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POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS for the year 2016

(year)

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

for the **year 2016**, i.e. from **1 January 2016 to 31 December 2016**

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

date of issuance: **13 February 2017**

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
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number)

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526-02-50-995
(NIP)

012100784
(REGON)

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

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	year / 2016	year / 2015	year / 2016	year / 2015
I. Revenue	11 538 000	11 840 000	2 636 835	2 829 287
II. Operating income/(loss)	(1 354 000)	572 000	(309 436)	136 685
III. Profit/(loss) before income tax	(1 713 000)	281 000	(391 480)	67 148
IV. Consolidated net income/(loss)	(1 746 000)	254 000	(399 022)	60 696
V. Net income/(loss) attributable to owners of Orange Polska S.A.	(1 746 000)	254 000	(399 022)	60 696
VI. Earnings/(loss) per share (in PLN/EUR) (basic and diluted)	(1.33)	0.19	(0.30)	0.05
VII. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VIII. Total comprehensive income/(loss)	(1 672 000)	280 000	(382 110)	66 909
IX. Total comprehensive income/(loss) attributable to owners of Orange Polska S.A.	(1 672 000)	280 000	(382 110)	66 909
X. Net cash provided by operating activities	2 549 000	2 547 000	582 535	608 631
XI. Net cash used in investing activities	(5 074 000)	(1 580 000)	(1 159 586)	(377 557)
XII. Net cash provided by/(used in) financing activities	2 521 000	(949 000)	576 136	(226 773)
XIII. Total net change in cash and cash equivalents	(4 000)	18 000	(914)	4 301
	Balance as at 31/12/2016	**Balance as at 31/12/2015**	**Balance as at 31/12/2016**	**Balance as at 31/12/2015**
XIV. Total current assets	2 418 000	2 330 000	546 564	546 756
XV. Total non-current assets	20 170 000	19 322 000	4 559 222	4 534 084
XVI. Total assets	22 588 000	21 652 000	5 105 786	5 080 840
XVII. Total current liabilities	4 148 000	5 185 000	937 613	1 216 708
XVIII. Total non-current liabilities	8 431 000	4 490 000	1 905 741	1 053 619
XIX. Total equity	10 009 000	11 977 000	2 262 432	2 810 513
XX. Equity attributable to owners of Orange Polska S.A.	10 007 000	11 975 000	2 261 980	2 810 043
XXI. Share capital	3 937 000	3 937 000	889 919	923 853

The consolidated statement of financial position data as at 31 December 2016 and 2015 presented in the table "Selected financial data" was translated into Euro at the average exchange rate of the National Bank of Poland on the end of the reporting period. The 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 2016 and 2015, were translated into Euro at an exchange rate which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of years ended 31 December 2016 and 2015.

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 Euro	31 December 2016	31 December 2015
Consolidated statement of financial position	4.4240 PLN	4.2615 PLN
Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows	4.3757 PLN	4.1848 PLN

Dear Shareholders,

In 2016, in line with our mid-term action plan, we focused on investments in connectivity improvement, and on very proactive customer acquisition on all fronts of our business.

Fibre: our top priority

In 2016 we continued to make significant investments in our fibre network rollout. This strategic priority will differentiate our offer on the market and is a key factor in our ongoing transition from a legacy to a modern telecom company. The size of our fibre network doubled last year to close to 1.5 million households. We have the largest fibre network in Poland, available in 37 cities. As this technology is still new in Poland, we put a lot of effort into our marketing communications through the year to build customer awareness. Customer take-up increased in every quarter and reached 31,000 in Q4. Almost 80% of customers acquired in Q4 were new customers to Orange Polska – which is evidence that we are winning market share from the competition.

Mobile network: responding to the surge in data consumption

In the face of a continuing surge in data consumption, one of our most important tasks was to improve mobile connectivity based on the newly acquired spectrum. Our mobile 4G/LTE network now covers almost the entire population and serves more than 60% of our mobile data traffic. The volume of data transferred in our network increased by c.130% due to the growing number of customers and much higher traffic per customer, driven by increasing smartphone penetration and evolving customer needs. The growth of mobile data traffic exceeded our previous expectations. I am pleased to say that our mobile network was the fastest one in Poland in 2016, according to independent source speedtest.pl. I see this as evidence that the convergent network strategy (fixed and mobile) that we have adopted is working well.

Mobile post-paid: a year of family offers and 'LTE for Fixed'

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

New rules on pre-paid: a new challenge, handled well

The pre-paid market in Poland is in transition following the aforementioned introduction of new SIM card registration rules in July 2016. Handling this challenge required a lot of effort in terms of adjusting our IT systems, redefining relations with distributors, customer education and marketing initiatives. By 1 February 2017 (the deadline for registration of existing cards to avoid disconnection), we registered 96% of our active customers, which is exactly what we had expected. We anticipated that for a small portion of our customers, the loss of anonymity would be a barrier. However, the cards can still be registered after 1 February, so I expect the final figure to be slightly higher. Nevertheless, this challenge is not yet over. The rules of the game for this market are now slightly different, so there is still some uncertainty as to how the new situation will influence the competitive landscape.

Customer experience: moving towards simplification

In 2016 we continued our efforts to engage in active dialogue with our customers in line with the new "listening and responding" approach we launched in 2015. Our goal is to make all customer journeys as simple as possible by eliminating unnecessary pain-points and procedures – a goal that depends on the implementation of numerous small initiatives. I am very pleased to say that these initiatives have worked: in 2016 we once again improved our so-called Net Promoter Score (NPS), which is the key measure of customer satisfaction for us. It has reached an all-time high as a result of significant improvements in satisfaction among our mobile customers, on both B2C and B2B markets. We want to make further gains in this direction in 2017. Right now, we are making big changes in the way we manage the customer experience. Our approach going forward will be driven by customer journeys (different types of experience, such as purchase, payment, termination or help) instead of distribution channels. This will allow us to provide a standardized and coherent quality of service across all customer touchpoints.

Financial performance: in line with objectives

Our financial performance in 2016 was in line with our expectations. We generated EBITDA of PLN 3,163 million – in the range of our guidance. EBITDA was around 10% lower than in the previous year. It reflected pressure on our top-line from the fixed line business, which is affected by the structural decline of legacy services and high competition in fixed broadband. Our mobile revenues were up, mainly because the shift to instalment sales in customer acquisition boosted equipment sales. Cost evolution reflected the approach presented in our new action plan: an increase in direct costs, and further optimisations in indirect expenses. Our cash generation reflected on one hand much higher payments for capex (related to our connectivity investments) and on the other hand much better working capital management.

Focus for 2017: acceleration of fibre and execution improvements

In 2017 our key priorities will not change but our focus will be even more on improving our execution of commercial actions and our investment process. Importantly, these efforts will be underpinned by the organisational changes that we introduced, starting from January 2017, with respect to both B2C and B2B areas. We will further improve our customer proposition and transform our distribution channels. We have just launched a new offer, Orange Love, which is our first fixed-mobile 'hard bundle' and which, along with a new 4K TV experience, marks our new approach to winning households and promoting convergence. We plan to expand our fibre network by more than 1 million new households in 2017, i.e. much more than in 2016, and we will simultaneously accelerate service delivery time. We will also speed up the simplification and transformation of our business, to improve our agility and protect profitability. We have decided to provide an update on our longer-term outlook later in the year, once we have better visibility of the effects of the above-mentioned initiatives.

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

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
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Building a better working world

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Orange Polska Group (the "Group") for the year ended 31 December 2016, in which the parent company is Orange Polska S.A. (the "Company") located in Warsaw at Al. Jerozolimskie 160, containing the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 January 2016 to 31 December 2016 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the "accompanying consolidated financial statements").

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission ("International Financial Reporting Standards as adopted by the EU", "IFRS"), and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the preparation of consolidated financial statements.

Basis for Opinion

We conducted our audit in accordance with chapter 7 of the Accounting Act dated 29 September 1994 (the "Accounting Act"), National Auditing Standards in the form of the International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments and International Standards on Auditing (jointly: the "Standards"). Our responsibilities under these standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Group in accordance with article 56 paragraph 3 and 4 of Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight dated 7 May 2009 and Code of Ethics for Professional Accountants (the "IFAC Code") as stated in Communique no 4249/60/2011 of National Council of Statutory Auditors dated 13 June 2011 regarding the rules of professional ethics for Statutory Auditors, and we have fulfilled our other ethical responsibilities in accordance with the IFAC Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr>
<td>1. <u>Goodwill impairment analysis</u>

Why the matter was determined to be a key audit matter

Under IFRS, the Group is required to annually test the amount of goodwill for impairment.

This annual impairment test was significant to our audit because of the balance of goodwill, which is significant to the financial statements. Management assessment process is based on significant judgments, assumptions and estimates such as those underlying Group's strategy, future revenue streams, costs and operating cash flows, WACC and perpetuity growth rate (PGR), which are affected by expected future market or economic conditions.

In 2016, the Group has updated its strategic plan and its financial forecasts. As a result of the decrease of the planned future cash flows and the adoption of a higher discount rate, an impairment charge of 1.8 billion zlotys was recognized. The impairment charge was fully allocated towards goodwill, which decreased its value as presented in the statement of financial position from 3.9 billion zlotys to 2.1 billion zlotys.

Reference to related disclosures in the financial statements

The Group's disclosures about identification of CGU and goodwill impairment test are included in Note 8. "Impairment", which specifically explains the main assumptions and results of the test together with a sensitivity analysis.</td>
<td>How the key audit matter was addressed in the audit

We have gained understanding of the goodwill impairment calculation process, performed a walkthrough of the process and we evaluated the management's identification of the CGU and reviewed the impairment test.

Our procedures included challenging management on the suitability of the impairment model and its assumptions, with particular attention paid to the following:

• benchmarking key assumptions in management's valuation models with industry range and market expectations including revenue, cost and margin trends, capital expenditure on network assets and spectrum, market share and customer churn and discount rates, against external data, where available;

• testing the mathematical accuracy of the cash flow models and agreeing relevant data to Board approved forecasts;

• assessing the reliability of management's forecast through a review of actual performance against previous forecasts;

• comparing both the WACC and PGR applied to the market range and discussing those with our valuation specialists;

• assessing the sufficiency of the sensitivity analysis performed by the management and performing further sensitivity analyses, primarily focused on changes in operating cash flows;

• assessing the sufficiency of the disclosures made in the financial statements describing the impairment test and sensitivity analysis.</td>
</tr>
</table>

2. <u>Deferred tax assets</u>	
Why the matter was determined to be a key audit matter	*How the key audit matter was addressed in the audit*
The Group performed detailed analysis of the deferred tax assets ("DTA") recoverability as at 31 December 2016. This matter was significant to our audit because the balance of the DTA of PLN 929 million as of 31 December 2016 is significant to the financial statements. In addition, management's assessment process is based on assumptions, specifically the timing and amount of the future taxable profits, against which deductible temporary differences and tax losses carried forward can be utilized. *Reference to related disclosures in the financial statements* The Group's disclosures on deferred tax and related significant assumptions are included in Note 23.2 "Deferred tax".	We have gained understanding of the deferred tax calculation process, performed a walkthrough of the process and evaluated the design of, and tested the controls over, the process relating to deferred tax calculation. We have analyzed the assumptions underlying the recognition and measurement of deferred tax assets. Our procedures included the review of the deferred tax assets utilization model and have been aligned with our analysis of impairment test, as the deferred tax assets recoverability depends mainly on successful realization of the Board approved forecasts.
3. <u>Litigations, claims and contingent liabilities</u>	
Why the matter was determined to be a key audit matter	*How the key audit matter was addressed in the audit*
The Group is subject to number of significant claims and litigations. Major risk identified by the Group in that area relate to anti-monopoly proceedings, compliance with regulatory requirements or customer protection. The amounts of claims may be significant and estimates of the amounts of provisions or contingent liabilities are subject to significant management judgement. *Reference to related disclosures in the financial statements* The Group's disclosures on the status of claims and proceedings are included in Note 27. "Litigations, claims and contingent liabilities".	We have performed the following audit procedures to be responsive to this area: • we have gained understanding of the litigation, claims and contingent liabilities process, performed a walkthrough of the process and evaluated the design of, and tested the controls over the process relating to provisions; • we have analysed with the Company's Legal Department material legal cases; • circularisation of legal letters to relevant third party legal representatives and an analysis of obtained responses to the inquiries; • discussing with EY independent legal specialist regarding selected legal cases; • our audit procedures included analysis of assessment of contingent liabilities and

<table>
<tr><td></td><td>changes in provisions for claims and litigations which are on a quarterly basis submitted to the Audit Committee for review.</td></tr>
<tr><td>4. <u>Accuracy of revenue recognition</u>

Why the matter was determined to be a key audit matter

The accuracy of revenue amounts recorded is an inherent industry risk. This is because telecoms billing systems are complex and process large volumes of data with a combination of different products sold and price changes in the year, through a number of different systems.

Furthermore, the application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates.

Reference to related disclosures in the financial statements

The Group's disclosures on revenue are included in Note 5 "Revenue".</td><td>How the key audit matter was addressed in the audit

We have gained an understanding of the revenue recognition process, performed a walkthrough of the process and evaluated the design of, and tested the controls over the process relating to revenue recognition process.

Our approach included both controls testing and substantive procedures covering, among others:

• review of the revenue recognition accounting policies, significant judgments and estimates;

• evaluation of relevant IT systems;

• capture and recording of revenue transactions;

• authorisation of rate changes and the input of this information to the billing systems;

• comparing revenue to the billing data;

• comparing the revenue accruals to actual data traffic available after month closing;

• we also tested a sample of customer bills and checked these to cash received from customers. Our testing included customer bills for consumers, corporate and wholesale customers.</td></tr>
<tr><td>5. <u>Estimated economic useful life for certain network assets</u>

Why the matter was determined to be a key audit matter

The useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. The Group extended the estimated useful lives for certain network assets in 2016. As a result, depreciation expense in 2016 relating to these assets is lower by PLN 301 million than in 2015.</td><td>How the key audit matter was addressed in the audit

We have gained an understanding of the intangible and tangible fixed assets process, performed a walkthrough of the process and evaluated the design of, and tested the controls over the process relating to intangible and tangible fixed assets.</td></tr>
</table>

These matters were significant to our audit since they involve material amounts and significant management judgement. *Reference to related disclosures in the financial statements* The Group's disclosures on the EUL change made is included in Note 11 "Property, plant and equipment".	We have discussed and evaluated the change in EUL and confirmed with the Company's Management that the analysis and the assessment of extended useful lives for certain items of fixed assets represents the Management's best estimate in that respect and that based on the analysis, the technical condition of fixed assets justifies the extension of their economic useful lives. We also found that the revised asset lives are consistent with those commonly used in the industry and that the economic circumstances, including the impact of the forecasted technological developments, exist that justify their current economic useful life by considering our knowledge of the business and practice in the wider telecoms industry. We also tested whether approved EUL were appropriately recognised in the fixed asset register.

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

The Company's Management is responsible, in accordance with the Accounting Act and regulations issued on the basis of the Accounting Act, for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and other applicable laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Company's Management and the members of the Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

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

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

Auditor's Responsibilities

We are responsible for the expressing of an opinion on the accompanying consolidated financial statements based on the performed audit.

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

• Obtain sufficient and appropriate audit evidence in relation to the financial information of the entities comprising the Group in order to express an opinion on the consolidated financial statements. We are responsible for the management, oversight and execution of the audit of the Group. We are fully responsible for our audit opinion.

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

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

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

In accordance with ISA 320.5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions/statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with ISAs and auditor's professional judgement.

Report on Other Legal and Regulatory Requirements

Opinion on the Directors' Report

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

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

In connection with the audit of the consolidated financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the "decree on current and periodic information"), and whether they are consistent with the information contained in the accompanying consolidated financial statements. Our responsibility was also to consider, based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the decree on current and periodic information and that the information derived from the accompanying financial statements reconciles with the Directors' Report. Based on our knowledge of the Group and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the consolidated financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies or in the regulations issued based on art. 61 of this act. This information is, in all material respects, in accordance with applicable regulations and with the information included in the consolidated financial statements.

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

Key Certified Auditor	Partner
Łukasz Piotrowski certified auditor No. 12390	Mikołaj Rytel

Warsaw, 13 February 2017

ORANGE POLSKA GROUP

LONG-FORM AUDITOR’S REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

(in million zlotys)

I. GENERAL NOTES

1. Background

Orange Polska S.A. (the "Company" or "OPL") and its subsidiaries (together the "Orange Polska Group" or the "Group") are a telecommunications group.

The principal activities of the Orange Polska Group are as follows:

- provision of mobile and fixed telecommunications services, including calls, messaging, content, access to the Internet and TV,
- provision of leased lines, data transmission and other telecommunications value added services,
- sale of telecommunications equipment.

The parent company was incorporated on the basis of a Notarial Deed dated 4 December 1991. The Company's registered office is located in Warsaw at Al. Jerozolimskie 160.

The parent company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, Polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – the "Accounting Act"), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements for the financial year beginning in 2005 and later.

The parent company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000010681 on 2 May 2001.

The Company was issued with tax identification number (NIP) 526-02-50-995 on 4 June 1993 and statistical number (REGON) 012100784 on 17 January 1992.

As at 31 December 2016, the Company's issued share capital amounted to 3,937 million zlotys. The Group's equity as at that date amounted to 10,009 million zlotys.

In accordance with Minutes of the Shareholder's Meeting of 21 July 2016, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Orange S.A.	664,999,999	664,999,999	1,995	50.67%
The rest of shareholders	647,357,480	647,357,480	1,942	49.33%
	-------------------	-----------------	--------	--------
Total	1,312,257,479	1,312,357,479	3,937	100%
	==========	==========	=====	=====

There were no changes in the ownership structure of the parent company during the reporting period as well as during the period from the balance sheet date to the date of the opinion.

There were no movements in the share capital in the reporting period.

(in million zlotys)

As at 13 February 2017 the parent company's Management Board was composed of:

Jean-François Fallacher	- President
Mariusz Gaca	- Member
Bożena Leśniewska	- Member
Piotr Muszyński	- Member
Jolanta Dudek	- Member
Jacek Kowalski	- Member
Maciej Nowohoński	- Member

The following changes occurred in the composition of the Company's Management Board during the reporting period, as well as from the balance sheet date to the date of the opinion.

On 4 February 2016, Mr Bruno Duthoit submitted his resignation as the President and Member of the Company's Management Board with effect on 30 April 2016.

On the same day, the Supervisory Board of Orange Polska S.A. appointed Mr Jean-François Fallacher as the President of the Company's Management Board with effect on 1 May 2016.

On 4 July 2016, Mr Michał Paschalis-Jakubowicz submitted his resignation as the Member of the Company's Management Board with immediate effect.

2. Group Structure

As at 31 December 2016, the Orange Polska Group consisted of the following subsidiaries and a joint operation:

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Integrated Solutions Sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016
TP TelTech Sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016
Telefony Podlaskie S.A.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016
Orange Retail S.A.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016

(in million zlotys)

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Orange Real Estate Sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016
Orange Szkolenia Sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016
Pracownicze Towarzystwo Emerytalne Orange Polska S.A.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016
Fundacja Orange	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2016
Telekomunikacja Polska Sp. z o.o.	Full consolidation	no requirement to audit financial statements	no requirement to audit financial statements	31 December 2016
NetWorkS! Sp. z o.o.	Joint operation	unqualified	Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością Sp. k.	31 December 2016

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 1.2 of the additional information ("the additional notes and explanations") to the consolidated financial statements of the Group for the year ended 31 December 2016.

There were changes to the list of consolidated companies when compared to the prior year as below:

- Orange Customer Service sp. z o.o. and TP Invest sp. z o.o. merged with Orange Polska S.A. in 2016.
- TPSA Eurofinance France S.A. was liquidated in 2016.

3. Consolidated Financial Statements

3.1 Auditor's opinion and audit of consolidated financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board on 28 July 2016 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 31 August 2016 with the parent company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2016.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditor's unqualified opinion dated 13 February 2017, stating the following:

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

Opinion

We have audited the accompanying consolidated financial statements of Orange Polska Group (the "Group") for the year ended 31 December 2016, in which the parent company is Orange Polska S.A. (the "Company") located in Warsaw at Al. Jerozolimskie 160, containing the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 January 2016 to 31 December 2016 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the "accompanying consolidated financial statements").

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission ("International Financial Reporting Standards as adopted by the EU", "IFRS"), and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the preparation of consolidated financial statements.

(in million zlotys)

Basis for Opinion

We conducted our audit in accordance with chapter 7 of the Accounting Act dated 29 September 1994 (the "Accounting Act"), National Auditing Standards in the form of the International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments and International Standards on Auditing (jointly: the "Standards"). Our responsibilities under these standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Group in accordance with article 56 paragraph 3 and 4 of Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight dated 7 May 2009 and Code of Ethics for Professional Accountants (the "IFAC Code") as stated in Communique no 4249/60/2011 of National Council of Statutory Auditors dated 13 June 2011 regarding the rules of professional ethics for Statutory Auditors, and we have fulfilled our other ethical responsibilities in accordance with the IFAC Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr>
<td>1. <u>Goodwill impairment analysis</u>

Why the matter was determined to be a key audit matter

Under IFRS, the Group is required to annually test the amount of goodwill for impairment.

This annual impairment test was significant to our audit because of the balance of goodwill, which is significant to the financial statements. Management assessment process is based on significant judgments, assumptions and estimates such as those underlying Group's strategy, future revenue streams, costs and operating cash flows, WACC and perpetuity growth rate (PGR), which are affected by expected future market or economic conditions.

In 2016, the Group has updated its strategic plan and its financial forecasts. As a result of the decrease of the planned future cash flows and the adoption of a higher discount rate, an impairment charge of 1.8 billion zlotys was recognized. The impairment charge was fully allocated towards goodwill, which decreased its value as presented</td>
<td>How the key audit matter was addressed in the audit

We have gained understanding of the goodwill impairment calculation process, performed a walkthrough of the process and we evaluated the management's identification of the CGU and reviewed the impairment test.

Our procedures included challenging management on the suitability of the impairment model and its assumptions, with particular attention paid to the following:

• benchmarking key assumptions in management's valuation models with industry range and market expectations including revenue, cost and margin trends, capital expenditure on network assets and spectrum, market share and customer churn and discount rates, against external data, where available;

• testing the mathematical accuracy of the cash flow models and agreeing relevant data to Board approved forecasts;

• assessing the reliability of management's forecast through a review of actual performance against previous forecasts;</td>
</tr>
</table>

in the statement of financial position from 3.9 billion zlotys to 2.1 billion zlotys. *Reference to related disclosures in the financial statements* The Group's disclosures about identification of CGU and goodwill impairment test are included in Note 8. "Impairment", which specifically explains the main assumptions and results of the test together with a sensitivity analysis.	• comparing both the WACC and PGR applied to the market range and discussing those with our valuation specialists; • assessing the sufficiency of the sensitivity analysis performed by the management and performing further sensitivity analyses, primarily focused on changes in operating cash flows; • assessing the sufficiency of the disclosures made in the financial statements describing the impairment test and sensitivity analysis.
2. <u>Deferred tax assets</u> *Why the matter was determined to be a key audit matter* The Group performed detailed analysis of the deferred tax assets ("DTA") recoverability as at 31 December 2016. This matter was significant to our audit because the balance of the DTA of PLN 929 million as of 31 December 2016 is significant to the financial statements. In addition, management's assessment process is based on assumptions, specifically the timing and amount of the future taxable profits, against which deductible temporary differences and tax losses carried forward can be utilized. *Reference to related disclosures in the financial statements* The Group's disclosures on deferred tax and related significant assumptions are included in Note 23.2 "Deferred tax".	 *How the key audit matter was addressed in the audit* We have gained understanding of the deferred tax calculation process, performed a walkthrough of the process and evaluated the design of, and tested the controls over, the process relating to deferred tax calculation. We have analyzed the assumptions underlying the recognition and measurement of deferred tax assets. Our procedures included the review of the deferred tax assets utilization model and have been aligned with our analysis of impairment test, as the deferred tax assets recoverability depends mainly on successful realization of the Board approved forecasts.
3. <u>Litigations, claims and contingent liabilities</u> *Why the matter was determined to be a key audit matter* The Group is subject to number of significant claims and litigations. Major risk identified by the Group in that area relate to anti-monopoly proceedings, compliance with regulatory requirements or customer protection. The amounts of claims may be significant and estimates of the amounts of provisions or	 *How the key audit matter was addressed in the audit* We have performed the following audit procedures to be responsive to this area: • we have gained understanding of the litigation, claims and contingent liabilities process, performed a walkthrough of the process and

contingent liabilities are subject to significant management judgement. *Reference to related disclosures in the financial statements* The Group's disclosures on the status of claims and proceedings are included in Note 27. "Litigations, claims and contingent liabilities".	evaluated the design of, and tested the controls over the process relating to provisions; • we have analysed with the Company's Legal Department material legal cases; • circularisation of legal letters to relevant third party legal representatives and an analysis of obtained responses to the inquiries; • discussing with EY independent legal specialist regarding selected legal cases; • our audit procedures included analysis of assessment of contingent liabilities and changes in provisions for claims and litigations which are on a quarterly basis submitted to the Audit Committee for review.
4. Accuracy of revenue recognition *Why the matter was determined to be a key audit matter* The accuracy of revenue amounts recorded is an inherent industry risk. This is because telecoms billing systems are complex and process large volumes of data with a combination of different products sold and price changes in the year, through a number of different systems. Furthermore, the application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates. *Reference to related disclosures in the financial statements* The Group's disclosures on revenue are included in Note 5 "Revenue".	 *How the key audit matter was addressed in the audit* We have gained an understanding of the revenue recognition process, performed a walkthrough of the process and evaluated the design of, and tested the controls over the process relating to revenue recognition process. Our approach included both controls testing and substantive procedures covering, among others: • review of the revenue recognition accounting policies, significant judgments and estimates; • evaluation of relevant IT systems; • capture and recording of revenue transactions; • authorisation of rate changes and the input of this information to the billing systems; • comparing revenue to the billing data; • comparing the revenue accruals to actual data traffic available after month closing; • we also tested a sample of customer bills and checked these to cash received from customers. Our testing included customer bills for consumers, corporate and wholesale customers.
5. Estimated economic useful life for certain network assets *Why the matter was determined to be a key audit matter*	 *How the key audit matter was addressed in the audit*

The useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. The Group extended the estimated useful lives for certain network assets in 2016. As a result, depreciation expense in 2016 relating to these assets is lower by PLN 301 million than in 2015. These matters were significant to our audit since they involve material amounts and significant management judgement. *Reference to related disclosures in the financial statements* The Group's disclosures on the EUL change made is included in Note 11 "Property, plant and equipment".	We have gained an understanding of the intangible and tangible fixed assets process, performed a walkthrough of the process and evaluated the design of, and tested the controls over the process relating to intangible and tangible fixed assets. We have discussed and evaluated the change in EUL and confirmed with the Company's Management that the analysis and the assessment of extended useful lives for certain items of fixed assets represents the Management's best estimate in that respect and that based on the analysis, the technical condition of fixed assets justifies the extension of their economic useful lives. We also found that the revised asset lives are consistent with those commonly used in the industry and that the economic circumstances, including the impact of the forecasted technological developments, exist that justify their current economic useful life by considering our knowledge of the business and practice in the wider telecoms industry. We also tested whether approved EUL were appropriately recognised in the fixed asset register.

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

The Company's Management is responsible, in accordance with the Accounting Act and regulations issued on the basis of the Accounting Act, for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and other applicable laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Company's Management and the members of the Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

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

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

Auditor's Responsibilities

We are responsible for the expressing of an opinion on the accompanying consolidated financial statements based on the performed audit.

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

• Obtain sufficient and appropriate audit evidence in relation to the financial information of the entities comprising the Group in order to express an opinion on the consolidated financial statements. We are responsible for the management, oversight and execution of the audit of the Group. We are fully responsible for our audit opinion.

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

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

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

In accordance with ISA 320.5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions/statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with ISAs and auditor's professional judgement.

Report on Other Legal and Regulatory Requirements

Opinion on the Directors' Report

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

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

In connection with the audit of the consolidated financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the "decree on current and periodic information"), and whether they are consistent with the information contained in the accompanying consolidated financial statements. Our responsibility was also to consider, based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the decree on current and periodic information and that the information derived from the accompanying financial statements reconciles with the Directors' Report. Based on our knowledge of the Group and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the consolidated financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies or in the regulations issued based on art. 61 of this act. This information is, in all material respects, in accordance with applicable regulations and with the information included in the consolidated financial statements."

We conducted the audit of the consolidated financial statements during the period from 19 September 2016 to 13 February 2017. We were present at the parent company's head office from 19 September 2016 to 18 November 2016, from 5 December 2016 to 22 December 2016 and from 2 January 2017 to 3 February 2017.

