adoption of IFRS 16 “Leases”

As at 1 January 2019, the Group adopted the standard IFRS 16 “Leases”. The new accounting policy relating to leases applied by the Group is presented in Note 32.14.

The impact of IFRS 16 adoption on the Group’s accounts primarily relates to changes in lessee accounting and results in:

a) the accounting for all lease contracts according to a single model in which an asset is recognised in the statement of financial position as an asset for the right to use the leased assets in correspondence with the liability related to the lease obligations;
b) recognising depreciation of the right-of-use assets and interest charges related to the lease liability, instead of operating lease expenses;
c) the accelerated recognition of the expense related to leases, resulting in particular from the interest component.

The Group applied IFRS 16 as of 1 January 2019 using the modified retrospective method without restatement of comparative periods. As the Group decided to measure the right-of-use asset in the amount equal to the lease liability (effect of prepaid or accrued lease payments was negligible), there was no impact on equity as of 1 January 2019.

The Group decided to use the practical expedient as described in IFRS 16 C.10 (c) allowing not to apply the requirements defined in points (a) – (c) above to leases for which the lease term ends within 12 months of the date of the initial application.

IFRS Interpretation Committee’s decisions on IFRS 16 matters and their impact on the Group

During 2019, the IFRS Interpretations Committee (the “Committee”) issued three decisions clarifying its interpretation of the following topics under IFRS 16:

- Subsurface rights:

The Committee concluded that the arrangement, presented in its decision, where a pipeline operator obtains the right to place a pipeline in an underground space constitutes a lease and therefore this arrangement as presented in this decision should be in scope of IFRS 16. The formal decision of the Committee was released in June 2019.

- Lessee’s Incremental Borrowing Rate:

The Committee concluded that the lessee’s incremental borrowing rate should be established as a lease-specific rate that takes into account the underlying asset and the terms and conditions of the lease. The formal decision of the Committee was released in September 2019.

- Lease Term and Useful Life of Leasehold Improvements:

In December 2019 the Committee finalized the tentative agenda decision published in June 2019 in respect to the lease term. The Committee discussed the concepts of “penalties” and “enforceable period”, which are used in the determination of the lease term and provided guidance on how they should be understood and applied when determining the lease term. The Committee concluded that the contract is enforceable as long as the lessee or the lessor would have to bear more than an insignificant penalty in case of termination of the contract. Therefore, even in the absence of option for the lessee to extend the lease at its discretion, the reasonably certain lease term shall be assessed in order to determine the lease term and in result the amounts of the lease liability and of the right-of-use asset. Furthermore, according to the Committee, the concept of "penalty" should be considered as all economic disincentives and not be limited only to contractual penalties.

In respect of the determination of the useful life of non-removable leasehold improvements, the Committee considers the following:

a) The lease term of the contract shall be taken into account in the determination of the useful life of leasehold improvements; and
b) The presence of leasehold improvements which are not fully depreciated and which should be abandoned and disposed of in case of termination of the lease is an example of penalty to be taken into account in the assessment of the enforceable period of the lease contract.

The Group's current accounting policies in respect of these matters, as reflected in annual financial statements, are as follows:

– Subsurface rights:

After analysis of the Committee's decision related to subsurface rights, the Group concluded that subsurface rights used by the Group, and considered previously as services based on the Group's initial interpretation of IFRS 16, should be recognised as leases. As a result, the Group has changed its accounting policy in respect to subsurface rights and classifies them as leases. The Group has therefore revised the impact of initial application of IFRS 16. Orange Polska Group presents the impact of this change on the financial statements below in the note. However, many of subsurface rights leases contracts are signed for an indefinite period and the lease term for these contracts equals their notice period.

– Lessee's Incremental Borrowing Rate:

The Group already considers the terms and conditions of the lease when establishing the lessee's incremental borrowing rate.

– Lease Term and Useful Life of Leasehold Improvements:

At the date of preparation of these annual financial statements, the Group's position in respect to these matters is as follows:

a) For indefinite period lease contracts with notice period of less than or equal to 12 months, the Group initially determined the lease period to be equal to the notice period and in result applied the short-term exemption to these leases.
b) In the light of the December 2019 decision of the Committee, the Group started its analysis of how the reasonably certain lease terms should be determined for each lease contract. At the date of preparation of these annual financial statements this analysis was still ongoing. The Committee's decision will lead to the recognition of additional right-of-use assets and additional lease liabilities presented in the statement of financial position, mainly in respect of leases of technical premises for fixed and mobile network and subsurface rights. Taking into consideration the number and diversity of contracts potentially affected and the fact that formal Committee decision was published on 16 December 2019, there was insufficient time to reliably measure and account for or disclose the impact of the change in the accounting policy resulting from the decision.
c) Regarding the useful life of leasehold improvements, the Group analysed specific cases of leases for which non-removable leasehold improvements were undertaken on the leased assets and considered that the decision has no impact on useful life of leasehold improvements determined by the Group.

Whilst the assessment of the impact of the Committee's December 2019 decision is likely to result in further changes in 2020, the adoption of IFRS 16 has so far affected the consolidated statement of financial position as at 1 January 2019 as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*At 1 January 2019*		
	Before IFRS 16	*Impact of IFRS 16 adoption [(1)]*	*After IFRS 16*
ASSETS			
Property, plant and equipment	10,738	(448)	10,290
Right-of-use assets	-	1,842	1,842
Total non-current assets	**19,326**	**1,394**	**20,720**
Total current assets	**3,969**	**-**	**3,969**
TOTAL ASSETS	**23,295**	**1,394**	**24,689**
EQUITY AND LIABILITIES			
Total equity	**10,503**	**-**	**10,503**
Lease liabilities	112	1,149	1,261
Total non-current liabilities	**6,846**	**1,149**	**7,995**
Lease liabilities	66	245	311
Total current liabilities	**5,946**	**245**	**6,191**
TOTAL EQUITY AND LIABILITIES	**23,295**	**1,394**	**24,689**

[(1)] Includes PLN 98 million of right-of-use assets and lease liabilities related to subsurface rights.

Additionally, as a consequence of IFRS 16 implementation, certain changes were made to the presentation in the consolidated financial statements, which had an impact on the comparative data.

In the consolidated income statement and consolidated statement of cash flows two separate lines for depreciation and amortisation and impairment/reversal of impairment of fixed assets were consolidated into one line. Additionally, the Group presents currently interest expense on lease liabilities as a separate line item in the consolidated income statement. Previously, the Group presented these costs together with other interest expense and financial charges. The comparative amounts for the 12 months ended 31 December 2018 were changed accordingly, with no impact on operating or net income/loss.

In the consolidated statement of financial position as at 31 December 2018, certain figures were reclassified to conform with the presentation as at 31 December 2019. Non-current and current lease liabilities were separated from other financial liabilities at amortised cost to new line items.

In the consolidated statement of cash flows two separate lines within cash flows from investing activities for purchases of property, plant and equipment and intangible assets and increase/decrease in amounts due to fixed assets suppliers were consolidated into one line presenting payments for purchases of property, plant and equipment and intangible assets. Additionally, repayment of lease liabilities was reclassified from repayment of long-term debt to a separate line item within cash flows from financing activities. Repayment of long-term debt other than loans from related party is now presented together with increase/decrease in revolving credit line and short-term debt. The comparative amounts were adjusted accordingly for the 12 months ended 31 December 2018, with no impact on net cash provided by/(used in) investing and financing activities.

The reconciliation of future minimum lease payments under non-cancellable operating leases disclosed as at 31 December 2018 and lease liabilities as at 1 January 2019 is presented below:

(in PLN millions)

Total future minimum lease payments disclosed as at 31 December 2018	**1,070**
Impact of discount at average incremental borrowing rate of 2.2%	(82)
Discounted total future minimum lease payments disclosed as at 31 December 2018	**988**
Adjustments:	584
Finance lease liabilities recognised as at 31 December 2018	178
Short-term leases	(44)
Scope effect (mainly impact of perpetual usufruct rights and subsurface rights)	316
Calculation effect (mainly different duration of contracts and indexation)	134
Lease liabilities recognised as at 1 January 2019	**1,572**

3. Segment information and performance measures

The Group reports a single operating segment as decisions about resources to be allocated and assessment of performance are made on a consolidated basis. Starting from 2019, following the adoption of IFRS 16 "Leases" (see Note 2.2), the Group redefined the performance measures used. Group performance is currently evaluated by the Management Board based on revenue, EBITDAaL, net income, organic cash flows, capital expenditures, net financial debt and net financial debt to EBITDAaL ratio based on cumulative EBITDAaL for the last four quarters. Comparative amounts were adjusted accordingly.

Since the calculation of EBITDAaL, organic cash flows, capital expenditures and net financial debt is not defined by IFRS, these performance measures may not be comparable to similar indicators used by other entities. The methodology adopted by the Group is presented below.

Starting from 2019, EBITDAaL is the key measure of operating profitability used by the Management Board. The Group decided to replace EBITDA with EBITDAaL (EBITDA after leases) as EBITDA is no longer a relevant measure of operating profitability after the adoption of IFRS 16 because it excludes expenses related to leases.
EBITDAaL corresponds to operating income before depreciation, amortisation and impairment of property, plant and equipment and intangible assets decreased by interest expense on lease liabilities and adjusted for the impact of deconsolidation of subsidiaries, costs related to acquisition and integration of new businesses, employment termination programs, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items. Calculation of EBITDAaL for the 12 months ended 31 December 2019 is presented in the table below.

Organic cash flows are the key measure of cash flow generation used by the Management Board. Starting from 2019, organic cash flows include repayment of capital of lease liabilities. Organic cash flows correspond to net cash provided by operating activities decreased by payments for purchases of property, plant and equipment and intangible assets and repayment of lease liabilities, increased by impact of net exchange rate effect received/paid on derivatives economically hedging capital expenditures and lease liabilities and proceeds from sale of property, plant and equipment and intangible assets and adjusted for the payments for acquisition of telecommunications licences, payments for costs related to acquisition and integration of new businesses not included in purchase price and payments relating to significant claims, litigation and other risks. Calculation of organic cash flows for the 12 months ended 31 December 2019 and 2018 is 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. Starting from 2019, this measure excludes capital expenditures financed by leases and acquisition of telecommunications licences.

Net financial debt and net financial debt to EBITDAaL ratio are the key measures of indebtedness and liquidity used by the Management Board. The calculation of net financial debt is presented in Note 18.

Additionally, to give a better representation of underlying performance, revenue from the Group's activities for the comparative period is adjusted for the impact of deconsolidation of subsidiaries.

Basic financial data of the operating segment is presented below:

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Revenue	11,406	11,087 [1]
EBITDAaL [2]	3,006	Not applicable
Adjusted EBITDA [2]	Not applicable	2,881
Net income	91	10
Organic cash flows	737	411 [3]
Capital expenditures	2,140	2,114 [4]

[1] Includes PLN (14) million of adjustment for the impact of deconsolidation of subsidiaries for the 12 months ended 31 December 2018.
[2] Starting from 2019, EBITDAaL is the key measure of operating profitability used by the Management Board. Calculation of EBITDAaL in comparative period is not applicable for the purpose of segment reporting due to the modified retrospective adoption of IFRS 16 by the Group (see Note 2.2).
[3] Includes PLN (42) million of repayment of capital of finance lease liabilities in the 12 months ended 31 December 2018.
[4] Excludes PLN 136 million of capital expenditures financed by finance leases in the 12 months ended 31 December 2018.

	At 31 December 2019	*At 31 December 2018*
Net financial debt (in PLN millions, see Note 18)	6,087	6,672
Net financial debt/EBITDAaL ratio	2.0	Not applicable
Net financial debt [1]/adjusted EBITDA ratio	Not applicable	2.4

[1] Including finance lease liabilities recognised under IAS 17 (see Note 18).

Calculation of performance measures of the operating segment is presented below:

(in PLN millions)	*12 months ended 31 December 2019*
Operating income	416
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	2,448
Interest expense on lease liabilities	(50)
Adjustment for the impact of employment termination programs	181
Adjustment for the costs related to acquisition and integration of new subsidiaries (see Note 4)	10
Adjustment for the impact of deconsolidation of subsidiaries	1
EBITDAaL	**3,006**

(in PLN millions)	*12 months ended 31 December 2018*
Operating income	345
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	2,541
Adjustment for the impact of employment termination programs	(5)
Adjusted EBITDA	**2,881**

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Net cash provided by operating activities [1]	2,776	1,812
Payments for purchases of property, plant and equipment and intangible assets	(2,272)	(2,166)
Exchange rate effect received on derivatives economically hedging capital expenditures, net	5	5
Proceeds from sale of property, plant and equipment and intangible assets	500	156
Repayment of lease liabilities [1]	(279)	(42)
Adjustment for payment for costs related to acquisition and integration of new subsidiaries	7	-
Adjustment for payment of European Commission fine	-	646
Organic cash flows	**737**	**411**

[1] Amounts for 2019 and 2018 are not comparable due to the modified retrospective adoption of IFRS 16 by the Group (see Note 2.2).

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

On 12 June 2019, the Group purchased 100% of shares in BlueSoft Sp. z o.o. ("BlueSoft") and Essembli Sp. z o.o. ("Essembli") – a subsidiary of BlueSoft. Both companies are providing a variety of IT services in the areas of application development and integration, system customization, analytics and cloud services. The acquisition is consistent with the Group's strategy that focuses on expanding competencies to more value added ICT (Information and Communications Technology) services in order to meet growing demand of business customers on enterprise market in the areas of digital transformation including cloud, microservices and dedicated portals as well as cybersecurity.

According to the agreement, the total transaction value amounts to PLN 204 million and includes acquisition price of PLN 182 million and remuneration for post-transaction services currently estimated at PLN 22 million. Out of the acquisition price, PLN 147 million was paid upon signing of the agreement. The remaining part, currently estimated at PLN 35 million, is a contingent consideration that will be settled before the end of 2022 and will be based on achieving certain financial targets of BlueSoft and Essembli in 2019 and 2020 as well as on meeting certain other legal conditions. Remuneration for post-transaction services will be accounted for as a cost related to integration of new subsidiaries and will be recognised in the consolidated income statement in years 2019-2021 as labour expense. In the 12 months ended 31 December 2019, the Group recognised PLN 10 million of costs related to acquisition and integration of new subsidiaries.

The Group finalised the accounting for the acquisition and recognised the following assets and liabilities:

(in PLN millions)	
Assets:	
Goodwill	116
Other intangible assets [(1)]	48
Deferred tax assets	(8)
Trade receivables	36
Cash and cash equivalents	15
Other	11
Total assets	**218**
Liabilities:	
Trade payables	17
Other	19
Total liabilities	**36**
Net assets acquired	**182**

[(1)] Includes PLN 47 million of customer contracts and the related customer relationships recognised at fair value.

The Group recognised PLN 100 million of revenue and PLN 1 million of net income with respect to BlueSoft and Essembli since the acquisition date, including PLN 14 million of revenue recognised on intra-group transactions and eliminated on consolidation. Net income includes the impact of amortisation of customer contracts and the related customer relationships recognised at fair value and costs related to integration of new subsidiaries.

5. Revenue

Revenue is disaggregated as follows:

Mobile only services	Revenue from mobile offers (excluding consumer market convergent offers) and Machine to Machine connectivity. Mobile only services revenue does not include equipment sales, incoming and visitor roaming revenue.
Fixed only services	Revenue from fixed offers (excluding consumer market convergent offers) including mainly (i) fixed broadband (including wireless for fixed), (ii) fixed narrowband, and (iii) data infrastructure and networks for business customers.
Convergent services (consumer market)	Revenue from consumer market convergent offers. A convergent offer is defined as an offer combining at least a broadband access and a mobile voice contract with a financial benefit (excluding MVNOs). Convergent services revenue does not include equipment sales, incoming and visitor roaming revenue.
Equipment sales	Revenue from all retail mobile and fixed equipment sales, excluding equipment sales associated with the supply of IT and integration services.
IT and integration services	Revenue from ICT (Information and Communications Technology) services and Internet of Things services, including equipment sales associated with the supply of these services.
Wholesale	Revenue from telecom operators for (i) mobile: incoming, visitor roaming, domestic mobile interconnection (i.e. domestic roaming agreement and network sharing) and MVNO, (ii) fixed carriers services, and (iii) other (mainly data infrastructure and networks).
Other revenue	Include (i) equipment sales to brokers and dealers, (ii) revenue from sale of electrical energy, (iii) revenue from infrastructure projects, and (iv) other miscellaneous revenue e.g. from property rentals, research and development activity.

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Mobile only services	**2,598**	**2,726**
Fixed only services	**2,192**	**2,441**
Narrowband	917	1,077
Broadband	854	918
Network solutions (business market)	421	446
Convergent services (consumer market)	**1,558**	**1,296**
Equipment sales	**1,555**	**1,404**
IT and integration services	**803**	**619**
Wholesale	**2,278**	**2,308**
Mobile wholesale	1,287	1,307
Fixed wholesale	689	716
Other	302	285
Other revenue	**422**	**307**
Total revenue	**11,406**	**11,101**

Wholesale and other revenue for the 12 months ended 31 December 2019 and 2018 include, respectively, PLN 82 million and PLN 89 million of lease revenue that is outside the scope of IFRS 15 “Revenue from Contracts with Customers”.

Other revenue includes compensation based on the Act on Electricity Prices that is outside the scope of IFRS 15 “Revenue from Contracts with Customers” and amounts to PLN 37 million for the 12 months ended 31 December 2019.

Revenue is generated mainly in the territory of Poland. Approximately 4.4% and 4.3% of the total revenue for the 12 months ended 31 December 2019 and 2018, respectively, was earned from entities which are not domiciled in Poland, mostly from interconnect services.

From 2019, revenue from certain services was reclassified from mobile only services and fixed only services to IT and integration services. As a result, comparative amounts for 2018 were changed by PLN 30 million.

6. Operating expense and income

6.1. External purchases

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Commercial expenses	(2,514)	(2,433)
– *cost of handsets and other equipment sold*	*(1,862)*	*(1,690)*
– *commissions, advertising, sponsoring costs and other*	*(652)*	*(743)*
Interconnect expenses	(1,828)	(1,849)
Network and IT expenses	(593)	(610)
Other external purchases	(1,579)	(1,557)
Total external purchases	**(6,514)**	**(6,449)**

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

6.2. Labour expense

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Average number of active employees (full time equivalent)	12,881	14,151
Wages and salaries	(1,348)	(1,432)
Social security and other charges	(311)	(333)
Long-term employee benefits (see Note 16.1)	(5)	(14)
Capitalised personnel costs	233	234
Other employee benefits	(57)	(37)
Total labour expense	**(1,488)**	**(1,582)**

6.3. Other operating expense, income and impairment of receivables and contract assets

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Taxes other than income tax	(259)	(303)
Orange brand fee (see Note 30.2)	(112)	(113)
Other expense and changes in provisions, net	(49)	(56)
Total other operating expense	**(420)**	**(472)**
Total other operating income	**238**	**253**
Total impairment of receivables and contract assets	**(138)**	**(162)**

Other operating income includes mainly income from the Orange Group resulting from shared resources, income from scrapped assets and income from compensation.

6.4. Research and development

During the 12 months ended 31 December 2019 and 2018, research and development costs expensed in the consolidated income statement amounted to PLN 53 million and PLN 54 million, respectively.

7. Gains on disposal of assets

During the 12 months ended 31 December 2019 and 2018, gains on disposal of assets amounted to PLN 270 million and PLN 192 million, respectively, and included mainly gains on disposal of real estate.

On 29 August 2019, the Group concluded an agreement to sell the Nowogrodzka/Św. Barbary real estate property complex for EUR 81 million (approximately PLN 350 million). Gain on disposal amounted to PLN 212 million. Additionally, Orange Polska has leased back a portion of the real estate complex until 2026, in order to allow sufficient time for migration of the network equipment located in the complex. As a result of the sale and leaseback agreements, the lease liability increased by PLN 88 million.

8. Impairment test

Vast majority of the Group's individual assets do not generate cash inflows 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").

As at 31 December 2019, 30 June 2019 and 30 June 2018 the Group performed impairment tests of the CGU (including goodwill). No impairment loss was recognised in the years 2019 and 2018. The Group performed the test twice in 2019 as a consequence of the change in timing of yearly impairment test.

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 2019*	*At 30 June 2018*
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	1.5%	1%
Post-tax discount rate	8.25%	8.00%
Pre-tax discount rate (1)	9.65%	9.32%

(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 2019 exceeds its carrying value by PLN 3.0 billion. Any of the following changes in key assumptions:

- a 18% fall in projected cash flows after fifth year or
- a 1.1 p.p. decrease in growth rate to perpetuity or
- a 1.2 p.p. increase in post-tax discount rate

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

9. Goodwill

(in PLN millions)	*At 31 December 2019*			*At 31 December 2018*		
CGU	*Cost*	*Accumulated impairment*	*Net*	*Cost*	*Accumulated impairment*	*Net*
Telecom operator	4,056	(1,793)	2,263	3,940	(1,793)	2,147
Total goodwill	**4,056**	**(1,793)**	**2,263**	**3,940**	**(1,793)**	**2,147**

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. The remaining balance of goodwill of PLN 147 million arose on acquisition of certain subsidiaries, mainly BlueSoft and Essembli (see Note 4).

10. Other intangible assets

(in PLN millions)	*At 31 December 2019*			
	Cost	*Accumulated amortisation*	*Accumulated impairment*	*Net*
Telecommunications licences	5,760	(2,750)	-	3,010
Software	5,887	(4,474)	-	1,413
Other intangibles	258	(125)	(11)	122
Total other intangible assets	**11,905**	**(7,349)**	**(11)**	**4,545**

(in PLN millions)	*At 31 December 2018*			
	Cost	*Accumulated amortisation*	*Accumulated impairment*	*Net*
Telecommunications licences	5,760	(2,391)	-	3,369
Software	6,089	(4,671)	-	1,418
Other intangibles	242	(147)	(11)	84
Total other intangible assets	**12,091**	**(7,209)**	**(11)**	**4,871**

Details of telecommunications licences are as follows:

(in PLN millions)	*Acquisition date*	*Years to expiration [2]*	*Net book value At 31 December 2019*	*Net book value At 31 December 2018*
800 MHz	2016	11.1	2,266	2,471
900 MHz	2014	9.5	228	252
900 MHz [1]	2018	1.0	12	24
1800 MHz [1]	2013	8.0	127	143
1800 MHz	1997	7.6	-	-
2100 MHz	2000	3.0	290	384
2600 MHz	2016	11.1	87	95
Total telecommunications licences			**3,010**	**3,369**

[1] Licences held under agreements with T-Mobile Polska S.A.
[2] Remaining useful life in years as at 31 December 2019.

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2019 were as follows:

(in PLN millions)	*Telecommunications licences*	*Software*	*Other intangibles*	*Total other intangible assets*
Opening balance net of accumulated amortisation and impairment	**3,369**	**1,418**	**84**	**4,871**
Acquisitions of intangible assets	-	412	12	424
Recognition of customer contracts and related customer relationships of BlueSoft and Essembli (see Note 4)	-	-	47	47
Amortisation	(359)	(418)	(20)	(797)
Reclassifications and other, net	-	1	(1)	
Closing balance	**3,010**	**1,413**	**122**	**4,545**

From 2019, the Group extended the estimated useful lives for certain items of software. As a result, the amortisation expense was lower by PLN 42 million in the 12 months ended 31 December 2019 in comparison to 2018.

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2018 were as follows:

(in PLN millions)	*Telecommunications licences*	*Software*	*Other intangibles*	*Total other intangible assets*
Opening balance net of accumulated amortisation and impairment	**3,700**	**1,466**	**90**	**5,256**
Acquisitions of intangible assets	32	441	15	488
Amortisation	(363)	(497)	(14)	(874)
Impairment, net	-	-	1	1
Reclassifications and other, net	-	8	(8)	-
Closing balance	**3,369**	**1,418**	**84**	**4,871**

11. Property, plant and equipment

(in PLN millions)	*At 31 December 2019*			
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*
Land and buildings	2,349	(1,745)	(17)	587
Network	39,583	(30,414)	(58)	9,111
Terminals	1,936	(1,542)	-	394
Other IT equipment	1,254	(1,026)	-	228
Other	286	(202)	(2)	82
Total property, plant and equipment	**45,408**	**(34,929)**	**(77)**	**10,402**

(in PLN millions)	*At 31 December 2018*			
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*
Land and buildings	2,865	(1,884)	(27)	954
Network	38,972	(30,050)	-	8,922
Terminals	2,066	(1,527)	-	539
Other IT equipment	1,332	(1,082)	-	250
Other	277	(202)	(2)	73
Total property, plant and equipment	**45,512**	**(34,745)**	**(29)**	**10,738**

As at 31 December 2019 and 2018, 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 1,316 million and PLN 1,276 million, respectively.

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2019 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	**954**	**8,922**	**539**	**250**	**73**	**10,738**
Impact of IFRS 16 adoption	(278)	(6)	(125)	(37)	(2)	(448)
Opening balance net of accumulated amortisation and impairment after IFRS 16 adoption	**676**	**8,916**	**414**	**213**	**71**	**10,290**
Acquisitions of property, plant and equipment	46	1,425	144	63	38	1,716
Disposals and liquidations	(48)	(1)	-	-	-	(49)
Depreciation	(92)	(1,255)	(163)	(65)	(23)	(1,598)
Impairment, net	5	(58)	-	-	-	(53)
Dismantling costs, reclassifications and other, net	-	84	(1)	17	(4)	96
Closing balance	**587**	**9,111**	**394**	**228**	**82**	**10,402**

From 2019, the Group extended the estimated useful lives for certain network assets. As a result, the depreciation expense was lower by PLN 149 million in the 12 months ended 31 December 2019 in comparison to 2018.

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2018 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	**1,074**	**8,760**	**475**	**277**	**80**	**10,666**
Acquisitions of property, plant and equipment	32	1,418	251	66	27	1,794
Disposals and liquidations	(54)	(2)	-	-	(1)	(57)
Depreciation	(100)	(1,260)	(188)	(94)	(28)	(1,670)
Impairment, net	2	-	-	-	-	2
Dismantling costs, reclassifications and other, net	-	6	1	1	(5)	3
Closing balance	**954**	**8,922**	**539**	**250**	**73**	**10,738**

12. Leases

12.1. Group as a lessee

The Group leases mainly land and buildings. Some 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 include extension and termination options.

(in PLN millions)	*At 31 December 2019*			
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*
Land and buildings	2,034	(273)	(2)	1,759
Terminals	265	(71)	-	194
Other	207	(59)	-	148
Total right-of-use assets	**2,506**	**(403)**	**(2)**	**2,101**

Movements in the net book value of right-of-use assets for the 12 months ended 31 December 2019 were as follows:

(in PLN millions)	*Land and buildings*	*Terminals*	*Other*	*Total right-of-use assets*
Opening balance net of accumulated depreciation and impairment after IFRS 16 adoption	**1,551**	**124**	**167**	**1,842**
Additions	228	115	22	365
Modifications, terminations and disposals	190	-	(1)	189
Depreciation	(220)	(45)	(35)	(300)
Dismantling costs, reclassifications and other, net	10	-	(5)	5
Closing balance	**1,759**	**194**	**148**	**2,101**

In the 12 months ended 31 December 2019, the Group amended terms of the lease of its headquarters. As a result, the lease liability and right-of-use assets increased by PLN 211 million.

In the 12 months ended 31 December 2019, the expense relating to short-term leases and leases of low value assets, not included in the measurement of the lease liability and recognised in external purchases, amounted to PLN 100 million. Cost related to operating lease recognised under IAS 17 in the consolidated income statement for the year ended 31 December 2018 amounted to PLN 381 million. Gains arising from sale and leaseback transactions are disclosed in Note 7.

Information on lease liabilities is disclosed in Notes 17, 20, 24.3 and 24.6.

12.2. Group as a lessor

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2019 and 2018 amounted to PLN 67 million and PLN 97 million, respectively, and related mainly to the lease of land and buildings.

13. Assets and liabilities relating to contracts with customers

13.1. Trade receivables

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Trade receivables measured at amortised cost	2,369	2,923
Trade receivables measured at fair value through other comprehensive income	218	-
Total trade receivables	**2,587**	**2,923**
Current	2,132	2,371
Non-current	455	552

Vast majority of trade receivables results from contracts with customers. Invoices are typically issued on a monthly basis, with subscription fee usually invoiced in advance and usage-based fees invoiced in arrears. The payment is due 14 days after the invoice date for most retail customers and up to 30 days for most wholesale customers. Non-current trade receivables relate mainly to sales of mobile handsets in monthly instalments.

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.

On 20 June 2019, the Group and BNP Paribas S.A. concluded an agreement under which OPL S.A. sells selected receivables arising from sales of mobile handsets in instalments, based on which sold receivables are derecognised from the consolidated statement of financial position. The impact on cash flows from operating activities for the 12 months ended 31 December 2019 amounts to PLN 291 million and loss on derecognition recognised in other operating expense for the same period amounts to PLN 4 million. As a result of the agreement, PLN 202 million of trade receivables held at 20 June 2019 were reclassified out of the measured at amortised cost into the measured at fair value through other comprehensive income category, as the business model for those receivables is to collect contractual cash flows and sell them.
Part of the price paid by BNP Paribas S.A. amounting to PLN 24 million is deferred and presented as other assets as at 31 December 2019.

The Group applies the present value valuation technique to measure receivables at fair value through other comprehensive income. The expected risk-adjusted cash flows related to the receivables are discounted using market risk-free interest rate. The nominal cash flows are decreased by the expected credit risk based on historical data. Such risk-adjusted discounted cash flows are adjusted by the margin expected to be received by the market participant buyer. The margin is determined based on the last instalment receivables sale transaction with BNP Paribas S.A.

Movements in the impairment of trade receivables during the 12 months ended 31 December 2019 and 2018 were as follows:

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Beginning of period	**285**	**181**
Impact of adoption of IFRS 9	-	14
Impairment losses, net	134	165
Utilisation of impairment for receivables sold or written-off	(139)	(75)
End of period	**280**	**285**

Information about the credit risk exposure on the Group's trade receivables as at 31 December 2019 was as follows:

(in PLN millions)		*Days past due*			
	Not past due	*< 180 days*	*180-360 days*	*>360 days*	*Total*
Expected credit loss rate	5.5%	10.4%	47.5%	86.6%	
Total trade receivables, gross	2,426	289	40	112	2,867
Accumulated impairment loss	(134)	(30)	(19)	(97)	(280)
Total trade receivables, net	**2,292**	**259**	**21**	**15**	**2,587**

Information about the credit risk exposure on the Group's trade receivables as at 31 December 2018 was as follows:

(in PLN millions)		*Days past due*			
	Not past due	*< 180 days*	*180-360 days*	*>360 days*	*Total*
Expected credit loss rate	4.4%	13.3%	62.5%	84.9%	
Total trade receivables, gross	2,708	346	48	106	3,208
Accumulated impairment loss	(119)	(46)	(30)	(90)	(285)
Total trade receivables, net	**2,589**	**300**	**18**	**16**	**2,923**

13.2. Contract assets

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Non-current contract assets	65	27
Current contract assets	117	138
Total contract assets	**182**	**165**

The Group considers there is no concentration of credit risk with respect to contract assets 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 contract assets recognised in the consolidated statement of financial position.

Movements in the contract assets balance for the 12 months ended 31 December 2019 and 2018 were as follows:

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Beginning of period	**165**	**-**
Impact of adoption of IFRS 15	-	325
Additions	189	144
Invoiced amounts transferred to trade receivables	(171)	(310)
Impairment, net	(1)	6
End of period	**182**	**165**

Lower invoiced amounts transferred from contract assets to trade receivables during the 12 months ended 31 December 2019 resulted from a decrease in subsidies granted for mobile handsets sold in bundled offers.

Expected credit loss rate for contract assets as at 31 December 2019 and 2018 amounted to 2.3% and 2.8%, respectively.

13.3. Contract costs

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Non-current contract costs	99	56
Current contract costs	329	297
Total contract costs	**428**	**353**

Contract costs comprise mainly incremental customer acquisition and retention costs.

Movements in the contract costs balance for the 12 months ended 31 December 2019 and 2018 were as follows:

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Beginning of period	**353**	**-**
Impact of adoption of IFRS 15	-	404
Contract costs recognised as assets	568	473
Contract costs expensed	(488)	(518)
Impairment, net	(5)	(6)
End of period	**428**	**353**

13.4. Contract liabilities

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Upfront fee for wholesale access to fibre network (see below)	257	275
Subscription (including unused post-paid balances)	173	181
Unused pre-paid balances	165	175
Connection fees	86	48
Other	134	112
Total contract liabilities	**815**	**791**
Current	471	460
Non-current	344	331

Approximately PLN 460 million of the contract liabilities balance as at 1 January 2019 was recognised as revenue in the 12 months ended 31 December 2019. Approximately PLN 480 million of the contract liabilities balance as at 1 January 2018 was recognised as revenue in the 12 months ended 31 December 2018.

In 2018, the Company and T-Mobile Polska signed a long term contract on telecommunications access to Orange Polska's fiber network in the form of Bitstream Access. OPL S.A. started providing services in December 2018. The fees under the contract comprise mainly a fixed upfront fee of PLN 275 million, a fixed fee for infrastructure set-up, IT systems integration and monthly fees for each customer. The revenue from the contract will be recognised during 15 years which currently is the estimated period of the contract. The Group applies input method to measure revenue for the period with the application of constraint in respect to recognition of revenue to the level that is highly probable not to be reversed in the future. In result, the fixed fee elements will be evenly accounted as revenue over 15 years, while the variable fees dependent on the number of end-customers will be recognised as revenue based on the actual number of customers in the period.

13.5. Performance obligations

As at 31 December 2019 and 2018, the transaction price allocated to unsatisfied performance obligations resulting from contracts with customers amounted to PLN 4,115 million and PLN 3,857 million, respectively. The following table presents the time bands in which the Group expects to satisfy those performance obligations and recognise revenue. More information on the nature of typical contracts with customers and related performance obligations can be found in Note 32.8.

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Within one year	2,482	2,398
Between one and two years	729	654
Between two and three years	173	221
Between three and four years	181	120
Between four and five years	155	100
More than five years	395	364
Total unsatisfied performance obligations	**4,115**	**3,857**

14. Provisions

Movements of provisions for the 12 months ended 31 December 2019 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 2019	**132**	**97**	**456**	**685**
Increases	21	190	105	316
Reversals (utilisations)	(3)	(104)	(8)	(115)
Reversals (releases)	(2)	-	(4)	(6)
Discounting effect	1	1	9	11
At 31 December 2019	**149**	**184**	**558**	**891**
Current	128	107	7	242
Non-current	21	77	551	649

Movements of provisions for the 12 months ended 31 December 2018 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 2018	**757**	**201**	**449**	**1,407**
Increases	26	2	13	41
Reversals (utilisations)	(670)	(102)	(9)	(781)
Reversals (releases)	(6)	(7)	(12)	(25)
Foreign exchange effect	12	-	-	12
Discounting effect	13	3	15	31
At 31 December 2018	**132**	**97**	**456**	**685**
Current	112	97	8	217
Non-current	20	-	448	468

Provisions for claims and litigation, risks and other charges
These provisions relate mainly to claims and litigation described in Note 29. 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 12 December 2019, OPL S.A. concluded with Trade Unions the Social Agreement under which up to 2,100 employees are entitled to take advantage of the voluntary departure package in years 2020-2021. 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 2021.

Increases of provisions for employment termination expense during 12 months ended 31 December 2019 included PLN 184 million of the estimated amount of termination benefits for employees scheduled to terminate employment in OPL S.A. under the 2020-2021 Social Agreement. Other movements of these provisions during the 12 months ended 31 December 2019 and 2018 relate to termination benefits for employees scheduled to terminate employment under the 2018-2019 Social Agreement.

The discount rate used to calculate the present value of provisions for employment termination expense amounted to 1.49% as at 31 December 2019 and 1.60% as at 31 December 2018.

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 discount rate used to calculate the present value of provisions for dismantling amounted to 2.01% as at 31 December 2019 and 3.28% as at 31 December 2018.

15. Trade payables and other liabilities

15.1. Trade payables

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Trade payables	1,466	1,522
Fixed assets payables	751	796
Telecommunications licence payables	498	624
Total trade payables	**2,715**	**2,942**
Current	2,367	2,469
Non-current [(1)]	348	473

[(1)] Includes telecommunications licence payables only.

As at 31 December 2019 and 2018, trade payables subject to reverse factoring amounted to PLN 147 million and PLN 232 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.

15.2. Other liabilities

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Investment grants received	169	204
VAT payables	73	90
Other taxes payables	19	22
Contingent consideration related to BlueSoft acquisition (see Note 4)	35	-
Other	113	86
Total other liabilities	**409**	**402**
Current	359	376
Non-current	50	26

<u>Operational Programme “Digital Poland”</u>

The Group concluded agreements with the “Digital Poland” Project Centre for co-financing of investment projects under the Operational Programme “Digital Poland” (“the Programme”). The Programme aims to strengthen digital foundations for the national development including common access to high-speed Internet, effective and user-friendly public e-services and a continuously rising level of digital competences of the society. Under the second contest of the Programme, the Group was granted PLN 0.7 billion from the Programme funds for the development of the broadband telecommunications network.

