Orange Polska annual report 2013

welcome
to the 2013 Annual Report and Accounts

2013 was a year of discipline and focus, in which we pushed forward with the execution of our medium term strategy. Although market conditions in 2013 continued to challenge us, Orange Polska* gained considerable commercial momentum through the year, meeting all its commitments to shareholders and building a strong platform for 2014 and beyond.

* Orange Polska Capital Group hereinafter referred as „Orange Polska", „The Group".

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Orange Polska at a glance

Our company

Orange Polska is Poland's leading telecommunication provider, operating in all segments of the Polish telecoms market. The Group owns the largest technical infrastructure in Poland, with operations in fixed voice, data and mobile networks. Orange Polska is 50.67% owned by Orange SA, one of Europe's leading telecom operators.

Our vision

Orange Polska's goal is to achieve a strong leadership position in all our core markets. Our success will be founded on a broad portfolio of innovative products, a powerful, proactive sales force and outstanding customer care, supported by a robust infrastructure and highly motivated employees.

Co-ordinating our efforts around a lean, agile operating model will ensure that we deliver healthy and sustainable returns to our shareholders.

over **23 mn** customers

15.3 mn	4.8 mn	2.3 mn	707 K
7.2 mn postpaid 8.1 mn prepaid			
mobile	retail fixed voice	retail broadband	TV

PLN **12.9 bn** revenue

PLN **1.9 bn** capital expenditures (excluding spectrum acquisition)

PLN **1.1 bn** organic cash flow (excluding spectrum acquisition)

Orange Polska at a glance continued

EBITDA margin at **31.6%**

restated mainly for restructuring costs

PLN **223 mn** cost savings in 2013

-4.8% operating cost base down year-on-year

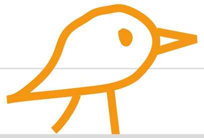
restated mainly for restructuring costs

PLN **12.9 bn** market cap at year end

based on share price at 31 December 2013

4-5% dividend yield

based on share price range for mid Feb – March 2014



19,923 employees at year end

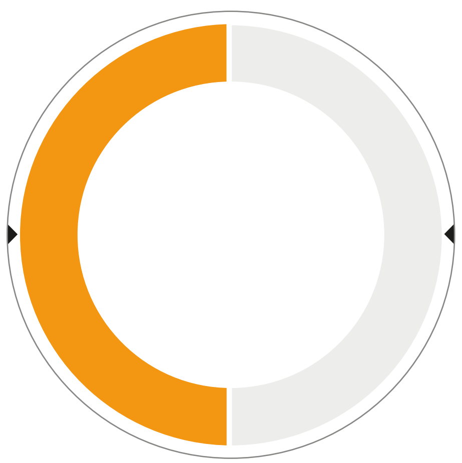
financial and operational highlights

financial highlights in 2013
- Group revenue PLN 12.9 bn
- EBITDA PLN 4.1 bn, at 31.6% of revenue[1]
- Organic cash flow PLN 1.1 bn (excluding spectrum acquisition)
- Dividend yield of 4-5%[2]
- PLN 223 mn cost savings in 2013 helped to bring operating costs down by 4.8% y-o-y[1]
- Sound financial structure, with net gearing at 26% and net debt to EBITDA at 1.1x
- Dividend-per share[3]: PLN 0.5
- Disposal of Wirtualna Polska for PLN 383 mn (cash inflow in 2014)

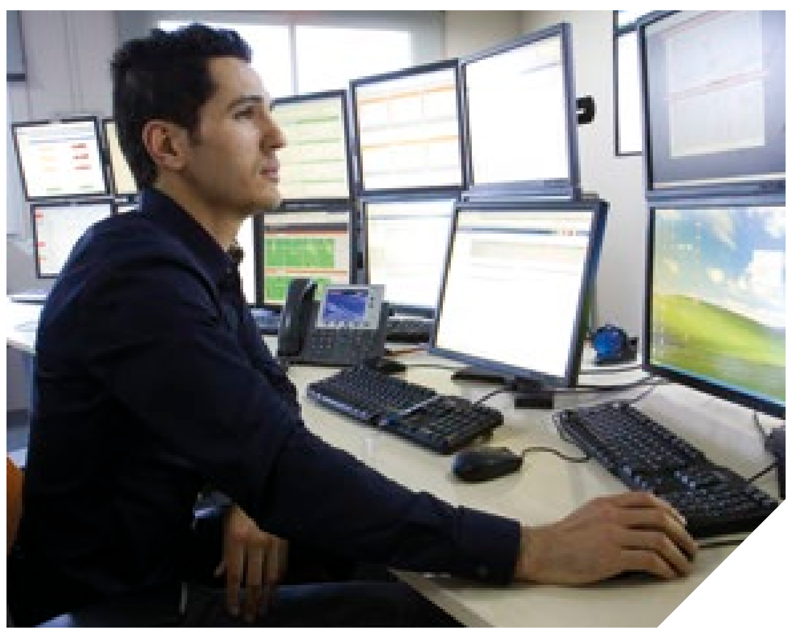
operational highlights in 2013
- 286,000 Orange Open customers (convergent fixed and mobile product), up by 8.7x year-on-year
- 430,000 mobile net adds, including 310,000 in postpaid
- 353,000 customers of nju.mobile brand
- Broadband ARPU up by 7.3% year-on-year
- Ca 8,200 sites in co-used network with T-Mobile
- Agreement with trade unions for 2,950 voluntary departures in 2014-2015

[1] restated mainly for restructuring costs
[2] based on share price range for mid Feb – March 2014
[3] subject to AGM approval

ownership structure as at 31.12.2013



50.67% Orange SA
49.33% Other shareholders



revenue composition (in PLN millions)

	2012	2013
mobile services	6,847	6,110
mobile equipment sales	141	149
fixed services	6,593	6,057
other revenues	560	607

total revenues (in PLN millions)

2012	14,141
2013	12,923

y-o-y change excluding regulatory impact -3.7%

restated EBITDA (in PLN millions)

2012	4,857
2013	4,084

restated mainly for restructuring costs in 2013

organic cash flow (in PLN millions)

2012	1,593*
2013	1,105**

* excluding €550 mn paid in 2012 to DPTG as part of the final settlement
** excluding spectrum acquisition, OCF guidance was revised up in 3Q 2013

reported net income (incl. restructuring costs, in PLN millions)

2012	855
2013	294

historical financials

(in PLN millions)

selected financial data	year / 2009	year / 2010	year / 2011	year / 2012	year / 2013
Revenue	16 560	15 715	14 922	14 141	12 923
Operating income	2 097	908	2 217	1 574	788
Profit before income tax	1 598	449	1 785	1 018	310
Consolidated net income	1 283	108	1 918	855	294
Earnings per share (in PLN) (basic and diluted)	0.96	0.08	1.44	0.65	0.22
Weighted average number of shares (in millions) (basic and diluted)	1 336	1 336	1 334	1 316	1 312
Net cash provided by operating activities	5 541	4 530	5 169	1 879	3 292
Net cash used in investing activities	(2 281)	(2 015)	(1 090)	(2 742)	(2 166)
Net cash used in financing activities	(2 680)	(2 286)	(3 663)	(1 620)	(1 324)
	Balance sheet as at 31/12/2009	**Balance sheet** as at 31/12/2010	**Balance sheet** as at 31/12/2011	**Balance sheet** as at 31/12/2012	**Balance sheet** as at 31/12/2013
Total current assets	4 189	4 762	5 128	2 210	1 852
Total non-current assets	25 176	24 111	23 091	21 953	20 725
Total assets	29 365	28 873	28 219	24 163	22 802
Total current liabilities	5 222	8 145	8 120	6 502	7 333
Total non-current liabilities	7 590	6 094	5 765	4 703	2 800
Total equity	16 553	14 634	14 334	12 958	12 631
Equity attributable to owners of Orange Polska S.A.	16 539	14 620	14 331	12 956	12 629

CEO’s letter

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

Dear Shareholders,

2013: a year of commercial progress

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

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

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

I am pleased to report that 2013 ended with our financial performance in line with our objectives. In particular this reflects our efforts to optimise our expenses. Ongoing cost saving measures like voluntary employee departures and mobile network co-operation were boosted by new initiatives, including a new social agreement for 2014–2015, which provides for a further 2,950 voluntary employee departures going forward. Despite investing roughly PLN 108 million more in customer acquisition and retention, we have decreased our total operating costs by 4.8%[1] since 2012. This allowed us to defend the EBITDA margin at 31.6% in 2013. Simultaneously, we have continued to optimise capex, which was down by 18%[2] and amounted to 14.8% of revenue, versus 16.5% a year ago. All of the above allowed us to generate PLN 1,105 million of Organic Cash Flow, meeting our objective of ‘at least PLN 1 billion’[3] for the full year. In turn, this enabled us to reduce our net debt by PLN 514 million and preserve a sound financial structure, with net debt at 1.1 times EBITDA and net gearing at 26%. Our balance sheet will be further supported by PLN 383 million of cash proceeds from the sale of our Internet portal, Wirtualna Polska, which was completed in February 2014.

One company, under the Orange brand

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

Ready for the fast mobile broadband revolution – 4G LTE

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

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

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

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

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

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

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

Bruno Duthoit
President of the Board and CEO
Orange Polska S.A.
Warsaw, March 17, 2014

1 total costs up to EBITDA, excluding mainly restructuring costs
2 excluding spectrum acquisition in 2013
3 original guidance was revised up in 3Q 2013

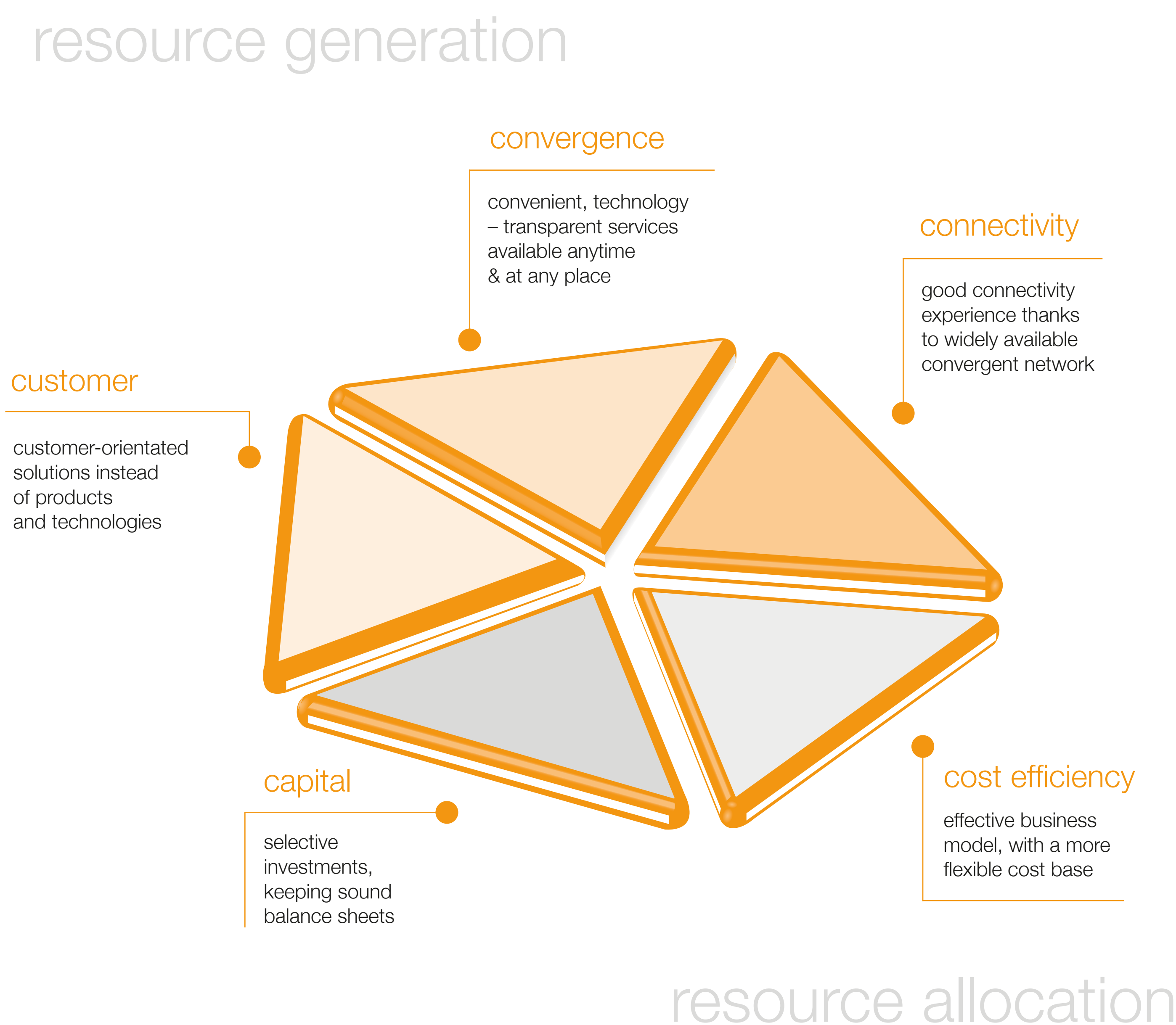
4 total costs up to EBITDA, restated mainly for restructuring costs
5 the voluntary leaves program for 2014-2015 amounts to 2,950, including 1,530 in 2014

medium-term action plan 2013–2015

medium-term action plan 2013–2015

In 2013 we focused on strategy execution, and made business development a priority. Our results demonstrate that this was the right way forward.

Medium-term action plan at a glance



At the beginning of 2013, we announced a new medium-term action plan to steer the company safely through the years ahead. Facing unprecedented levels of competition in a saturated telecom market, against the backdrop of a stagnant Polish economy, it was vital to get a firm grip on both resource generation, and resource allocation.

This is exactly what we did in 2013. We regained commercial momentum, with successful marketing drives for Orange Open and nju.mobile. And we brought our financial performance under control, driving down costs and meeting our guidance on cash flow and capex. Below, we report on our progress against our commitments across the five main areas covered by the action plan.

customer

our vision
customer-oriented, total telecom solutions

our commitments
- Sign up ½ of our private contract customers to convergent products, like Orange Open
- Compete with solutions that offer better services and better value to customer (e.g. Orange Open Family, 100 ways to save with Orange)
- Single, convergent sales network
- Seamless "Orange Care" customer service operation

2013 achievements
- Orange Open reached 286,000 customers, and 58% of Open customers bought at least one additional service
- Launched nju.mobile, a new brand aimed at cost-sensitive customers. 353,000 signed up in first 8 months
- Gained 430,000 additional mobile customers, incl. 310,000 in post-paid
- ICT revenue 74% up in 2013 (on comparable basis)
- Sales & customer service integration project on track

convergence

our vision
anytime, anywhere services
convenient and technology-transparent

our commitments
- Full legal merger of fixed and mobile businesses
- Coherent service for >20 million customers
- Maximise sales of product bundles and convergent solutions

2013 achievements
- Full legal merger achieved
- Integrated customer care network with further service improvements launched
- Orange Open growing dynamically

connectivity

our vision
seamless connectivity experience
convergent network with wide coverage

our commitments
- Extend very high broadband (VHBB) network to 4 million homes
- Extend 4G coverage to over 90% and 3G coverage to 80% of population
- Ensure seamless switching between networks – improved customer experience

2013 achievements
- Network co-use programme with T-Mobile progressed to ca 8,200 sites by end of 2013 (of a projected 10,000)
- Orange customers in areas covered by co-operation agreement now have access to 60% more network sites
- 3G coverage extended to over 90% of population
- Network co-operation extended to 4G spectrum – 4G services now available to customers and further roll-out planned
- FTTH offer with speeds of 300 Mb/s commercially available in Warsaw

capital

our vision
selective investments and a sound balance sheet

our commitments
- Long-term capex target 12-13% of sales (excl. spectrum)
- 2013 capex below PLN 2 billion (excl. spectrum)
- Focused network investments to enable revenue-generating data traffic, including spectrum to launch 4G services
- In the long term, net gearing maintained below 40% and net debt to EBITDA at maximum 1.5x

2013 achievements
- Capex at 14.8% of sales (down 1.7 pp year-on-year, excl. spectrum)
- 2013 capex PLN 1.9 billion (excl. spectrum)
- 57% of capex in 2013 spent on network investments
- Net gearing at 26% and net debt to EBITDA at 1.1x

cost efficiency

our vision
flexible cost base and an effective business model

our commitments
- Social plan to reduce headcount by 1700 in 2013 alone followed by a reduction in the number of managerial positions
- 30% reduction in property costs in Warsaw in 2013
- Reduce the number of low performing shops and grow proportion of online sales
- Network cooperation to decrease our yearly operating cost base, coupled with significant capex avoidance
- Reduction of G&A costs made possible by the merger of TPSA with PTK Centertel
- Study of options, including partial outsourcing, for the fixed network and IT activities
- Sale of non-core subsidiaries including Wirtualna Polska

2013 achievements
- Reduced headcount by 1997 FTEs in 2013
- Agreed further reduction of 2,950 FTEs by end of 2015
- PLN 223 million savings from cost optimisation program
- Cost base[1] down by 4.8%
- EBITDA[1] margin defended at 31.6%
- TPSA/PTK merger complete, paving the way for cost reductions
- Sale of Wirtualna Polska for PLN 383 million completed in Feb 2014

[1] restated mainly for restructuring costs

key messages

A market force to be reckoned with
In 2013, Orange Polska reclaimed its status as an important force in the fiercely contested mobile market. Our new brand for cost-conscious users, nju.mobile, explored a fresh market segment for us, enticing two thirds of its 353,000 clients mostly away from other operators. We also built momentum with our unique convergence offer, Orange Open. Going forward, we have plans in place that will further improve the customer experience. Better, faster service delivery and the best mobile network in land will help to build loyalty and increase our value market share.

15.3 mn mobile customers
up 430K, including +310K post-paid

4.8 mn retail fixed line customers

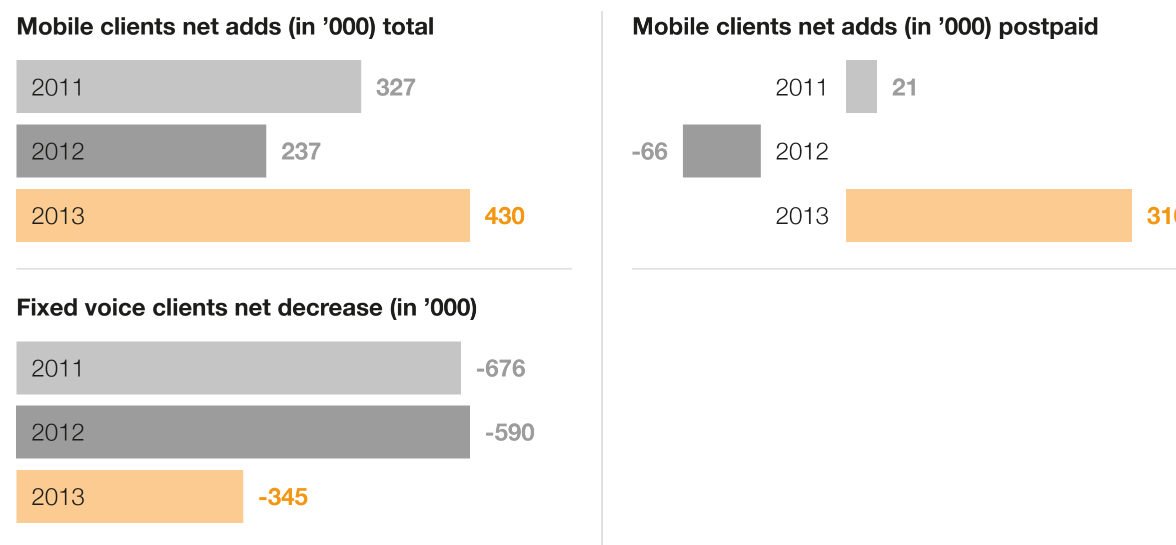
2.3 mn retail broadband customers

74% increase in ICT activity
(on comparable basis)

286 K Orange Open subscribers
80% 3-play or more

353 K nju.mobile clients

Commercial momentum improving in most areas



Growing efficiency, shrinking costs
We met all our financial objectives in 2013, thanks to a company-wide commitment to our medium term action plan and a diligent focus on cost savings. Positive relations with labour unions allowed us to negotiate further planned reductions to our workforce over the next two years which, coupled with greater process automation, will substantially reduce our overheads without affecting service delivery. As well as taking measures to manage customer value and keep subscriber acquisition and retention costs low, we are also optimising our property portfolio and keeping tight control on general and administrative costs.