3.2 Representations provided and data availability

The Management Board of the parent company confirmed its responsibility for the preparation and fair presentation of the attached consolidated financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 13 February 2017, from the Management Board of the parent company confirming that:

- the information included in the consolidation documentation was complete;
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements;

and confirmed that the information provided to us was fair to the best of the parent company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

At the same time we declare that during the audit of the financial statements, there were no limitations of scope.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by Łukasz Piotrowski, key certified auditor no. 12390, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2015. The consolidated financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 12 April 2016.

The consolidated financial statements of the Group for the financial year ended 31 December 2015, together with the auditor's opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 19 April 2016 with the National Court Register.

(in million zlotys)

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2016 – 2014. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2016 and 31 December 2015.

	2016	**2015**	**2014**
Total assets	22,588	21,652	22,104
Shareholders' equity	10,009	11,977	12,398
Net profit or loss	-1,746	254	535
Return on assets (%)	-7.7%	1.2%	2.4%
Net profit x 100% / Total assets			
Return on equity (%)	-14.6%	2.0%	4.2%
Net profit x 100% / Shareholders' equity at the beginning of the period			
Profit margin (%)	-15.1%	2.1%	4.4%
Net profit x 100% / Revenue			
Liquidity I	0.9	0.6	0.6
Current assets / Current creditors*			
Liquidity III	0.10	0.07	0.07
Cash and cash equivalents / Current creditors*			
Debtors days	71 days	56 days	45 days
Current and non-current trade debtors x 365 / Revenue			
Creditors days	88 days	94 days	93 days
Current and non-current trade creditors x 365 / Operating costs			

(in million zlotys)

	2016	2015	2014
Inventory days	31 days	46 days	45 days
Inventory x 365 / Cost of handsets and other equipment sold			
Stability of financing (%)	81.6%	76.1%	78.7%
(Equity + non-current provisions and liabilities) x 100% / Total liabilities, provisions and equity			
Debt ratio (%)	55.7%	44.7%	43.9%
(Total liabilities and provisions) x 100% / Total assets			
Rate of inflation (%):			
Yearly average	-0.6%	-0.9%	0.0%
December to December	0.8%	-0.5%	-1.0%

* - Current creditors comprise of current trade payables, current loans from related party, current other financial liabilities at amortised cost, other current liabilities and income tax liabilities.

4.2 Comments

The following trends may be observed based on the above financial ratios:

The return on assets ratio in 2016 decreased to -7.7% in comparison to 1.2% in 2015 and 2.4% in 2014.

The return on equity ratio in 2016 decreased to -14.6% in comparison to 2% in 2015 and 4.2% in 2014.

The profit margin ratio in 2016 decreased to -15.1% in comparison to 2.1% in 2015 and 4.4% in 2014.

The liquidity ratio I in 2016 increased to 0.9 in comparison to 0.6 in years 2015 and 2014.

The liquidity ratio III in 2016 increased to 0.1 in comparison to 0.07 in years 2015 and 2014.

The debtors days ratio, calculated as at the end of the period in 2016 increased to 71 days in comparison to 56 days in 2015 and 45 days in 2014.

The creditors days ratio, calculated as at the end of the period in 2016 decreased to 88 days in comparison to 94 days in 2015 and 93 days in 2014.

The inventory days ratio, calculated as at the end of the period in 2016 decreased to 31 days in comparison to 46 days in 2015 and 45 days in 2014.

The stability of financing ratio in 2016 increased to 81.6% in comparison to 76.1% in 2015 and 78.7% in 2014.

The debt ratio in 2016 increased to 55.7% in comparison to 44.7% in 2015 and 43.9% in 2014.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the parent company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2016 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2016, the Management Board of the parent company has stated that the financial statements of the Group were prepared on the assumption that the Group will continue as a going concern for a period of at least twelve months subsequent to 31 December 2016 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in Note 30 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2016.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2016.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method of determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in Notes 8 and 9 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 2 million zlotys as at 31 December 2016. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in Note 24 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2016 and include the financial data for the period from 1 January 2016 to 31 December 2016.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2016.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting.

8. Additional information to the Consolidated Financial Statements

The additional information to the consolidated financial statements for the year ended 31 December 2016 was prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the Directors' Report of the Orange Polska Capital Group and of the Company for the period from 1 January 2016 to 31 December 2016 (the "Directors' Report") and concluded that the information contained in it take into account the provisions of 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states and they are consistent with the information contained in the accompanying financial statements. We have also concluded, based on our knowledge of the Group and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report of the Capital Group. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the consolidated financial statements.

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the parent company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year, which could have a material effect on the audited consolidated financial statements.

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

Key Certified Auditor	Partner
Łukasz Piotrowski certified auditor No. 12390	Mikołaj Rytel

Warsaw, 13 February 2017

ORANGE POLSKA GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

February 13, 2017

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CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

1. Corporate information

1.1. The Orange Polska Group

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

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

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

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

1.2. Entities of the Group

The Group comprises Orange Polska and the following subsidiaries:

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

[(1)] Companies merged with Orange Polska S.A. in 2016 (see Note 4).
[(2)] The company was liquidated in 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Statement of compliance and basis of preparation

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

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

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

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

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

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

The principles applied to prepare financial data relating to the year ended 31 December 2016 are described in Note 30 and are based on:
- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2016,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2016 but for which the Group has opted for earlier application,
- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of International Accounting Standard ("IAS") 8 (Use of judgements).

3. Segment information

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

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

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

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

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

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

Basic financial data of the operating segment is presented below:

(in PLN millions)	*12 months ended 31 December 2016*	*12 months ended 31 December 2015*
Adjusted revenue	11,538	11,826
Adjusted EBITDA	3,163	3,517
Net income/(loss) as per consolidated income statement	(1,746)	254
Adjusted organic cash flows	620	962
Adjusted capital expenditures	2,001	1,998

	At 31 December 2016	*At 31 December 2015*
Net financial debt / adjusted EBITDA ratio	2.1	1.1

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

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

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

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

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

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

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

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

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

5. Revenue

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

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

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

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

6. Operating expense and income

6.1. External purchases

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

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

6.2. Labour expense

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

6.3. Other operating expense and income

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

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

6.4. Research and development

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

7. Gains on disposal of assets

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

8. Impairment

8.1. Cash Generating Unit

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

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

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

No impairment loss was recognised in the year 2015.

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

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

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

Telecom operator CGU

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

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

Sensitivity of recoverable amount

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

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

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

8.2. Other property, plant and equipment and intangible assets

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

9. Goodwill

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

[1] See Note 8.1.

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

10. Other intangible assets

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

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

Details of telecommunications licences are as follows:

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

[1] The 450 MHz telecommunication licence expired at the end of 2016. Upon Orange Polska's application for renewal, on 13 January 2017, the President of UKE issued a decision assigning the spectrum for further fifteen years. Based on an expert appraisal, the President of UKE set the assignment fee at PLN 115 million. Orange Polska has appealed against the frequency assignment decision.
[2] Licences held under agreements with T-Mobile Polska S.A.
[3] Remaining useful life in years as at 31 December 2016.

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

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

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

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

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

11. Property, plant and equipment

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

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

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

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

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

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

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

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

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

12. Trade receivables

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

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

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

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

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

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

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

13. Provisions

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

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

Movements of provisions for the 12 months ended 31 December 2015 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 2015	**697**	**89**	**307**	**1,093**
Increases	28	132	7	167
Reversals (utilisations)	(2)	(87)	(22)	(111)
Reversals (releases)	(11)	(3)	-	(14)
Discounting effect	16	1	9	26
At 31 December 2015	**728**	**132**	**301**	**1,161**
Current	728	68	7	803
Non-current	-	64	294	358

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

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

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

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

Dismantling provisions

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

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

14. Trade payables, other liabilities and deferred income

14.1. Trade payables

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

(1) Includes telecommunications licence payables only.

As at 31 December 2016 and 2015, trade payables subject to reverse factoring amounted to PLN 132 million and PLN 15 million, respectively. These payables are presented together with the remaining balance of trade payables, as analysis conducted by the Group indicates they have retained their trade nature.

14.2. Other liabilities

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

14.3. Deferred income

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

15. Employee benefits

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

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

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

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

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

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

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

[(1)] Recognised under labour expense in the consolidated income statement.
[(2)] Curtailment resulting from the Social Agreement concluded on 2 December 2015 (see Note 13).
[(3)] Impact of agreements with Trade Unions (see below).
[(4)] Recognised under discounting expense in the consolidated income statement.
[(5)] Recognised under actuarial gains/losses on post-employment benefits in the consolidated statement of comprehensive income.

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

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

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

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

16. Finance income and expense

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

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

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

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

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

17. Net financial debt

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

The table below provides an analysis of net financial debt:

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

18. Financial liabilities at amortised cost excluding trade payables

18.1. Loans from related party

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

[1] Includes accrued interest and arrangement fees.
[2] Revolving credit line is presented in long-term loans from related party as at 31 December 2016 (as at 31 December 2015 it was presented as short-term).

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

18.2. Other financial debt

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

19. Cash and cash equivalents

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

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

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

20. Derivatives

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

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

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

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

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

[(1)] CCIRS – cross currency interest rate swap, IRS – interest rate swap, NDF – non-deliverable forward, Option strategy – purchased call options and written put options.
[(2)] Derivatives economically hedging commercial or financial transactions.

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

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

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

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

21. Fair value of financial instruments

21.1. Fair value measurements

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

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

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

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

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

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

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

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

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

22. Objectives and policies of financial risk management

22.1. Principles of financial risk management

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

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

Financial Risk Management Policy defines principles and responsibilities within the context of an overall financial risk management and covers the following areas:
- risk measures used to identify and evaluate the exposure to financial risks,
- selection of appropriate instruments to hedge against identified risks,
- valuation methodology used to determine the fair value of financial instruments,
- transaction limits for and credit ratings of counterparties with which the Group concludes hedging transactions.

22.2. Hedge accounting

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

Certain derivative instruments are classified as cash flow hedges and the Group applies hedge accounting principles as stated in IAS 39 (see Note 30.17). The cash flow hedges are used to hedge the variability of future cash flows that is attributable to particular risk and could affect the income statement.

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

Detailed information on derivative financial instruments, including hedging relationship, that are used by the Group is presented in Note 20.

22.3. Currency risk

The Group is exposed to foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies, mainly loans from related party, bank borrowing (see Note 18), 2100 MHz licence payable and provision for the proceedings by the European Commission (see Note 27.b).

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

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

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

	Hedge ratio	
Currency exposure	*At 31 December 2016*	*At 31 December 2015*
Loans from related party and bank borrowing	99.5%	99.7%
2100 MHz licence payable	51.5%	47.3%
EC proceedings provision (see Note 27.b)	82.2%	73.7%

The Group is also actively hedging the exposure to foreign exchange risk generated by operating and capital expenditures.

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

The Group's major exposures to foreign exchange risk (net of hedging activities) and potential foreign exchange gains/losses on these exposures resulting from a hypothetical 10% appreciation/depreciation of the PLN against other currencies are presented in the following table.

(in millions of currency)	*Effective exposure after hedging*				*Sensitivity to a change of the PLN against other currencies impacting consolidated income statement*			
	At 31 December 2016		*At 31 December 2015*		*At 31 December 2016*		*At 31 December 2015*	
					+10%	*-10%*	*+10%*	*-10%*
Currency exposure	*Currency*	*PLN*	*Currency*	*PLN*	*PLN*		*PLN*	
2100 MHz licence payable (EUR)	69	304	85	361	30	(30)	36	(36)
EC proceedings provision (EUR) (see Note 27.b)	26	115	38	160	12	(12)	16	(16)
Bank borrowing (USD)	3	14	3	13	1	(1)	1	(1)
Total		**433**		**534**	**43**	**(43)**	**53**	**(53)**

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

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

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect other reserves. The sensitivity analysis prepared by the Group indicated that the potential gains/(losses) impacting other reserves resulting from a hypothetical 10% depreciation/appreciation of the PLN against other currencies would amount to PLN 56/(56) million and PLN 45/(45) million as at 31 December 2016 and 2015, respectively.

22.4. Interest rate risk

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

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

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

As at 31 December 2016 and 2015, the Group's proportion between fixed/floating rate debt (after hedging activities) was 69/31% and 88/12%, respectively.

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

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

(in PLN millions)	*Sensitivity to 1 p.p. change of interest rates*							
	At 31 December 2016				*At 31 December 2015*			
	WIBOR		*EURIBOR*		*WIBOR*		*EURIBOR*	
	+1 p.p.	*-1 p.p.*	*+1 p.p.*	*-1 p.p.*	*+1 p.p.*	*-1 p.p.*	*+1 p.p.*	*-1 p.p.*
Finance costs, net	(20)	20	(2)	2	37	(39)	(3)	4
Other reserves	156	(161)	(14)	13	107	(110)	(15)	17

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

– finance costs, net include the following items exposed to interest rate risk: a) interest cost on financial debt based on floating rate (after hedging), b) the change in the fair value of derivatives not designated as hedging instruments and classified as held for trading (see Note 20),
– other reserves include the change in the fair value of derivatives that is determined as effective cash flow hedge (see Note 20),
– as at 31 December 2016, the gross financial debt based on floating rate (after hedging) amounted to PLN 2,172 million (as at 31 December 2015, PLN 487 million).

22.5. Liquidity risk

The liquidity risk is a risk of encountering difficulties in meeting obligations associated with financial liabilities. The Group's liquidity risk management involves forecasting future cash flows, analysing the level of liquid assets in relation to cash flows, monitoring statement of financial position liquidity and maintaining a diverse range of funding sources and back-up facilities.

In order to increase efficiency, the liquidity management process is optimised through a centralised treasury function of the Group, as liquid asset surpluses generated by the Group entities are invested and managed by the central treasury. The Group's cash surplus is invested into short-term highly-liquid financial instruments – mainly bank deposits. Additionally, in 2013 the Group concluded a Cash Management Treasury Agreement with Orange S.A. enabling the Group to deposit its cash surpluses with Orange S.A.

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. The above-mentioned Cash Management Treasury Agreement with Orange S.A. gives the Group access to back-up liquidity funding with headroom of up to PLN 1,750 million. No drawdown was made on this facility as at 31 December 2016. The Group also has a revolving credit line from the Orange Group for up to EUR 480 million and other credit lines for up to PLN 8 million, of which PLN 1,442 million was used as at 31 December 2016.

Therefore, as at 31 December 2016, the Group had unused credit facilities amounting to PLN 2,435 million (as at 31 December 2015, PLN 3,717 million). These credit lines are sufficient to cover the excess of current liabilities over current assets of PLN 1,730 million as at 31 December 2016.

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

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

(in PLN millions)	*Liquidity ratios*	
	At 31 December 2016	*At 31 December 2015*
Liquidity ratio (incl. derivatives) - next 12 months	1,332%	288%
Unused credit facilities	2,435	3,717
Cash and cash equivalents	262	266
Debt repayments [(1)]	134	1,313
Derivatives repayments [(2)]	69	71
Liquidity ratio (incl. derivatives) - next 18 months	154%	276%
Unused credit facilities	2,435	3,717
Cash and cash equivalents	262	266
Debt repayments [(1)]	1,633	1,329
Derivatives repayments [(2)]	115	113
Current liquidity ratio (incl. unused credit facilities)	117%	117%
Unused credit facilities	2,435	3,717
Total current assets	2,418	2,330
Total current liabilities	4,148	5,185

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

The maturity analysis for the contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2016 and 2015 is presented below.

As at 31 December 2016 and 2015, amounts in foreign currency were translated at the National Bank of Poland period-end average exchange rates. The variable interest payments arising from the financial instruments were calculated using the interest rates applicable as at 31 December 2016 and 2015, respectively.

(in PLN millions)		*At 31 December 2016*								
			Undiscounted contractual cash flows [(1)]							
				Non-current						
	Note	*Carrying amount*	*Within 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total non-current*	*Total*
Loans from related party	18.1	7,092	125	1,546	2,224	102	3,594	-	7,466	7,591
Other financial debt	18.2	102	39	32	20	10	4	-	66	105
– *including finance lease liabilities*		*58*	*21*	*20*	*14*	*4*	*1*	-	*39*	*60*
Derivative assets	20	(242)	31	59	(78)	10	(70)	-	(79)	(48)
Derivative liabilities	20	76	38	33	13	(3)	(2)	-	41	79
Gross financial debt after derivatives		**7,028**	**233**	**1,670**	**2,179**	**119**	**3,526**	**-**	**7,494**	**7,727**
Trade payables	14.1	3,115	2,439	157	148	148	148	281	882	3,321
Total financial liabilities (including derivative assets)		**10,143**	**2,672**	**1,827**	**2,327**	**267**	**3,674**	**281**	**8,376**	**11,048**

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

(in PLN millions)		*At 31 December 2015*									
			Undiscounted contractual cash flows (1)								
				Non-current							
	Note	*Carrying amount*	*Within 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total non-current*		*Total*
Loans from related party	18.1	4,122	1,301	26	33	2,069	9	815	2,952		4,253
Other financial debt	18.2	126	48	31	27	16	7	3	84		132
– *including finance lease liabilities*		*64*	*22*	*18*	*17*	*10*	*1*	*-*	*46*		*68*
Derivative assets	20	(122)	23	47	47	(7)	11	(36)	62		85
Derivative liabilities	20	134	48	37	29	12	(3)	(2)	73		121
Gross financial debt after derivatives		**4,260**	**1,420**	**141**	**136**	**2,090**	**24**	**780**	**3,171**		**4,591**
Trade payables	14.1	2,897	2,136	157	151	143	143	417	1,011		3,147
Total financial liabilities (including derivative assets)		**7,157**	**3,556**	**298**	**287**	**2,233**	**167**	**1,197**	**4,182**		**7,738**

(1) Includes both nominal and interest payments.

The average duration for the existing debt portfolio as at 31 December 2016 was 3.2 years (2.8 years as at 31 December 2015).

22.6. Credit risk

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

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

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

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

There is no significant concentration of credit risk within the Group.
Further information on credit risk is discussed in Notes 12, 19, 20.

23. Income tax

23.1. Income tax

(in PLN millions)	*12 months ended 31 December 2016*	*12 months ended 31 December 2015*
Current income tax	12	(80)
Deferred tax	(45)	53
Total income tax	**(33)**	**(27)**

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

(in PLN millions)	*12 months ended 31 December 2016*	*12 months ended 31 December 2015*
Consolidated net income/(loss) before tax	**(1,713)**	**281**
Less: Impairment of goodwill [(1)]	*1,793*	-
Net income before tax, adjusted	80	281
Statutory tax rate	19%	19%
Theoretical tax	**(15)**	**(53)**
Tax relief on new technologies	6	39
Not deductible interest expense on intragroup loan	(22)	(2)
Other expense not deductible for tax purposes	(2)	(11)
Total income tax	**(33)**	**(27)**

[(1)] See Note 8.1.

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

During the 12 months ended 31 December 2015, OPL S.A., TP Invest Sp. z o.o. and Orange Customer Service Sp. z o.o. comprised the Tax Capital Group.

23.2. Deferred tax

(in PLN millions)	*Consolidated statement of financial position*		*Consolidated income statement*	
	At 31 December 2016	*At 31 December 2015*	*12 months ended 31 December 2016*	*12 months ended 31 December 2015*
Property, plant and equipment and intangible assets	464	537	(73)	24
Unused tax losses	124	4	120	3
Receivables and payables recognised on accrual basis	80	150	(70)	28
Deferred income	94	90	4	3
Employee benefit plans	53	72	(19)	(16)
Provisions	84	96	(12)	11
Net financial debt	5	22	-	4
Accumulated impairment losses on financial assets	34	29	5	(1)
Other	(9)	(9)	-	(3)
Deferred tax assets, net [(1)]	**929**	**991**		
Total deferred tax			**(45)**	**53**
Amount expected to be recovered within 12 months after the end of the reporting period	248	311		

[(1)] During the 12 months ended 31 December 2016 and 2015, PLN (17) million and PLN (6) million of change in deferred tax assets was recognised in the consolidated statement of comprehensive income, respectively. Additionally, during the 12 months ended 31 December 2015, PLN 10 million of change in deferred tax asset was recognised directly in retained earnings (see Note 24.3).

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

Unrecognised deferred tax assets relate mainly to those tax losses, which are expected to expire rather than to be realised. As at 31 December 2016 there were no tax losses, for which no deferred tax asset was recognised. As at 31 December 2015, tax losses, for which no deferred tax asset was recognised, amounted to PLN 20 million gross.

24. Equity

24.1. Share capital

As at 31 December 2016 and 2015, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital as at 31 December 2016 and 2015 was as follows:

(in PLN millions)	*At 31 December 2016*			*At 31 December 2015*		
	% of votes	% of shares	Nominal value	% of votes	% of shares	Nominal value
Orange S.A.	50.67	50.67	1,995	50.67	50.67	1,995
Other shareholders	49.33	49.33	1,942	49.33	49.33	1,942
Total	**100.00**	**100.00**	**3,937**	**100.00**	**100.00**	**3,937**

24.2. Dividend

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

On 9 April 2015, the General Meeting of Orange Polska S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from the 2014 profit and retained earnings from previous years. The total dividend, paid on 9 July 2015, amounted to PLN 656 million.

OPL S.A.'s retained earnings available for dividend payments to the Group's shareholders amounted to PLN 2.8 billion as at 31 December 2016. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 0.1 billion of OPL S.A.'s subsidiaries retained earnings as at 31 December 2016 was available for dividend payments by subsidiaries to OPL S.A.

On 13 February 2017, the Management Board of Orange Polska S.A. adopted a resolution not to recommend payment of any dividend in 2017.

24.3. Other changes in retained earnings

Certain corrections resulting from immaterial errors in prior periods were recognised by the Group directly in retained earnings and presented as other movements in the consolidated statement of changes in equity. The correction of PLN 32 million (net of PLN (2) million of current income tax) in 2016 relates to recognition of trade receivables. The correction of PLN (45) million (net of PLN 10 million of deferred tax) in 2015 relates to pre-paid revenue recognised in prior periods.

Additionally, PLN 10 million of other reserves was transferred to retained earnings in 2015. This amount consisted of PLN 79 million of share-based payments recognised in previous years, PLN (85) million of accumulated actuarial losses on other post-employment benefits for retirees of the Group curtailed in 2015 and PLN 16 million of related deferred tax.

25. Management of capital

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

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

In order to combine these factors the Group periodically establishes a framework for the financial structure. The Group believes that net financial debt to adjusted EBITDA ratio is the most relevant measure of financial structure and therefore net gearing ratio is no longer used. Management expects that net financial debt to adjusted EBITDA ratio will not exceed 2.6 for the full year 2017.

The Group regards capital as the total of equity and net financial debt. The table below presents the sources of capital and provides net financial debt to adjusted EBITDA ratio monitored by the Group.

(in PLN millions)	*Note*	*At 31 December 2016*	*At 31 December 2015*
Net financial debt	17	6,775	3,911
Total equity		10,009	11,977
Total equity and Net financial debt		16,784	15,888
Adjusted EBITDA	3	3,163	3,517
Net financial debt / adjusted EBITDA ratio		**2.1**	**1.1**

The above policy imposes financial discipline, providing appropriate flexibility needed to sustain profitable development and the Group's cash distribution policy as set on an annual basis with a focus on delivering a reasonable remuneration to the Group's shareholders.

26. Unrecognised contractual obligations

26.1. Commitments related to operating leases

When considering the Group as a lessee, operating lease commitments relate mainly to the lease of buildings and land. Lease costs recognised in the consolidated income statement for the years ended 31 December 2016 and 2015 amounted to PLN 374 million and PLN 372 million, respectively. Most of the agreements are denominated in foreign currencies and some of them are indexed with price indices applicable for a given currency. Some of the agreements can be extended.

Future minimum lease payments under non-cancellable operating leases, as at 31 December 2016 and 2015, were as follows:

(in PLN millions)	*At 31 December 2016*	*At 31 December 2015*
Within one year	218	205
After one year but not more than five years	474	419
More than five years	145	199
Total minimum future lease payments	**837**	**823**

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2016 and 2015 amounted to PLN 81 million.

26.2. Investment commitments

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

(in PLN millions)	*At 31 December 2016*	*At 31 December 2015*
Property, plant and equipment	152	102
Intangibles	100	161
Total investment commitments	**252**	**263**
Amounts contracted to be payable within 12 months after the end of the reporting period	231	190

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

27. Litigation, claims and contingent liabilities

a. Proceedings by UOKiK and claims connected with them

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

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

Proceedings by UOKiK related to retail prices of calls to Play
On 18 March 2013, UOKiK commenced competition proceedings against Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. claiming that they abused collective dominant position in the domestic retail market of mobile telephony. UOKiK alleges that the retail prices of calls made by individual users from the network of each of the three operators to the network of P4 Sp. z o.o. ("P4"), operator Play, were relatively higher than the prices for such calls to the networks of the three operators and determined without sufficient consideration of the differentiation of the asymmetric wholesale termination rates determined by UKE. In the view of UOKiK, the applied prices could result in restricting the development of competition on the retail domestic mobile telephony market.
Orange Polska, on request of UOKiK, provided detailed data relating to its offers and retail prices. UOKiK informed the Company that it further prolonged the proceedings. The indicated date of prolongation is 31 March 2017.
In addition, in May 2015, Orange Polska received a request for settlement filed by P4 with the Court under which P4 raised claims in the amount of PLN 258 million relating to the retail mobile prices for a period between April 2012 and 31 December 2014. On 2 July 2015, at the court session, the parties did not reach an agreement. In September 2015, Orange Polska also received a lawsuit filed by P4 with the Court under which P4 claims for damages, in the amount of PLN 316 million including interest in the amount of PLN 85 million, relating to the retail mobile prices for a period between July 2009 and March 2012. P4 raised both claims jointly and severally towards Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A.

In the opinion of the Management, Orange Polska has not performed activities that would restrict competition and, in the period covered by the proceedings, the level of the competition on the retail domestic mobile telephony market had been constantly increasing.

Proceedings by UOKiK related to tenders for mobile services
On 20 December 2013, UOKiK commenced competition proceedings against Orange Polska and two other offerers in tenders for mobile services of data transmission conducted in 2012. UOKiK's proceedings relate to the assertion that the offerers agreed the terms of offers they made. UOKiK informed the Company that it further prolonged the proceedings. The indicated date of prolongation is 28 February 2017.
The Management Board of Orange Polska notes that they did not agree the terms of offers with the other companies.

Magna Polonia S.A. claim towards Orange Polska, T-Mobile Polska, Polkomtel and P4
In 2011, UOKiK determined that Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. concluded an agreement restricting competition on the domestic retail and wholesale market for mobile television based on DVB-H technology. By its decision, UOKiK also imposed fines on the four companies (on Orange Polska PLN 35 million). Orange Polska appealed the decision of UOKiK. SOKiK repealed the decision, UOKiK appealed SOKiK verdict and the case is currently examined by the Appeal Court. In connection with the decision of UOKiK, Magna Polonia S.A. filed, in December 2013, a motion with a court for calling the four operators to conclude amicable settlements. Magna Polonia S.A. is the former owner of Info TV FM Sp. z o.o., a telecommunications operator that offered provision of wholesale services of mobile television DVB-H to Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. None of them decided to introduce mobile television services to its customers.
Magna Polonia demanded that Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. pay jointly and severally PLN 618 million to it. Magna Polonia asserted that its claim resulted from lost profits of Magna because DVB-H television was not launched (including lower value of its shares in Info TV FM) and costs of financing Info TV FM. In the Orange Polska Management's opinion, Magna Polonia's motion did not constitute any reasonable grounds on which to assess whether or not Magna Polonia suffered any damage. On 11 December 2013, at the session held at the Court the parties did not reach an agreement.
On 26 November 2016, Magna Polonia filed with the court a statement of claim against the four operators based in principle on the same grounds as the action of 2013 and for payment of the same amount. Magna Polonia applied to the court for staying of the proceedings until the proceedings regarding PLN 35 million fine imposed by UOKiK are concluded (the Appeal Court scheduled a hearing in those proceedings for 15 March 2017).

The Management Board of Orange Polska did not agree on common actions with the other companies aimed at restricting the introduction of DVB-H service based on the offer of Info TV FM Sp. z o.o. It decided not to introduce mobile television services due to the market situation and for commercial reasons.

As at 31 December 2016, the Group recognised provisions for known and quantifiable risks related to proceedings against the Group initiated by UKE and UOKiK, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed as, in the opinion of the Company's Management, such disclosure could prejudice the outcome of the pending cases.

b. Proceedings by the European Commission related to broadband access

On 22 June 2011, the European Commission imposed on Orange Polska a EUR 127.6 million fine (approximately PLN 508 million) for abuse of dominant position on the wholesale broadband access market, before October 2009. Orange Polska has recorded a provision for the whole amount of the fine and accrued interest.

In accordance with the decision the fine could have been provisionally paid or secured by a bank guarantee. On 27 September 2011, Orange Polska provided the bank guarantee to the European Commission.

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

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

c. Tax contingent liability

Tax settlements are subject to review and investigation by a number of authorities, which are entitled to impose fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes, such as the introduction of the General Anti-Abuse Rule in 2016. These changes often lead to the lack of system stability. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts.