In the 12 months ended 31 December 2019 and 2018, Orange Polska received PLN 136 million and PLN 5 million of advances for investment grants under the Programme, respectively. Received advances are presented as cash and cash equivalents and other liabilities in the consolidated statement of financial position. In the 12 months ended 31 December 2019 and 2018, PLN 171 million and PLN 108 million was deducted from the cost of related assets as a result of the Programme, of which PLN 153 million and PLN 64 million, respectively,

was paid to fixed assets suppliers. Investment grants are presented separately within investing activities in the consolidated statement of cash flows.
Grants might not be paid by the financing institution or once obtained might become repayable under certain circumstances resulting from not complying with conditions of the financing. The Group assesses that it is reasonably assured that grants corresponding to the scope of investments completed will be received and they will not become repayable.

16. Employee benefits

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Jubilee awards	95	95
Retirement bonuses	50	49
Salaries and other employee-related payables	204	193
Total employee benefits	**349**	**337**
Current	185	201
Non-current	164	136

On 12 December 2019, OPL S.A. concluded with Trade Unions the Social Agreement for years 2020 - 2021 (see Note 14) in which the Company, as a part of the negotiated employment optimisation programme, committed to make additional contributions in the fixed amount totalling PLN 19 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 2019 and labour expense in the 12 months ended 31 December 2019.

16.1. 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 32.21). 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 2019 and 2018 are detailed below:

(in PLN millions)	*12 months ended 31 December 2019*		
	Jubilee awards	*Retirement bonuses*	*Total*
Present/carrying value of obligation at the beginning of the period	**95**	**49**	**144**
Current service cost [(1)]	8	2	10
Past service cost [(1)] [(4)]	(7)	(10)	(17)
Interest cost [(2)]	2	2	4
Benefits paid	(15)	(1)	(16)
Actuarial losses for the period	12 [(1)]	8 [(3)]	20
Present/carrying value of obligation at the end of the period	**95**	**50**	**145**
Weighted average duration (in years)	7	13	9

[(1)] Recognised under labour expense in the consolidated income statement.
[(2)] Recognised under discounting expense in the consolidated income statement.
[(3)] Recognised under actuarial losses on post-employment benefits in the consolidated statement of comprehensive income.
[(4)] Includes a PLN 24 million impact of curtailment resulting from the Social Agreement concluded on 12 December 2019 (see Note 14).

(in PLN millions)	*12 months ended 31 December 2018*		
	Jubilee awards	*Retirement bonuses*	*Total*
Present/carrying value of obligation at the beginning of the period	**94**	**44**	**138**
Current service cost [1]	8	2	10
Interest cost [2]	3	3	6
Benefits paid	(14)	(4)	(18)
Actuarial losses for the period	4 [1]	4 [3]	8
Present/carrying value of obligation at the end of the period	**95**	**49**	**144**
Weighted average duration (in years)	7	13	9

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

The valuation of obligations as at 31 December 2019 and 2018 was performed using the following assumptions:

	At 31 December 2019	*At 31 December 2018*
Discount rate	1.9%	2.9%
Long-term wage increase rate	2.5%	2.5%

A change of the discount rate by 0.5 p.p. would increase or decrease the present/carrying value of obligations related to long-term employee benefits by PLN 6 million as at 31 December 2019.

16.2. 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 the 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 could 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 tables illustrate 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 2019	**1,980,000**	**513,000**	**1,197,000**
Forfeited during the year	(30,000)	(31,500)	(73,500)
Outstanding at 31 December 2019	**1,950,000**	**481,500**	**1,123,500**
Average fair value per unit (in PLN) at 31 December 2019	**5.19**	**5.19**	**1.55**

(number)		*Options for additional phantom shares*	
	Phantom shares - basic pool	*NPS condition*	*Share price condition*
Outstanding at 1 January 2018	**2,000,000**	**549,000**	**1,281,000**
Granted during the year	15,000	4,500	10,500
Forfeited during the year	(35,000)	(40,500)	(94,500)
Outstanding at 31 December 2018	**1,980,000**	**513,000**	**1,197,000**
Average fair value per unit (in PLN) at 31 December 2018	**2.01**	**2.01**	**0.36**

The following tables illustrate the key assumptions used in calculation of the fair value of phantom shares and options for phantom shares granted by OPL S.A. as at 31 December 2019 and 2018:

At 31 December 2019		*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	34%	34%	34%
Risk-free interest rate	1.69%	1.69%	1.69%
Dividend yield (1)	0.00%	0.00%	0.00%
Expiry date	1st quarter 2021	4th quarter 2020	4th quarter 2020
Model used	Black-Scholes	Black-Scholes	Black-Scholes
Date of vesting period end	30 September 2019	1 October 2020	1 October 2020

(1) Dividend yield assumes no dividend payment in 2020, which reflects mean expectation of market consensus and does not constitute any guidance or commitment from the Company regarding future dividend payments.

At 31 December 2018		*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	1.81%	1.81%	1.81%
Dividend yield (1)	0.93%	0.93%	0.93%
Expiry date	1st quarter 2021	4th quarter 2020	4th quarter 2020
Model used	Black-Scholes	Black-Scholes	Black-Scholes
Date of vesting period end	30 September 2019	1 October 2020	1 October 2020

(1) Dividend yield assumes dividend payment of PLN 0.10 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 the 12 months ended 31 December 2019 and 2018 amounted to PLN 10 million and PLN 3 million, respectively. The carrying amount of liabilities recognised as employee benefits as at 31 December 2019 and 2018 amounted to PLN 13 million and PLN 3 million, respectively.

17. Finance income and expense

(in PLN millions)	*12 months ended 31 December 2019*							
	Financial assets				*Derivatives*			
	At amortised cost	*At fair value through other comprehensive income* [(1)]	*Lease liabilities IFRS 16 basis*	*Financial liabilities at amortised cost*	*Hedging*	*Held for trading* [(2)]	*Non-financial items* [(3)]	*Total*
Interest income	37	3	-	-	-	-	-	40
Interest expense on lease liabilities	-	-	(50)	-	-	-	-	(50)
Other interest expense and financial charges, including:	(1)	-	-	(158)	(71)	(10)	-	(240)
– *interest expense*	-	-	-	*(162)* [(4)]	*(76)*	*(7)*	-	*(245)*
– *foreign exchange gains/(losses)*	*(1)*	-	-	*4*	*(4)*	*(3)*	-	*(4)*
– *ineffectiveness on derivatives hedging interest rate risk* [(5)]	-	-	-	-	*9*	-	-	*9*
Discounting expense	-	-	-	(33)	-	1	(16)	(48)
– *including foreign exchange gains*	-	-	-	*1*	-	*1*	-	*2*
Total finance costs, net	**36**	**3**	**(50)**	**(191)**	**(71)**	**(9)**	**(16)**	**(298)**
Interest income/(expense)	12 [(6)]	-	-	(1)	-	-	-	11
Impairment losses	(131)	(7)	-	-	-	-	-	(138)
Foreign exchange gains/(losses)	(1)	-	7	(1)	-	(2)	-	3
Labour expense	-	-	-	-	3	2	-	5
Items recognised under operating income	**(120)**	**(7)**	**7**	**(2)**	**3**	**-**	**-**	**(119)**

[(1)] Selected trade receivables arising from sales of mobile handsets in instalments (see Note 13.1).
[(2)] Derivatives economically hedging commercial or financial transactions.
[(3)] Includes mainly provisions and employee benefits.
[(4)] Includes mainly interest expense on loans from related party.
[(5)] Hedging ineffectiveness results mainly from designation of non-zero fair value derivatives in hedge relationships.
[(6)] Late payment interest on trade receivables.

(in PLN millions)	*12 months ended 31 December 2018*							
	Financial assets at amortised cost				*Derivatives*			
	Trade receivables	*Other*	*Lease liabilities IAS 17 basis*	*Financial liabilities at amortised cost*	*Hedging*	*Held for trading* [(1)]	*Non-financial items* [(2)]	*Total*
Interest income	36	3		-	-	-	-	39
Interest expense on lease liabilities	-	-	(4)	-	-	-	-	(4)
Other interest expense and financial charges, including:	-	-	-	(227)	(16)	(14)	-	(257)
– *interest expense*	-	-	-	*(140)* [(3)]	*(116)*	*(15)*	-	*(271)*
– *foreign exchange gains/(losses)*	-	-	-	*(87)*	*86*	*1*	-	-
– *ineffectiveness on derivatives hedging interest rate risk* [(4)]	-	-	-	-	*14*	-	-	*14*
Discounting expense	-	-	-	(50)	-	2	(35)	(83)
– *including foreign exchange gains/(losses)*	-	-	-	*(9)*	-	*2*	*(2)*	*(9)*
Total finance costs, net	**36**	**3**	**(4)**	**(277)**	**(16)**	**(12)**	**(35)**	**(305)**
Interest income	12 [(5)]	-	-	-	-	-	-	12
Impairment losses	(165)	3	-	-	-	-	-	(162)
Foreign exchange gains/(losses)	4	-	-	(10)	-	23	(12)	5
Items recognised under operating income	**(149)**	**3**	-	**(10)**	-	**23**	**(12)**	**(145)**

(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) Hedging ineffectiveness results mainly from designation of non-zero fair value derivatives in hedge relationships.
(5) Late payment interest on trade receivables.

18. Net financial debt

Net financial debt is a measure of indebtedness used by the Management Board. Since the calculation of this aggregate is not defined by IFRS, the methodology adopted by the Group is presented below. Starting from 2019, following the adoption of IFRS 16 (see Note 2.2), the Group redefined net financial debt and currently the measure excludes lease liabilities. As a result, comparative amounts in this note were adjusted.

(in PLN millions)	*Note*	*At 31 December 2019*	*At 31 December 2018*
Loans from related party	19	6,442	7,332
Other financial liabilities at amortised cost		69	21 [(1)]
Derivatives – net (liabilities less assets)	22	30	(50)
Gross financial debt after derivatives		**6,541**	**7,303** [(1)]
Cash and cash equivalents	21	(404)	(611)
Cash flow hedge reserve		(50)	(20)
Net financial debt		**6,087**	**6,672** [(1)]

(1) Excludes PLN 178 million of finance lease liabilities at 31 December 2018.

19. Loans from related party

(in millions of currency)		*Amount outstanding at [1]*			
		31 December 2019		*31 December 2018*	
Creditor	*Repayment date*	*Currency*	*PLN*	*Currency*	*PLN*
Floating rate					
Atlas Services Belgium S.A. (EUR)	20 May 2019	-	-	480	2,065
Atlas Services Belgium S.A. (EUR)	20 May 2021	190	809	190	817
Atlas Services Belgium S.A. (PLN)	20 June 2021	2,700	2,700	2,698	2,698
Atlas Services Belgium S.A. (PLN) [2]	25 March 2022	678	678	997	997
Atlas Services Belgium S.A. (PLN)	20 May 2024	1,499	1,499	-	-
Fixed rate					
Atlas Services Belgium S.A. (PLN)	27 March 2023	756	756	755	755
Total loans from related party			**6,442**		**7,332**
Current			11		2,074
Non-current			6,431		5,258

[1] Includes accrued interest and arrangement fees.
[2] Revolving credit line.

On 11 February 2019, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 1,500 million with repayment date in May 2024. The new Loan Agreement, together with the Revolving Credit Facility, provided non-cash-refinancing of EUR 480 million loan granted by Atlas Services Belgium S.A., which expired in May 2019.

The weighted average effective interest rate on loans from related party, before and after swaps, amounted respectively to 2.47% and 3.12% as at 31 December 2019 (1.94% and 3.46% as at 31 December 2018).

20. 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)	*Lease liabilities*	*Loans from related party*	*Other financial liabilities at amortised cost*	*Derivatives hedging liabilities from financing activities [1]*	*Total liabilities from financing activities*
Note		*19*		*22*	
Amount outstanding as at 31 December 2018	**178**	**7,332**	**21**	**(50)**	**7,481**
Impact of IFRS 16 adoption	1,394	-	-	-	1,394
Amount outstanding as at 1 January 2019	**1,572**	**7,332**	**21**	**(50)**	**8,875**
Net cash flows provided by:	(310)	(1,046)	43	(16)	(1,329)
– *financing activities*	*(279)*	*(887)*	*44*	*58*	*(1,064)*
– *operating activities [2]*	*(31)*	*(159)*	*(1)*	*(74)*	*(265)*
Non-cash changes:	719	156	5	84	964
– *foreign exchange (gains)/losses*	*(7)*	*(4)*	-	*4*	*(7)*
– *fair value change, excluding foreign exchange losses*	-	-	-	*80*	*80*
– *other changes*	*726* [3]	*160* [4]	*5* [4]	-	*891*
Amount outstanding as at 31 December 2019	**1,981**	**6,442**	**69**	**18**	**8,510**

[1] Includes derivatives economically hedging liabilities from financing activities.
[2] Includes interest paid.
[3] Includes mainly recognition of new contracts and modification of existing contracts.
[4] Includes accrued interest and arrangement fees.

(in PLN millions)	*Lease liabilities*	*Loans from related party*	*Other financial liabilities at amortised cost*	*Derivatives hedging liabilities from financing activities [1]*	*Total liabilities from financing activities*
Note		*19*		*22*	
Amount outstanding as at 1 January 2018	**83**	**6,969**	**30**	**26**	**7,108**
Net cash flows provided by:	(46)	139	(9)	(108)	(24)
– *financing activities*	*(42)*	*270*	*(9)*	-	*219*
– *operating activities [2]*	*(4)*	*(131)*	-	*(108)*	*(243)*
Non-cash changes:	141	224	-	32	397
– *foreign exchange (gains)/losses*	-	*86*	*1*	*(87)*	-
– *fair value change, excluding foreign exchange gains*	-	-	-	*119*	*119*
– *other changes*	*141* [3]	*138* [4]	*(1)*	-	*278*
Amount outstanding as at 31 December 2018	**178**	**7,332**	**21**	**(50)**	**7,481**

[1] Includes derivatives economically hedging liabilities from financing activities.
[2] Includes interest paid.
[3] Includes mainly recognition of new contracts.
[4] Includes accrued interest and arrangement fees.

21. Cash and cash equivalents

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Current bank accounts, overnight deposits and cash on hand	146	159
Bank accounts dedicated for investment grants (see Note 15.2)	228	245
Deposits with Orange S.A.	29	203
Bank deposits up to 3 months	1	4
Total cash and cash equivalents	**404**	**611**

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.

22. Derivatives

As at 31 December 2019 and 2018, 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 item*	*Nominal amount (in millions)*	*Maturity*	*Weighted average price or rate*	*Financial asset*	*Financial liability*
		At 31 December 2019				
Derivative instruments - cash flow hedge						
Currency and interest rate risk						
CCIRS	Loan from related party	187 EUR	2021	4.05	37	-
				EURIB 6M + 0.28%-> WIBOR 6M + 0.54%		
Interest rate risk						
IRS	Loans from related party	5,450 PLN	2021-2024	WIBOR 1/3/6M -> 2.13%	-	(55)
Currency risk						
NDF	Purchase of inventories	158 EUR	2020	4.36	-	(10)
NDF	Purchase of inventories	1 USD	2020	3.90	-	-
Share price risk						
Stock option	Share-based payment plan (see Note 16.2)	2 shares	2021	5.22	4	-
Total cash flow hedges					41	(65)
Derivative instruments - held for trading [2]						
Currency and interest rate risk						
CCIRS	Loan from related party	3 EUR	2021	4.05	1	-
				EURIB 6M + 0.28%-> WIBOR 6M + 0.53%		
Currency risk						
NDF	2100 MHz licence payable	35 EUR	2020	4.40	-	(4)
NDF	Commercial transactions	46 EUR	2020	4.35	-	(3)
NDF	Lease liabilities	21 EUR	2020	4.34	-	(1)
NDF	Bank borrowing	2 USD	2020	3.73	-	-
NDF	Commercial transactions	34 USD	2020	3.86	-	(2)
NDF	Lease liabilities	1 USD	2020	3.85	-	-
Share price risk						
Stock option	Share-based payment plan (see Note 16.2)	2 shares	2020-2021	5.13	3	-
Total derivatives held for trading					4	(10)
Total derivative instruments					**45**	**(75)**
Current					1	(20)
Non–current					44	(55)

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

(in PLN millions)					*Fair value*	
Type of instrument [(1)]	*Hedged item*	*Nominal amount (in millions)*	*Maturity*	*Weighted average price or rate*	*Financial asset*	*Financial liability*
		At 31 December 2018				
Derivative instruments - cash flow hedge						
Currency and interest rate risk						
CCIRS	Loans from related party	667 EUR	2019-2021	4.15	97	-
				EURIB 6M + 0.91%-> WIBOR 6M + 0.93%		
Interest rate risk						
IRS	Loans from related party	5,950 PLN	2019-2022	WIBOR 1/3/6M -> 2.6%	-	(48)
Currency risk						
NDF	Purchase of inventories	95 EUR	2019	4.33	-	(1)
NDF	Purchase of inventories	2 USD	2019	3.65	-	-
Share price risk						
Stock option	Share-based payment plan (see Note 16.2)	2 shares	2021	5.22	1	-
Total cash flow hedges					98	(49)
Derivative instruments - held for trading [(2)]						
Currency and interest rate risk						
CCIRS	Loan from related party	3 EUR	2021	4.05	1	-
				EURIB 6M + 0.28%-> WIBOR 6M + 0.53%		
Currency risk						
NDF	2100 MHz licence payable	28 EUR	2019	4.36	-	(1)
NDF	Commercial transactions	20 EUR	2019	4.32	-	-
NDF	Bank borrowing	4 USD	2019	3.68	-	-
NDF	Commercial transactions	2 USD	2019	3.65	-	-
Share price risk						
Stock option	Share-based payment plan (see Note 16.2)	2 shares	2020-2021	5.13	1	-
Total derivatives held for trading					2	(1)
Total derivative instruments					**100**	**(50)**
Current					52	(19)
Non–current					48	(31)

[(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 cash flow hedge reserve is presented below:

(in PLN millions)	*12 months ended 31 December 2019*			*12 months ended 31 December 2018*		
	Before tax	*Tax*	*After tax*	*Before tax*	*Tax*	*After tax*
Total cash flow hedge reserve – beginning of period	**(20)**	**4**	**(16)**	**(2)**	**-**	**(2)**
- *interest rate risk*	*(20)*	*4*	*(16)*	*5*	*(1)*	*4*
- *currency risk*	*1*	*-*	*1*	*(7)*	*1*	*(6)*
- *share price risk*	*(1)*	*-*	*(1)*	*-*	*-*	*-*
Effective part of gains/(losses) on hedging instrument: [(1)]	(94)	18	(76)	(34)	7	(27)
- *interest rate risk*	*(89)*	*17*	*(72)*	*(132)*	*25*	*(107)*
- *currency risk*	*(9)*	*2*	*(7)*	*99*	*(18)*	*81*
- *share price risk*	*4*	*(1)*	*3*	*(1)*	*-*	*(1)*
Reclassification to the income statement, adjusting: [(1)]	67	(13)	54	21	(4)	17
- *interest expense presented in finance costs, net*	*66*	*(13)*	*53*	*107*	*(20)*	*87*
- *foreign exchange (gains)/losses presented in finance costs, net*	*4*	*(1)*	*3*	*(86)*	*16*	*(70)*
- *labour expenses*	*(3)*	*1*	*(2)*	*-*	*-*	*-*
Foreign exchange gains transferred to inventories	(3)	-	(3)	(5)	1	(4)
Total cash flow hedge reserve – end of period	**(50)**	**9**	**(41)**	**(20)**	**4**	**(16)**
- *interest rate risk*	*(43)*	*8*	*(35)*	*(20)*	*4*	*(16)*
- *currency risk*	*(7)*	*1*	*(6)*	*1*	*-*	*1*
- *share price risk*	*-*	*-*	*-*	*(1)*	*-*	*(1)*

[(1)] Recognised under gains/losses on cash flow hedges in the consolidated statement of comprehensive income.

Gains/losses on cash flow hedges cumulated in cash flow hedge reserve as at 31 December 2019 are expected to mature and affect the consolidated income statement in years 2020-2024.

23. Fair value of financial instruments

23.1. 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 22 and selected trade receivables arising from sales of mobile handsets in instalments described in Note 13.1. The Group classifies these financial assets and liabilities to Level 2 fair value measurements.

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

As at 31 December 2019 and 2018, the carrying amount of the Group financial instruments excluding lease liabilities, except for telecommunications licence payables, approximated their fair value due to relatively short term maturity of those instruments, cash nature, variable interest rates or immaterial difference between the original effective interest rates and current market rates.

A comparison of carrying amounts and fair value of telecommunications licence payables, 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 2019*		*At 31 December 2018*	
	Note	*Carrying amount*	*Estimated fair value Level 2*	*Carrying amount*	*Estimated fair value Level 2*
Telecommunications licence payables	15.1	498	563	624	708

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.

24. Objectives and policies of financial risk management

24.1. Principles of financial risk management

The Group is exposed to financial risks arising mainly from financial instruments that are issued or held as part of its operating and financing activities. That exposure can be principally classified as market risk (encompassing currency risk, interest rate risk and OPL S.A. 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 strategies developed 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.

24.2. Hedge accounting

The Group has entered into numerous derivative transactions to hedge exposure to currency risk, interest rate risk and OPL S.A. 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 IFRS 9 (see Note 32.17). The cash flow hedges are used to hedge the variability of future cash flows that is attributable to a particular risk and could affect the consolidated income statement. The terms of the hedging instruments match the terms of the hedged items. The Group has established hedge ratios at the level of 1:1 as the underlying risks of the hedging instruments are identical to the hedged risks. Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessment to ensure that an economic relationship exists between the hedged item and the hedging instrument.

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 IFRS 9 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 S.A. share price risk.

Detailed information on derivative financial instruments, including hedging relationship, that are used by the Group is presented in Note 22.

24.3. Currency risk

The Group is exposed to foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies, mainly loan from related party (see Note 19), lease liabilities, bank borrowings and 2100 MHz licence payable.

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 currency 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.

Hedge ineffectiveness may arise from currency basis spread included in the hedging instrument that does not occur in the hedged instrument, a difference between the counterparty credit risk and the own credit risk and changes to the forecasted amount of cash flows of hedged items.

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

	Hedge rate	
Currency exposure	*At 31 December 2019*	*At 31 December 2018*
Loans from related party and bank borrowings	99.7%	99.9%
2100 MHz licence payable	44.6%	27.8%
Lease liabilities	13.1%	Not applicable

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 1% 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 2019		*At 31 December 2018*		*At 31 December 2019*		*At 31 December 2018*	
					+1%	*-1%*	*+1%*	*-1%*
Currency exposure	*Currency*	*PLN*	*Currency*	*PLN*	*PLN*		*PLN*	
2100 MHz licence payable (EUR)	43	185	73	313	2	(2)	3	(3)
Lease liabilities (EUR)	140	596	-	-	6	(6)	-	-
Lease liabilities (USD)	6	22	-	-	-	-	-	-
Total		**803**		**313**	**8**	**(8)**	**3**	**(3)**

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 cash flow hedge reserve resulting from a hypothetical 1% depreciation/appreciation of the PLN against other currencies would amount to PLN 7/(7) million and PLN 4/(4) million as at 31 December 2019 and 2018, respectively.

24.4. Interest rate risk

The interest rate risk is a risk that the fair value or future cash flows of the financial instrument will change due to interest rates changes. The Group has interest bearing financial liabilities consisting mainly of loans from related party and bank borrowings (see Notes 19 and 30.2).

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 2019 and 2018, the Group's proportion between fixed/floating rate debt (after hedging activities) was 96/4% and 93/7%, respectively.

Hedge ineffectiveness may arise from designation of non-zero fair value derivatives in hedge relationships and a difference between the counterparty credit risk and the own credit risk.

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 2019				*At 31 December 2018*			
	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	2	(2)	(4)	4	(4)	4	(1)	1
Other reserves	113	(117)	(4)	4	99	(101)	(12)	12

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 22),
- other reserves include the change in the fair value of derivatives that is determined as effective cash flow hedge (see Note 22),
- as at 31 December 2019, the gross financial debt based on floating rate (after hedging) amounted to PLN 251 million (as at 31 December 2018, PLN 530 million).

24.5. Share price risk

The Group is exposed to share price risk arising from cash-settled share-based payment plan (see Note 16.2). The Group hedges its exposure entering into stock options, under which the Group has right to receive cash if OPL S.A. 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 2019 and 2018, 100% of cash-settled share-based payment plan was hedged.

Hedge ineffectiveness may arise from a difference in the strike price of the hedged and hedging item, various types of hedged and hedging instruments and a difference between counterparty credit risk and own credit risk.

The sensitivity analysis prepared by the Group indicated that the potential gains/losses resulting from a reasonably possible change of OPL S.A. share price would have an insignificant impact on the consolidated income statement and other reserves as at 31 December 2019 and 2018.

24.6. 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 500 million. No drawdown was made on this facility as at 31 December 2019. The Group also has a revolving credit line from the Orange Group for up to PLN 1,500 million and other credit lines for up to PLN 248 million, of which PLN 732 million was used as at 31 December 2019. Therefore, as at 31 December 2019, the Group had unused credit facilities amounting to PLN 1,516 million (as at 31 December 2018, PLN 2,445 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 2019	*At 31 December 2018*
Liquidity ratio (incl. derivatives) - next 12 months [(1)]	609%	129%
Unused credit facilities (excluding short term)	1,320	2,255
Cash and cash equivalents	404	611
Debt repayments [(2)]	212	2,201
Derivatives repayments [(3)]	71	20
Liquidity ratio (incl. derivatives) - next 18 months [(1)]	45%	124%
Unused credit facilities (excluding short term)	1,320	2,255
Cash and cash equivalents	404	611
Debt repayments [(2)]	3,800	2,268
Derivatives repayments [(3)]	52	36
Current liquidity ratio (incl. unused credit facilities)	118%	105%
Unused credit facilities (excluding short term)	1,320	2,255
Total current assets	3,493	3,969
Total current liabilities	4,092	5,946

[(1)] The ratio does not include future cash flows from operating or investing activities, nor debt refinancing.
[(2)] Undiscounted contractual cash flows on loans from related party and bank borrowings.
[(3)] Undiscounted contractual cash flows on derivatives.

The maturity analysis for the contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2019 and 2018 is presented below.

As at 31 December 2019 and 2018, 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 2019 and 2018, respectively.

(in PLN millions)	*At 31 December 2019*									
			Undiscounted contractual cash flows [(1)]							
				Non-current						
	Note	*Carrying amount*	*Within 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total non-current*	*Total*
Loans from related party	19	6,442	154	3,623	748	802	1,518	-	6,691	6,845
Other financial liabilities at amortised cost		69	60	10	-	-	-	-	10	70
Derivative assets	22	(45)	18	(32)	-	-	-	-	(32)	(14)
Derivative liabilities	22	75	53	18	7	5	2	-	32	85
Gross financial debt after derivatives		**6,541**	**285**	**3,619**	**755**	**807**	**1,520**	**-**	**6,701**	**6,986**
Trade payables	15.1	2,715	2,373	144	156	24	24	72	420	2,793
Lease liabilities	20	1,981	356	318	268	191	155	1,462	2,394	2,750
Total financial liabilities (including derivative assets)		**11,237**	**3,014**	**4,081**	**1,179**	**1,022**	**1,699**	**1,534**	**9,515**	**12,529**

[(1)] Includes both nominal and interest payments.

(in PLN millions)			At 31 December 2018							
			Undiscounted contractual cash flows [1]							
				Non-current						
	Note	*Carrying amount*	*Within 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total non-current*	*Total*
Loans from related party	19	7,332	2,194	128	3,613	1,032	762	-	5,535	7,729
Other financial liabilities at amortised cost		21	8	7	3	-	-	-	10	18
Derivative assets	22	(100)	(18)	17	(40)	-	-	-	(23)	(41)
Derivative liabilities	22	50	38	14	2	-	-	-	16	54
Gross financial debt after derivatives		**7,303**	**2,222**	**166**	**3,578**	**1,032**	**762**	**-**	**5,538**	**7,760**
Trade payables	15.1	2,942	2,475	157	145	157	24	97	580	3,055
Lease liabilities	20	178	71	43	35	29	11	-	118	189
Total financial liabilities (including derivative assets)		**10,423**	**4,768**	**366**	**3,758**	**1,218**	**797**	**97**	**6,236**	**11,004**

[1] Includes both nominal and interest payments.

The average duration for the existing debt portfolio as at 31 December 2019 was 2.4 years (2.2 years as at 31 December 2018).

24.7. 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 13.1, 13.2, 21, 22.

25. Income tax

25.1. Income tax

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Current income tax	(2)	(44)
Deferred tax	(25)	14
Total income tax	**(27)**	**(30)**

The reconciliation between the income tax expense and the theoretical tax calculated based on the Polish statutory tax rate was as follows:

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Net income before tax	**118**	**40**
Statutory tax rate	19%	19%
Theoretical tax	**(22)**	**(8)**
Tax relief on research and development	9	-
Unrecognised deferred tax asset on tax capital losses	(5)	(5)
Expenses not deductible for tax purposes	(9)	(17)
Total income tax	**(27)**	**(30)**

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

25.2. Deferred tax

(in PLN millions)	*Consolidated statement of financial position*		*Consolidated income statement*	
	At 31 December 2019	*At 31 December 2018*	*12 months ended 31 December 2019*	*12 months ended 31 December 2018*
Property, plant and equipment, intangible assets and right-of-use assets, net	398	423	(16)	23
Unused tax losses	48	87	(39)	(76)
Receivables and payables	132	102	29	10
Contract assets and contract costs	(116)	(96)	(20)	43
Contract liabilities	122	138	(16)	43
Employee benefits	54	53	-	(6)
Provisions	157	119	38	(22)
Net financial debt	16	12	(2)	(7)
Other	(3)	(4)	1	6
Deferred tax assets, net [(1)]	**808**	**834**		
Total deferred tax			**(25)**	**14**

[(1)] During the 12 months ended 31 December 2019, deferred tax assets, net were decreased by PLN 8 million as the effect of the acquisition of BlueSoft Sp. z o.o. (see Note 4). During the 12 months ended 31 December 2019 and 2018, PLN 7 million and PLN 4 million of change in deferred tax assets was recognised in the consolidated statement of comprehensive income, respectively.

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), which are considered as a positive evidence supporting the recognition of deferred tax assets.

Deferred tax assets as at 31 December 2019 include PLN 758 million of deferred tax asset in OPL S.A., of which PLN 37 million is recognised on tax losses incurred in 2016 and 2017. In 2019 and 2018 OPL S.A. had tax profits on operating activities and utilised PLN 667 million of its tax losses from previous years, which is an additional positive evidence supporting the Company's assessment of its ability to generate future taxable profits to utilise the recognised deferred tax assets, including deferred tax asset on tax losses from prior years before they expire in 2022 and 2023.

Significant amount of the Group's deferred tax assets relates to property, plant and equipment and intangible assets and has been recognised on temporary differences arising mainly from different tax and accounting depreciation rates used by the Group. As a result, the estimated period required to utilise this deferred tax asset is dependent on useful lives of items of property, plant and equipment and intangible assets estimated for accounting and tax purposes. The majority of deferred tax asset relating to property, plant and equipment and intangible assets is expected to be utilised after year 2023.

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 2019 and 2018, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 85 million and PLN 76 million gross, of which PLN 81 million and PLN 50 million, respectively, are related to incurred tax losses, which are expected to expire rather than to be realised.

26. Equity

26.1. Share capital

As at 31 December 2019 and 2018, 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 2019 and 2018 was as follows:

(in PLN millions)	*At 31 December 2019*			*At 31 December 2018*		
	% 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**

26.2. Dividend

In accordance with the recommendation of the Management Board of the Company there was no dividend paid in 2019.

OPL S.A.'s retained earnings available for dividend payments to the Group's shareholders amounted to PLN 4.0 billion as at 31 December 2019. 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 2019 was available for dividend payments by subsidiaries to OPL S.A.

On 12 February 2020, the Management Board of Orange Polska S.A. adopted a resolution not to recommend payment of any dividend in 2020.

26.3. Equity-settled share-based payment plan

Orange S.A. operates a long term incentive plan ("LTIP"), under which key managers of the Orange Polska Group were awarded a defined number of free shares of Orange S.A., subject to performance conditions and continuous service in the Orange Group. The fair value of services rendered by managers for granting equity instruments of Orange S.A. recognised in labour expense in 2019 and 2018 amounted to PLN 3 million and PLN 1 million, respectively. More information on LTIP can be found in the Remuneration Report contained in Section 9.3 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 2019.

27. 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 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. From 2019, the Group monitors capital on the basis of net financial debt and net financial debt to EBITDAaL ratio, previously on the basis of net financial debt and net financial debt to adjusted EBITDA ratio (see Note 3).

28. 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 2019*	*At 31 December 2018*
Property, plant and equipment	810	943
Intangibles	68	82
Total investment commitments	**878**	**1,025**
Amounts contracted to be payable within 12 months after the end of the reporting period	543	781

Investment commitments relate mainly to development of telecommunications network, purchases of telecommunications network equipment, IT systems and other software.

As at 31 December 2019 and 2018, the Group's commitments for the purchase of property, plant and equipment and intangible assets under the Operational Programme "Digital Poland" (see Note 15.2), contracted for at the end of the reporting period but not recognised in the consolidated financial statements amounted to PLN 449 million and PLN 698 million, respectively.

29. 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 retail prices of calls to Play
In 2013, UOKiK commenced competition proceedings against Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. UOKiK alleged that they abused collective dominant position and the abuse consisted in the fact 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.
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.

In September 2015, Orange Polska received a lawsuit filed by P4 with the Court under which P4 claims for damages, in the amount of PLN 316 million (PLN 231 million and PLN 85 million of capitalised interest) relating to the retail mobile prices for a period between July 2009 and March 2012. P4 claims jointly and severally towards Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A.
On 2 July 2018, P4 extended its claim by the amount of PLN 314 million (PLN 258 million and PLN 56 million of capitalised interest). The factual basis for both claims is the same (retail price difference) but as regards the claim extension the period for which damages are calculated is different i.e. from April 2012 to December 2014.
On 29 November 2018 the court excluded P4's claim for PLN 314 million to separate court proceedings.
On 27 December 2018 the court of first instance dismissed P4's claim for PLN 316 million in its entirety. P4 appealed that verdict to the Appeal Court.

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 in 2015, the Appeal Court maintained the verdict of SOKiK in 2017 and, on 31 October 2019, the Supreme Court dismissed the cassation claim by UOKiK.
In connection with the decision of UOKiK of 2011, 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. On 11 December 2013, at the session held at the Court the parties did not reach an agreement.
In 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. In November 2019 Magna Polonia withdrew its statement of claim and, on 13 December 2019, the court discontinued the proceedings.

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 30 April 2020.
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.

Other proceedings by UOKiK and UKE
As at 31 December 2019, 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. 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.

c. 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.

The Tax Office finalised a tax audit relating to OPL S.A.'s corporate income tax settlements for the fiscal year ended 31 December 2016. Findings from the audit were summarised in a tax audit protocol delivered to the Company on 1 October 2018, based on which tax proceedings were subsequently launched against the Company. The Company does not agree with the findings of the controllers and believes that the issues raised in the tax audit protocol are without merit and the possibility of ultimate outflow of resources in the ongoing proceedings is low.

d. 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.

e. 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 29.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.

30. Related party transactions

30.1. 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 2019*		
	Fixed compensation expense	*Variable compensation expense*	*Total compensation expense*
Short-term benefits excluding employer social security payments	11,943	5,497 [1]	17,440
Post-employment benefits	1,788	-	1,788
Share-based payment plans	-	2,574	2,574
Total	**13,731**	**8,071**	**21,802**

[1] Includes bonuses accrued in 2019 to be paid in 2020, excludes bonuses accrued in 2018 and paid in 2019.

(in PLN thousands)	*12 months ended 31 December 2018*		
	Fixed compensation expense	*Variable compensation expense*	*Total compensation expense*
Short-term benefits excluding employer social security payments	9,909	3,900 [1]	13,809
Post-employment benefits	1,502	-	1,502
Share-based payment plans	-	809	809
Total	**11,411**	**4,709**	**16,120**

[1] Includes bonuses accrued in 2018 and paid in 2019, excludes bonuses accrued in 2017 and paid in 2018.

Additionally, Section 9.3 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 2019 includes the Remuneration Report, where more details on Management Board and Supervisory Board compensation can be found.

30.2. Related party transactions

As at 31 December 2019, Orange S.A. owned 50.67% of shares of the Company. Orange S.A. has majority of the total number of votes at the General Meeting of OPL S.A. which appoints OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board. According to the Company's Articles of Association, at least 4 Members of the Supervisory Board must be independent. The majority of Members of the Audit Committee of the Supervisory Board are independent.