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key messages continued

4.8% reduction in operating costs

restated mainly for restructuring costs

restated EBITDA at **31.6%**

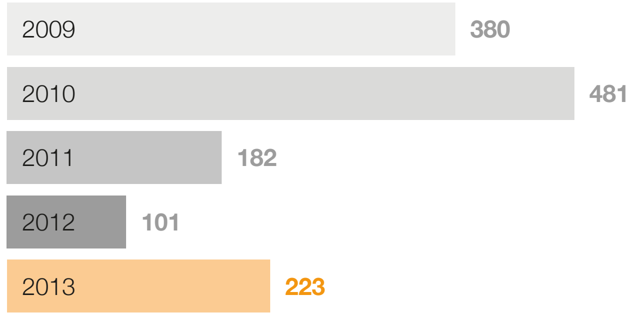
restated mainly for restructuring costs

1.1 net debt/EBITDA

2,950 further FTE departures agreed

by end 2015

Cost savings program (savings delivered by cost optimisation program, in PLN millions)



Ready for the data boom

Data will be the big driver for future market growth. In 2013, we continued to invest in the network infrastructure that will enable us to harness this growth. We evolved our partnership with T-mobile, building a co-used network that will include 10,000 base stations by the end of 2014, offering Orange customers access to up to 60% more sites. Our 3G coverage is now at 90% of the population, and we have already launched 4G services too; coverage we intend to enhance with new spectrum acquisitions in 2014.

In 2013 we continued our efforts to increase fixed broadband speeds, with particular focus on boosting the popularity of high speed Internet access options based on VDSL technology (speed options of up to 40 Mb/s and 80 Mb/s). Furthermore, a project which offers Internet access using FTTH technology, with speeds of 300 Mb/s, was launched in Warsaw in 2013. Orange Polska introduced a number of additional benefits and functionalities, such as Orange Cloud (5 GB storage space in the cloud) or Orange FunSpot (access to home Internet out-of-home, via an extensive network of access spots in the form of Livebox modems).

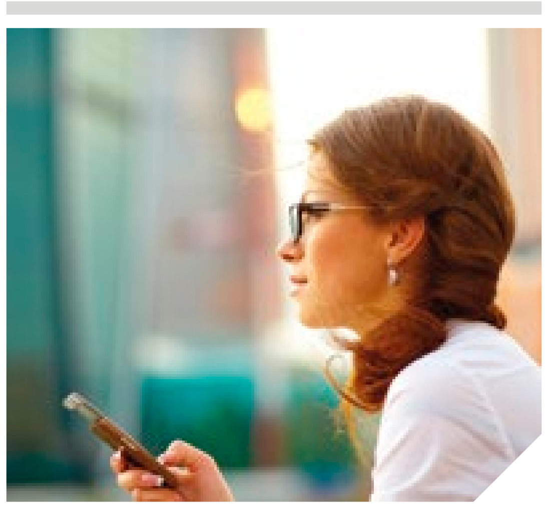
In 2014, we will focus on regaining momentum in fixed broadband and continuing to provide the most trusted mobile data network in Poland.

ca **8,200** co-used mobile network

consolidated sites in use

3.8 mn smartphones

90% 3G coverage of population (4G 16%)



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management

Management & Supervisory Boards

Management Board (March 31, 2014)

Bruno Duthoit
President of the Management Board,
Chief Executive Officer

Vincent Lobry
Vice President in charge of Value Management and Convergence

Piotr Muszyński
Vice President in charge of Operations

Mariusz Gaca
Board Member in charge of Business Market

Jacek Kowalski
Board Member in charge of Human Resources

Maciej Nowohoński
Board Member in charge of finance,
Chief Financial Officer

On September 10, 2013 Maciej Witucki submitted his resignation as President of the Management Board with effect on September 19, 2013. Maciej Witucki continues to serve Orange Polska as Chairman of the Supervisory Board.
On September 19, 2013 the Supervisory Board appointed Bruno Duthoit as the President of the Management Board.
On February 6, 2014 the Supervisory Board appointed Mariusz Gaca as a Member of the Management Board. He is responsible for the Business Market.
On February 24, 2014 Jacques de Galzain resigned from the position of Management Board Member in charge of finance – CFO, effective on February 28, 2014.
On March 17, 2014, Orange Polska Supervisory Board appointed Maciej Nowohoński to the Management Board as Chief Financial Officer.

The responsibilities and obligations of the Management Board are detailed in the Management Board by-laws, available on
http://www.orange-ir.pl/corporate-governance

Bruno Duthoit is a graduate of the French École Polytechnique and École Nationale Supérieure des Télécommunications. He started his professional career as an engineer working for France Télécom S.A. (today Orange S.A.) and soon progressed to management roles. He left in 1983 to work in senior positions in public administration, first at regional and then national level, returning in 1991 to head the Group's office for Czech Republic and Slovakia.
From 1996 to 2013 he was chief executive officer or management board member in several international subsidiaries of the Orange Group. Notably, he was the CEO of Orange Slovensko in Slovakia (1996-1999), Orange Moldova (2006-2008), Orange Armenia (2008-2012), and Ethiopia's ethiotelecom (2012-2013). He was formerly a management board member of Telekomunikacja Polska S.A. between 2001 and 2006 with a significant scope of responsibilities, ranging from transformation to sales, marketing and customer care to investments and strategy. Bruno Duthoit rejoined the Management Board of Orange Polska as CEO in September 2013.

Vincent Lobry joined France Telecom in 1979 as a systems and network management engineer. After postings in Indonesia, the US, Spain and Italy, he moved into marketing, and was appointed B2C Marketing Director at FT France in 2006. He is a Knight of the Order of Merit and a graduate of École Polytechnique et École Nationale Supérieure des Télécommunication (Telecom ParisTech). Vincent Lobry joined the Group's Management Board in September 2009.

Piotr Muszyński graduated from the Faculty of Law and Administration at the University of Wrocław, completed Postgraduate Study in Management at the Polish International Business School and the Advanced Management Programme organised by IESE Business School, University of Navarra. He started his career in 1990 in Eastern Europe Investment Ltd (EEI) as a Partner and Project Manager. From 1993 he was employed in REMA 1000 Poland Ltd as Managing Director and Member of the Management Board and from 1999 as President of the Management Board. In parallel in 1996-1998 he was a Member of the Management Board of Intersport Poland. He joined the Group in 2001 as the Director of Customer Care Branch, then served as the Director of Sales and Services Division from 2005 onwards. Piotr Muszyński joined Group's Management Board in September 2008.

Mariusz Gaca is a graduate of Academy of Agriculture and Technology in Bydgoszcz and Warsaw University. He has also earned an MBA degree at the University of Illinois in Urbana Champaign and AMP at INSEAD. He began his professional career in the Elektrim Group (1995-2000), where he was involved in the development of business plans for local telecommunication operators. In 2001, he joined TP Group as the Director of Multimedia Branch, responsible for the development of the Internet access portfolio for the mass market. Since 2005, he has been responsible for TP Group's business market and since 2009, he was TP Group's Executive Director in charge of Sales and Customer Care and CEO of TP Group's mobile arm, PTK Centertel – a position which he held until the recent merger of PTK Centertel with TP S.A. In November 2013 he was made responsible for the Business Market of Orange

Jacek Kowalski graduated from the history faculty of Warsaw University before moving on to postgraduate studies in local government and non-governmental organizations management, which he completed in 1996. He worked for Infor Training and served as Director of the National In-Service Teacher Training Centre before joining the Group in 2001, as Human Resources Manager for sales and marketing in PTK Centertel. From 2005 he was the Director of Employee Competence and Management Development for the Group, and he joined the management board as member in charge of Human Resources in January 2011. Jacek Kowalski is a member of the Programme Board of the Polish Human Resources Management Association.

Maciej Nowohoński has been with Orange Polska since 2003, in a variety of positions in the area of Finance of increasing scope and responsibility, most notably that of Orange Polska Group Controller in 2006-2014. In 2010-2011 he was a Management Board Member at Emitel and in 2011-2013 the Management Board Member in charge of Finance at PTK Centertel. Maciej is also sitting on the supervisory boards of several Orange Polska subsidiaries. Prior to joining Orange Polska, Maciej worked, among others, at Arthur Andersen and Andersen Business Consulting. He graduated from Foreign Trade at the Economic University of Poznan and from the Dutch Hogeschool van Arnhem en Nijmegen's business school.

Executive Directors

Irmina Bubałło-Wojciechowska
Executive Director in charge of Shared Services

Witold Drożdż
Executive Director in charge of Corporate Affairs

Jolanta Dudek
Executive Director in charge of Customer Care

Magdalena Hauptman
Executive Director in charge of Effectiveness & Customer Excellence

Bożena Leśniewska
Executive Director in charge of Sales

Michał Paschalis-Jakubowicz
Executive Director in charge of Consumer Marketing

Paweł Patkowski
Executive Director in charge of Brand and Marketing Communication

Jarosław Starczewski
Executive Director in charge of Carriers Market

Supervisory Board (March 31, 2014)

Maciej Witucki
Chairman of the Supervisory Board

Prof. Andrzej K. Koźmiński
Deputy Chairman of the Supervisory Board, Independent Member of Supervisory Board, Member of Remuneration Committee

Benoit Scheen
Deputy Chairman of Supervisory Board, Chairman of Strategy Committee, Member of Remuneration Committee

Marc Ricau
Secretary of the Supervisory Board, Member of the Audit and Remuneration Committees

Timothy Boatman
Independent Member of Supervisory Board, Chairman of Audit Committee

Henryka Bochniarz
Independent Member of Supervisory Board, Member of Strategy Committee

Jean-Marie Culpin
Board Member

Eric Debroeck
Board Member and Member of the Strategy Committee

Mirosław Gronicki
Independent Member of Supervisory Board, Member of the Strategy Committee

Sławomir Lachowski
Independent Member of Supervisory Board, Member of the Audit and Remuneration Committees

Marie-Christine Lambert
Board Member and Member of Audit Committee

Pierre Louette
Board Member

Gervais Pellissier
Board Member

Gerard Ries
Board Member and Member of Strategy Committee

Dr Wiesław Rozłucki
Independent Member of Supervisory Board, Chairman of Remuneration Committee

review of operations

market climate

Macroeconomic indicators
Polish GDP grew by 1.6% in 2013, according to initial estimates from the Polish national statistics office (GUS). These better-than-expected results suggest that the slowdown we saw early in 2013 is well and truly over. The labour market responded to signs of economic recovery in the second half of the year, with unemployment levels back down to 13.4% in December – no higher than at the close of 2012. Wages rose by 2% in real terms, year on year. The Government expects growth to continue through 2014, basing its budget on a 2.5% GDP growth assumption, while the consensus amongst economists is that GDP will rise by 2.8%–3% (ceteris paribus).

Telecoms market
According to our estimates, the value of Poland's telecommunication market continued to decline in 2013, falling by 4.7% compared to the previous year. This decline is mainly attributable to regulatory factors: a 65% cut to mobile termination rates and lower roaming fees came into effect during the year. The fixed voice market is still shrinking, although the rate of attrition seems to be slowing and is partly offset by growth in fixed broadband usage.

A number of our competitors continue to offer competitively priced packages with unlimited minutes and SMS in their mobile portfolios. This drives down market value. On the other hand the growing popularity of smartphones, tablets and other mobile broadband devices has a positive impact on the telecom market, particularly in the mobile data segment.

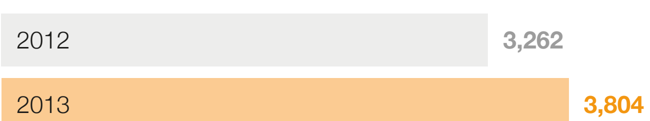
Fixed to mobile substitution is still a major market driver. In previous years, this trend affected mainly fixed-line voice services; now, it is beginning to affect the fixed broadband segment as well. This trend is likely to gain momentum as mobile data networks become faster and more sophisticated.

The Polish telecoms market is still in a consolidation phase, with a number of major M&A deals completed in 2013. Deutsche Telecom (owner of T-Mobile Polska) acquired GTS Central Europe (pending EU approval). Polsat Cyfrowy took over control of Polkomtel, increasing its potential for offering convergent services. And Orange Polska acquired an ICT company (DataCom), and sold Wirtualna Polska. New cross-sector business partnerships are emerging, with telecom operators teaming up with other service providers to sell banking services. Orange Polska has recently signed a co-operation agreement with mBank to build a mobile retail bank.

146.8% mobile penetration rate

at the end of 2013

Number of smartphones (in '000)



regulatory update

Final stage of big MTR adjustments, end of asymmetry to the fourth player
We were pleased when MTR rates for different operators were finally standardized in January 2013, eliminating the asymmetry that has favoured the Play network in recent years and creating a more level playing field. However in July the MTR rates were reduced to PLN 0.0429 / minute, down from PLN 0.0826 in the first half of the year. This resulted in a decrease to the prices of off-net calls and a significant decline in wholesale revenue for mobile operators. We estimate that these regulatory price cuts will continue to negatively impact the value of the Polish telecom market in 2014, creating ongoing pressure on our revenue in H1. However UKE indicates that in the coming years 2014 – 2015 MTR will not change.

MoU investment programme completed
In the first half of 2013, we completed all our investment commitments under the Memorandum of Understanding we signed with the regulator in 2009 and renegotiated in 2012. This covered the implementation of 'Chinese walls' between the wholesale and retail parts of business to ensure equal treatment of alternative operators alongside Orange Group companies, and adding or upgrading 1.2 million broadband access lines across the country, transforming Poland's broadband infrastructure.
In total, we built a total of 1,290 thousand broadband lines, exceeding the target of 1.2 million. Almost 240,000 of those are lines with a capacity of 30 Mb/s or higher (above a target of 220,000) and more than half of those lines are fibre-optic (FTTx). External auditors ensured a thorough assessment of our performance, and they came back with positive reports in May and June. Although we failed to meet the MoU target of 49,300 lines for small and medium towns, the auditors felt this shortfall was more than offset by the surplus investment in rural areas (34,000 extra lines) and cities (106,000 extra lines), and by the fact that we exceeded the overall target of 1.2 million lines by 8%.

Broadband Customer base ('000)

	2012	2013
3P services (TV+BB+VoIP)	248	351
VDSL	26	64
TV	706	707

4G LTE and spectrum auctions
4G LTE will be the next growth lever for mobile data. In 2013, we extended the scope of our co-operation agreement with T-Mobile to include 4G (LTE) technology, gaining access to T-Mobile's frequencies in 1,800 MHz band. This has allowed us to launch 4G LTE services already, in step with the market. In 2014, we will have the opportunity to take our 4G offer to the next level when UKE auctions new spectrum in the 800 MHz frequency.

It is expected that the auction process will allocate five blocks of LTE-compatible frequencies in the 800 MHz spectrum, and 14 blocks in the 2.6 GHz spectrum, each block being 5 MHz wide. The initial prices of the blocks have been set at PLN 250 million and PLN 25 million for the 800 MHz and 2.6 GHz bands respectively. The auction process was originally launched in 2013, however, on February 11, 2014, the President of UKE took a decision to cancel the auction.

The reason for such decision of the President of UKE was her concern for ensuring stability and legal certainty of the process as well as eliminating any possible doubts of formal and legal nature that might accompany the auction procedure.

On February 18, 2014 the President of UKE launched public consultations on the draft auction documentation for frequencies in the 800 MHz and 2.6 GHz bands. All parties interested in expressing their positions on the draft documents subject to this public consultation were invited to submit their positions by March 19, 2014.

The draft documentation provides for the following terms:

- auction participants will be able to bid for a maximum of two 800 MHz blocks and four 2.6 GHz blocks
- in result of the auction participant or entities from the participant's capital group cannot hold more than a combined 2x20 MHz of spectrum in the digital dividend spectrum and the 900 MHz band. Successful bidders must begin using the frequencies and offer commercial services within 12 months in the case of 800 MHz spectrum licenses, and within 36 months in the case of 2.6 GHz licenses
- they will also be assigned coverage gaps and must commit to provide network coverage for the assigned area
- each frequency assignment will allow for 15 years of spectrum usage

products & services

2013 was our first full year as an integrated operator under a single brand, and the first full year of operation for our convergent Orange Open offer. We also successfully launched nju.mobile, an exciting new brand aimed at the cost-conscious end of the market. The growing commercial momentum around these products as the year drew to a close is a vindication of our marketing strategy and a positive indicator for future growth.

Mobile
We focused on regaining growth in post-paid in 2013, as this segment creates most of the value. We successfully grew post-paid subscribers throughout the year, with a particularly good result in Q4: 169,000 post-paid net adds – a level unseen since 2009. As a result, we have visibly improved the overall dynamics of our mobile customer base.

Convergence and bundled products
Orange Open, the convergent offer which allows customers to subscribe to a combination of mobile and fixed voice, mobile and fixed broadband and TV, became more flexible in 2013, catering to customers without fixed broadband for the first time. The customer base grew dynamically, ending the year at 286,000 compared to just 33,000 twelve months earlier; around 80% of these customers now use three or more different Orange products. 58% of the new Orange Open customers bought additional services when they joined, and 4% of our total mobile post-paid customers are now in Orange Open. Multi-product bundles are key to customer loyalty, as their churn rate is much lower than amongst single product users.

Launch of nju.mobile
Within a few months of its launch in 2013, our second mobile brand – nju.mobile – proved itself an effective competitive weapon. Nju.mobile gained over 353,000 customers, including 75,000 in post-paid. These impressive customer numbers were achieved without cannibalising our own Orange mobile brand: almost 70% of postpaid clients are either new or moved over to nju.mobile from the competition. Awareness of the brand is growing fast, which is very positive news. We will continue to use nju to win cost-conscious customers. Nju offers pre- and post-paid options with simple tariff structures and no handset subsidies. Its key differentiators are low prices, no limits for calls and SMS, transparent, simple terms (e.g. 30 day contract in post-paid), and Internet-only sales.

4G & mobile data
Data is the big future growth story in mobile, and we continued to take steps to prepare the market. Take-up of smartphones increased by 17% and now represents 25% of our total mobile client base. 50% of new mobile data customers took up our Orange Free Set offer, which includes a subsidised notebook, netbook or tablet. Other offers were aimed at giving customers more flexibility – for example, a single data package that can be used across home wireless Internet and smartphones on post-paid contracts – and greater transparency and control over their data spend. We also launched Orange Cloud, offering free cloud storage to pre- and post-paid customers. All these measures help to reduce churn and stimulate take-up of mobile data services.

Fixed line
Poland's market for fixed voice services has been declining since the introduction of mobile, and fixed-to-VoIP substitution has joined fixed-to-mobile substitution as a driver of further decline. We were however able to limit the churn in fixed voice customers in 2013, losing 345,000 customers versus 590,000 in 2012 and 676,000 the year before.

Our fixed broadband customer base remained almost unchanged in 2013. Fixed broadband penetration in Poland's population is still below 20% and the total number of lines grew only 1.8% in 2013. Polish consumers are increasingly using mobile broadband in the home as a substitute for fixed services, and in larger cities the high-speed bundled offers from cable TV operators are popular, taking over 30% of the total fixed broadband market. In order to compete with cable TV, which dominates in the largest cities, we launched an Internet access offer using FTTH technology, with speeds at 300 Mb/s. The offer is currently commercially available in Warsaw.