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

d. Proceedings by the tax authorities

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

e. Issues related to the incorporation of Orange Polska

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

f. Other contingent liabilities and provisions

Apart from the above-mentioned, operational activities of the Group are subject to legal, social and administrative regulations a breach of which, even unintentional, may result in sanctions imposed on the Group. In addition to fines which may be imposed by UOKiK and UKE described in the note 27.a also the President of Energy Regulatory Office may impose a penalty of up to a maximum amount of 15% of the revenues gained in the previous tax year among others for an infringement of certain provisions of Energy Law, a failure in fulfilment of obligations determined by the concession, a refusal to provide information.
The Group is a party to a number of legal proceedings and commercial contracts related to its operational activities. Some regulatory decisions can be detrimental to the Group and court verdicts within appeal proceedings against such decisions can have potential negative consequences for the Group. The Group monitors the risks on a regular basis and the Management believes that adequate provisions have been recorded for known and quantifiable risks.

28. Related party transactions

28.1. Management Board and Supervisory Board compensation

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

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

[(1)] Includes bonuses accrued in 2016 to be paid in 2017, excludes bonuses accrued in 2015 and paid in 2016.

(in PLN thousands)	*12 months ended 31 December 2015*		
	Fixed compensation expense	*Variable compensation expense* [(1)]	*Total compensation expense*
Short-term benefits excluding employer social security payments	10,820	3,387	14,207
Post-employment benefits	-	-	-
Total	**10,820**	**3,387**	**14,207**

[(1)] Includes bonuses accrued in 2015 and paid in 2016, excludes bonuses accrued in 2014 and paid in 2015.

The increase of compensation expense in 2016 in comparison to 2015 results from an increase of the number of the Members of the Management Board of OPL S.A. and payment of post-employment benefits to Mr Bruno Duthoit and Mr Michał Paschalis-Jakubowicz after their resignation as Members of the Management Board of OPL S.A.

From 2016, section 10.3 of the Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. includes the Remuneration Report, where more details on Management Board and Supervisory Board compensation can be found. As a result, the compensation of individuals is no longer presented in the IFRS financial statements. Additionally, from 2016 bonuses are included in compensation in the period when they are accrued only. Consequently, total compensation in comparative data for 2015 was amended to exclude PLN 1,335 thousand of bonuses accrued in 2014 and paid in 2015.

28.2. Related party transactions

As at 31 December 2016, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board.

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

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

The Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded loan agreements for EUR 670 million, PLN 2,700 million and Revolving Credit Facility Agreement for up to EUR 480 million (see Note 18.1). Additionally, the Group concluded an agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk related to the financing from Atlas Services Belgium S.A. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2016 was EUR 670 million and PLN 4,750 million with a total fair value of PLN 130 million (as at 31 December 2015, nominal amount of EUR 950 million and PLN 4,350 million with a total negative fair value of PLN 18 million).

Financial receivables, payables, financial costs, net and other comprehensive income concerning transactions with the Orange Group relate mainly to the above-mentioned agreements. Cash and cash equivalents deposited with Orange S.A. relate to the Cash Management Treasury Agreement (see Note 22.5).

(in PLN millions)	*12 months ended 31 December 2016*	*12 months ended 31 December 2015*
Sales of goods and services and other income:	**208**	**205**
Orange S.A. (parent)	124	113
Orange Group (excluding parent)	84	92
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(258)**	**(265)**
Orange S.A. (parent)	(91)	(84)
Orange Group (excluding parent)	(167)	(181)
- including Orange Brand Services Limited (brand licence agreement)	*(127)*	*(134)*
Financial costs, net:	**(246)**	**(185)**
Orange S.A. (parent)	(11)	(72)
Orange Group (excluding parent)	(235)	(113)
Other comprehensive income:	**76**	**30**
Orange S.A. (parent)	76	30
Dividend paid:	**166**	**332**
Orange S.A. (parent)	166	332

(in PLN millions)	*At 31 December 2016*	*At 31 December 2015*
Receivables:	**47**	**44**
Orange S.A. (parent)	29	29
Orange Group (excluding parent)	18	15
Payables:	**68**	**81**
Orange S.A. (parent)	32	32
Orange Group (excluding parent)	36	49
Financial receivables:	**206**	**110**
Orange S.A. (parent)	206	110
Cash and cash equivalents deposited with:	**106**	**87**
Orange S.A. (parent)	106	87
Financial payables:	**7,168**	**4,250**
Orange S.A. (parent)	76	128
Orange Group (excluding parent)	7,092	4,122

29. Subsequent events

On the basis of an annual review of estimated useful lives of fixed assets, the Group decided to extend from 2017 the estimated useful lives for certain terminals, network assets and items of software. As a result, depreciation and amortisation expense in 2017 relating to these assets is expected to be lower by approximately PLN 150 million.

30. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2016.

30.1. Use of estimates and judgement

In preparing the Group's accounts, the Company's management is required to make estimates, because many elements included in the financial statements cannot be measured with precision. Management reviews these estimates if the circumstances on which they were based evolve, or in the light of new information or experience. Consequently, estimates made as at 31 December 2016 may be subsequently changed. The main estimates and judgements made are described in the following notes:

Note		*Estimates and judgements*
5, 14.3, 30.9	Revenue	Allocation of revenue between each separable component of a packaged offer based on its relative fair value. Estimating fair value of components. Straight-line recognition of revenue relating to service connection fees. Reporting revenue on a net versus gross basis (analysis of Group's involvement acting as principal versus agent). Fair value of early termination fees charged to customers.
8,, 30.16	Impairment of cash generating unit and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
10, 11, 30.13, 30.14	Useful lives of tangible and intangible assets	The useful lives and the method of depreciation and amortisation.
12, 30.17	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
13, 27, 30.20	Provisions	The assumptions underlying the measurement of provisions for claims and litigation. Provisions for employment termination expense: discount rates, number of employees, employment duration, individual salary and other assumptions.
13	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
15, 30.21	Employee benefits	Discount rates, salary increases, retirement age, staff turnover rates and other.
20, 21, 30.17	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
23, 30.19	Income tax	Assumptions used for recognition of deferred tax assets.
30.18	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

The Group considers that the most significant adjustments to the carrying amounts of assets and liabilities could result from changes in estimates and judgements relating to impairment (see Note 8) and provisions for claims, litigation and risks (see Notes 13 and 27).

Where a specific transaction is not dealt with in any standard or interpretation, management uses its judgment in developing and applying an accounting policy that results in information that is relevant and reliable, in that the financial statements:

- represent faithfully the Group's financial position, financial performance and cash flows,
- reflect the economic substance of transactions,
- are neutral,
- are prudent and
- are complete in all material respects.

30.2. Application of new standards and interpretations

Adoption of standards or interpretations in 2016

No new standards or interpretations were adopted by the Group since 1 January 2016.

Standards and interpretations issued but not yet adopted

- IFRS 9 "Financial Instruments". The aim of IFRS 9 is to supersede IAS 39 "Financial Instruments: Recognition and Measurement". The standard was issued on 24 July 2014 and will be effective for annual periods beginning on or after 1 January 2018. This standard has been endorsed by the European Union on 22 November 2016. In general (besides some limited exemptions), the standard is applicable on a retrospective basis in case of classification, measurement and impairment and prospectively in case of hedge accounting. IFRS 9 modifies the recognition criteria for hedging transactions and main financial

assets and liabilities categories: given the nature of the Group's transactions, no major change is expected. IFRS 9 requires also the change in the credit risk recognition using the expected losses approach versus the incurred losses one. For the Group, this would imply impairment of non-matured receivables.
The Management estimates that the application of the standard will have no material impact on the financial statements.

- IFRS 15 "Revenue from Contracts with Customers". This standard was issued on 28 May 2014 and will be effective for annual periods beginning on or after 1 January 2018. This standard has been endorsed by the European Union on 22 September 2016.
  This standard relates to revenue recognition and is applicable on a retrospective basis either limited to the cumulative effect of the new method at the opening date of the annual reporting period that includes the date of initial application (1 January 2018) or by adjusting the reported comparative periods.
  For the Group, this standard would mainly impact the accounting for bundled offers which include a handset component with a discounted price and a communication service component: the cumulative revenue during the contract with customer will not change but its allocation between the handset sold and the communication service will change (more equipment revenue and less service revenue). The acceleration of the revenue recognition would lead to the recognition of a contract asset in the statement of financial position which would be settled against an asset receivable as the communication service is provided.
  In addition, some incremental subscriber acquisition and retention costs (i.e. payments to distributors directly attributable to a contract, excluding subsidies) will be recognized over the duration of the bundled offer.
  The effects of implementation of IFRS 15 is being analysed as part of the project implementing the new standard.

- IFRS 16 "Leases" was issued on 13 January 2016 and has not yet been endorsed by the European Union. This standard relates to the accounting for leases and will be compulsory applicable from 1 January 2019 or on a retrospective basis from 1 January 2018 together with IFRS 15. It is retrospective either at the first application date or at the opening date of the reported comparative period. Assuming that the standard will be endorsed by the European Union, the Group is going to apply this standard from 1 January 2019 and is still analysing the retrospective application provisions. The standard introduces a new basis for splitting supplier arrangements based on a new accounting definition of a lease and a service arrangement.
  It will mainly change the lease accounting for lessees with the recognition of an asset which represents the right of use at the delivery date granted by the lessor against a financial liability.
  It will also impact the presentation of the income statement (depreciation and interest expense instead of operating expense) and the statement of cash flows (interest expense will only impact the operating cash flows whereas the debt repayment will affect the financing cash flows in accordance with Group's policy). In the statement of financial position, the net equity will be reduced at the beginning of the arrangement (due to the acceleration of expenses attributable to the interest component) and the intangible and tangible assets as well as the lease liability will increase.
  The effects of implementation of IFRS 16 is being analysed as part of the project implementing this new standard.

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

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

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

Multiple-elements arrangements

When accounting for multiple-elements arrangements (bundled offers) the Group has adopted the provisions of Generally Accepted Accounting Principles in the United States, Accounting Standards Codification 605-25 „Revenue Recognition – Multiple Element Agreements" (see Note 30.9 *Separable components of packaged and bundled offers*).

30.4. Options available under IFRSs and used by the Group

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

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

30.5. Presentation of the financial statements

Presentation of the statement of financial position

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

Presentation of the income statement

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

Earnings/loss per share

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

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

From the second quarter of 2016, the Group classifies finance lease receivables as trade receivables and cash inflows from finance lease are presented as net cash provided by operating activities. As a result, PLN 14 million was reclassified from other assets to trade receivables in the consolidated statement of financial position as at 31 December 2015. The comparative amounts in the consolidated statement of cash flows were adjusted accordingly: cash inflows from finance lease repaid by a lessee were reclassified from net cash used in investing activities to the line presenting increase/decrease in trade receivables, gross in net cash provided by operating activities.

30.6. Consolidation rules

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

In order to have control over an investee, all the following criteria must be met:
- the Group has the power over the investee;
- the Group has exposure, or rights, to variable returns from its involvement with the investee;
- the Group has the ability to use its power over the investee to affect the amount of the investor's returns.

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

Intercompany transactions and balances are eliminated on consolidation.

30.7. Investments in joint arrangements

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

30.8. Effect of changes in foreign exchange rates

The functional currency of Orange Polska is the Polish złoty.

Transactions in foreign currencies

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

30.9. Revenue

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

Separable components of packaged and bundled offers

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

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

Equipment sales

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

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

Equipment leases

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

Revenues from the sale or supply of content

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

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

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

Service revenue

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

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

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

Promotional offers

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

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

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

Barter transactions

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

30.10. Subscriber acquisition costs, advertising and related costs

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

30.11. Borrowing costs

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

30.12. Goodwill

Goodwill recognised as an asset in the statement of financial position for business combination before 1 January 2010 comprises:

- goodwill as the excess of the cost of the business combination over the acquirer's interest in the acquiree's identifiable net assets measured at fair value at the acquisition-date; and
- goodwill relating to any additional purchase of non-controlling interests with no purchase price allocation.

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

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

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

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

30.13. Intangible assets (excluding goodwill)

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

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

Telecommunications licences

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

Research and development costs

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

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

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

Software

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

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

30.14. Property, plant and equipment

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

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

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

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

Investment grants

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

Finance leases

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

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

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

Derecognition

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

Depreciation

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

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

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

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

30.15. Non-current assets held for sale

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

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

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

30.16. Impairment tests and Cash Generating Units

Given the nature of Group’s assets and operations, most of its individual assets do not generate cash inflows independently from other assets. As at 31 December 2016 the Group identified a single major CGU (see Note 8.1). For the purpose of impairment testing the Group allocates the whole goodwill to this CGU.

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

Recoverable amount

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

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

Value in use is the present value of the future cash flows expected to be derived from the CGU, including goodwill. Cash flow projections are based on economic and regulatory assumptions, telecommunications licences renewal assumptions and forecast trading conditions drawn up by the Group management, as follows:

- cash flow projections are based on the business plan and its extrapolation to perpetuity by applying a growth rate reflecting the expected long-term trend in the market,
- the cash flows obtained are discounted using appropriate rates for the type of business concerned.

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

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

30.17. Financial assets and liabilities

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

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

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

Recognition and measurement of financial assets

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

Recognition and measurement of financial liabilities

Financial liabilities at amortised cost

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

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

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

Financial liabilities at fair value through profit or loss

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

Recognition and measurement of derivative instruments

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

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

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

Hedging derivatives

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

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

The effects of applying hedge accounting are as follows:

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

30.18. Inventories

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

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

30.19. Income tax

The tax expense comprises current and deferred tax.

Current tax

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

Deferred taxes

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

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

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

30.20. Provisions

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

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

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

Provisions for dismantling and restoring sites

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

30.21. 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 Group is also obliged to provide certain post-employment benefits to some of its retired employees.

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

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

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

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.

30.22. Share-based payments

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

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

ORANGE POLSKA GROUP AND ORANGE POLSKA S.A.

MANAGEMENT BOARD'S REPORT ON THE ACTIVITY

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 has been drawn up in compliance with Articles 83.7, 91 and 92 of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2014, item 133).

Disclosures on performance measures, including adjustments, are presented in the Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for the 12 months ended 31 December 2016.

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

February 13, 2017

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CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2016 and for the twelve month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

	For 12 months ended				
	31 December 2016		31 December 2015		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue	11,538	2,637	11,840	2,829	-2.6%
EBITDA	3,163	723	3,431	820	-7.8%
EBITDA margin	27.4%		29.0%		-1.6 pp
EBITDA (adjusted*)	3,163	723	3,517	840	-10.1%
EBITDA margin (adjusted*)	27.4%		29.7%		-2.3 pp
Operating income/(loss)**	(1,354)	(309)	572	137	n/a
Operating margin	n/a		4.8%		n/a
Consolidated net income/(loss)**	(1,746)	(399)	254	61	n/a
Net income/(loss) attributable to owners of Orange Polska S.A.	(1,746)	(399)	254	61	n/a
Weighted average number of shares (in millions)***	1,312		1,312		
Earnings/(loss) per share (in PLN) (basic and diluted)	(1.33)	(0.30)	0.19	0.05	n/a
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	2,549	583	2,547	609	0.1%
Net cash used in investing activities	(5,074)	(1,160)	(1,580)	(378)	221.1%
Net cash provided by financing activities	2,521	576	(949)	(227)	n/a
Net change in cash and cash equivalents	(4)	(1)	18	4	n/a
Capex	5,169	1,181	1,998	477	158.7%
Capex (adjusted*)	2,001	457	1,998	477	0.2%
Organic cash flow	(2,528)	(578)	962	230	n/a
Organic cash flow (adjusted*)	620	142	962	230	-35.6%

	As of				
	31 December 2016		31 December 2015		Change
	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Consolidated Statement of Financial Position					
Cash and cash equivalents	262	59	266	62	-1.5%
Other intangible assets	5,722	1,293	3,010	706	90.1%
Property, plant and equipment	10,678	2,414	11,025	2,587	-3.1%
Total assets	22,588	5,106	21,652	5,081	4.3%
Financial liabilities at amortised cost****, of which:	7,194	1,626	4,248	997	69.4%
Current	41	9	1,318	309	-96.9%
Non-current	7,153	1,617	2,930	688	144.1%
Other liabilities, current and non-current	5,385	1,217	5,427	1,273	-0.8%
Total equity	10,009	2,262	11,977	2,811	-16.4%

Notes on data conversion:

1 – PLN/EUR fx rate of 4.3757applied

2 – PLN/EUR fx rate of 4.1848 applied

3 – PLN/EUR fx rate of 4.4240 applied

4 – PLN/EUR fx rate of 4.2615 applied

** Disclosures on performance measures, including adjustments, are presented in the Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2016*

*** More information in the Note 8 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2016*

**** Weighted average number of shares in 12 months ended December 31, 2016 and December 31, 2015, respectively.*

***** Excluding trade payables.*

SUMMARISED STANDALONE FINANCIAL STATEMENTS

	For 12 months ended				
	31 December 2016		31 December 2015		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Income Statement					
Revenue	11,248	2,571	11,435	2,733	-1.6%
EBITDA	3,110	711	3,327	795	-6.5%
EBITDA margin	27.6%		29.1%		-1.5 pp
Operating income/(loss)*	(1,509)	(345)	489	117	n/a
Operating margin	n/a		4.3%		n/a
Net income/(loss)*	(1,762)	(403)	257	61	n/a
Weighted average number of shares (in millions)**	1,312		1,312		
Earnings/(loss) per share (in PLN) (basic and diluted)	(1.34)	(0.31)	0.20	0.05	n/a
Statement of Cash Flows					
Net cash provided by operating activities	2,655	607	2,524	603	5.2%
Net cash used in investing activities	(5,026)	(1,149)	(1,595)	(381)	215.1%
Net cash provided by financing activities	2,306	527	(916)	(219)	n/a
Net change in cash and cash equivalents	(65)	(15)	13	3	n/a
Capex	5,190	1,186	2,021	483	156.8%

	As of				
	31 December 2016		31 December 2015		Change
	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Statement of Financial Position					
Cash and cash equivalents	223	50	218	51	2.3%
Other intangible assets	5,720	1,293	3,008	706	90.2%
Property, plant and equipment	10,754	2,431	11,082	2,600	-3.0%
Total assets	22,390	5,061	23,164	5,436	-3.3%
Financial liabilities at amortised cost***, of which:	7,208	1,629	6,107	1,433	18.0%
Current	58	13	2,020	474	-97.1%
Non-current	7,150	1,616	4,087	959	74.9%
Other liabilities, current and non-current	5,245	1,186	5,278	1,239	-0.6%
Total equity	9,937	2,246	11,779	2,764	-15.6%

Notes on data conversion:

1 – PLN/EUR fx rate of 4.3757applied

2 – PLN/EUR fx rate of 4.1848 applied

3 – PLN/EUR fx rate of 4.4240 applied

4 – PLN/EUR fx rate of 4.2615 applied

** Weighted average number of shares in 12 months ended December 31, 2016 and December 31, 2015, respectively*

*** More information in the Note 8 to the IFRS Financial Statements of the Orange Polska S.A. for 2016*

**** 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 11,538 million in 2016 and was lower by PLN 302 million compared to 2015. The decline was mainly driven by fixed line business which is affected by structural decline of legacy services (PSTN and wholesale) and high competition in fixed broadband. Mobile revenue was growing mainly because the shift to instalment sales in customer acquisition boosted mobile equipment sales.

Adjusted EBITDA (adjusted operating income before depreciation and amortisation expense and impairment of non-current assets; please see Note 3 to the IFRS Consolidated Financial Statements for 2016) amounted to PLN 3,163 million in 2016 and was lower by PLN 354 million compared to 2015. Adjusted EBITDA trend reflected revenue evolution and small increase in total operating costs driven by interconnect and commercial expenses.

Operating income/loss (EBIT) was lower by PLN 1,926 million compared to 2015, mainly due to an impairment loss on Telecom Operator CGU amounting to PLN 1,793 million recognised in 2016 (see Note 8 the IFRS Consolidated Financial Statements for 2016) and lower reported EBITDA. These impacts were partially offset by the decrease in depreciation and amortization expense of PLN 146 million as a result of extended useful lives for cables and ducts used in fixed line network, which decreased the depreciation expense by PLN 301 million in 2016. The impact of extended useful lives was partially offset by the amortisation charge of PLN 177 million relating to the frequencies in the 800 MHz and 2600 MHz bands acquired in 2016.
Net finance costs in 2016 increased by PLN 68 million compared to 2015 mainly as a result of higher net debt.
As a result, consolidated net loss in 2016 amounted to PLN 1,746 million, compared to consolidated net income of PLN 254 million in 2015.

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

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

Net loss of Orange Polska S.A. amounted to PLN 1,762 million in 2016 and was higher by PLN 16 million than the consolidated net loss of Orange Polska Group. An impairment loss on Telecom Operator CGU higher by PLN 102 million and the margin earned by subsidiaries on transactions with Orange Polska S.A. and external parties were partially offset by dividends paid by subsidiaries amounting to PLN 109 million. In 2015, the net income of Orange Polska S.A. was at the level similar to consolidated net income of Orange Polska 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 2,549 million in 2016 and was almost flat year-on-year. Lower EBITDA and higher interest paid were offset by lower requirement for working capital. Working capital in 2016 was supported by reverse factoring.

Net cash used in investing activities amounted to PLN 5,074 million in 2016 compared to PLN 1,580 million in 2015. This change is mainly attributable to payment of PLN 3,148 million for the frequencies in the 800 MHz and 2600 MHz bands acquired in 2016.

Net cash inflows from financing activities in 2016 amounted to PLN 2,521 million compared to net cash outflows of PLN 949 million in 2015. This change is mainly attributable to cash flows from related party loans.

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

Net cash outflow in Orange Polska S.A. in 2016 was higher by PLN 61 million than the cash outflow in the Group, mainly as a result of PLN 222 million of net redemption of short-term bonds issued to subsidiaries. This impact was partially offset by PLN 109 million of dividends received from subsidiaries and PLN 65 million of proceeds from the reduction in share capital of Orange Szkolenia Sp. z o.o. Net cash inflow in Orange Polska S.A. in 2015 was at the level comparable to the Group.

1.3 Capital Expenditures (CAPEX)

Group's adjusted capital expenditures in 2016 amounted to PLN 2,001 million and were higher by PLN 3 million year-on-year (amounts excluding spectrum payments).

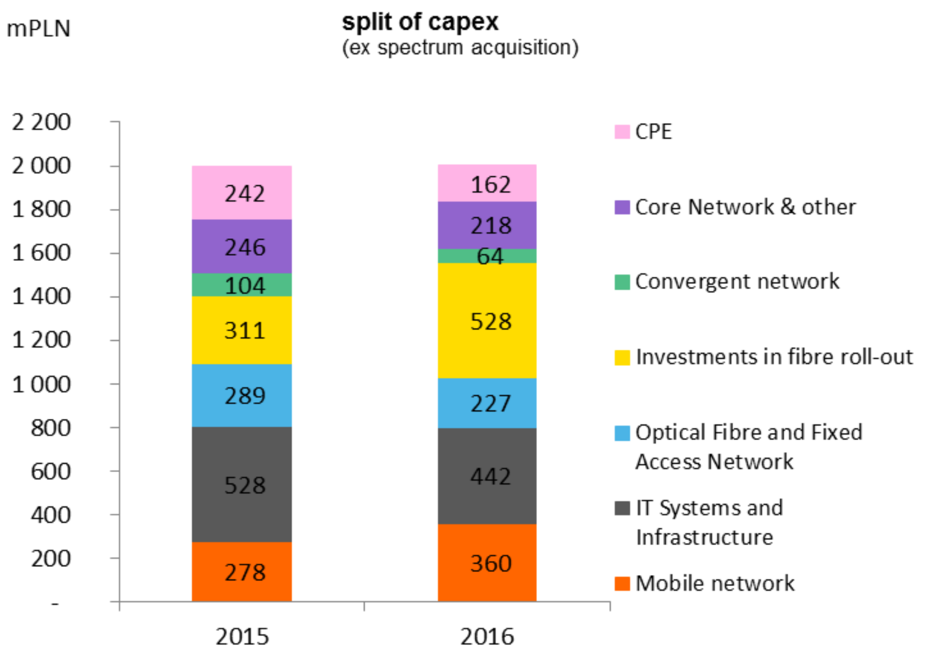
The Group invested mainly in the following areas:

- Roll-out of the fibre access network in the announced investment programme, which covered 755 thousand households in 2016. Including the lines developed in 2014 and 2015, there are now almost 1.5 million households connectable with the fibre network, all together available in 37 cities compared to 16 cities at the end of 2015.
- Investments to enhance the range of LTE services and the quality of the mobile network, expand the capacity and range of GSM/UMTS services, and adapt the mobile access network to the 4G technology

requirements, particularly in the areas not covered by the mobile access network consolidation project (i.e. strategic or underinvested regions);

- Expansion of the mobile transport and core network in order to handle the growing volume of data transmission and ensure the service quality expected by customers;
- Implementation of IT transformation programmes, including a common system for handling fixed-line and mobile service sales to B2C and SOHO customers;
- Investment projects related to the portfolio development and sales and customer service processes as well as the modernisation and enhancement of the IT technical infrastructure;
- Research and development.

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



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

Comments on the Consolidated Statement of Financial Position of the Group

Total assets were higher by PLN 936 million than as at 31 December 2015. The change resulted mainly from capital expenditures that were higher by PLN 2,444 million than depreciation and amortisation. The capital expenditures in 2016 were affected by the acquisition of frequencies in the 800 MHz and 2600 MHz bands for a total amount of PLN 3,168 million. Total assets were also affected by an increase of PLN 445 million in trade receivables, which is attributable mainly to sales of mobile handsets in instalments. The above impacts were partially offset by an impairment loss on Telecom Operator CGU amounting to PLN 1,793 million recognised in 2016.
Total liabilities increased by PLN 2,904 million to PLN 12,579 million as at 31 December 2016. The change resulted mainly from an increase of PLN 2,970 million in loans from a related party.

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

Changes in assets and liabilities of Orange Polska S.A. resulted mainly from the same impacts as described above for the consolidated statement of financial position of the Orange Polska Group. Additionally, the merger with Orange Customer Service Sp. z o.o. and TP Invest Sp. z o.o. decreased the value of total assets by PLN 1,108 million, the value total liabilities by PLN 1,250 million and increased the value of equity by PLN 142 million.

1.5 Related Parties Transactions

Please see Note 28 to the Consolidated Full-Year Financial Statements about Group's transactions with related entities.

1.6 Description of Significant Agreements

Please see section 1.10.2 below for information on significant agreements concluded by the Group in 2016.

1.7 Subsequent Events

Please see Note 29 to the Consolidated Full-Year Financial Statements for information on subsequent events.

1.8 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.

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

In the twelve months ended December 31, 2016, 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 1.10.5 below for additional information.

1.10 Management of Financial Resources and Liquidity of the Group

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

In 2016, the Group repaid long-term bank loans totalling PLN 1,194 million and a revolving loan of PLN 640 million provided by the Orange SA Group.

The Group benefited from a long-term loan, of which a total of PLN 2,700 million was used, and a revolving loan, of which a total of PLN 2,000 million was used, both provided by the Orange SA Group.

As of December 31, 2016, Group's interest-bearing liabilities (before derivatives) totalled PLN 7,122 million, which is an increase of PLN 2,963 million compared to December 31, 2015.

The value of liabilities under financial lease and other financial liabilities as of December 31, 2016 amounted to PLN 72 million and was PLN 17 million lower compared to December 31, 2015.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 262 million at December 31, 2016, and available credit facilities totalling the equivalent of PLN 2,435 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 2017.

At December 31, 2016, Group's liquidity ratios increased as compared to the end of 2015. The Group's higher financial liquidity resulted from a decrease of PLN 1,078 million in current liabilities (less provisions and deferred credits) and an increase of PLN 88 million in current assets.

The liquidity ratios for the Group at December 31, 2016 and December 31, 2015, respectively, are presented in the table below.

	December 31, 2016	December 31, 2015
Current ratio Current assets / current liabilities*	0.86	0.60
Quick ratio Total current assets – inventories / current liabilities*	0.80	0.54
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.15	0.13

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

Group's net financial debt (after valuation of derivatives) increased to PLN 6,775 million at December 31, 2016 (from PLN 3,911 million at the end of 2015).

Such a significant increase in debt resulted from the payment of PLN 3,148 million in February for the frequency blocks in the 800 MHz and 2600 MHz bands acquired in the auction.

1.10.1 Bonds

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

1.10.2 Loan and Borrowings Agreements

On February 3, 2016, Orange Polska S.A. concluded a loan agreement with Atlas Services Belgium SA, a wholly-owned subsidiary of Orange SA, which provided the Group with long-term financing of up to PLN 2,700 million, with the maturity date of June 20, 2021.

1.10.3 Unused Credit Facilities

As of December 31, 2016, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 685 million.

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

1.10.4 Loan Covenants

Agreements to which Orange Polska S.A. is a party do not impose any obligations on the Group to meet any financial ratios. For informational purposes, the ratio of net debt to adjusted EBITDA was 2.1 on December 31, 2016.