The Group's income earned from the Orange Group comprises mainly wholesale telecommunications services and research and development income. The purchases from the Orange Group comprise mainly brand fees and wholesale telecommunications services.

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. In 2019 the parties renewed the existing contract until 31 December 2020 with no changes to the financial terms and conditions.

Until 31 December 2019, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded loan agreements for EUR 190 million, PLN 4,950 million and Revolving Credit Facility Agreement for up to PLN 1,500 million (see Note 19). 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 2019 was EUR 190 million and PLN 5,450 million, respectively, with a total negative fair value of PLN 17 million (as at 31 December 2018, nominal amount of EUR 670 million and PLN 5,950 million with a total fair value of PLN 50 million).

Financial receivables, payables, financial costs, net and other comprehensive loss 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 24.6).

(in PLN millions)	*12 months ended*	
	31 December 2019	*31 December 2018*
Sales of goods and services and other income:	**229**	**211**
Orange S.A. (parent)	146	119
Orange Group (excluding parent)	83	92
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(236)**	**(249)**
Orange S.A. (parent)	(62)	(76)
Orange Group (excluding parent)	(174)	(173)
- including Orange Brand Services Limited (brand licence agreement)	*(112)*	*(113)*
Financial costs, net:	**(216)**	**(231)**
Orange S.A. (parent)	(61)	(6)
Orange Group (excluding parent)	(155)	(225)
Other comprehensive loss:	**(23)**	**(25)**
Orange S.A. (parent)	(23)	(25)

(in PLN millions)	*At 31 December 2019*	*At 31 December 2018*
Receivables:	**97**	**86**
Orange S.A. (parent)	64	47
Orange Group (excluding parent)	33	39
Liabilities:	**100**	**96**
Orange S.A. (parent)	49	47
Orange Group (excluding parent)	51	49
Financial receivables:	**38**	**98**
Orange S.A. (parent)	38	98
Cash and cash equivalents deposited with:	**29**	**203**
Orange S.A. (parent)	29	203
Financial liabilities:	**6,497**	**7,380**
Orange S.A. (parent)	55	48
Orange Group (excluding parent)	6,442	7,332

31. Subsequent events

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

32. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2019.

32.1. 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 2019 may be subsequently changed. The main estimates and judgements made are described in the following notes:

Note		*Estimates and judgements*
5, 32.8	Revenue	Allocation of transaction price to each performance obligation based on stand-alone selling price. Estimating stand-alone selling prices of performance obligations. 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). Estimation of early termination fees charged to customers.
8, 32.16	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.
12, 32.14	Leases	Key assumptions used to measure the lease liability and the right of use assets: lease term, discount rate and usage of options. Application of portfolio approach to certain leases.
10, 11, 32.12, 32.13	Useful lives of tangible and intangible assets (excluding goodwill)	The useful lives and the method of depreciation and amortisation.
11, 15.2, 32.13	Property, plant and equipment - investment grants	The assumptions underlying the measurement and recognition of investment grants obtained.
13.1, 13.2, 32.17	Impairment of financial assets	Key assumptions used to determine impairment of financial assets: expected credit loss rate (including incorporation of forward looking information), grouping of financial assets.
14, 29, 32.20	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.
14	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
16, 32.21, 32.22	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.
22, 23, 32.17	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
25, 32.19	Income tax	Assumptions used for recognition of deferred tax assets. Assumptions used to determine taxable results and tax bases for uncertain tax treatments.
32.18	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), provisions for claims, litigation and risks (see Notes 14 and 29) and leases (see Notes 2.2 and 12).

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.

32.2. Standards and interpretations issued but not yet adopted

– 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.

32.3. 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.
IFRS 9	Financial instruments	Recognition of the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets that contain a significant financing component.
IFRS 16	Leases	Right of use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right of use assets are presented separately from other assets in the statement of financial position. The Group elected to apply the short term exemption and the exemption for low value leases, as described in IFRS 16. The Group does not apply IFRS 16 to leases of intangible assets.

32.4. Presentation of the financial statements

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

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

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

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

<u>Earnings/loss per share</u>

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.

32.5. 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.

32.6. Investments in joint arrangements

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

32.7. 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 and lease contracts,
- in financial income or finance costs for financial transactions.

32.8. Revenue

Separable components of bundled offers

For the sale of multiple products or services (e.g. offers including a handset and a telecommunications service contract), the Group evaluates all promises in the arrangement to determine whether they represent distinct performance obligations i.e. obligations not dependent on each other. Sale of mobile handsets and sale of services in bundled offers are distinct performance obligations.
The consideration for the bundled package (i.e. transaction price) is allocated to the distinct performance obligations (e.g. sale of a handset and sale of a service) and recognised as revenue when the performance obligation is satisfied (i.e. when the control over good or service is transferred to a customer).

In general, the transaction price is the amount of consideration (usually the cash) to which the Group expects to be entitled during the enforceable period. The enforceable period is the period that is made enforceable through contractual terms or business practices i.e. the enforceable period length is impacted by practices e.g. when the Group creates or accepts a valid expectation to free the customer from certain commitments before the end of the contract by allowing commencement of a new contract. The transaction price does not include the effect of time value of money (except payments by instalments models which, by nature, meet the definition of a financial receivable) because the effect of financing component, in comparison to the transaction price, is not significant at a contract level.

The allocation of the transaction price between various performance obligations is made to estimate the amount to which the Group is expected to be entitled in exchange for transferring a promised good or service to the customer.
The Group is a service company and achieves the vast majority of its margin by selling telecommunication services. The sale of subsidised handsets (i.e. when an invoice amount for a handset is lower than the cost of a handset) is a tool to promote the Group's services and to attract customers. Therefore, in case of services sold with subsidised handsets, the Group allocates the subsidy to the service revenues. The Group estimates the amount of revenue that it expects to earn while pricing the service offer. Based on rationale described above, the stand-alone selling price (i.e. the price at which the Group would sell a promised good or service separately to the customer) of subsidised handsets is estimated by their cost plus margin to cover additional costs connected with the sale of handsets, such as e.g. transport costs or logistic costs. The estimated margin is insignificant. Therefore, it is disregarded from the cost plus margin formula for the sake of the practicality.

If the Group is able to sell a handset with a profit (i.e. when an invoice amount for a handset is higher than the cost of a handset in bundled offer), it allocates the handset profit to the handset revenue.

While defining the stand-alone selling price of any performance obligation, firstly, the Group's observable price should be identified i.e. the price of good or service when the Group sells that good or service separately in similar circumstances and to similar customers. In case of the lack of an entity observable price, other methods of valuation of an obligation should be used. The stand-alone selling prices of a service are defined per different categories of customers, they are dependent on the service content, commitment period and consumption profile. Therefore, the SIMO price (the price of a service sold stand-alone i.e. not in a bundle with a handset) cannot be treated as a good proxy of the stand-alone selling price of a specific service sold in a bundled offer. Consequently, the stand-alone selling price of the telecommunication service sold in a bundled offer is determined by using an adjusted-market assessment approach and corresponds to the service price in the bundle adjusted by the handset subsidy recovered over the enforceable period.

The Group accounts for contract balances if the right to a payment differs from timing when performance obligation is satisfied. A contract asset corresponds to Group's right to a payment in exchange for goods or services that have been transferred to Group's customers. A contract asset, if any, is recognised at inception of the contract. It is typically measured as the sum of the monthly subsidy recovery over the remaining enforceable period of the contract. Contract liabilities represent amounts billed to customers by Group before receiving the goods and/or services promised in the contract. This is typically the case for advances received from customers or amounts invoiced for goods or services not yet transferred, such as contracts payable in advance or prepaid packages.

Equipment sales

Revenue from an equipment sales is recognised when the control over the equipment is transferred to the buyer (see also paragraph *Separable components of bundled offers*). When an equipment 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 because the Group acts as a principal in this process.

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 the lease and finance income is recognised over the lease term.

Revenues from the sale or supply of content

Depending on the substance of a transaction and the Group's role in the transaction, the Group can act as a principal and recognise revenue at the gross amount, separately from costs, or as an agent and recognise revenue in the amount net of costs. The assessment of the role of the Group is based on the notion of the control and the indicators of the control. The Group is treated as a principal if it controls a good or a service before the good or service is transferred to a customer.
The Group is considered as an agent if the Group's performance obligation is to arrange for the provision of a good or a service to the client by another party, i.e. when it does not control the specified good or service provided by another party before that good or service is transferred 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 because of the continuous transfer of control over the service to the customer.
Charges for incoming and outgoing telephone calls are recognised in revenue when the service is rendered.
Revenue from the sale of phone cards in mobile telephony systems is recognised when they are used or expire.

Promotional offers

For certain commercial offers where customers do not pay for services 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 enforceable period.

Material rights

Material right is an option to purchase additional goods or services with a discount that is incremental to discounts typically given for those goods or services. The Group has not identified any material rights in the contracts with customers which would need to be treated as separate performance obligations.

32.9. Subscriber acquisition costs, costs to fulfil a contract, advertising and related costs

Incremental acquisition and retention costs (e.g. commissions paid to retailers for acquisition or retention of contracts), as well as costs that are directly incurred for the purpose to fulfil a certain contract are expensed as costs over the enforceable period of contracts on a straight-line basis as these costs are directly associated with the contracts with customers and are expected to be recoverable. Advertising, promotion, sponsoring, communication and brand marketing costs are expensed as incurred.

32.10. 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.

32.11. 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.

32.12. 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 three 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.

32.13. 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. Grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attached to them and that the grant will be received.

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

32.14. Leases

IFRS 16 "Leases" establishes the principles for recognition, measurement, presentation and disclosure of lease contracts. A single lease accounting model was adopted if the Group acts as a lessee. If the Group acts as a lessor then it continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

The Group qualifies a contract as a lease as long as it gives the lessee the right to control the use of a particular asset. In order to qualify a contract as a lease, three main conditions shall be met:

- the contract shall convey the right to use an identified asset;
- the lessee shall obtain the economic benefits from use of this asset;
- the lessee obtains the right to direct the use of this asset throughout the period of the contract.

As at 1 January 2019 the Group has defined four major categories of lease contracts:

- real estate: points of sale, offices, perpetual usufruct of land;
- mobile network: land, technical premises, space on towers, chimneys, rooftops;
- fixed network: technical premises, limited property rights, access to the local loop, collocation, dark fiber contracts, subsurface rights, ground easements;
- other rentals: vehicles, technical equipment, data center.

The accounting presentation of lease contracts in the statement of financial position depends mainly on:

- the scope of contracts qualified as leases,
- the duration adopted for certain types of contracts,

which require significant judgment from the Company's Management Board. The Management Board reviews these estimates if the circumstances on which they were based evolve or in the light of new information or established market practice.

Group as a lessee

On the lessee's side the Group uses a single accounting model, in which the lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Group has chosen to apply two exemptions proposed by the standard and expense as external purchases the following contracts:

- all contracts, except for contracts for vehicles, whose duration is less than 12 months;
- contracts where the value of the underlying asset is less than USD 5,000.

The lease duration corresponds to the non-cancellable period of the lease, periods covered by extension options that the Group is reasonably certain to exercise and termination options that the Group is reasonably certain not to exercise. The definition of the contract duration takes also into account the laws and practices specific to the Polish jurisdiction and specificity of Group's contracts. In particular, in case of indefinite period leases, the Group adopts the notice period as the non-cancellable period of the lease. For those contracts most of notice periods in the Group are below 12 months and the Group adopted the short term leases exemption. As a result, such contracts are treated as short term contracts and are not measured and presented on the balance sheet. For easements in buildings, where the Group located its telecommunication infrastructure, a lease duration is assessed as an average useful life of buildings in the Group. Subsurface contracts and land easements are measured basing on the portfolio approach due to significant number of homogenous contracts.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability.

The right-of-use asset is measured at cost which comprises:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

At the date of initial application of IFRS 16, 1 January 2019, no significant lease prepayments and initial direct costs were identified.

After the commencement date, the Group measures the right-of-use asset applying a cost model, less any accumulated depreciation and any accumulated impairment losses, as well as any adjustments resulting from remeasurement of the lease liability.

The lease liability is measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the incremental borrowing rates as the rates implicit in the lease are not easily determinable. Discount rates adopted are based on Polish state bond yield, adjusted by credit spread observable for entities with similar credit rating. Discount rates are differentiated by duration and by currency, and not by class of assets.

The lease liability comprises the following payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the lease liability is increased to reflect interest on the lease liability and reduced to reflect the lease payments made, as well remeasured to reflect any reassessment or lease modification. Only the lease component is taken into account in the measurement of the right-of-use asset and of the lease liability. Other non-lease components, like payments for utilities, are accounted for separately in accordance with other applicable accounting standards.

Group as a lessor

The Group continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Examples of situations that individually or in combination would lead to a lease being classified as a finance lease are as follows:
- the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the underlying asset at a price significantly lower than the fair value;
- the lease term is for the major part of the economic life of the underlying asset;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

32.15. 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.

32.16. 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. The Group identifies a single major CGU (see Note 8). 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.

32.17. Financial assets and liabilities

Financial assets are classified in the following measurement categories – depending on the business model in which assets are managed and their cash flow characteristics:
- assets subsequently measured at amortised cost - if the financial assets are held within a business model whose objective is to collect contractual cash flows, and the contractual terms of these financial assets give rise to cash flows that are solely payments of principal and interest;

- assets subsequently measured at fair value through other comprehensive income - if the financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of these financial assets give rise to cash flows that are solely payments of principal and interest;
- hedging derivative instruments;
- assets at fair value through profit or loss - all other financial assets.

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

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. Trade receivables that do not have a significant financial component are initially measured at their transaction price.

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

<u>Assets subsequently measured at amortised cost</u>
Assets subsequently measured at amortised cost include “Trade receivables” (excluding trade receivables measured at fair value through other comprehensive income) and “Cash and cash equivalents”. Interest income from these financial assets is calculated using the effective interest rate method and is presented within finance costs, net.

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.

<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 IFRS 9.

<u>Financial assets at fair value through other comprehensive income</u>
Financial assets at fair value through other comprehensive income include selected receivables arising from sales of mobile handsets in instalments which are subject to the factoring agreement.

<u>Impairment</u>
The Group measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, lease receivables, cash and cash equivalents and contract assets.

Trade receivables that are homogenous and share similar credit risk characteristics are tested for impairment collectively. When estimating the lifetime expected credit loss the Group uses historical data as a measure for expected credit losses.
In calculating the recoverable amount of receivables that are individually material and not homogenous, the Group assess expected credit losses on individual basis taking into account significant financial difficulties of the debtor or probability that the debtor will enter bankruptcy or financial reorganisation.

The Group considers a financial asset to be credit-impaired when events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred, for example significant financial difficulty of the debtor or a breach of contract, such as a default or past due event.
The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.
A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Recognition and measurement of financial liabilities

Financial liabilities at amortised cost
Financial liabilities measured at amortised cost include borrowings, trade payables and fixed assets payables, including the telecommunications licence payables and are presented in the statement of financial position as "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 IFRS 9.

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 other interest expense and 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 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 in cash flow hedge reserve 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 accumulated in equity are removed from the cash flow hedge reserve and included in the initial measurement of the cost of the asset or liability. This is not a reclassification adjustment and is not recognised in other comprehensive income.

32.18. Inventories

Inventories are stated at the lower of cost and net realisable value. The Group provides provision for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans.

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

32.19. 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 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.

32.20. 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.

32.21. 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.

32.22. Share-based payments

In 2017 OPL S.A. 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 years 2017-2019 Orange S.A. launched equity-settled share-based payment plans 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 2019

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 2019 has been drawn up in compliance with Articles 70 and 71 of the Decree of the Minister of Finance of 29 March 2018 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 2018, item 757).

Disclosures on performance measures, including comparable data, are presented in the Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for the 12 months ended 31 December 2019.

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.

Year-on-year evolution of operating income and net income is not comparable because of the changes in accounting standards. Starting from 2019 Orange Polska applied a new accounting standard IFRS 16 without restatement of comparative periods. Data for 2018 were prepared under the previous accounting standard IAS 17.

FEBRUARY 12, 2020

CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2019 and for the twelve-month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

	For 12 months ended 31 December				
	2019 (IFRS16) in PLN mn	2019 (IFRS16) in EUR[1] mn	2018 (IAS17) in PLN mn	2018 (IAS17) in EUR[2] mn	Change (%)
Consolidated Income Statement					
Revenue	11,406	2,651	11,101	2,602	2,7%
EBITDAaL*	3,006	699	n/a	n/a	n/a
EBITDAaL margin	26.4%		n/a		n/a
EBITDA (adjusted)*	n/a	n/a	2,881	675	n/a
EBITDA margin (adjusted)*	n/a		26.0%		n/a
Operating income*	416	97	345	81	n/a
Operating margin	3.6%		3.1%		n/a
Net income*	91	21	10	2	n/a
Net income attributable to owners of Orange Polska S.A.*	91	21	10	2	n/a
Weighted average number of shares (in millions)**	1,312	1,312	1,312	1,312	
Income per share (in PLN/EUR)	0,07	0,02	0,01	0,00	n/a
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	2,776	645	1,812	425	53.2%
Net cash used in investing activities	(1,919)	(446)	(2,066)	(484)	-7.1%
Net cash provided by financing activities	(1,064)	(247)	219	51	-585.8%
Net change in cash and cash equivalents	(207)	(48)	(35)	(8)	491.4%
Capex*	2,140	497	2,114	495	n/a
Organic cash flow*	737	171	411	96	n/a
	As of 31 December				
	2019 (IFRS16) in PLN mn	**2019 (IFRS16) in EUR[3] mn**	**2018 (IAS17) in PLN mn**	**2018 (IAS17) in EUR[4] mn**	**Change (%)**
Consolidated Statement of Financial Position					
Cash and cash equivalents	404	95	611	142	-33.9%
Other intangible assets	4,545	1,067	4,871	1,133	-6.7%
Property, plant and equipment	10,402	2,443	10,738	2,497	-3.1%
Total assets	24,340	5,716	23,295	5,417	4.5%
Financial liabilities at amortised cost***, of which:	8,492	1,994	7,531	1,751	12.8%
Current	420	99	2,150	500	-80.5%
Non-current	8,072	1,896	5,381	1,251	50.0%
Other liabilities, current and non-current	5,282	1,240	5,261	1,223	0.4%
Total equity	10,566	2,481	10,503	2,443	0.6%

Notes on data conversion:
1 – PLN/EUR fx rate of 4.3018 applied *3 – PLN/EUR fx rate of 4.2585 applied*
2 – PLN/EUR fx rate of 4.2669 applied *4 – PLN/EUR fx rate of 4.3000 applied*
For adjustments of basic financial data please see Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2019.
*** Weighted average number of shares in 12 months ended December 31, 2019 and December 31, 2018, respectively.*
**** Excluding trade payables.*

SUMMARISED STANDALONE FINANCIAL STATEMENTS

	For 12 months ended 31 December				
	2019 (IFRS16) in PLN mn	**2019 (IFRS16) in EUR[1] mn**	**2018 (IAS17) in PLN mn**	**2018 (IAS17) in EUR[2] mn**	**Change (%)**
Income Statement					
Revenue	10,646	2,475	10,579	2,479	0.6%
Operating income	380	88	305	71	n/a
Operating margin	3.6%		2.9%		n/a
Net income*	88	20	1	0	n/a
Weighted average number of shares (in millions)**	1,312	1,312	1,312	1,312	
Income per share (in PLN/EUR)	0,07	0,02	0,00	0,00	n/a
Statement of Cash Flows					
Net cash provided by operating activities	2,837	659	1,896	444	49.6%
Net cash used in investing activities	(1,919)	(446)	(2,186)	(512)	-12.2%
Net cash provided by financing activities	(1,113)	(259)	260	61	-528.1%
Net change in cash and cash equivalents	(195)	(45)	(30)	(7)	550.0%
	As of 31 December				
	2019 (IFRS16) in PLN mn	**2019 (IFRS16) in EUR[3] mn**	**2018 (IAS17) in PLN mn**	**2018 (IAS17) in EUR[4] mn**	**Change (%)**
Statement of Financial Position					
Cash and cash equivalents	343	81	538	125	-36.2%
Other intangible assets	4,473	1,050	4,837	1,125	-7.5%
Property, plant and equipment	10,506	2,467	10,838	2,520	-3.1%
Total assets	24,026	5,642	23,091	5,370	4.0%
Financial liabilities at amortised cost***, of which:	8,518	2,000	7,642	1,777	11.5%
Current	461	108	2,261	526	-79.6%
Non-current	8,057	1,892	5,381	1,251	49.7%
Other liabilities, current and non-current	5,009	1,176	5,010	1,165	0.0%
Total equity	10,499	2,465	10,439	2,428	0.6%

Notes on data conversion:
1 – PLN/EUR fx rate of 4.3018 applied
2 – PLN/EUR fx rate of 4.2669 applied
3 – PLN/EUR fx rate of 4.2585 applied
4 – PLN/EUR fx rate of 4.3000 applied
**For adjustments of basic financial data please see Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2019.*
*** Weighted average number of shares in 12 months ended December 31, 2019 and December 31, 2018, 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 11,406 million in 2019 and was higher by PLN 305 million compared to 2018. Rapid growth of revenues from convergent services was accompanied by a decline in mobile-only and fixed broadband-only services, mainly due to migration to convergence and market competition. Legacy voice services, both retail and wholesale, continued to deteriorate under the influence of structural trends of fixed-to-mobile substitution. Furthermore, the evolution of revenues was significantly supported by strong growth in IT and integration services (partially owing to contribution of BlueSoft acquired in 2019), an increase in equipment sales (as a result of an attractive handset portfolio and development of our sales offer), and growth in other revenues (boosted by development of energy resale business).

EBITDAaL (our new measure of operating performance introduced under IFRS 16, please see Note 3 to the IFRS Consolidated Financial Statements for 2019) amounted to PLN 3,006 million and was higher by PLN 197 million year-on-year. Total operating costs (defined as EBITDAaL less revenues) increased in 2019, yet considerably less than revenues. Profitability benefits from value-oriented commercial activity, monetisation of fibre investments and continued significant optimisation of indirect costs (reflected particularly in a decrease in labour costs and IT & network costs). The growth of EBITDAaL was also fuelled by record-high gains on sale of assets.

Operating income (EBIT) was higher by PLN 71 million year-on-year. The growth was lower than for EBITDAaL as a resul of recording a provision for employment termination expense (in connection with the new Social Agreement concluded in December 2019). Growth was supported by PLN 93 million lower depreciation.

Net finance costs amounted to PLN 298 million in 2019 and were slightly lower year-on-year.

As a result, consolidated net income amounted to PLN 91 million in 2019 compared to PLN 10 million in 2018.

For more information on the operational and financial performance please see section 2 below.

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

Net income of Orange Polska S.A. amounted to PLN 88 million in 2019 and was at a comparable level to that of the Group.

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 2,776 million in 2019 and was PLN 964 million higher year-on-year, mainly as a result of payment of the European Commission fine amounting to PLN 646 million in 2018 and working capital improvement, which was driven by proceeds from the disposal of instalment receivables and settlements of roaming discounts.

Net cash used in investing activities amounted to PLN 1,919 million in 2019 compared to PLN 2,066 million in 2018. This change resulted mainly from payment for acquisition of BlueSoft sp. z o.o. and higher payments for purchases of property, plant and equipment and intangible assets, which were offset by higher proceeds from the disposal of real estate.

Net cash outflows from financing activities amounted to PLN 1,064 million compared to PLN 219 million of cash inflows in 2018. This change is mainly attributable to cash flows from related party loans and repayment of lease liabilities recognised following the adoption of IFRS 16.

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

Net cash outflow in Orange Polska S.A. in 2019 amounted to PLN 195 million and was at a comparable level to that of the Group.

1.3 Capital Expenditures (CAPEX)

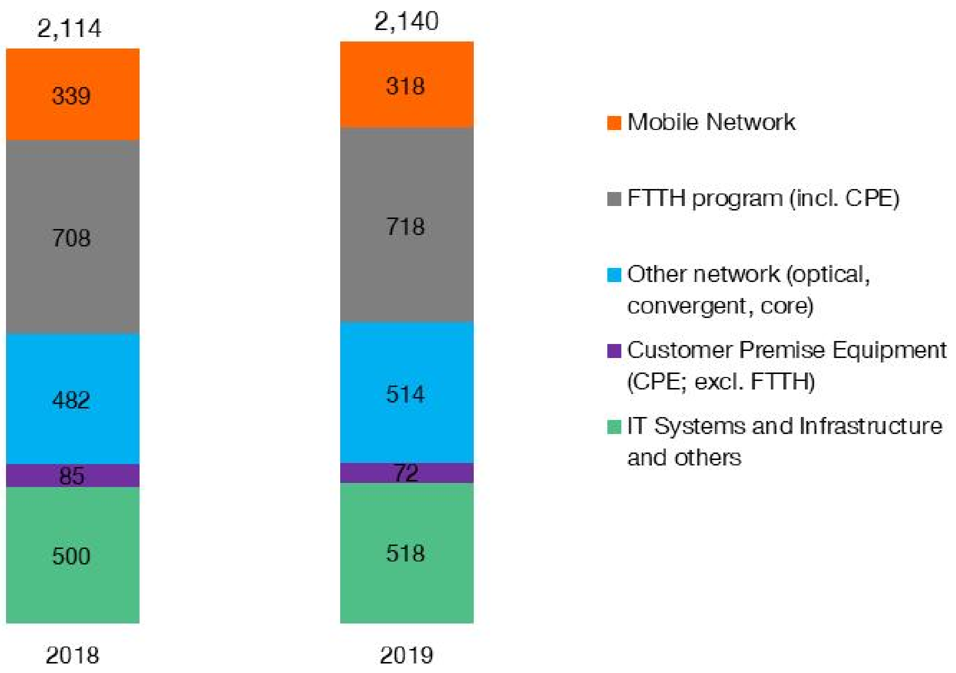
Group's capital expenditures in 2019 (starting from 2019, this measure excludes capital expenditures related to leasing and is adjusted for the impact of acquisition of telecommunications licences) amounted to PLN 2,140 million and were higher by PLN 26 million year-on-year (amounts excluding spectrum licence payments).

The Group invested mainly in the following areas:

- Roll-out of the fibre access network in the announced investment programme, which covered 0.8 million households in 2019. Including the lines developed in 2014 to 2018, there are now 4.2 million households connectable with the fibre network, available in a total of 142 cities (compared to 117 cities at the end of 2018);

- 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 transformation programmes;
- Investment projects related to the portfolio development, sales and customer service processes, as well as the modernisation and enhancement of the IT technical infrastructure.

Split of CAPEX
(PLN mn)



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

Total assets were higher by PLN 1,045 million than at December 31, 2018. This change resulted mainly from recognition of additional assets resulting from lease contracts, following the adoption of IFRS 16. This impact was partially offset by a decrease in trade receivables, driven by disposals of instalment receivables.

Total liabilities were higher by PLN 982 million than at December 31, 2018. This change resulted mainly from recognition of additional liabilities resulting from lease contracts, following the adoption of IFRS 16. This impact was partially offset by a decrease in debt.

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

Total assets of Orange Polska S.A. amounted to PLN 24,026 million as at December 31, 2019 and were lower by PLN 314 million than total assets of the Group. This difference is attributed mainly to lower goodwill and trade receivables, 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, 2019 amounted to PLN 13,527 million and were lower by PLN 247 million than total liabilities of the Group, mainly owing to lower trade payables.

1.5 Related Parties Transactions

Please see Note 30 to the Consolidated Full-Year Financial Statements about Group’s transactions with related entities.

1.6 Description of Significant Agreements

Please see section 1.11.2 and 4.4 below for information on significant agreements concluded by the Group in 2019.

1.7 Unrecognised contractual obligations

Please see Note 28 to the Consolidated Full-Year Financial Statements for information about unrecognised contractual obligations.

1.8 Subsequent Events

Please see Note 31 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, 2019, 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, current account overdraft facilities, and sale of receivables in a newly launched securitisation programme.

In 2019, the Group repaid long-term bank loans of PLN 23 million and a revolving loan of PLN 1,180 million provided by the Orange SA Group. In addition, it refinanced, with no cash flow, a long-term loan of PLN 2,050 million, maturing in May 2019, through a revolving loan and a long-term loan agreement signed in February 2019, both provided by the Orange SA Group.

In the reported period, the Group used loans provided by the Orange SA Group, namely PLN 1,500 million out of a long-term loan and PLN 860 million out of a revolving loan.

As of December 31, 2019, Group's interest-bearing liabilities (before derivatives) totalled PLN 6,511 million, which is a decrease of PLN 842 million compared to December 31, 2018. Debt to the Orange SA Group accounted for 98.9% of this amount.

On June 20, 2019, the Group concluded agreements with BNP Paribas SA as the buyer and Eurotitrisation as the settlement agent, which set up a programme of sale of receivables related to handsets instalment sales. In 2019, the Group raised approximately PLN 291 million from the sale of receivables in the programme. Pursuant to the programme, Orange Polska S.A. established financial and registered pledges in favour of the buyer, BNP Paribas S.A. (Paris, France), on bank accounts collecting payments from customers on the account of the sold receivables. The sold receivables are secured by the aforementioned pledges up to the maximum amount of EUR 165 million.

On December 4, 2019, the parent company concluded a cash-pooling agreement with selected subsidiaries from the Group and Bank Handlowy w Warszawie S.A., acting as the pool leader, enabling the subsidiaries to invest surplus cash in the parent company's account. The agreement has provided for the Group's liquidity management, replacing the bond issuance programme of 2002, which was discontinued in the second half of 2019.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 404 million at December 31, 2019, and available credit facilities totalling the equivalent of PLN 1,516 million.

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 2020.

At December 31, 2019, Group's liquidity ratios increased as compared to the end of 2018. The Group's higher financial liquidity resulted from a decrease of PLN 1,890 million in current liabilities (less provisions and contract liabilities), which was partially offset by a decrease of PLN 476 million in current assets.

The liquidity ratios for the Group at December 31, 2019 and December 31, 2018, respectively, are presented in the table below.

	December 31, 2019	December 31, 2018
Current ratio Current assets / current liabilities*	1.03	0.75
Quick ratio Total current assets – inventories / current liabilities*	0.97	0.71
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.34	0.26

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

Group's net financial debt (after valuation of derivatives) decreased to PLN 6,087 million at December 31, 2019 (from PLN 6,672 million at the end of 2018).

1.11.1 Bonds

As part of the Group's liquidity management, in 2019 Orange Polska S.A. issued and redeemed short-term bonds acquired by its subsidiaries under a programme totalling PLN 2,500 million, which had been established in 2002. Bond issuance continued until June 30, 2019, and the proceeds were used to ensure current liquidity in business operations. All such bonds were subsequently redeemed by Orange Polska S.A. in 2019. Consequently, as of December 31, 2019, Orange Polska had no liabilities on the account of outstanding bonds.

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

1.11.2 Loan and Borrowings Agreements

On February 11, 2019, the Group and Atlas Services Belgium S.A., a subsidiary of Orange SA, concluded a Loan Agreement for PLN 1,500 million with repayment date in May 2024. This was used to refinance a term loan of EUR 480 million maturing in May 2019.

On October 2, 2019, the Group and mBank S.A. concluded a current account overdraft agreement of PLN 20 million, maturing on September 30, 2020.

In the reported period, the Group concluded annexes to two current account overdraft agreements of PLN 95 million each with the following banks:

- with the Polish Branch of Societe Generale S.A., extending the maturity to May 29, 2020, and
- with Bank Handlowy w Warszawie S.A., extending the maturity to August 7, 2020.

On June 25, 2019, the Group and Orange SA concluded an annex to a cash-pooling agreement, reducing the backup liquidity financing limit to PLN 500 million.

Furthermore, on May 27, 2019, Orange Energia sp. z o.o., a subsidiary of Orange Polska S.A., and Bank Handlowy w Warszawie S.A. concluded a current account overdraft agreement of PLN 22.5 million, maturing on May 27, 2020.

1.11.3 Unused Credit Facilities

As of December 31, 2019, the Group had outstanding general-purpose credit facilities amounting to the equivalent of PLN 1,016 million.

In addition, the Group had an unused limit of back-up liquidity financing of PLN 500 million, provided by Orange SA.

1.11.4 Loan Covenants

Agreements to which the Group 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 EBITDAaL (under IFRS 16) was 2.0 on December 31, 2019.

1.11.5 Guarantees and Collaterals

In 2019, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of TP Teltech sp. z o.o., 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, 2019, these guarantees totalled PLN 5.1 million.

As of the reporting date, collaterals granted in 2018 by Orange Polska S.A. to Bank Handlowy w Warszawie S.A. to secure proper performance bonds issued by the latter in favour of TP Teltech sp. z o.o. with respect to obligations towards Alcatel Lucent Polska sp. z o.o., related to the implementation of the Operational Programme "Digital Poland 2", remained in force and totalled PLN 27.9 million.

On October 4, 2019, Orange Polska S.A. granted a collateral of PLN 2.4 million to Bank Handlowy w Warszawie S.A., which replaced a collateral of the same amount from October 2018, to secure a proper performance bond issued by the bank in favour of TP Teltech sp. z o.o., Orange Polska's wholly-owned subsidiary.

As of December 31, 2019, a collateral of PLN 20 million granted by Orange Polska S.A. in November 2017 to BZ WBK Faktor sp z o.o. to secure a facility provided by the latter to TP Teltech sp. z o.o. under a confirming agreement for payment management remained in force.

In 2019, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of Orange Retail S.A., an Orange Polska's wholly-owned subsidiary, on the account of lease of premises for Orange sales outlets, while promising to cover any claims related to payments under the guarantee. As of December 31, 2019, these guarantees totalled PLN 0.7 million.

As of December 31, 2019, six bank guarantees, which had been issued upon request of Orange Polska S.A. with respect to liabilities of Orange Energia sp. z o.o. towards its business partners in connection with the acquisition of this company by the Group in 2017, remained in force. These guarantees totalled PLN 13.9 million and Orange Polska S.A. should indemnify the banks against any claims thereunder.

Furthermore, pursuant to a collateral agreement of August 30, 2019, Orange Polska S.A. granted a collateral of PLN 24.75 million to Bank Handlowy w Warszawie S.A. to secure liabilities of its subsidiary Orange Energia sp. z o.o. on the account of current account overdraft facility provided by the bank.

In 2019, Orange Polska S.A. requested Santander Bank Polska S.A. to issue a bank guarantee of PLN 3.8 million with respect to liabilities of its subsidiary Fundacja Orange [Orange Foundation] on the account of an agreement concluded by the latter with the Digital Poland Project Centre, while promising to cover any claims related to payments under the guarantee.

On December 20, 2019, Orange Polska S.A. granted a collateral of PLN 5 million to BNP Paribas Bank Polska S.A. to secure liabilities of its subsidiary Essembli sp z o.o. with respect to multi-purpose credit facility dedicated to bank guarantees.

1.11.6 Hedging Transactions

In 2019, 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, 2019 covered:

- 99.7% of debt denominated in foreign currencies; and
- 44.6% of licence payable for the 2100 MHz spectrum (UMTS licence).

As a result of hedging, Group's effective currency exposure at December 31, 2019 was as follows:

- EUR 43 million of licence payable for the 2100 MHz spectrum (UMTS licence).

Furthermore, the Group 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, 2019, the Group's proportion between fixed/floating rate debt (after hedging) was 96/4% as compared to 93/7% on December 31, 2018.

In addition, the Group hedged the risk of Orange Polska share price increase with options. As of December 31, 2019, 100% of phantom shares for the incentive programme for managers were hedged (please see section 3.3.1 below for more information).

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

in 2019

2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

The Group reports a single operating segment, as decisions about resources to be allocated and assessment of performance are made on a consolidated basis. Starting from 2019, following the adoption of IFRS 16 “Leases”, the Group redefined the performance measures used. Group performance is currently evaluated by the Management Board based on revenue, EBITDAaL, net income/loss, organic cash flows, capital expenditures, net financial debt and net financial debt to EBITDAaL ratio based on cumulative EBITDAaL for the last four quarters. Comparative amounts were adjusted accordingly.

Since the calculation of EBITDAaL, organic cash flows, capital expenditures and net financial debt is not defined by IFRS, these performance measures may not be comparable to similar indicators used by other entities.

Starting from 2019, EBITDAaL is the key measure of operating profitability used by the Management Board. The Group decided to replace EBITDA with EBITDAaL (EBITDA after leases) as EBITDA is no longer a relevant measure of operating profitability after the adoption of IFRS 16 because it excludes expenses related to leases.

EBITDAaL corresponds to operating income before depreciation, amortisation and impairment of property, plant and equipment and intangible assets, decreased by interest expense on lease liabilities, and adjusted for the impact of deconsolidation of subsidiaries, costs related to acquisition and integration of new businesses, employment termination programs, restructuring costs, significant claims, litigation and other risks, as well as other significant non-recurring items.