Apart from the measures we are taking to improve service delivery and increase data speeds, our main competitive strategy in fixed line is to increase loyalty by offering attractive bundled services including TV with premium content, high-speed broadband and fixed voice service through VoIP. The number of customers for this 'triple-play' offer grew by more than 40%, reaching 351,000 by the end of 2013. These numbers are encouraging, but we know we need to do more and broadband will be a key area for improvement in 2014.

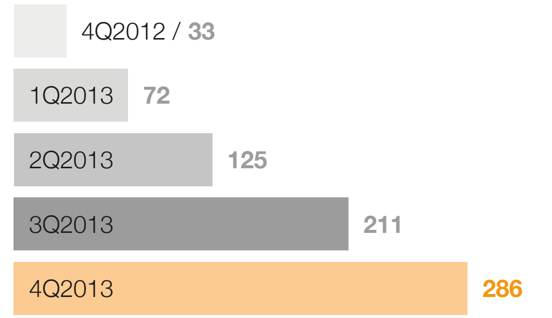
286,000 Orange Open customers

353,000 nju.mobile customers including **75,000** in postpaid

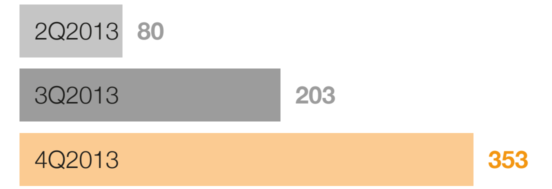
430,000 mobile net additions including **310,000** in postpaid

3.8 mn smartphones

Orange Open customers ('000)



Nju.mobile customers ('000)



customers and distribution

In 2013, we continued our efforts to enhance the quality and improve the efficiency of customer care, ensuring that our approach is convergent, competent and cost-effective. We also enhanced our sales channels, increasing their effectiveness and improving our approach to new customers. We proceeded integration of our sales operations to support greater convergence between fixed and mobile offers. We are working towards a fully-profiled sales network that will enable the best customer experience in Poland.

Customer care
Our efforts to further build customer loyalty in 2013 were rewarded with an increase in the number of customers who would recommend our services from 50% to 60% (according to Post-Contact-HotSurvey). We developed the right channel mix for customer care, in line with customers' preferences. In the new contact structure, customers more frequently choose to interact with us via e-care and e-support channels, mobile apps ('Mój Orange') or social media. We were the leading company in Poland using Facebook as a customer care tool, and ranked eighth in the worldwide list of Socially Devoted Brands (source: http://sociallydevoted.socialbakers.com). Altogether, the share of online contacts in our customer care channels increased from 35% to 48% during 2013.

Convergence experts
Orange Polska's portfolio of offers is continually expanding and adapting to the convergence model. The number of dedicated advisors trained and specialized in our convergent offer and new technologies exceeded 1,000 in 2013. With regards to customer care for our business clients, we implemented a new operating model based on segmentation and portfolio management. We guaranteed every client access to a dedicated advisor – an important differentiator that helps customer retention, revenue generation and net promoter score. Our Orange Experts supported over 630 thousand customers in 2013, providing advanced technical assistance via the *900 line or through videohelp clips.

Cost-efficient care
Every year Orange Polska's customer care becomes more cost effective. The efficiency resulted from simplification of processes, development of competence centres, increase of e-invoices share to almost 37% in December 2013, as well as the optimum channel mix for customer contacts.

Cross-channel distribution
In line with global trends, our expanding distribution network is centred around a cross-channel approach which maximises synergies between the different sales channels. This not only generates better sales opportunities; it also results in a seamless customer

experience every step of the way, whichever channel the customer decides to use. Enhancements in 2013 included the introduction of Video Call, a partial roll-out of enhanced stock visibility software to our points of sale, and better access to customer history for our sales people, helping to make sales and customer service seamless for convergent services.

Sales and service
In 2013 we removed a number of low performing shops from our sales network and grew the share of online sales (partly thanks to the introduction of nju.mobile). At the end of 2013 we had 920 exclusive Orange points of sale, offering our entire portfolio of services (mobile & fixed) and providing a huge range of customer service. In addition, we had 369 points of sale via independent distributors (eg. Media Markt, Saturn, Vobis), mainly selling our core products. Our prepaid starter kits were available in about 57,000 locations, and top-ups in about 110,000.

Looking ahead
In line with our medium-term action plan, we will continue to increase the efficiency of our sales network while we simultaneously improve the end-to-end customer experience. We will harness the potential of modern distribution channels, particularly on-line and independent distribution, and we will develop additional cross-channel functionalities that support convergence. With integrated customer databases, we will offer seamless and efficient customer care, whatever the channel. And we will develop an even stronger sales network to maximize sales of product bundles and convergent solutions.

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5 CSR
6 corporate governance
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technology

In 2013 we continued to focus on readying our network for the future, upgrading its capacity for high-speed data traffic and optimising it for seamless convergence. We completed the improvements to our fixed broadband infrastructure as mandated by our 2009 agreement with the Polish regulator, exceeding our targets for the number and capacity of lines. And our co-operation agreement with T-Mobile expanded to include not only co-used base stations for regular mobile traffic, but also to some degree the use of each other's spectrum. Orange Polska also successfully piloted a super-fast home broadband service based on fibre optic technology and offering speeds of 300 Mbps. We are in sight of our goal of building Poland's best convergent network.

Network modernisation and network co-operation update
Our co-used network project with T-Mobile continued to advance according to plan, achieving major efficiency savings for both parties – and more importantly, major service improvements for the customers. 8,200 base stations in common use were on line by the end of 2013, compared to 2,600 a year earlier and well on the way to achieving the 10,000 target. Our customers in areas where the project has already been completed have access to 60% more network sites. We also improved our mobile data offer thanks to the project, launching UMTS and 4G services on co-used radio access networks during the year, in addition to the existing 3G services. All these efforts resulted in a very significant increase in service coverage, particularly for mobile data. 90.2% of the population can now access mobile data services – up almost 28% since the start of the project.

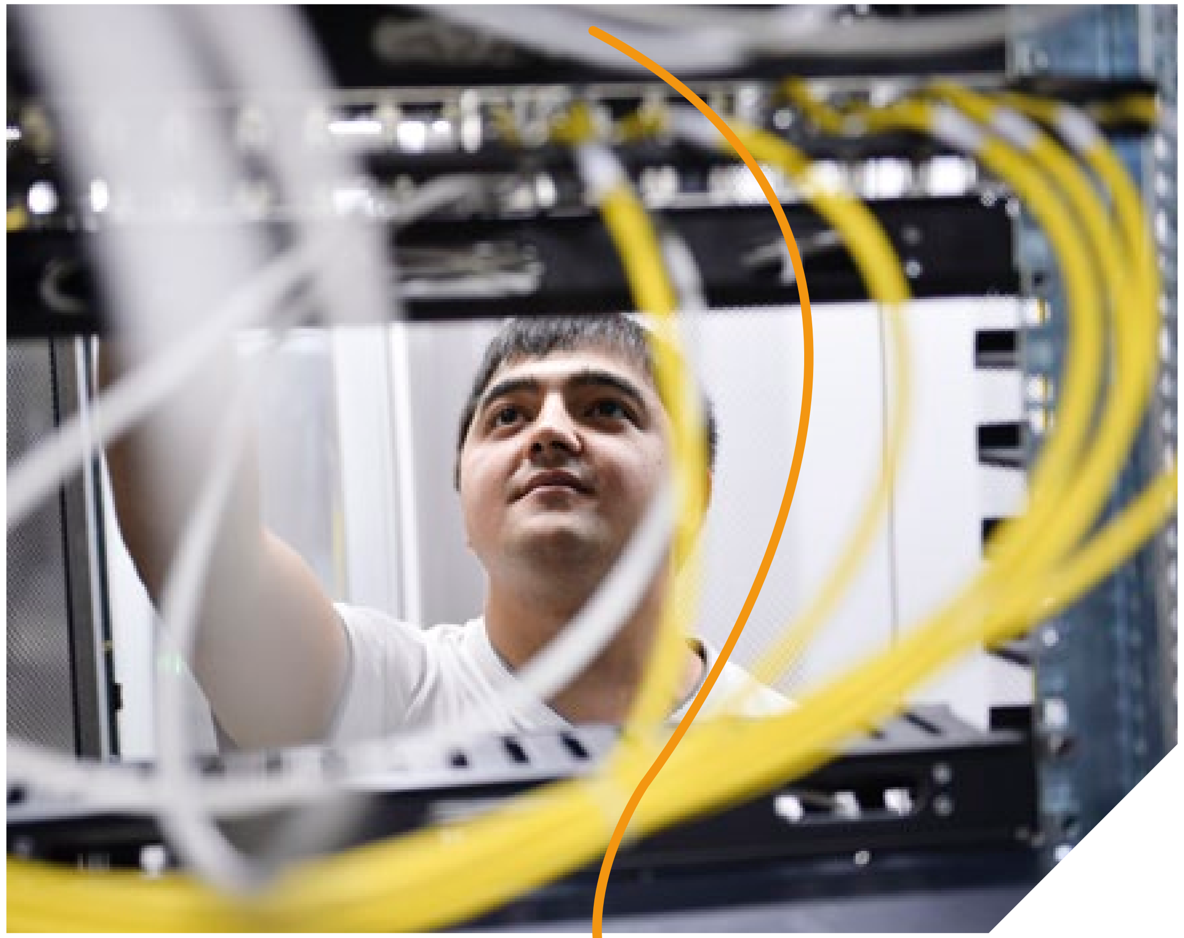
At the same time as speeding up our access network, we are evolving our IP network to meet the increased traffic requirements. In 2013 we boosted the capacity of our IP backbone network, simplified the network topology and began the process of optimizing PoPs to handle connections at 100Gbps.

Cloud computing
Our customers increasingly connect to our network via a range of devices, at home and in the open. At the same time, the volume of data is expanding exponentially, and cloud storage is a crucial enabler of these developments. In October we began offering a free cloud storage service to users of the orange.pl portal. Orange Cloud offers data storage, synchronization and back-up, as well as file sharing and management. Users can access their free disk space (5Gb for post-paid, 1Gb for pre-paid) from any Internet-ready device, and can pay for additional space. For business users, we launched Orange Cloud for Business in November 2013. This service provides a platform for business applications, which are hosted online, rather than requiring users to install them on individual computers.

Underpinning our future plans
To support our future plans for the company, we will continue to invest in technology to support high-speed data (especially VHBB and 4G) and ensure that our core network is adequately integrated with the cloud. We will continue to optimise our networks and CRM systems for convergence, helping us to reduce time-to-market for new offers and make service delivery smoother, faster and more predictable.

In 2014 our primary focus will be on readying the network for LTE development. We will continue to rollout 4G services, extending coverage to new parts of the country. And we will capitalise on the success of our pilot FTTH project in Warsaw, using our experience to bring very high speed broadband to more of our customers.

90% Group 3G coverage (% of population)
at year end



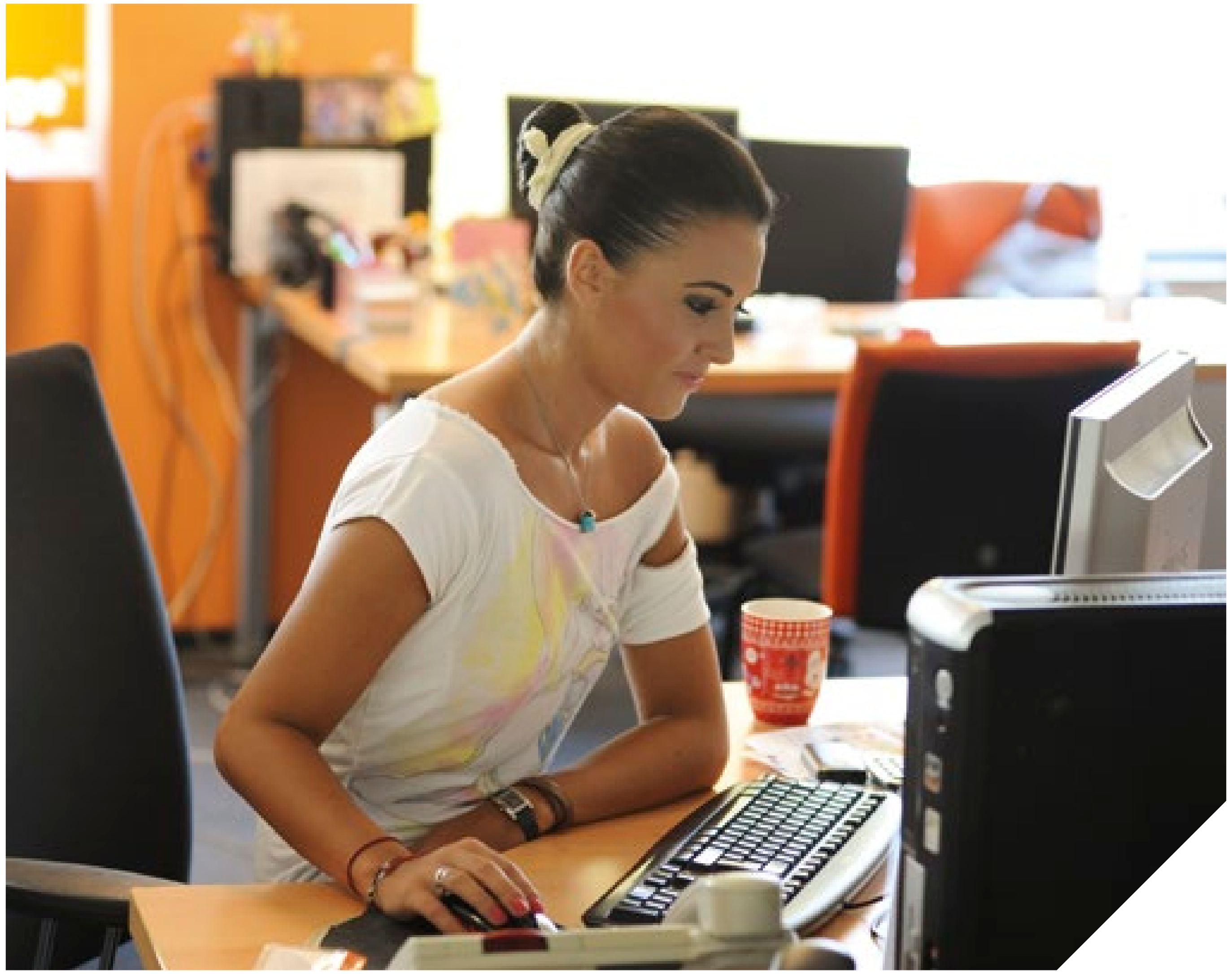
ca 8,200 at year end

10,000 by end 2014

base stations in co-used networks

people

In 2013 we successfully reached our goal of joining TP and PTK into one company: Orange Polska. It was a crucial formal milestone on the long journey of change which we began in 2008.



Work environment
In September 2013 we moved 3300 employees to our new headquarters, Miasteczko Orange ('Orange Town'). This represented not only one of the biggest relocation projects in Europe, but also a tremendous cultural change. Thanks to excellent change management, an effective communication campaign and the hard work of multidisciplinary and cross-functional teams across the organisation, we were able to move people smoothly without any negative impact on their daily work. Miasteczko Orange was created according to our values, supporting collaborative work in modern digital workspaces: it sets the standard for the rest of our premises. In 2013 we continued our dialogue with our social partners as part of the "Friendly Work Environment" project, discussing and agreeing the investments we will make to enhance work environments in other Orange locations in Poland.

Being a better employer
We continue to build Orange Polska's reputation as one of the best employers in Poland. We received several prestigious awards in 2013, including a certificate from Top Employers Polska. The number of candidates applying for positions in Orange Polska in recruitment process is growing year on year, which is further evidence of our high standing in the employment market.

We encourage our employees to participate in volunteer programmes, and many of them do this through the Orange Foundation or deliver their own projects thanks to dedicated grants. In 2013, over 3500 Orange Polska employees were active volunteers.

Training, performance and appraisal
During 2013 we implemented a modified annual appraisal process: RIO, concentrating on making a stronger connection between each individual's assessment results and their career development plans. New elements of the process included: one guaranteed training for each employee; monitoring of planned actions throughout the whole year; and the incorporation of Orange values into the assessment style. 99% of employees took part in the process. We also continue to offer dedicated Orange Campus trainings for managers as well as development opportunities within 16 Professional Schools in various business areas of the company.

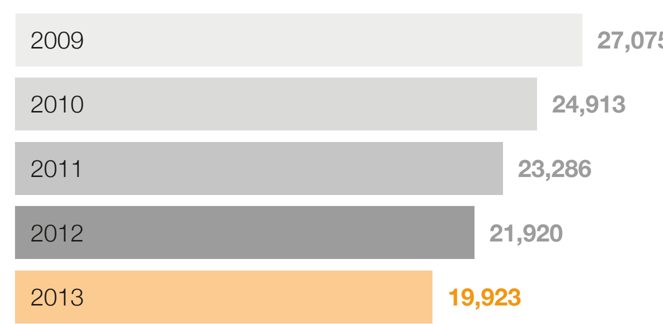
Over 300 managers participate in our Performance Management programme, having their personal MBO (Management By Objective) bonuses goals linked to the company's financial performance. We also put a lot of emphasis on the customer experience by including NPS (Net Promoter Score) in both managers' and employees' MBOs.

Operational efficiency
Workforce optimisation is not easy, yet it is an unfortunate necessity in the current competitive environment. 2013 saw the successful completion of the voluntary departure programme agreed under the terms of the existing Social Agreement, and the negotiation of a new agreement to cover the years to 2015. It is always a priority to limit the stress of organisational change among staff. We are confident that the new social plan will run smoothly and will not decrease staff motivation.

We have a long track-record of successfully adapting to market conditions: from over 68,000 full time employees in 2001 – the legacy of our former role as the state-owned national telecoms provider – we have completely realigned our workforce to the realities of the telecoms market in 2013. Just under 2000 employees left the Group in 2013, bringing the total workforce down to 19,923.

Further workforce optimisation is unavoidable if we are to increase our operational efficiency and stay competitive. We came to an agreement with our trade unions that allows for 2,950 further voluntary departures by the end of 2015. We expect to see the earliest benefits to our cost base in the second half of 2014, and we expect to reach a full savings run-rate of PLN 200 million per annum once the programme is completed. Given this new Social Agreement, and the sale of Wirtualna Polska with its 400 employees, we are on track for a headcount of roughly 16,500 by the end of 2015.

Employment evolution 2009-2013



in full time position

financial performance

As we expected, revenue and cash generation came under pressure in 2013, with drastic cuts to mobile termination rates adding to the challenges posed by a fiercely competitive market. Nevertheless, our main financial results are in line with the objectives we set out earlier in the year. In 2013, we invested more resources in our commercial activities, which boosted customer acquisition but also raised our commercial costs. With momentum building in our key business areas, we expect revenue erosion to slow down considerably in the second half of 2014 and gradually recover over the coming years. Despite the increase in commercial costs, we have delivered on our commitment to generate at least PLN 1 billion organic cash flow, delivering OCF of PLN 1,105 million[1]. Our financial performance was helped by a stringent approach to cost control that resulted in PLN 223 million of cost savings, bringing our cost base down by 4.8%[2]. This enabled us to reach our 2013 cash flow objective without jeopardising our investments in future growth.