1.10.5 Guarantees and Collaterals

In the reported period, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of TP Teltech sp. z o.o., an Orange Polska's wholly-owned subsidiary, towards its business partners, while Orange Polska promised to cover any claims related to payments under the guarantee. As of December 31, 2016, those guarantees totalled PLN 2.8 million.

A collateral of PLN 2.6 million granted in December 2015 by Orange Polska S.A. to Bank Handlowy w Warszawie S.A. to secure a bank guarantee issued by the latter upon request of TP Teltech sp. z o.o. as a proper performance bond was still in force on December 31, 2016.

Furthermore, on December 1, 2016, the parent company granted a collateral to Alior Bank S.A. to secure an overdraft facility amounting to PLN 7 million provided by the latter to Orange Retail S.A., a subsidiary of Orange Polska S.A.

1.10.6 Hedging Transactions

In 2016, 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, 2016 covered:

- 99.5% of debt denominated in foreign currencies,
- 51.5% of licence payable for the 2100 MHz spectrum (UMTS licence); and
- 82.2% of European Commission proceedings provision.

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

- USD 3 million of debt;
- EUR 69 million of licence payable for the 2100 MHz spectrum (UMTS licence); and
- EUR 26 million of European Commission proceedings provision.

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

In addition, the Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As of December 31, 2016 the Group's proportion between fixed/floating rate debt (after hedging) was 69/31% as compared to 88/12% on December 31, 2015.

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

in 2016

2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

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

key figures (PLN million), IFRS	**2016**	**2015**	**change**
revenue	11,538	11,840	-2.6%
adjusted revenues*	11,538	11,826	-2.4%
EBITDA	3,163	3,431	-7.8%
EBITDA margin	27.4%	29.0%	-1.6 pp
adjusted EBITDA*	3,163	3,517	-10.1%
adjusted EBITDA margin*	27.4%	29.7%	-2.3 pp
Operating income/(loss)**	(1,354)	572	n/a
Net income/(loss)**	(1,746)	254	n/a
capex	5,169	1,998	158.7%
adjusted capex*	2,001	1,998	0.2%
organic cash flow	(2,528)	962	n/a
adjusted organic cash flow*	620	962	-35.6%

** For adjustments of basic financial data please see Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2016 .*
*** More information in the Note 8 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2016*

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

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

These negatives were partially offset by an increase in mobile revenues. This was supported by dynamic growth of mobile equipment sales (by nearly 70%), resulting from a strategic decision to focus on instalment sales in customer acquisition, while considerably reducing sales of traditional subsidised offers. On the one hand it stimulated rapid growth in equipment sales, but on the other hand it negatively affected retail revenues from mobile services, as a result of focusing on instalment sales in customer acquisition, while gradually reducing sales of traditional subsidised offers. Due to lower ARPU, mobile retail services decreased 6% year-on-year.

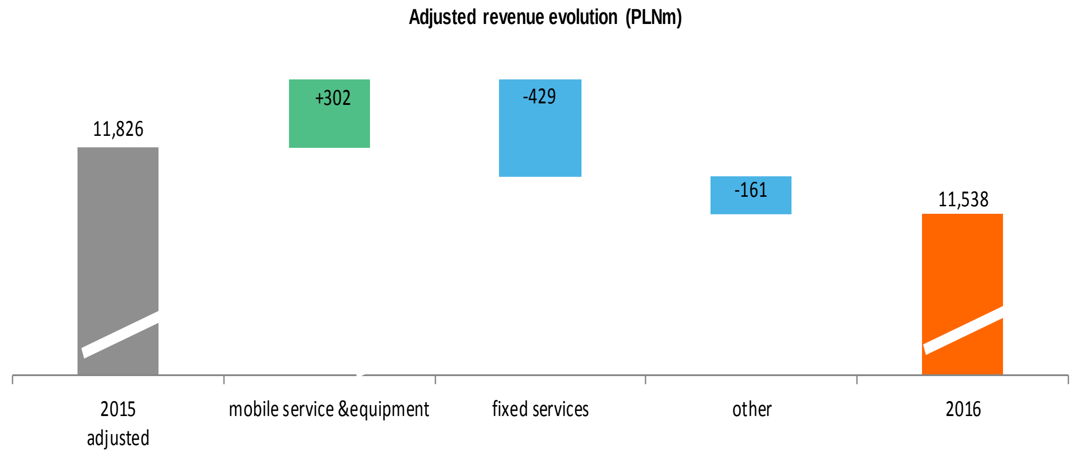
Total operating costs (determined as adjusted EBITDA less adjusted revenues) increased by less than 1% in 2016. As a result, the EBITDA erosion was slightly outpaced the revenue erosion. Adjusted EBITDA margin decreased by 2.3 percentage points year-on-year and stood at 27.4%.

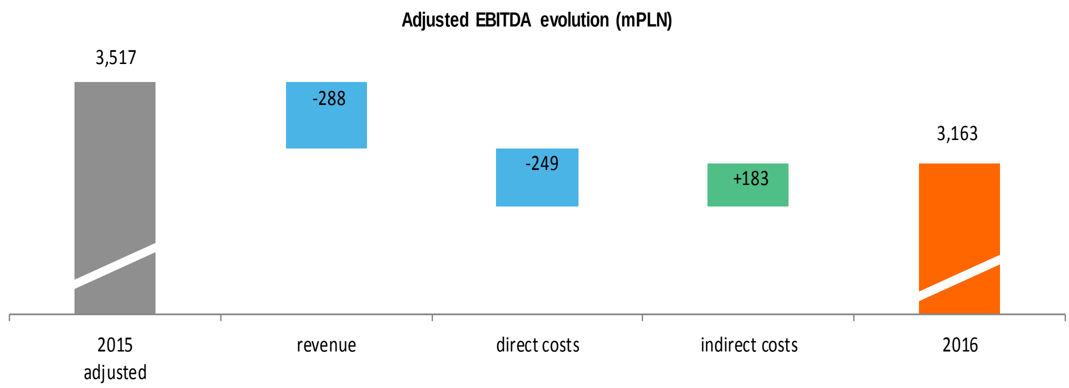
Cost evolution reflected the approach presented in the new strategic action plan: an increase in direct costs (up 6%) and further optimisation with respect to indirect costs (down 4%).

Cost evolution can be attributed mainly to the following factors:

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

The margin decline resulted greatly from negative structural trends in high-margin traditional fixed line services (mainly fixed line voice, wholesale and business data services); the decrease in these services was almost entirely reflected in profit erosion.





Striving to reverse the negative trends, Orange Polska has focused on the development of bundled services, promotion of its convergent offer as well as further optimisation of its cost base and improvement in the customer satisfaction from Orange services. The Group has been implementing a new action plan for 2016 – 2018, which provides for intensive investments and marketing efforts that should result in an improvement in revenue and EBITDA evolution (please see section 3.2 below for more information).

2.1 Convergent Offer

One of the key strategic objectives of Orange Polska is to be the convergence leader, providing mobile and fixed line service bundles. By addressing the household telecommunication needs in a comprehensive manner and encouraging customers to buy additional services, convergence increases customer satisfaction and reduces churn, as churn rate is much lower than among single service users. It also contributes to revenue growth and increased efficiency of IT and marketing spending. In the mass market, Orange Polska is the only operator to offer convergent services, which is definitely a product differentiator and competitive advantage contributing to the market success.

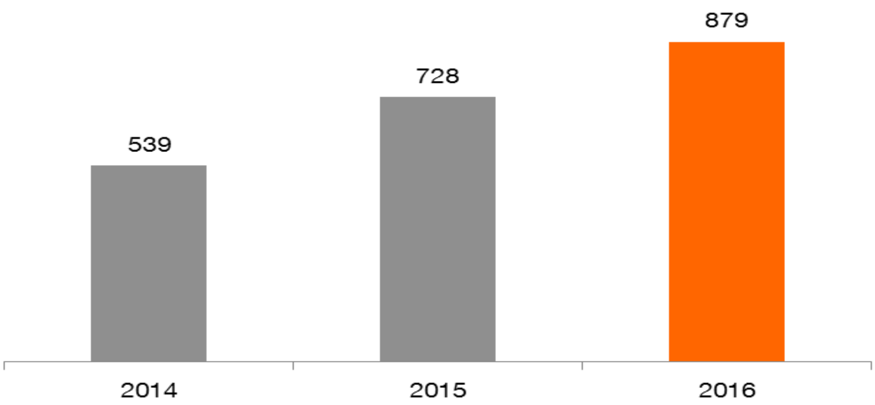
In 2016, convergent offer push was one of the pillars of our marketing activity both in the consumer market and among business customers (small to medium enterprises). Major elements contributing to the scope and attractiveness of convergent offers included fibre network roll-out and development of a TV offer based on our own content aggregation based on the IPTV technology.

The key marketing initiatives related to convergence and launched in 2016 were as follows:

- Orange Open Extra offer launched in June to replace Open Smart Plans; the promotion offers benefits for mobile services to customers who sign or renew a fixed line service agreement. Depending on the bundle chosen, subscribers to fixed line services (whether in the fibre or copper technology) can get a 50% discount for mobile subscription fee for the term of the contract or a 100% discount for the first twelve months;
- In the business market, a new convergent offer at a highly competitive price, *Domestic and European Package with Internet*, launched in March; it offers a discount for subscribing to two mobile voice services plus a fixed line service (or the *LTE Internet for Business – Office* offer). Depending on the needs, the offer may be extended to include additional SIM cards dedicated to voice or mobile broadband services. Since its introduction, the package has been hugely popular and has been the most frequently chosen promotion among business customers.

At the end of 2016, our convergent customer base reached 879 thousand, which is an increase of 151 thousand (or 21%) compared to the end of December 2015. The total number of services provided in the convergence scheme was almost 4 million. On average, each convergent customer uses more than four Orange services.

Convergent base (in thousand)



Our convergent offer is a very important element in ensuring the success of our broadband offer in the fibre technology. It is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. This is confirmed by the fact that as many as about 50% of fibre broadband service customers were convergent customers at the end of 2016, which is a significantly higher share than in case of broadband services based on copper technologies.

According to a report by the European Commission ("Implementation of the EU regulatory framework for electronic communication – 2015"), bundle service penetration in Poland remains relatively low compared to West European benchmarks. We expect that in the next few years the demand for convergent offers will steadily grow in Poland as households recognise benefits of buying a number of services from one operator.

We intend to intensify the convergent offer push in 2017. With a new offer launched in February, we changed our approach to the offer structure. Instead of a former system of discounts for purchasing each additional service, customers are now offered a hard bundle. Such a bundle is to be available for the same price for all fixed-line broadband options, whether in copper or 100 Mbps fibre technology, or mobile broadband for fixed use (LTE for fixed).

2.2 Mobile Services

Revenues			
PLN million	**For 12 months ended**		**Change**
	December 31, 2016	**December 31, 2015**	
Mobile revenues:	6,421	6,119	4.9%
o/w Retail services	4,296	4,567	-5.9%
o/w Wholesale services (including interconnect)	1,037	909	14.1%
o/w Mobile equipment sales	1,088	643	69.2%

Key performance indicators					
'000, unless indicated otherwise	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**	**Change 31.12.2016/ 31.12.2015**	**Change 31.12.2015/ 31.12.2014**
Total mobile services (SIM)	15,990	15,906	15,629	0.6%*	1.8%
o/w post-paid	9,453	8,361	7,679	13.4%*	8.9%
o/w pre-paid	6,537	7,545	7,950	-13.5%*	-5.1%
Dedicated mobile broadband services (post-paid and pre-paid)	2,666	2,001	1,512	33.2%	32.3%

* For information regarding base revision please see section 11.

Key performance indicators					
in PLN	**2016**	**2015**	**2014**	**Change 2016/2015**	**Change 2015/2014**
SRC (post-paid), PLN	189.8	260.9	276.8	-27.3%	-5.7%
SAC (post-paid), PLN	232.2	334.8	378.8	-30.6%	-11.6%
Monthly blended ARPU, PLN	28.4	30.3	31.5	-6.3%	-3.8%
post-paid	43.8	49.2	54.0	-11.0%	-8.9%
pre-paid	12.2	12.7	12.4	-3.9%	2.4%

As at the end of 2016, Orange Polska had a mobile services base of 16.0 million, which is an increase of 96 thousand or 0.6% vs. end of 2015. The slight growth resulted from a combination of two opposite trends. On the one hand, the post-paid base experienced spectacular growth of over 1.1 million (or over 13%), which was the highest in many years. On the other hand, there was a rapid decline in pre-paid SIM cards in the second half of the year. This was almost exclusively due to the registration obligation that was introduced at the end of July 2016.

The growth in post-paid (in both voice and mobile broadband) was based mainly on the offers introduced in 2015 and supported by effective marketing. Net additions were well balanced between business customers, consumers and machine-to-machine (M2M). Anti-churn initiatives also proved successful. As a result, quarterly churn rate in the post-paid segment decreased to less than 3%, a many years' low. We performed very well in number transfers from the competition. In post-paid, we had a net portability balance of over 150 thousand in 2016, a major improvement vs. 2015 (88 thousand).

In the pre-paid segment, the introduction of registration obligation resulted in much lower new card activations. In addition, card registration by customers accelerated migration to post-paid. However, as the vast majority of new pre-paid activations are low usage one-time activations, the reduction, although very significant, did not affect our financial performance in a material way. We expect the decline in the reported SIM cards to continue in the first half of 2017.

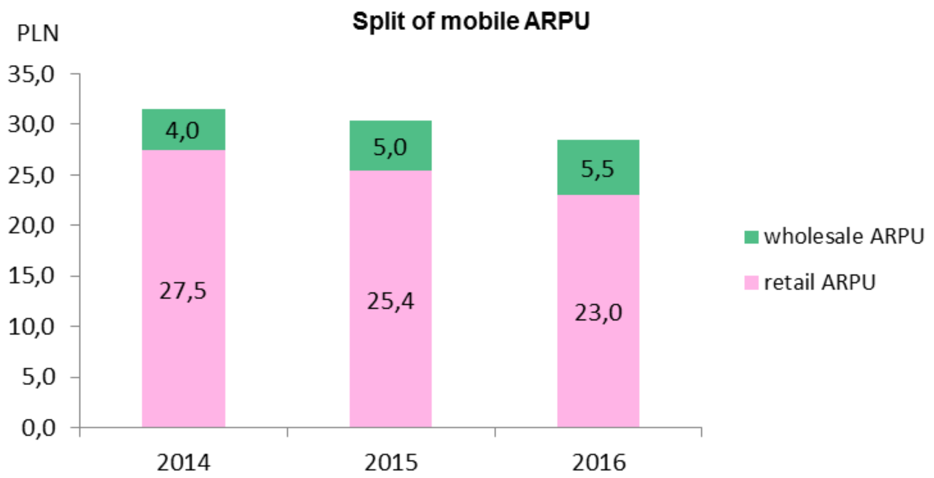
Blended ARPU amounted to PLN 28.4 in 2016 and was approximately 6% down year-on-year. The erosion was higher than in 2015 (4%). The trend slightly deteriorated in both post-paid and pre-paid services.

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

- popularity of family offers, in which customers get several SIM cards;
- growing take-up of SIM-only offers;
- focus on instalment sales in customer acquisition, while gradually reducing sales of traditional subsidised offers (in the instalment scheme, a portion of revenue corresponding to the handset is reported as revenue from equipment sales rather than revenue from services, which is the basis for ARPU calculation);
- discounts granted to customers subscribing to convergent services;
- ongoing pricing pressure, mainly in the B2B segment;
- lower incoming traffic growth than in 2015.

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

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



2.2.1 Market and Competition[1]

The mobile market has been in a saturation phase for several years. The estimated number of SIM cards decreased by 2.7% compared to December 31, 2015, reducing the mobile penetration rate (among population) to 142.4% at the end of December 2016.

According to Orange Polska's own estimates, the four leading operators' aggregated market share remained at the level of 98% at the end of 2016. Orange Polska's estimated share in the mobile market by SIM cards grew by 1,0pp. (to 29,3% at the end of December); as a result, the Group maintained its leadership in the market by volume.

Owing to legislation changes, which imposed on mobile operators the obligation of pre-paid SIM card registration as from July 25, 2016, the structure of the SIM card volume market by segments (post-paid/pre-paid) started to change (mainly owing to a decrease in new activations as well as customer migration to post-paid). By February 1, 2017, all pre-paid SIM cards should have been registered to continue the provision of telecommunications services. Hence, a broader change in the market structure is expected in 2017.

In mobile number portability, in 2016, Orange Polska maintained the second position on the market with a net effect of 27 thousand. It was an improvement versus 2015 when the net effect was negative at 35 thousand. In post-paid only the net effect was much more positive and amounted to 152 thousand in 2016.

2.2.2 Mobile Voice and Data Services

In line with the strategic medium term action plan announced in February, we were very active in customer acquisition and retention in 2016, carrying out a strong marketing push with respect to mobile voice and data services. Post-paid was up 13%, which was the highest growth rate in many years, while the pre-paid decreased, which resulted mainly from the obligation to register pre-paid SIM cards and reflected the general market trend.

In 2016, there was no significant change in the key trends in the mass market, and some of them strongly intensified:

- Households became the main arena of competitive struggle in contrast to earlier competition for single customers. On the one hand, it resulted in relative stabilisation of prices of single services after years of fierce competition. On the other hand, customers can get price benefits, sometimes significant, for buying a bundle of several services, which contributes to the popularity of multi-SIM family offers, combining mobile voice and data services. A part of this trend is the growing take-up of convergent offers, which combine mobile and fixed-line services.

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

- A data package is an indispensable element of any offer and the data pool volume is one of the key competitive differentiators, particularly with the roll-out of the LTE network and rapidly growing demand for data transfer. Offers featuring unlimited calls to all mobile networks and unlimited SMSs (or a considerable SMS pool) has been a market standard in customer acquisition and retention for some time.
- An attractive portfolio of modern smartphones and the smartphone price level depending on the service package offered are another key differentiator in competition for customers. Instalment schemes have become a market standard in sales of mobile equipment, which makes it easier for customers to compare their prices between operators. Instalment offers have virtually replaced subsidised ones, in which handset and service prices were integrated.
- The developments in the mobile broadband segment included growing data pools offered for the same price as well as promotions offering unlimited data transfer on LTE networks.
- Further portfolio simplification and reduction in the number of tariff plans continued.
- Looking for other differentiators, in addition to price, operators have been offering new services, such as access to music services or TV content. In addition, the elements such as connectivity or customer care quality have been increasingly highlighted in marketing communication.

There were no major changes in our portfolio of post-paid tariff plans in the mass market. We mainly increased data pools in both mobile voice and broadband offers. This applied also to the Nju brand, where we use a system of data pool bonuses for loyalty. In a process of portfolio simplification, the handset offer in the instalment scheme was unified (except for the Zetaphone offer) in the second quarter. This enhanced the offer legibility, increased flexibility for customers and improved the availability of medium- to high-end handsets.

In pre-paid, we enhanced the attractiveness of our portfolio for both the Orange Free Pre-Paid offer and the Nju brand. Customers can now make unlimited voice calls to all mobile networks. In addition, the data pools embedded in the subscription fee were increased. In the second half of 2016, our marketing efforts in pre-paid were determined mainly by the card registration obligation. This applied equally to Orange Polska and other market players. Communication focused on informing customers about the need to register and offering attractive bonuses for early registration.

Business Offers

As for initiatives addressed to business customers, the LTE Internet for Business offer was refined. It was simplified to just two tariff plans with lower subscription fees and enriched to include unlimited 3G/LTE Internet access.

Some changes were introduced to increase the attractiveness of our New Orange Biz mobile voice offer. In particular:

- Customers who sign or extend an agreement get a higher data pool than before for use in Poland; and
- Data transfer rate after using up all data pools increased from 64 kbps to 1 Mbps (option available in the XL Package only).

A new flexible M2M offer (‘Smart M2M’) with a dedicated tool to support customers in management of their M2M SIM card fleet (‘SIMply M2M’) were introduced in 2016. This offer responded to the needs of the demanding M2M/IoT market. In particular, it introduced a number of parameterised data and SMS pools (both domestic and international), an option to activate a SIM card for a trial period with no monthly fee or a service enabling customers to monitor costs and block communication after the predefined threshold is reached.

2.3 Fixed Line Services and Other Revenue

Revenue			
PLN million	**For 12 months ended**		**Change**
	December 31, 2016	**December 31, 2015**	
Fixed services	4,662	5,091	-8.4%
of which fixed narrowband	1,527	1,747	-12.6%
of which fixed broadband, TV and VoIP	1,490	1,601	-6.9%
of which enterprise solutions and networks	892	923	-3.4%
of which wholesale (including interconnect)	753	820	-8.2%
Other revenue	455	616	-26.1%

Key performance indicators					
'000, unless indicated otherwise	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**	**Change 31.12.2016/ 31.12.2015**	**Change 31.12.2015/ 31.12.2014**
Fixed voice services (retail: PSTN and VoIP)	3,932	4,194	4,512	-6.2%*	-7.0%
Fixed broadband accesses (retail)	2,015	2,105	2,241	-3.3%*	-6.1%

* For information regarding base revision please see section 11.

Key performance indicators	**2016**	**2015**	**2014**	**Change 2016/2015**	**Change 2015/2014**
Retail fixed voice ARPU, in PLN	38.6	40.0	41.4	-3.5%	-3.4%
Fixed broadband, TV and VoIP ARPU, in PLN	60.2	61.2	60.4	-1.9%*	1.3%

* For information regarding base revision please see section 11.

In 2016, like in several previous years, fixed-line revenue remained under pressure from both other market players and mobile technologies. Revenue erosion continued at a similar rate as in 2015.

Erosion of fixed voice customer base was 259 thousand in 2016, a slowdown compared to 318 thousand in 2015. The decline can be attributed mainly to structural demographic factors and growing attractiveness of mobile services with unlimited calls to all networks. We expect the downward trend in fixed-line to continue in subsequent periods.

The negative trends in fixed line voice affected also the wholesale segment (WLR,WLL). In 2016, a rate of decline in wholesale was slightly lower than a year earlier.

As for broadband, TV and VoIP revenue, the number of services continued to fall, though at a much lower rate than in 2015: the customer loss totalled 68 thousand in 2016 vs. 136 thousand in 2015. The decline slowdown can be attributed almost entirely to an increase in high-speed broadband, where the customer base grew by more than 50%. Major investments in the fibre network began to bear fruit. It is the key to reversing the negative broadband trends in the future. High-speed Internet take-up was further stimulated by migration from the ADSL technology, which is getting increasingly less competitive. As a result, the share of high-speed services grew to approximately 25% (from 15% at the end of 2015). Broadband ARPU slightly decreased year-on-year, as the effects of significant price cuts in June 2015 were partially offset by cross-selling of services.

In 2016, other revenue decreased by 26%, mainly as a consequence of completion of infrastructure projects, which in 2015 generated revenues of PLN 127 million. Another negative factor was lower sales of ICT equipment (which fall under this category).

2.3.1 Market and Competition

Fixed Line Voice Market

The Group estimates that the fixed line penetration rate was at 20.0% of Poland's population at the end of December 2016, as compared to 20.9% at the end of December 2015. The decline is still attributable mainly to growing popularity of mobile technologies. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a substitute to fixed line telephony. The aforementioned downward trend has been also affecting regulated fixed-line wholesale products (WLR and LLU).

Fixed Broadband Market

According to Group's estimates, the total number of fixed broadband access lines at the end of December 2016 decreased year-on-year. This can be attributed to the growing popularity of mobile broadband based on the LTE technology, which owing to its technical characteristics can substitute for fixed broadband. This process is particularly notable in rural or low-urban areas with sparse modern fibre and cable infrastructure that enables broadband speeds of 30 Mbps or more ("high-speed broadband").

At the same time, 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. Orange Polska's high-speed broadband customer base increased by almost 0.2 million (175 thousand) in 2016. The key success factors were rapidly growing range of our FTTH network, modernisation of our VDSL network as well as our convergent offer competitive to cable operators.

Orange Polska's increased activity in the high-speed broadband segment has stimulated the already highly competitive market environment and forced cable television (CATV) operators to accelerate their portfolio upgrade and expansion. Furthermore, dedicated marketing campaigns of CATV operators, offering additional discounts for giving up other operators' services, could be observed in local markets. Owing to such actions, the position of cable operators remains high. According to Orange Polska's estimates, CATV operators' aggregate share in Poland's fixed broadband market was 37% by volume or 35% by value.

The intended acquisition of Multimedia Polska by UPC Polska, which was announced in October 2016, can be also considered a response to the latter's weakening position of CATV operators in big cities and Orange Polska's plans of further fibre network roll-out. The transaction, if approved by UOKiK, will result in emergence of a cable network with 4 million households connectable to it, thus strengthening UPC's leadership position in the CATV segment. Furthermore, the transaction will enable expansion of UPC in small to medium towns, where its position has not been significant so far. Orange Polska estimates that the aggregate share of the merged companies in the fixed broadband market will be approximately 22%.

After 2015, 2016 was another year of rapid growth in mobile broadband services in Poland. We estimate that more than 0.7 million pre-paid mobile broadband users were added in Poland, with Orange Polska being the biggest beneficiary of this growth (Orange Polska's pre-paid mobile broadband customer base increased by 0.3 million). Customer migration to mobile broadband was the main factor contributing to the decline in Orange Polska's fixed broadband customer base in 2016.

The rapid growth of the high-speed fixed broadband customer base and the mobile broadband customer base was reflected in an increase in the aggregate number of Orange Polska's broadband users by over 0.5 million in 2016.

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

Fixed broadband market – key performance indicators

	Dec 31, 2016	Dec 31, 2015
Market penetration rate – broadband lines (in total population)	18.8%	18.8%
Total number of broadband lines in Poland ('000)	7,215	7,246
Orange Polska's market share by volume	27.9%	29.3%

Fixed voice market share in December 2016

	4Q 2016 (estimated)	4Q 2015	Change
Retail local access[2]	51.1%	52.1%	-1.0pp

2.3.2 Fixed Line Data Services

Orange Polska's initiatives in the fixed broadband segment reflect the objectives formulated in the new medium term action plan announced in February 2016. Due to great differences in the competitive environment, technological potential related to population density, our market shares and customer needs, we use local approach in our activities, which differ in big cities, medium to small towns and rural areas.

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

In 2016, the roll-out of the FTTH access network went on schedule (presented in February 2016), and at the end of the year, its coverage was 1.5 million households. Our fibre services are already available in 37 cities. Our customer base reached 88 thousand, with service take-up growing each quarter. The FTTH service is a

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

novelty in the Polish market and has low awareness among consumers. Currently, our marketing efforts aim to raise this awareness and create demand for the service. Furthermore, it is specific to the Polish market that customers sign two-year loyalty agreements, which is a factor slowing down customer migration from cable networks to our FTTH network.

As Poland's fixed broadband market in big cities is highly competitive, price is a very important differentiator of the offer attractiveness. As for portfolio developments, we have been greatly promoting convergence, using our strong position in the mobile market. It is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. For example, in June 2016 we launched the Orange Open Extra promotion, which offered benefits for mobile services to customers signing or renewing a fixed line service agreement. Depending on the bundle chosen, subscribers to fixed line services (whether in the fibre or copper technology) could get a 50% discount for mobile subscription fee for the term of the contract or a 100% discount for the first twelve months. At the end of 2016, convergent customers were as many as 51% of our fibre customer base.

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.

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

3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

3.1 Market Outlook

According to Orange Polska estimation retail telecommunications market is going to stabilise in coming years. In short-term perspective market will be driven mainly by : dynamic expansion of very high-speed broadband access (above 30Mbps) thanks to fibre infrastructure investments as well as increase of LTE coverage. On the mobile market it will be growing post-paid volume and increasing instalments sales of equipment supporting market increase. In the same time telco services market will be under pressure due to continuing Fixed-to-Mobile substitution, both in terms of fixed telephony as well as traditional broadband (DSL below 30 Mbps). Additionally, decline in prepaid market following the antiterrorist law implementation as well as one-time users decrease and roaming prices cuts implemented by EU will affect market value.

In medium-term perspective we expect telecommunications market back to growth owing to positive trends on VHBB market (both fixed and mobile) stimulated by dynamic growth of demand for data transmission linked with society and economy digitisation, development of e-commerce, Internet of Things, e-Administration etc. We expect growing penetration of fixed broadband in coming years as fixed access maximise profits from Internet and services such as gaming online, VoD w HD/4K, teleconferences. Also growing popularity of smartphones, tablet and other equipment with mobile access to Internet positively impact telecommunications market.

For mobile services market we predict competition to move from simple prices cuts In favour of quality-based competition. Although in the short-term we expect individual post-paid volume growth as the effect of migration from prepaid, in medium term the market growth will be most likely driven by bundled and convergent offers. On the B2B market we expect volumes growth in the effect of number of employees and companies increase as well as the development of the economy towards knowledge-based economy. We expect growing popularity of telco offers combined with ICT and machine-to-machine (M2M) services.