Organic cash flows are the key measure of cash flow generation used by the Management Board. Starting from 2019, organic cash flows include repayment of capital of lease liabilities. Organic cash flows correspond to net cash provided by operating activities decreased by payments for purchases of property, plant and equipment and intangible assets and repayment of lease liabilities, increased by impact of net exchange rate effect received/paid on derivatives economically hedging capital expenditures and lease liabilities and proceeds from sale of property, plant and equipment and intangible assets, and adjusted for payments for acquisition of telecommunications licences, payments for costs related to acquisition and integration of new businesses not included in purchase price and payments relating to significant claims, litigation and other risks.

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. Starting from 2019, this measure excludes capital expenditures financed by leases and the impact of acquisition of telecommunications licences.

Net financial debt and net financial debt to EBITDAaL ratio are the key measures of indebtedness and liquidity used by the Management Board.

Additionally, to give a better representation of underlying performance, revenue from the Group’s activities for the comparative period is adjusted for the impact of deconsolidation of subsidiaries.

Reconciliation of operating performance measure to financial statements

in PLN mn	**2019 (IFRS 16)**	**2018 (IAS 17)**
Operating income	**416**	**345**
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	2 448	2 541
Interest expense on lease liabilities	-50	-4
Estimation of IFRS 16 impact on operating leases in 2018	–	-26*
Depreciation of property, plant and equipment financed by finance lease in 2018	–	-41
Adjustment for the impact of employment termination programs	181	-5
Adjustment for costs related to acquisition and integration of new subsidiaries	10	–
Adjustment for the impact of deconsilidation of subsidiaries	1	-1
EBITDAaL (EBITDA after Leases)	**3,006**	**2,809***

** Data constitutes company’s best estimate and was provided for comparative purposes*

Key figures (PLN million)	**2019 (IFRS 16)**	**2018 (IFRS 16) Comparable data**	**2018 (IAS 17) Reported data**	**Change (IFRS 16) Comparable data**
Revenue	11,406	11,087	11,101	2.9%
EBITDAaL*	3,006	2,809	n/a	7.0%
EBITDAaL margin	26.4%	25.3%	n/a	1.1 pp
Operating income*	416	n/a**	345	n/a**
Net income*	91	n/a**	10	n/a**
Capex*	2,140	2,114	2,146	1.2%
Organic cash flow*	737	411	453	79.3%

** For more information on financial data please see Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2019. EBITDAaL (EBITDA after leases) is management's new principal financial indicator of operating performance using IFRS 16 figures. Since the adoption of IFRS 16, EBITDA is considered less representative of operating performance because it excludes operating expenses due to leases. Operating income is considered less representative of operating performance owing to the impact of changes in asset lives. At the same time, to preserve consistency, certain other alternative performance measures (capex, organic cash flow and net debt) were slightly amended. However, unaudited figures, including estimation of EBITDAL, were provided for 2018 for comparative purposes.*

*** Year-on-year evolution of operating income and net income is not comparable because of the changes in accounting standards. Starting from 2019, Orange Polska applied a new accounting standard IFRS 16 without restatement of comparative periods. Data for 2018 were prepared under previous accounting standard IAS 17.*

In 2018, we changed the layout of our revenue reporting. The new layout better reflects our commercial strategy, which is focused on convergent offer sales. Consequently, we now report convergent revenues separately from revenues from mobile-only and fixed-only services (i.e. sales to non-convergent customers).

Revenues totalled PLN 11,406 million in 2019, up PLN 319 million or 2.9% year-on-year.

Convergence is a strategic drive for revenue growth. Convergence revenues increased 20% year-on-year. This was accompanied by a decrease in mobile-only and fixed broadband-only revenues (down 5% year-on-year) as a result of migration to convergent offers, value and market competition. It is important to underline that the growth of convergent service revenues offsets the decline of mobile-only and fixed broadband-only revenues. Combined revenues from these categories were up 1.4% year-on-year in 2019.

Revenues from IT and integration services maintained their strong growth rate (30% year-on-year). This is consistent with the adopted strategy, which sees very high growth potential in this area. The key growth engines are projects involving provision of professional services to the financial sector and an increase in public procurement. An important growth driver was the consolidation of BlueSoft acquired in 2019, which contributed PLN 86 million to the Group's revenues. Excluding the impact of BlueSoft, revenues from IT and integration services were up 16%.

The revenue evolution in 2019 was also influenced by the following factors:

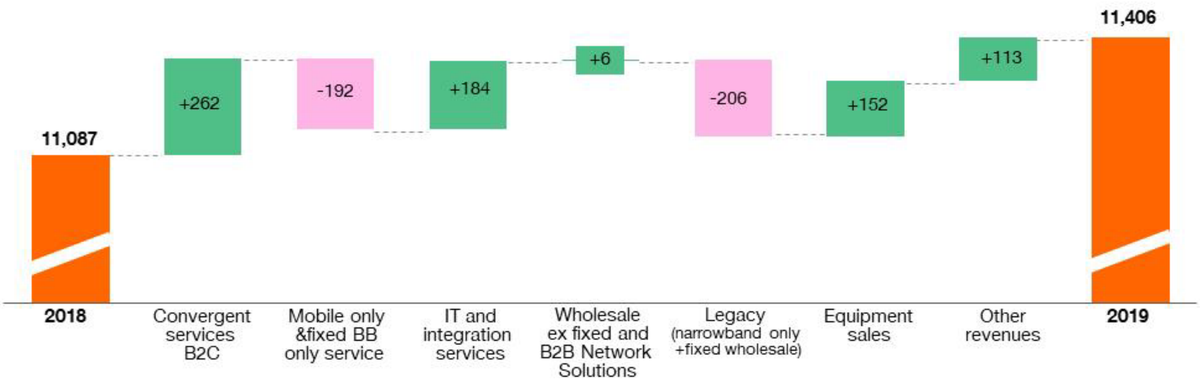
- A further structural decline in fixed voice telephony legacy revenues (by 15% year-on-year);
- 11% growth of mobile equipment sales, mainly as a result of constant improvement of our offer (particularly introduction of handset sales on instalments at any point during the lifetime of the service contract) and very good reception of our Christmas offer (driving Q4 revenues up 17% year-on-year);
- Very strong growth (over 40% year-on-year) in other revenues, boosted by successful development of energy resale business;
- A 1% decrease in wholesale revenues due to lower revenues from national roaming (under the agreement with Play) and structural decline in revenues from traffic termination on the fixed network.

In 2019, total operating costs (defined as EBITDAaL less revenues) increased, yet considerably less than revenues. As a result, EBITDAaL was up 7.0% year-on-year. Operating profit margin (ratio of EBITDAaL to revenues) increased by 1.1 pp to 26.4%. The growth was driven by higher gains on sale of real estate (up PLN 79 million). Nevertheless, both EBITDAaL and margin improved even excluding gains on sale of real estate, by 4.5% and 0.4 pp, respectively. This was achieved despite evolution of revenue mix towards lower margin, reflecting falling high-margin revenues from fixed line services and growing revenues from equipment sales, IT and integration services, and energy resale. However, profitability benefits from value-oriented commercial activity, monetisation of fibre investments and continued significant optimisation of indirect costs. Indirect costs (not directly related to revenues) fell in 2019 by almost 5% (excluding gains on sale of real estate).

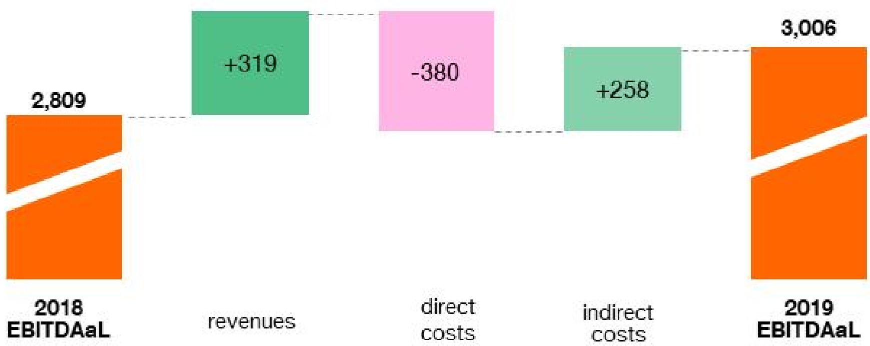
Cost evolution can be attributed mainly to the following factors:

- An increase of 3% in commercial expenses, driven mainly by a higher volume of handset sales as a result of introducing an option to purchase handsets in an instalment scheme at any time during the lifetime of the service contract as well as our strategy of attracting customers by offers with handsets;
- A decrease of 6% (year-on-year) in labour costs, mainly owing to workforce optimisation related to the implementation of the Social Agreement; and
- An increase of 21% in other external purchases, driven mainly by purchase costs of energy for further resale (related to higher revenues in this segment), content costs (resulting primarily from TV customer base expansion) and implementation costs of IT/IS projects (related also to revenues), as well as consolidation of BlueSoft.

Revenue evolution
(yoy change in PLN mn)



EBITDAaL evolution
(yoy change in PLN mn)



2.1 Convergent Services

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 household telecommunication needs in a comprehensive manner, increasing customer satisfaction and reducing churn (as churn rate is significantly 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 households where we are already present, displacing competitors that cannot provide such a comprehensive offer.

In 2019, we partially modified our Orange Love convergent offer, which is our flagship proposal for Polish households. In addition to the existing packages, Mini (broadband + SIM card) and Standard (broadband + SIM card + home phone + TV package of around 100 channels), we introduced two richer packages called Extra and Premium. These are designed mainly for customers looking for much richer TV content and more abundant mobile data packages on the SIM card. Before, customers could also create similar packages themselves. Now, the choice is simpler and the price is more attractive. All packages can be still 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.

Another major change was an increase in price of the Standard package of Orange Love from PLN 99.99 to PLN 110. In return, the fibre broadband speed increased to 300 Mbps (from 100 Mbps) and the mobile data package increased to 7 GB (from 5 GB). The prices of the other packages did not change. Higher service prices are in line with our strategy focused on value and growth of revenue and profits.

Sales remained high, despite considerable saturation of our broadband customer base with convergent services (62%). The majority of new mobile and fixed broadband service sales are still effected in the convergent bundle formula. Our convergent offer is a major competitive advantage over CATV operators, as they provide no or very limited mobile services.

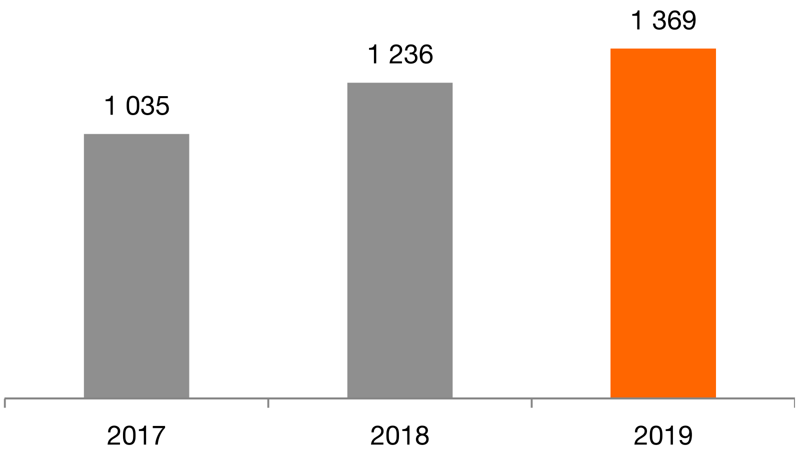
In 2019, our B2C convergent customer base increased by 133 thousand (or 11%), reaching 1,369 thousand. The total number of services provided in the convergence scheme among B2C customers exceeded 5.6 million. On average, each convergent individual customer uses more than four Orange services, and this ratio is on a stable upward trend owing to upsell of additional mobile and TV 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 considerably increased owing to the attractiveness of the Orange Love offer and the prioritisation of convergence at Orange Polska. Currently, 62% of B2C fixed broadband customers have convergent bundles.

Our convergence strategy has been reflected in a new layout of revenues. Since the beginning of 2018, we have been separately reporting revenues from this group of customers.

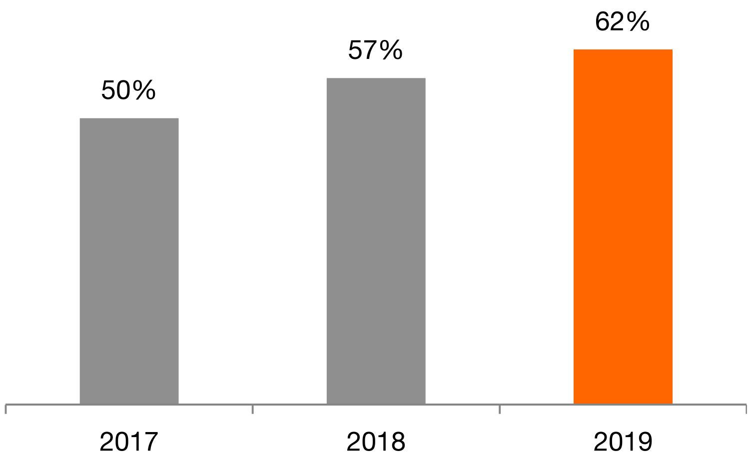
(IFRS16) Comparable data	**For 12 months ended**		**Change**
	31 December 2019	**31 December 2018**	
Convergence revenues (PLN mn)	1,558	1,296	20.2%
Convergence ARPO (PLN)	102.4	102.0	0.4%

In 2019, revenues from convergent services totalled PLN 1,558 million and were up 20% year-on-year. The increase was driven mainly by customer base growth. In the same period, average revenue per customer slightly increased year-on-year, as compared to a 4% decline reported in 2018. The trend improvement is attributable to focus on value and upsell of services.

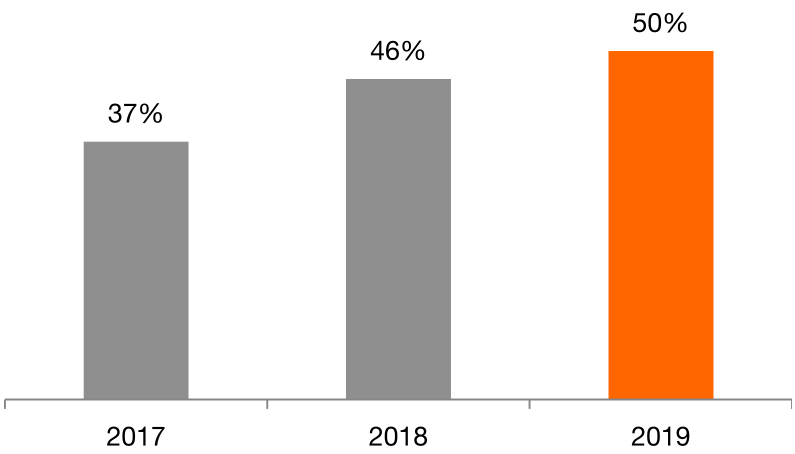
Orange Polska’sB2C convergent customer base (in ‘000)



Convergence penetration in B2C fixed broadband customer base



Convergence penetration in B2C mobile handset post-paid customer base



2.2 Mobile-only Services

Revenues (*PLN million*)	**For 12 months ended**		**Change 2019/2018 Comparable data**
	31 Dec 2019 (IFRS16)	**31 Dec 2018 Comparable data**	
Mobile-only services	2,598	2,726	-4.7%

Key performance indicators (number of services) (*'000*)	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2017**	**Change 31.12.2019/ 31.12.2018**	**Change 31.12.2018/ 31.12.2017**
Post-paid mobile services	10,237	9,922	9,726	3.2%	2.0%
convergent	2,589	2,369	1,959	9.3%	20.9%
mobile-only	7,648	7,553	7,767	1.3%	-2.8%
Pre-paid mobile services	5,047	4,883	4,698	3.4%	3.9%
Total mobile services	15,284	14,805	14,424	3.2%	2.6%

Key performance indicators (*PLN*)	**2019**	**2018**	**2017**	**Change 2019/2018**	**Change 2018/2017**
Monthly blended retail ARPO from mobile-only services	20.1	21.6	23.0	-6.9%	-6.1%
post-paid (excluding M2M)	26.9	28.5	31.7	-5.6%	-10.1%
pre-paid	11.8	12.3	11.6	-4.1%	6.0%

As at the end of December 2019, Orange Polska had a mobile services base of almost 15.3 million, which is an increase of over 3% vs. the end of 2018. The growth rate was roughly similar in the post-paid and pre-paid segments.

In the post-paid segment, SIM card trends were similar to those in 2018:

- Sales of handset offers were up over 3% (similarly to 2018), as a result of the consistent implementation of a value-based commercial strategy and concentration on the Orange Love convergent offer in customer acquisition;
- As expected, the number of mobile broadband services continues to fall due to increased popularity of mobile broadband for fixed use offers as well as growing data packages for smartphones in mobile voice tariff plans (it was down 16% in 2019);
- The number of SIM cards related to M2M services grows rapidly (it was up over 15.5% in 2019).

In order to better reflect our commercial strategy, since the beginning of 2018 we have been presenting separately convergent mobile customers and those who use mobile services only. The number of the former grows rapidly, driven by convergent customer base expansion and upsales of additional SIM cards to Orange Love customers. A decrease in non-convergent services (excluding M2M) can be attributed to migration to convergence, churn, lower migration from pre-paid services (as a result of their higher price attractiveness) and phasing-out of old value-diluting offers.

Blended ARPO (from mobile-only services) amounted to PLN 20.1 in 2019 and was down 7% year-on-year. The decrease resulted from a combination of a 4% decline in pre-paid ARPO and a 6% decline in post-paid ARPO.

The post-paid ARPO decline was significantly lower than in 2018, when it was 10%. The trend improvement resulted from the following factors:

- Focus on value and related price increases (in line with our 'More for more' strategy) in both the consumer market (introduced in May 2019) and the business market (introduced to SOHO customers in November 2018);
- Lower penetration of mobile broadband in the mobile customer base; as a result, post-paid ARPO is less affected by substantial declines in mobile broadband ARPO (reflecting much lower take-up of this service).

2.2.1 Market and Competition[1]

The estimated number of SIM cards (54.5 million) increased by 3.2% compared to the end of 2018, driving the mobile penetration rate (among population) to 142% at the end of December 2019. The largest segment of the market is mobile voice, which maintained a positive annual growth rate. In post-paid services, sales of M2M cards increased year-on-year whereas sales of mobile broadband SIM cards decreased (largely due to migration to fixed broadband services).

The mature mobile market in Poland is characterised by low prices compared to other EU countries. However, the dividend policy and upcoming capital investments related to 5G frequency allocation urged a number of operators to increase fees for their telecommunication services. The implementation of the ‘More for more’ strategy leads to offers with value-added services and larger data pools (GB) embedded in the subscription to address current customer expectations resulting from increased data consumption within mobile plans. Our strategy of selling convergent packages (bundling mobile and fixed services), followed by Orange Polska for years, has been imitated by market followers. All MNOs have decided to expand their product portfolio to include fixed line services (through acquisitions, wholesale agreements or partnerships). Operators also modify their offers, particularly by changing the way customers can manage services (from a smartphone application), which in the monthly subscription model enables customers to terminate contracts at any point.

In the pre-paid segment, last year’s decline in the volume of services was substantially mitigated. Despite migration of some customers to post-paid services, the pre-paid segment is still important for MNOs and remains highly competitive against the MVNO market. Due to differences among operators in reporting pre-paid SIM cards, their comparative analysis remains difficult.

According to Orange Polska’s own estimates, the four leading operators’ aggregated market share remained at 98% as of the end of December 2019, with Orange Polska’s estimated market share of 28.1%.

2.2.2 Mobile Voice and Data Services

In connection with the market launch of the Orange Love offer in February 2017, we focused on our convergent offer in customer acquisitions, as it enables upsales of additional services and contributes to higher loyalty of customers. Currently, the convergent formula accounts for a major share in mobile voice acquisitions. The post-paid mobile-only customer base (excluding M2M) continued to decline, mainly as a result of migration to convergence but also due to churn.

In 2019, the key developments related to our mobile portfolio were the revision of our mobile plans and the launch of Orange Flex.

As part of our ‘More for more’ approach, we raised all four subscription fees by PLN 5, while offering in return increased data packages for use in Poland and across the European Union. The rationale behind this move included: higher demand for data transmission, more stable competitive environment in the mobile market, very low prices of telecommunications services in Poland, and favourable macroeconomic environment in Poland. Higher service prices are in line with our strategy focused on value and growth of revenue and profits.

In May 2019, we launched a very innovative offer called Orange Flex. It is a fully digital offer supported by an application on the phone, which enables customers to adjust their mobile plans using their smartphones and subsequently change packages depending on their needs with no loyalty agreements involved. Customers can choose from among four tariff plans which differ in data usage limits. They can change these plans (even every month), buy additional services in real time or even temporarily disable services with no consequences. Payments are effected with a payment card attached to the application, so there is no need for invoices.

In line with our value-based strategy, we still followed a policy of low handset subsidies, which had been introduced in 2017. We also continued to offer an option to purchase handsets in an instalment scheme at any time during the lifetime of the service contract (which had been introduced in the second half of 2018). Before, customers could only buy a new smartphone on an instalment basis when concluding or renewing their contracts. Now, they can be much more flexible in this respect, which increases our competitiveness in the smartphone market versus other sales channels. We have thus addressed the needs of customers who either look for novelties or have lost their handset for whatever reason and need a new one. As a result, we have significantly increased smartphone sales and enhanced customer loyalty.

The most important development in the consumer market was the introduction of higher service prices, accompanied by increased data packages, by three out of four operators. It is a colossal change over previous years, when fierce competitive struggle led to increasingly lower prices.

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

As for other key trends in the B2C market, in 2019 there were no significant changes versus 2018:

- With rapidly growing demand for data transfer, the volume of data pools has become the key competitive differentiator.
- An attractive portfolio of modern smartphones remains a differentiator in competition for customers. Operators now more actively promote sales of smartphones and other accessories independently of the service contract.
- Households are increasingly the main arena of competitive struggle in contrast to earlier competition for single customers. Customers can get price benefits, sometimes significant, for buying a bundle of several services, which contributes to the popularity of multi-SIM family offers. A part of this trend is the growing take-up of convergent offers, which combine mobile and fixed-line services.
- As a product category, mobile broadband has been less and less attractive, mainly due to attractiveness of wireless broadband for fixed offers, as well as growing volumes of data packages in voice offers.
- Looking for other differentiators, in addition to price, operators offer new services, such as access to music services or TV content.

2.3 Fixed-only Services

Revenues (*PLN million*)	For 12 months ended 31 Dec 2019 (IFRS16)	31 Dec 2018 Comparable data	Change 2019/2018 Comparable data
Fixed-only services	2,192	2,441	-10.2%
fixed narrowband	917	1,077	-14.9%
broadband, TV and VoIP	854	918	-7.0%
enterprise solutions and networks	421	446	-5.6%

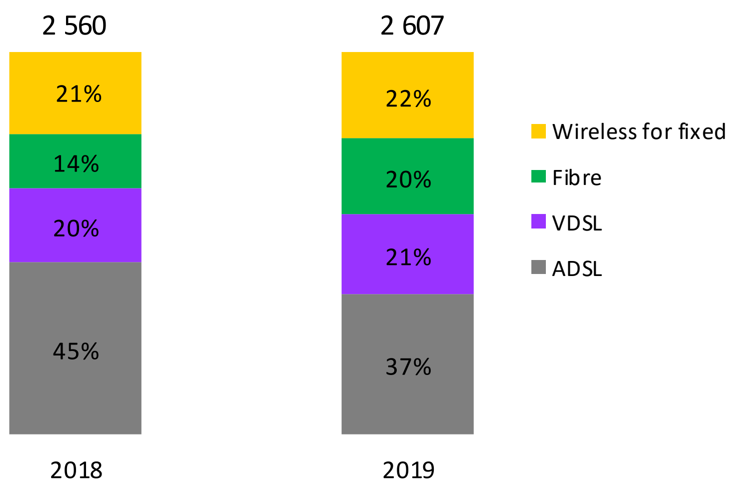
Key performance indicators (number of services) (*'000*)	31 Dec 2019	31 Dec 2018	31 Dec 2017	Change 31.12.2019/ 31.12.2018	Change 31.12.2018/ 31.12.2017
Fixed voice services (retail: PSTN and VoIP)	3,109	3,407	3,684	-8.7%	-7.5%
convergent	825	755	630	9.3%	19.8%
fixed-only	2,284	2,652	3,054	-13.9%	-13.2%
Fixed broadband accesses (retail)	2,607	2,560	2,438	1.8%	5.0%
convergent	1,369	1,236	1,035	10.8%	19.4%
fixed broadband-only	1,238	1,324	1,403	-6.5%	-5.6%

Key performance indicators (*PLN*)	2019	2018	2017	Change 2019/2018	Change 2018/2017
ARPO from fixed narrowband-only (PSTN) services	36.3	36.4	37.2	-0.3%	-2.2%
ARPO from fixed broadband-only services	55.4	56.4	57.7	-1.8%	-2.3%

Total fixed broadband customer base increased by almost 2% in 2019, exceeding 2.6 million. The trend did not change compared to 2018. Decline in the mostly non-competitive ADSL technology was offset by growth in VDSL, fibre and wireless for fixed. The share of these growing technologies in the aggregate customer base increased to 63% at the end of December 2019 (from 55% at the end of 2018). We expect this transformation to continue as a result of the steady implementation of our convergence strategy and further investments in the fibre network.

In line with the revenue reporting layout introduced in 2018, we separate convergent broadband customers (their number equals to that of convergent customers) from non-convergent broadband customers. Our non-convergent broadband customer base shrinks as a result of migration to convergence but also due to churn. As a consequence, revenues in this category decrease. Broadband ARPO also decreases, mainly due to a declining share of customers with a TV service, as they migrate to convergence.

Broadband customer base
(in thousand)



Erosion of the fixed voice customer base (excluding VoIP) totalled 380 thousand in 2019 and in relative terms was similar to that in previous periods. The decline can be attributed mainly to structural demographic factors and the popularity 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 15%, remaining at a similar level to 2018. We expect this downward trend to continue in subsequent periods. A positive trend, however, is the stabilisation of average revenue per user.

2.3.1 Market and Competition

Fixed Voice Market

The Group estimates that the fixed line penetration rate was at 17% of Poland's population at the end of December 2019, as compared to 18% at the end of 2018. 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 wholesale products based on traditional infrastructure (WLR and LLU).

Fixed Broadband Market

According to Group's estimates, in 2019, the total number of fixed broadband access lines, including wireless for fixed technology, increased by 0.2 million over the end of 2018. This can be attributed to two factors: intensive roll-out of fibre infrastructure and growing popularity of wireless for fixed broadband.

Our LTE offer successfully complements or sometimes substitutes for traditional cable lines. In 2019, Orange Polska's LTE for fixed customer base increased by 44 thousand, reaching 586 thousand lines at the end of December.

Simultaneously, the high-speed fixed broadband market has been constantly expanding and growing in Poland, especially in urban areas, with Orange Polska contributing greatly to the growth. In 2019, 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 stood at 32% by volume or 23% by value in 2019.

The rapid growth of the high-speed fixed broadband and wireless for fixed customer base was reflected in an increase in the aggregate number of Orange Polska's broadband users by 47 thousand in 2019.

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

Fixed broadband market – key performance indicators

	31 December 2019 (estimate)	31 December 2018
Market penetration rate – broadband lines (in total population)	24%	23.6%
Total number of broadband lines in Poland ('000)	9,208	9,014
Orange Polska's market share by volume	28.3%	28.4%

Fixed voice market share in June 2018

	31 December 2019 (estimate)	31 December 2018
Retail local access[2]	47.3%	49.2%

2.3.2 Fixed Line Data Services

Due to great differences in the competitive environment, the technological options related to population density, our market shares and customer needs, Orange Polska uses a 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 fibre 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, 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 2019, more than 4.2 million households were connectable with our fibre network, which is an increase of over 800,000 compared to the end of 2018. Our fibre services are available in 142 cities compared to 117 cities at the end of 2018. In 78 cities, our fibre network reaches over 50% of all households. In 2019, we focused more on developing our network in smaller towns, where some districts are dominated by single-family houses. These accounted for 33% of the total network roll-out. On one hand, it involves much higher investments, but on the other hand, we expect much higher demand for our services in single-family residential districts, despite the fact that fibre broadband is more expensive for such customers.

Our fibre customer base reached 520 thousand, growing by over 40% (or 154 thousand) year-on-year. The service adoption rate continued to grow, reaching 12.4% at the end of 2019 (vs. 10.8% at the end of 2018). Notably, over 80% of fibre activations are new broadband customers for Orange, which means that our market share is increasing. 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 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 Orange Love offer launched in February 2017 greatly contributes to the achievement of these goals. At the end of 2019, penetration of convergence in our fibre customer base was 62%.

Responding to the growing demand for fast broadband services and following our 'More for more' strategy, we introduced changes in our fixed broadband portfolio in June. We increased both download and upload speeds in the fibre technology (as shown in the table below):

Download (upload) speed in Mbps	
Old	New
100 (10)	300 (50)
300 (30)	600 (100)
1 Gbps (100)	1 Gbps (300)

Accordingly, we introduced changes in our price lists. The same price now applies throughout the 24-month term of the service contract, while previously there were different prices in the first and the second year. The

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

effective price for customers is by PLN 5 higher. Moreover, fixed broadband is now offered for the same price regardless of technology (before, there was a different price for wireless for fixed).

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. Orange Polska continues to follow its strategy as a content distributor, co-operating with all content providers. 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.

In rural areas, mobile technologies are the primary broadband access solution and constitute the basis for our wireless for fixed offers. Owing to convenience (no complicated installation) 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 connectivity.

3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

3.1 Market Outlook

Orange Polska expects the telecommunications market to grow in the coming years. In a short-term perspective, the market in Poland will be driven by the following factors: rapid expansion of very high-speed broadband access (above 30 Mbps), owing to fibre infrastructure investments (including those in the Operational Programme “Digital Poland”) and an increase in LTE coverage, as well as growing post-paid customer base in the mobile segment. At the same time, the telco services market will be under pressure due to continuing fixed-to-mobile substitution, both in fixed telephony and traditional broadband (DSL, below 30 Mbps).

In the long run, the market growth will be stimulated by the development of 5G services. This, however, requires support by the State, which should cut red tape on the investment process, as it has done with respect to the verification of Polish electromagnetic field (EMF) emission standards, which used to be among the most restrictive in Europe. We expect growing penetration of fixed broadband in the coming years, driven by the on-going digitisation of the society and economy, including development of e-commerce, Internet of Things, e-administration, e-health, etc. Growing demand will be satisfied by increased supply of fixed broadband owing to EU-financed investment projects carried out by Orange Polska (with a total of 1.8 million lines to be constructed) and other telecom operators, as well as constant improvements in mobile connectivity. Consolidation processes continue on the market. In mid-January 2020, after a prolonged verification procedure, the Office for Competition and Consumer Protection granted a conditional approval for the acquisition of Multimedia Polska by Vectra, which clears the way for emergence of the largest cable TV operator in Poland. The activity of operators as well as agreements between them on using the constructed infrastructure, such as the one between Orange Polska and T-Mobile to provide access to 1.7 million households in multi-family houses in deregulated areas, will bring Poland closer to meeting the European Digital Agenda objectives.

As for the mobile services market, we predict positive effects of the changes introduced by the key players, which involved offering larger data pools in return for a slightly higher price, as well as a further shift in the competitive struggle from price rivalry towards quality-based competition. Market growth will still be driven by bundled and convergent offers, combing mobile services with fixed broadband access. 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. Telecom operators are expanding their operations into the area of ICT through acquisitions, as illustrated by the acquisition of BlueSoft (specialising in the design and development of dedicated applications) by Orange Polska. Also Cyfrowy Polsat acquired a 22% stake in Poland’s largest IT group, Asseco Poland.

In 2019, mobile operators were testing 5G technology in a number of locations in Poland. The results of these tests coupled with the intended auction for 3.4–3.8 GHz frequencies make it more likely to achieve the goal set by the European Commission and the Polish government to have at least one functional 5G network in each city by the end of 2020. In the medium term, the implementation of 5G technology will be also supported by the roll-out of fibre infrastructure, which is currently being developed mainly for fixed broadband purposes. In the long run, the 5G market development will be driven by provision of services in the 700 MHz band, which is to be contributed in kind to the company Polskie 5G [Polish 5G]. In October 2019, the Polish Development Fund (PFR), Exatel and representatives of commercial telecom operators signed a memorandum on a analysis of a business model for Polskie 5G.

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 previous 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.

Consumer market strategy driven by convergence

The key to success in the B2C market is convergence, or sales of mobile and fixed line service bundles. Convergence addresses 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 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 is our priority. We 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 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 in a gradual improvement in trends, generating sustainable revenue and EBITDA growth.

It 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 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.

Current performance and expectations validate strategic objectives

We believe that our financial performance in 2018 and 2019, as well as our expectations for 2020 full validate our *Orange.one* strategy. In 2018, we reported the first improvement in our operating profitability measure (adjusted EBITDA) after twelve years of decline. The upward trend continued in 2019 (in 2019, the adjusted EBITDA was replaced by EBITDAaL as the key measure of operating profitability). In 2018 the growth resulted exclusively from cost savings and higher gains on sale of real estate, whereas last year it was also driven by revenues, which grew for the first time in a long period. Notably, EBITDAaL increased in 2019, even excluding gains on sale of real estate. The reversal of prolonged negative trends was mainly a result of the implementation of our convergence strategy, monetisation of fibre network investments, steady focus on value generation in our commercial activities, very high cost savings and record gains on sale of real estate. Operating profitability is improving despite continued structural pressure on high-margin traditional fixed line services, the erosion of which almost fully filters through to profits. In 2020, we intend to sustain this growth through consistent implementation of our strategy.

A major factor that will positively influence the implementation of our strategy is an increase in most prices in the consumer market, which occurred in the second quarter of 2019. Higher service prices are in line with our strategy focused on value and growth of revenue and profits. We expect that such prices will gradually contribute to improvements in the ARPO, revenue and EBITDAaL trends.

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

		2018	2019	2020
Revenue	Growth areas to increasingly offset pressure on legacy	approached stabilisation	~~stabilisation~~* growth	growth
EBITDAaL	To be supported by better revenue trend, operating leverage and continued cost optimisation	~~stabilisation~~* growth**	growth	growth
eCAPEX	Reflects connectivity programme and business transformation needs	PLN 2.1bn (capex)	PLN 2.1bn (capex)	PLN 1.7-1.9bn (eCapex)

* As presented during strategy presentation in September 2017
** Adjusted EBITDA growth under IAS18

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:

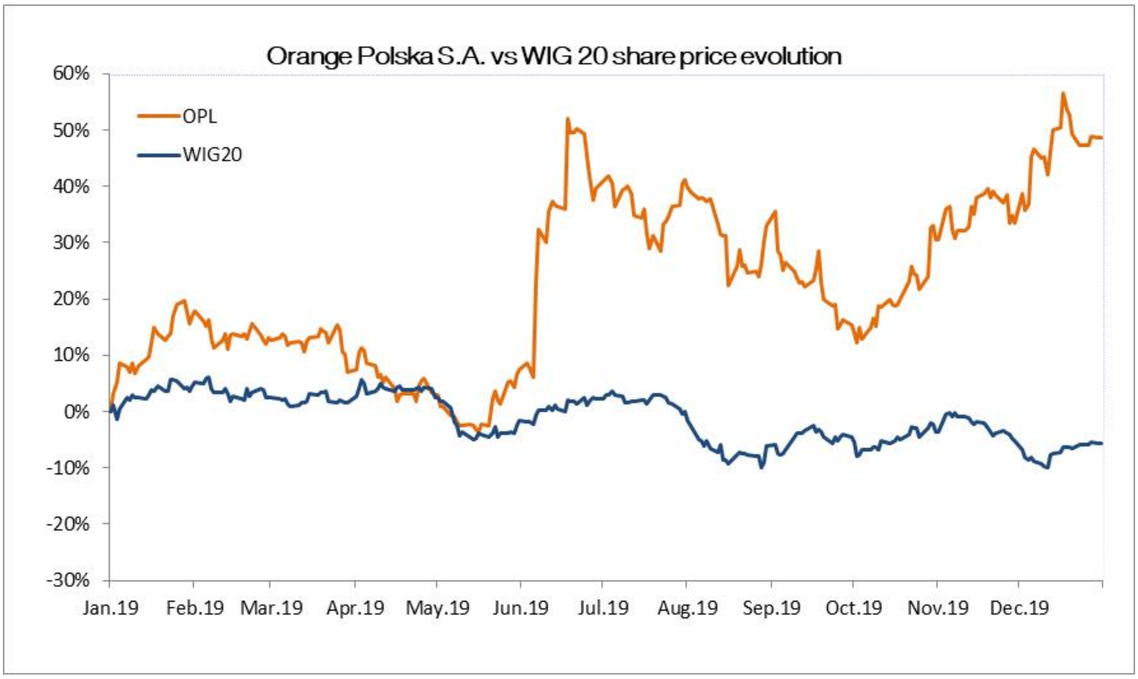
- WIG20 and WIG30 large-cap indices;
- WIG broad-market index;
- WIG-telecommunication industry index; and
- WIG ESG Index of socially responsible companies.