PLN **1.1 bn** organic cash flow

(excluding spectrum acquisition)

Regulatory pressures on top line partly offset by growing customer base
The Group's revenue totalled PLN 12,923 million in 2013, 8.6% lower than in 2012. More than half of the decrease was due to the impact of regulatory decisions (mostly MTR cuts[3]). If we strip out these regulatory factors, the top-line decline was 3.7%, or PLN 525 million. The other main factor behind the decline was a fall in revenues from fixed services, which – excluding regulatory impact – went down by PLN 417 million, as customers continued to turn away from fixed voice services in favour of mobile and VoIP. Nevertheless, the rate of decline slowed steadily throughout 2013, from PLN -107 million in the first quarter to just PLN -64 million in the last quarter. Lastly, mobile revenues also came under pressure, falling by PLN 156 million over and above the regulatory impact, as the fierce price competition that began in 2012 continued to put pressure on mobile prices. This decline was partly offset by a strong commercial performance, with record numbers of customers signing up for our mobile services in Q4. In total we grew our customer base by 430,000 during 2013, including 310,000 post-paid; this compares very favourably to the 66,000 decline in post-paid customers during 2012.

EBITDA margin at 31.6%[2], defended by PLN 223 million cost savings
The restated EBITDA[2] for 2013 amounted to PLN 4,084 million. This was PLN 773 million lower than the year before, mainly due to the PLN -66 million impact of regulatory decisions and a further PLN -525 million fall in revenues. In addition direct costs came under pressure. Post-paid tariff plans with unlimited voice and SMS inflated the Group's interoperator costs by PLN 107 million, and commercial costs were pushed up by PLN 108 million as the Group improved its commercial momentum. Operational costs in the ICT segment rose to PLN 216 million (PLN 67 million up year-on-year), although this resulted in a solid PLN 265 million of ICT revenues. On a much more positive note, 2013's EBITDA figure includes PLN 223 million savings from our cost optimisation programme, which helped us to defend the EBITDA ratio at 31.6% of revenues.

2013 net income at PLN 294 million, including restructuring costs
Orange Polska's net income for 2013 amounted to PLN 294 million, versus PLN 855 million in 2012. This decline mainly reflects the fall in EBITDA, as well as the PLN 147 million costs related to workforce restructuring. These impacts were partly offset by lower depreciation (down by PLN 160 million), lower net financial costs (down by PLN 78 million) and lower income tax (down by PLN 147 million) compared to 2012.

Optimising capex with a focus on strategic investments
Excluding expenses related to spectrum acquisition, we kept capex down to PLN 1.9 billion (14.8% of revenues) in 2013, compared to PLN 2.3 billion (16.5% of revenues) in the previous year. 57% of these investments were related to network infrastructure and technology, including mobile network modernisation and the Fibre To The Home pilot. Only 26% of capex (excluding spectrum costs) went on the mobile network, a figure which reflects the major efficiency savings generated by our network co-operation program with T-Mobile.

1.1 net debt/EBITDA

26% net gearing

[1] excluding spectrum acquisition, guidance was revised up in 3Q2013
[2] restated mainly for restructuring costs in 2013
[3] voice mobile termination rate (MTR) was cut from PLN 0.0826 a minute to PLN 0.0429 a minute on July 1, 2013. In 1H 2012 the MTR amounted to PLN 0.1520 a minute and in 2H 2012: PLN 0.1223 a minute

2013 organic cash flow objective achieved
The organic cash flow amounted to PLN 1,105[4] million in 2013, in line with the guidance which we revised upwards in Q3. In comparison to 2012, the OCF decreased by PLN 488 million. We saw PLN 1,121 million less in cash from operating activities (before income tax paid and change in working capital), mostly as a result of lower EBITDA. We also paid PLN 57 million more tax. This was partly offset by a PLN 540 million reduction in cash outflow for capital expenditures, and by a PLN 142 million positive variance in working capital requirement[5].

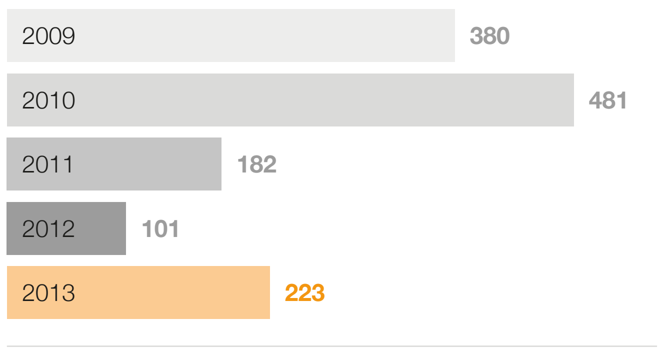
Sound financial structure maintained
We reduced our net debt by just over PLN 500 million in 2013. As a result, we maintained net debt at 1.1 times EBITDA, and net gearing at 26%. In comparison, the figures at the end of 2012 were 1 x EBITDA and 28%. With this sound balance sheet, which is now further supported by the financing agreements that we have concluded with the Orange Group, we are confident that we have the necessary financial flexibility to meet the challenges coming our way in 2014.

Shareholder remuneration
In 2014 we will incur material non-recurring cash outflows, principally linked to the renewal of our existing spectrum and purchase of the spectrum needed for LTE. Nevertheless, we are committed to remunerating our shareholders on a sustainable basis, and despite the uncertainties, we are recommending a dividend of 0.5 zloty per share, to be paid in 2014, subject to approval by the Annual General Meeting of shareholders.

Looking ahead
We do not have a full influence on revenue evolution; however, we anticipate a slower pace of decline in 2014 than in 2013. In the first half of the year, revenues will still be affected by 2013's MTR cuts, but we expect a significant slowing of the rate of decline in H2. We will bring costs further down[6], below the level of 2013, fighting to protect the EBITDA margin at a sustainable level. We plan to limit capital expenses to below 1.8 billion zloty, excluding costs linked with spectrum, and we expect the underlying cash generation in 2014 to be at least stable[7] versus 2013.

1.9 bn Capex
(excluding spectrum acquisition)

Cost savings delivered by cost optimization program (in PLN millions)



[4] excluding spectrum acquisition
[5] WCR decrease in 2013 of PLN 54 million versus a PLN -88 million increase in 2012
[6] excluding any impact of risk and litigation
[7] excluding: 340 million zloty payment for the renewal of GSM license, up to 127 million EURO for the European Commission fine, and purchase of LTE spectrum, with the auction expected in 2014

Corporate Social Responsibility

Corporate Social Responsibility

For us, corporate social responsibility (CSR) means a corporate culture in which the development and implementation of our business strategies takes the interests of a range of stakeholders into account, including our employees, customers, investors, suppliers, business and social partners, as well as the natural environment.

We believe that such an approach benefits the company and its environment, helps our business to develop in a sustainable way, and improves quality of life for all of us.

By developing and providing modern services and technologies, we have an important impact on our surroundings, thus we care on sustainable development and increasing the quality of life of all of us.

We consequently take responsible actions:

- to allow everybody to use digital world solutions in a simple and safe way, independently from his/her abilities, place of residence, age and skills
- to build with our clients clear and honest relations
- to deliver our all investors with the complete information on our activity
- to execute our business goals with the respect to ecology and environment
- to build "cooperation" culture, where all emplyees and co-workers would feel respected and could fulfill with satiscaction their proffessional & life goals

Our corporate social responsibility goals are determined by Orange Polska's CSR strategy, which addresses the following four major areas:

digital inclusion
we want everyone, regardless of their skills, residence, age or ability, to be able to make use of the opportunities offered by the digital world

safe network
we want the use of the latest technologies to be easy and risk-free

clean environment
we want to pursue our business objectives with respect for ecological principles and in harmony with the environment

enquiring team
we want to create a culture of co-operation, in which all employees feel respected and can freely pursue their professional goals and life passions

CSR management
We are guided in the development of our CSR strategy by the needs and expectations of our stakeholders. By engaging in dialogue with our stakeholders and listening to their opinions, we are able to look at our business from different perspectives and define new social and environmental challenges.

We monitor both the local and global impacts of our efforts. Each year we present all our CSR initiatives in the Orange Polska Corporate Social Responsibility Report. In order to ensure that our approach to CSR management is comprehensive and precise, our reports are based on the international AA1000 standards, GRI guidelines and Global Compact principles; in addition, our CSR activity is audited by independent external auditors on an annual basis.

For our CSR reports please visit
http://www.orange-ir.pl/csr/reporting-progress

Respect index
Orange Polska is included in the RESPECT Index – the first CSR index in Central and Eastern Europe. It aims to identify companies managed in a responsible and sustainable manner, but additionally it puts strong emphasis on the investment attractiveness of companies.

In order to be included in the Index portfolio, the Company has had to demonstrate that it operates in accordance with the best management standards in corporate governance, investor relations and reporting, as well as environmental matters, social responsibility and labour relations.

The RESPECT Index regularly raises entry requirements to encourage the ongoing improvement of CSR standards among its members. Our company has been present in the RESPECT Index since its launch.

Successes in 2013

- Orange Polska's 2012 Corporate Social Responsibility Report won the Ministry of Economy award for constantly raising the standards of CSR activity in the Polish market. In addition, it received an honorary mention in the 'CSR Reports' competition for measuring the effectiveness of community initiatives.
- Orange Polska was ranked first in the 'Telecommunications, technology, media and entertainment' category in the latest list of Poland's most socially responsible companies. The ranking was prepared by Gazeta Prawna daily, the Leon Kozminski Academy and the Responsible Business Forum, and audited by PWC.
- Joint efforts by Orange Polska and the Nobody's Children Foundation to improve the security of children on the Internet were recognised by the European CSR Award Scheme. The co-operation was acclaimed the best partnership in Poland between a company and a non-governmental organisation.
- Two of our projects were selected as winners in the 'Benefactor of the Year' competition: the Orange Polska Corporate Volunteering programme and the Orange Foundation's work on behalf of children with impaired hearing.
- The Orange Studios (Pracownie Orange) programme was recognised as the best CSR project in the 'Golden Clips' contest organised by the Polish Public Relations Consultancies Association.

digital inclusion

digital inclusion · safe network · clean environment · enquiring team

We want every one, regardless of their skills, residence, age or ability, to be able to make use of the opportunities offered by the digital world.

Our goals:
- Icrease access to modern, high-quality services, also in economically less developed areas, elimination of the „white spots"
- Provide services and products & design effective business process dedicated to elderly and disabled people
- Adapt education to different social groups, their needs and expectations
- Provide technological possibilities for e-government, e-state solutions
- Build awareness of the spectrum of possibilities for the use of e-services

We know that the telecommunications industry is of key importance for the development of not only the information society but also the civic society. The availability and quality of the ICT infrastructure is an increasingly significant factor in stimulating the country's economic growth and reducing the developmental differences between regions. Therefore, we are actively involved in the development of broadband networks using EU funds. Together with local governments we are developing trunk networks in the Lubuskie Region and Pomeranian Region of Poland. Simultaneously with the project implementation we are carrying out informational and educational campaigns on the opportunities offered by the new network.

New communication technologies can greatly improve quality of life for people with disabilities. In the fixed line segment, we give customers with disabilities a 50% access fee discount (on selected tariff plans) plus a 50% terminal connection fee discount, as well as a range of specially adapted telephone sets and equipment. For several years, Orange Polska has been sending invoices for fixed line services in Braille to its blind customers and large-print invoices to people with impaired sight. We are also working with non-governmental organisations to make our website, portfolio and customer service accessible to all.

Universal access to the Internet contributes to equal opportunities and helps people from disadvantaged social groups to reach their full potential. But first we need to eliminate the social barriers that restrict people's access to knowledge, culture and education through digital technology. The Orange Foundation seeks to combat so-called 'digital exclusion' by supporting the educational aspirations of children and youth. Through its creative initiatives it has been encouraging young people to gain knowledge, participate in culture and build communities using the Internet and new technologies.

We have a long-running agreement to provide subsidised broadband Internet access to Polish schools and libraries. Currently, 9,000 schools, serving more than 3 million students, are making use of this offer. In addition, we have provided over 3,300 libraries across the country with free access to the Internet. We also support the libraries' educational initiatives around modern technologies which are mainly aimed at social groups at high risk of digital exclusion.

In 50 small towns we have developed multimedia Orange Labs in order to facilitate access to information, knowledge and technology among local communities. They are open to everybody, not only as a place for developing digital competence, but also as a meeting space for projects that integrate local communities.

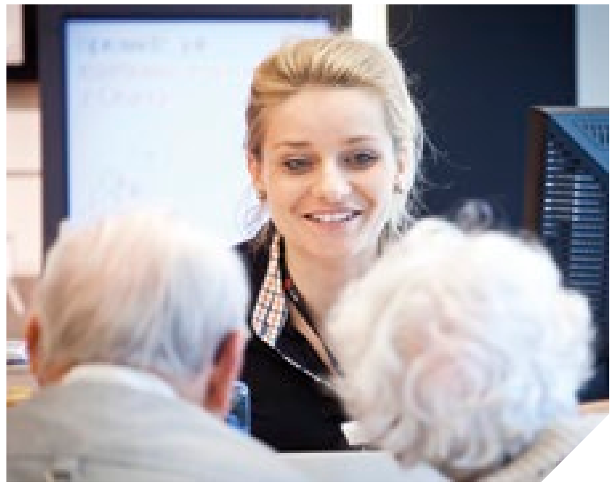
For more information please visit www.fundacja.orange.pl

3,300 libraries
receive grants in the Orange for Libraries programme, providing free access to the Internet for over 6 million Poles

over **7,000** people
took part in the 'Meetings with Passions' project carried out in libraries in 2013, which aimed at inspiring the elderly

50 Orange Studios
with modern multimedia equipment in small towns and villages

46 grants
for cultural and educational projects using modern technologies, which involved a total of 5,000 children or young people



In 2013, Orange Polska joined the Broad Alliance for Digital Skills in Poland, which was established at the initiative of the Ministry of Administration and Digitalisation.

safe networks

digital inclusion | safe network | clean environment | enquiring team

We want the use of the latest technologies to be easy and risk-free.

Our goals:

- Provide mechanisms to offer safe services and products
- Implement protection for children against Internet-related threats
- Implement protection for adults against Internet-related threats

Using interactive media has become a part of everyday life. Ensuring the safety and protection of Internet and other electronic media users is one of Orange Polska's key social responsibilities.

The day-to-day safety of our service users is ensured by a team of specialists, who respond to any threats and support Internet users. The team holds the prestigious CERT (Computer Emergency Response Team) certificate. We also run initiatives to educate our customers about the safety rules for using modern communications.

Young people are among the most vulnerable to cyber dangers. For nine years we have collaborated with the Nobody's Children Foundation (FDN), a leading Polish NGO that deals with child safety on the net. Owing to our support, the www.sieciaki.pl ('Net Pets') portal as well as educational materials and e-learning courses for children, teachers and parents have been developed. Together with the Foundation we have developed the Safe Media guide for parents, which gives a comprehensive picture of the hazards faced by kids in the digital world and discusses how to prevent them and where to seek help. There is also a website and a free help line for children (helpline.org.pl / 800 100 100).

Orange is also a member of an alliance of mobile operators against child sexual abuse, formed to restrict the use of mobile phones by persons or organisations that seek to profit from illegal content involving children. Since 2011, Orange Group has participated in the 'Better Internet for Children' initiative headed up by Neelie Kroes, Vice-President of the European Commission and the European Commissioner for the Digital Agenda.

9,000 schools
participating in our cyber-safety education programme

164,000 children
contacted helpline.org.pl

248,000 primary and secondary school students
used e-learning courses on how to use the Internet safely

245,000 registered users
of the sieciaki.pl ('Net Pets') portal

4,500 children
attended lessons conducted by Orange volunteers in Poland in 2013

clean environment

digital inclusion | safe network | clean environment | enquiring team

We want to pursue our business objectives with respect for ecological principles and in harmony with the environment.

Our goals:

- Develop ICT solutions that reduce carbon footprint
- Optimise products and services to reduce environmental impact during all phases of their life cycle (cradle-to-cradle)
- Maximise the recovery of used and surplus equipment sold by the company
- Decrease the use of paper through e-invoices
- Monitor the environmental impact of Orange Polska by maintaining and developing our environmental management system, in line with ISO 14001

We are not indifferent to global challenges related to protection of the natural environment and natural resources. As a provider of telecommunication services we can significantly contribute to reducing the negative impact of business on the environment, so we incorporate initiatives to raise environmental awareness and respect for the environment into our business activities.

The telecom industry faces a challenge to develop sustainable ways to meet the growing demand for new services, while reducing the energy consumption and greenhouse gas emissions. We promote environmentally friendly solutions, such as e-documents or tele- and videoconferences. E-invoices have already been adopted by more than 2.7 million of our customers. A few years ago, we launched a Green IT project, which involves a comprehensive approach to the development and operation of our IT environment, particularly with respect to resource virtualisation, power consumption and printing methods. We have also implemented more efficient management of natural resources, monitoring the consumption of energy and other resources, especially water and paper, as well as carbon dioxide emissions.

Intensive development in our industry means that hardware quickly becomes obsolete. A buy-back programme for unwanted handsets is one of our key environmental initiatives. We launched the www.orangerecykling.pl website, which enables customers to re-sell their old handsets easily. The service is available to all, not just our customers, and the repurchase offer covers about 2,000 different handset models. We also refurbish products which have not reached the end of their service life so they can be put back on the market.

2.7 mn customers using e-invoices

20,000 handsets re-purchased via the www.orangerecykling.pl website

325,000 pieces of equipment refurbished

7,440 tons reduction in CO_2 emissions as a result of the Green IT project

BREEAM Excellent certificate for our new Warsaw headquarters – a modern complex of environmentally friendly buildings

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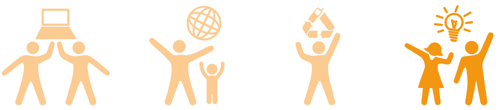
enquiring team



We want to create a culture of co-operation, in which all employees feel respected and can freely pursue their professional goals and life passions.

Our goals:

- Conduct dialogue in regular and transparent way with employees and co-workers, build their awareness
- Create modern and friendly work environment
- Develop and implement tools for comprehensive management of diversity
- Ensure work and development possibilities supporting life balance
- Develop and support volunteering programs for Orange Polska's employees

The key to a company's success is its employees. Orange Polska employs almost 20,000 people throughout Poland. For us, social responsibility begins in the company and is based on relations with our employees. We attach great importance to ensuring equal treatment, clear evaluation and promotion criteria, professional and personal development opportunities, as well as good and safe working conditions.

Listening to employees' opinions about the company, seeking solutions to the problems raised and suggesting the relevant improvements are fundamental to maintaining our status as a good employer. Orange Polska conducts regular employee surveys and engages in constructive dialogue with trade unions.

The development of a culture based on mutual respect, respect for differences, is a key priority for us. As we believe that education is crucial to achieve it, we disseminate knowledge about this issue among our employees. Each employee has to know the Orange Polska Code of Ethics and attend training in ethics in business.

Ensuring equal access to positions in the company, regardless of gender or age, from the recruitment process to subsequent professional development is a major priority for us. Our remuneration system promotes competence and commitment. A major challenge for Orange Polska is to promote the professional development of women and to increase their percentage in management. Orange Polska follows a uniform and transparent remuneration policy based on equal treatment, fair assessment and non-discrimination. In 2013, the ratio of the basic salary of women to that of men, in managerial positions, was 94.5%.

We believe that co-operating with leading international experts will help us to look at the issue of diversity in a broader context. Therefore, we participate in a platform for knowledge and experience exchange funded by the European Commission. We are a signatory of the Diversity Charter and became the main partner of the Charter in Poland in 2012.

In Orange we believe that strengthening what is best in people is a guarantee of their professional and personal success. We carry out a number of training programmes aimed at developing competence and preparing people to meet the strategic challenges faced by the company. We do not forget the essentials that make for a happy workplace. We care about the safety of our employees as well as their health, providing preventive health care and promoting sporting activities. In difficult life situations we offer help and support, and we provide a good pension scheme.

Among us, there are a lot of people who selflessly help others and join community initiatives. Orange Polska volunteers get involved in charity initiatives all over Poland. The Orange Foundation encourages and prepares them to share their knowledge, competence and positive energy with others. We also support their own original ideas for helping local communities through a grant system.