3.2 Orange Polska's Medium Term Action Plan

The table below summarises the key goals of the mid-term action plan as presented in February 2016

leadership in connectivity to guarantee best connectivity, both in mobile and fixed, regardless of geography of customers	**our commitments** – to connect up to 2.8 million of households within the reach of our FTTH network in 2016–2018 – to further develop our LTE coverage based on the newly purchased spectrum and provide best connectivity experience on LTE – to increase LTE coverage in population to more than 99% in 2017 – to improve volume market share statistics in fixed broadband and mobile
leadership in convergence to offer a full palette of services, enriched by non-telco products, available for households in all geographies	**our commitments** – to strengthen our position of unique convergent player in Poland – to adjust our intensive commercial strategy to the specifics of different geographical zones – to have >1 million customers of our convergent offers by 2018 – number of households using 3 or more services to reach ca. 45% penetration in our household customer base in 2018
best customer experience to put our customers at the heart of everything we do	**our commitments** – to improve customer experience by offering attractive products and services, accompanied by improvements in customer service and sales channels, both traditional and on-line – to be innovative and flexible in responding to our competitors' moves – to be among top 2 major operators for Net Promoter Score
agile and efficient company to be an agile and flexible company with a proven ability to find efficiency	**our commitments** – constant transformation of indirect costs – process optimisation and automation, IT spending optimisation as well as facilitation of commercial initiatives, especially in convergence – Social Plan signed with trade unions, enabling up to 2,050 voluntary leaves in 2016–2017 – further optimisation of real estate portfolio

financial outlook	our commitments
to build long term-value for the company and all stakeholders, that will allow us to return to a growth path.	– revenues back to growth in 2018 following success of FTTH and growth in mobile customers – EBITDA back to growth in 2018, driven by revenues improvement, operating leverage and business optimisation – in 2016–2018 our net debt-to-restated EBITDA ratio will not be higher than 2.2 – FTTH total capex in 2016–2018 at the level of ca PLN 2.2 bn – ex-FTTH capex down to the level of PLN 1.3–1.4 bn in 2018

In 2016 we were successfully implementing our key strategic directions set out in the plan. We significantly improved connectivity in both mobile and fixed. In mobile we concentrated on LTE network roll-out on newly purchased 800MHz spectrum. At the end of 2016 the LTE network covered 99.1% of Poland's population and 90,2% of the area. In fixed we intensively deployed fibre network. It doubled in 2016 and reached close to 1.5 million households in 37 cities. We pursued with commercial push for customer acquisition in all areas playing convergence as our unique asset. Our convergent customer base increased more than 20% in 2016. Convergence have appeared a very good weapon to gain fibre customers. More than 50% of fibre customers at the end of 2016 were bundled on convergence fixed-mobile packages. Investing in mobile we are clearly taking away market share from competitors. In Q4 2016 almost 80% of gross customer additions in fibre were new customers to Orange Polska. According to our estimates our volume market share in high-speed fixed broadband increased by few percentage points in 2016. We also estimate that our value market share in mobile retail market has stabilised.

In 2017 key priorities will not change but our focus will be even more on improvement of execution of commercial actions and investment process. An important factor that should enforce better execution are organisational changes that were introduced starting from 2017 with respect to both B2C and B2B areas. We recognise strategic importance of fibre network and we were encouraged by good customer take-up in the final months of 2016. Therefore we plan to cover above 1 million of additional households with fibre services in 2017 i.e. much more than in 2016. At the same time we are working to shorten fibre service delivery time. We will further improve our customer proposition and transform our distribution channels. In February we launched a new offer, Orange Love, which is our first fixed-mobile 'hard bundle' and which, along with a new 4K TV experience, marks our new approach to household conquest and convergence.

In terms of update on more longer term outlook and concrete plans we have decided to announce them later in 2017 after we have a better visibility of effectiveness of the above-mentioned initiatives.

3.3 Orange Polska's Strengths

The Polish telecommunication market is highly competitive and challenging. Therefore, all actions taken by the Group need to be determined and consistent in order to adapt to changing conditions and respond to new market trends.

In our opinion, the strategic position of Orange Polska has markedly improved over the last twelve months.

Winning the auction for frequencies in the 800 MHz band has greatly improved the Company's competitive position in terms of mobile spectrum resources, particularly in consideration of the unsuccessful outcome of the tendering procedure for the 1800 MHz frequencies in 2013. A chance to offer high-speed Internet on the LTE frequency band is absolutely crucial for handling rapidly growing mobile data traffic. Having these frequencies is also very important for us in the context of a considerable share in the fixed broadband market in rural areas.

The decision to invest heavily in the FTTH network in big cities aims to provide a structural solution to the issue of competitiveness of our fixed line network. Over the recent years, our market shares in big cities have been falling, mainly due to less competitive offer vs. cable networks.

Having both a mobile network and a fast fixed line network constitutes our competitive advantage and is necessary to meet the growing data traffic, while ensuring high quality of service to mobile customers.

A trend to purchase convergent services is clear in the market, and should further intensify in the future. Orange Polska is currently the sole convergent operator in the mass market and the largest one in the business market. Our convergent customer base has been rapidly growing, and convergence remains one of the key pillars of our strategy.

The most important of Orange Polska's numerous strengths are as follows:

- Broadly recognised Orange brand in the telecommunications services market;
- Innovative B-brand mobile offer (under the nju.mobile brand);
- The ability to build and develop strategic alliances, e.g. with T-Mobile (see section 4.4 below), *nc*+ and mBank;
- Service portfolio expansion to include sales of electric energy and banking services;

- High recognition of corporate social responsibility standards: inclusion in the RESPECT Index of WSE-listed companies; top positions in the Ranking of Responsible Companies developed by the Responsible Business Forum, *Gazeta Prawna* weekly and Leon Koźmiński Academy; CSR Golden Leaf, which is awarded to selected companies from the Top 500 List of *Polityka* magazine, plus CSR Super Leaf, which has been awarded to just three companies honoured in all the five editions of the competition; and the Ethical Company title in a competition held by *Puls Biznesu* magazine and PwC Consulting plus a special honorary mention for outstanding approach to ethical corporate culture promotion as well as corruption and fraud prevention;
- Comprehensive social initiatives of the Orange Foundation in the field or digital education and use of new technologies, with particular focus on the on-line safety of children and young people;
- Paying attention to customers with special needs, i.e. disabled and elderly customers: introduction of the relevant solutions and standards in sales and customer service;
- Active participation in building the information society through various initiatives, including development of the telecommunication infrastructure in the areas at risk of digital exclusion;
- Broad international co-operation and access to know-how of Orange Polska's partners from the Orange Group, including use of the Buy-In company (a joint venture of Orange Group and Deutsche Telekom) as well as close co-operation and R&D experience sharing within the Orange Labs network;
- One of Poland's top employers in 2016 according to Top Employers Institute's study (awarded with prestigious Top Employer Polska 2016 and Top Employer Europe 2016 certificates) and one of the most attractive companies as a potential employer in the telecommunications industry for students (according to the 'Your Perspective' Programme ranking list).

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

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

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

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

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

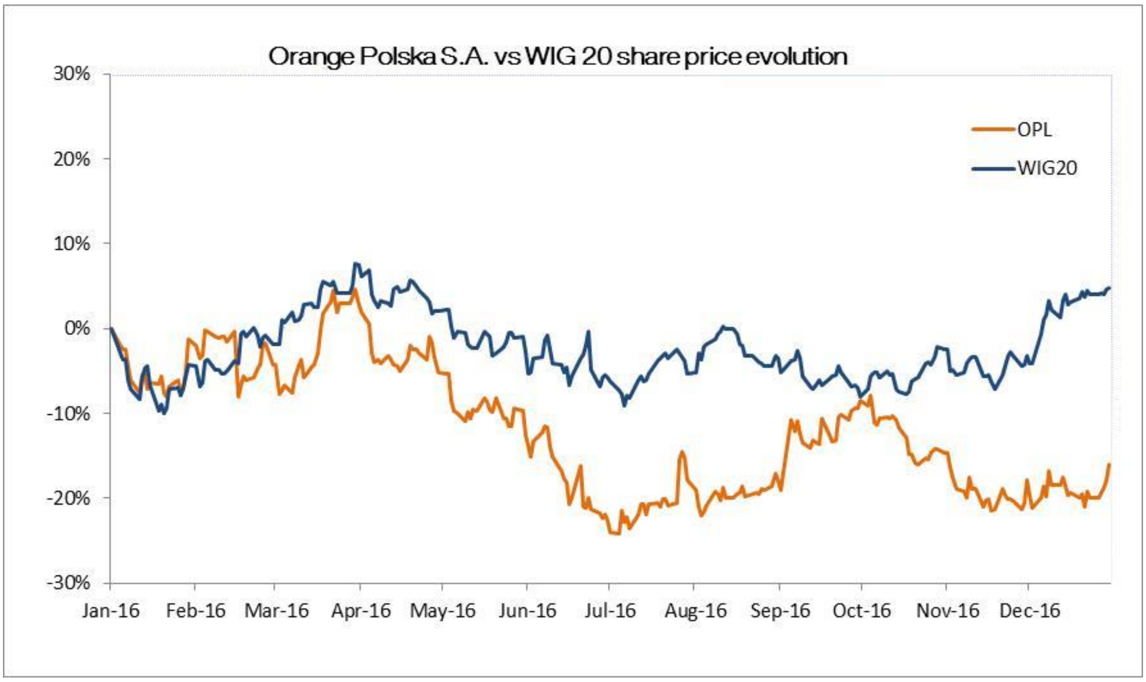
a) the former abbreviated name: TPSA; the new abbreviated name: ORANGEPL;
b) the former ticker: TPS; the new ticker: OPL.

In 2016, Orange Polska was once again included in a prestigious group of listed, socially responsible companies. The new portfolio of the RESPECT Index announced by the Warsaw Stock Exchange comprises 24 companies. Orange Polska has been present in the index portfolio since its first edition.

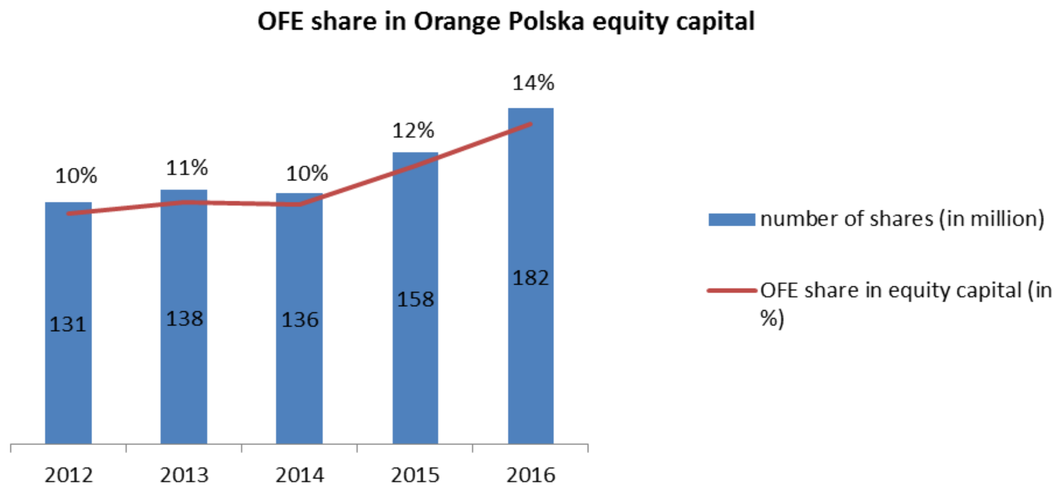
The RESPECT Index has been increasingly popular among companies and investors, who have noticed a link between consideration for social and environmental impact and financial performance.

2016 saw drops in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were down 16.0% (after the dividend-related reference price change), while the large-cap index, WIG20, gained 4.8% in the period.

ORANGE POLSKA S.A. SHARE PRICE
in the period from December 31, 2015 to December 31, 2016



A diagram of Polish Open Pension Funds'("OFE") total shareholding in Orange Polska as of the end of 2016 and previous years is shown below. The presented figures indicate that a stake held by these Funds in Orange Polska's share capital has been growing since 2012. At the end of 2016 it was on the historically highest level.



3.4.1 Orange Polska's Investor Relations

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

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

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

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

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

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

Orange Polska publishes its Annual Reports and Corporate Social Responsibility (CSR) Reports on-line at www.orange-ir.pl.

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

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

BASED OUTSIDE POLAND
Berenberg
Citigroup
Deutsche Bank
Erste Bank Investment
Goldman Sachs
HSBC
Morgan Stanley
Patria Finance
Raiffeisenbank AG
VTB Capital

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

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

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

4.1 Implementation of the Group's new Medium Term Action Plan

In February 2016, Orange Polska announced its new strategic plan for the years 2016–2018. The plan provides for intensive investments in customer acquisition and ensuring best mobile and fixed connectivity in order to build long-term value and reverse the negative trends in market share, revenue and income evolution. The new plan has been built around four major ambitions: to be the market leader in connectivity, convergence and customer experience and to be an agile and flexible company.

The plan provides for vast fibre and mobile network investments and intensive marketing expenditure on customer acquisition. In our opinion, the widely understood market conditions, evolution of customer needs and completion of the auction for mobile frequencies have created favourable environment for a market offensive. We want to improve our market shares and lay the foundation for future growth. We expect that the households which are our customers will start to use much more of our services, contributing to further rapid growth in our convergent customer base.

In terms of finance, our new strategic plan is to bring an increase in consolidated revenue and EBITDA. The key factors in reversing the negative trends will be improvements in both our mobile and fixed line arms.

4.2 Implementation of Changes in Legislation Concerning Pre-paid Services

The Anti-terrorism Act came into force on July 2, 2016. Pursuant to the new regulations, telecom operators have the obligation to obtain and properly verify the personal data of new customers prior to providing pre-paid services to them (this requirement became effective on July 25, 2016). As from February 1, 2017, operators had the obligation to switch off any incoming or outgoing traffic for any pre-paid cards that had not been registered by then. However, the existing cards can be registered also after this date; if this is effected, the possibility to make and answer calls will be restored.

Immediately after the initial reports about the draft bill, Orange Polska undertook intensive efforts to prepare the Company for the resulting changes in the regulatory environment. Among a number of actions, the following were the most important:

(1) The necessary modifications of IT systems (billing, CRM, customer care, etc.), adjusting them to the new legal requirements, were implemented. As a result, the Company implemented the easiest registration procedure in the market, bringing customer effort down to the minimum;

(2) The model of relations with distributors was redefined and new forms of co-operation were developed. As a result of intensive efforts, registration was possible in over 22,000 outlets as of the end of 2016;

(3) A package of educational initiatives dedicated to Orange customers was carried out, using innovative, non-standard means of direct communication. We were the first in the market to develop and implement a pre-call tool which interspersed a voice message about registration throughout natural usage;

(4) As part of marketing initiatives, we offered attractive bonuses to customers for early registration.

The changes in legislation concerning pre-paid services affected the operating and financial performance of Orange Polska in 2016, and may affect it in 2017.

Firstly, there was a major decline in the number of pre-paid SIM cards. This was largely due to much lower new SIM card activations in the wake of the registration obligation. In addition, card registration by customers accelerated migration to post-paid. However, as the vast majority of new pre-paid activations are low usage one-time activations, the reduction, although very significant, did not affect our financial performance in a material way. We expect the decline in the reported SIM cards to continue in the first half of 2017.

Secondly, the bonuses offered for registration in the form of free minutes and gigabytes to be used in 30 days, had a negative impact on our financial results in the second half of 2016. However, this was not significant, and the bonuses could be considered a one-off investment to acquire customers and relieve the sales network in the critical moment just before the final deadline for registration.

We can also see uncertainty factors which may affect our performance in 2017. As at the 1 February, 5% of our active customer base have not registered their SIM cards. There is a risk that some of them will permanently give up communication through pre-paid services due to loss of anonymity. Additionally there is a hesitation about the increasing activity of competitors, especially in the number portability area, which was greatly simplified after registration.

It should be noted that the above-mentioned developments affected all players on the mobile market in Poland.

4.3 Infrastructure Development

Fixed Line

In 2015, the Company commenced massive development of FTTH lines. This continued in 2016 in line with the new medium term action plan. At the end of 2016, almost 1.5 million households in more than 37 Polish cities were connectable with the FTTH network. We expect that the network roll-out may even accelerate in 2017–2018, as it is the strategic priority of the Company. The number of households connectable to VDSL stood at approximately 4.8 million at the end of 2016. VDSL range did not change significantly in 2016, mainly due to the priority of the fibre network.

The strategy of development of services based on FTTH lines provides not only for the construction of the Group’s own infrastructure but also for wholesale agreements with other fibre network operators, wherever it is technically possible and economically viable. Such agreements where concluded in 2016. The main benefits include quicker access to the FTTH access network and more efficient use of the existing fibre infrastructure in the relevant locations. This is in line with the aims of the Cost Directive of the European Commission by avoiding duplication of the existing facilities. In 2016, Orange Polska signed two such agreements, namely with Telefonia Dialog (a wholly-owned subsidiary of Netia S.A.) and Inea. Under the agreement with Telefonia Dialog, we will gain potential access to approximately 114,000 households in the Łódź Region of Poland, while in case of Inea, it is approximately 110,000 households located mainly in Poznań (over 80% of the coverage) as well as Konin, Szamotuły and Środa Wielkopolska. Both agreements will be gradually implemented in 2017.

As for content management, the new Content Delivery Network (CDN) platform was developed in 2016 to provide video content to Orange Polska’s broadband customers. The new platform is intended for both external content providers in the B2B market and internal content services, including Orange TV Go and STB Premium. It will provide the adequate capacity to handle the video traffic growth on the Orange network.

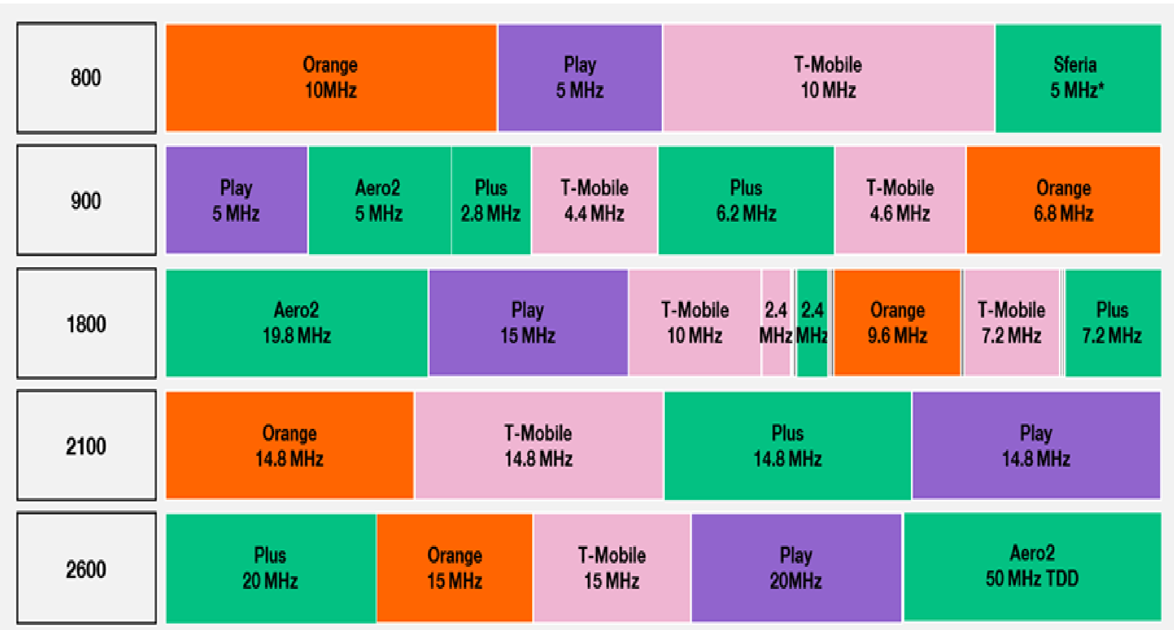
Mobile

The most important development in the mobile network was the assignment of radio frequencies from the 800 MHz and 2600 MHz bands by UKE following completion of the relevant auction towards the end of 2015. Owing to investments in spectrum, the 4G coverage for all the bands exceeded 99% of population on more than 90% of Poland’s territory. LTE services were provided by Orange Polska via over 8,500 base stations. In 2017, in addition to gradually expanding the network coverage and capacity, Orange Polska will focus on increasing the number of sites which enable spectrum aggregation and, consequently, up to a two-and-a-half times increase in the LTE/4G access rate.

In an effort to optimise the mobile infrastructure development, Orange Polska has been co-operating with T-Mobile. In 2016, the existing co-operation was expanded to include the equipment operating on the 800 MHz and 2600 MHz bands (please see more in the section 4.4).

The purchase of new spectrum has significantly improved the market position of Orange Polska.

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



* Frequencies assigned as a result of an amicable agreement between the company and the government.
The frequencies assigned to the Cyfrowy Polsat Group are shown in green.

According to an independent survey by speedtest.pl, Orange was the fastest mobile broadband network in Poland.

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

In 2016, IP voice interconnections between the Orange mobile network and other mobile networks (Plus and Play) were tested. The interconnection with the Plus network was commercially launched in the second half of the year. This will enable the HD quality of voice calls between Orange Polska's subscribers and other operators' customers.

The 450 MHz frequency assignment, which had been obtained in 1991, expired at the end of 2016. Upon Orange Polska's application for renewal, on January 13, 2017, the President of UKE issued a decision assigning the spectrum for a further fifteen years. Based on an expert appraisal, the President of UKE set the assignment fee at PLN 115,5 million. Orange Polska has appealed against the frequency assignment decision.

4.4 RAN Sharing Co-operation

On December 6, 2016, Orange Polska signed an annex to the radio access network (RAN) sharing agreement with T-Mobile, which expanded their existing co-operation to include the equipment operating on the 800 MHz and 2600 MHz bands.

Orange Polska has been co-operating with T-Mobile with respect to radio access since 2011. In the initial phase of this co-operation each party provided access to about 5,000 of its base stations to the other, which was completed in the second quarter of 2014 and resulted in Orange customers experiencing an improvement in the coverage and capacity of the 3G network. In the meantime, the co-operation included also LTE/4G services on the 1800 MHz band, which enabled Orange Polska to offer the latest mobile broadband technology. Hence, the current agreement is the natural next step in this co-operation, which will first of all increase the LTE/4G network capacity and improve coverage in rural areas and indoors. Both operators will use only their own spectrum resources for rendering services on LTE 800 and LTE 2600. In addition, each operator is to deploy several hundred new base stations, which will further expand coverage, particularly in new residential estates and along highways and railway lines. As a result, Orange Polska will be able to further optimise the development of its mobile infrastructure.

4.5 TV Portfolio Development

In February 2016, Orange Polska launched a new TV offer for IPTV customers, which is based on the content aggregated by the Company. This change has enabled greater flexibility in adjusting our TV portfolio to the needs of customers as well as development of additional services, such as catch-up TV, multiroom and multiscreen. The package of TV channels for the basic subscription fee has increased from 61 to 91 (including 25 HD channels), tailored to suit the needs of all family members. In November 2016, the same package of TV channels was introduced for customers using the satellite TV technology. As a result, Orange Polska has simplified its TV portfolio and enhanced its competitive position with respect to content, which is the key element of our household-oriented strategy. It also enables us to monetize the intended investments in the FTTH technology in the coming years.

Simultaneously, Orange Polska has continued its partnership with the *nc+* satellite platform, offering NC+ packages to Orange satellite TV and IPTV customers. As part of this partnership, Orange TV customers were offered new NC+ promotions, including the leading promotion which was launched in November 2016 and offered free access to CANAL+ and HBO for six months. Furthermore, bundles of NC+ and Orange mobile services have been developed.

4.6 Competition in the Mobile Market

Poland's telecom market, with four infrastructure-based players, is still highly competitive. In addition to price, which is slowly ceasing to be the key offer differentiator, other elements of the operator's offer, such as value-added services (access to music services or TV content), connectivity and customer care, are gaining importance. Price competition over recent years has led to a relative balance in market shares of the main players and reduced mobile service prices in Poland to one of the lowest levels within the European Union.

Households became 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, insurance, personal finance or sale of household appliances.

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

4.7 Competition in the Fixed Broadband Market

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

UOKiK is currently investigating the intended acquisition of Multimedia Polska by UPC, together with the assessment of the potential market position of the merged operator. In a number of cities and towns, the aggregate market share of Multimedia Polska and UPC poses a risk that the new operator will have a dominant position. Thus, UOKiK can be expected to demand from UPC to divest a portion of its access network. Purchase thereof by another operator will definitely affect the market environment, at least on the local level.

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

Increase in investments in the fibre infrastructure based on EU funds was another major development in 2016. Owing to EU co-financing, such projects are possible even in low-urban areas, where investments in the fibre network have not been economically viable hitherto. From Orange Polska's perspective, development of the fibre infrastructure in less urban areas poses a major challenge to defend our market position, but at the same time a major opportunity to attract new customers to its retail offer by using the newly constructed networks on wholesale terms.

There are about 3 million households in the areas covered by the investments projects carried out in the Operational Programme “Digital Poland”. These are largely areas out of reach of fixed line telecom networks or areas where provision of high-speed broadband service is not technically possible.

4.8 Orange Polska's Participation in the Operational Programme “Digital Poland”

Orange Polska, as a beneficiary of EU co-financing in 2007–2013, developed its own backbone and distribution broadband infrastructure in the Lubuskie Region and Pomeranian Region under the framework of Regional Operational Programmes.

In the EU Financial Framework 2014-2020, funds from the Operational Programme “Digital Poland” (Measure 1.1) have been allocated for adding last mile facilities which will meet the European Digital Agenda requirements to the existing infrastructure.

Following the first competition procedure, 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 second competition procedure, in which PLN 3 billion was allocated for project co-financing, was announced on September 30, 2016. The projects can be implemented in 79 NUTS-3 regions, that is areas comprising of several districts each. Orange Polska is reviewing the dossier and the detailed terms of the competition procedure with respect to potential applications. The closing date for submissions is February 17, 2017.

4.9 Development of ICT Services

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

In 2016, the Group commercially launched new co-location space in its Data Processing Centre in Łódź, strengthening its position among co-location and infrastructure service providers in the service-based model. The investments in the roll-out of the fibre network for business customers provided a foundation for offering complete ICT solutions and digitisation of the business activity to Poland's top companies. In addition, recent months saw the establishment of a new sales area within Integrated Solutions' structure, which is dedicated to Microsoft solutions and services. Thus, Integrated Solutions joined a small group of Polish companies authorised as Licensing Solution Providers. This strategy quickly proved successful, as several major contracts for Microsoft solutions were signed. While expanding its ICT portfolio, the Company established strategic partnerships with Apple, Huawei, SAS Institute and the European Space Agency (ESA). In the second half of 2016, IS and Orange Polska started to implement a project of upgrading a climate platform for ESA.

4.10 Evolution of the Group's Distribution Network

As a customer-centric organisation, the Group strives to maintain and develop a number of different contact channels. At present, customers can settle sales and service related matters by visiting traditional points of sale (our own or of our agents) or independent distribution chain outlets, using our on-line store, calling our helpline or waiting for our door-to-door salesperson to appear.

Our key objectives include further development of our on-line sales channel and cross-channel initiatives as well as the optimisation and modernisation of our sales outlets to align with the market and consumer trends, as this is directly reflected in customer satisfaction and further efficiency gains. As at the end of 2016, we had a chain of approximately 755 points of sale, either our own or operated by agents. Spread over the country, they offer a complete portfolio of our mobile and fixed line services. Furthermore, we have been gradually adding Smart Stores to provide customers with convenient, friendly and innovative space for settling any matters related to our telecommunication services. There were 12 of them at the end of 2016. Owing to up-to-date on-line and off-line solutions, any visit to our store becomes as efficient as possible. In addition, we have invested in a new store format: Fibre Shops. These are stores located close to housing estates within the FTTH network reach, which combine image-building and sales functions and are dedicated to our fibre offer. We operated 38 such stores as at the end of 2016. The total number of traditional stores is greatly expanded by chains of independent distributors, such as Media Markt, Saturn and Neonet. Through this co-operation we are present in 740 additional points of sale, offering a complementary service to consumers interested in buying a device.

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

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

4.11 Regulatory Obligations

Pursuant to the President of UKE's decisions, Orange Polska is deemed to have a significant market power (SMP) on the following relevant retail markets:

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

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

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

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

4.12 Proposed Regulatory Changes

Future regulations are going to certain extend in the direction of relaxing the obligations supported by trends on EC level driven by investment goals.

- UKE carried out a review of the SMS termination market. The European Commission and the President of UOKiK approved the deregulation measure. On February 1, 2017 Orange Polska has received President of UKE's decision withdrawing the regulatory obligation on SMS termination market from May 3, 2017.
- UKE is planning to review the local loop unbundling (LLU) market.

4.13 Roaming Regulation

On November 25, 2015 the European Parliament and the Council passed the Regulation 2015/2120 on roaming on public mobile communications networks within the Union.