In 2019, Orange Polska S.A. was once again included in a prestigious group of listed, socially responsible companies. The new portfolio of the WIG ESG Index announced by the Warsaw Stock Exchange comprises 59 companies. Orange Polska S.A. has been present in the index portfolio since its first edition. The WIG ESG 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.

2019 brought losses in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were up 49%, while the large-cap index, WIG20, lost 6% in the period. The share price increase was driven particularly by more favourable outlook for the telecom sector in Poland, which was noticed by investors following mobile price increases (initiated by Orange Polska), which had happened for the first time in many years.

ORANGE POLSKA S.A. SHARE PRICE in the period from December 31, 2018 to December 31, 2019



3.3.1 Orange Polska S.A. Incentive Programme Based on Phantom Shares

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 ("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. By October 31, 2017, the Programme Participants could 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 (which was PLN 5.46). 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.

3.3.2 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 2019, the Company held four results presentations and about 160 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 2019, a dozen or so financial institutions published their reports and recommendations concerning the Company.

On March 11, 2019, 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.

In 2019, Orange Polska published its third 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, corporate governance, risk management and environmental impact. The content and layout of the report are based on the International Integrated Reporting Council (IIRC) guidelines, Global Reporting Initiative (GRI) Standards, ISO 26000 and Global Compact principles.

Orange Polska received an honourable mention in the 13th edition of the Social Reports Competition in the integrated report category for the 2018 report. The award was given for "a mature and comprehensive content, particularly the business model description and consistent high quality for years." The Social Reports Competition is organised by the Responsible Business Forum and Deloitte. Its partners include the Ministry of Finance, the Ministry of Investment and Economic Development, the Polish Association of Listed Companies, the Polish Consumer Federation and the Warsaw Stock Exchange.

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)*:

Name of the Institution
Citigroup
Dom Maklerski Banku Ochrony Środowiska
Dom Maklerski mBanku
Dom Maklerski PKO Bank Polski
Dom Maklerski Santander
Erste Bank Investment
Goldman Sachs
Haitong Bank
HSBC
Ipopema Securities
Pekao Investment Banking
Raiffeisenbank AG
VTB Capital
Wood & Company

* 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 below.

4.1 Implementation of Orange Polska's 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 (in 2019, the adjusted EBITDA was replaced by EBITDAaL as the key measure of operating profitability). 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.

4.2 Implementation of the 'More For More' Strategy in the Consumer Market

In 2019, we changed our price lists of most services to mass market customers. The higher prices are a consequence of, inter alia, the following developments:

1. Changing needs of customers, which is reflected in growing demand for data transmission and faster fixed broadband services;
2. More stable competitive environment in Poland's telecommunications market, particularly its mobile sector;
3. Very low prices of telecommunications services in Poland as compared to other EU member states;
4. Favourable macroeconomic environment in Poland.

In our mobile voice tariffs, we raised all four subscription fees by PLN 5, while offering in return increased data packages for use in Poland and across the European Union.

In our flagship convergent offer Orange Love, we raised the price of the standard package by PLN 10, while offering in return faster fibre broadband speed (300 Mbps instead of 100 Mbps) and a larger data package on the SIM card. The prices of other convergent packages remained unchanged. In our fixed broadband portfolio, we first of all modified the offer structure and provided faster fibre broadband speeds. The same price now applies throughout the 24-month term of the service contract, while previously there were different prices in the first and the second year. The effective price for customers is by PLN 5 higher.

At the end of the year, we modified certain elements of our pre-paid portfolio, increasing the price of the unlimited service (for newly activated SIM cards) by PLN 5 and the price of the voice service from PLN 0.29 to PLN 0.30 per minute.

Higher service prices are in line with our strategy focused on value and growth of revenue and profits. We expect that such prices will gradually contribute to improvements in the ARPO, revenue and EBITDAaL trends. Higher prices apply exclusively to newly signed contracts with customers in the acquisition and retention process. The terms of existing contracts do not change.

4.3 Launch of the Orange Flex Offer

In May 2019, we launched a very innovative offer called Orange Flex. It is a fully digital offer supported by an application on the phone, which enables customers to adjust their mobile plans using their smartphones and subsequently change packages depending on their needs with no loyalty agreements involved. Customers can choose from among four tariff plans which differ in data usage limits. They can change these plans (even every month), buy additional services in real time or even temporarily disable services with no consequences. Payments are effected with a payment card attached to the application, so there is no need for invoices.

Orange Flex was developed from scratch and based to a large extent on feedback from our customers. Flex combines the flexibility of pre-paid offers with the convenience of post-paid ones. A breakthrough feature is that customers can activate a new number in a few minutes with no interaction with an operator using eSIM technology. It is a highly innovative offer, which in our opinion sets a new benchmark for the future of telecommunications services, which are to be marked by full flexibility and digital experience.

4.4 Acquisition of 100% Shares in BlueSoft sp. z o.o. by Orange Polska to Strengthen Its Operations to Business Customers

On June 12, 2019, Orange Polska closed the purchase of 100% shares in BlueSoft sp. z o.o.

BlueSoft, founded in 2002, provides multiple IT services in the areas with high-growth potential: application development and integration, system customisation, analytics and cloud services. In 2018, around 75% of its consolidated revenues came from development and integration of customised applications, which included customer-facing portals (particularly for e-commerce) and back office platforms and systems. BlueSoft sells its products to a diversified portfolio of blue-chip customers from multiple industries, including: banking & insurance, utilities, pharma, telecommunications and logistics. In 2018, BlueSoft generated PLN 123 million of consolidated revenues and PLN 25 million of consolidated EBITDA. Employment at the end of 2018 stood at around 650.

In our strategy, we have always declared our intention to expand the ICT business, which offers high growth potential and considerable synergies with our core operations. These synergies have recently become higher than ever owing to on-going digitalisation processes in enterprises. For several years, we have successfully developed ICT technologies in Orange Polska through our subsidiary Integrated Solutions, which is among the top three IT integrators in Poland. Over the last two years, we have increased our ICT revenues by 50%. The acquisition of BlueSoft perfectly complements our competencies and significantly increases our competitive advantage over both alternative telecom operators and ICT-only companies. The transaction is another step in the implementation of Orange Polska's strategy in the business market, which focuses on expanding competencies in ICT services with a high added value in order to meet growing demand of business customers in the area of digital transformation, including cloud, micro-platforms, dedicated portals and cybersecurity. We expect significant revenue synergies from the merger, which we will gradually realise starting from 2020.

4.5 Preparations for the 5G Launch in Poland

In 2019, the Telecommunications Law was amended. The key changes include: (i) enabling the President of the Office of Electronic Communications (UKE) to announce an auction or tender with respect to frequencies for which licences have not expired yet, but are to expire soon, and (ii) changes aimed to ensure the efficiency and effectiveness of auction or tender procedures. As a result of these changes, the bandwidth allocation and, consequently, the 5G network launch can be conducted much earlier (the latter could happen immediately upon the expiration of the current licences).

In the beginning of 2019, the President of UKE carried out initial informal consultation on an auction dossier for 3400–3800 MHz frequencies, which are the key band for the first stage of the 5G roll-out and the primary carrier for this new technology in urban areas. In subsequent months, the President of UKE made intensive efforts to withdraw the rights to use this spectrum from the entities which do not use the allocated frequencies and radio licences in any way. As a result, the frequency blocks offered in the auction will be free of geographical or time constraints as much as possible. In the autumn, discussions with operators on the possible tehnical conditions of using the spectrum were initiated. Thanks to the aforementioned actions, in early December, an auction dossier for four frequency licences in the 3400–3800 MHz band, 80 MHz each, was released for consultation. The spectrum distribution process is scheduled for completion by mid-2020.

It is our ambition to take an active part in the 5G network implementation in Poland and provide our customers with access to the 5G network and modern services based on this technology. We have continued our preparations for the 5G launch. The on-going intensive roll-out of our fibre network is a precondition of the efficient operation of the 5G mobile network. In the beginning of 2019, Orange Polska conducted 5G tests in Zakopane, using 26 GHz frequencies, on which 5G services of fibre-like capacity are to be based in the future. In the Orange Cities project, which has been carried out since September, Orange Polska started extensive tests of the 5G technology in Warsaw and Lublin, using the 3.5 GHz band. The test 5G network comprised 19 base stations and used network equipment from various suppliers. A total of over 100 different terminals (handsets, routers) were used, and both journalists and our customers were invited to take part in tests.

Apart from hardware tests, Orange Polska has been actively involved in discussions about future bandwidth allocation plans, coming up with initiatives aimed to ensure quick and effective 5G spectrum allocation.

Consultation Procedure for the 5G Auction

The consultation procedure regarding allocation of frequencies for 5G, which had been initiated by the President of UKE on December 9, 2019, was completed on January 10, 2020. The assumption is to allocate four frequency licences, each for 80 MHz, in the 3480–3800 MHz band. The licences will be valid until the end of May 2035. The proposed starting price for each block is PLN 450 million. According to the assumptions, the auction winners shall commit to roll out the network by deploying a specified number of base stations within the set time limits. Orange Polska has submitted its comments to the draft auction dossier. The next step will involve publication by the President of UKE of all the consultation positions, which will be followed by the announcement of the final terms of the auction. On January 27, 2020, the President of UKE announced again consultations that are scheduled to end on February 27, 2020. Most of the proposed conditions have not been changed. Among other things, the starting price for each block and the condition that one capital group can purchase one block remained unchanged.

4.6 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.

Access to Orange Polska's Fibre Network for T-Mobile

On July 23, 2018, Orange Polska and T-Mobile Polska signed an agreement on telecommunications access to Orange Polska's fibre network in the form of Bitstream Access ("BSA").

This wholesale co-operation will contribute to faster monetization of Orange Polska's investments in the fibre network and promote fibre as superfast broadband technology in Poland. It will also maximise usage of Orange Polska's infrastructure while avoiding fibre network overbuilding by other operators and accelerate convergence of telecom services in the Polish market based on fibre. No exclusivity was granted under the transaction and Orange Polska is open to negotiate wholesale access to its fibre network with other operators.

The key terms and conditions of the agreement were described in the Company's Current Report 19/2018 dated July 23, 2018.

National Roaming Agreement with P4

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 the minimum revenue of PLN 321 million over the four-year period.

4.7 Infrastructure Development

Fixed Line

Since 2015, in line with the adopted strategy, we have focused on massive development of FTTH lines. At the end of 2019, almost 4.2 million households in 142 Polish cities were connectable with our fibre network. The network roll-out has been maintained at a high rate of at least 0.8 million households and businesses annually. Our ambition is to have about 5 million households connectable with fibre by 2020.

The number of households connectable to Orange Polska's VDSL network stood at over 5.3 million at the end of 2019. VDSL range has not increased over the recent years, mainly because prioritisation of fibre network investments.

Our 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 and efficient use of the existing fibre infrastructure in the relevant locations, wherever it is technically possible and economically viable. We have signed agreements with fibre infrastructure providers since 2015. The main benefit is quicker access to the FTTH network. This is in line with the aims of the Cost Directive of the European Commission, which recommends avoiding duplication of the existing facilities. At present, Orange Polska uses the infrastructure of 35 operators for over 670,000 households. In 2020 and subsequent years, Orange Polska intends to continue to acquire FTTH range, including that developed in the Operational Programme "Digital Poland", from other operators.

Orange Polska is Poland's largest wholesale service provider. There has been growing demand for transmission bandwidth, particularly lines of capacity of 1 Gbps or 10 Gbps. In order to meet customers' needs, Orange Polska has been systematically expanding nationwide OTN (Optical Transport Network) trunk lines. In 2019, we increased the number of OTN transport nodes, thus expanding the aggregate network capacity from 3.1 Tbps at the beginning of 2018 to 4.6 Tbps at the end of 2019.

Orange Polska is Poland's sole operator of a network to which all the Emergency Communication Centres (ECCs), answering calls to the emergency numbers 112, 997, 999 and eCall, are connected. Furthermore, about 90% of all emergency numbers in Poland (over 800 locations) are 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 stood at 99.28% at the end of December 2019, which confirms very high quality of Orange Polska's fixed-line services.

Mobile

Orange Polska has been steadily increasing the number of its base stations and enhancing their capacity. In 2019, our customers got access to further 212 base stations. 4G coverage for all bands was 99.86% of the population on 98.25% of Poland's territory at the end of 2019. Orange Polska provided LTE services via 11,222 base stations. In response to rapid growth in data traffic volume, we have steadily increased the number of sites that enable spectrum aggregation; their number reached 8,928 at the end of December 2019 compared to 6,901 at the of 2018. In Warsaw, we completed a project to increase the 4G capacity by upgrading 639 base stations to 4x4 MIMO (Multiple Input Multiple Output).

Furthermore, on May 1, 2018, Orange Polska concluded an agreement with T-Mobile to allow better use of the available radio band resources and increase the capacity of its LTE 4G network by nearly 40% by 2020.

As a significant portion of the available spectrum was allocated to older technologies, 2G and 3G, Orange Polska decided that, in addition to building new stations and expanding its 4G LTE network based on the 800 MHz and 2600 MHz frequencies won in the auction, it will also optimise the use of its frequency resources. The first change involves the conversion of the 15 MHz frequency segment in the 1800 MHz band, which is used jointly with T-Mobile, into two independent carriers of 10 MHz each (while simultaneously adding a 2.5 MHz segment from the GSM1800 band, as we are gradually extinguishing the 2G technology as part of the optimisation thereof). This enables us to increase the capacity of our 4G LTE network within this band by approximately 1/3 in a short time. The second element of the spectrum refarming process will be to launch LTE services in the 2100 MHz band. Orange Polska will use 10 MHz currently allocated to 3G for this purpose. These changes allow aggregation of up to four carrier bands in the 4G technology, which translates into higher network capacity and transfer speed. The total bandwidth allocated to LTE services will increase to 45 MHz. At the same time, in order to maintain the quality of our 3G network, we have also converted the 4.2 MHz frequency segment used jointly with T-Mobile for UMTS900 services into two independent carriers of 4.2 MHz each (at the expense of a portion of the band previously allocated to 2G services). The change in the spectrum usage in the 900 MHz band has been already effected, while the ones in the 1800 and 2100 MHz bands are being introduced gradually, and by the end of 2019 had been completed on 7,405 base stations. The whole refarming project will take three years and will be completed in 2020.

The agreement with T-Mobile does not mean the end of co-operation under NetWorkS! on a consolidated network, but only a departure from co-operation in the bandwidth sharing model (Multi-Operator Core Network – MOCN). Both operators will continue to share infrastructure (access to a radio network) in the MORAN (Multi-Operator Radio Access Network) model. Developments of mobile and fibre networks are complementary processes, which aim to provide Orange Polska's customers with the highest quality services regardless of where they use them.

Orange Polska conducted intensive 5G tests throughout 2019, and it operates test networks in Warsaw and Lublin.

4.8 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 1.02 billion have been allocated for adding last mile facilities meeting 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 were implemented in 2017–2019.

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 is implementing 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 have been granted a total of PLN 741.3 million from the Programme funds, which accounts for about 84% of eligible costs (according to co-financing agreements between Orange Polska and the “Digital Poland” Project Centre). Co-financing accounts also for about 70% of the total costs of network construction according to the agreements between Orange Polska and the contractors. 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.

4.9 Competition in the Telecommunications Market

Poland’s telecommunications market is becoming increasingly convergent with the biggest operators offering bundles of mobile and fixed line services and based on both mobile and fixed-line network infrastructure.

This integrated approach to provision of telecommunications services was pioneered by Orange Polska. It was followed by the Cyfrowy Polsat Group, which introduced convergent services upon acquisition of Netia. In June

2019, T-Mobile launched its convergent offer, providing fixed broadband services pursuant to wholesale agreements with Orange Polska, Nexera and Inea.

Other operators have also declared plans to launch convergent services. In June 2019, Play announced the expansion of its co-operation with Vectra, a cable TV operator, to include wholesale access to broadband services based on the DOCSiS technology.

In 2019, a major development in the highly competitive market in Poland was price increases implemented by operators under the “More for more” formula. This involves increased benefits for subscribers in return for higher subscription fees. In May, Orange Polska became the first operator to raise prices of its mobile packages. Then, Play and T-Mobile followed the suit.

Higher prices are important for financial standing of telecom operators, as they face cost pressure and upcoming massive investments in 5G services. 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.

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, insurance or sale of household appliances.

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. In mid-January 2020, after a long verification procedure, the Office for Competition and Consumer Protection (UOKiK) granted a conditional approval for the acquisition of Multimedia Polska by Vectra. If the merger is effected, the largest cable operator in Poland will emerge. However, in order to close the transaction, the parties will have to meet the conditions set by UOKiK and aimed to keep competition in the indicated local markets (particularly by selling overlapping networks in 8 cities and enabling customers to change operators in 13 cities).

In 2019, investments in the fibre infrastructure based on EU funds continued to play a major role in the market. Owing to EU co-financing, such projects are possible even in non-urban areas, where investments in fibre have not been economically viable hitherto. From Orange Polska’s perspective, development of fibre infrastructure in semi-urban areas poses a major challenge to defend our market position, but at the same time a major opportunity to attract new customers to our retail offer by using the newly constructed networks on wholesale terms.

There are over 1.33 million households in the areas covered by the investment 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 services is not technically possible.

4.10 Pay TV Portfolio Development

As for the development of Orange TV services, 2019 saw the continuation of the convergence strategy, of which pay TV is a major element, as well as further investments in quality 4K services. The take-up of Orange TV services saw steady growth, reaching 994 thousand customers (up 51 thousand year-on-year), mainly as a result of the development of the IPTV technology.

In 2017, Orange Polska became the first nationwide operator to provide pay TV content at 4K resolution. Since then, the 4K offer has been constantly expanded. In 2019, the Company added the TV channel WPolsce.pl to two channels made available in 2018 (Festival 4K and Eleven 4K). Moreover, Orange set-top boxes enable access to the 4K content provided by Netflix. In 2019, Orange Polska offered its TV customers an option to order additional TV packages at any time without a loyalty agreement.

4.11 Evolution of the Group’s Distribution Network

Despite changes in customers’ behaviour and purchase preferences, physical points of sale (POS) remain the most popular sales and contact channel. Orange Polska has a chain of 710 POSs all over Poland (vs. 731 at the end of 2018). Our ‘Best Retail Network’ project is underway. In order to meet customer needs, we are implementing some solutions from large Smart Store outlets, such as intuitive and functional space, into smaller points of sale. By the end of 2019, 231 (or 33%) of our outlets had been modernised with new design.

The second largest sales channel is telesales, operated by our external partners and our own call centre. In this channel we concentrate on dedicated campaigns accounting for customer profiles and behaviour patterns to ensure best offer customisation. Owing to specialisation and development of competencies of our consultants, we are highly effective in our operations, and great focus on retention campaigns enables us to effectively secure our customer base and mitigate churn.

In addition to telesales, there is also a service infoline, which combines customer care with account management. However, as expected, the number of customers using this channel has been steadily falling in connection with the implementation of our strategy aimed at constant improvement of customer experience, as well as availability of online solutions. For digital customers, we have a dedicated group of specialised consultants to support purchase processes on our website (online assistance over phone). Furthermore, we are developing an innovative artificial intelligence solution for handling incoming calls: Max, a bot helping customers to settle matters related to Orange services.

Our online channel saw the largest growth year-on-year. Through this channel we carry out personalised marketing campaigns based on behavioural customer profiles, as well as online and offline events. Owing to marketing automation and artificial intelligence tools, customers are recommended offers which best suit their needs. Last year we simplified the information architecture of our homepage orange.pl, enabling faster and more intuitive navigation on Orange Polska's website. This reduced the loading time of orange.pl and simplified sale and customer care processes. As a result, both satisfaction score and NPS among 'My Orange' users significantly improved.

'My Orange' app continued to gain popularity in 2019. Currently, about one million customers of our network log into it monthly, which is a 15% increase year-on-year. In 2019, the number of orders placed through this app was up 30% vs. 2018. Already over 30% of purchases in the 'My Orange' app are made in the 'one click' process, which enables customers to extend an agreement or purchase services directly from the app. The value of pre-paid top-ups in the app doubled in 2019.

Customers are also offered direct contact with our active sales representatives. Orange Polska uses advanced geomarketing tools for efficient planning of sales territories. Typically, our sales representatives operate in urban areas of our fibre investments.

Orange Polska has been constantly working on improving the sales and distribution of its pre-paid products in Poland. Our top-ups are available in over 80,000 retail POSs (grocery stores, kiosks and petrol stations). Our customers can buy pre-paid starter packs in over 40,000 various sites all over the country; in a great number of them, customers can also register starter packs (the obligation to register pre-paid cards was introduced by the anti-terrorist act in 2016). In 2019, we were a strategic partner of a number of major retail chains (particularly Żabka with 6,000 POSs). According to Nielsen's survey, we were the leader in starter pack sales in Poland, and our share in this maket increased vs. 2018. Consumer behaviour with respect to topping-up is evolving: our customers increasingly recharge their pre-paid accounts in remote channels (through online banking portals, mobile apps and orange.pl website). In 2019, there was an 11% increase in top-up sales through online channels.

4.12 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 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 wholesale markets:

- market for call termination on Orange Polska S.A.'s fixed line network (FTR);
- market for call origination on a fixed public telephone network (pursuant to a deregulation decision issued in 2018, the relevant regulatory obligations will remain in force to October 1, 2020);
- market for provision of wholesale (physical) access to network infrastructure (LLU), including shared or fully unbundled access, in a fixed location, excluding 51 municipalities where the market was recognised as competitive in October 2019;
- market for wholesale broadband access (BSA) services, excluding 151 municipalities where the market was recognised as competitive in October 2019;
- 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 (MTR).

Each SMP decision of the President of UKE's determines specific Orange Polska's obligations with respect to the given relevant market, particularly an obligation to prepare regulatory accounting statements and costing description (for LLU and BSA services), which are to be verified by independent auditors.

BSA costing results and regulatory accounting statements were subject to regulatory audit in 2019. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. conducted an audit of Orange Polska S.A. and issued a positive audit opinion in August 2019.

Access to Outdoor and Indoor Cable Ducts

Pursuant to the obligations imposed by the Act on supporting the development of telecommunications services and networks ("the Mega-Act"), Orange Polska S.A. provides access to its outdoor and indoor cable ducts. The President of UKE has issued decisions determining the terms of access to outdoor and indoor cable ducts with respect to both Orange Polska and other six major infrastructure operators in Poland, namely UPC, Vectra, Inea, Netia, Toya, and Multimedia Polska. The terms of access are symmetrical, with the exception of monthly rates for outdoor cable duct lease. However, the operators have appealed against the UKE's decisions and the relevant court proceedings are pending.

In December 2019, the President of UKE issued decisions on the terms of access to Orange Polska's indoor cables. Decisions for other six operators (Netia, UPC, Vectra, Multimedia Polska, Toya and Inea) regulating the same scope of obligations were issued in May 2019. Currently, the President of UKE is carrying out proceedings regarding potential changes to the terms of access to indoor cable ducts with respect to all operators following their appeals.

International Calls within EU

Pursuant to the Regulation (EU) 2018/1971 establishing the Body of European Regulators for Electronic Communications (BEREC), starting from May 15, 2019 international rates within the European Union should not exceed EUR 0.19 per minute for calls and EUR 0.06 per SMS message. These provisions have been implemented by Orange Polska S.A. The regulation applies to consumers only and will remain in force for five years.

Potential Regulatory Changes

Regulations affecting Orange Polska S.A. are subject to periodical reviews in order to adjust them to the current market situation.

Call Termination on Fixed Networks

In December 2019, the President of UKE issued over 200 decisions, including one for Orange Polska S.A., imposing regulatory obligations on the wholesale market for call termination on fixed networks. The decisions are only partial and do not set fixed termination rates (FTRs).

Simultaneously, the European Commission is working on the implementation of uniform rates for call termination on both fixed networks (i.e. single FTR) and mobile networks (i.e. single MTR), which should be implemented by 2021.

Amendment to the Telecommunication Law

By December 21, 2020, all EU member states shall transpose into national legislation the European Electronic Communications Code (established by the Directive (EU) 2018/1972 of the European Parliament and of the Council of 11 December 2018). The Ministry of Digital Affairs is working on the implementation of legislation changes relevant to the telecommunications sector. Either amendment to the Telecommunication Law or a new act regulating the functioning of the telecommunication market is expected in 2020.

Compensation for Universal Service Costs

From 2006 to 2011, Orange Polska S.A. was the 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.

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.

Between 2007 and 2012, the President of UKE granted compensation of PLN 137 million, which was lower than requested by Orange Polska S.A. Therefore, the Company exercised its right to appeal. Courts did not share the President of UKE's arguments for rejecting compensation in the amount requested by Orange Polska S.A. and obligated UKE to re-examine the case.

As a consequence of court rulings, UKE has issued decisions granting Orange Polska S.A. additional compensation of PLN 194 million for the universal service net cost deficit in 2006–2010. This amount includes contribution payable by Orange Polska S.A. itself. The decisions have been challenged in court by other operators.

At the same time, procedures to determine the share of individual operators in the compensation of the universal service net cost deficit are pending. The President of UKE first determines a list of operators to contribute to 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.

The majority of individual decisions regarding the initially granted amount of compensation for 2006–2010 have been issued, and most operators have already paid the relevant amounts to Orange Polska S.A. However, the proceedings related to individual decisions for 2011 and similar proceeding concerning additional compensation for 2006–2010 are still pending.

Out of the initially granted compensation for 2006–2011, in 2019 Orange Polska S.A. received PLN 1.3 million, while PLN 5.9 million is still due.

Major Changes in Legislation

In 2019, 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 allocating resources to implement new regulations.

Domestic Law

- Pursuant to the Decree of the Minister of Digital Affairs of December 11, 2018 on the conditions for the exercise of rights on public telecommunications networks, as from March 1, 2019 telecom operators can offer customers to submit phone number porting applications not only in written or electronic form, but also in the documentary form;
- On May 6, 2019, the Act of March 15, 2019 amending the Telecommunication Law with respect to frequency management came into force. The main purpose of the amendment is to provide the spectrum for the 5G network and to streamline frequency allocation procedures;
- Two bills came into force in September 2019, the Act of July 31, 2019 on the Agricultural Census 2020 and the Act of August 9, 2019 on the National Census of Population and Housing 2021, which impose on public telecommunication service providers the obligation to provide the statutory catalogue of data about subscribers being natural persons to Statistics Poland;
- On October 25, 2019, the Act of August 30, 2019 on amending the act on supporting the development of telecommunications services and networks and certain other acts (i.e. amendment to the Mega-Act) came into force. It introduces changes in the investment process related to telecommunication networks;
- Decrees related to the distribution of spectrum for 5G:
  - On October 3, 2019, the Decree on the National Frequency Allocation Table, enabling the use of frequencies from the 26.5–27.5 GHz band for both civilian and military purposes, came into force,
  - On July 27, 2019, the Decree on the time schedule of 3.7 GHz (3600–3800 MHz) bandwidth distribution, which provides that 3.7 GHz frequency assignment decisions granting the right to use the relevant frequencies nationwide should be issued by June 2020, came into force.
- On January 1, 2020, the Decree of the Minister of Health on the acceptable electromagnetic field levels in the environment came into force. It sets limits consistent with the Council Recommendation 1999/519/EC, which is based on the International Commission on Non-Ionizing Radiation Protection (ICNIRP) guidelines.

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

- Decree of the Minister of Climate on the means of verifying compliance with the acceptable electromagnetic field levels in the environment.
- Decree of the Ministry of Digital Affairs on minimum technical and organizational measures and methods that telecommunications undertakings are obliged to use to ensure the security or integrity of networks or services.
- Decree of the Council of Ministers regarding the action plan of a telecommunication undertaking in in situations of particular hazards.

EU Law

- The discussions in the EU Council regarding the Regulation on privacy and electronic communications (ePrivacy) have been going on since 2017 due to lack of consensus among the Member States.
- On December 11, 2019, the European Commission presented the European Green Deal, which provides for reforms of the EU climate policy in order for the European Union to become climate-neutral by 2050. In particular, the announced actions include the development of draft European Climate Law, new EU Industrial Strategy and Circular Economy Action Plan.

4.13 Claims and Disputes, Fines and Proceedings

Please see Note 29 to the Consolidated Full-Year Financial Statements for 2019 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

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.

Major Achievements of Orange Labs Poland in 2019, Including Projects for Orange SA

- Research in the area of Big 5 personality profile detection based on the digital information from personal devices, accounting for user’s privacy and personal data protection. This functionality (Enabler) will be applied in ‘Smart and Sensitive Home’ interactive services. Such artificial intelligence tools will enable automatic customisation of services to the natural preferences and behaviour patterns of users in line with their biologically coded personality profile. The demo version of the solution was presented at the international Orange Labs Research Exhibition (OLRE) 2019 in Paris.
- HomeCloud – Development of a prototype service which uses artificial intelligence for family digital content management in the home environment; using artificial intelligence for image and text analysis for the purpose of digital memory and document library management; using home network equipment (Livebox, fibre line) and energy-efficient SBC to ensure full data control and security at home.
- Embedded AI – Use of dedicated hardware for efficient data processing at user’s home. In 2019, in our project related to devices with embedded AI we focused on testing the current platforms and using them to start simultaneously several real-time video processing models. In the future the tested solutions, owing to their high capacity, low energy consumption and reasonable price, may be used in smart homes for recognising user’s emotions, as well as voice and gesture commands.
- Trust and Security – Development of the experimental Multi-access Edge Computing (MEC) environment, first of its kind in the Orange Group; studies using this environment aimed to ensure the security of Orange customers’ applications deployed at the edge of the network (5G MEC). The research concerns mainly IoT solutions for the industrial sector (Verticals/Industry 4.0).
- IoT – Development of a prototype system for device management of IoT devices using oneM2M and SDT abstraction layer, which was presented during ETSI IoT Week 2019 hosted by the European Telecommunications Standards Institute. Based on the prototype, within the Orange Group we developed proposals for changes in the oneM2M standard to enable its integration with other IoT management systems, so that a single universal platform for managing various types of IoT devices could be developed in the future;
- Software Infrastructure – Development of the practical solution ‘AI for network management’, which validates the use of artificial intelligence (AI) and machine learning (ML) methods for developing a proactive system for giving change recommendations in routing on the IP/MPLS network. The solution, which has been developed on the basis of real network data, provides for continuous balancing of interconnect traffic. At present, the solution is being tested within Orange Polska’s Network and Technology area.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

6 ORGANISATIONAL CHANGES IN 2019

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

In 2019, there were changes in the corporate structure of the following functions: Consumer Market, Networks and Technology, and Finance. The changes aimed at improving the efficiency of these functions and addressing business needs.

6.1.1 Management Board of Orange Polska S.A.

In 2019, the composition of the Orange Polska Management Board did not change. As of December 31, 2019, it was composed of eight 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 Business Market;
- Vice President of the Management Board in charge of Consumer Market;
- Management Board Member in charge of Customer Experience.
- Management Board Member in charge of Finance;
- Management Board Member in charge of Human Resources;
- Management Board Member in charge of Network and Technology; and
- Management Board Member in charge of Strategy and Corporate Affairs.

6.1.2 Business Units of Orange Polska S.A.

In 2019, the number of business units was reduced from 80 to 78, in the following functions: Consumer Market and Finance.

As of December 31, 2019, Orange Polska had 78 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: 7 business units;
3) Vice President of the Management Board in charge of Consumer Market: 7 business units;
4) Management Board Member in charge of Customer Experience: 8 business units;
5) Management Board Member in charge of Finance: 8 business units;
6) Management Board Member in charge of Networks and Technology: 13 business units;
7) Management Board Member in charge of Strategy and Corporate Affairs: 6 business units;
8) Management Board Member in charge of Human Resources: 12 business units;
9) Executive Officer in charge of IT: 7 business units;
10) Executive Director in charge of Carriers Market: 7 business units; and
11) Executive Director in charge of Transformation and Effectiveness: 2 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 2019.

6.2 Ownership Changes in the Group in 2019

Apart from the acquisition of BlueSoft sp. z o.o. described in the section 4.4 above, the Group effected no significant ownership changes in 2019.

6.3 Orange Polska Shareholders

As of December 31, 2019, 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 12, 2020 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 July 24, 2019, Orange SA held a 50.67% stake in the Company.

Orange SA is one of the world's foremost telecommunications operators, with a turnover of €41.4 billion at the end of 2018. The Orange Group employed 151 thousand people at the end of 2018. Present in 27 countries, the Orange Group serves 264 million customers all over the world (as of the end of Q3 2019), including 10.7 million convergent customers, 209.4 million mobile customers and 20.5 million fixed broadband customers. Orange SA is also the leading provider of global IT and telecommunication services to multinational corporations under its brand Orange Business Services. Orange SA is listed on the Euronext Paris (ORA) and the New York Stock Exchange (ORAN).

As of December 31, 2019, the Company had no information regarding valid agreements or other events that could result in changes in the proportions of shares held by the shareholders.

Orange Polska S.A. did not issue any employee shares in 2019.

6.4 Group's structure as of december 31, 2019

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

6.5 Corporate Governance Bodies of the Parent Company

For detailed information about the Management Board and Supervisory Board of Orange Polska please see section 9 below.

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

Managing Persons

As of February 12, 2020:

- Mr. Jean-François Fallacher, President of the Orange Polska Management Board, held 40,000 shares of Orange Polska S.A.;
- Ms. Jolanta Dudek, Management Board Member, held 8,474 shares of Orange Polska S.A.;
- Mr. Piotr Jaworski, Management Board Member, held 673 shares of Orange Polska S.A.; and
- Mr. Maciej Nowohoński, Management Board Member, held 25,000 shares of Orange Polska S.A.

Other Members of the Management Board did not hold any shares of Orange Polska S.A. as of February 12, 2020.

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
Piotr Jaworski	250 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 12, 2020, no persons supervising 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 Business Services SA of par value of EUR 0.84
Gervais Pellissier	1 share of Orange Horizons of par value of EUR 10
Thierry Bonhomme	7,692 shares of Orange S.A. of par value of EUR 4 each
Eric Debroeck	5,533 shares 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

6.5.2 General Assembly

On April 24, 2019, the Annual General Assembly, *inter alia*:

– approved the Management Board's Report on the activity of Orange Polska S.A. and the Orange Polska Group in the financial year 2018;
– approved Orange Polska S.A. financial statements for the financial year 2018;
– approved the consolidated financial statements for the financial year 2018;
– granted approval of the performance of their duties by members of Orange Polska S.A.'s governing bodies in the financial year 2018;
– adopted a resolution on distribution of Orange Polska S.A.'s profit for the financial year 2018, pursuant to which Orange Polska S.A.'s profit of PLN 1,004,149.76 disclosed in the Company's financial statements for the financial year 2018 was allocated to the reserve capital;
– adopted a resolution on distribution of Orange Polska S.A.'s profit from previous years, pursuant to which Orange Polska S.A.'s profit from previous years of PLN 598,705,137.63 disclosed in the Company's financial statements for the financial year 2018 was allocated to the reserve capital, and the amount of PLN 598,705,137.63 allocated to the reserve capital may be distributed as a dividend; and
– did not adopt a resolution on paying a dividend in 2019, prioritising investment in long-term value creation.

6.6 Workforce

As of December 31, 2019, Orange Polska employed 12,376 people (in full-time equivalents), which is a decrease of 8.6% compared to the end of December 2018.

Orange Polska's workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2018–2019. Pursuant to the Social Agreement, 1,230 employees left the Company in 2019. Severance pay in Orange Polska S.A. averaged PLN 86.1 thousand per employee in 2019.

In 2019, external recruitment in Orange Polska totalled 498 positions. It was related mainly to sale positions and customer service staff.

6.6.1 Social Agreement

On December 12, 2019, the Management Board of Orange Polska concluded a new Social Agreement with the Social Partners. This will remain in force for the next two years, that is 2020–2021.

In particular, the Social Agreement for 2020–2021 sets the number of voluntary departures over these two years at 2,100 people and determines a financial package for employees leaving Orange Polska under the voluntary departure scheme. It also provides for potential basic salary rises (3.5% in both 2020 and 2021) and additional compensation for employees reaching retirement age within the next four years, 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 2020–2021 provides for the follow-up of the 'Friendly Work Environment' programme and continuation of medical coverage.