3,520 employees got involved in the corporate volunteering programme

about 19.1% of our workforce

42.7% of women in workforce

27.6% women in managerial positions

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corporate governance

corporate governance

As a company listed on both the Warsaw and London Stock Exchanges, we are committed to maintaining standards of corporate governance which are in accordance with international best practice. We are sensitive to the expectations of the international investment community and our domestic investor base in Poland.

Both the supervisory and management boards of Orange Polska see governance as a continuing set of processes linked to our annual business cycle. We are committed to transparency in our corporate governance.

The following information is also available on www.orange-ir.pl/corporate-governance

- Ownership structure
- Articles of Association
- Operating rules for the Management Board and Supervisory Board
- Regulations for the Annual Shareholders Meeting
- Corporate Governance disclosures to the Warsaw Stock Exchange

Role of shareholders

Orange Polska encourages shareholders to play an active role in the Company's corporate governance. Indeed, shareholder consent is required for key decisions, including: the review and approval of the financial statements and Management Board Report on Activities; the review and approval of the Management Board's recommendations on dividend payments; the review and approval of the Supervisory Board Assessment of the Group's situation; the election of the members of the Supervisory Board (and, if necessary, their dismissal); amendments to the Company's Articles of Association; increase and reduction of the share capital; and the buy-back of shares.

At the Company's General Meetings, each share in Orange Polska entitles its owner to one vote. Holders of the Company's GDRs are also encouraged to submit their voting instructions to the Company's Depository Bank. In addition to their participation in General Meetings, members of the Company's Management Board and senior executives engage in active dialogue with the Company's shareholders. To ensure that investors receive a balanced view of the Company's performance, Management Board members – led by the President of the Management Board and the Chief Financial Officer – also make regular presentations to institutional investors and representatives of the domestic and international financial community

Orange Polska S.A. on the Warsaw Stock Exchange

Orange Polska shares have been listed on the primary market of the Warsaw Stock Exchange (WSE) within the continuous listing system since November 1998. The Company's shares are included in the WIG20 and WIG30 large-cap indices, and the WIG broad-market index. Orange Polska shares are also a component of WIG telecommunication – an industry index for telecommunications companies.

Since November 2009, the company's shares are included in the RESPECT Index, the first CSR index in Central and Eastern Europe. It proves that Orange Polska operates in accordance with the best management standards in corporate governance, investor relations and reporting, as well as environmental matters, social responsibility and labour relations.

Apart from Warsaw Stock Exchange, the Company's shares are also traded publicly on the London Stock Exchange, where one share is equal to one GDR.

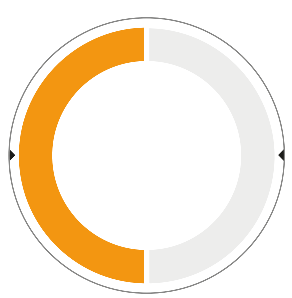
As of December 31, 2013, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each. The Company's main shareholder is Orange S.A., which owns 50.67% of shares.

On 11 April 2013, the Orange Polska S.A. General Meeting of Shareholders adopted a resolution regarding payment of dividend in the amount of PLN 0.50 per share.

Orange Polska S.A share price evolution

2013 saw a contraction of the value of indices on the Warsaw Stock Exchange (WSE). The value of our shares was down 16.5% since the beginning of the year (after the dividend-related reference price change), while the large-cap index, WIG20, lost 7.1%. Over 2013, the Orange S.A. shares were trading within the PLN 6.23–PLN 12.87 range.

Ownership structure of Orange Polska share capital (as of 31 December 2013)



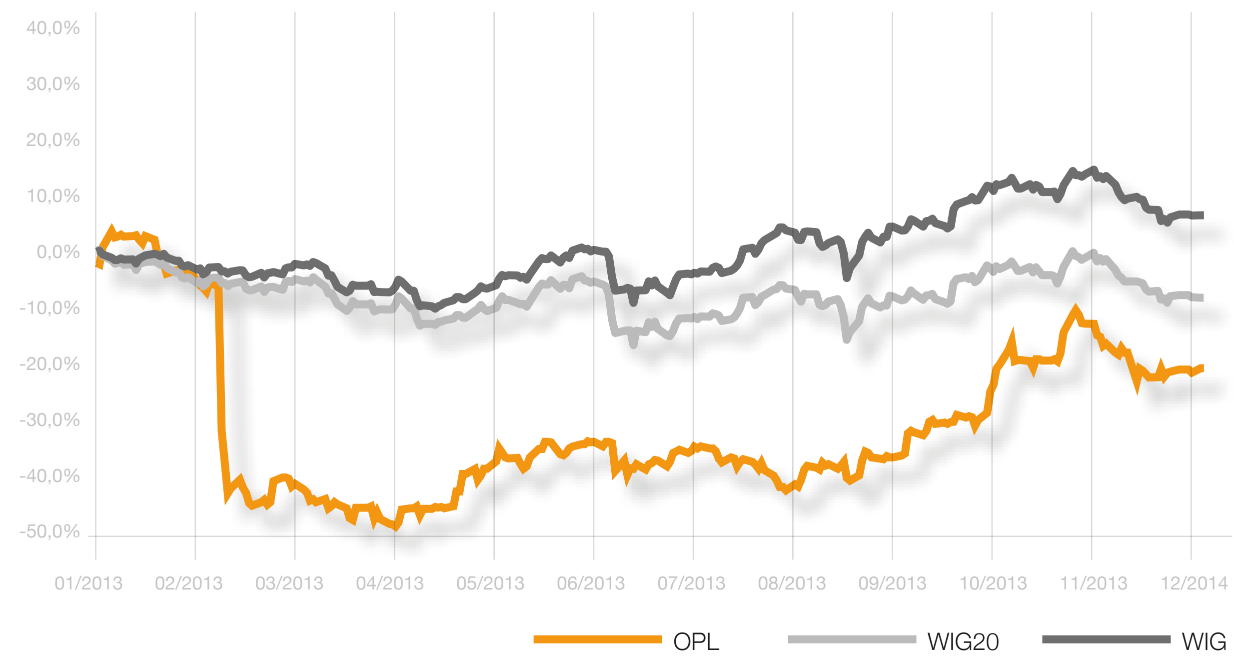
50.67%
Orange SA (previously France Telecom SA)

49.33%
Other shareholders

PLN 0.5
dividend
subject to AGM approval

4-5%
dividend yield
based on share price range for mid Feb – March 2014

OPL shares evolution in 2013 vs WIG20, WIG



PLN **12.9 bn** market cap:
based on share price at 31 December 2013

Supervisory Board
The term of office for each member of the Supervisory Board is three years, and their remuneration is determined by the General Meeting of Shareholders. The Supervisory Board meets at least once a quarter and among others 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 Company'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 Orange Polska's businesses.

Since 2009, an amendment to the Polish Accounting Act (of September 29, 1994) has assigned to members of the Supervisory Board greater responsibility in regards to the reliability and fair presentation of the Company's financial reporting.

The work of the Supervisory Board is coordinated by the Board Chairman, with the assistance of the Board Secretary; and the responsibilities and obligations of the Board, together with its rules of procedure, are defined in a formal statement of the Board's role. Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in subsequent paragraphs.

The Supervisory Board regulations are available on www.orange-ir.pl/corporate-governance

Composition on December 31, 2013:
1. Maciej Witucki – Chairman of the Supervisory Board
2. Prof. Andrzej K. Koźmiński – Deputy Chairman and Independent Board Member
3. Benoit Scheen – Deputy Chairman and Chairman of the Strategy Committee
4. Marc Ricau – Board Member and Secretary
5. Timothy Boatman – Independent Board Member and Chairman of the Audit Committee
6. Dr. Henryka Bochniarz – Independent Board Member
7. Jean-Marie Culpin – Board Member
8. Eric Debroeck – Board Member
9. Dr. Mirosław Gronicki – Independent Board Member
10. Sławomir Lachowski – Independent Board Member
11. Marie-Christine Lambert – Board Member
12. Pierre Louette – Board Member
13. Gervais Pellissier – Board Member
14. Gérard Ries – Board Member
15. Dr. Wiesław Rozłucki – Independent Board Member and Chairman of the Remuneration Committee

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

All changes made to the composition of the Supervisory Board are described in detail in the Report on the Supervisory Board activities later in this section.

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

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

The Audit Committee is chaired by Mr. Timothy Boatman, an independent Member of the Supervisory Board. He has relevant experience and qualifications in finance, accounting and audit.

The Remuneration Committee
1. Dr. Wiesław Rozłucki – Chairman
2. Andrzej K. Koźmiński
3. Benoit Scheen
4. Marc Ricau

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

Maciej Witucki, Chairman of the Supervisory Board, and Mr. Timothy Boatman, Independent Board Member and Chairman of the Audit Committee, participate in the meetings of the Strategy Committee on a permanent basis.

Management Board
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 a 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

Internal control including risk management
The system of internal control and risk management in the Group has been designed and implemented by the Management Board to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Code of Ethics was adopted within the Group in 2008 which encompasses its relationship with customers, shareholders, employees, suppliers, competition and also with respect to the environment in which the Group operates. A warning system related to ethics and reporting of potential and actual fraud has been enhanced by the Group which is co-ordinated by the Ethics Committee. Training on ethics is provided to employees, which is confirmed by a personal certification. Formal channels for whistle blowing have been established, including reporting to the Chairman of the Audit Committee of the Supervisory Board and the Ethics Committee.
The Group is diligent in its approach to reporting financial results and its ongoing communication with the Polish and international investment community, as well as fulfilling its disclosure obligations. Key managers responsible for the financial, legal, regulatory and internal control functions review financial statements and make comments thereto at the Disclosure Committee. The purpose of the Committee's meetings is to ensure that financial disclosures are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of the Group. In 2013, the Disclosure Committee had six meetings. In addition the Audit Committee review the financial disclosures before they are published.
The key elements of the Group's internal control and risk management system include the following procedures:

(1) An internal audit function, which reports directly to the President of the Management Board. The internal audit programme is annually reviewed by the Audit Committee which also analyses the Group's Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit, Management Board decisions regarding the conclusion and termination of an employment contract with the Group Internal Audit Director as well as his evaluation and remuneration require an opinion of the Audit and Remuneration Committees. The Group Internal Audit Director attends all meetings of the Audit Committee.
(2) The Group conducts ongoing assessments of the quality of the risk management system and controls. This process, enables identification and classification of the Group's financial and non-financial risks.
(3) Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental, financial reporting and operational) effectively on an ongoing basis. It provides a framework for ongoing risk-controlling activities.

In 2013, the Management Board again completed a comprehensive assessment of the Group's internal controls over financial reporting. Main deficiencies were identified and corrected or appropriate action points have been launched. As a result of the assessment, the Management concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at December 31, 2013.

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REPORT
on the activity of the Supervisory Board
of Orange Polska S.A. and its committees
and concise assessment of the Orange Polska Group's
standing in 2013

I. Composition:

Supervisory Board composition
as of January 1, 2013:

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

In 2013 the following changes occurred in
the composition of the Supervisory Board:
On April 11, 2013, the mandates of Mr. Thierry Bonhomme, Mr. Jacques Champeaux, Mr. Mirosław Gronicki and Mr. Marc Ricau expired.

On the same day, Mr. Eric Debroeck, Mr. Mirosław Gronicki, Mr. Gervais Pellissier and Mr. Marc Ricau were appointed by the Annual General Assembly as Members of the Supervisory Board.

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

Supervisory Board composition
as of December 31, 2013:

1. Maciej Witucki – Chairman
2. Prof. Andrzej K. Koźmiński – Deputy Chairman
3. Benoit Scheen – Deputy Chairman and Chairman of the Strategy Committee
4. Marc Ricau – Secretary
5. Timothy Boatman – Board Member and Chairman of the Audit Committee
6. Dr. Henryka Bochniarz – Board Member
7. Jean-Marie Culpin – Board Member
8. Eric Debroeck – Board Member
9. Dr. Mirosław Gronicki – Board Member
10. Sławomir Lachowski – Board Member
11. Marie-Christine Lambert – Board Member
12. Pierre Louette – Board Member
13. Gervais Pellissier – Board Member
14. Gérard Ries – Board Member
15. Dr. Wiesław Rozłucki – Board Member and Chairman of the Remuneration Committee

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

Three permanent committees operate within the Supervisory Board. Their composition was the following (as of December 31, 2013):
– Audit Committee: Timothy Boatman – Chairman, Marc Ricau, Sławomir Lachowski and Marie-Christine Lambert – members;
– Remuneration Committee: Dr. Wiesław Rozłucki – Chairman, Prof. Andrzej K. Koźmiński, Benoit Scheen and Marc Ricau – members;
– Strategy Committee: Benoit Scheen – Chairman, Dr Henryka Bochniarz, Eric Debroeck, Dr. Mirosław Gronicki, Sławomir Lachowski and Gérard Ries – members.

II. Operation

The Supervisory Board, acting in compliance with the provisions of the Commercial Companies Code and the Company's Articles of Association, exercised permanent supervision over the Company's operations in all fields of its activities.

In 2013 the Supervisory Board fulfilled its duties resulting from the provisions of the Commercial Companies Code:

1. Evaluation of the Management Board's report on Orange Polska SA operations and the financial statements for the financial year 2012 and the Management Board's motion for distribution of the Company's profit;
2. Evaluation of the Management Board's report on Orange Polska Group's operations and the consolidated financial statements for the financial year 2012;
3. Filing with the General Assembly of the Shareholders reports presenting the results of the above mentioned evaluation.

The Supervisory Board took due care to ensure that the Management Board's reports and the financial statements were in compliance with the law.

The Supervisory Board also executed its rights and obligations arising from the Company's Articles of Association and the Best Practices for Companies listed on the Warsaw Stock Exchange, of which the following should be mentioned:

1) expressing opinions on motions addressed to the General Assembly including the motion on amendments to the Articles of Association,
2) selecting an independent auditor to audit the Company's financial statements,
3) preparing opinions on Orange Polska S.A. and Orange Polska Group budgets,
4) concise assessing of the Orange Polska Group's standing in 2012, including an assessment of the internal control system and the significant risks management system,

The Supervisory Board met 7 times in 2013. The SVB adopted 29 resolutions, of which 9 in writing (by correspondence).

The Supervisory Board used in its operations opinions of its Committees (the Audit Committee, the Remuneration Committee and the Strategy Committee), wherever applicable.

The reports of the three permanent committees of the Supervisory Board on their activities in 2013 are attached hereto.

The Supervisory Board formulated a number of recommendations, remarks and motions to the Management Board, referring to different aspects of the company's operations.

The Supervisory Board was regularly monitoring the execution of its resolutions and recommendations, analysing the information presented by the Management Board.

III. Concise assessment of orange polska group's standing in 2013

This section contains the Supervisory Board assessment of the Orange Polska Group's performance in 2013 in accordance with the recommendation no. III. 1.1 of the Code of Best Practices for WSE Listed Companies, introduced by the Warsaw Stock Exchange. The assessment is based on the 2013 financial results of the Group (the Company and its subsidiaries) as well as on the information obtained by the Supervisory Board during conducting its statutory tasks.

Throughout 2013, the Supervisory Board
focused on the following issues:
a) Group's financial results and performance in comparison to the budget;
b) Development and beginning of implementation of the medium term action plan for 2013–2016;
c) Concluding financing agreements with Orange Group;
d) Monitoring of the key programs for the Group's future, particularly the program of mobile access network sharing with T-Mobile;
e) Disposal of a subsidiary, Wirtualna Polska;
f) Merger of the main Group entities, Telekomunikacja Polska S.A. and PTK Centertel, into Orange Polska S.A.;
g) Customer satisfaction – the customer excellence programme.

The Supervisory Board, through the work of its committees and all its members (including six independent members), was actively engaged in the process of evaluation of the most important initiatives, having in mind the interest of all the Group's stakeholders, including shareholders. In addition, it maintained oversight of the Group's operational and financial goals through management reporting at its quarterly meetings and was able, through the Audit Committee, to review and challenge the control, risk management and budgeting functions performed by the Management.

Group's Operational Review

Despite intensive competitive environment, Orange Polska achieved a visible improvement in its commercial momentum in 2013. In particular, the commercial focus placed on convergence, resulted in a dynamic growth of the Orange Open product, which reached 286,000 customers, up from 33,000 at the end of 2012. Roughly 58% of these customers bought additional services when entering into Orange Open, underscoring the upsell potential of Open. Group's mobile customer base expanded by 430,000, including 310,000 customers added in post-paid. This was well supported by the Group's second mobile brand, nju.mobile, which was launched in April 2013. Its customer base reached 353,000, mostly gained from the competition. In fixed line, the Group limited the loss of its fixed voice customers to 345,000 in 2013, versus 590,000 customers lost in 2012. The customer base of fixed broadband decreased by 44,000, mainly due to services based on ADSL and CDMA, while the Group increased the number of clients using its VDSL services by 38,000. The Group continued to bundle fixed broadband with television and VoIP, and these efforts resulted in a 103,000 increase in its 3P bundles in 2013. The number of clients of Group's mobile broadband clients increased by 180,000, also due to commercial actions including subsidised equipment (netbooks, tablets).

Another major event was the merger of the Group's fixed and mobile entities, TP S.A. and PTK Centertel, into Orange Polska S.A. The process was completed on December 31, 2013. It is an important step for the Group, as it will further facilitate the implementation of the Group's convergent product strategy.

In 2013, the Group continued to implement its co-operation with T-Mobile, concerning a common use of their mobile access networks. At the end of the year, ca 8,200 sites (out of the total target of 10,000) have been modernised and put in common use. The co-operation was enlarged to the 4G LTE technology, and subsequently the Group gained access to the 1 800 MHz LTE spectrum, which is owned by T-Mobile. As a result of the co-operation, the Group launched services based on 4G LTE, and enlarged its service coverage to ca. 90% of population in 3G and achieved ca. 16% coverage (in population) in 4G.

In line with its strategy of disposing of non-core assets, on October 23, 2013 the Group signed a sale agreement to dispose its wholly owned subsidiary, Wirtualna Polska, to O2 Sp. z o.o., subject to an approval by the Competition Office (UOKiK). Following the approval by UOKiK, the transaction was finalised in 2014, for a total price of PLN 383 million.

On December 9, 2013 the Group reached an agreement with its trade unions, regarding a new social plan for years 2014–2015. Pursuant to this agreement,

1 introduction to Orange Polska
2 medium-term action plan 2013–2015
3 management
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5 CSR
6 corporate governance
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the Group will help those employees, who cannot adjust their professional profile to the changing environment, by enabling them to take advantage of a voluntary leaves program, which includes severance packages. Up to 2,950 employees will be able to leave the Group on a voluntary leaves basis in 2014-2015, including 1,530 in 2014.

Group's Financial Overview

The Group's key goals in 2013 were to:

- Effect the merger of TP S.A. and PTK Centertel Sp. z o.o.;
- Monitor business performance closely so as to be able to react quickly to unfavourable trading conditions caused by the continued volatility of the financial markets;
- Effectively promote Orange Open-like convergent services and, consequently, strengthen the leadership in value in fixed voice, mobile and broadband markets;
- Take actions to enable the Group's growth outside the telecommunication business in line with the strategic plan;
- Review outsourcing options for various activities and dispose of non-core assets to improve efficiency;
- Increase customer satisfaction and loyalty, also by implementing the customer excellence program;
- Monitor the Group's EBITDA margin;
- Optimise capital expenditure to below PLN 2 billion;
- Mitigate foreign exchange effect on commercial expenses, financial costs and capital expenditure;
- Intensify the cost base optimisation;
- Maintain financial stability, including taking advantage of Orange S.A. funding opportunities, and monitor the level and prognosis of debt ratios closely;
- Generate organic cash flow of at least PLN 0.8 billion[1]; later revised to at least PLN 1 billion
- Develop a shareholder remuneration approach based on changing market dynamics;
- Complete the execution of the Memorandum of Understanding with the Regulator;
- Further enhance internal control and risk management measures;
- Continue with the network infrastructure and frequency sharing cooperation with T-Mobile Polska through the NetWorkS! joint venture.