The Regulation introduces new rules on provision of roaming services within EU. A mechanism for capping retail roaming charges was introduced from April 30, 2016. It involves surcharges to domestic prices of 5c per minute of outgoing call, 2c per SMS and 5c per MB of data. Roaming retail prices (the sum of the domestic price and any surcharge) cannot be higher than 19c/minute, 6c/SMS and 20c/MB, whereas surcharges for incoming calls cannot exceed the weighted average of mobile termination rates (MTR) across the EU set out by BEREC, i.e. 0.0114c/minute.

As from June 15, 2017, prices of retail services in roaming will become equal to prices of services at home. However, under the Fair Usage Policy (FUP), operators will be allowed to introduce limits for roaming services provided at domestic prices and apply surcharges when such limits are exceeded.

On December 15, 2016, the European Commission published the Implementing Regulation 2016/2286 laying down detailed rules on the application of fair use policy and on the methodology for assessing the sustainability of the abolition of retail roaming surcharges.

Before prices of roaming services become equal to those of domestic services, the European Commission has been mandated to review wholesale rates and propose a new piece of legislation in this respect on the basis of the results of the review.

On January 31, 2017, the agreement regarding roaming wholesale rates limits has been reached between the European Parliament, the Council and the European Commission.

	Currents caps	Agreed caps
Voice	5c/min	3.2c/min
SMS	2c	1c
Data	5c/MB	from 15.06.2017 – 7.7 E/GB from 1.01.2018 – 6 E/GB from 1.01.2019 – 4.5 E/GB from 1.01.2020 – 3.5E/GB from 1.01.2021 – 3.0 E/GB from 1.01.2022 – 2.5 E/GB

The agreement has been formally approved at the plenary session of the European Parliament and by the Member States.

4.14 Open Internet (Net Neutrality)

The Regulation (EU) 2015/2120W of the European Parliament and of the Council of 25 November 2015 established open Internet (net neutrality) rules. The Regulation introduces a general rule that when providing Internet access services, providers of those services should treat all traffic equally, without discrimination, restriction or interference, independently of its sender or receiver, content or way of distribution. Operators may apply reasonable traffic management measures, but these should be based on objective technical requirements rather than on commercial considerations. Such measures should be transparent, non-discriminatory and proportionate, and should not monitor the specific content.

In particular, traffic management measures blocking, slowing down, altering, restricting, interfering with, degrading or discriminating between specific content, applications or services, or specific categories thereof, are prohibited unless necessary and for as long as necessary to comply with court orders, protect the integrity and security of the network, mitigate temporary network congestion, etc.

Thus, traffic blocking is allowed only in a limited number of circumstances, e.g. to prevent cyber-attacks or mitigate the effects of exceptional or temporary network congestion.

In addition, the Regulation established end-users' rights to access and distribute content and information of their choice on the Internet, including the right to information about the download and upload speed of the Internet access services on fixed or mobile networks.

Under a Memorandum signed by the Ministry of Digital Affairs and operators, the implementation of the net neutrality provisions of the Regulation in Poland was postponed until December 31, 2016.

Orange Polska implementing the Regulation, adjusted its service provision rules and agreement templates (e.g. related to traffic management, special services and speeds on fixed and mobile networks). On November 30, 2016, the information on these changes was published on the Company's website at www.orange.pl.

4.15 Mobile Termination Rates (MTR)

On April 1, 2016, the principle of differentiating MTRs for calls originating within and outside the European Economic Area (EEA) was implemented on the Polish market. Calls originating outside EEA are not regulated and can be subject to higher than regulated rates. Mobile operators have been free to determine MTRs on their own networks for traffic originating outside EOG.

4.16 Fixed Termination Rate (FTR) Cost Calculation

Since 2014, UKE has worked on a new FTR costing model (LRIC bottom-up) in order to implement the European Commission recommendation of 7 May 2009 (2009/396/EC) on the Polish market.

In November 2016, UKE recommenced work on the LRIC bottom-up model for calculation of FTRs. The date of completion of the calculation procedure was not specified.

In parallel in 2016, the European Commission has commenced evaluation of its Recommendation of 7 May 2009 on the regulatory treatment of FTR and MTR in the EU. The Commission evaluates to what extent the Recommendation has achieved its objectives, and assess' whether to maintain or amend it as a tool for achieving the policy objectives of promoting competition, EU citizens' interests and developing the internal market. The Commission has not published its position yet.

4.17 Cost Calculation Results

As a consequence of significant market power decisions on the relevant markets, Orange Polska has an obligation to prepare the regulatory accounting statements and costing description of services, verified by independent auditor. On June 7, 2016, the President of UKE appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa and Ernst & Young spółka z ograniczoną odpowiedzialnością Business Advisory spółka komandytowa to conduct an audit of Orange Polska. The opinion and report as well as the regulatory accounting statement, all without reservations, have been published on UKE's website.

New competitive procedure aimed to appoint auditors to conduct a regulatory audit of Orange Polska's in 2017-2019 was organised by the President of UKE - an offer submitted by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa and Ernst & Young spółka z ograniczoną odpowiedzialnością Business Advisory spółka komandytowa was selected.

4.18 Compensation for Universal Service Costs

The President of UKE's procedures regarding determination of operators to share in the compensation of the USO net cost deficit for the years 2007 to 2011 are pending.

In 2016 Orange Polska collected deficit refinancing for 2006 in the amount of PLN 136 thousand. Compensation for the years 2007-2011 is expected to be collected by the end of 2017.

4.19 Major Changes in Legislation

Legal environment throughout 2016 has been changing very dynamically, resulting in profound changes of general law as well as of provisions relating directly to telecom sector. Such rapid and extensive modification of legal environment entails constant and diligent monitoring as well as ensuring resources to implement new.

The key acts include:

Domestic Law

- On July 2, 2016, the Anti-terrorism Act of June 10, 2016 came into force. Pursuant to it pre-paid registration became compulsory as of July 25, 2016. All existing pre-paid customers have to register by February 1, 2017. The act has imposed on telecom operators certain obligations related to telecommunication infrastructure.
- On July 1, 2016, the Act of June 9, 2016 amending the Act on supporting the development of telecommunication services and networks came into force. This amendment impacts the investment procedure in deployment of high speed networks and transposes the Directive on measures to reduce the cost of deploying networks ('Cost Directive') into the Polish legal system.
- On January 13, 2017, the Act of December 15, 2016 amending the Act on gambling was promulgated. It imposes as of July 1, 2017 an obligation to block access to websites listed in the Register of Prohibited Websites managed by the Ministry of Finance.
- On February 7, 2016, the Act of January 15, 2016 amending the Police Act came into force. It introduces a catalogue of situations in which the entitled entities can obtain telecommunication data. Operators also are obliged to provide at their own expense the technical and organisational means enabling secret surveillance by the Police.
- On October 7, 2016, the Act of September 5, 2016 on trust services and electronic identification came into force. It provides the basis for digitalisation of a number of administrative, business and consumer processes.

- On April 17, 2016, the Act of August 5, 2015 on amending the Act on competition and consumer protection and certain other acts came into force. This has introduced new tools for influencing companies, including telecom operators, with respect to “abusive clauses”.
- On January 10, 2017, the Act of September 23, 2016 on out-of-court consumer dispute resolution, which is based on the Directive 2013/11/EU on consumer ADR and Regulation (EC) No 524/2013 on consumer ODR. It establishes rules for out-of-court resolution of disputes between Poland-based companies and consumers from all EU countries.

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

- The Ministry of Digitisation is working on the draft Act on the national cyber-security system. In particular, it will implement the Directive of 6 July 2016 concerning measures for a high common level of security of network and information systems (the NIS Directive). The new act is to regulate various aspects related to cyber-security, including the rights and obligations of service providers in the ICT market in Poland.
- On September 30, 2016, the Ministry of Infrastructure and Construction commenced legislative works on a new Urban and Construction Code. The codification will thoroughly reform the investment planning process.

EU Law

- The Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation – GDPR) has been promulgated. The Regulation provides uniform legal framework for personal data protection and shall apply from May 25, 2018. Furthermore, the Commission presented a proposal for Regulation on privacy and electronic communications. The Regulation will be parallel to the already adopted General Data Protection Regulation. It includes direct references to GDPR (e.g. conditions of the consent) and some identical provisions (e.g. sanctions). The legislative process is pending.
- The European Commission is working on a fundamental revision of the package of telecom directives. It will be in the form a new directive. A proposal for the directive establishes the European Electronic Communications Code. The Code will include revised regulations on access to infrastructure, radio spectrum, electronic communications services, universal service and competences of the relevant institutions.

4.20 Claims and Disputes, Fines and Proceedings

Please see Note 27 to the Consolidated Full-Year Financial Statements for detailed information about material proceedings and claims against Group companies and fines imposed thereon, including a fine imposed by the European Commission, as well as issues related to the incorporation of Orange Polska.

5 MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

Research and Development in Orange Labs

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

Orange Labs Poland is responsible for determining and managing the development of the architecture of fixed and mobile networks and selected IT systems as well as defining network development plans and the relevant technological concepts. Another major element of its operations is a process of development, selection and implementation of innovations, which involves co-operation with external partners and performance of research and development tasks for both Orange Polska and the Orange Group. A part of Orange Labs' structure is the Polish Research and Development Centre (CBR), which consists of Orange Polska's R&D facilities and laboratories.

Major Achievements of the R&D Centre and Client Laboratories of Orange Labs Poland in 2016, Including Projects for Orange SA

1. **5G PAGODA** – Participation of Orange Polska's R&D Centre in research on the 5G network in the European Union's Horizon 2020 Programme, which is carried out jointly with Japanese partners. In this three-year project, Orange Polska received total refinancing of €250,000. The project is one of the world's first attempts to describe and propose the SDN/NFV architecture for the network of the future.
2. **Geo Quantum System (GQS)** – Implementation of a unique tool conceived and developed by Orange Polska's R&D Centre. GQS is a modern realtime geolocation tool for marketing campaigns. The tool has been made available to Orange Polska's sales and business divisions as well as for the Orange Finance service.
3. Development of the SME Ecosystem in the API area, that is an ecosystem monetizing telecommunication and IT services and operator's data in an open model, as well as introduction of the R&D LongTermTrials service as part of the M2M B2B portfolio, which enables companies to try ICT services (in the 'Try and Buy' scheme).
4. Participation of Orange Polska's R&D Centre as a consortium member in the EU VaVeL (Variety, Veracity, VaLue: Handling the Multiplicity of Urban Sensors) project in the Horizon 2020 Programme. Orange R&D Centre's partners in the project include cities, European universities and technology partners. The project aims to develop sample innovative solutions based on the data provided by the Cities of Warsaw and Dublin combined with the operator's data.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

6 ORGANISATIONAL CHANGES IN 2016

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

In 2016, Orange Polska S.A. merged with its subsidiaries by transferring all assets of Orange Customer Service and TP Invest to Orange Polska (merger by acquisition).

The purpose of the merger was as follows:

- Simplification of the Orange Polska Group management through increase of operational efficiency as well as integration and simplification of processes in the merged companies; and
- Unification of work conditions for employees of the merged companies.

6.1.1 Management Board of Orange Polska S.A.

As of December 31, 2016, the Management Board was composed of seven 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 Strategy and Transformation;
- Vice President of the Management Board in charge of Business Market;
- Management Board Member in charge of Finance;
- Management Board Member in charge of Human Resources;
- Management Board Member in charge of Sales and Commercial Digitisation; and
- Management Board Member in charge of Customer Care and Customer Excellence.

On February 4, 2016, the Supervisory Board of Orange Polska, in view of the Company's President of the Management Board, Bruno Duthoit mandate expiring on 12 April 2016, decided to re-appoint Bruno Duthoit for the next term of office. At the same, time Bruno Duthoit informed Orange Polska that he had decided to accept the Orange Group's proposal to take as of May 1, 2016 the position of Deputy Orange Group Executive Director for Europe, responsible for Central Europe and reporting directly to Gervais Pellissier, Orange Group Deputy CEO & Orange Group Executive Director for Europe. Therefore, Bruno Duthoit resigned from the position of the Company's CEO with effect from the end of the day of April 30, 2016. Subsequently on the same date, February 4, 2016, the Supervisory Board of Orange Polska appointed Jean-François Fallacher as the President of the Management Board of Orange Polska, effective as of May 1, 2016.

On July 4, 2016, Michał Paschalis-Jakubowicz, Member of the Management Board of Orange Polska S.A. in charge of Marketing resigned from his position due to personal reasons with immediate effect. During the transition period, Jean-François Fallacher, President of the Management Board, has taken over management responsibilities in the area of marketing.

On October 12, 2016, Piotr Muszyński was reappointed as a Member of the Management Board for the next term of office. The reappointment was made before the expiration of the current term of office. The new term of office starts on the day of the next Annual General Meeting that will accept the financial statements of Orange Polska for 2016, for a period of three years. He holds the position of Vice-President of the Orange Polska Management Board in charge of Strategy and Transformation.

On December 20, 2016, the Management Board of Orange Polska decided on some organisational changes coming into effect on January 1, 2017. Mariusz Gaca, who was the Deputy CEO in charge of the Business Market (B2B), took a newly formed position of Deputy CEO in charge of Consumer Market (B2C). This combined responsibility for three areas that had been managed separately, namely: Sales & Commercial Digitisation, B2C Marketing and Brand & Marketing Communication. At the same time, Bożena Leśniewska, who was the Management Board Member in charge of Sales and Commercial Digitisation, was appointed the Deputy CEO in charge of the Business Market.

Composition of the Management Board on January 1, 2017:

- President of the Management Board;
- Vice President of the Management Board in charge of Consumer Market;
- Vice President of the Management Board in charge of Business Market;
- Vice President of the Management Board in charge of Strategy and Transformation;
- Management Board Member in charge of Customer Care and Customer Excellence.
- Management Board Member in charge of Finance; and
- Management Board Member in charge of Human Resources.

6.1.2 Business Units of Orange Polska S.A.

As of January 1, 2017, Orange Polska had 86 business units, reporting directly to:
1) President of the Management Board: functionally reports 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 Strategy and Transformation: 14 business units;
4) Vice President of the Management Board in charge of Consumer Market: 9 business units;
5) Management Board Member in charge of Finance: 7 business units;
6) Management Board Member in charge of Human Resources: 12 business units;
7) Management Board Member in charge of Customer Care and Customer Excellence: 8 business units;
8) Executive Officer in charge of Corporate Affairs: 6 business units;
9) Executive Officer in charge of Networks: 5 business units;
10) Executive Officer in charge of IT: 8 business units;
11) Executive Director in charge of Effectiveness: 3 business units; and
12) Executive Director in charge of Carriers Market: 7 business units.

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

Apart from the changes described in section 6.1 above, there were no major organisational changes in other subsidiaries of Orange Polska S.A. in 2016.

6.2 Ownership Changes within the Group in 2016

6.2.1 Deregistration of TPSA Eurofinance France S.A.

On June 17, 2016, TPSA Eurofinance France SA was deleted from the French register of companies.

6.2.2 Merger of Orange Polska S.A. with Orange Customer Services sp. z o.o. and TP Invest sp. z o.o.

On September 30, 2016, the District Court for the Capital City of Warsaw registered a merger of Orange Polska S.A. as the acquiring company with Orange Customer Service sp. z o.o. and TP Invest sp. z o.o. as the acquired companies.

6.2.3 Decrease in the Share Capital of Orange Szkolenia sp. z o.o.

On November 16, 2016, the District Court for the Capital City of Warsaw registered a decrease in the share capital of Orange Szkolenia sp. z o.o. from PLN 71,652,000 to PLN 10,342,000, i.e. by PLN 61,310,000.

6.3 Parent Company's Shareholders

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

The ownership structure of the share capital based on information available on February 13, 2017 was as follows:

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

As of February 13, 2017, Orange SA held a 50.67% stake in the Company. Orange SA has the power to appoint the majority of Orange Polska S.A. Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

Orange S.A. is one of the world's foremost telecommunications operators, with a turnover of over €40 billion in 2016 and 156,000 employees worldwide, including 97,000 in France. Present in 28 countries, the Orange Group serves 263 million customers all over the world, including 201 million mobile customers and 18 million fixed broadband customers. Orange S.A. is also the leading provider of global IT and telecommunication services to multinational corporations under its brand Orange Business Services. In 2016, the convergent customer base of Orange S.A. reached approximately 10 million, driving the company to a position of Europe's top convergent operator.

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

As of December 31, 2016, the Company has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

Orange Polska S.A. did not issue any employee shares in 2016.

7 GROUP'S STRUCTURE AS OF DECEMBER 31, 2016

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

7.1 Corporate Governance Bodies of the Parent Company

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

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

Managing Persons

As of February 13, 2017, Mr. Jean-François Fallacher, President of the Orange Polska Management Board, 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 13, 2017.

As part of the Company's incentive program, members of the Management Board of the Company acquired Orange Polska registered A-series first option bonds, giving the right to subscribe for the Company's shares with priority over existing shareholders. The number of first option bonds held by members of the Management Board of the Company on February 13, 2017 was as follows:

Mariusz Gaca	68,839
Bożena Leśniewska	27,536
Piotr Muszyński	190,896
Jolanta Dudek	13,768
Jacek Kowalski	25,241
Maciej Nowohoński	36,715

Shares held in related entities:

Mariusz Gaca	500 shares of Orange S.A. of par value of €4 each
Bożena Leśniewska	80 shares of Orange S.A. of par value of €4 each
Piotr Muszyński	500 shares of Orange S.A. of par value of €4 each
Jolanta Dudek	80 shares of Orange S.A. of par value of €4 each
Jacek Kowalski	350 shares of Orange S.A. of par value of €4 each

Supervising Persons

As of February 13, 2017, Mr. Maciej Witucki, Chairman of the Orange Polska Supervisory Board, held 305,557 first option bonds. Other Members of the Supervisory Board of Orange Polska S.A. do not participate in the Company's incentive program and as of February 13, 2017 held no first option bonds. As of February 13, 2017, Mr. Maciej Witucki, Chairman of the Orange Polska Supervisory Board, held 4,000 shares of Orange Polska S.A. No other persons who supervise Orange Polska S.A. held any shares in the Company or related entities as of December 31, 2016.

Shares held in related entities:

Gervais Pellissier	34.527	shares of Orange S.A. of par value of 4 EUR each.
Gervais Pellissier	1	share of Orange Horizons of par value of 10 EUR each.
Marc Ricau	10.315	shares of Orange S.A. of par value of 4 EUR each.
Federico Colom Artola	4.121	shares of Orange S.A. of par value of 4 EUR each.
Jean-Marie Culpin	1	share of Orange Caraibe of par value of 16 EUR each.
Eric Debroeck	5.267	share of Orange S.A. of par value of 4 EUR each.
Ramon Fernandez	1.322	shares of Orange S.A. of par value of 4 EUR each.
Ramon Fernandez	1	share of Médi Télécom of par value of 100 Dirhams each.
Valérie Thérond	340	shares of Orange S.A. of par value of 4 EUR each.

7.1.2 General Assembly

On April 12, 2016, the Annual General Assembly approved a dividend of PLN 328 million (i.e. PLN 0.25 per share). A total of 1,312,357,479 shares were eligible for dividend. The dividend was paid on July 7, 2016.

7.2 Workforce

As of December 31, 2016, Orange Polska employed 15,537 people (in full-time equivalents), which is a decrease of 6.4% compared to the end of December 2015.

Orange Polska's workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2016–2017, covering both Orange Polska S.A. and Orange Customer Service sp. z o.o. ("OCS", a wholly-owned subsidiary of Orange Polska S.A.). Pursuant to the Social Agreement, a total of 1,030 employees left both companies in 2016, 94% of whom under the voluntary departure programme. Voluntary departures were effected on the same terms as in both companies. In 2016, severance pay in Orange Polska S.A. and OCS averaged PLN 68.6 thousand per employee.

In 2016, external recruitment in Orange Polska totalled 540 positions. External recruitment was mainly related to sale positions and customer service staff.

7.2.1 Social Agreement

On December 2, 2015, the Management Board of Orange Polska S.A. concluded with trade unions a new Social Agreement for the years 2016–2017, which come into force on January 1, 2016. In particular, the Social Agreement concerns investments in a friendly work environment and pay rises (2.5% both in 2016 and 2017), as well as enabling long-standing employees to leave Orange Polska S.A. with fair compensation and supporting employees in seeking jobs in the market (outplacement).

In the years 2016–2017, up to 2,050 employees of Orange Polska S.A. and Orange Customer Service sp. z o.o. (a wholly-owned subsidiary of Orange Polska S.A.) will be eligible for the voluntary departure package, provided that they have seniority of 10 or more years in the calendar year in which their employment is terminated. In addition, the parties concluded separate agreements with trade unions specifying that up to 730 employees of Orange Polska S.A. and 300 employees of Orange Customer Service sp. z o.o. may use the package in 2016. In Orange Polska S.A., the voluntary departure offer is addressed to the employees who are covered by the Intragroup Collective Labour Agreement.

The package offered to departing employees depended on their seniority in the Group and ranged between 4 and 15 basic monthly salaries. In 2016, this was increased by an additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 10,000 for employees with seniority of more than 15 but less than 20 years or PLN 26,000 for employees with seniority of more than 20 years.

On November 16, 2016, the companies concluded another agreement with trade unions. It specifies that up to 1,020 employees of Orange Polska S.A. will be eligible for the voluntary departure package in 2017. In Orange Polska S.A., the voluntary departure offer is addressed to the employees who are covered by the Intragroup Collective Labour Agreement.

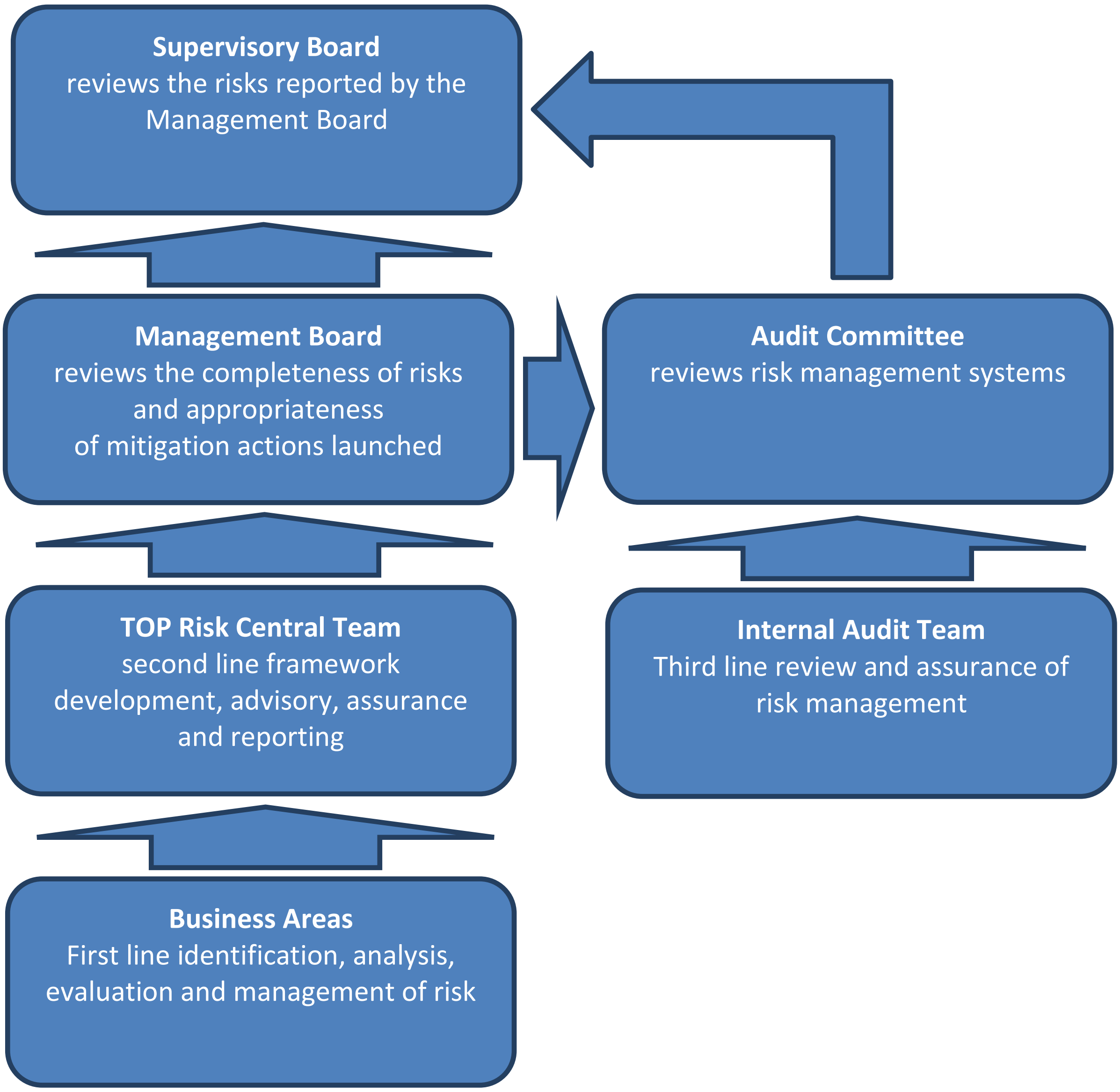
The package offered to departing employees in 2017 will depend on their seniority in the Group and range between 4 and 15 basic monthly salaries. In 2017, this will be increased by an additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 8,000 for employees with seniority of more than 15 but less than 20 years or PLN 22,000 for employees with seniority of more than 20 years.

CHAPTER IV
KEY RISK FACTORS

8 RISK MANAGEMENT FRAMEWORK IN ORANGE POLSKA

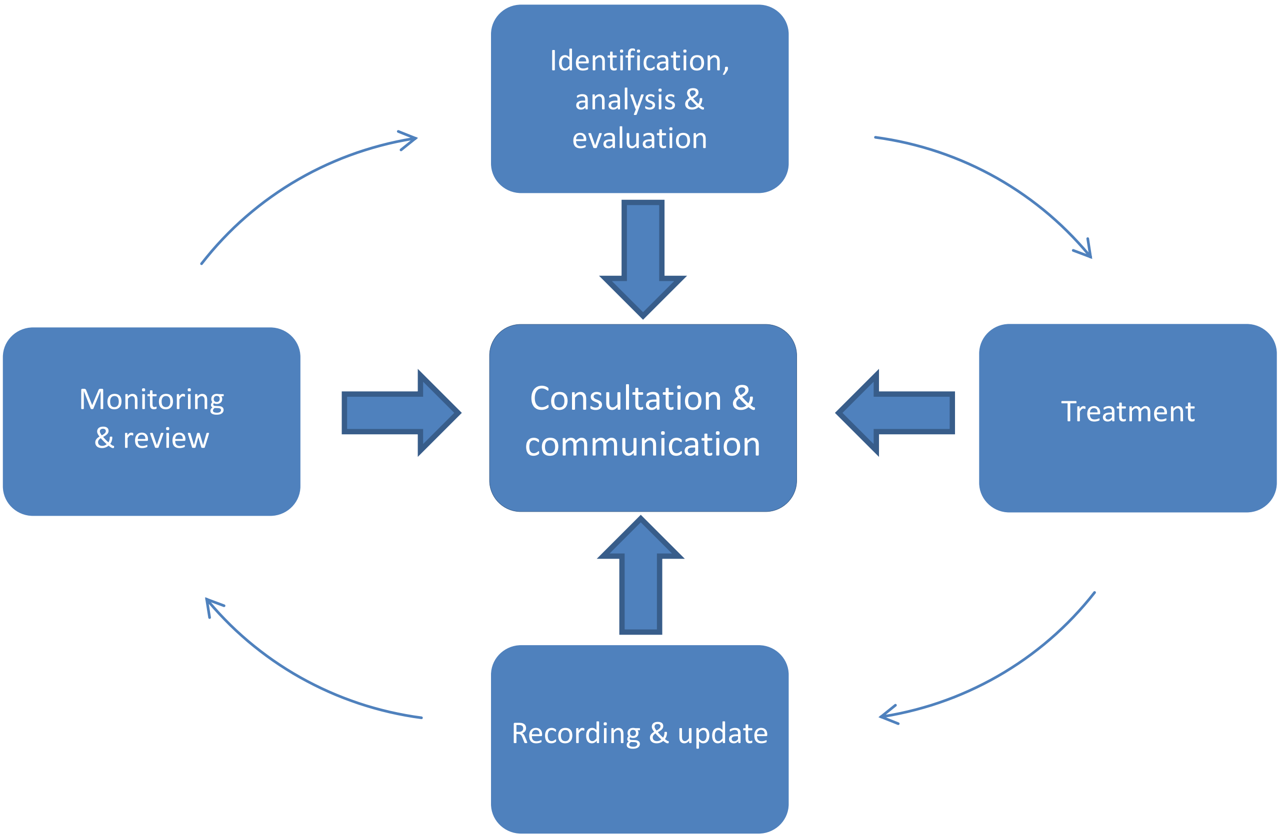
Orange Polska is exposed to a range of external and internal risks of varying types which can impact the achievement of its objectives. As a result, Orange Polska maintains the risk management framework to identify, assess and manage risks. This framework has been based on the ISO 31000:2009 standard.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

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



Event-based risks are subject to assessment based on their probability and impact in terms of financial, reputational, business continuity and human loss. Indicative heat maps are used to report and evaluate risks. Results of assessment of top risks are reported to the Supervisory Board annually.