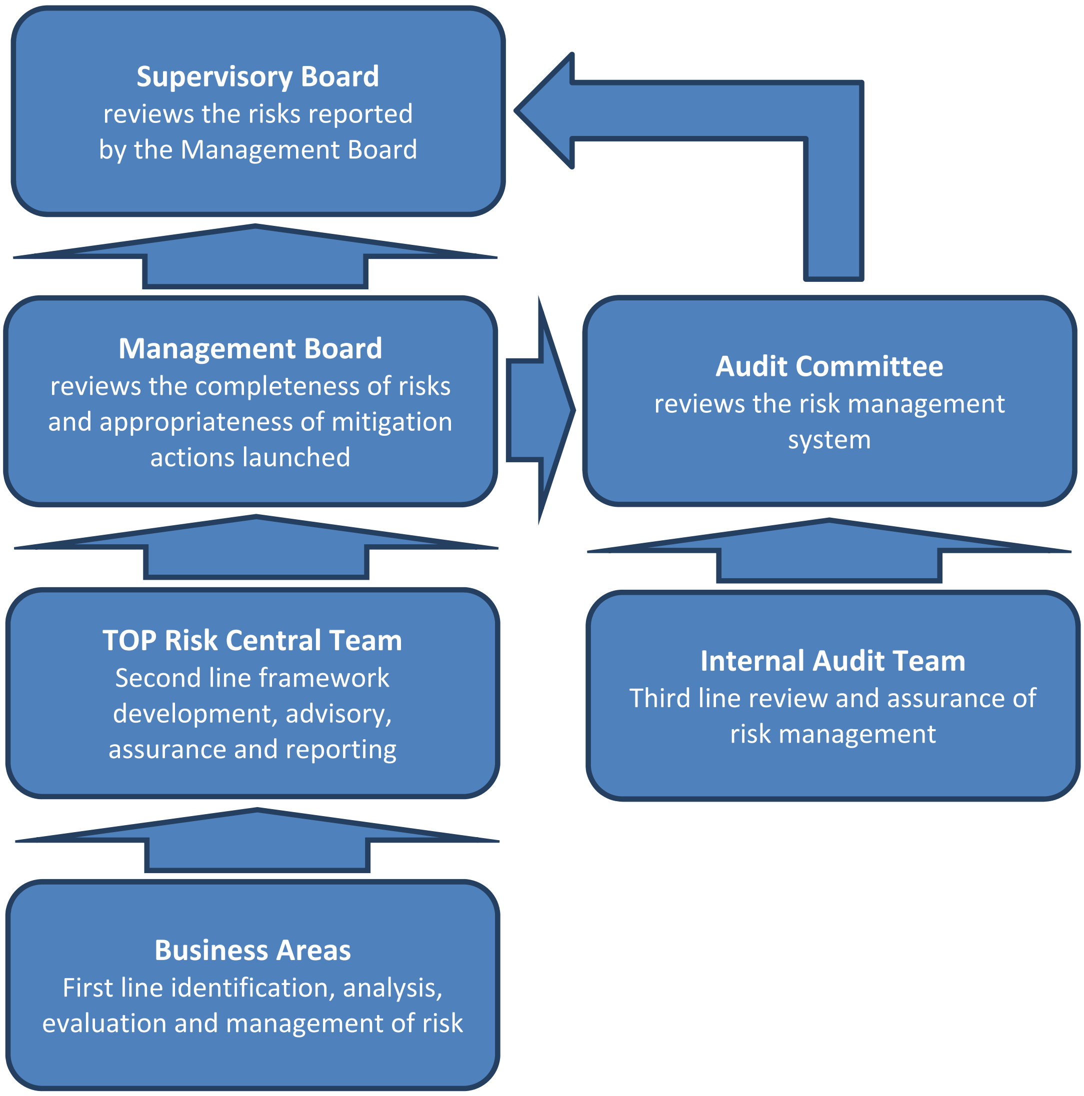
The negotiated Settlement sets the number of employees to leave Orange Polska in 2020 at 1,250 and determines the terms of voluntary departures in 2020 as well as the amount of severance pay and additional compensation for employees departing in 2020. The Settlement also specifies the rules and selection criteria to be applied to people whose employment is 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.

CHAPTER IV
KEY RISK FACTORS

7 RISK MANAGEMENT FRAMEWORK IN ORANGE POLSKA

Orange Polska is exposed to a range of external and internal risks of varying types which can impact the achievement of its objectives. Therefore, the Group maintains a risk management framework to identify, assess and manage risks. This framework has been based on the ISO 31000:2018 standard and ISO 27005 (for Information Security Management System only). 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, as well as monitoring and reporting on both the risks themselves and the effectiveness of control measures. Events are considered in the context of their potential impact on the delivery of our business objectives.

Fig.1. Orange Polska's governance and reporting structure for risk management.

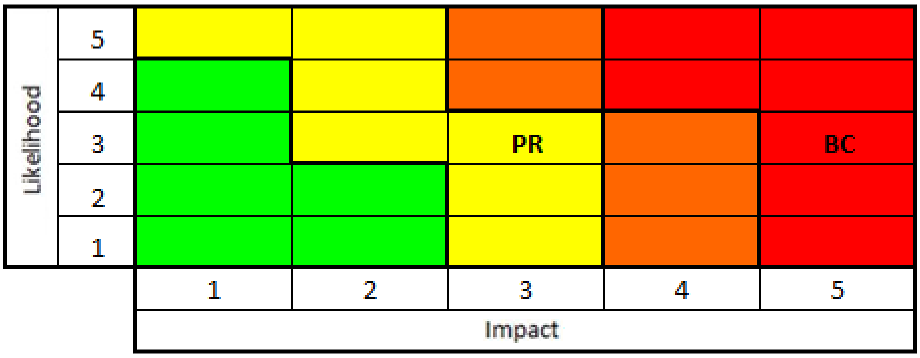


Event-based risks are subject to assessment according to their likelihood and impact in terms of financial, reputational, business continuity and human loss. If risk consequences are, for example, both financial and reputational, the risk is assessed according to the most negative consequence.

In addition, the identified similar risks are grouped into clusters to ensure consistent and effective risk management across the Orange Polska Group. The risk assessment process, illustrated in Fig. 2 below, is managed by domain co-ordinators. The division of risks into the domains of operating risks, loss of information, business continuity, compliance, fraud and social risks ensures a uniform and objective approach to the assessment of risks of similar consequences (cause and effect analysis).

The key risks, which have potentially the worst negative impact on the Group, are assigned mitigation measures in order to prevent or minimise losses. The effectiveness of such measures is verified on an on-going basis, and they are adjusted as required. The risks and the mitigation measures assigned to them constitute an input for the development of the Annual Internal Audit Plan. Indicative heat maps are used to report and evaluate risks. The results of assessment of top risks are reported to the Supervisory Board annually. In 2019, the Supervisory Board received such a report in July.

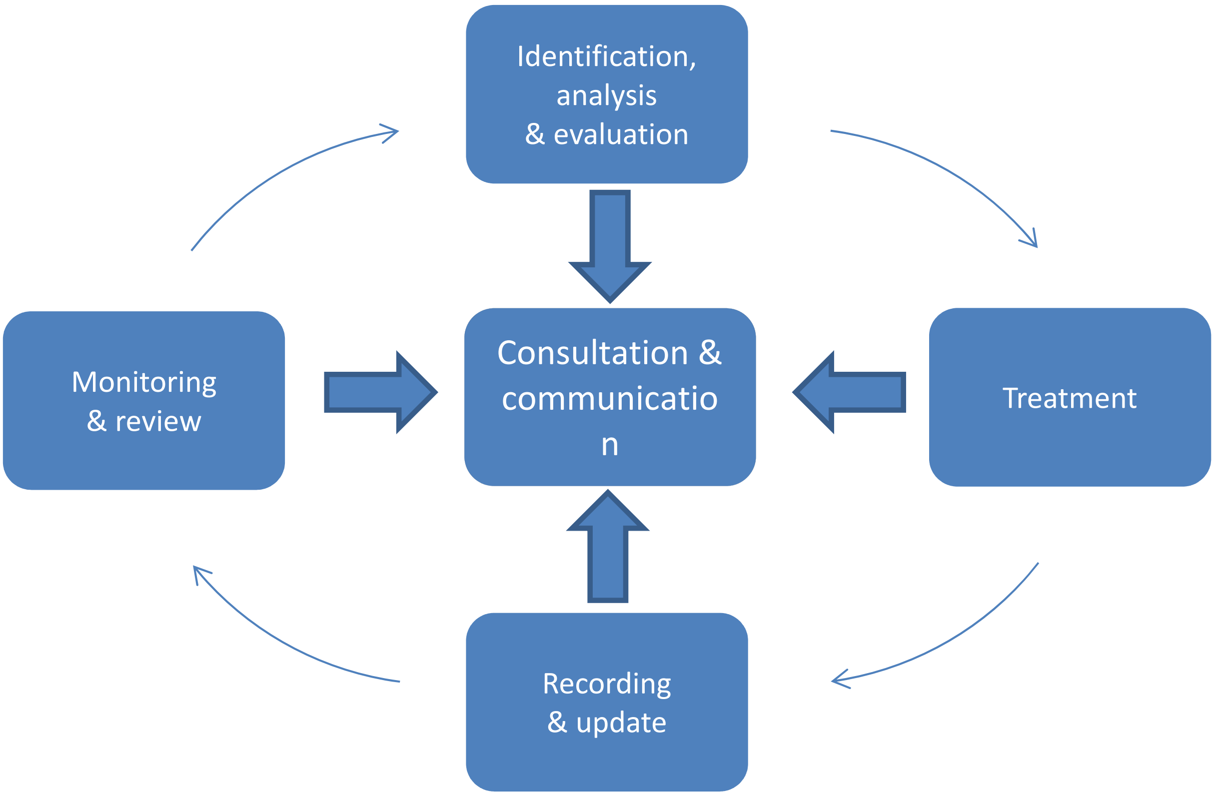
Sample heat map used as one of communication tools



FN - financial;
HR - human resources;
PR - reputational;
BC - business continuity;

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

Fig.2. The risk management process at Orange Polska is shown in the diagram below.



7.1 RISK FACTORS AFFECTING THE OPERATING ACTIVITIES OF ORANGE POLSKA

7.1.1 Implementation of Orange Polska's 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 (in 2019, the adjusted EBITDA was replaced by EBITDAaL as the key measure of operating profitability). 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, and 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.

7.1.2 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, which initially was mainly on price, but presently focuses on the quality of products and customer care. In response, Orange Polska has chosen to make significant investments in fibre, pursue a convergence strategy and continue with transformation and efficiency gains. The Group is also committed to developing new business activities, such as electricity supply and ICT services. If Orange Polska is unable to successfully implement its strategy, it could suffer a loss of market share and/or shrinking margins. The same could occur in the event of consolidation of other players in one of the markets where it operates.

For more information on competition, please see section 7.3 below.

7.1.3 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 emergence of new technologies allow global players in the Internet sector to establish a direct link with customers of telecom operators, thus depriving the latter, including Orange Polska, of a portion of their revenues and margins. If this phenomenon continues or intensifies, it could seriously impair the financial position and outlook of operators.

The increased use of networks for value-added services has led to the emergence of new powerful players, the Over-The-Top (OTT) providers, who offer video content, TV and voice services via the Internet (as illustrated by Cyfrowy Polsat and Discovery's announcement to create a common VOD streaming platform). Competition with these players to control customer relations is growing and could erode the market position of operators like Orange Polska or hinder their access to various video content or digital services. This direct relationship with customers and access to content are a source of value for operators, and losing part or all of it to new entrants could affect revenues, margins, the financial position and outlook of telecommunications operators, including Orange Polska.

7.1.4 Breach of Security of Information, Including Personal Data

Orange Polska constantly undertakes actions aimed to ensure protection of personal data (particularly from its extensive customer database), as well as proprietary information constituting a telecommunication or corporate secrets. The Company holds a certificate of compliance of its Information Security Management System with ISO/IEC 27001:2013 for the following scope of services: ICT, hosting, collocation, cloud computing, cybersecurity and personal data processing in cloud computing. In addition, Orange Polska holds 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* for the following scope of personal data processing services in cloud computing: UCaaS (Unified Communication as a Service), ICS (Integrated Computing Standard), ICM (Integrated Computing Managed) and smart CCaaS (smart Contact Center as a Service). Furthermore, the Company holds and maintains the FIRST and the Trusted Introducer certificates for CERT Orange Polska. 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. Such losses could arise from (i) implementation of new services or applications, for example those related to billing and customer relationship management, (ii) launch of new initiatives, especially in the field of Internet of Things (IoT), (iii) malicious acts (including cyber-attacks), particularly aimed at theft of personal data, or (iv) negligence on behalf of the Group or its business partners.

Since May 25, 2018, Orange Polska has complied with the General Data Protection Regulation (GDPR). 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 negative impact on the Orange brand reputation and a heavy impact on the Group's liability, potentially including criminal liability, and hence have an adverse impact on Orange Polska's future financial performance.

Like in case of personal data, Orange Polska faces a risk of unauthorised disclosure, publication or communication to unauthorised entities of proprietary information constituting corporate secrets, particularly the details of intended initiatives, marketing campaigns, new offers or sales packages. The premature disclosure thereof could result in Orange Polska's failure to achieve its sales objectives and loss of its market shares. The main causes of this risk include: (i) industrial (corporate) espionage, (ii) malicious acts (including cyber-attacks), particularly aimed at theft of proprietary information, or (iii) potential negligence on behalf of the Group or its business partners.

7.1.5 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 acts of terrorism 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 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 and sabotage 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 incidents 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 in Orange Polska by proper network and ICT systems development planning, investments in the development of disaster recovery solutions, insurance schemes (covering cyber and terrorism risks) as well as implementation of business continuity and crisis management plans. Orange Polska holds the ISO 22301:2012 Certificate for its Business Continuity Management System with respect to provision of telecommunication, ICT and cybersecurity services.

7.1.6 Potential consequences of discussions on 5G network security

Discussion on 5G network security, in particular in terms of the use of devices offered by Chinese suppliers, is an important factor related to the implementation of the new generation of wireless networks. Key players in the global arena are involved - in particular the USA, China, as well as the European Commission and European Union member states.

At EU level, work was undertaken in 2019 to define a common approach to 5G network security, including a 5G risk assessment process and major risks identified in the 5G network. These works were concluded in a document published on 29/01/2020 entitled "*Cybersecurity of 5G networks - EU Toolbox of risk mitigating measures.*". It does not explicitly exclude or prohibit any supplier, however the dependence on one supplier, as well as risk associated with the supply chain, including the activities of other countries, were considered a significant risk.

It is also foreseen for Member States to carry out risk profile analysis and to introduce possible restrictions and exclusions especially for key resources. Member States by 30 April 2020 should submit to the European Commission specific actions they will take to implement the assumptions of the "toolbox". At the same time, with the adoption of the EU Cybersecurity act, work has begun on defining European cybersecurity certification schemes and issues related to the certification of 5G network elements are being considered as candidates for such certification.

Work in this area is also carried out at national level, which is reflected, among others, in signing the Joint US and Poland Declaration on 5G, as well as initiating legislative procedure on drafts of the ordinance of the Minister of the Digital Affairs on technical and organizational requirements regarding the security and integrity of network and services, as well as on the draft ordinance of the Council of Ministers on the telco operator action plan in cases of significant threats.
Draft ordinances do not provide for exclusion of any supplier and focus on avoiding dependence on one supplier and verification of supply chain security. Thus, currently no restrictions have been introduced in Poland regarding cooperation with various suppliers in the implementation of 5G networks.

The potential introduction of such restrictions in the future, would however involve the risk of limiting the pool of telecommunications equipment suppliers, and thus could affect the plans for the construction and development of network infrastructure (including 5G). This may affect the delay and/or increase the cost of implementing 5G networks, as well as reduced customer interest in Chinese brand products.

7.1.7 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.

The Group has partially outsourced operation and supervision of its telecommunications networks, as well as 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.

Although adequate safeguard and protection clauses are included in 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. Materialisation of this risk may have a direct impact on Orange Polska's financial performance.

Also the risk of corruption is increased due to a number of partners engaged and complex processes involved. Such incidents could have an adverse impact, particularly on Orange Polska's reputation. The Group has taken a number of actions to effectively prevent corruption in terms of both internal regulations and the relevant clauses in contracts with external partners.

7.1.8 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. Like all telecom operators, Orange Polska is subject to various fraud issues which can affect the Company or its customers. Moreover, with growing complexity of technologies and networks and accelerated implementation of new applications and services, particularly related to interconnection and customer relationship management, new types of fraud which are more difficult to detect or combat could also emerge. This may result in a loss of revenues.

7.1.9 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. Since January 1, 2020, the Polish EMF limits have been consistent with the Council Recommendation 1999/519/EC. Consequently, they are currently similar to the limits adopted in most European countries.

Negative changes in perception of the EMF impact on human health would have a deleterious effect on the business and results of operators such as Orange Polska. If the aforementioned health risks were scientifically confirmed to a certain extent in the future, this would likely result in a 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.

In 2019, the Polish government decided to harmonize the obligations related to electromagnetic fields from telecommunications equipment with the European and global regulations. So far, the national provisions setting acceptable electromagnetic field levels have been harmonised; and work on decrees determining which facilities need verification of compliance and setting the relevant testing methodology is pending. Currently, the issue of EMF exposure is particularly relevant owing to the intended legislation on the 5G network deployment. Although Orange Polska has made all efforts to test 5G technology, even compliance with the applicable regulations and the strictest environmental standards may not be sufficient to prevent negative sentiment of the social partner. Similar developments have been observed in other countries.

Furthermore, the government (especially the Ministry of Digital Affairs), taking into account the strategic objectives related to the development of modern communications on both the national and EU level, has taken initiatives to cut red tape on the investment process, particularly related to 5G deployment. Simultaneously, addressing social concerns and the need for education, it has introduced additional control mechanisms, such as the public System of Information on EMF-emitting Facilities (SI2PEM).

7.1.10 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.

7.2 REGULATORY, LEGAL AND TAX RISKS

7.2.1 Regulatory Risks

The Group must comply with various regulatory obligations governing the provision of services and products, particularly related to obtaining and renewing licences for using the spectrum. The regulatory obligations result from either legislation changes or administrative decisions. Currently, work is in progress on transposing the European Electronic Communications Code into Polish legislation. The detailed provisions and the costs of their implementation have not been disclosed yet. Regulatory decisions and changes in the regulatory environment may have an adverse effect on the Group.

7.2.2 Fixed Termination Rate (FTR) Cuts

On May 2018, the President of UKE, having completed a review of the market for call termination on a fixed network, released for public consultation draft decisions for Orange Polska and 74 other operators. Following numerous concerns and reservations raised by the whole market, UKE reopened public consultation of its draft decisions for almost 200 telecom operators, which impose on all of them certain regulatory obligations and the obligation to apply the FTR set by UKE. The amount of FTR, however, was not set in the decisions, which were issued in December 2019. In January 2020, Orange Polska S.A. appealed to court against the President of UKE's decision. The date of issuance of the second decision which will set the amount of FTR has not been specified yet.

7.2.3 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.

The primary frequency band used for the development of 5G networks in Europe is 3400–3800 MHz. In December 2019, the Office of Electronic Communications (UKE) released the relevant auction dossier for public consultation in order to complete the distribution of this bandwidth in 2020. The key risk pointed out by mobile operators and related to the fact that the distribution procedure was to be attended by an entity intending to disrupt the process has been minimised by UKE. According to the dossier, only the entities which can demonstrate the relevant market experience will be admitted to the selection procedure. The completion of the auction and the award of licences is expected by mid-2020.

Another uncertainty area is 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). In December 2018, Poland applied to the Commission for extending the deadline for releasing the 700 MHz band until June 2022. In July 2019, the Ministry of Digital Affairs published the updated *National Plan for 700 MHz Spectrum Reallocation in Poland*. It indicates that a number of international agreements, particularly with the Russian Federation, need to be signed in order to enable the spectrum refarming for the purpose of mobile communication systems.

Another risk is related to the way of distribution of the 700 MHz spectrum. As an alternative to traditional award of frequency licences to mobile operators, the government has decided to review the possibility of allocating the spectrum to a Treasury-controlled entity, which would become the 5G network operator in the 700 MHz band. In order to investigate this concept, the Ministry of Digital Affairs, mobile operators, the Polish Development Fund and Exatel signed a special memorandum of understanding. It provides for a business analysis of the possible models for 5G development in Poland.

7.2.4 Proceedings by UOKiK and European Commission Concerning 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.

7.2.5 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 and imposing additional disclosure obligations, as illustrated by the introduction of the Standard Audit File-Tax or incorporation 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 increased tax burden.

7.2.6 Increase in Fees for the Use of Third Parties’ Land for the Purpose of Development and Maintenance of Orange Polska’s Infrastructure

Infrastructure of Orange Polska S.A. is built on land owned by third parties, and in some cases the Company does not possess or has difficulties to identify evidence that such third parties have agreed to the infrastructure being located on their land. In particular, this is the case for the old infrastructure used for fixed line services. In principle, the Company has the right to demand that its infrastructure remains where it has been originally located, though it has to pay for this. Also new investments are done on third parties’ land and the Company has to pay for the right to use that land. The Company cannot exclude that the payments for the use of third parties’ land may increase.

7.3 COMPETITIVE RISKS

7.3.1 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, two related risks for Orange Polska have been identified.

Firstly, as for Orange Polska’s own fibre investments, there is a risk of failure to achieve the assumed sales objectives on the fibre infrastructure developed by Orange Polska. Secondly, as for the fibre infrastructure developed under the Operational Programme “Digital Poland” (POPC), there is a risk of failure to achieve the expected return on investment due to potential financial adjustments by the Managing Authority and a resulting decrease of co-financing. The Company makes every effort to execute its contracts with the Digital Poland Project Centre with due diligence. Furthermore, investments by other operators, either financed with their own funds or co-financed in the POPC framework, may result in a loss of the Company’s market share in the broadband market in which Orange Polska provides services based on the ADSL technology.

7.3.2 Marginalisation of the Role of Mobile Network Operators Due to Implementation of the eSIM Technology

Orange Polska was the first operator in the Polish market to support devices with GSMA’s embedded SIM (eSIM) cards, thus enabling a fully-digital process of providing a mobile user profile. This new technology is gradually implemented in flagship devices of the leading handset suppliers.

In the long run, we expect a positive effect of the new technology on the growth rate of the broadly-understood market for smart devices. However, we also see a risk related to the potential market activity of global players for which telecommunications services are not a core business, particularly in scenarios based on direct marketing relationship with end users, marginalising their relationship with the telecom operator.

7.3.3 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, Orange Polska S.A.’s FTTH investment programme covers also smaller towns, where CATV operators have not consolidated their presence yet.

7.3.4 Threat to Convergence Strategy Due to Acquisition of Netia by the Cyfrowy Polsat Group

In 2019, the Cyfrowy Polsat Group, strengthened by the acquisition of Netia, launched sales of convergent services based on a fixed network. At the same time, UPC launched active sales of mobile services in the MVNO model to complement its TV and broadband offer. Furthermore, Play launched sales of a service bundling mobile voice with LTE broadband (Homebox). In addition, Play concluded a co-operation agreement with Vectra (second largest cable television operator in Poland), which provides for sales of Vectra’s fixed line services to Play’s mobile customers. All these developments may in the long run increase the risk to Orange Polska’s strategic objectives in the convergent market.

7.3.5 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 is strengthening 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). Pursuant to an agreement with Orange Polska, T-Mobile has obtained access to the Company’s FTTH network. The agreement should result in increased sales of Orange Polska’s wholesale services, but may also negatively affect its retail sales.

7.3.6 Further 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 extent 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 mobile networks.

7.3.7 Potential Limitation of Sales of Services Offered by Mobile Operators Due to Actions of the State Administration

The actions undertaken by public authorities in the telecommunication market may in the long run limit the possibility for Orange Polska to offer its services directly to state administration entities, which could have an adverse impact on the Company’s revenues and financial result.

7.4 RISKS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

Macroeconomic Factors

7.4.1 Risk of Lower Than Expected Economic Growth Due to Negative Internal and External Factors

In 2019, the Polish economy grew at a considerably slower pace than in 2018 (4.6% of real GDP growth in 2019, according to Orange Polska’s estimate vs. 5.1% in 2018). The good condition of the economy resulted mainly from public consumption (5.7% of real growth in 2019), which was significantly supported by investment spending (up 7.5% in real terms in 2019). In 2019, household consumption expenditure continued to grow at a stable rate (up 4.5% in real terms in 2019), but came under significantly higher inflationary pressure than in previous years (the annual average Consumer Price Index was 2.3% in 2019 vs. 1.6% in 2018), and was stimulated mainly by falling unemployment, growing wages, continued impact of the ‘500+’ welfare programme and low interest rates. Statistics Poland’s studies confirmed constantly optimistic consumer sentiment, which kept improving throughout 2019 compared to the pessimistic sentiment in December 2018. In November 2019, the current Consumer Confidence Index stood at 6.7 points (vs. 1.1 points in December 2018), while the Leading Indicator was 2.2 points (vs. -1.8 points in December 2018). These GDP growth engines will face difficult challenges in subsequent years, mainly due to labour shortages and wage pressure.

In subsequent years, continued high inflationary pressure (stimulated mainly by growing electricity prices) may result in a decrease in household expenditure, particularly on 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 European economies may have adverse effects on Poland’s GDP growth rate. In this respect, the key uncertainty factors include escalation of trade disputes and the spread of protectionism in world trade, as well as the economic effects of the withdrawal of the United Kingdom from the European Union. Furthermore, Poland’s economic growth rate is subject to uncertainty related to foreign labour force supply (mainly immigrants from Ukraine).

7.4.2 Risk to the National Budget Stability Due to Fiscal Pressure

2019 brought a significant increase in fiscal pressure in Poland. In addition to other factors, such as relatively low savings, political risks and demographic issues, this is indicated by rating agencies as a major limiting factor in their assessment of Poland's rating.

Nevertheless, considering a solid macroeconomic situation in Poland (particularly against other EU countries), credible fiscal and monetary policy framework, and control of the risk to the financial stability of the national budget, rating agencies maintain rather high rating of Poland, with stable outlook, despite the aforementioned increase in fiscal pressure. However, such assessments are generally made provided that risks to rating stay balanced for the next 12–18 months.

The risk due to fiscal pressure is heavily dependent on the economic situation over the next few years, on one hand, and, on the other hand, on pushing through legislation the pre-election spending pledges (e.g. thirteenth and fourteenth pension). Also of key importance will be the new government’s decisions regarding the actual extent of social benefits within the fiscal policy and potential initiatives aimed at consolidation of public finance.

The general government deficit to GDP at 3% is the reference for assessment of Poland's fiscal condition. Arguably, as long as this level is not exceeded, the risk of fiscal pressure is under control. The two most important risk factors in this respect are as follows:

- Downturn in the external environment of the Polish economy, particularly a deeper slowdown in Germany and the eurozone; and
- Escalation of tensions with the European Union and a significant drop in the availability of EU funds in the next financial perspective.

From the point of view of Polish enterprises, the government's approach to closing the budget gap by increasing tax revenues and further strengthening of the tax system will be of paramount importance, as it may involve increased control and disputes with tax authorities.

7.4.3 Reduced Profitability of the Telecommunications Sector Due to Growing Inflationary Pressure and Falling Service Prices

Average annual CPI reached 2.3% in 2019, and remained below the National Bank of Poland's inflation target (2.5%). However, a significant increase in inflationary pressure is expected in the next few years, especially in 2020, mainly due to a rise in electricity prices and an economic downturn worldwide.

Despite continued inflationary pressure, in 2019 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 of the economy, the telecommunications sector reported declining profitability in previous years, which was a result of a decrease in effective prices accompanied by significant capital expenditures required to upgrade obsolete infrastructure in line with the growing expectations of customers and ensure service availability in the areas of coverage gaps. However, 2019 saw price stabilisation in the telecom sector, and most operators even decided to increase service prices in the 'More for more' formula, which involves offering increased benefits to customers in return for slightly higher subscription fees. Operators focused their efforts on customer base retention rather than aggressive acquisition of customers from other service providers. There was a continued need for development of infrastructure in order to meet the growing demand for data transmission generated by retail customers and the on-going digital revolution in the economy as a whole. Total investments in the development and modernisation of both fixed line (especially FTTH) and mobile (particularly LTE) networks increased in 2019. This trend will continue in the next few years. It may result in a further decline in profitability of the sector, though with the prospect of improvement in subsequent years, as new services are launched over the modern 5G infrastructure. The ultimate effect depends also to a large extent on the regulatory environment, which determines the scope of administrative regulations, the amount of wholesale revenues and the possibility of consolidation of market players aimed at business optimisation.

7.4.4 Negative Trends in the Labour Market

The labour market was positively affected by the general macroeconomic climate, which was reflected in an increase in employment and a decrease in unemployment to 5.4% at the end of December 2019. At the same time, the level of wages grew significantly. Between January and November 2019, the average gross monthly remuneration in the enterprise sector was up 6.7% compared to the same period of 2018.

A further decline in unemployment may be expected in 2020. However, it 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 selected enterprise sectors and constitute a barrier to economic growth by limiting investments. So far, this effect has been partly offset by afflux of foreign labour force, mainly from Ukraine. However, there is a risk of outflow of Ukrainian workers to the German economy and a decrease in the number of people leaving Ukraine to work abroad (particularly in Poland) following an economic upturn there.

7.4.5 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 after leaving the European Union. This issue is the subject of negotiations over the United Kingdom's withdrawal from the European Union.

Factors Related to Financial Markets

7.4.6 Increase of Interest Rates

Once again, 2019 did not bring any changes in the Central Bank's policy, and interest rates remained stable at a historic low. The market does not expect them to be changed by the Monetary Policy Council in 2020. This policy might be continued until the end of the term of office of the current Council, which expires in 2022. However, a potential increase in interest rates should not have any major influence on the debt service costs of the Group, as it maintains a high hedging ratio.

7.4.7 Depreciation 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 2019, the Polish zloty gained 1.0% against the euro and lost 1.1% against the US dollar. The Polish currency fluctuations were caused mainly by external factors. In the reported period, the exchange rate of the zloty against the euro was in the 4.2406–4.3891 bracket, while its exchange rate against the US dollar oscillated between 3.7243 and 4.0154. NBP's mean exchange rates of PLN against the US dollar and the euro were 3.8401 and 4.2990, respectively, in 2019. Any potential depreciation of the Polish zloty should not have a major influence on Orange Polska's liabilities denominated in foreign currencies or settlements with foreign operators owing to a high hedging ratio.

7.4.8 Risk of Asset Impairment

The recoverable amounts of enterprises, which affect the accounting value of fixed assets, including goodwill, are 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.

7.4.9 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

8 STATEMENTS OF THE MANAGEMENT BOARD

8.1 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. Witold Drożdż – Board Member in charge of Strategy and Corporate Affairs
5. Jolanta Dudek – Board Member in charge of Customer Care and Customers Excellence
6. Piotr Jaworski – Board Member in charge of Networks and Technology
7. Jacek Kowalski – Board Member in charge of Human Resources
8. Maciej Nowohoński – Board Member in 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.

8.2 Agreement with the Licensed Auditor

The Supervisory Board of Orange Polska S.A. passed a resolution on selecting Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. to audit financial statements of Orange Polska S.A. and the Orange Polska Group for 2018 and 2019 and to review interim six-month financial statements of Orange Polska S.A. and the Orange Polska Group.

On June 6, 2018, Orange Polska S.A. concluded an agreement for 2018 and 2019 with an entity licensed to audit financial statements, pursuant to which Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. performed the following:

- reviews of the standalone financial statements of the Company and the consolidated financial statements of the Group for the first six months of 2019 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 2019 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 2019 is presented below (in PLN '000):

	2019
Audit of the consolidated financial statements of the Group, the standalone financial statements of Orange Polska S.A. and financial statements of its subsidiaries for the year 2019, as well as review of the consolidated financial statements of the Group and the standalone financial statements of Orange Polska S.A. as of June 30, 2019	2,324
Audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law	1,218
Other services	403
Total amount payable by the Group	3,945

In 2018, 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 2,324 thousand for audit of financial statements of the Group, Orange Polska S.A. and its subsidiaries as well as review of financial statements of the Group and Orange Polska S.A.; PLN 400 thousand for other services to Orange Polska S.A.; and PLN 1,218 thousand for audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law.

8.3 Management Board's Position as to the Achievement of the Previously Published Financial Projections for the Given Period

As announced on February 20, 2019 in the current report 3/2019, the Group forecast EBITDAaL (EBITDA after leases) in 2019 to be higher than PLN 2.8 billion (the Group's estimate for 2018). As of December 31, 2019, the forecast was met: EBITDAaL was PLN 3,006 million in 2019.

8.4 Statement of the Orange Polska Supervisory Board on the Audit Firm Selection Policy and Appraisal of the Financial Statements and the Management Board's Report on the Activity in 2019

I. Statement on the Audit Firm Selection

The Supervisory Board hereby states the following:

1) On July 5, 2018, it selected an audit firm to audit the annual financial statements of Orange Polska S.A. and the Orange Polska Group for 2018 and 2019, namely Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k., in compliance with the applicable regulations;
2) Both the audit firm and the audit team members met the conditions to develop an impartial and independent report on the audit of annual financial statements in line with the mandatory legal provisions, standards of profession and rules of professional ethics;
3) Orange Polska complies with the provisions on the rotation of the audit firm and the key auditor as well as mandatory cooling-off periods;
4) Orange Polska has adopted the audit firm selection policy and the policy for provision of authorised non-audit services by an audit firm conducting the audit, entities affiliated with that audit firm or a member of their networks, including services exempted conditionally from the ban on provision of services by an audit company;
5) Orange Polska complies with the requirements for the establishment, composition and functioning of the Audit Committee, particularly the independence criteria for the majority of its members and the requirements for their qualifications and knowledge of the industry in which Orange Polska operates, as well as accounting or audit;
6) The Audit Committee has performed the tasks set forth in the mandatory legal provisions.

II. Appraisal of the Financial Statements and the Management Board's Report on the Activity in 2019

The Supervisory Board has examined and appraised the following documents:

1) IFRS standalone financial statements of Orange Polska S.A. for 2019, that include:
   a) income statement for 2019, showing net income of PLN 88 million (in words: PLN eighty eight million),
   b) statement of comprehensive income for 2019, showing total comprehensive income of PLN 60 million (in words: PLN sixty million),
   c) statement of financial position as at 31.12.2019, with the balance sheet total of PLN 24,026 million (in words: PLN twenty four billion twenty six million),
   d) statement of changes in equity for 2019, showing an increase in equity by PLN 60 million (in words: PLN sixty million),
   e) statement of cash flows for 2019, showing a decrease in net cash and cash equivalents by PLN 195 million (in words: PLN one hundred and ninety five million),
   f) notes to the financial statements;
2) Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. in 2019;
3) IFRS consolidated financial statements of the Orange Polska Group for 2019, that include:
   a) consolidated income statement for 2019, showing net income of PLN 91 million (in words: PLN ninety one million), including net income attributable to owners of Orange Polska S.A. of PLN 91 million (in words: PLN ninety one million),
   b) consolidated statement of comprehensive income for 2019, showing total comprehensive income of PLN 63 million (in words: PLN sixty three million), including total comprehensive income attributable to owners of Orange Polska S.A. of PLN 63 million (in words: PLN sixty three million),
   c) consolidated statement of financial position as at 31.12.2019, with the balance sheet total of PLN 24,340 million (in words: PLN twenty four billion three hundred and forty million),
   d) consolidated statement of changes in equity for 2019, showing an increase in total equity by PLN 63 million (in words: PLN sixty three million), including an increase in equity attributable to owners of Orange Polska S.A. by PLN 63 million (in words: PLN sixty three million),
   e) consolidated statement of cash flows for 2019, showing a decrease in net cash and cash equivalents by PLN 207 million (in words: PLN two hundred and seven million),
   f) notes to consolidated financial statements.

Having analysed the above-mentioned documents and taking into consideration the independent auditor's reports on the audit of the annual standalone financial statements of Orange Polska S.A. and the consolidated financial statements for the year ended 31 December 2019, the Supervisory Board hereby states that:

– IFRS standalone financial statements of Orange Polska S.A. for 2019,

– Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. in 2019, and
– IFRS consolidated financial statements the Orange Polska Group for 2019

have been drawn up in compliance with the books and documents, the factual status and mandatory legal provisions, and that they provide a complete and fair picture of the operational and financial standing of Orange Polska S.A. and the Orange Polska Group. The Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. in 2019 has been drawn up in all major aspects on the basis of the financial data contained in the standalone and consolidated financial statements for 2019. The Management Board's Report contains a description of all material events that may have influence on Orange Polska S.A.'s property and financial standing in at least several quarters as well as a description of all material risks.

Disclosures on performance measures, including comparable data, are presented in the Note 3 to the Consolidated Full-Year Financial Statements for 2019.

Year-on-year evolution of operating income and net income is not comparable because of the changes in accounting standards. Starting from 2019 Orange Polska applied a new accounting standard IFRS 16 to leasing transactions, without restating comparative periods in financial statements. Financial data for 2018 were presented under the previous accounting standard IAS 17.

9 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, 2019 is available at http://corp-gov.gpw.pl.

(b) Corporate governance compliance

In 2019, 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 emails 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. They are regularly reviewed and updated, if required. 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 mechanisms functioning within the Company comply with the *Standards recommended for the compliance management system on counteracting corruption and the whistleblower protection system* adopted by the Warsaw Stock Exchange in October 2018.