The Group achieved notable commercial successes, resulting from the implementation of its new medium term action plan for 2013-2016. Nevertheless, it continued to be significantly affected by adverse impact stemming from the cuts of the Mobile Termination Rate, which was reduced by 65% since December 31, 2012, as well as by a negative impact of price pressure in the mobile segment, which was accelerated in 2012 in anticipation of the MTR decreases, and which contributed to a decline in mobile ARPU. As a result of a combination of these factors, the Group's revenue totalled PLN 12,923 million and decreased by 8.6% over 2012. Excluding the PLN -693 million regulatory impact, which was mainly due to the MTR cuts, the revenue declined by 3.7% year-on-year. The restated EBITDA margin[2] stood at 31.6%, while the organic cash flow totalled PLN 1,105 million, compared with PLN 1,593[3] million generated in 2012.

Group's net debt decreased to PLN 4,512 million at the end of 2013. The Group has a solid balance-sheet with net gearing at 26% and the net debt to EBITDA ratio at 1.1. This, coupled with an effective hedging policy, enabled the Group to maintain its solid credit rating (Baa1/BBB with a negative outlook at December 31, 2013).

In 2013, the Group paid a dividend of PLN 656 million, an equivalent of PLN 0.5 per share, payable in cash.

Conclusions and 2013 Recommendations

The Polish telecom market underwent important changes, driven by MTR cuts and price wars in the mobile post-paid market. As a result, this has forced a major adaptation at the Group, reflected in the new medium term action plan for 2013-2016. Despite these pressures, the Group delivered results within the revised guidance in 2013. The Supervisory Board believes that the Management Board will make the appropriate efforts to reach Group's 2014 objectives.

The Supervisory Board's opinion is that in 2014 the Group should focus its activities on further implementing the new medium term action plan. In order to do so, the Group needs to build a much leaner and more flexible organisation, and also to:

- Draw benefits from the merger of TP S.A. and PTK Centertel Sp. z o.o. and to put further focus on convergent product strategy and the Orange Open;
- Monitor business performance closely so as to be able to react quickly to unfavourable trading conditions caused by the continued volatility of the financial markets;
- Strengthen the leadership in value in fixed voice, mobile and broadband markets;
- Take actions to enable the Group's growth outside the telecommunication business in line with the strategic plan;
- Increase customer satisfaction and loyalty, also by further implementing the customer excellence program;
- Monitor the Group's EBITDA margin;
- Optimise capital expenditure to below PLN 1.8 billion, excluding one-off spectrum;
- Mitigate foreign exchange effect on commercial expenses, financial costs and capital expenditure;
- Intensify the cost base optimisation;
- Maintain financial stability, including taking advantage of Orange S.A. funding opportunities, and monitor the level and prognosis of debt ratios closely;
- Generate organic cash flow of at least PLN 1.1 billion[1];
- Remunerate shareholders on a reasonable level, taking into consideration the Group's financial structure and future capital requirements
- Further enhance internal control and risk management measures;
- Continue with the network infrastructure and frequency sharing cooperation with PTC (T-Mobile brand) through the NetWorkS! joint venture.
- Pursue the rollout of 4G LTE services and make reasonable efforts to ensure access to the 4G LTE spectrum.

IV. Assessment of the group's internal controls including risk management

The Supervisory Board is responsible for reviewing the effectiveness of the Group's system of internal control and risk management designed and established by the Management Board.

This system facilitates the management of the risk of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures as needed). The relevant processes are designed to give reasonable, but cannot give absolute, assurance that the risks significant to the Group are identified and addressed.

The key elements of the system of internal control, including risk management, were presented in the Management Board's Report on the Activity of the Group for 2013, published on February 12, 2014.

In 2013, the Group again completed a comprehensive assessment of its processes of internal control over financial reporting within the framework of the Sarbanes-Oxley Program of Orange S.A. Main deficiencies both in design and in effectiveness of internal control have been 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 controls and financial reporting at December 31, 2013. Continued efforts by the Management in this regard are also needed in 2014.

Both the internal and external auditors report to the Management Board and also to the Audit Committee on control deficiencies which they identified during their audit. Their recommendations are being implemented.

[1] excluding spectrum acquisition, change in consolidation and impact of risk and litigation.
Organic cash flow = Net cash provided by operating activities – (CAPEX + CAPEX payables) + proceeds from sale of property, plant and equipment and intangible assets.
[2] excluding PLN 147mn restructuring costs and PLN -33mn adjustment linked to the TPSA/PTK merger (VAT and inventories)
[3] OCF for 2012 excluding EUR 550 million payment to DPTG.

Report
from the activities of Orange Polska S.A. Supervisory Board's Audit Committee in 2013

The Audit Committee was established by virtue of the resolution of the Supervisory Board no. 324/V/2002 dated June 14, 2002 (amended i.a. by the resolution of the Supervisory Board no. 9/12 dated March 14, 2012) regarding the establishment of the Audit Committee as a consultative body acting under the Supervisory Board.

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 Orange Polska S.A. (the "Company"), Orange Polska Group (the "Group") and to liaise with its auditors.

Composition
In 2013, the Audit Committee was composed of the following persons:

Chairman:
Mr. Timothy Boatman
("Independent Director"),
Chartered Accountant (British)

Members:
Ms. Marie Christine Lambert
Mr. Sławomir Lachowski
("Independent Director")
Mr. Marc Ricau

The Secretary of the Committee was
Mr. Jerzy Klonecki.
Mr. Jacques de Galzain, Management Board member and Chief Financial Officer and Mr. Jacek Chaber, Director of Internal Audit, attended all meetings of the Audit Committee. Other members of the Management Board, in particular the Chief Executive Officer, attended the meetings where appropriate.

Functions of the Committee
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 (including bonuses) 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.

Activity in 2013

The Audit Committee held 10 meetings in 2013, out of which 8 were regular meetings and
2 dedicated ad-hoc meetings, and in particular performed the following:

1) Reviewed the Company's and Group's published quarterly and annual financial statements, notably the relevance and consistency of the accounting methods used by the Company and the Group, particular attention was paid to those aspects where judgment is required, e.g. impairment of assets including goodwill and trade receivables, provisions for legal, tax and regulatory cases, revenue recognition and deferred tax;
2) Reviewed the Group's system of internal control and risk management as reported by the Management Board and, in particular, whether the Management Board sets the appropriate "control culture" and the way risks were identified, managed and disclosed by the Management. The Audit Committee received reports from Management on action plans in response to comments on internal controls from the internal and external auditors. The Audit Committee was briefed on the updated Internal Control Integrated Framework issued by Committee of Sponsoring Organizations of the Treadway Commission (COSO)on May 14, 2013;
3) Reviewed the annual plan of the Internal Audit, its budget and progress reports, as well as monitored the responsiveness of management to Internal Audit findings and recommendations. In addition, the Committee met privately with the Director of the Group's Internal Audit. The Audit Committee was provided with a report regarding the renewal in 2013 of the certification of Internal Audit activities by Institut Français de l'Audit et du Contrôle Internes (IFACI). The Audit Committee reviewed also the independence of the Internal Audit;
4) Reviewed the prior year performance of the external auditor and made recommendation to the Supervisory Board on the external auditor, its remuneration and terms of engagement. In accordance with the Code of the Best Practices for companies listed on the Warsaw Stock Exchange, the Audit Committee recommended to the Supervisory Board the appointment of Deloitte Audit Sp. z o.o. to the audit of the Company and the Group for the financial year 2013 and to review half-yearly financial statements for the period of six months ended June 30, 2013. Deloitte Polska Sp. z o.o. Sp. k. (formerly Deloitte Audyt Sp. z o.o.) was first appointed as statutory auditor for the year ended December 31, 2009;
5) Kept under review the scope and the results of the external audit, independence and objectivity (including scepticism) of the auditors and reported its conclusions to the Supervisory Board. All non-audit services provided by external auditors were approved in advance by the Chairman of the Audit Committee. In addition, the Audit Committee reviewed the external auditors' proposed audit plan for the financial year 2013, including the materiality level set for audit testing, in the light of the Group's present circumstances and changes in accounting and auditing standards; monitored the Company's responsiveness to the recommendations from the external auditor made in its management letter. In addition, the Committee met privately with the lead partner of the statutory audit firm;
6) Reviewed the operations of the Group's Ethics Committee, of the Group's Compliance office, the revenue assurance, anti-fraud, hedging, insurance, cyber security (including CERT), data security, including personal data, business continuity & crisis management and disaster recovery functions managed by the Management Board; monitored results of investigations initiated by whistle-blowing;
7) Reviewed the Group's 2013 budget and addressed recommendations on it to the Supervisory Board;
8) Reviewed the 2013 shareholders' remuneration proposed by the Management;
9) Issued opinions on other matters referred to the Committee by the Supervisory Board and/or the Management Board including the merger of the Company with its subsidiary PTK-Centertel Sp. z o.o., M&A transactions, including disposal of Wirtualna Polska SA and participation in the tender for 1800 MHz frequency reservation;
10) Received reports from the Management on the implementation of the Memorandum of Understanding with UKE signed in 2009.

The Audit Committee materially complied with the Recommendations on the work of the Audit Committee issued in November 2010 by the Office of the Financial Supervision Authority in Poland.

In the year under review, the Audit Committee, especially its independent members, reviewed and gave opinions to the Management Board on significant transactions with related parties as defined by the corporate rules, in particular the new financing arrangements with Orange Group (and the operation thereof), and received reports on them from the Group's Internal Audit.

Timothy Boatman
Chairman of the Audit Committee
of the Supervisory Board

March 17, 2014

REPORT
on the activity of the Remuneration Committee
of the Supervisory Board of Orange Polska S.A. in 2013

The Remuneration Committee was established by virtue of the Resolution of the Supervisory Board no. 385/04 dated June 16, 2004 regarding TP S.A. Supervisory Board's Remuneration Committee establishment as consultative body acting under the Supervisory Board.

The task of the Committee is to advise the Supervisory Board and Management Board on general remuneration policy of Orange Polska Group and to make recommendations on appointments to the Management Board, performance objectives, conditions of remuneration and amounts of bonuses for the Members of the Management Board.

Composition:
In 2013, the Remuneration Committee was composed of the following persons:

Chairman:
Dr. Wiesław Rozłucki
("Independent Director")

Members:
Benoit Scheen
Andrzej K. Koźmiński ("Independent Director")
– from September 19, 2013
Marc Ricau
Sławomir Lachowski ("Independent Director")
– from April 11 until September 19, 2013

The Secretary of the Committee was Jacek Kowalski, Management Board Member in charge of Human Resources.

Activity in 2013:
In 2013, the Remuneration Committee held 6 meetings and in particular developed recommendations for Supervisory Board consideration focused on the following remuneration-related issues:

1. Debate on Compliance of the Management Board remuneration structure and policy with the provisions of the European Commission Recommendation.
2. Discussion and acceptance of the Remuneration Policy in Orange Polska.
3. Discussion on the bonus system for the Management Board Members: 6 months versus 12 months and recommendation for the SVB.
4. Acceptance of the draft of resolution "on obligations of a TP S.A. management Board Member serving as a supervisory board or a management board member of an entity not being a subsidiary of Orange".
5. Recommendation to the SVB regarding appointment and conditions of employment for CEO.
6. Recommendation to the SVB regarding level of variable part of remuneration of CEO.
7. Discussion on the Remuneration policy in Orange Polska in the context of the variable part of the remuneration.
8. Evaluation of MBOs of the Management Board Members for H2 2012, overview and final approval of the goals for H1 2013 and for H2 2013.

Wiesław Rozłucki
Chairman of the Remuneration Committee

March 17, 2014

Report
from the activities of the Strategy Committee
of the Supervisory Board of Orange Polska S.A.
in 2013

The Strategy Committee was established by virtue of the Resolution of the TP Supervisory Board no. 417/05 dated June 15, 2005.
The major goal for the Strategy Committee is to give necessary support and advice for the Management Board in the area of Orange Polska Group strategic plans and initiatives of strategic importance.

Strategy Committee members in 2013:

Chairman:
Benoit Scheen

Members:
Dr. Henryka Bochniarz ("Independent Director")
Jacques Champeaux – until April 11, 2013
Eric Debroeck – from April 11, 2013
Dr. Mirosław Gronicki ("Independent Director")
Sławomir Lachowski ("Independent Director")
– from September 19, 2013
Gérard Ries

Permanent guests:
prof. Andrzej K. Koźmiński, Chairman of the Supervisory Board
– until September 19, 2013
Maciej Witucki, Chairman of the Supervisory Board
– from September 19, 2013
Timothy Boatman, Chairman of the Audit Committee

The Secretary of the Strategy Committee was Vincent Lobry, Management Board Member in charge of Value Management and Convergence.

Activities in 2013:
In 2013, the activities of the Strategy Committee concentrated on the validation and monitoring of execution of Orange Polska mid term strategy including the approach to new growth areas (eg. ICT) and new projects: Orange Finance and Orange Energy. Among subjects discussed during the Committee meetings was also Orange Polska investment strategy (with specific focus to LTE network and National Broadband Plan).

In all these areas the members of the Management Board actively participated.

There were three Strategy Committee meetings in 2013: January 24th, July 11th and October 17th.

Benoit Scheen
Chairman of the Strategy Committee

March 17, 2014

financial statements

Consolidated Income Statement

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

Consolidated Statement of Comprehensive Income

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

Consolidated Statement of Financial Position

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

Consolidated Statement of Changes in Equity

(in PLN millions)	Share capital	Share premium	Treasury shares	Other reserves				Translation adjustment	Retained earnings [1]	Equity attributable to owners of OPL S.A.	Non-controlling interests	Total equity
				Gains/(losses) on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments					
Balance at 1 January 2012 (audited)	**4,007**	**832**	**(200)**	**10**	**(77)**	**12**	**79**	**(5)**	**9,673**	**14,331**	**3**	**14,334**
Total comprehensive income for the 12 months ended 31 December 2012	–	–	–	(25)	(50)	14	–	–	855	794	–	794
Purchase of treasury shares	–	–	(200)	–	–	–	–	–	–	(200)	–	(200)
Dividends	–	–	–	–	–	–	–	–	(1,969)	(1,969)	(1)	(1,970)
Balance at 31 December 2012 (audited)	**4,007**	**832**	**(400)**	**(15)**	**(127)**	**26**	**79**	**(5)**	**8,559**	**12,956**	**2**	**12,958**
Balance at 1 January 2013 (audited)	**4,007**	**832**	**(400)**	**(15)**	**(127)**	**26**	**79**	**(5)**	**8,559**	**12,956**	**2**	**12,958**
Total comprehensive income for the 12 months ended 31 December 2013	–	–	–	(1)	38	(7)	–	5	294	329	–	329
Redemption of treasury shares	(70)	–	400	–	–	–	–	–	(330)	–	–	–
Dividends	–	–	–	–	–	–	–	–	(656)	(656)	–	(656)
Balance at 31 December 2013 (audited)	**3,937**	**832**	**–**	**(16)**	**(89)**	**19**	**79**	**–**	**7,867**	**12,629**	**2**	**12,631**

[1] See Note 27.3.

Consolidated Statement of Cash Flows

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

1. Corporate information

1.1. The Orange Polska Group

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

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

The Group is the principal provider of telecommunications services in Poland. The Group provides mobile telecommunications services based on the CDMA 450, GSM 900/1800, UMTS 900/2100 and LTE 1800 technologies, fixed-line telephony services (local, domestic and international calls), Integrated Services Digital Network ("ISDN"), fixed access to the Internet, TV and Voice over Internet Protocol ("VoIP"). In addition, the Group provides leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, multimedia services and various Internet services. Orange Polska provides telecommunications services on the basis of entry number 1 in the register of telecommunications companies maintained by the President of Office of Electronic Communication ("UKE").

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

The Group's operations are subject to the supervision of UKE, the national regulatory authority for the telecommunications market. Under the Telecommunication Act, UKE can impose certain obligations on telecommunications companies that have a significant market power on a relevant market. Orange Polska S.A. is deemed to have a significant market power on certain relevant markets.

1.2. Entities of the Group

The Group comprises Orange Polska and the following subsidiaries:

Entity	Location	Scope of activities	Share capital owned by the Group 31 December 2013	31 December 2012
PTK-Centertel Sp. z o.o. [(1)]	Warsaw, Poland	Mobile telecommunications services, construction and operation of mobile telecommunications network.	–	100%
Ramsat S.A.	Modlnica, Poland	Distributor of OPL S.A. products on mass and business market.	100%	100%
Orange Customer Service Sp. z o.o.	Warsaw, Poland	Post-sale services for OPL S.A. customers.	100%	100%
Wirtualna Polska S.A. [(2)]	Gdańsk, Poland	Internet portal and related services including internet advertising.	100%	100%
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100%	100%
Orange Real Estate Sp. z o.o. [(3)]	Warsaw, Poland	Facilities management and maintenance.	100%	100%
Otwarty Rynek Elektroniczny S.A. [(4)]	Warsaw, Poland	Provision of complex procurement solutions, including advisory, implementation and operation of e-commerce platform and IT systems, hosting.	–	100%
TP Edukacja i Wypoczynek Sp. z o.o.	Warsaw, Poland	Hotel services, training and conference facilities.	100%	100%
TP Invest Sp. z o.o.	Warsaw, Poland	Services for Group entities, holding management.	100%	100%
– Contact Center Sp. z o.o.	Warsaw, Poland	Call-centre services and telemarketing.	100%	100%
– TP TelTech Sp. z o.o.	Łódź, Poland	Design and development of telecommunications systems, servicing telecommunications network, monitoring of alarm signals.	100%	100%
– Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	89.27%	89.27%
– Telefon 2000 Sp. z o.o. [(5)]	Warsaw, Poland	No operational activity, in liquidation.	100%	100%
– TPSA Eurofinance France S.A.	Paris, France	Financial and investment operations.	99.99%	99.99%
– TPSA Finance B.V. [(6)]	Amsterdam, The Netherlands	Financial and investment operations.	–	100%
– TPSA Eurofinance B.V. [(6)]	Amsterdam, The Netherlands	Financial and investment operations.	–	100%
Pracownicze Towarzystwo Emerytalne Telekomunikacji Polskiej S.A.	Warsaw, Poland	Management of employee pension fund.	100%	100%
Fundacja Orange	Warsaw, Poland	Charity foundation.	100%	100%
Orange Polska Sp. z o.o. [(1)]	Warsaw, Poland	No operational activity.	–	100%
Telekomunikacja Polska Sp. z o.o.	Warsaw, Poland	No operational activity.	100%	–

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

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

In the 12 months ended 31 December 2013 and 2012, the voting power held by the Group was equal to the Group's interest in the share capital of its subsidiaries. Main acquisitions, disposals and changes in scope of consolidation are described in Note 4.

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

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

Bruno Duthoit – President of the Management Board,
Vincent Lobry – Vice President in charge of Value Management and Convergence,
Piotr Muszyński – Vice President in charge of Operations,
Mariusz Gaca – Board Member in charge of Business Market,
Jacques de Galzain – Board Member in charge of Finance,
Jacek Kowalski – Board Member in charge of Human Resources.