Fig. 2. Orange Polska's risk management process.



8.1 RISK FACTORS AFFECTING THE OPERATING ACTIVITIES OF ORANGE POLSKA

8.1.1 Implementation of the Group's New Medium Term Action Plan

Our strategic plan for the years 2016–2018, which was announced in February 2016, provides for intensive investments in customer acquisition and ensuring best mobile and fixed connectivity in order to build long-term value and reverse the negative trends in market share, revenue and income evolution. It also provides for further improvement in customer experience and enhanced agility of our operations. We want to improve our market shares and lay the foundation for future growth.

The achievement of the new medium term action plan objectives 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 competition. The macroeconomic environment in Poland is currently favourable. However, both Poland's macroeconomic environment and the internal mood of consumers and businesses may change in the medium term. The regulatory environment may also add to pressure on the Group's operations and, consequently, its revenue and income levels as well as its general financial standing.

8.1.2 Competition and Pressure on Services and Prices

The main markets in which Orange Polska operates are mature or even saturated. It therefore faces extremely tough competition, mainly on prices but nowadays it concentrates on assuring quality of products, as well as customer services. In response, Orange Polska has chosen to make significant investments in FTTH and continue to conduct a transformation and fixed cost reduction policy. The Group has also committed to developing new activities such as mobile financial and energy services. If Orange Polska is unable to successfully implement this strategy, it could suffer a loss of market share and / or shrinking margins. The same could occur in the event of a consolidation not involving the Group in a market where it operates.
For more information on competition, see section 8.3 below.

8.1.3 New Services and Technologies

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

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

In response, Orange Polska has adopted a new medium-term action plan aimed at building long-term value through offensive investments in customer acquisitions and fibre network rollout. Orange Polska believes that macro, regulatory and market conditions are favourable and encouraging for network investments, and create a unique opportunity for the company to go on the market offensive. Therefore our new action plan reflects this approach and we intend to aggressively invest in customer acquisition.

8.1.4 Data protection

Orange Polska has a considerable customer base and constantly undertakes actions aimed to ensure protection of its customers' personal data. Moreover, the Group is ISO/IEC 27001:2013 certified in the scope of provision of telecommunication and ICT services, hosting, collocation and cloud computing services, as well as accompanying actions and supporting processes. Furthermore, Orange Polska has maintained European CERT certification (for its CERT) and WebTrust PKI Signet certification. Despite all the precautions taken, considering the modern threats related to information technologies used for processing of data, it is not possible to fully exclude the risk of infringement of the security thereof.

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

Recourse to liability proceedings is facilitated by legislation that has strengthened operators' obligations such as those stipulated in the new General Data Protection Regulation (GDPR) released in April 2016, to be effective in 2018. For infringement of GDPR protection rules, administrative fines of up to 4% of the annual global turnover may be imposed. It could become even more intense in the future if the legislation becomes more stringent. Such incidents could have a considerable impact on the Group's reputation and a heavy impact on its liability, including its criminal liability, and hence have an adverse impact on Orange Polska's future financial performance.

8.1.5 Interruption of Orange IT&N Infrastructure and Services

Orange Polska is exposed to the risk of an interruption of its IT&N infrastructure and services. Damage or interruptions to the service provided to customers may occur following cyber attacks (on the IT&N infrastructure), outages (hardware or software), human errors or sabotage of critical hardware or software, failure of a critical supplier, or if the network in question does not have sufficient capacity to meet the growing usage needs, or during the implementation of new applications or software. Among these risks of interruption, telecommunications operators are especially exposed to malicious actions, cyber attacks and terrorist attacks on sites and staff because of the vital nature of telecommunications in the functioning of the economy.

This risk is being mitigated by proper network and IT systems development planning, preventive maintenance, implementation of business continuity and crisis management plans and insurance schemes. Orange Polska has been continually investing in the development of disaster recovery solutions. Orange Polska has become the first telecom operator in Poland to obtain an ISO 22301:2012 Certificate for its Business Continuity Management System in the scope of provision of telecommunication and ICT services. Despite the steps taken by Orange Polska to protect its network, the growing frequency of such attacks increases the risk of an interruption to its services. The impact of such events could seriously damage Orange Polska's reputation, trigger its liability and result in a reduction of traffic and hence revenue, affecting its profits and outlook. If they were to occur on a nationwide scale, they might also create a crisis potentially affecting the national security.

8.1.6 Fraud and Revenue Assurance

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

8.1.7 Exposure to electromagnetic fields

Exposure to electromagnetic fields (EMF) from mobile networks raises concerns for their possible adverse health effects. Perceptions of this risk could worsen or a deleterious effect may one day be scientifically established, which would have negative consequences for the business and results of operators such as

Orange Polska. In Poland, although the Polish EMF limit is much more restrictive then in the most of other countries, concerns have been raised regarding the possible health risks linked to exposure to electromagnetic fields from telecommunications equipment (primarily mobile handsets, base stations and WiFi).

If the above-mentioned health risks are eventually scientifically demonstrated, there would probably be a resulting decline in the use of mobile telecommunications services, difficulties and additional expense in rolling out mobile antennas and wireless networks, and an increase in litigation.

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

8.1.8 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 outside consultant.

8.1.9 Dependence on External Partners

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

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

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

8.2 REGULATORY, LEGAL AND TAX RISKS

8.2.1 Regulatory Risks

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

8.2.2 Retail Roaming Charges

According to the Regulation of November 2015 on roaming, as of June 15, 2017, prices of retail services in roaming will become equal to prices of services at home. Operators will be protected against abusive use of roaming through the "fair use" policy, which will enable them to cap the volume of roaming services provided at domestic prices and apply surcharges to domestic prices.

On December 15, 2016, the European Commission published the Implementing Regulation 2016/2286 laying down detailed rules on the application of fair use policy. The Regulation will come into force on June 15, 2017.

The Implementing Regulation specifies the offers in which data volume limits may be applied (i.e. in open data bundles or pre-paid tariff plans) and how such limits should be calculated. In addition, the Regulation provides that operators apply to the national regulatory authority (UKE) for authorisation to apply a roaming surcharge, if the roaming retail net margin is negative and equivalent to 3% or more of the applicant's aggregate mobile services margin.

Due to the fact that discussions are still pending regarding the model of roaming regulations implementation (e.g. in scope of antifraud mechanisms) there is area of uncertainty how the new rules will influence Orange Polska services.

8.2.3 Allocation of the 700 MHz Band to Telecommunications Services

Growing demand for data services and future development of 5G systems will necessitate the allocation of new bandwidth both below and above 6 GHz. In particular, there is uncertainty related to the distribution of the second digital dividend that is 700 MHz spectrum. Pursuant to the European Commission's decision, all Member States should allow the use of this band for mobile services by June 30, 2020 (or June 2022 at the latest). The detailed plans of Polish administration in this respect remain unknown. However, there have been rumours that this band may be put on sale much earlier. This would mean that operators would have to pay for the band several years before they could actually use it.

8.2.4 Polish Tax System

Polish tax laws and regulations, in particular regarding value added tax and income tax, are complex and subject to frequent changes and contradictory interpretations by tax authorities. Changes in regulations, leading to lack of reasonable certainty of the tax system, may adversely affect the legal, business and financial situation of the Group. Recently, the Ministry of Finance has not indicated any plans to change tax rates; in particular, return to VAT rates of 22% and 7% is not intended. Furthermore, there has been a clear tendency of the Ministry of Finance to tighten up the tax system by eliminating solutions which used to enable lawful tax optimisation. An example of such actions is the introduction of a clause against tax avoidance into the Tax Ordinance as from July 15, 2016.

Under the new regulations, should an action be taken primarily to achieve a tax advantage, which is contradictory in given circumstances to the object and purpose of the tax law, shall not result in the achievement of a tax benefit, if the mode of action was artificial. The mode of action shall be deemed artificial if based on the existing circumstances it should be assumed that it would not be carried out by a taxpayer acting in a reasonable manner and guided by lawful objectives other than achievement of a tax advantage, which is contradictory to the object and purpose of the tax law. The clause shall apply to actions taken after July 15, 2016 as well as actions taken earlier if tax benefits were achieved after July 15, 2016.

In addition, owing to the scale of operations, legislation changes in other areas, e.g. spatial planning, may also in the future negatively affect the amount of tax obligations of an infrastructure-based operator such as Orange Polska. Unclear provisions or unfavourable interpretations may result in an increase in tax burden.

8.2.5 Proceedings by UOKiK and European Commission Related to Network Sharing

In 2014 Polkomtel sent a letter to the European Commission informing about a potential breach by Orange Polska 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 submitted the information and documents requested by the Commission.

Also in 2014, UOKiK opened initial proceedings to clarify whether the activity of telecommunication operators related to their co-operation in providing access to, integration of or co-use of telecommunication networks, telecommunication infrastructure or frequencies might have resulted in a breach of the Act on competition and consumer protection. On January 15, 2016, UOKiK announced that it had completed the proceedings and, if needed, would submit its findings to the European Commission. The proceedings by the European Commission are pending.

8.2.6 Remuneration for the Use of Third Parties' Land for the Purpose of Development and Maintenance of Orange Polska's Infrastructure

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

8.3 COMPETITIVE RISKS

8.3.1 Operational Programme “Digital Poland” and Fibre Infrastructure Development in Poland

Apart from its positive social impact of the Operational Programme “Digital Poland”, Orange Polska has identified some risks which may result in lower than initially assumed return on its investments. Unlike operators co-financed from EU funds, Orange Polska bears full costs of investments in the development of modern fibre infrastructure in cities, as its investment programme is carried out on a commercial basis. In the long term, fibre investment projects co-financed from EU funds and carried out by small local operators in semi-rural and rural areas pose a real and direct risk for the market position of Orange Polska, as its services are based on ADSL technology in such areas.

8.3.2 eSIM Technology

There is a growing risk from the eSIM technology, particularly in scenarios where new solutions are based on direct marketing relationship between the end user and the terminal / handset producer, eliminating the access infrastructure provider. Such solutions would marginalise the operator's role, reducing it to technical aspects invisible for the customer, and virtually prevent (or considerably hinder) the provision of value-added services by such an operator as Orange Polska to retail customers under its own brand.

8.3.3 CATV Operators and Competition in the Convergent Market

The expansion of CATV operators in local markets, where Orange Polska has had an established position hitherto, through organic growth or acquisitions, poses a risk for its position. The situation in big cities shows Orange Polska has to compete with CATV operators' comprehensive offer on the basis of its traditional copper infrastructure. Therefore, the Group's FTTH investment programme covers also smaller towns, where CATV operators have not consolidated their presence yet.

Potential emergence of a new fully convergent operator would reduce the competitive advantage of Orange Polska – the market pioneer in convergent offers to residential customers.

8.3.4 Cross-selling of Services within the Cyfrowy Polsat Group

In 2016, Cyfrowy Polsat and Polkomtel (both in the Cyfrowy Polsat Group controlled by Zygmunt Solorz-Żak) continued cross-sales of bundled offers combining mobile voice, mobile broadband and TV, coupled with sales of electrical energy and financial services in order to strengthen marketing relationship with both existing and new customers and build a joint customer base.

Aiming to expand its post-paid customer base, the Cyfrowy Polsat Group offers its customers a number of benefits in the 'SmartDOM' programme (which is a range of household-dedicated services provided by Polkomtel and Cyfrowy Polsat), e.g. in May 2016 the lowest price guarantee for a bundle of satellite TV, mobile broadband and mobile voice services or a promotional price for the Euro 2016 Championship broadcast package. In addition, in September 2016, the 'SmartDOM' programme was expanded to include discounts for house appliance purchases (with MPM as the partner).

In October 2016, the Cyfrowy Polsat Group decided to close its 'Paszport korzyści' loyalty programme addressed to customers of Cyfrowy Polsat, Plus and Plus Bank.

8.3.5 Announced Expansion of T-Mobile in the Retail Market

After a period of active efforts in the business market (resulting directly from the merger with GTS Polska), in a medium term strategy presented in March 2016, T-Mobile announced that it would now focus on post-paid individual customers and the SOHO (Small Office/Home Office) segment. T-Mobile has the ambition to become the leader by value and achieve a 25% market share in pre-paid segment by 2020.

The related strategy is divided into three main stages: (i) mitigation of churn, (ii) increase in the market share for new contracts, and (iii) transition to the leadership in customer acquisitions. The goal set by the company is to be attained through the following: development of an image of the leader in the digital world, top network quality and offer simplicity. As part of the announced strategy, T-Mobile also ultimately intends to double its revenue from business customers in the ICT market. The success of this strategy depends on a number of factors, and there are initial sings of delays in the implementation of the stage one, as churn had not been mitigated by the end of 2016.

8.3.6 Fixed/Mobile Voice Substitution

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

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

Offers in which a fixed voice service is an added value to a broadband or mobile service as the equivalent of a 'traditional' fixed line have been clearly gaining popularity. Such services dedicated to fixed applications (at home or office) but based on mobile infrastructure are generally offered by mobile operators; yet, the mobile virtual network operator (MVNO) model has been increasingly used for this purpose, recently. Such operators as Netia, Novum or Telestrada intend to migrate their fixed-line customers to a mobile network.

8.3.7 Fixed/Mobile Broadband Substitution

The upward trend in the mobile broadband segment continued in 2016. According to Orange Polska's estimates. the mobile broadband penetration of Poland's population reached almost 19.0% at the end of 2016. In Poland, mobile broadband access is a substitute to fixed broadband access, and the development of the former has slowed down the growth of the latter over the recent years. In the medium term, further migration of ADSL customers to mobile solutions should be expected.

8.3.8 Leased Lines Market

Orange Polska's main competitors in the wholesale leased lines market are Netia Group, PGE/Exatel Group, GTS/T-Mobile Group, Multimedia Group and ATM. These companies have network resources that enable them to compete with Orange Polska’s offer in terms of quality and price, and have their own nodes in all the sixteen regions of Poland. On the other hand, these operators are the core customers of Orange Polska’s wholesale services. A major part of the leased lines market is the retail segment with additional competition from smaller market players that develop their retail offer on the basis of lines leased from Orange Polska or other large players.

Pursuant to the President of UKE’s decisions of September 2015, Orange Polska’s regulatory obligations in the market for leased line trunk segment services (market 14) were lifted, and the market for high-quality access provided at a fixed location was limited to capacities of up to and including 2 Mbps, while higher capacities were transferred to a category of data services offered on a commercial basis. Orange Polska has continued to provide the leased lines launched prior to the market deregulation (partial for the market 13 and full for the market 14) on unchanged terms, while new orders for higher capacities are executed on a basis of a commercial agreement. The existing leased lines of capacities higher than 2 Mbps are gradually migrated to commercial agreements. The companies that have used the retail leased lines services so far may, upon registration in the register of telecom operators, use the regulated offer and the wholesale price list for capacities of up to 2 Mbps.

There has been an increasingly noticeable shift towards sophisticated data transmission services on managed networks as well as convergent services which combine traditional leased line services with packet network services. For this reason, in Poland, like in other European countries, customers have been migrating from traditional data transmission services to managed solutions. Both Orange Polska and its rival companies have been expanding their service portfolio in this direction. This shift has also been noticed by the regulator. Consequently, a change of the regulatory framework for leased lines is expected. This should involve the establishment of the new relevant market for high-quality access in a fixed location at up to 2 Mbps, technologically neutral, which will include a portion of the existing market 13 (for speeds up to 2 Mbps) as well as the technologies offered hitherto in commercial data services of up to 2 Mbps.

8.4 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

Macroeconomic Factors

8.4.1 Economic Growth

In 2016, the Polish economy continued to grow, though at a slower pace than in 2015. The GDP growth rate was estimated at 2.8%. The positive condition of economy resulted mainly from stable growth in private consumption, while slightly less favourable trends were reported in exports and investments. All these three growth engines should support the economy even better in subsequent years. Improvement in the labour market, growing wages, additional social transfers (especially the ‘500+’ programme) and low interest rates will stimulate an increase in household expenditure, while export, which slightly slowed down in the second half of 2016, should rebound owing to recovery in the Eurozone. Poland’s economic outlook depends on the condition of other European economies and the economic climate in global markets. Owing to strong ties between the Polish economy and economies of other European countries, especially Germany, a potential negative scenario for the European or German economy may have adverse effects on Poland’s GDP growth rate. An internal risk factor that may potentially mitigate economic growth is related to additional state expenditure resulting from the election promises made by the new government. This expenditure may increase the budget deficit, which in turn may reduce the direct contribution of public spending to domestic demand growth and reduce the volume of public investments.

8.4.2 Inflation

Average annual CPI reached -0.6% in 2016, which was well below the inflation target (2.5%). Deflation, which took hold in the middle of the 2015, resulted primarily from lower food, raw materials and fuel prices, which in both cases can be attributed mainly to external factors. Russian sanctions on the EU food exports lowered demand for domestic food products, while a slump in oil prices in international markets contributed to a rapid decrease in fuel prices.

Throughout the year, the Monetary Policy Council kept the reference interest rate at the record low of 1.5% (set in March 2015), upholding an opinion that the current stable economic growth limited the risk of inflation remaining below the target in the medium term.

The expected increase in inflation will result from depreciation of the Polish zloty in case of a significant increase in risk aversion in global financial markets.

8.4.3 Unemployment and Labour Costs

The labour market has been positively affected by the general macroeconomic climate, which was reflected in an increase in employment and a decrease in unemployment to 8.3% (-1.4 pp y-o-y) at the end of 2016. At the same time, an increase in wages in the enterprise sector was reported. Between January and December 2016, these wages were up 3.8% in nominal terms.

A further improvement in the labour market, driven by growing GDP, enhanced mood in the enterprise sector, growing investments and inflow of EU funds, may be expected in 2017.

8.4.4 Political and Economic Factors

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

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

Factors Related to Financial Markets

8.4.5 General Risks Related to the Polish Market

As Poland is still considered an emerging market, Polish assets are exposed to higher volatility in case of fluctuations in global markets. Therefore, increased caution is recommended while estimating the risk of purchase of financial assets of Polish companies. Analysis and potential investment decisions should be made by experienced investors who are aware of the risks involved in such investments.

8.4.6 Interest Rates

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

8.4.7 Foreign Exchange Rates

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

8.4.8 Risk of Asset Impairment

The recoverable amounts of enterprises, which affects the accounting value of fixed assets, including goodwill, is sensitive to valuation methods and model assumptions as well as to any changes in the business environment contrary to the assumptions made. For more information about goodwill impairment and recoverable amounts please see notes to the Consolidated Full-Year Financial Statements.

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

CHAPTER V
STATEMENTS

9 STATEMENTS OF THE MANAGEMENT BOARD

9.1 Statement on Adopted Accounting Principles

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

1. Jean-François Fallacher - President of the Board
2. Bożena Leśniewska - Vice President in charge of Business Market
3. Mariusz Gaca - Vice President in charge of Consumer Market
4. Piotr Muszyński - Vice President in charge of Strategy and Transformation
5. Jolanta Dudek - Board Member in charge of Customer Care and Customers Excellence
6. Jacek Kowalski - Board Member in charge of Human Resources
7. Maciej Nowohoński - Board Member charge of Finance, Chief Financial Officer

hereby confirms that according to its best knowledge the annual consolidated financial statements and annual standalone financial statements of Orange Polska S.A. as well as comparable data have been drawn up in compliance with the accounting regulations in force and reflect the property, financial standing and financial result of Orange Polska S.A. and its Group in an accurate, reliable and transparent manner.

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

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

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

9.3 Agreement with the Licensed Auditor

On June 13, 2016, Orange Polska S.A. concluded an agreement with an entity licensed to audit financial statements, pursuant to which Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. has performed the following:

- reviews of the standalone financial statements of the Company and the consolidated financial statements of the Group for the first half of 2016 prepared in accordance with IFRS; and
- procedures regarding the Magnitude reporting package of Orange Polska S.A.

On August 31, 2016, Orange Polska S.A. concluded an agreement with an entity licensed to audit financial statements, pursuant to which Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. has performed the following:

- an audit of the standalone financial statements of the Company and the consolidated financial statements of the Group for 2016 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 (in PLN '000) 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 2016 is presented below:

		2016
Audit of the consolidated financial statements of the Group as well as annual financial statements of Orange Polska S.A. and its subsidiaries		2,030
Other authentication services to the Group, including:		2,148
– Review of the standalone financial statements of Orange Polska S.A. and the consolidated financial statements of the Group as of June 30, 2016	*483*	
– Audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law	*1,665*	
Other services		142
Total amount payable by Group		4,320

The fees payable to Ernst & Young spółka z ograniczoną odpowiedzialnością Business Advisory sp.k. and Ernst & Young spółka z ograniczoną odpowiedzialnością Academy of Business sp.k. totalled PLN 173 thousand in 2016.

In 2015, 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 2,090 thousand for audits of financial statements of Orange Polska S.A., the Group and subsidiaries; PLN 485 thousand for reviews of financial statements of Orange Polska S.A. and the Group; PLN 145 thousand for other services to Orange Polska S.A.; PLN 1,615 thousand for audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law; and PLN 157 thousand of the fees paid to Ernst & Young spółka z ograniczoną odpowiedzialnością Business Advisory sp.k. and Ernst & Young spółka z ograniczoną odpowiedzialnością Academy of Business sp.k.

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

As published on 15 February 2016 in the current report 13/2016, the Group forecasted the adjusted EBITDA for 2016 to be in the range of PLN 3.15–3.30 billion and the net financial debt to adjusted EBITDA ratio to be not higher than 2.2 for the full year 2016. The Management Board of Orange Polska S.A. confirms that the above-mentioned forecast has been met.

Adjusted EBITDA was PLN 3,163 million, while the net financial debt to adjusted EBITDA ratio was 2.1 in 2016.

10 CORPORATE GOVERNANCE STATEMENT

(a) Company's corporate governance policy

The Company, as an issuer of securities listed on the Warsaw Stock Exchange (WSE), is obliged to comply with the corporate governance practices set out in the *Best Practice for WSE Listed Companies 2016*. The version of the latter in force until December 31, 2016 is available at http://corp-gov.gpw.pl.

(b) Corporate governance compliance

In 2016, 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 the Group has been designed and implemented by the Management Board to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company adopted Code of Ethics which encompasses its relationship with customers, shareholders, employees, suppliers, competition and also with respect to the environment in which the Group operates. A warning system related to ethics and reporting of potential and actual fraud has been enhanced by the Group which is co-ordinated by the Ethics Committee. Training on ethics is provided to employees, which is confirmed by a personal certification. Formal channels for whistle blowing have been established, including reporting to the Chairman of the Audit Committee of the Supervisory Board and the Ethics Committee.

In 2013 in accordance with the approach adopted by Orange Group assuming a gradual implementation of subsequent elements of Compliance Program the Anti-Corruption Policy and Guidelines were introduced in Orange Polska. The implemented Anti-corruption Policy, supplemented by the Guidelines, contains detailed rules and standards for its application and references to specific conditions and circumstances relating to the identification and mitigation of risk of corruption. In addition, a number of information and training actions were carried out in order to raise employees' awareness of anti-corruption laws and rules applicable to the Company.

The Group is diligent in its approach to reporting financial results and its ongoing communication with the Polish and international investment community, as well as fulfilling its disclosure obligations. Key managers responsible for the financial, legal, regulatory and internal control functions review financial statements and make comments thereto at the Disclosure Committee. The purpose of the Committee's meetings is to ensure that financial disclosures are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of both the Company and the Group. In 2016, the Disclosure Committee had six meetings. In addition the Audit Committee review the financial disclosures of the Company and the Group before they are published.

The key elements of the Group's internal control and risk management system include the following procedures:

(1) An internal audit function, which functionally reports to the President of the Management Board. The internal audit programme is annually reviewed by the Audit Committee, which also analyses the Group's Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit, Management Board decisions regarding the conclusion and termination of an employment contract with the Group Internal Audit Director as well as his evaluation and remuneration require an opinion of the Audit and Remuneration Committees. The Group Internal Audit Director attends all meetings of the Audit Committee.

(2) The Group conducts ongoing assessments of the quality of the risk management system and controls. This process includes identification and classification of the Group's financial and non-financial risks – see Chapter 4, section 8.

(3) Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental, financial reporting and operational) effectively on an ongoing basis. It provides a framework for ongoing risk-controlling activities.

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

(d) Indication of shareholders holding, directly or indirectly, significant batches of shares, including the number of shares held, the interest in the Share Capital, the corresponding number of votes and the percentage of the total voting power at the General Assembly

Please see section 6.3 above for the information about major shareholders.

(e) Indication of holders of any securities granting special control rights and description of such rights

The Company has not issued any securities granting any special control rights to shareholders or other entities.

(f) Indication of any restrictions concerning the exercise of the voting rights on shares, such as restriction of the voting rights to a certain percentage or number of votes or temporary restriction of the voting rights, or regulations according to which, in conjunction with the Company, the rights on securities are separated from the ownership of securities

The Company has not introduced any specific restrictions concerning the exercise of the voting rights on shares.

(g) Indication of any restrictions concerning transfer of ownership of the securities issued by Orange Polska

The transfer of ownership of the securities issued by the Company is not subject to any restrictions.

(h) Description of procedures for appointment and removal of managing persons and their rights, particularly the right to make decisions regarding the issuance or redemption of shares

The Management Board consists of between 3 and 10 members, including the President. They are appointed and removed by the Supervisory Board by a simple majority of the votes cast. The term of office for the member of the Management Board is three years. The Management Board's remit comprises the management of all aspects of the Company's affairs, with the exception of the matters which under the Polish Commercial Companies Code or the Articles of Association shall be within the competence of the General Assembly or the Supervisory Board. In particular, the powers of the Management Board include development of the Group's strategy, economic and financial plans; establishment, transformation and liquidation of the Company's business units; and governance of the Group subsidiaries. Any decisions regarding the issuance or redemption of the Company's shares are exclusively within the competence of the General Assembly.

The powers of the Management Board are detailed in the Management Board by-laws, available at www.orange-ir.pl

(i) Description of procedures for amending the Articles of Association or the deed of the company

Any amendment to the Articles of Association requires a resolution of the General Assembly adopted by a majority of the three quarters of votes.

(j) Rules of operation of the General Assembly and its major responsibilities, and description of the shareholders' rights and the way of exercise thereof, particularly the rules resulting from the General Assembly by-laws, if any, unless the information in this respect results directly from mandatory regulations

I. General Assemblies shall be held in Warsaw. The General Assembly shall be valid irrespective of the number of shares represented. According to the adopted by-laws, the General Assembly shall be opened by the Chairman of the Supervisory Board or his deputy, or, in case of their absence, by the President of the Management Board or a person designated by the Management Board. Thereafter, the Chairman shall be elected from among the persons entitled to take part in the General Assembly. After each subsequent matter on the agenda has been presented the Chairman of the General Assembly shall open a discussion giving floor to speakers in the sequence in which they have declared their willingness to speak. Upon the consent of the General Assembly several items of the agenda may be discussed jointly. The participants may speak only on the matters which have been put on the agenda and are being considered at that moment.

II. Pursuant to the Regulations of the General Assembly of Orange Polska S.A., the shareholders have the following rights:

(1) The shareholders may take part in the General Assembly and exercise the right of vote in person or by attorneys-in-fact (other representatives).

(2) Each shareholder has the right to candidature for the Chairman of the General Assembly or to put forward one candidature for the position of the Chairman of the General Assembly to the minutes.

(3) When every point on the agenda is considered each shareholder has the right to one speech of 5 minutes and a reply of 5 minutes.

(4) Each shareholder has the right to ask questions on any matters on the agenda.

(5) The shareholder has the right to object a decision of the Chairman of the General Assembly. The General Assembly shall decide in a resolution whether the decision of the Chairman be upheld or reversed.

(6) Each shareholder has the right to suggest amendments or additions to draft resolutions, which are covered by the agenda of the General Assembly, by the time of closing the discussion over the item on the agenda referring to the draft resolution to which the suggestion is related.

(k) Composition and changes thereof in the last financial year, and description of bodies that manage, supervise or administer Orange Polska S.A. and any committees thereof

I. Composition of the Management Board in 2016

Composition on January 1, 2016:

1. Bruno Duthoit – President of the Board
2. Mariusz Gaca – Vice President of the Board
3. Piotr Muszyński – Vice President of the Board
4. Jolanta Dudek – Board Member
5. Jacek Kowalski – Board Member
6. Bożena Leśniewska – Board Member
7. Maciej Nowohoński – Board Member
8. Michał Paschalis-Jakubowicz – Board Member

On February 4, 2016, the Supervisory Board of Orange Polska, in view of the Company's President of the Management Board, Bruno Duthoit mandate expiring on 12 April 2016, decided to re-appoint Bruno Duthoit for the next term of office. At the same, time Bruno Duthoit informed Orange Polska that he had decided to accept the Orange Group’s proposal to take as of May 1, 2016 the position of Deputy Orange Group Executive Director for Europe, responsible for Central Europe and reporting directly to Gervais Pellissier, Orange Group Deputy CEO & Orange Group Executive Director for Europe. Therefore, Bruno Duthoit resigned from the position of the Company’s CEO with effect from the end of the day of April 30, 2016. Subsequently on the same date, February 4, 2016, the Supervisory Board of Orange Polska appointed Jean-François Fallacher as the President of the Management Board of Orange Polska, effective as of May 1, 2016.