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 2019, the Disclosure Committee had five meetings. In addition, the Audit Committee reviews 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, *inter alia*, 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, 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 – please see Chapter IV, section 7.

(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 2019, 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 were launched. As a result of the assessment, the Management Board concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at December 31, 2019.

(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 as well as 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 of the General Assembly 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 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 to 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 2019

Composition on January 1, 2019:

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.	Witold Drożdż	– Board Member
5.	Jolanta Dudek	– Board Member
6.	Piotr Jaworski	– Board Member
7.	Jacek Kowalski	– Board Member
8.	Maciej Nowohoński	– Board Member

The composition of the Management Board did not change in 2019.

Profiles of Management Board Members:

Mr. Jean-François Fallacher (born 1967), CEO and President of the Management Board of Orange Polska since May1, 2016.

Between 2011 and 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 the 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 B2B marketing manager for EuroNet Internet.

Jean-François has an extensive professional know-how in the telecom market, in both business and residential sectors, gained in various European markets. Holding a strong academic background with engineering degrees from École Polytechnique and 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 1973), Vice President of the Board for Consumer Market since January 2017. He is also the Chairman of the Ethics Committee of Orange Polska. Furthermore, he is the Vice President of Employers of Poland and Chairman of the Polish Section of Business and Industry Advisory Committee to the OECD (BIAC).
He began his professional career in the Elektrim Group in 1995. From 2001 he worked at the Telekomunikacja Polska Group as Director of Multimedia and was responsible for the development of Internet access for the consumer market. From 2009 he was the TP Group Executive Director and CEO of PTK Centertel (TP Group's mobile telecommunication operator) – a position which he held until the merger of PTK Centertel with Telekomunikacja Polska in 2013. 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 Programme (AMP) at INSEAD.

Ms. Bożena Leśniewska (born 1965), Vice-President of the Management Board in charge of Business Market.

She began her professional career at DHL International Ltd. in 1992. She has over twenty years' experience in the telecommunications sector. From 1996 she was responsible for the sales market in Polkomtel S.A., initially as Sales Director, then Regional Director, Mass Customers Department Director and Deputy Director of the Business Customers Department. In 2006 she joined the Orange Polska team in PTK Centertel as Deputy Branch Director of Sales for Business Market, then Branch Director of Business Market Sales. From 2008 she was Branch Director for Business Customers, then Sales Director in both PTK Centertel and Orange Polska. In November 2013, she became Executive Director in charge of Sales in Orange Polska, and two years later she was appointed the Management Board Member in charge of Sales and Commercial Digitisation. Since January

2017, as Vice-President of the Management Board of Orange Polska, she has been responsible for the business market as well as Integrated Solutions and BlueSoft.

She is a graduate of the Philology Faculty of the Jagiellonian University, the Academy of Leadership Psychology at Warsaw University of Technology Business School, the Academy of Mentoring, and Advanced Management Programme at INSEAD. She is a member of the European Network for Women in Leadership, the THINKTANK Board of Experts and the Responsible Leadership Council. Furthermore, she is an active mentor in mentoring programmes held by Vital Voices, Foundation for Women Entrepreneurs and others.

Mr. Witold Drożdż (born 1974). In Orange Polska since 2012, namely as Executive Director in charge of Corporate Affairs from 2012 to 2018, and Management Board Member in charge of Strategy and Corporate Affairs since 2018. From 2010 to 2012, he was the Vice-President of the Management Board and then acting President of the Management Board for PGE Energia Jądrowa S.A. Between 2007 and 2010, he served as Deputy Minister of the Interior and Administration, responsible for the development of information society and public records, as well as Chairman of the government Committee “Digital Poland” and a member of the government Committee for Energy Security and the inter-ministerial Committee for Digital TV and Radio Broadcasting.

He was awarded Info-Star (2009), INFOSTAT (2009) and Electronic Economy Ambassador (2008) awards. He sits on the Orange Foundation Board.

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

Ms. Jolanta Dudek (born 1964), Management Board Member in charge of Customer Care and Customer Excellence since 2015.

She began her career in telecommunications at PTK Centertel in 2000, holding management positions related to mass customer care and taking part in the development of customer service for the “Idea” mobile network. Between 2004 and 2010, she served as Director of Business Customer Service for the Orange network. In October 2010, she was appointed Director of Mobile Business Customer Service in Orange Customer Service. From November 2013, she was the Executive Director in charge of Customer Care in Orange Polska. Until incorporation of Orange Customer Service into Orange Polska’s main structure in 2016, she served as CEO of Orange Customer Service. She has been responsible for the area of Customer Care and Customer Excellence in Orange Polska since 2014.

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) and the Warsaw School of Economics (SGH). She is also a graduate of postgraduate studies at the Academy of Leadership Psychology, Warsaw University of Technology Business School. She is also an experienced Lead Auditor of Quality Management System ISO 2002 and Customer Operations Performance Center (COPC®) Co-ordinator.

Mr. Piotr Tadeusz Jaworski (born 1961), Management Board Member in charge of Network and Technology since November 2018.

From September 2016 he held the position of Executive Director in charge of Network and Technology in Orange Polska. He is a member of the Orange Network Experts Committee and the Orange Polska Ethics Committee. He is also the Chairman of the TP Teltech Supervisory Board.

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

He graduated in electronic engineering from the Warsaw University of Technology and holds MBA qualifications from the University of Gdańsk and the University of Strathclyde in Glasgow.

Mr. Jacek Kowalski (born 1964), the Management Board Member in charge of Human Resources since January 2011.

Previously, from 2009 he was the Executive Director in charge of Human Resources at Telekomunikacja Polska (now Orange Polska). He has worked for the Company for over ten years. He started his career in the Group in 2001 as Manager of Human Resources in Sales & Marketing at PTK Centertel. From 2005, he was the Branch Director for Employee Competence and Development Management. Prior to that, he worked as the Director of the Entrepreneurship and Human Resources School in Infor Training (an Infor Media Group company) and Director of the National In-Service Teacher Training Centre, responsible for the implementation of training programmes supporting the development of education in Poland.

He graduated from the Faculty of History at the University of Warsaw (1989) and completed postgraduate studies in local government and non-governmental organisations management also at the University of Warsaw (1996).

He is a member of the Advisory Board of the Polish Human Resources Management Association.

Mr. Maciej Nowohoński (born 1973), Management Board Member in charge of Finance since March 2014.

He has been with Orange Polska since 2003 and held several positions of growing responsibility in finance, including Orange Polska Group Controller in 2006–2014. He was a Member of the Management Board of Emitel from 2010 to 2011 and the Chief Financial Officer of PTK Centertel between 2011 and 2013. Since January 2020 he is also responsible for Carriers Market.Furthermore, he sits on supervisory boards of selected subsidiaries of Orange Polska. Prior to joining the Orange team, he worked for Arthur Andersen & Andersen Business Consulting.

He is a graduate of the Foreign Trade Faculty, Economic University of Poznań and the Dutch HAN University of Applied Sciences in Nijmegen.

II. Composition of the Supervisory Board and its Committees and changes thereof in 2019

Composition of the Supervisory Board on January 1, 2019:

1. Maciej Witucki	– Chairman of the Supervisory Board
2. Gervais Pellissier	– Deputy Chairman of the Supervisory Board
3. Marc Ricau	– Board Member and Secretary
4. Dr. Henryka Bochniarz	– Independent Board Member
5. Thierry Bonhomme	– Board Member
6. Federico Colom Artola	– 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. Jean-Marc Vignolles	– Board Member and Chairman of the Strategy Committee

On April 24, 2019, the mandates of Mr. Federico Colom Artola, Mr. Eric Debroeck, Prof. Michał Kleiber, Mr. Gervais Pellissier, Mr. Marc Ricau, Dr. Wiesław Rozłucki and Mr. Maciej Witucki expired.

On the same day, the Annual General Assembly appointed the following persons as Members of the Supervisory Board: Mr. Eric Debroeck (for another term of office), Prof. Michał Kleiber (for another term of office), Monika Nachyła, Gervais Pellissier (for another term of office), Marc Ricau (for another term of office), Jean-Michel Thibaud and Maciej Witucki (for another term of office).

Composition on December 31, 2019:

1. Maciej Witucki	– Chairman of the Supervisory Board
2. Gervais Pellissier	– Deputy Chairman of the Supervisory Board
3. Marc Ricau	– Board Member and Secretary
4. Dr. Henryka Bochniarz	– Independent Board Member
5. Thierry Bonhomme	– Board Member
6. Eric Debroeck	– Board Member
7. Ramon Fernandez	– Board Member
8. John Russell Houlden	– Independent Board Member and Chairman of the Audit Committee
9. Prof. Michał Kleiber	– Independent Board Member
10. Patrice Lambert-de Diesbach	– Board Member
11. Monika Nachyła	– Independent Board Member
12. Dr. Maria Pasło-Wiśniewska	– Independent Board Member and Chairman of the Remuneration Committee
13. Jean-Michel Thibaud	– Board Member
14. Jean-Marc Vignolles	– Board Member and Chairman of the Strategy Committee

Until April 24, 2019, Orange Polska had four independent members on the Supervisory Board, namely Dr. Henryka Bochniarz, John Russell Houlden, Prof. Michał Kleiber and Dr. Maria Pasło-Wiśniewska. At present, five members of the Supervisory Board meet the independence criteria, namely Dr. Henryka Bochniarz, John Russell Houlden, Prof. Michał Kleiber, Monika Nachyła and Dr. Maria Pasło-Wiśniewska.

Composition of the Committees of the Supervisory Board on December 31, 2019:

The Audit Committee

1. John Russell Houlden – Chairman
2. Monika Nachyła
3. Dr. Maria Pasło-Wiśniewska
4. Marc Ricau
5, Jean-Michel Thibaud

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. Maria Pasło-Wiśniewska – Chairman
2. Thierry Bonhomme
3. Prof. Michał Kleiber
4. Marc Ricau

The Strategy Committee

1.Jean-Marc Vignolles – Chairman
2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Patrice Lambert-de Diesbach
5. Monika Nachyła
6. Dr. Maria Pasło-Wiśniewska
7. Gervais Pellissier

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	2022
Mariusz Gaca – Vice President	2020
Bożena Leśniewska – Vice President	2021
Witold Drożdż	2021
Jolanta Dudek	2021
Piotr Jaworski	2021
Jacek Kowalski	2020
Maciej Nowohoński	2020

Supervisory Board	**Year of AGM**
Maciej Witucki –Chairman	2022
Gervais Pellissier – Deputy Chairman	2022
Marc Ricau – Secretary	2022
Henryka Bochniarz	2021
Thierry Bonhomme	2021
Eric Debroeck	2022
Ramon Fernandez	2021
John Russell Houlden	2020

Michał Kleiber	2022
Patrice Lambert-de Diesbach	2020
Monika Nachyła	2022
Maria Pasło-Wiśniewska	2021
Jean-Michel Thibaud	2022
Jean-Marc Vignolles	2021

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 an 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 the 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 subsequent 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, and 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 business.

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 key functions of the Audit Committee are specified in its Terms of Reference attached to the Regulations of the Supervisory Board and include but are not limited to :

(1) monitoring the integrity of the financial information reported externally,

(2) reviewing the Group's internal control and risk management systems,

(3) reviewing plans for internal audit and their reports,

(4) reviewing and giving opinions on significant transactions with related parties,

(5) recommending the selection and re-appointment of the audit firm,

(6) monitoring the independence and objectivity of the Company's external auditors, the nature and scope of the audit and monitoring the auditors' work,

(7) giving the Supervisory Board recommendations to ensure the faithful representation and relevance of the financial reporting process in the Company and the Group.

(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 the 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 opinions and recommendations to the Supervisory Board on the strategic plans set out by the Management Board, as well as on any further suggestions to strategic plans made by the Supervisory Board, in particular concerning key strategic decisions involved; and

(2) consulting on all strategic projects related to the development of the Group, 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.

(I) Regarding the Audit Committee of the Orange Polska Supervisory Board

(1) The following persons have declared that they meet the statutory criteria of independence: John Russell Houlden, Monika Nachyła and Dr. Maria Pasło-Wiśniewska.

(2) Regarding knowledge and skills in the area of accounting or auditing of financial statements, the following persons have declared as follows:

John Russell Houlden has declared that he has knowledge and skills in the area of accounting and auditing of financial statements. He holds a first class honours degree from Warwick Business School and has completed executive programmes at INSEAD, Stanford and London Business School. He is a Fellow of the Chartered Institute of Management Accountants (CIMA), a Chartered Global Management Accountant (CGMA) and a Fellow of the Association of Corporate Treasurers (ACT). He gained extensive experience in accounting and audit in a variety of financial roles in Spicer & Oppenheim (now part of Deloitte), ICI and BT. Next, he served as Finance Director of Lovells (2002 to 2008) and Chief Financial Officer of Telecom New Zealand (2008 to 2010) and United Utilities (2010 to present). Furthermore, from 2014 to 2020 he was a Member of the Main Committee and the Chairman of the Financial Reporting Committee of the '100 Group', which represents FTSE 100 to the International Accounting Standards Board, the European Securities and Markets Authority and other regulatory bodies.

Monika Nachyła is a non-executive director with many years of international, C-suite experience in the areas of private equity, investor relations, banking, operational financial management and strategy development. She is a graduate of the Warsaw School of Economics. She started her professional career as an auditor at Arthur Andersen in Warsaw and Salustro Reydel in Paris. Between 1995 and 2000, she held the position of CFO at Sanofi-Synthélabo. From 2000 to 2011, she was active in the private equity sector. As the Vice President for Portfolio & Fund Operations of Innova Capital she supervised its portfolio companies. Subsequently, as the Partner in charge of Investor Relations at Enterprise Investors, she was responsible for fundraising and investor relations. In 2011, she joined one of the leading Polish banks: BGŻ (currently controlled by BNP Paribas) as a non-executive director of the Supervisory Board and the Audit Committee. From 2013 to 2015, she served as the Vice President of the BGŻ Management Board. Since May 2017 she has been a Partner at Abris Capital Partners, a private equity fund manager investing in Central Europe, where she has been responsible for investor relations, public relations, ESG (responsible investing standards) and supervision of selected portfolio companies. She is also a member of the Abris Management Committee.

Maria Pasło-Wiśniewska has declared that she has knowledge in the area of accounting and auditing of financial statements. She is an economist and has Ph.D. in sociology; she graduated from the University of Economics in Poznań and the Kellogg School of Management, Northwestern University in Chicago. She gained knowledge of accounting and audit throughout her long management practice, during which the banks, financial institutions and corporations she managed successfully implemented their strategies and achieved, or even exceeded, the intended goals and the expected value for shareholders. She started her professional career at the National Bank of Poland (NBP). Between 1988 and 1996 she worked in Wielkopolski Bank Kredytowy in Poznań, reaching the position of Vice-President of the Management Board. In 1997 she was the CEO of SKARBIEC Investment Fund Company. In 1998–2003, as the President of the Management Board of Pekao S.A., she effected a merger of four banks from the Pekao Group.

Jean-Michel Thibaud is the Orange Group Deputy CFO in charge of controlling. He is a graduate of the Centrale-Supélec engineer school and Sciences Po Paris. He started his career working seven years in the banking sector in the areas of export, structured and project finance. He joined Orange as a manager then head of project finance, and became the Orange Group Treasurer in 2008 until 2012, covering debt raising (bonds, corporate, project, structured finance), relationship with rating agencies, and equity capital markets, as well as cash management and customer financing. Between 2013 and 2019, he acted as CFO and Senior VP, Strategy, Transformation & General Services at Orange Business Services. Orange Business Services is a worldwide provider of IT and telecom services for large corporates.

(3) The following persons declared that they had knowledge and skills in the field in which Orange Polska operates, indicating the respective ways in which they acquired such knowledge and skills as described below: John Russell Houlden, Monika Nachyła, Dr. Maria Pasło-Wiśniewska, Marc Ricau and Jean-Michel Thibaud.

John Russell Houlden holds a first class honours degree from Warwick Business School and has completed executive programmes at INSEAD, Stanford and London Business School. He is a Fellow of the Chartered Institute of Management Accountants (CIMA), a Chartered Global Management Accountant (CGMA) and a Fellow of the Association of Corporate Treasurers (ACT). He also served as Finance Director of BT Networks & Information Services and BT Wholesale as well as Chief Financial Officer of Telecom New Zealand and United Utilities.

Monika Nachyła is a non-executive director with many years of international, C-suite experience in the areas of private equity, investor relations, banking, operational financial management and strategy development. She is a graduate of the Warsaw School of Economics. She holds also post-graduate diplomas in social psychology and agriculture. She started her professional career as an auditor at Arthur Andersen in Warsaw and Salustro Reydel in Paris. Between 1995 and 2000, she held the position of CFO at Sanofi-Synthélabo. From 2000 to 2011, she was active in the private equity sector. As the Vice President for Portfolio & Fund Operations of Innova Capital she supervised its portfolio companies. Subsequently, as the Partner in charge of Investor Relations at Enterprise Investors, she was responsible for fundraising and investor relations. In 2011, she joined one of the leading Polish banks: BGŻ (currently controlled by BNP Paribas) as a non-executive director of the Supervisory Board and the Audit Committee. From 2013 to 2015, she served as the Vice President of the BGŻ Management Board responsible for strategy and development, as well as the bank’s strategic agribusiness division. Since May 2017 she has been a Partner at Abris Capital Partners, a private equity fund manager investing in Central Europe, where she has been responsible for investor relations, public relations, ESG (responsible investing standards) and supervision of selected portfolio companies. She is also a member of the Abris Management Committee.

Maria Pasło-Wiśniewska is an economist and has Ph.D. in sociology; she graduated from the University of Economics in Poznań and the Kellogg School of Management, Northwestern University in Chicago. She began her professional career at the National Bank of Poland (NBP). Between 1988 and 1996 she worked in Wielkopolski Bank Kredytowy in Poznań, reaching the position of Vice-President of the Management Board. In 1997 she was the CEO of SKARBIEC Investment Fund Company. In 1998–2003, as the President of the Management Board of Pekao S.A., she effected a merger of four banks from the Pekao Group, followed by privatisation and restructuring of the bank. Between 2008 and 2012, she served as the President of the Management Board of the Corporation of European Pharmaceutical Distributors NV in Amsterdam.

Marc Ricau has been working in the France Telecom (Orange) Group since 1986. He is a graduate of IEP (Sciences Po Paris) and ENSPTT School, and has a master degree in statistical and software techniques. During his professional career in telecommunications he served in various positions both abroad and in France, mainly in sales and customer service, but also finance and network management. He joined Orange AMEA (Africa, Middle East and Asia) in 2009 as Country and Partnerships Vice-President for the zone. He served as a member of supervisory boards of several subsidiaries in Africa (Orange Mali, Orange Guinea, Orange Niger, Orange Bissau and Sonatel Multimedia) until early 2013. In October 2012, Marc Ricau joined the Orange Europe Division as Vice-President of Poland Operations. In July 2015 he was appointed a Member of the Management Board of Orange Slovensko s.a., and in June 2017 he was appointed a Member of the Supervisory Board of this company. He is also a Member of the Board of Directors of Nadacia Orange (Orange Foundation) in Slovakia.

Jean-Michel Thibaud is the Orange Group Deputy CFO in charge of controlling. He is a graduate of the Centrale-Supélec engineer school and Sciences Po Paris. He started his career working seven years in the banking sector in the areas of export, structured and project finance. He joined Orange as a manager then head of project finance, and became the Orange Group Treasurer in 2008 until 2012, covering debt raising (bonds, corporate, project, structured finance), relationship with rating agencies, and equity capital markets, as well as cash management and customer financing. Between 2013 and 2019, he acted as CFO and Senior VP, Strategy, Transformation & General Services at Orange Business Services. Orange Business Services is a worldwide provider of IT and telecom services for large corporates.

(4) An audit firm auditing the financial statements of Orange Polska, i.e. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k., provided authorised non-audit services to the Company. Therefore,

Orange Polska assessed the independence of the audit firm and the Audit Committee approved the provision of the services.

(5) The key elements of the audit firm selection policy and the policy for provision of authorised non-audit services by an audit firm conducting the audit, entities affiliated with that audit firm or a member of their networks:

1. The body authorised to select an audit firm is the Supervisory Board of Orange Polska. The Supervisory Board shall make the selection based on prior recommendation of the Audit Committee.
2. The Audit Committee in its recommendation shall:
   - indicate the audit firm which it proposes to entrust with the audit;
   - state that the recommendation is free from third party influence;
   - state that the Company has not entered into any agreements containing clauses that restrict the ability of the Supervisory Board to select an audit firm for the purposes of the statutory audit of the Company's financial statements to certain categories or lists of audit firms.
3. Where the selection of an audit firm does not concern the extension of an audit agreement, the recommendation of the Audit Committee shall:
   - contain at least two options for selecting an audit firm with justification, indicating the Audit Committee's justified preference for one of them;
   - be drawn up according to the selection procedure specified below.
4. Selection Procedure

   4.1. The Company shall invite any audit firms to submit proposals for provision of the audit service, provided that:
   - it does not infringe the principle that after the expiry of the maximum duration of engagement, neither the statutory auditor or the audit firm nor, where applicable, any members of their networks within the European Union shall undertake the audit of the Company within the following four-year period;
   - the organisation of the tender procedure does not preclude the participation in the selection procedure of firms which received less than 15% of the total audit fees from public-interest entities in the Member State of the European Union concerned in the previous calendar year, included in the list of audit firms that carried out statutory audits in public-interest entities during the preceding year.

   4.2. The Company shall prepare the tender dossier for the attention of the invited audit firms, which shall contain transparent and non-discriminatory selection criteria to be used by the Company to evaluate the proposals made by audit firms.

   4.3. The Company shall evaluate the proposals made by audit firms in accordance with the selection criteria defined in the tender dossier.

   4.4. The Audit Committee shall discuss with the audit firm, upon its request, the threats to its independence and the safeguards to mitigate those threats, as documented by the audit firm. The audit firm shall confirm annually in writing to the Audit Committee that the statutory auditor, the audit firm as well as its partners, senior managers and managers conducting the statutory audit are independent from the audited company.
5. The Company has the right to grant a further engagement referred to in Article 17(6) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 - based on consent of the Financial Supervisory Authority.
6. In the course of the selection procedure, the Supervisory Board shall account for the experience of the audit team in auditing financial statements of companies, including those listed on the stock exchange, as well as competences and financial criteria.
7. The selection decision shall be taken with the consideration of the principles of impartiality and independence of the audit firm as well as the analysis of the work performed by the latter in the Company that go beyond the scope of the audit in order to avoid any conflict of interest.
8. If the decision of the Supervisory Board regarding the selection of an audit firm departs from the recommendation of the Audit Committee, the Supervisory Board shall justify in writing the reasons for not following the recommendation of the Audit Committee and submit such justification to the General Assembly.

(6) The recommendation for selecting an audit firm to audit financial statements (renewing the agreement for financial statements audit with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k.) complied with the mandatory legal provisions and the audit firm selection policy and procedures at Orange Polska.

(7) The Audit Committee held six meetings in 2019.

9.1 Information about Sponsorship Policy

Orange Polska has adopted a sponsorship policy (pursuant to the Decision No. 49/16 of the Executive Director in charge of Corporate Affairs dated 17 November 2016). Orange Polska's approach reflects the global sponsorship strategy of the Orange Group, which focuses on three main areas that align with the brand: music, film and sport. In line with the adopted strategy, in the strategic field, which is music now, Orange Polska develops long-term, comprehensive, nationwide projects addressed to a large group of its existing or prospective customers. Orange Polska sponsors various initiatives on a long-term rather than one-off basis.

The implementation of our sponsorship policy is a responsibility of the Corporate Communication and CSR Director, to whom the CSR and Sponsorship Department report. Key sponsorship projects are subject to approval by the Management Board of Orange Polska S.A. Each sponsorship 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 have established the Sponsorship Committee to centralise sponsorship 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. 14/19 of the Board Member in charge of Strategy and Corporate Affairs dated 22 March 2019.

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 competent ministry 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 the Orange Polska's Integrated Report (formerly in the Corporate Social Responsibility Report), which is developed in compliance with the Global Reporting Initiative (GRI) international non-financial reporting standards and the International Integrated Reporting Framework (IIRC). Each Report is subject to internal approval by the Disclosure Committee and an external audit by independent auditors.

9.2 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.

In 2019, Orange Polska was once again subject to an external audit with respect to gender equality and diversity management, and its Gender Equality European and International Standard (GEEIS) certificate was renewed in the process.

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 the 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 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 eight 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, 2019).

9.3 Report on the Remuneration Policy of Orange Polska

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 Orange Group. Our Remuneration Policy complies with the labour law and corporate governance regulations.

The remuneration system consists of the following components:

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

Employees leaving the Company under the voluntary departure programme are offered severance pay. The terms of severance pay for employees are determined in a separate agreement with trade unions in compliance with the law, whereas the terms of severance pay for the managers excluded from the Intragroup 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 Intragroup 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 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 2019:

(PLN '000)	*12 months ended 31 December 2019*			
	Fixed compensation expense in 2019	*Variable compensation expense in 2019*[1]	**Total compensation expense in 2019**	*Additionally: Variable compensation expense in 2018, paid in 2019*
Jean-François Fallacher	3 111	1 271	4 382	681
Mariusz Gaca	1 699	830	2 529	443
Jolanta Dudek	1 023	505	1 528	252
Jacek Kowalski	1 189	578	1 767	314
Bożena Leśniewska	1 486	747	2 233	365
Maciej Nowohoński	1 226	595	1 821	323
Witold Drożdż	975	478	1 453	86
Piotr Jaworski	1 005	493	1 498	85
Total	**11 714**	**5 497**	**17 211**	**2 549**

[1] Includes bonuses accrued in 2019 to be paid in 2020, excludes bonuses accrued in 2018 and paid in 2019.

Persons that were Members of the Management Board of the Company as at 31 December 2018.

(PLN '000)	*12 months ended 31 December 2018*			
	Fixed compensation expense in 2018	*Variable compensation expense in 2018*[1]	**Total compensation expense in 2018**	*Additionally: Variable compensation expense in 2017, paid in 2018*
Jean-François Fallacher	2 849	923	3 772	631
Mariusz Gaca	1 683	739	2 422	395
Jolanta Dudek	962	415	1 377	210
Jacek Kowalski	1 183	529	1 712	274
Bożena Leśniewska	1 348	612	1 960	287
Maciej Nowohoński	1 260	511	1 771	248
Witold Drożdż[2]	156	86	242	-
Piotr Jaworski[2]	159	85	244	-
Total	**9 600**	**3 900**	**13 500**	**2 045**

[1] Includes bonuses accrued in 2018 to be paid in 2019, excludes bonuses accrued in 2017 and paid in 2018.
[2] From the date of appointment as the President of the Management Board of Orange Polska S.A.

The Supervisory Board compensation was as follows.

(PLN '000)	*12 months ended 31 December 2019*	*12 months ended 31 December 2018*
Maciej Witucki	432	431
Gervais Pellissier [(1)]	-	-
Marc Ricau [(1)]	-	-
Dr. Henryka Bochniarz	221	220
Thierry Bonhomme[(3)]	210	18
Federico Colom Artola [(1) (2)]	-	-
Eric Debroeck [(1)]	-	-
Ramon Fernandez [(1)]	-	-
Russ Houlden	394	394
prof. Michał Kleiber	214	215
Patrice Lambert de Diesbach[(1)]	-	-
Monika Nachyła	155	-
Dr. Maria Pasło-Wiśniewska	287	212
Dr. Wiesław Rozłucki[(2)]	104	321
Jean-Michel Thibaud[(1)]	-	-
Jean-Marc Vignolles[(1)]	-	-
Total	**2 017**	**1 811**

[(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 2019 but were Members of the Supervisory Board of Orange Polska S.A. in 2018.
[(3)]Person appointed to the Supervisory Board of the Company, whose employment in Orange S.A. was terminated in 2018. For the period of employment in Orange S.A., remuneration for the function in the Supervisory Board of Orange Polska S.A. was not due, while it was due after the termination of employment in Orange S.A.

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 Orange Polska's Revenues, EBITDAaL (in 2019 the EBITDA ratio was replaced by EBITDAaL) 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 EBITDAaL 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, 2019 (PLN '000)*[1]	*The cost of share-based payments for 12 months till December 31, 2018 (PLN '000)*[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	324	84
Mariusz Gaca	50 000	21 000	9 000	246	63
Jolanta Dudek	50 000	21 000	9 000	246	63
Jacek Kowalski	50 000	21 000	9 000	246	63
Bożena Leśniewska	50 000	21 000	9 000	246	63
Maciej Nowohoński	50 000	21 000	9 000	246	63
Witold Drożdż[2]	50 000	21 000	9 000	246	30
Piotr Jaworski[2]	50 000	21 000	9 000	246	30
Total	**420 000**	**168 000**	**72 000**	**2 046**	**459**

[1] For cost calculation assumptions please see Note 16.2 to the Orange Polska Group IFRS Consolidated Financial Statements for 2019.
[2] From the date of appointment as the President of the Management Board of Orange Polska S.A.

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. The Long Term Incentive Plan is a 3-year plan from 2017 to 2019.

	Shares (number)	*The cost of share-based payments for 12 months till December 31, 2019 (PLN '000)*	*The cost of share-based payments for 12 months till December 31, 2018 (PLN '000)*
Jean-François Fallacher	2 000	24	37
Mariusz Gaca	2 000	24	37
Jolanta Dudek	2 000	24	37
Jacek Kowalski	2 000	24	37
Bożena Leśniewska	2 000	24	37
Maciej Nowohoński	2 000	24	37
Witold Drożdż[1]	2 000	24	6
Piotr Jaworski[1]	2 000	24	6
Total	**16 000**	**192**	**234**

[1] From the date of appointment as the President of the Management Board of Orange Polska S.A.

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.

In July 2018 the next edition of the Long-term Incentive Plan of the Orange Group for 2018-2020 was made available. Number of shares granted by Orange S.A. as part of the program, to the Management Board Members are specified in the table below.

	Shares (number)	*The cost of share-based payments for 12 months till December 31, 2019 (PLN '000)*	*The cost of share-based payments for 12 months till December 31, 2018 (PLN '000)*
Jean-François Fallacher	2 000	30	17
Mariusz Gaca	2 000	30	17
Jolanta Dudek	2 000	30	17
Jacek Kowalski	2 000	30	17

Bożena Leśniewska	2 000	30	17
Maciej Nowohoński	2 000	30	17
Witold Drożdż[1]	2 000	30	7
Piotr Jaworski[1]	2 000	30	7
Total	**16 000**	**240**	**116**

[1] From the date of appointment as the President of the Management Board of Orange Polska S.A.

In October 2019 the next edition of the Long-term Incentive Plan of the Orange Group for 2019-2021 was made available.
Number of shares granted by Orange S.A. as part of the program,to the Management Board Members are specified in the table below.

	Shares (number)	*The cost of share-based payments for 12 months till December 31, 2019 (PLN '000)*
Jean-François Fallacher	2 000	12
Mariusz Gaca	2 000	12
Jolanta Dudek	2 000	12
Jacek Kowalski	2 000	12
Bożena Leśniewska	2 000	12
Maciej Nowohoński	2 000	12
Witold Drożdż	2 000	12
Piotr Jaworski	2 000	12
Total	**16 000**	**96**

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 2019

Like in previous years, our bonus systems support directly execution of: EBITDAaL, NPS, transformation projects, sales targets for convergent offers and fibre services. In 2019, bonuses for all people are stronger connected with EBITDAaL. Bonuses for first managerial line (the Board and Executive Directors) depend on EBITDAaL in 50%. All employees in non-sales teams received diverge level of bonus even in case of 100% individual performance, depending on the Company's EBITDAaL. The adopted bonus model focuses engagement of all people on EBITDAaL improvement.

In our opinion there is need to enhance culture change in the Company, therefore we opened in 2019 possiblitity to award employees for exemplary attitude which suport high level performance, co-operation and building friendly work environment.

The Company offers a competitive level of remuneration in relation to the market; as a result, 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. Therefore, our annual salary review is supplemented by additional microreviews and a salary rise process in the first and fourth quarters for selected professional groups that see dynamic wage growth in the market, which might lead to higher employee turnover in these groups.

9.4 Orange Polska Group and Orange Polska S.A.'s Statements on Non-financial Information for 2019

While reporting non-financial data in this statement, Orange Polska drew on its wide experience in developing CSR and integrated reports. The key content, scope of information, as well as commitments and indicators have been defined using the PN/ISO 26000 standard and GRI Standards, as well as INDICIA, an internal reporting tool of the multinational Orange Group. However, this statement should not be considered to comply with the GRI Standards, but only to be based thereon. A complete GRI-compliant report is prepared separately by the Company in the form of an integrated report.

The presented data covers the entire Orange Polska Group with separate presentation of Orange Polska S.A.

The Orange Polska Group is comprised of the following companies*:

Orange Polska S.A.
Integrated Solutions sp. z o.o.
TP Teltech sp. z o.o.
BlueSoft sp. z o.o
Essembli sp. z o.o.
Telefony Podlaskie S.A.
Orange Retail S.A.
Orange Energia sp. z o.o.
Orange Szkolenia sp. z o.o.
Pracownicze Towarzystwo Emerytalne Orange Polska S.A.
Fundacja Orange
Telekomunikacja Polska sp. z o.o.

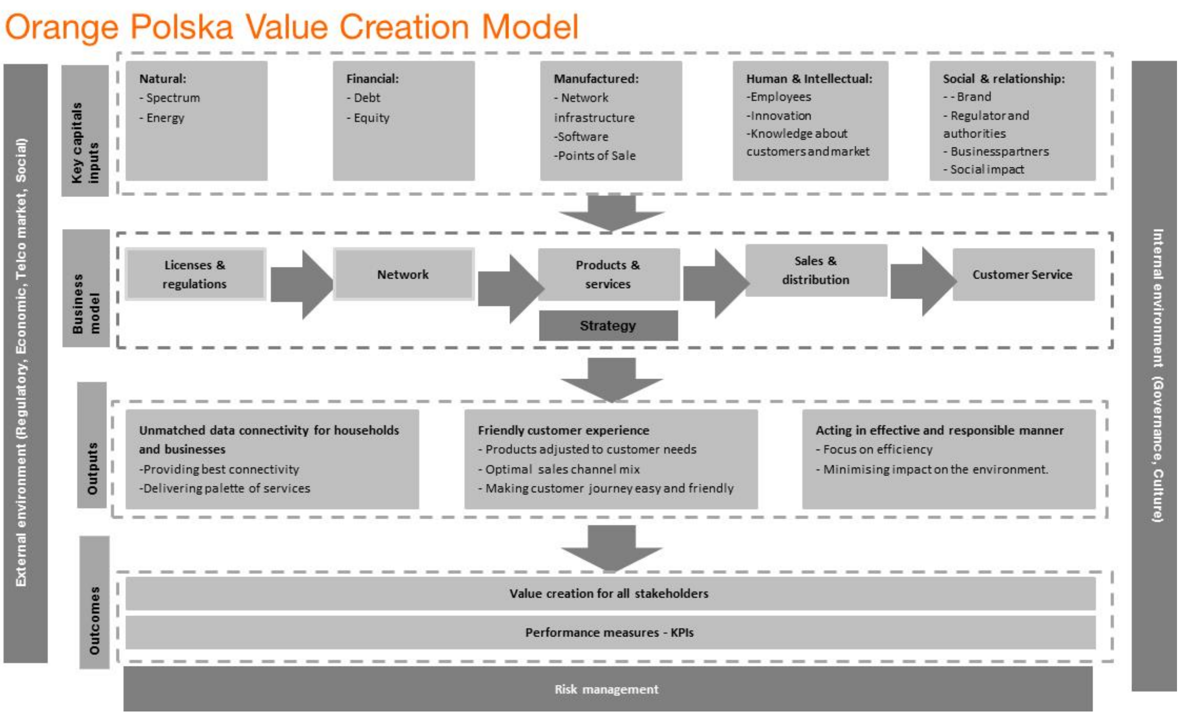
**The Group and T-Mobile Polska hold a 50% stake each in NetWorkS! sp. z o.o. This company was classified in the Report as a joint operation and is not covered by this Statement.*

This Statement presents the non-financial data identified during our dialogue with stakeholders and included in the Orange Polska Group'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 presented attitude to the Group's activities (positive, neutral, negative).

This Statement is a continuation of the CSR Reports developed by Orange Polska from 2006 and integrated reports developed since 2017.

- **Governance Area**

The Orange Polska Group is Poland's leading telecommunication provider, operating in all segments of the Polish telecommunication 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**

The Orange Polska Group'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, and 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 to connect with customers, including traditional points of sale (our own or our agents'), independent distribution chain outlets (e.g. consumer electronics stores), on-line, telesales and door-to-door.

Customer Care

We deliver customer care across all channels of communication adjusted 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, email).