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

Maciej Witucki – Chairman of the Supervisory Board,
Prof. Andrzej K. Koźmiński – Deputy Chairman of the Supervisory Board, Independent Member of the Supervisory Board,
Benoit Scheen – Deputy Chairman of the Supervisory Board,
Marc Ricau – Secretary of the Supervisory Board,
Timothy Boatman – Independent Member of the Supervisory Board,
Dr. Henryka Bochniarz – Independent Member of the Supervisory Board,
Jean-Marie Culpin – Member of the Supervisory Board,
Eric Debroeck – Member of the Supervisory Board,
Dr. Mirosław Gronicki – Independent Member of the Supervisory Board,
Sławomir Lachowski – Independent Member of the Supervisory Board,
Marie-Christine Lambert – Member of the Supervisory Board,
Pierre Louette – Member of the Supervisory Board,
Gervais Pellissier – Member of the Supervisory Board,
Gerard Ries – Member of the Supervisory Board,
Dr. Wiesław Rozłucki – Independent Member of the Supervisory Board.

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

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

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

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

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

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

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

2. Statement of compliance and basis for preparation

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

Comparative amounts for the year ended 31 December 2012 have been compiled using the same basis of preparation.

The Consolidated Financial Statements have been prepared under the historical cost convention, except for the fair value applied to derivative financial instruments and debt that is hedged against exposure to changes in fair value.

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

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

These Consolidated Financial Statements are prepared in millions of Polish złoty ("PLN") and were authorised for issuance by the Management Board on 11 February 2014.

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

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2013,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2013 but for which the Group has opted for earlier application,
- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of International Accounting Standard ("IAS") 8 (Use of judgements).

Changes in presentation of financial statements – adoption of IFRS 11

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

Changes in presentation of the statement of cash flows

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

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

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

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

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

3. Segment information

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

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

Basic financial data of the operating segment is presented below:

(in PLN millions)	12 months ended 31 December 2013	12 months ended 31 December 2012
Revenue	12,923	14,141
EBITDA [(1)] restated [(2)]	4,084	4,857
Net income	294	855
Organic cash flows [(3)] restated [(4)]	1,105	1,593
Capital expenditures restated [(5)]	1,916	2,346
	At 31 December 2013	At 31 December 2012
Net gearing ratio [(6)]	26.3%	28.0%
Net financial debt / EBITDA restated ratio	1.1	1.0

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

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

On 15 March 2013, the Group purchased a 100% shareholding in Datacom System S.A. – a provider of integrated IT services. The purchase price amounted to PLN 13 million, of which PLN 11 million was paid and PLN 2 million will be paid after one year. As a result of the transaction the Group recognised goodwill in the amount of PLN 9 million, as well as PLN 1 million of the acquiree's non current assets, PLN 6 million of the acquiree's current assets and PLN 3 million of the acquiree's current liabilities which represent carrying amounts of each of those classes determined immediately before the combination. On 1 October 2013, Datacom System S.A. merged with Integrated Solutions Sp. z o.o., a fully owned subsidiary.

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

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

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

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

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

5. Revenue

The Group introduced a new revenue analysis in 2013:

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

Revenue is generated mainly in the territory of Poland. Approximately 2.9% and 3.3% of the total revenue for the 12 months ended 31 December 2013 and 2012, respectively, was earned from entities which are not domiciled in Poland, mostly from interconnect services.

6. Operating expense and income

6.1. External purchases

(in PLN millions)	12 months ended 31 December 2013	12 months ended 31 December 2012
Commercial expenses	(2,576)	(2,550)
– cost of handsets and other equipment sold	(1,521)	(1,417)
– commissions, advertising, sponsoring costs and other	(1,055)	(1,133)
Interconnect expenses	(1,251)	(1,771)
Network and IT expenses	(846)	(835)
Other external purchases	(1,767)	(1,747)
Total external purchases	**(6,440)**	**(6,903)**

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

6.2. Labour expense

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

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

6.3. Other operating expense and income

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

[1] See Note 30.2.

6.4. Research and development

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

7. Gains on disposal of assets

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

8. Impairment

8.1. Information concerning Cash Generating Units

Most of the Group's individual assets do not generate cash flows independently from other assets due to the nature of the Group's activities. Until the end of 2012, assets comprising the fixed network and the mobile network were treated as separate Cash Generating Units ("CGU"). The medium term action plan covering years 2013 – 2015 was announced on 12 February 2013 by the Management Board. According to this plan, assets of fixed and mobile networks are treated as one group of assets as they will generate largely dependent cash inflows. As a result, starting from 2013 the Group identifies the telecom operator CGU comprising fixed and mobile networks.

The Group considers certain indicators, including market liberalisation and other regulatory and economic changes in the Polish telecommunications market, in assessing whether there is any indication that an asset may be impaired. As at 31 December 2013 and 2012 the Group performed impairment tests of all Cash Generating Units (including goodwill and intangible assets with an indefinite useful life). No impairment loss was recognised in 2013 or 2012 as a result of these tests.

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

- value of the market, penetration rate, market share and the level of the competition, decisions of the regulator in terms of pricing, accessibility of services, the level of commercial expenses required to replace products and keep up with existing competitors or new market entrants, the impact of changes in net revenue on direct costs and
- the level of investment spending, which may be affected by the roll-out of necessary new technologies or regulatory decisions concerning telecommunications licences allocation.

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

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

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

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

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

(1) Assets comprising the fixed network and the mobile network are treated as a telecom operator CGU starting from 2013.
(2) Pre-tax discount rate is calculated as a post-tax discount rate adjusted to reflect the specific amount and timing of the future tax cash flows.
(3) Relates to Wirtualna Polska S.A.'s assets currently classified as held for sale (see Note 13).

Sensitivity of recoverable amounts

At 31 December 2013, any of the following changes in key assumptions:
- a 32% fall in projected cash flows after fifth year or
- a 3.3 p.p. decrease of growth rate to perpetuity or
- a 2.4 p.p. increase of post-tax discount rate

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

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

8.2. Goodwill

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

8.3. Other property, plant and equipment and intangible assets

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

9. Goodwill

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

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

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

10. Other intangible assets

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

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

Details of telecommunications licences are as follows:

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

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

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

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

11. Property, plant and equipment

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

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

During the 12 months ended 31 December 2013 and 2012 the Group recognised respectively PLN 45 million and PLN 8 million of non-repayable investment grants received from the government and the European Union. These grants relate to the development of the broadband telecommunications network. Investment grants are deducted from the cost of the related assets.

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

(in PLN millions)	12 months ended 31 December 2013	12 months ended 31 December 2012
Opening balance net of accumulated depreciation and impairment	**13,951**	**14,926**
Acquisitions of property, plant and equipment	1,390	1,585
Disposals and liquidations	(56)	(41)
Depreciation	(2,378)	(2,594)
Impairment	(9)	(15)
Transfer to assets held for sale (see Note 13)	(43)	–
Dismantling costs, reclassifications and other, net	(87)	90
Closing balance	**12,768**	**13,951**

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

12. Trade receivables and prepaid expenses

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

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

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

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

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

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

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

13. Assets held for sale

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

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

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

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

14. Provisions

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

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

Movements of provisions for the 12 months ended 31 December 2012 were as follows:

(in PLN millions)	Provisions for claims and litigation, risks and other charges	Provisions for employment termination expense	Dismantling provisions	Total provisions
At 1 January 2012	**3,000**	**170**	**264**	**3,434**
Increases	61	2	23	86
Reversals (utilisations)	(2,174)	(80)	(20)	(2,274)
Reversals (releases)	(35)	(10)	–	(45)
Foreign exchange effect	(18)	–	–	(18)
Discounting effect	14	5	14	33
At 31 December 2012	**848**	**87**	**281**	**1,216**
Current	848	87	18	953
Non-current	–	–	263	263

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

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

Provisions for employment termination expense

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

On 9 December 2013, OPL S.A. and OCS concluded with Trade Unions the Social Agreement under which up to 2,950 employees may take advantage of the voluntary departure package in years 2014 – 2015. Additionally, the parties concluded a separate agreement with Trade Unions specifying that in 2014 a maximum of 1,150 employees of OPL S.A. and 380 employees of OCS may take advantage of the above mentioned package. The value of voluntary departure package varies depending on individual salary, employment duration and year of resignation. The basis for calculation of the provision for employment termination expense is the estimated number, remuneration and service period of employees who will accept the voluntary termination until the end of 2015.

Dismantling provisions

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

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

15. Trade payables, other liabilities and deferred income

15.1. Trade payables

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

[1] Includes telecommunications licence payables only.

15.2. Other liabilities

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

15.3. Deferred income

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

16. Employee benefits

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

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

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

(in PLN millions)	12 months ended 31 December 2013			
	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Present/carrying value of obligation at the beginning of the period	**152**	**150**	**98**	**400**
Current service cost [(1)]	10	9	1	20
Past service cost [(1)] [(2)]	(16)	(22)	(3)	(41)
Interest cost [(3)]	6	5	4	15
Benefits paid	(17)	(2)	(5)	(24)
Actuarial (gains)/losses for the period	(13) [(1)]	(42) [(4)]	4 [(4)]	(51)
Present/carrying value of obligation at the end of the period	**122**	**98**	**99**	**319**

[(1)] Recognised under labour expense in the consolidated income statement.
[(2)] Curtailment resulting from the Social Agreement concluded on 9 December 2013 (see Note 14).
[(3)] Recognised under discounting expense in the consolidated income statement.
[(4)] Recognised under actuarial losses on post-employment benefits in the consolidated statement of comprehensive income.

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

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

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

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

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

A change of the discount rate by 0.5 p.p. would increase or decrease the present/carrying value of obligations related to long-term employee benefits as at 31 December 2013 by PLN 18 million or PLN 16 million, respectively.

17. Finance income and expense

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

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

(in PLN millions)	12 months ended 31 December 2012							
	Finance costs, net					Operating income		
	Interest Income	Interest expense and other financial charges	Foreign exchange gains / (losses)	Discounting expense	**Finance income / (costs), net**	Interest income	Impairment losses	Foreign exchange gains / (losses)
Loans and receivables	28	–	20	–	**48**	28 [2]	(87) [3]	(11)
– including cash and cash equivalents	25	–	20	–	**45**	–	–	–
Liabilities at amortised cost	–	(301) [1]	299	(18)	**(20)**	–	–	38
Derivatives	–	(216)	(291)	(19)	**(526)**	–	–	(57)
– hedging derivatives	–	(86)	(130)	–	**(216)**	–	–	(8)
– derivatives held for trading	–	(130)	(161)	(19)	**(310)**	–	–	(49)
Non-financial items [4]	–	–	–	(58)	**(58)**	–	–	18
Total	**28**	**(517)**	**28**	**(95)**	**(556)**	**28**	**(87)**	**(12)**

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

During the 12 months ended 31 December 2013 and 2012 there was no significant ineffectiveness on cash flow hedges and fair value hedges.

18. Net financial debt

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

The table below provides an analysis of net financial debt:

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

[1] Liabilities less assets.

19. Financial liabilities at amortised cost excluding trade payables

19.1. Bonds

(in PLN millions)						Amount outstanding at [1]	
Issuer	Series	Nominal value (in millions of currency)	Nominal interest rate	Issue date	Redemption date	31 December 2013	31 December 2012
TPSA Eurofinance France S.A.	A1	500 EUR	6.000%	22 May 2009	22 May 2014	2,147	2,115
TPSA Eurofinance France S.A.	A2	200 EUR	6.000%	17 July 2009	22 May 2014	869	879
Other short term bonds		3 PLN	Zero-coupon bonds	10 January 2012	10 January 2013	–	3
Total bonds issued by the Group						**3,016**	**2,997**
Current						3,016	108
Non-current						–	2,889

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

The weighted average effective interest rate on the Group's bonds, before swaps, amounted to 5.76% as at 31 December 2013 and 2012. Effective interest rate was lower than nominal interest rate mainly due to issuance proceeds from A2 series exceeding the nominal value.

Additionally, as at 31 December 2013 current financial liabilities at amortised cost include PLN 39 million of bonds issued by Orange Polska S.A. to Wirtualna Polska S.A., which is a result of classification of WP's assets and liabilities as held for sale (see Note 13). Bonds issued by OPL S.A. to WP (presented in other financial liabilities at amortised cost and assets held for sale) are not included in the calculation of net financial debt in Note 18.

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19.2. Bank borrowings

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

[1] Includes accrued interest and bank borrowings issue costs.
[2] Revolving credit line.

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

19.3. Loans from related party

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

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

20. Other financial assets

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

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

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

21. Cash and cash equivalents

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

The Group's cash surplus is invested into short-term highly-liquid financial instruments – mainly bank deposits. The term of the investments depends on the immediate cash requirements of the Group. Short term deposits are made for varying periods of between one day and three months. The instruments earn interest which depends on the current money market rates and the term of investment.

Additionally, in 2013 the Group concluded a Cash Management Treasury Agreement with Orange S.A. enabling the Group to deposit its cash surpluses with Orange S.A. and giving an access to back-up liquidity funding with headroom up to PLN 1,750 million.

As at 31 December 2013 and 2012, cash and cash equivalents included an equivalent of PLN 12 million denominated in foreign currencies.

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

22. Derivatives

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

In 2013 the Group concluded an agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk related to the financing from Atlas Services Belgium S.A. provided in EUR (see note 19.3). The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2013 was EUR 280 million and PLN 650 million with a total fair value amounting to PLN (4) million.

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

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

(1) CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, NDF – non-deliverable forward.
(2) Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

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

(1) CCIRS – cross currency interest rate swap, CCS – cross currency swap, IRS – interest rate swap, NDF – non-deliverable forward.
(2) Value 0 or (0) represents an asset or a liability below PLN 500 thousand, respectively.

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

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

(in PLN millions)	12 months ended 31 December 2013 Before tax	Tax	After tax	12 months ended 31 December 2012 Before tax	Tax	After tax
Effective part of gains/(losses) on hedging instrument	40	(8)	32	(159)	30	(129)
Reclassification to the income statement, adjusting:	(37)	7	(30)	129	(24)	105
– interest expense presented in finance costs, net	33	(6)	27	37	(7)	30
– foreign exchange differences presented in finance costs, net	(68)	13	(55)	93	(17)	76
– foreign exchange differences presented in other operating expense	(2)	–	(2)	(1)	–	(1)
Transfer to the initial carrying amount of the hedged item	(4)	1	(3)	5	(1)	4
Total losses on cash flow hedges	**(1)**	**–**	**(1)**	**(25)**	**5**	**(20)**

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

23. Fair value of financial instruments

23.1. Fair value measurements

For the financial instruments measured subsequent to initial recognition at fair value, the Group classifies fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices),
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

(in PLN millions)	Note	At 31 December 2013 Fair value measurement Level 1	Level 2	Level 3	Total
Derivatives	22	–	93	–	93
Other financial assets at fair value through profit or loss	20	6	–	–	6
Total financial assets measured at fair value		**6**	**93**	**–**	**99**
Derivatives	22	–	285	–	285
Total financial liabilities measured at fair value		**–**	**285**	**–**	**285**

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

During the 12 months ended 31 December 2013 and 2012, there was no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurement.

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

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

As at 31 December 2013 and 2012, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximates their fair value.

A comparison by classes of carrying amounts and fair values of those Group's financial instruments, for which the estimated fair value differs from the book value, is presented below.

(in PLN millions)		At 31 December 2013		At 31 December 2012	
	Note	Carrying amount	Estimated fair value Level 2	Carrying amount	Estimated fair value Level 2
Bonds issued with fixed interest rate	19.1	3,016	3,086	2,997	3,192
Bank borrowings with fixed interest rate	19.2	34	34	40	39
Telecommunications licence payables	15.1	1,063	1,106	810	959
Total		**4,113**	**4,226**	**3,847**	**4,190**

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

24. Objectives and policies of financial risk management

24.1. Principles of financial risk management

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

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

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

24.2. Hedge accounting

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

Certain derivative instruments are classified as fair value hedges or cash flow hedges and the Group applies hedge accounting principles as stated in IAS 39 (see Note 32.19). The fair value hedges are used for hedging changes in the fair value of financial instruments that are attributable to particular risk and could affect the income statement. Cash flow hedges are used to hedge the variability of future cash flows that is attributable to particular risk and could affect the income statement.

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

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

24.3. Currency risk

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

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

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

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

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

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

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

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

(in millions of currency)	Effective exposure after hedging				Sensitivity to a change of the PLN against other currencies impacting consolidated income statement			
	At 31 December 2013		At 31 December 2012		At 31 December 2013		At 31 December 2012	
					+10%	-10%	+10%	-10%
Hedged item	Currency	PLN	Currency	PLN	PLN		PLN	
Bank borrowings (USD)	3	9	3	9	1	(1)	1	(1)
UMTS licence payable (EUR)	129	535	129	527	54	(54)	53	(53)
EC proceedings provision (EUR) (see Note 29.d)	31	127	32	131	13	(13)	13	(13)
Total		**671**		**667**	**68**	**(68)**	**67**	**(67)**

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

- unhedged portion of the notional amount of liabilities is exposed to foreign exchange risk (effective exposure),
- derivatives satisfying hedge accounting requirements and those classified as economic hedges are treated as risk-mitigation transactions,
- cash and cash equivalents are excluded from the analysis.

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect consolidated other comprehensive income. The sensitivity analysis prepared by the Group as at 31 December 2013 and 2012 displayed there was no significant impact on other comprehensive income resulting from a hypothetical 10% appreciation/depreciation of the PLN against other currencies.

24.4. Interest rate risk

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

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

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

As at 31 December 2013 and 2012, the Group's proportion between fixed/floating rate debt (after hedging activities) was 67/33% and 47/53%, respectively.

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

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

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

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

- finance costs, net include the following items exposed to interest rate risk: a) interest cost on financial debt based on floating rate, after derivatives classified as hedges for accounting purpose b) the change in the fair value of derivatives that do not qualify for hedge accounting,
- as at 31 December 2013, the fair value of gross financial debt after derivatives (excluding finance lease and arrangement fees) was PLN 4,832 million (as at 31 December 2012, PLN 5,611 million).

24.5. Liquidity risk

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

In order to increase efficiency, the liquidity management process is optimised through a centralised treasury function of the Group, as liquid asset surpluses generated by the Group entities are invested and managed by the central treasury. The Group's cash surplus is invested into short-term highly-liquid financial instruments – mainly bank deposits. Additionally, in 2013 the Group concluded a Cash Management Treasury Agreement with Orange S.A. enabling the Group to deposit its cash surpluses with Orange S.A. and giving an access to back-up liquidity funding with headroom up to PLN 1,750 million.

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. As at 31 December 2013, the Group had the following unused credit facilities amounting to PLN 2,571 million (as at 31 December 2012, PLN 2,517 million):

- PLN 821 million of credit lines,
- PLN 1,750 million of the abovementioned back-up credit facility.

Liquidity risk is measured by applying following ratios calculated and monitored by the Group regularly:

- liquidity ratios,
- maturity analysis of undiscounted contractual cash flows resulting from the Group's financial liabilities,
- average debt duration.

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

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

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

The maturity analysis for the contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2013 and 2012 is presented below.

As at 31 December 2013 and 2012, amounts in foreign currency were translated at the NBP period-end average exchange rates. The variable interest payments arising from the financial instruments were calculated using the latest interest rates fixed before 31 December 2013 and 2012, respectively. Financial liabilities that can be repaid at any time at the Group's discretion are classified as current or non-current, depending on the expected repayment date.

(in PLN millions)	Undiscounted contractual cash flows [1]									
	At 31 December 2013									
				Non-current						
	Note	Carrying amount	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total non-current	Total
Bonds	19.1	3,016	3,077	–	–	–	–	–	–	3,077
Bank borrowings	19.2	107	44	40	5	5	5	11	66	110
Loans from related party	19.3	1,394	258	16	1,166	–	–	–	1,182	1,440
Finance lease liabilities		23	10	4	4	4	4	–	16	26
Derivative assets	22	(93)	(67)	17	5	–	–	–	22	(45)
Derivative liabilities	22	285	316	11	14	–	–	–	25	341
Gross financial debt after derivatives		**4,732**	**3,638**	**88**	**1,194**	**9**	**9**	**11**	**1,311**	**4,949**
Trade payables	15.1	2,842	1,832	153	153	153	148	690	1,297	3,129
Total financial liabilities (including derivative assets)		**7,574**	**5,470**	**241**	**1,347**	**162**	**157**	**701**	**2,608**	**8,078**

[1] Includes both nominal and interest payments.