On July 4, 2016, Michał Paschalis-Jakubowicz, Member of the Management Board of Orange Polska S.A. in charge of Marketing resigned from his position due to personal reasons with immediate effect. During the transition period, Jean-François Fallacher, President of the Management Board, has taken over management responsibilities in the area of marketing.

On October 12, 2016, Piotr Muszyński was reappointed as a Member of the Management Board for the next term of office. The reappointment was made before the expiration of the current term of office. The new term of office starts on the day of the next Annual General Meeting that will accept the financial statements of Orange Polska for 2016, for a period of three years. He will hold the position of Vice-President of the Orange Polska Management Board in charge of Strategy and Transformation.

On December 20, 2016, the Management Board of Orange Polska decided on some organisational changes coming into effect on January 1, 2017. Mariusz Gaca, who was the Deputy CEO in charge of the Business Market (B2B), took a newly formed position of Deputy CEO in charge of Consumer Market (B2C). This combined responsibility for three areas that had been managed separately, namely: Sales & Commercial Digitisation, B2C Marketing and Brand & Marketing Communication. At the same time, Bożena Leśniewska, who was the Management Board Member in charge of Sales and Commercial Digitisation, was appointed the Deputy CEO in charge of the Business Market.

Composition on December 31, 2016:

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

Composition on January 1, 2017:

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

Notes regarding Management Board Members:

Jean-François Fallacher (born 1967) CEO and President of the Management Board of Orange Polska since 1st May. In years 2011-2016 he was the CEO of Orange Romania, responsible for running Romania's leading mobile telecommunications company.

Prior to Orange Romania, Jean-François served in key leadership roles within Orange Group for 20 years, most recently as the CEO of Sofrecom, the Group's international consulting company, and in the Netherlands as COO of the internet provider Wanadoo and as Marketing manager B2B for EuroNet Internet.

Jean-François has an extensive professional know-how in the telecom market, on both business and residential sectors, gained in various European markets. Holding a strong academic background with engineering degrees from École Polytechnique, École Nationale Supérieure des Télécommunications in Paris, completed by the International Business Development program at ESSEC Business School, Jean-François was formed in the early days of the www expansion.

Mr. Mariusz Gaca (born in 1973); Vice President of the Board for Consumer Market since January 2017 and he is also chairman of the Ethics Committee Orange Poland. Since November 2013 he was Vice President for B2B Market. He is also Vice President of Employers of Poland and Chairman of the Polish Section of Business and Industry Advisory Committee to the OECD (BIAC). A member of Executive Volunteers Coalition since 2013, he is very active in voluntary work and promotes the principles of corporate social responsibility.

He began his professional career in the Elektrim Group, where he co-created business plans for local telecommunication operators, between 1995 and 2000. From 2001 he worked at TP Group (Telekomunikacja Polska) as Director of Multimedia and was responsible for the development of Internet access for the mass market. Between 2005 and 2009 he was responsible for the TP Group business market. From 2009 he was TP Group Executive Director in charge of Sales and Customer Service and President of the Management Board of PTK Centertel (TP Group mobile telecommunication operator) - a position which he held until the merger of PTK Centertel with Telekomunikacja Polska. He is a graduate of Academy of Agriculture and Technology in Bydgoszcz and Warsaw University. He also holds an MBA from the University of Illinois at Urbana Champaign and is a graduate of the Advanced Management Program (AMP) at INSEAD.

Ms. Bożena Leśniewska (born in 1965); Since January 2017 Vice-President of the Management Board in charge of Business Market Orange Polska. For over 20 years related to the telecommunications sector. She was performing the management functions in Polkomtel S.A., PTK Centertel Sp. z o.o. and Telekomunikacja Polska S.A.

She joined Orange Polska team in 2006 as Deputy Director of Sales for Business Market. One year later she became Business Market Sales Director. Since 2008 she has worked as Director in charge of Business Market and later as Sales Director in both PTK Centertel Sp. z o.o. and Telekomunikacja Polska S.A. In 2013, she became Executive Director in charge of Sales Orange Polska and two years later she was appointed a Member of Management Board in charge of Sales and Commercial Digitisation.

She graduated in Philology at the Jagiellonian University, Advanced Management Programme at INSEAD, the Academy of Leadership Psychology at Warsaw University of Technology Business School and the Open Academy of Mentoring. She is the Member of the Board of Supervisors of Orange Retail S.A., she participates in the activities of Programme Council of Polish National Sales Awards. Moreover, Bożena Leśniewska is the Member of European Network for Women in Leadership and the Member of the Board of Experts THINKTANK. She was the finalist of Women In Sales Awards 2014 in category Best Woman Sales Director and the finalist of the 7th edition of Business Woman of the Year competition. In 2016, she was recognised by the Institute of Innovative Economy as one of 10 most influential women in Polish institutions operating in the field of IT.

Mr. Piotr Muszyński (born in 1963); Since 2016 he is Vice-President of the Management Board in charge of Strategy and Transformation at Orange Polska. He is also Chairman of the Programmatic CIONET Poland and member of the Foundation for the Development of Radiocommunication and Multimedia Technologies at the Warsaw University of Technology, Electronics and Telecommunications Committee of Sciences and of the Council PIIT.

At Orange Polska (former Telekomunikacja Polska) from 2001, initially as Director of Customer Care, between 2005 and 2006 as Director of Sales & Service, 2006-2008 as TP Group Executive Director in charge of Sales & Service. In September 2008 he was appointed Member of the Management Board in charge of Operations.

He is a graduate of the Faculty of Law and Administration at the University of Wrocław and the Advanced Management Program organised by IESE Business School / University of Navarra. In recognition of his career achievements he was awarded, among others: Golden Antenna Award - twice in the category of Manager of the Year, in 2010 and 2011 with the Golden Antenna Award of the World of Telecommunication and with the Gold Cyborg Award during the National Symposium on Telecommunications and ICT in 2011 – for his outstanding contribution to the development of information society.

Ms. Jolanta Dudek (born in 1964); Since 2015 member of the Management Board in charge of Customer Service Strategy and Customer Relations. Since November 2013, until incorporation area Customer Service 2016 into structure OPL served as CEO of Orange Customer Service. She began her career in telecommunication industry in 2000 in PTK Centertel holding managerial positions related to Individual

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

She is a graduate of the Faculty of Philology at the University of Silesia and postgraduate studies in European Economy Management with a diploma from French Ecole des Hautes Etudes Commerciales (HEC), Jouy-en-Josas and Warsaw School of Economics. She is also a graduate of postgraduate studies at the Academy of Leadership Psychology of Warsaw University of Technology Business School. She is also experienced Lead Auditor of Quality Management System ISO 2002 (BSI) and Global Contact Center Excellence (COPCR®) Coordinator. In 2015 she graduated from School of Mentors at the Warsaw University of Technology Business School.

Mr. Jacek Kowalski (born in 1964); Since January 2011 he is the Management Board Member in charge of Human Resources. Previously, since 2009 he was Executive Director in charge of Human Resources at Telekomunikacja Polska (now Orange Polska). He has been working at the company for over 10 years. He started his career in TP Group in 2001 as Manager of Human Resources in Sales & Marketing at PTK Centertel. From 2005 he was Director of Employee Competence and Development Management Branch. Prior to that, he was Director of the Entrepreneurship and Human Resources School in Infor Training (Infor Media Group) and Director of the National In-Service Teachers Training Center, responsible for implementation of training programs supporting the development of education in Poland. He is a member of the Program Board of Polish Human Resources Management Association, PTE and a member of Human Explorers - informal group.

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

Mr. Maciej Nowohoński (born in 1973); Since March 2014 he is Member of the Management Board in charge of Finance at Orange Polska. He also sits on the supervisory boards of selected subsidiaries of Orange Polska. He has been with Orange Polska since 2003. He held several positions in finance, including Orange Polska Group Controller in 2006-2014. He was Management Board Member at Emitel and in 2011-2013 - Management Board Member in charge of Finance at PTK Centertel. In 2010-2011 he was Member of the Management Board at Emitel and in 2011 – 2013 - Member of the Management Board in charge of Finance at PTK Centertel. Prior to joining the Orange team, he worked for Arthur Andersen & Andersen Business Consulting.

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

II. Composition of the Supervisory Board and its Committees and changes thereof in 2016

Composition on January 1, 2016:

1. Maciej Witucki - Chairman of the Supervisory Board
2. Prof. Andrzej K. Koźmiński - Deputy Chairman and Independent Board Member
3. Gervais Pellissier - Deputy Chairman and Chairman of the Strategy Committee
4. Marc Ricau - Board Member and Secretary
5. Dr. Henryka Bochniarz - Independent Board Member
6. Jean-Marie Culpin - Board Member
7. Eric Debroeck - Board Member
8. Ramon Fernandez - Board Member
9. Dr. Mirosław Gronicki - Independent Board Member
10. John Russell Houlden - Independent Board Member and Chairman of the Audit Committee
11. Marie-Christine Lambert - Board Member
12. Dr. Maria Pasło-Wiśniewska - Independent Board Member
13. Gérard Ries - Board Member
14. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee
15. Valérie Thérond - Board Member

On February 3, 2016, Prof. Andrzej K. Koźmiński resigned from the position as Member of the Supervisory Board with effect on April 12, 2016.

On April 7, 2016, Mr. Gérard Ries resigned from the position as Member of the Supervisory Board with effect on April 7, 2016.

On April 12, 2016, the mandates of Messrs. Jean-Marie Culpin, Eric Debroeck, Mirosław Gronicki, Gervais Pellissier, Marc Ricau and Maciej Witucki expired.

On the same day, Messrs. Jean-Marie Culpin, Eric Debroeck, Michał Kleiber, Gervais Pellissier, Marc Ricau and Maciej Witucki were appointed by the Annual General Assembly as Members of the Supervisory Board.

On June 28, 2016, Ms. Marie-Christine Lambert resigned from the position as Member of the Supervisory Board with effect on June 30, 2016.

On July 13, 2016, Messrs. Federico Colom Artola and Patrice Lambert de Diesbach were appointed by the Supervisory Board as Members of the Supervisory Board.

Composition on December 31, 2016:

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

At present, Orange Polska has five independent members on the Supervisory Board, namely: Dr. Henryka Bochniarz, John Russell Houlden, Prof. Michał Kleiber, Dr. Maria Pasło-Wiśniewska and Dr. Wiesław Rozłucki.

Composition of the Committees of the Supervisory Board on December 31, 2016:

The Audit Committee

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

The Audit Committee is chaired by Mr. John Russell Houlden, an independent Member of the Supervisory Board. He has relevant experience and qualifications in finance, accounting and audit.

The Remuneration Committee

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

The Strategy Committee

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

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

Below, is the list of the Members of Orange Polska Supervisory Board and Management Board together with the Annual General Assemblies on which their mandates expire.

Management Board	Year of AGM
Jean-François Fallacher - President	2019
Mariusz Gaca – Vice President	2017
Piotr Muszyński – Vice President	2020
Jolanta Dudek	2018
Jacek Kowalski	2017
Bożena Leśniewska – Vice President	2018
Maciej Nowohoński	2017

Supervisory Board	Year of AGM
Maciej Witucki – Chairman	2019
Gervais Pellissier – Deputy Chairman	2019
Marc Ricau – Secretary	2019
Henryka Bochniarz	2018
Federico Colom Artola	2017
Jean-Marie Culpin	2019
Eric Debroeck	2019
Ramon Fernandez	2018
John Russell Houlden	2017
Michał Kleiber	2019
Patrice Lambert de Diesbach	2017
Maria Pasło-Wiśniewska	2018
Wiesław Rozłucki	2018
Valérie Thérond	2017

III. Operations of the Management Board

The operations of the Management Board are managed by its President. Meetings of the Management Board are chaired by the President of the Management Board or, in case of his absence, another member of the Management Board designated by the President. Resolutions may be adopted if all members of the Management Board have been duly notified about the meeting. Resolutions of the Management Board shall be adopted by absolute majority of votes of all appointed members of the Management Board. Individual members of the Management Board shall manage the areas of the Company's operations assigned to them.

The responsibilities and obligations of the Management Board are detailed in the Management Board by-laws, available at www.orange-ir.pl.

IV. Operations of the Supervisory Board

The work of the Supervisory Board is co-ordinated by the Board Chairman with the assistance of the Board Secretary. The Supervisory Board shall hold a meeting at least once a quarter. The Management Board or a member of the Supervisory Board may demand convening a meeting, specifying a suggested agenda thereof. The Chairman of the Supervisory Board shall call a meeting within two weeks of the receipt of the aforementioned motion. In case the Chairman of the Supervisory Board fails to call a meeting within two weeks, the applicant may call it on his own, specifying the date, place and suggested agenda of the meeting.

The Supervisory Board shall adopt resolutions by a simple majority of the votes cast and in the presence of at least half of all members of the Supervisory Board. In case of equal votes, the Chairman of the Supervisory Board shall have the decisive vote.

Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in further paragraphs.

The Supervisory Board by-laws are available at www.orange-ir.pl.

In particular, the Supervisory Board is responsible for the appointment and remuneration of the members of the Management Board, the appointment of the Company's independent auditors, and the supervision of the Group's business. As part of its supervisory responsibilities, it examines the Group's strategic plan and annual budget, monitors the Group's operating and financial performance, formulates opinions on incurring liabilities that exceed the equivalent of €100,000,000, formulates opinions on disposal of the Group's assets that exceed the equivalent of €100,000,000, evaluates the Management Board's report on the Company's activities and the Management Board's proposals regarding distribution of profits or covering losses. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to Group's businesses.

Furthermore, the Polish Accounting Act determines the responsibility of the members of the Supervisory Board in regards to the reliability and fair presentation of the Company's financial reporting.

V. Operations of the Committees of the Supervisory Board

(A) The Audit Committee

The task of the Committee is to advise the Supervisory Board on the proper implementation of budgetary and financial reporting and internal control (including risk management) principles in the Group and to liaise with the auditors of the Group.

The key functions of the Audit Committee include:

1) Monitoring the integrity of the financial information provided by the Company and the Group in particular by reviewing:
    a. The relevance and consistency of the accounting methods used by the Company and the Group, including the criteria for the consolidation of the financial results;
    b. Any changes to accounting standards, policies and practices;
    c. Major areas of financial reporting subject to judgment;
    d. Significant adjustments arising from the audit;
    e. Statements on going concern;
    f. Compliance with the accounting regulations;
2) Reviewing, at least annually, the Group's system of internal control and risk management systems with a view to ensuring, to the extent possible, that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed;
3) Reviewing annually the Internal Audit programme, including the review of independence of the Internal Audit function and its budget, and coordination between the internal and external auditors;
4) Analyzing reports of the Group's Internal Audit and major findings of any other internal investigations and responses of the Management Board to them;
5) Making recommendations in relation to the engagement, termination, appraisal and/or remuneration (variable pay) of the Director of the Internal Audit;
6) Reviewing and providing an opinion to the Management and/or the Supervisory Board (where applicable) on significant transactions with related parties as defined by the corporate rules;
7) Monitoring the independence and objectivity of the Company's external auditors and presentation of recommendations to the Supervisory Board with regard to selection and remuneration of the Company's auditors, with particular attention being paid to remuneration for additional services;
8) Reviewing the issues giving rise to the resignation of the external auditor;
9) Discussing with the Company's external auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
10) Discussing with the Company's external auditors (in or without the presence of the Company Management Board) any problems or reservations, resulting from the financial statements audit;
11) Reviewing the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
12) Considering any other matter noted by the Audit Committee or the Supervisory Board;
13) Regularly informing the Supervisory Board about all important issues within the Committee's scope of activity.
14) Providing the Supervisory Board with its annual report on the Audit Committee's activity and results.

(B) The Remuneration Committee

The Remuneration Committee's task is to advise the Supervisory Board and Management Board on the general remuneration and nomination policy of the Group, determining the conditions of employment and remuneration (including the setting of objectives) of the Members of Management Board and giving recommendations to the Supervisory Board regarding salaries and the amounts of variable pay for the members of the Management Board.

(C) The Strategy Committee

The tasks of the Strategy Committee include:

(1) giving its opinion and recommendation to the Supervisory Board on the strategic plans put forward by the Management Board and any further suggestions made by the Supervisory Board regarding such strategic plan(s), and in particular on the main strategic options involved; and

(2) consulting on all strategic projects related to the development of the Group, the monitoring of the evolution of industrial partnerships within the Group and projects involving strategic agreements for the Group. It then reports and makes recommendations on each of these projects to the Supervisory Board.

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

(1) strategic agreements, alliances, and technological and industrial co-operation agreements, including aspects of the Group's strategic partnership with Orange SA; and

(2) significant acquisitions and sales of assets.

10.1 Information about Sponsoring Policy

Orange Polska has adopted a sponsoring policy. The sponsoring strategy of Orange Polska reflects the global sponsoring strategy of the Orange Group, focusing on the three main brand supporting fields: music, films and sports. In line with the adopted strategy, in these three fields Orange Polska develops long-term, comprehensive, nationwide projects addressed to a large group of its existing or prospective customers, acting as the titular sponsor. Orange Polska S.A. gets involved in various initiatives on a long-term rather than one-off basis. Implementation of one project in each of the three fields of sponsoring offers the highest efficiency in financial and image-building terms.

The implementation of our sponsoring policy is a responsibility of the Corporate Communication and CSR Director, to whom the CSR and Sponsoring Department reports. The key sponsoring projects are subject to approval by the Management Board of Orange Polska. Each sponsoring project has its own target Key Performance Indicators (KPIs), such as attendance, advertising value equivalent (AVE), number of publications, etc. Upon completion of a project, it is evaluated by the Management Board. We established the Sponsoring Committee to centralise sponsoring project management in the Orange Polska Group.

Furthermore, Orange Polska carries out its charitable activities through a dedicated corporate foundation, the Orange Foundation, and the Donation Fund.

As part of its donation policy, Orange Polska has adopted formal rules for using the Donation Fund. These are specified in the Decision no. 50/16 of the Executive Director in charge of Corporate Affairs dated 17 November 2016.

Orange Polska S.A. follows clear and transparent rules in making donations:

- Any donation requires analysis and recommendation;
- Any donation is subject to approval by the President of the Management Board of Orange Polska;
- Any donation is made under a written donation agreement;
- All donations are effected by transfers and registered in the accounting systems of Orange Polska S.A.;
- Each agreement includes a requirement to confirm that the donation has been used in line with its purpose.

The Orange Foundation, which carries out charitable activities on behalf of Orange Polska, has adopted its own strategy. The Foundation works towards modern education of children and youth, carrying out its own nationwide educational and social programmes to support the comprehensive development of young people. All its programmes and projects are based on the results of research and implemented in consultation with renowned experts in specific fields. At least twice a year, the Foundation submits reports on its activities to the Foundation Board, which includes representatives of the Founder, i.e. Orange Polska S.A. Furthermore, on an annual basis the Foundation submits a report on its activities to the Ministry of Education and draws up a financial report, which is subject to an audit. Reports of the Foundation are publicly displayed on its website.

The Foundation's policy fits into Orange Polska's social responsibility strategy, which is part of the business strategy of the Company. Our corporate social responsibility (CSR) strategy focuses on four areas which are of key importance from the point of view of our sector and our operations on the Polish market: digital inclusion, safe network, clear environment and enquiring team. Conclusions from a dialogue with stakeholders as well as market trends and social challenges for our industry at home and abroad have been an important road sign in the development of our CSR strategy. Responsibility for the implementation of the strategy lies with the CSR Steering Committee, which is made up of managers from different areas within the organisation. Our CSR initiatives are presented annually in Orange Polska's Corporate Social Responsibility Reports, which are developed in compliance with the international non-financial reporting standards, Global Reporting Initiative (GRI). Each Report is subject to approval by the Disclosure Committee and an audit by independent auditors.

10.2 Description of the Diversity Policy

Orange Polska has adopted the Diversity Management Policy, which was determined in the Decision no. 36/16 of the President of the Management Board dated 19 September 2016.

Our Diversity Management Policy supports the achievement of our business objectives, addresses changes in the labour market and responds to the expectations of our employees. The Policy supports the implementation of the values enshrined in the Code of Ethics, the social responsibility goals and the commitments specified in the Diversity Charter, of which Orange Polska is a signatory. In addition, the Policy refers to the Global Diversity Management and Inclusion Policy in Orange.

The key diversity dimensions in Orange Polska identified in its Diversity Management Policy are as follows:

- gender;
- age;
- competence / expertise / experience / way of thinking;
- psychophysical skills – (dis)abilities;
- parental status.

Other diagnosed dimensions include:

- religion / beliefs;
- workplace location (HQ vs. region);
- type of employment;
- nationality / ethnic origin.

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

In the recruitment process, we follow transparent rules and criteria of candidate selection. Decisions to recruit particular employees are based on their qualifications and professional experience. We ensure that candidates represent diverse communities.

In terms of leadership, the diversity requirements include care for the diversity of decision-making bodies within the Company.

In complementary action plans to the Policy, we have assumed a requirement for analysis of management and supervisory bodies in terms of diversity with respect to such aspects as age, gender, education or professional experience.

The duties and responsibilities as well as the requirements related to qualifications, expertise and competence of Supervisory Board Members are specified in the Company's Articles of Association. In addition, Orange Polska applies the provisions of the *Best Practice for WSE Listed Companies 2016*.

The Supervisory Board currently consists of thirteen members, including five independent members. They are appointed by the General Assembly (or, in exceptional cases, by the Supervisory Board). The term of office for the member of the Supervisory Board is three years. There are three women on the Supervisory Board.

The Management Board currently consists of seven members, including the President. They are appointed by the Supervisory Board. The term of office for the member of the Management Board is three years. There are two women on the Management Board.

10.3 Report on the Remuneration Policy of Orange Polska S.A.

Remuneration Policy of Orange Polska S.A.

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

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

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

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

Remunerations are determined in a manner ensuring balance and consistency across the 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 Group Collective Labour Agreement are settled in individual agreements and codified in their employment contracts.

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

1. Basic salary

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

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

Orange Polska S.A. ensures the consistency of remuneration between job positions by taking into account the managerial and expert skills involved as well as job comparability between various parts of the organisation.

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

Individual basic salaries are determined in the following process:

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

Management Board Members and Executive Directors

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

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

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

2. Performance bonus

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

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

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

For key managers, bonus is more related to the Company's performance, and depends more on the achievement of solidarity goals shared by all, whereas for experts/line managers, bonus is related to their individual performance and depends less on the solidarity components shared by the particular function or the entire Company.

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

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

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

Management Board Members and Executive Directors

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

The performance and bonuses of individual Management Board Members and Executive Directors are monitored directly by the Remuneration Committee of the Supervisory Board.

The ownership sharing programmes dedicated to senior managers are a special incentive to achieve long-term objectives. These programmes lead to managers' greater commitment to increasing the Company's value. The Incentive Programme for Senior Managers of the Group will be closed in October 2017. Currently the works are under development on the new project of long-term incentive programme for this group of managers.

3. Discretionary bonuses

The Company's long-term strategy is based on innovation and commitment to outstanding performance.

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

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

4. Benefits

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

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

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

The key areas influenced by Orange Polska S.A. through benefit schemes are as follows:

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

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

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

Management Board and Supervisory Board Compensation

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

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

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

[2] from the date of appoinment as the Member of the Management Board of OPL

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

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

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

[2] from the date of appoinment as the President of the Management Board of OPL

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

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

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

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

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

Supervisory Board compensation was as follows:

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

[(1)] Persons appointed to the Supervisory Board of the Company employed by Orange S.A. do not receive remuneration for the function performed.
[(2)] Persons that were not Members of the Supervisory Board of the Company as at 31 December 2016 but were Members of the Supervisory Board of OPL S.A. in 2016 or previous periods.

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

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

In addition, the President of OPL Management Board is entitled to the Stretch Bonus based on the adjusted EBITDA as a financial trigger.

Furthermore, those Management Board Members and Executive Directors who are expatriates are eligible for benefits connected with staying in Poland as foreigners, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.

Information about Non-financial Remuneration Components Due to Each Management Board Member and Key Manager

The Management Board Members and Executive Directors are entitled to the following non-financial remuneration components: health care package, life insurance in OPL, company car, legal indemnity in the event of personal liability, and access to Orange services in line with the relevant OPL's policies. In addition, the Management Board Members and Executive Directors, having worked at OPL for more than 6 months, are eligible for the Employee Pension Programme (PPE).

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

After enrolment to the Employee Pension Programme (PPE), the PPE contribution for all participants is paid by Orange Polska S.A.

In addition, French key managers are eligible for benefits connected with staying in Poland as foreigners, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.

Changes in Remuneration Policy Practices within 2016 and Assessment of the Current Rules

The key changes in remuneration policy practices in 2016 were as follows:

- Including new KPIs based on sales of convergent and fibre services into periodic performance assessment of all senior managers. These new assessment criteria are closely linked to individual bonuses.
- Extending periods of performance assessment and bonus payment for line managers from three to six months to ensure close connection between the cycles of setting/assessing individual goals and planning/updating the Company's budget. Sales line managers receive bonuses for shorter periods aligned with the market segment specifics.
- Implementation of a new bonus model in the Real Estate and Wholesale Divisions, which is based on no-cap assessment for goals directly linked to revenues.

In 2016, Orange Polska did not launch any new programme of distribution of its own shares or any derivatives connected with ownership sharing.

The adopted remuneration solutions allow for the effective retention of key managers and experts. The distribution of salary rise funds amounting to 2.5% of the sum of basic salaries as of 31 January 2016 (in line with the Social Agreement concluded with trade unions for the years 2016–2017) kept the fluctuation of employees on their own initiative at a low level (about 4.1%).

The remuneration packages offered allow the Company to effectively attract new employees from the market– the average time of recruitment is about 21 days. However, due to an increase in demand for employees in particular shallow market segments of high competencies in new technologies, greater challenges in retaining and attracting engineering staff for the new technologies functions should be expected in the future.

The initiated delegation of solidarity goals, common for professionals from different divisions, has considerably improved co-operation between different business units of the Company.

GLOSSARY OF TELECOM TERMS

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

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

ARPU – Average Revenues per User

AUPU – Average Usage per User

BSA – Bitstream Access Offer

CATV – Cable Television

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

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

F2M – Fixed to Mobile Calls

FBB – Fixed Broadband

FTE – Full time equivalent

FTTH – Fibre To The Home

FVNO – Fixed Virtual Network Operator

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

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

LLU – Local Loop Unbundling

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

M2M – Machine to Machine, telemetry

MTR – Mobile Termination Rates

MVNO – Mobile Virtual Network Operator

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

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

RAN agreement – agreement on reciprocal use of radio access networks

RIO – Reference Interconnection Offer

SAC – Subscriber Acquisition Costs

SIMO – mobile SIM only offers without devices

SMP – Significant Market Power

SRC – Subscriber Retention Cost

UKE – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

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

USO – Universal Service Obligation

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

VHBB – Very high speed broadband, above 30 Mbps

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental

11 APPENDIX ON IMPACT OF CUSTOMER BASE REVISION

Customer base revision resulted from internal audit of the accuracy of the reporting processes. These processes have been amended to ensure the correctness of the reporting going forward. This revision has no impact on the revenues.

customer base (in thousands)	2Q2016	effect of base revision	net change of customers in Q3	3Q2016
Convergent customers	799	0	38	837
Fixed telephony accesses				
POTS, ISDN & WLL	3 415	-1	-77	3 337
VoIP	644	-2	9	651
Total retail main lines	**4 059**	**-3**	**-68**	**3 988**
Fixed broadband access				
ADSL	1 613	-5	-46	1 562
VHBB (VDSL+Fibre)	409	-17	44	436
o/w VDSL	*370*	*-17*	*26*	*379*
o/w Fibre	*39*	*0*	*18*	*57*
CDMA	35	0	-8	27
Retail broadband - total	**2 057**	**-22**	**-10**	**2 025**
TV client base				
IPTV	213	-15	16	214
DTH (TV over Satellite)	590	-32	-10	548
TV client base - total	**803**	**-46**	**4**	**761**
-o/w 'nc+' packages	194	0	0	194
3P services (TV+FBB+VoIP)	547	-34	14	527
Mobile accesses				
Post-paid	8 798	-22	309	9 085
-o/w B2B	*2 817*	*0*	*76*	*2 893*
Pre-paid	7 898	11	-600	7 309
Total	**16 696**	**-12**	**-290**	**16 394**
- of which dedicated mobile broadband accesses	2 473	0	142	2 615