- **Corporate Governance**

Orange Polska S.A., as an issuer of securities listed on the Warsaw Stock Exchange (WSE), follows 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 enhances 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 has adopted and maintained certified management systems and an internal control system. Orange Polska S.A.'s management system has been certified for compliance with the following international standards: ISO 9001, 27001, 27018, 17025 and 22301:2012. Compliance with procedures and international standards is regularly audited internally and confirmed through external oversight audits conducted by authorised independent entities. Orange Polska also holds the COPC (Customer Operations Performance Center) certificate.

Orange Polska S.A. maintains a risk management framework based on the ISO 31000:2009 standard. In addition, the identified similar risks are grouped into clusters to ensure consistent and effective risk management across the Orange Polska Group. The risk assessment process is managed by domain co-ordinators. The division of risks into domains ensures a uniform and objective approach to the assessment of risks of similar consequences (cause and effect analysis). Leaders within the Group's individual business areas and functions are responsible for the assessment and management of risks, including identification and escalation of new/emerging circumstances, and monitoring and reporting on the risks and control effectiveness.

In 2019, social risks, such as the risks related to human health and safety, natural environment, and human rights and fundamental freedoms, were clustered as a separate domain within the risk management system, and were described and monitored like other business risks.

- **Attitude to Corporate Social Responsibility**

In the Orange Polska Group, we have been successfully implementing a policy of corporate business responsibility (CSR) 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, a new CSR strategy for 2016–2020 was launched. A strong foundation of this strategy is responsible management: values, ethics, human rights, compliance, dialogue with stakeholders as a tool for understanding their expectations, supply chain initiatives, corporate culture and responsible communications. On this foundation are based four pillars of our CSR strategy:

- **Social and digital development** – We make new technologies a supporter of economic and social development.
- **Safe network** – We want the use of new technologies to be easy and free from threats.
- **Clean environment** – We implement our business goals with respect for ecology rules and in harmony with the environment.
- **Engaged team** – We build culture of co-operation in which employees feel respected, work towards achieving shared goals and have an influence on functioning of the Company.

Responsible management and actions within these four pillars account for the maximisation of our positive impact and minimisation of our negative impact on the society, which is analysed in six 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 laws and 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 its key areas of use of natural resources and its impact on the environment.

Under this policy, 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 CO_2 emissions related to our activity;
- improve our business practices and apply technological solutions to reduce negative environmental impact;
- engage in dialogue with stakeholders and inform them about our environmental protection initiatives;
- raise environmental awareness among our employees and customers;
- co-operate with our suppliers to ensure their compliance with our environmental policy.

Orange Polska is sensitive to global challenges related to the natural environment and natural resources. We consider energy consumption with related greenhouse gas emissions, as well as generation of waste electrical and electronic equipment to be the most important aspects of our environmental impact.

Expansion of the telecommunications infrastructure in response to the growing demand for information flow entails higher demand for electrical energy in our industry. In order to compensate for this environmentally unfriendly trend, we take steps to optimise energy consumption. We also reduce electricity consumption through replacement of older technical devices with modern energy-efficient ones, modernisation of cooling systems, introduction of energy saving functionalities, etc. We manage natural resources efficiently, monitoring the consumption of energy and other resources, as well as carbon dioxide emissions related to our operations. All our energy saving initiatives, including some designed by our own employees, have been combined into a single programme, 'Energy Optimisation'. To date, Orange Polska has launched almost 160 such initiatives, which generated total energy savings of 585 GWh between 2014 and 2019, and, once all the projects are completed, will generate savings of 184 GWh annually (vs. base year 2014). It means an overall reduction in carbon dioxide emissions of 452 thousand tonnes. Thanks to this programme, our electricity consumption decreased by 10.7% between 2014 and 2019, despite our investments in new technologies and development of new services. Without it, our electricity consumption would have increased by at least 13% in that period.

Another major environmental impact identified in our industry is use of electronic equipment. We encourage our customers to recycle old mobile devices. It is also possible to drop off old mobile phones and accessories, free of charge, in Orange stores. We refurbish multimedia devices, such as modems and set top-boxes, which are leased to customers for the term of their telecommunication service agreements, so that they can be reassigned to other customers. In 2019, 410,774 modems, broadband and CPE devices were refurbished and returned to the market, which was approximately 43% of the total number in circulation in Poland. In addition, 194,995 devices were refurbished in 2019 for the French and Senegalese markets. On top of our in-house refurbishment processes, with the help of our external service partner, over 8,500 mobile devices, both smartphones and tablets, were refurbished and put back into distribution in Poland.

Digital technology also creates the potential for more innovative and sustainable solutions promoting energy conservation and pro-environmental attitudes. We provide environmentally friendly solutions which help to reduce greenhouse gas emissions through services that can replace traditional communications or written documents, such as tele- and video-conferences, electronic document flow, e-services, e-invoices and comprehensive ICT systems for business, public administration and local communities.

Key environmental indicators

Environmental Data*			
Energy consumption	**Unit**	**2018****	**2019****
Scope 1			
Direct energy consumption by primary energy sources			
Fuel oil (all buildings, all uses)	'000 m^3	2	2
Gas	'000 m^3	2,842	2,306
Coal	tonnes	55.6	51
Gasoline for company cars	'000 litres	1,072	1,549
Diesel fuel for company vehicles	'000 litres	2,863	2,315
Scope 1: Total energy	GWh	92	**85**
Scope 1: CO_2 emissions from fuel, gas and coal	'000 tonnes	11.1	11.9
Scope 1: CO_2 emissions from vehicles	'000 tonnes	10.4	9.8
Scope 1: CO_2 emissions from greenhouse gases	'000 tonnes	16.1	5.3
Scope 1 – Direct CO_2 emissions ***	**'000 tonnes**	**37.6**	**21.7**
Scope 2 – Indirect CO_2 emissions			
Energy consumption – electricity	GWh	564	552
Scope 2: CO_2 emissions (location-based)	'000 tonnes	412	397
Total CO_2 emissions (Scope 1+2)	**'000 tonnes**	**449.3**	**424.5**
Scope 3		**656**	**638**
Business trips: distance travelled by plane	'000 km	6,398	5,740
Business trips: distance travelled by train	'000 km	4,988	4,800
Scope 3 – CO_2 emissions	**'000 tonnes**	**1.7**	**1.4**
Total CO_2 emissions (Scope 1+2+3)	**'000 tonnes**	**451**	**426**
KPI: Electricity consumption/customer	kWh/customer	26.5	25.8
KPI: CO_2 emissions from electricity consumption/customer	kg/customer	19.3	18.6
KPI: Scope 1+2 CO_2 emissions during electricity consumption/customer	kWh/customer	30.8	29.8

KPI: Scope 1+2+3 CO_2 emissions (all energies)/customer	kg/customer	21.2	19.9
Materials			
Paper	'000 tonnes	0.8	0.6
Water			
Water consumption	'000 m^3	255.7	242.6
Waste management			
Internal WEEE (network & tertiary)	tonnes	94.6	112.2
Wooden poles	tonnes	321.5	216.3
Cables	tonnes	179.9	126.2
Batteries	tonnes	115.7	92.6
Paper / Cardboard	tonnes	18.8	14.7
Other hazardous waste (including PCB)	tonnes	2.6	3.4
Other non-hazardous waste	tonnes	2,067.2	1,233.7
Waste recycled internally	tonnes	2,774.2	1,799.0
Electrical and electronic equipment			
Collected and recycled handsets	pcs.	16,034	36,671
Refurbished and relaunched handsets	pcs.	5,644	8,561
Refurbished and relaunched multimedia (broadband) devices	'000	491	411
Electromagnetic field emissions			
Compliance with the relevant standards		yes	yes

* The presented environmental indicators are the same for the Group and Orange Polska, as the latter owns the buildings and network infrastructure which constitute the basis for determining energy consumption and greenhouse gas emissions. Emissions generated by business trips (gasoline and diesel combustion) are determined for the Orange Group, whereas other indicators, i.e. EMF emissions and handset recycling/refurbishment, are specific to Orange Polska only.
** The presented full-year figures consist of actual data for Q1, Q2 and Q3 and estimates for Q4.
Environmental data are based on reporting to the Orange Group's global database INDICIA.
Electricity consumption in Orange Polska's buildings is determined on the basis of records in the electricity database (BEE), which contains readouts of individual electricity meters.
GHG emissions are calculated according to the GHG Protocol. For electricity, GHG emissions are calculated using emission factors derived from International Energy Agency (IEA).
There are no biogenic GHG emissions in the Company.
*** Scope 1 (direct) GHG emissions are defined as emissions from sources (resources, processes) that are owned or controlled by the organisation. Due to global guidelines and adopted objectives, only CO_2 emissions are monitored.

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 for 2016–2020*	Delivery in 2019 (vs. 2018)	Delivery in 2019 (aggregate)*
Energy		
Reduction in energy consumption by 10%	- 2.1%	- 13.0%
Reduction in greenhouse gas emissions		
Reduction in total CO_2 emissions (Scope 1+2+3) by 10%	-5.5%	-14.5%
Recycling and refurbishment		
50% of marketed broadband devices are refurbished ones	+15%	43%
Materials and natural resources		
Decrease in paper consumption / increase in the share of customers using e-invoices to 78.2%	+3%	78.1
Management of the environmental impact		
Compliance with regulations: number of infringements	No infringements	No infringements

* Aggregate figures vs. the base year 2015.

Orange Polska is currently developing an environmental strategy, in which we will present a more comprehensive approach to the Company's impact on the natural environment and the climate. This will also be reflected in the manner of reporting of non-financial information (2014/95/EU) in line with the guidelines from the supplement on reporting climate-related information (2019/C 209/01), as well as in detrermining the threats and opportunities related to climate change.

Reference to Risks in the Environmental Area

Risk of loss of trust and reputation due to improper treatment of hazardous waste

For years, we have carried out waste management in co-operation with trusted business partners, so this risk can be deemed low.

Orange Polska has adopted an Environmental Protection Policy, which identifies the negative impact of our processes on the environment and provides for categorisation and monitoring of waste, particularly hazardous. The Company monitors the processes which may affect the environment in compliance with environmental laws and regulations, and applies technological solutions to reduce its negative environmental impact and ensure compliance with the set limits.

Orange Polska's business activities generate industrial waste, such as electronic and electrical equipment, batteries and storage cells, cables and telegraph poles. The safe disposal of these items is closely controlled. The Company has introduced uniform principles for waste classification and recording in the waste database (BDO). We co-operate only with those waste disposal companies that take full responsibility for further management of the received waste, document the subsequent stages of waste treatment between the waste producer and the waste neutraliser and hold a waste management licence (following registration by the Chief Inspectorate for Environmental Protection).

Environmental issues are also addressed in contracts with suppliers through CSR clauses and the Supplier Code of Conduct. Our local whistleblowing system, 'Ask an ethicist', is also available to our suppliers.

Risk of ineffective WEEE collection processes

Under the WEEE Act, Orange Polska has the obligation to collect old equipment at points of sale, free of charge, when a new device of the same type and function is purchased. We fulfil our statutory obligation to meet the required recycling levels for the given category of waste by co-operating with organisations offering waste treatment and recycling. In addition, we organise dedicated campaigns during music festivals, and we have a buy-back offer encouraging customers to dispose of unwanted equipment.

Customers can return used devices through our customer service centres or our dedicated online platform www.orangerecykling.pl. We have introduced a handset buy-back programme in all Orange Polska's outlets, which involves collecting used-but-working handsets in return for discount vouchers. In addition, the Company has implemented a programme of refurbishing and relaunching old electronic equipment. Environmental audits have confirmed the scope of our actions.

Orange Polska manages the process of electronic equipment recycling and monitors its results. The key barriers to the achievement of high recycling results are low environmental awareness of the public, expecting a reward for returning a device, and significant competition from smaller players in the market for repurchase/resale of used handsets.

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. Since January 1, 2020, the limit set in the Council Recommendation 1999/519/EC has applied in Poland.

Negative changes in perception of the EMF impact on human health would have a deleterious effect on the business and results of operators such as Orange Polska. If the aforementioned health risks were scientifically confirmed to a certain extent in the future, this would likely result in a 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.

In connection with the intended launch worldwide of a new generation mobile system (5G), the Act of August 30, 2019 on amending the act on supporting the development of telecommunications services and networks and certain other acts (i.e. amendment to the Mega-Act) was adopted in order to enable and facilitate the implementation of this system in Poland.

Despite discontinuation of ISO 14001:2015 certification of our Environmental Management System, Orange Polska has made every effort to meet the most restrictive environmental standards in order to eliminate any concerns of the social partner resulting from the perceived lack of transparency in the implementation of new technologies (5G technology testing).

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 our 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.

There is no single comprehensive document concerning workforce policy in the Orange Polska Group. The employment area is regulated by the following documents: Staff Regulations, policies on mobility, training and development, remuneration, diversity, health and well-being investments, and occupational safety and health, as well as the Intragroup Collective Labour Agreement and the Social Agreement.

Staff Regulations

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 a procedure for informing employees about occupational risks;
- procedures for confirming the arrival and presence at work, as well as justifying absence by employees.

The Staff Regulations and any amendments thereto are consulted by the employer with trade unions.

Key workforce indicators

Workforce	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
Workforce	12,516	11,356	13,222	12,058
Full-time positions	12,497	11,339	13,197	12,034
Full-time employees	12,448	11,294	13,139	11,978
Part-time employees	68	62	83	80
Outsourced employees (full-time positions)*	4,044	3,166	4,344	3,203
Employees in management positions	1,486	1,309	1,643	1,447

* Outsourced FTPs are 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

Mobility	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
Total number of new employee hires	415	427	476	492
Departures*	1,437	1,422	1,487	1,489
Turnover**	2.6%	2.8%	2.8%	3%

* 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

Orange Polska, as a technology company, focuses on employee development adapted to the challenges of the modern world. We act in line with the imperatives of a learning organisation and our development is based on several major pillars. We have diagnosed the competences required for efficient functioning within techno companies and offered all employees an opportunity to develop these competences.

Our employees can develop their competences through the Orange Learning platform, following development paths based on the 'Know–Practice–Deepen' framework. The platform offers various forms of development, from short knowledge pills and videos (Know) and e-learning courses and business simulations (Practice) to face-to-face training, educational communities and mentoring (Deepen). Employees can decide themselves which competence to develop and at what pace, and which development methods will be most effective for them. These resources are supplemented by the international Orange Campus programme.

In addition, we support the emergence of employee expert communities within the organisation. In the Knowledge Highway programme, selected internal experts conduct training, sharing their expertise in the particular area with other employees.

One of the key development tools is feedback. A major element supporting the feedback culture is the monthly Pulse Meter opinion poll, in which individual teams can offer feedback and suggest changes.

Development of managers is based on the leadership model which comprises 10 Leader-in-Action rules. By the end of 2019, our managers had participated in four workshops developing their leadership skills. In 2020, our managers will be offered 'Know–Practice–Deepen' development paths, addressing the Leader-in-Action rules in the #leader initiative. We will also support Orange Polska's leader community, whose key purpose is to share inspirations and good practices, and support one another in coping with day-to-day challenges.

Development opportunities are supported by the Mobility programme; we also provide a tool with which employees can express desire for change of their professional roles and managers can inform about vacancies in their respective areas.

We also train outsourced staff in knowledge specific to Orange Polska and necessary to perform their duties.

Key development and education indicators

Development and education*	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
Total number of employees trained (in '000)	14.5	10.1	13.9	10.3
Total number of partners trained (in '000)	25.3	18.0	25.3	18.1
Total hours of employee training (in '000)	342.8	300	337.8	302.6
Total hours of partner training (in '000)	403.0	341.4	402.5	342.3
Employee assessment				
% of regularly evaluated employees**	80.2%	80.2%	35.7%	80.2%
% of employees with individual development plans	78.6%	78.6%	42%	78.6%
% of regularly evaluated outsourced staff**	35.7%	35.7%	35.7%	35.7%
% of outsourced staff with individual development plans*	42%	42%	42%	42%

* The development and education data for the Orange Polska Group cover the following: Orange Polska S.A., TP Teltech, Integrated Solutions and Orange Foundation.

** The assessment of employees and managers is based on 360 feedback, and the related development plans are implemented on a two-year basis. The last feedback process was completed in 2018 and another edition is scheduled for 2020. Only with front-line employees (responsible for customer care), development conversations are carried out annually.

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. Remuneration is 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 market remuneration standards for various positions, as well as individual competence and contribution of employees. Orange Polska develops remuneration terms based on non-discrimination.

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 bonus amount depends on both the Company's overall business performance and the achievement of individual goals matching the character of particular positions.

   All employees are eligible for performance bonuses. Depending on their responsibilities, individual groups of employees are subject to different bonus criteria matching the character of particular positions. Depending on the group, bonuses to employees are settled on a monthly, quarterly or semi-annual basis.

3. Discretionary bonuses
4. Benefits

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

Key remuneration indicators

Wages	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
Average basic salary (in PLN)	7,102	7,402	7,114	7,423
Ratio of wages at the lowest positions to the legal minimum wage	137%	140%	138%	141%

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.

In 2019, Orange Polska was once again subject to an external audit with respect to gender equality and diversity management, and its Gender Equality European and International Standard (GEEIS) certificate was renewed in the process.

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 for candidate selection. Decisions to recruit particular persons 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 eight 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, 2019).

Key diversity indicators

Diversity	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
Access to positions				
% of women in the Group	39.8%	39.2%	39.1%	38.6%
% of women in management positions	34.1%	34.5%	32.9%	33.0%
Ratio of basic salary of women to men by positions (men's salary = 100%)*				
General	79.1%	79.8%	79.5%	80.2%
Non-management positions	81.3%	81.8%	81.8%	82.4%
Management positions	80.8%	81.1%	82.5%	82.9%
Ratio of salary of women to men within the same pay grades (men's salary = 100%)	96.9%	97.2	97.1%	97.7
People with disabilities				
% of employees with disabilities	1.8%	1.9%	1.8%	2.0%

* In order to better account for differences in salaries between men and women, we have introduced an additional indicator for individual pay grades. This shows a lower gender pay gap. It means that the differences between men's and women's salaries result from a different structure of positions, as more women hold low-wage positions (call center and outlet staff), while technical positions (network engineers, IT specialists) are held chiefly by men.

Working Environment

In order to improve 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 for Investing in Health Quality and Well-being of Orange Polska's Employees provides for developing friendly working environment, ensuring balance between professional and personal life, promoting a 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 clinics and partner medical facilities nationwide;
- 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;
- The Company provides a possibility of teleworking or remote working.

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	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
% of employees eligible for health care	100%	100%	100%	100%
% of employees covered by the Employee Retirement Plan*	85.2%	85.3%	83.3%	83.6%

* The Employee Retirement Plan has been expanded to include additional companies. Now, employees of Orange Polska, Telefony Podlaskie, Orange Szkolenia, TP Teltech, Pracownicze Towarzystwo Emerytalne Orange Polska S.A., Fundacja Orange [Orange Foundation] and Integrated Solutions sp. z o.o. are eligible for participation.

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	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
Number of accidents	26	32	31	36
Accident frequency rate*	2.2	2.7	*n/a*	*n/a*
Days off due to work-related accidents	1,584	1.120	1,792	1,449
Accident severity rate**	61	35	*n/a*	*n/a*
Fatal accidents	0	0	0	0
Serious accidents	0	0	0	0
Other accidents	26	32	31	36
% of employees represented in OSH Committees***	100%	100%	100%	100%
Employees in positions with high risk of occupational diseases	No such positions			

* Number of persons injured in work-related accidents per 1,000 employees. This ratio is determined separately for each company, as the aggregate figure for the Group does not adequately reflect vulnerability to accidents.

** Number of days off per accident. This ratio is determined separately for each company, as the aggregate figure for the Group does not adequately reflect vulnerability to accidents.

*** Pursuant to the mandatory legal provisions, there are OSH Committees in Orange Polska and TP Teltech owing to their workforce size.

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. 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 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 remained valid in 2018–2019, addressed particularly the following issues: investments in a friendly work environment, pay rises in 2018 and 2019, financial compensation for employees leaving Orange Polska, and support for outplacement. The Social Agreement for 2020–2021 came into force on January 1, 2020 and will remain valid to December 31, 2021. Under the Settlement for 2019, up to 1,230 employees of Orange Polska were eligible for the voluntary departure package in 2019. In December 2019, the Settlement for 2020 was concluded, determining the detailed terms of voluntary departures of Orange Polska's employees in 2020. In addition, there is a Collective Labour Agreement at TP Teltech sp. z o.o.

Key social dialogue indicators

Social Dialogue	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
Number of trade unions	17	17	18*	18*
% of employees in trade unions	31.1%	32.4%	30.3%	31.4%
% of employees covered by the Intragroup Collective Labour Agreement	97.3%	97.1%	95.3%	94.8%

* Based on figures for Orange Polska S.A. and TP Teltech 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 ‘Committed Team’ pillar and particular policies:

Commitments in the employment area	Delivery in 2019
Development and Education	
No disparity in access to training on account gender or age	No disparity
Diversity Policy	
35% of women in management positions by 2020	33%
1.5% of people with disabilities employed in Orange Polska by 2020	2%

Reference to the Key Risks in the Employment Area

Risk of physical or mental harm

Working in Orange Polska involves a low risk of work-related accidents, as confirmed by the relevant statistics. The Company’s attitude to occupational health and safety complies with the Polish legal requirements. Relatively few accidents are typically minor. Hence, the risk related to the traditionally understood health and safety can be deemed rather law.

The Company has implemented the Health, Safety and Quality of Life Policy. All employees undergo regular and mandatory training in occupational health and safety, and work-related accidences and absence from work are monitored and analysed. We provide our employees with medical care, physical activity co-financing, and the additional health-promoting programme ‘Yes to Health’, which is dedicated particularly to employees with disabilities.

Human health and safety issues are also addressed in contracts with suppliers through CSR clauses and the Supplier Code of Conduct. Our local whistleblowing system, ‘Ask an ethicist’, is also available to our suppliers.

Risks related to human resources and alignment of organisational structure

Orange Polska and its managers continue transforming its internal culture in order to motivate employees and drive the performance culture, while 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. Therefore, the Company carries out a voluntary departure programme and the workforce optimisation process. Regular staff satisfaction surveys are conducted by an external consultant. The Policy of Investing in Health Quality and Well-being of Employees of Orange Polska has been developed by the Company. Employees are offered a broad range of health services, including psychological care, in the LUX MED Group. For employees leaving the Company, we have developed the Outplacement and Mobility 2.0 programmes.

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 2005, 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, which pursues social goals on behalf of the Orange Polska Group, has been defined in the relevant Strategy for 2019–2020. 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. The new strategy provides for the continuation of our long-term programmes carried out in 2016–2018.

Safety Here and There

One of the most important issues for us is the safety of children and young people on the internet and preparing young people to use new media in a conscious way. 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. The programme provides and supports education on children's on-line safety in schools and kindergartens all around Poland. Every year the Orange Foundation, in co-operation with the Empowering Children Foundation, offers many educational tools and materials, such as e-learning and educational websites, on-line brochures and guidelines for pupils, parents and teachers within the programme.

Adults (especially educators and specialists) can participate in conferences, seminars and workshops, as well as use an on-line interactive course for parents and guardians teaching them how to protect their children on-line.

Key indicators and goals of the *Safety Here and There* programme

Safety Here and There	**2018**	**2019**
Parents and guardians using the educational materials	1,104,682	418,365*
Children involved in educational initiatives	872,636	1,114,868
Schools participating in the programme	3,654	3,977

* A decrease in the number of adult recipients in 2019 was related to lack of a large-scale social campaign in the area of safety of children on the net. Such an informational campaign was carried out in 2018 and another one is planned in 2020.

MegaMission

MegaMission is a nationwide educational programme for primary schools. It can be carried out during lessons or in after-school clubs. It is addressed to kids aged 6 to 10 and their teachers. We aim to enhance knowledge and digital competence of teachers and after-school educators and their pupils. We want children to be safe and conscious multimedia users, and we want their teachers to have access to proven materials which they can use to deliver modern classes. *MegaMission* provides a solid basis for wisely and safely navigating the world in which we can no longer function without technology.

Key indicators and goals of the *MegaMission* programme

MegaMission	**2018**	**2019**
Children trained in the programme	5,000	7,000
Teachers trained in the programme	200	150
School facilities provided with IT equipment and teaching aids	200	150

#SuperCoders

#SuperCoders is a nationwide educational programme aimed at primary school students of grades 4 to 8. Its key element is learning the skill of programming in an innovative manner, as it takes place during science, mathematics, history, music or Polish language classes rather than IT classes. All teaching materials have been based on the Polish school curriculum. Young *#SuperCoders* develop teamwork skills, creativity and logical thinking. A separate path has been launched for children with special educational needs. The teachers participating in the programme are offered professional training and technical support by expert educators. In 2019, new paths for pupils of grades 7 and 8 were incorporated into the programme.

Key indicators and goals of the *#SuperCoders* programme

#SuperCoders	**2018**	**2019**
Children trained in the programme	3,366	2,894
Teachers trained in the programme	340	300
Schools provided with equipment to teach programming	170	150

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 the local community with access to new technologies, courses and workshops. The leaders of the studios are provided with professional training and financial aid to help them manage these modern and attractive meeting places. To date, we have set up a total of 100 Orange Studios across the country. In addition, we have launched an on-line knowledge-sharing platform for their users. It features a portfolio of ready-to-implement projects and a gamification module that uses game mechanisms to build social skills and motivate residents to work for the benefit of their neighbourhoods. The initiatives are aimed at different groups: children and youth, people with disabilities, young mothers and senior citizens.

Furthermore, in two cities, Warsaw and Gdańsk, Orange Polska has created FabLabs (fabrication laboratories), that is open studios for people who want to learn how to use modern technologies in a creative way. FabLabs offer support by experienced educators, professional equipment and free workshops for children and young people. One of the projects carried out by FabLab in Warsaw is *Maker Woman*, which supports women in the labour market.

Key indicators and goals of the Orange Studios programme

Orange Studios	2018	2019
Active Studios maintained	100	65
Local leaders trained in digital and organisational skills	205	138
Population with access to Studios	900,000	585,000

Corporate Volunteering

Orange Polska has the biggest employee volunteering programme in Poland. It has been running for 15 years. Our employees share their knowledge, skills and experience and teach children and seniors how to use the Internet safely and wisely. Our volunteers take part in important social campaigns and in the events organised by Orange Polska (e.g. Orange Warsaw Festival). Moreover, our employees can develop their own volunteering project and apply for a grant for its implementation.

Key corporate volunteering indicators

Corporate volunteering	2018	2019
Volunteers	3,465	3,497
Volunteers' working hours	25,356	25,590

Sponsorship

Orange Polska has adopted a sponsorship policy. Orange Polska's approach reflects the global sponsorship strategy of the Orange Group, focusing on three main areas that align with the brand: music, film and sport. In line with the adopted strategy, Orange Polska develops long-term, comprehensive, nationwide projects addressed to a large group of its existing or prospective customers. Orange Polska sponsors various initiatives on a long-term rather than one-off basis. Key projects are subject to approval by the Management Board of Orange Polska. We have established the Sponsorship Committee to centralise project management of sponsorship opportunities in the Orange Polska Group.

Key sponsorship indicators

Sponsorship	2018	2019
Music sponsorship: Orange Warsaw Festival, Open'er Festival Powered by Orange and Krakow Live Festival		
Number of participants	250,000	230,000
Advertising value equivalent (in PLN millions)	10.1	10.3
Number of publications	6,297	3,524

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 Board Member in charge of Strategy and 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.

Furthermore, Orange Polska provides free of charge dedicated fundraising numbers for charity SMS messaging. All the receipts are subsequently transferred to social causes, such as social campaigns and programmes, assistance to the victims of natural or man-made disasters, or initiatives saving human life and health.

For years, we have provided charity SMS messaging to a number of charity organisations, including Caritas Polska, Polsat Foundation, TVN Foundation, Great Orchestra of Christmas Charity and Foundation Work of the New Millennium. In 2019, fundraising numbers were launched for 15 organisations, which raised a total of over PLN 4.8 million.

Key grant indicators

Grants	2018	2019
Total support granted, (in PLN millions)	12.7	9.3

Key social commitments and their delivery

Key social commitments defined in the Orange Foundation strategy for 2019–2020, which is the continuation of the strategy for 2016–2018 are as follows:

Commitments in the social area	Aggregate outcome in 2016–2019	Goal
Safety Here and There		
Parents and guardians using the educational materials	2,257,782	2,000,000
Children involved in educational initiatives	3,503,852	3,400,000
Schools participating in the programme	11,763	12,800
MegaMission		
Children trained in the programme	27,000	26,000
Teachers trained in the programme	950	1,100
School facilities provided with IT equipment and teaching aids	950	1,100
#SuperCoders and #CodetheFuture		
Children trained in the programme	28,291	30,800
Teachers trained in the programme	2,222	2,180
Schools provided with equipment to teach programming	756	900
Orange Studios		
Active Studios maintained (out of 100 established)	65	50
Local leaders trained in digital and organisational skills	138	100
Population with access to the Studios	850,000	450,000
FabLab implementation in the Studios	30	20

Commitments in the corporate volunteering area	Delivery in 2019	Goal
% of employees involved in corporate volunteering	29%	20%
% of volunteers involved in competence volunteering	24%	25%
% of volunteers declaring greater satisfaction from work*	98%	80%

* Data from 2018. Surveys are conducted every two years, and another one is scheduled for 2020.

Reference to the Key Risks in the Social Area

Negative impact of new technologies on children and young people

Children and young people widely use social media, the Internet and new technologies. Unfortunately, they often do it rather unskilfully and uncreatively. When used in such a manner, new technologies only occupy time and attention instead of supporting education, development and experience and inspiration sharing with peers. Consequently, there is a risk that Orange Polska will be perceived as a provider of services which have a negative influence on the behaviour and health of children and young people. The issue of the negative impact of new technologies on them has been increasingly present in the media and may affect purchase decisions of prospective customers and satisfaction of the existing ones.

Through the Orange Foundation's educational programmes, i.e. *MegaMission*, *#SuperCoders*, *Safety Here and There* and Orange Studios, as well as collaboration with social partners and public institutions, Orange Polska educates children, parents and teachers how to use modern technologies safely and wisely, distributing educational materials, lesson scenarios and guides for all age groups and carrying out informational campaigns. The Group also supports research on the children and young people's attitudes towards new technologies to even better respond to social needs. Furthermore, Orange Polska offers parental control services for mobile phones, such as ‘Protect Kids on the Net’ and ‘Safe Starter Pack’. In 2019, in the ‘We all have great power. We all have great responsibility’ campaign, the company launched the online platform www.orange.pl/razemwsieci, which provides information on how to use digital media responsibly and safely.

4. Human Rights

Owing to the nature of our business model and supply chain, we follow the human rights policy formulated at 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, the Orange Group complies with the UN Guiding Principles on Business and Human Rights adopted in 2011. The Group’s activities with respect to safeguarding 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.

Orange Polska has implemented the Supplier Code of Conduct. The Code has been developed on the Orange Group level and adapted to national laws and regulations. It seeks to encourage to comply with and respect these laws and regulations, and ensure that they are faithfully and effectively enforced. The Supplier shall respect human rights and shall avoid being complicit in human rights abuses of any kind.

The Code covers the following areas:

- Social responsibility: freedom of association and the right to collective bargaining, forced labour, child labour, diversity and non-discrimination, remuneration, working hours, and health and safety;
- Environmental responsibility: environmental protection, natural resources, and waste management; and
- Prohibited business practices: anti-corruption policy, competition, sponsorship, political contributions, money laundering, data security, and data protection.

The Code has been published and incorporated into contracts with suppliers.

In 2019, a separate corporate social responsibility clause was included in all contracts. Pursuant to the clause, the parties undertake to comply with, and ensure that their employees, suppliers and sub-contractors comply with all national, European and international rules associated with standards of ethical and responsible behaviour, including standards on human rights, environmental protection, human health and safety, and sustainable development. They also undertake to combat any infringements of human rights and fundamental freedoms, as well as any risks to the health and safety of persons and the environment. In addition, they declare that they will require their employees, suppliers and sub-contractors to refrain from using child labour or forced labour, and shall combat any discrimination. The clause has been included in all new purchasing contracts since 2019.

Key human rights indicators

Human Rights	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
Total hours of employee training in ethics and human rights	205	5**	214	5**
Total hours of partner training in ethics and human rights	162	22	162	22
% of purchase department employees trained*	73%	94%	73%	94%
% of new contracts incorporating the Supplier Code of Conduct	100%	100%	100%	100%
% of new contracts incorporating the CSR clause*		100%		100%
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	None	None

Right to privacy				
Number of reasonable grievances and violations with respect to privacy	None	None	None	None
Right to safety				
% of products evaluated for safety standards	100%	100%	100%	100%
Number of grievances and violations regarding product safety	None	None	None	None
Human rights violations				
Number of grievances about human rights	None	None	None	None

* New initiatives introduced in Orange Polska in 2019.
** Employees transferring within Group companies or coming from external partners do not undergo training in ethics again.

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	2019	2020
% of employees trained in business ethics	100%	100%
Compliance clauses as a standard in agreements with suppliers	Yes	Yes
% of new contracts incorporating the Supplier Code of Conduct	100%	100%
% of new contracts incorporating the CSR clause	100%	100%
% of purchase department employees trained in human rights	94%	100%

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 freedoms 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. Orange Polska S.A. has 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 (Integrated Computing Managed) and smart CCaaS (Contact Center as a Service) cloud computing. Furthermore, the Company has maintained the FIRST and Trusted Introducer certification for CERT Orange Polska. 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. Such losses could arise from (i) malicious acts (including cyber attacks), particularly aimed at theft of personal data, or (ii) potential negligence within the Group or its external partners.

Recourse to liability proceedings is facilitated by the General Data Protection Regulation (GDPR). 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. In accordance with GDPR, ISO 29134:2017 and the Article 29 Working Party guidelines, we have implemented a process to identify and prevent violation of rights and freedoms of data subjects. We have also delivered dedicated training for Orange Polska's employees and partners.

Slavery, forced labour and child labour

The risk of forced or child labour is marginal (immaterial) in case of domestic operations and key suppliers, but may appear within the global supply chain. Therefore, the human rights policy has been formulated and implemented by the Orange Group on the international level.

On the national level, Orange Polska's purchasing contracts with suppliers include CSR and compliance clauses and incorporate the Code of Ethics and the Supplier Code of Conduct, which particularly address the issues of human health, safety and protection. Our local whistleblowing system, ‘Ask an ethicist’, is available to our suppliers and other stakeholders.

Risk of poor working conditions

The risk of poor working conditions in Orange Polska is considered low. The Company has introduced the Policy of Investing in Health Quality and Well-being of Employees of Orange Polska, which in particular provides for compliance with the occupational health and safety standards and development of friendly working environment.

This risk can potentially appear on the level of providers of services to Orange Polska in such areas as personal outsourcing, process outsourcing or technical partners. Human health and safety issues are addressed in contracts with suppliers through a CSR clause, as well as incorporation of the Supplier Code of Conduct and the Code of Ethics. Any irregularities in this area can be reported through our local whistleblowing system, ‘Ask an ethicist’, which is available to both our employees and suppliers.

5. Anti-bribery and Anti-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.

All employees and external stakeholders can report potential non-compliance cases through dedicated channels. To support the Compliance Management Programme, 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 (whistleblowing) are monitored by the Audit Committee on the basis of periodic reports.

To promote knowledge about the Programme, we have introduced many training plans, including an obligatory e-learning course "Compliance – anti-corruption". Since 2015, more than 1290 employees and partners have completed this course. In 2019, we launched a new anti-corruption training programme, which accounts for the risk exposure of employees in various areas within the organisation, as well as key managers.

Key compliance indicators

Anti-bribery and anti-corruption	Orange Polska S.A.		Orange Polska Group	
	2018	2019	2018	2019
Total number of employees trained in compliance	172	194	179	281
Total number of partners trained in compliance	241	87	241	91
Total hours of compliance training of employees (in ‘000)	1.03	0.80	1.05	0.87
Total hours of compliance training of partners (in ‘000)	0.6	0.2	0.6	0.2
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 anti-corruption area	2019	2020
Corruption risk reduction (zero-tolerance approach towards corruption)	No infringements	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.

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)

ARPO – Average Revenues per Offer

AUPU – Average Usage per User

BSA – Bitstream Access Offer

CATV – Cable Television

EBITDAaL (EBITDA after Leases) – Operating income before depreciation, amortisation and impairment of property, plant and equipment and intangible assets, decreased by interest expense on lease liabilities and adjusted for the impact of deconsolidation of subsidiaries, employment termination programmes, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items

F2M – Fixed to Mobile Calls

FBB – Fixed Broadband

FTE – Full time equivalent

FTTH – Fibre To The Home

Home Zone (or Office Zone for business customers) – area within range of predefined base stations which cover the particular location (home/office)

Household connectable with fibre – an apartment in multi-family building or a single family house within the reach of our fibre to the home service that allows to provide service with a speed of at least 100Mb/s

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

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