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

[1] Includes both nominal and interest payments.

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

24.6. Credit risk

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

The main function of the Credit Committee under the control of the Board Member in charge of Finance is to coordinate and consolidate credit risk management activities across the Group, which involve:
- clients' risk assessment,
- monitoring clients' business and financial standing,
- managing accounts receivable and bad debts.

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

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

24.7. Management of covenants

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

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

In years 2013 and 2012 the covenant was met.

25. Management of capital

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

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

In order to combine these factors the Group periodically establishes a framework for the financial structure. The current Group's objectives in that area are the following:
- Net Gearing ratio – at the maximum range of 35% – 40% in the long term,
- Net financial debt to EBITDA ratio – remaining below 1.5 in the long term.

The table below provides the capital ratios as at 31 December 2013 and 2012 and presents the sources of capital involved in their calculation. The Group regards capital as the total of equity and net financial debt.

(in PLN millions)	At 31 December 2013	At 31 December 2012
Net financial debt (see note 18)	4,512	5,026
Equity	12,631	12,958
Equity and Net financial debt	17,143	17,984
EBITDA restated [1]	4,084	4,857
Net Gearing ratio [2]	**26.3%**	**28.0%**
Net financial debt / EBITDA restated ratio	**1.1**	**1.0**

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

The above policy imposes financial discipline, providing appropriate flexibility needed to sustain profitable development and the Group's cash distribution policy as set on an annual basis with a focus on delivering a reasonable remuneration to the Group's shareholders. There are no external capital requirements imposed on the Group.

26. Income tax

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

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

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

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

During the 12 months ended 31 December 2013 TP S.A., PTK-Centertel Sp. z o.o., TP Invest Sp. z o.o. and Orange Customer Service Sp. z o.o. comprised the Tax Capital Group. During the 12 months ended 31 December 2012 TP S.A., PTK-Centertel Sp. z o.o. and TP Invest Sp. z o.o. comprised the Tax Capital Group.

Deferred tax

(in PLN millions)	Consolidated statement of financial position		Consolidated income statement	
	At 31 December 2013	At 31 December 2012	12 months ended 31 December 2013	12 months ended 31 December 2012
Property, plant and equipment and intangible assets	444	391	52	402
Impairment of financial assets	81	61	20	(7)
Finance (income)/expense, net	33	48	(15)	71
Accrued (income)/expense, net	174	185	(3)	(480)
Employee benefit plans	61	76	(8)	8
Deferred income	91	102	(11)	(11)
Other temporary differences	39	15	24	(18)
Deferred tax assets, net (1)	**923**	**878**	**–**	**–**
Total deferred tax	**–**	**–**	**59**	**(35)**

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

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

Unrecognised deferred tax assets relate mainly to temporary differences, which based on the Group's management assessment could not be utilised for tax purposes. As at 31 December 2013 and 2012, deductible temporary differences, for which no deferred tax assets were recognised, amounted to PLN 114 million and PLN 117 million gross, respectively.

27. Equity

27.1.Share capital

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

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

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

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

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

27.2. Redemption of treasury shares

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

27.3. Dividends

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

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

27.4. Share-based payments

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

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

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

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

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

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

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

28. Unrecognised contractual obligations

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

28.1. Commitments related to operating leases

When considering the Group as a lessee, operating lease commitments relate to the lease of buildings and land. Lease costs recognised in the consolidated income statement for the years ended 31 December 2013 and 2012 amounted to PLN 438 million and PLN 441 million, respectively. Most of the agreements are denominated in foreign currencies. Some of the above agreements are indexed with price indices applicable for a given currency.

Future minimum lease payments under non-cancellable operating leases, as at 31 December 2013 and 2012, were as follows:

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

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

28.2. Investment commitments

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

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

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

28.3. Memorandum of Understanding with UKE

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

29. Litigation and claims (including contingent liabilities)

a. Issues related to the incorporation of Orange Polska

Orange Polska was established as a result of the transformation of the state-owned organisation Poczta Polska Telegraf i Telefon ("PPTiT") into two entities – the Polish Post Office and Orange Polska. During the transformation process and transfer of ownership rights to the new entities, certain items of property and other assets that are currently under Orange Polska's control were omitted from the documentation recording the transfer and the documentation relating to the transformation process is incomplete in this respect. This means that Orange Polska's rights to certain properties may be questioned.

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

The share premium in the equity of Orange Polska includes an amount of PLN 713 million which, in accordance with the Notary Deed dated 4 December 1991, relates to the contribution of the telecommunication business of PPTiT to the Company. As the regulations relating to the transformation of PPTiT are unclear, the division of certain rights and obligations may be considered to be ineffective. As a result, the share premium balance may be subject to changes.

b. Tax contingent liability

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes, which often leads to the lack of system stability. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts.

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

c. Proceedings by UKE and UOKiK

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

Proceedings by UKE related to broadband access
In 2006 and 2007, UKE imposed on Orange Polska two fines of PLN 100 million for the infringement of the obligation to determine the price of the Internet services (Neostrada) on the basis of the cost of their provision and PLN 339 million for not submitting Neostrada price list for UKE's approval. Orange Polska did not pay either of these

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fines and appealed against both decisions imposing the fines. The Court of Competition and Consumer Protection ("SOKiK") overruled these decisions and the Appeal Court confirmed SOKiK's verdicts. UKE lodged an appeal in cassation to the Supreme Court in both cases. The Supreme Court refused to examine both cassation appeals – with respect to the PLN 339 million fine on 6 March 2013 and with respect to the PLN 100 million fine on 2 July 2013. Those decisions ended the appeal procedures on both fines imposed by UKE on Orange Polska.

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

Proceedings by UOKiK related to retail prices of calls to Play
On 18 March 2013, UOKiK commenced competition proceedings against Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. claiming that they abused collective dominant position in the domestic retail market of mobile telephony. UOKiK alleges that the retail prices of calls made by individual users from the network of each of the three operators to the network of P4 Sp. z o.o. (Play) were relatively higher than the prices for such calls to the networks of the three operators and determined without sufficient consideration of the differentiation of the asymmetric wholesale termination rates determined by UKE. In the view of UOKiK, the applied prices could result in restricting the development of competition on the retail domestic mobile telephony market.
Orange Polska on request of UOKiK provided detailed data relating to its offers and retail prices. UOKiK informed the Company that it intends to conclude the proceedings by 10 March 2014. Apart from the UOKiK proceedings, in 2012 P4 has raised claims relating to the retail mobile prices.
In the opinion of the Management, Orange Polska has not performed activities that would restrict competition and, in the period covered by the proceedings, the level of the competition on the retail domestic mobile telephony market had been constantly increasing.

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

As at 31 December 2013, the Group recognised provisions for known and quantifiable risks related to proceedings against the Group initiated by UKE and UOKiK, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed, as in the opinion of the Company's Management such disclosure could prejudice the outcome of the pending cases.

d. Proceedings by the European Commission related to broadband access

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

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

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

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

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

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

On 16 April 2012, Orange Polska received a notification of a hearing on Netia S.A.'s motion from the Warsaw Commercial Court. In its motion Netia S.A. called on Orange Polska for an amicable settlement of a damages claim based on the above mentioned European Commission decision. In the Orange Polska Management's opinion, Netia S.A.'s motion did not constitute any reasonable grounds on which to assess whether or not Netia S.A. suffered any damage. At the court session held on 10 May 2012, the parties did not reach an agreement.

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

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

Orange Polska received two summonses to conciliation court hearings on the motion of Magna Polonia S.A.: for the hearing at Warsaw Commercial Court on 11 December 2013 and for the hearing at Warsaw Civil Court on 18 December 2013. Magna Polonia S.A. is the former owner of Info TV FM Sp. z o.o., a telecommunications operator that offered provision of wholesale services of mobile television DVB-H to Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. None of them decided to introduce mobile television services to its customers.
Magna Polonia demanded that Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. pay jointly and severally PLN 618 million to it in connection with the unlawful act allegedly committed by those companies in the form of restricting competition. Magna Polonia asserts that its claim results from lost profits of Magna because DVB-H television was not launched (including lower value of its shares in Info TV FM) and costs of financing Info TV FM.
The Management Board of Orange Polska did not agree on common actions with the other companies aimed at restricting the introduction of DVB-H service based on the offer of Info TV FM Sp. z o.o. It decided not to introduce mobile television services due to the market situation and for commercial reasons.

On 11 December 2013, at the session held at Warsaw Commercial Court the parties did not reach an agreement. The hearing scheduled for 18 December 2013 at Warsaw Civil Court was cancelled on the motion of Magna Polonia.

In the Orange Polska Management's opinion, Magna Polonia's motion did not constitute any reasonable grounds on which to assess whether or not Magna Polonia suffered any damage.

f. Proceedings by the tax authorities

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

g. Other contingent liabilities and provisions

Apart from the above mentioned, operational activities of the Group are subject to legal, social and administrative regulations and the Group is a party to a number of legal proceedings and commercial contracts related to its operational activities. Some regulatory decisions can be detrimental to the Group and court verdicts within appeal proceedings against such decisions can have potential negative consequences for the Group. The Group monitors the risks on a regular basis and the Management believes that adequate provisions have been recorded for known and quantifiable risks.

30. Related party transactions

30.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

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

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

Compensation (remuneration, bonuses and termination indemnities, including compensation under a competition prohibition clause – cash, benefits in kind or any other benefits) paid during the 12 months ended 31 December 2013 and 2012 (including PLN 0.7 million and PLN 1.4 million accrued in previous periods, respectively) or accrued but not paid in accordance with contractual commitments by OPL S.A. to OPL S.A.'s Management Board and Supervisory Board Members are presented below.

Persons that were Members of the Management Board of the Company as at 31 December 2013:

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

[1] From the date of appointment.

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

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

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

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

Supervisory Board compensation was as follows:

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

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

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

In the years ended 31 December 2013 and 2012, the Group did not enter into any significant transactions with Members of the OPL S.A.'s Management Board or the Supervisory Board or their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections and did not grant them any loans, advances or guarantees.

In the years ended 31 December 2013 and 2012, the Group did not enter into any significant transactions with companies which were controlled or jointly controlled by the Members of the OPL S.A.'s Management Board or the Supervisory Board or their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections.

30.2. Related party transactions

As at 31 December 2013, Orange S.A. (previously France Telecom S.A.) owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board appoints and dismisses Members of the Management Board.

The Group's income earned from the Orange Group (previously France Telecom Group) comprises mainly interconnect, research and development services, data transmission (and reimbursement of rebranding expenditures in 2012). The purchases from the Orange Group comprise mainly costs of interconnect and leased lines, network services, IT services, consulting services and brand fees.

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

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

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

On 24 July 2008, Orange Polska, Orange S.A. and OBSL concluded a licence agreement under which Orange Polska acquired rights to operate under the Orange brand for fixed services. The brand licence agreement provides that OBSL receives a fee of up to 1.6% of the Company's operating revenue earned under the Orange brand from fixed services. The agreement was concluded for 10 years with the possibility of renewal. OPL S.A. introduced Orange as its brand for fixed services in 2012.

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

31. Subsequent events

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

32. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2013.

32.1. Use of estimates

In preparing the Group's accounts, the Company's management is required to make estimates, insofar as many elements included in the financial statements cannot be measured with precision. Management reviews these estimates if the circumstances on which they were based evolve, or in the light of new information or experience. Consequently, estimates made as at 31 December 2013 may be subsequently changed. The main estimates made are described in the following notes:

Note		Type of information disclosed
8, 32.14, 32.18	Impairment of cash generating units and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
32.14, 32.19	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
26, 32.21	Income tax	Assumptions used for recognition of deferred tax assets.
16, 32.23	Employee benefits	Discount rates, salary increases.
22, 23, 32.19	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
14, 29, 32.22	Provisions	Provisions for employment termination expense: discount rates and other assumptions. The assumptions underlying the measurement of provisions for claims and litigation.
32.15, 32.16	Useful lives of tangible and intangible assets	The useful lives and the method of depreciation and amortisation.
14	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
5, 32.10	Revenue	Allocation of revenue between each separable component of a packaged offer based on its relative fair value. Straight-line recognition of revenue relating to service access fees. Reporting revenue on a net versus gross basis (analysis of Group's involvement acting as principal versus agent).
32.20	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

32.2. Use of judgments

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

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

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32.3. Application of new standards and interpretations

Adoption of standards in 2013

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

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

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

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

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

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

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

Standards and interpretations issued but not yet adopted

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

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

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

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

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

Multiple-elements arrangements

When accounting for multiple-elements arrangements (bundled offers) the Group has adopted the provisions of Generally Accepted Accounting Principles in the United States, Accounting Standards Codification 605-25 "Revenue Recognition – Multiple Element Agreements" (see Note 32.10 Separable components of packaged and bundled offers).

32.5. Options available under IFRSs and used by the Group

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

Standards		Option used
IAS 2	Inventories	Recognition of inventories at their original cost determined by the weighted average unit cost method.
IAS 16	Property, plant and equipment	Property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.
IAS 20	Government grants and disclosure of government assistance	Non-repayable government grants related to assets decrease the carrying amount of the assets. Government grants related to income are deducted from the related expenses.
IAS 38	Intangible assets	Intangible assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

32.6. Presentation of the financial statements

Presentation of the statement of financial position

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

Presentation of the income statement

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

Earnings per share

The net income per share for each period is calculated by dividing the net income for the period attributable to the equity holders of the Company by the weighted average number of shares outstanding during that period. The weighted average number of shares outstanding is after taking account of treasury shares and, if applicable, the dilutive effect of the pre-emption rights attached to the bonds issued under OPL S.A. incentive programme (see Note 27.4).

32.7. Consolidation rules

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

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

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

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

Intercompany transactions and balances are eliminated on consolidation.

32.8. Investments in joint arrangements

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

32.9. Effect of changes in foreign exchange rates

The functional currency of Orange Polska is the Polish złoty.

Transactions in foreign currencies

Transactions in foreign currencies are converted into Polish złoty at the spot exchange rate prevailing as at the transaction date. Monetary assets and liabilities which are denominated in foreign currencies are re-measured at the end of the reporting period using the period-end exchange rate quoted by NBP and the resulting translation differences are recorded in the income statement:

- in other operating income and expense for commercial transactions,
- in financial income or finance costs for financial transactions.

32.10. Revenue

Revenue from the Group's activities is recognised and presented in accordance with IAS 18 "Revenue". Revenue comprises the fair value of the consideration received or receivable for the sale of services and goods in the ordinary course of the Group's activities. Revenue is recorded net of value-added tax and discounts.

Separable components of packaged and bundled offers

For the sale of multiple products or services, the Group evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting. A delivered item is considered a separate unit of accounting if (i) it has value to the customer on a standalone basis and (ii) there is objective and reliable evidence of the fair value of the undelivered item(s). The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on its relative fair value. However, when an amount allocated to a delivered item is contingent upon the delivery of additional items or meeting specified performance conditions, the amount allocated to that delivered item is limited to the non contingent amount. This case arises e.g. in the mobile business for sales of bundled offers including a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount allocable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue recognized for the handset sale is generally limited to the amount of the arrangement that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.
For offers that cannot be separated into identifiable components, revenues are recognized in full over the life of the contract. The main example is connection to the service: this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognized over the average expected life of the contractual relationship.

Equipment sales

Revenue from equipment sales is recognised when the significant risks and rewards of ownership are transferred to the buyer (see also paragraph "Separable components of packaged and bundled offers").

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

Equipment leases

Equipment lease revenue is recognised on a straight-line basis over the life of the lease agreement, except in the case of finance leases which are accounted for as sales on credit.

Revenues from the sale or supply of content

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

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

Service revenue

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

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

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

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

Promotional offers

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

Loyalty programs

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

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

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

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

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

Barter transactions

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

32.11. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs, other than loyalty program costs (see Note 32.10), are recognised as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred.

32.12. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

32.13. Share issuance costs and treasury shares

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

32.14. Goodwill

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

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

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

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

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

Impairment tests and Cash Generating Units

In accordance with IFRS 3 "Business Combinations", goodwill is not amortised but is tested for impairment at least once a year or more frequently when there is an indication that it may be impaired. IAS 36 "Impairment of Assets" requires these tests to be performed at the level of each cash generating unit (CGU) to which the goodwill has been allocated. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of business combination.

Recoverable amount

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

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

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

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

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

32.15. Intangible assets (excluding goodwill)

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

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

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

Telecommunications licences

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

Research and development costs

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

Development costs not fulfilling the above criteria and research costs are expensed as incurred. The Group's research and development projects mainly concern:

- upgrading the network architecture or functionality;
- developing service platforms aimed at offering new services to the Group's customers.

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

Software

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

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

32.16. Property, plant and equipment

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

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

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

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

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

Investment grants

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

Finance leases

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

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

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

Derecognition

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

Depreciation

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

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

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

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

32.17. Non-current assets held for sale

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

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

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

32.18. Impairment of non-current assets other than goodwill

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

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

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

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

32.19. Financial assets and liabilities

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

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

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

Recognition and measurement of financial assets

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

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

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

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

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

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

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

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

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

Recognition and measurement of financial liabilities

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

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

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

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include derivatives that do not qualify for hedge accounting as set out in IAS 39 and are measured at fair value.

Recognition and measurement of derivative instruments

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

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

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

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

32.20. Inventories

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

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

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32.21. Income tax

The tax expense comprises current and deferred tax.

Current tax

The current income tax charge is determined in accordance with the relevant tax law regulations in respect of the taxable profit. Income tax payable represents the amounts payable at the end of the reporting period.

Deferred taxes

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

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

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

32.22. Provisions

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

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

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

Provisions for dismantling and restoring sites

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

32.23. Pensions and other employee benefits

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

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

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

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

32.24. Share-based payments

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

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

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

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

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Auditor opinion

To the Shareholders and Supervisory Board of Orange Polska S.A. (formerly: Telekomunikacja Polska S.A.)

We have audited the attached consolidated financial statements of the Orange Polska Group ("the Group")[1] with Orange Polska S.A., with its registered office in Warsaw at Jerozolimskie 160 Avenue, as the Parent Company ("the Company"), which comprise consolidated statement of financial position prepared as of 31 December 2013, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2013 to 31 December 2013 and notes comprising a summary of significant accounting policies and other explanatory information.

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

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

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

Our audit of the financial statements has been planned and performed in accordance with:
- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland and
- International Standards on Auditing.

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

In our opinion, the audited consolidated financial statements:
- give a true and fair view of the information material to evaluation of the economic and financial position of the Group as of 31 December 2013 as well as its profit in the financial year from 1 January 2013 to 31 December 2013
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
- comply with the provisions of law applicable to the Group which affect the contents of the consolidated financial statements.

[1] as presented on pages 76-131

The Report on the activities of the Group[2] for the 2013 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2009, No. 33, item 259, as amended) and consistent with underlying information disclosed in the audited financial statements.

Piotr Sokołowski
Key Certified Auditor
conducting the audit
No. 9752

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

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

Warsaw, 11 February 2014

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

[2] as included in the filed financial statements for Warsaw Stock Exchange

Investor Relations

The Orange Polska Management Board is committed to creating and sustaining a meaningful dialogue with the investment community. Orange Polska has therefore undertaken to offer its investors the following services:

- access to company management at regular investor roadshows;
- a timely flow of news and information through our website and via email alerts;
- the opportunity to give feedback through regular third-party perception audits;
- convenient access to the IR team in Warsaw via phone and email.

Your comments and suggestions help us to improve the communication process, so don't hesitate to get in touch.

To find out more on our results, review our Management Board's Report on the Activity and financial statements, as well as to keep up to date with the latest news, please visit our IR web pages at www.orange-ir.pl

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